

**KING CITY UNION  
SCHOOL DISTRICT**

---

ANNUAL FINANCIAL REPORT

---

**JUNE 30, 2009**

**KING CITY UNION SCHOOL DISTRICT**

**OF MONTEREY COUNTY**

**KING CITY, CALIFORNIA**

**JUNE 30, 2009**

---

**GOVERNING BOARD**

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Mike Howard	President	2012
Shannon Valladarez	Clerk	2012
Holly Casey	Member	2009
Aurora Gomez	Member	2009
Barba Oetting	Member	2009

**ADMINISTRATION**

Tom Michaelson, Ed.D.	Superintendent
Rory Livingston	Assistant Superintendent of Business
Lona Christensen	Accounting Supervisor
Jan Tabarez	Monterey County Office of Education Fiscal Expert
Vira Uldall	Monterey County Office of Education Fiscal Expert

# KING CITY UNION SCHOOL DISTRICT

## TABLE OF CONTENTS

JUNE 30, 2009

---

### ***FINANCIAL SECTION***

Independent Auditors' Report	2
Management's Discussion and Analysis	4
Basic Financial Statements	
Government-Wide Financial Statements	
Statement of Net Assets	12
Statement of Activities	13
Fund Financial Statements	
Governmental Funds - Balance Sheet	14
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	15
Governmental Funds - Statement of Revenues, Expenditures, and Changes in Fund Balance	16
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the District-Wide Statement of Activities	17
Fiduciary Funds - Statement of Net Assets	18
Notes to Financial Statements	19

### ***REQUIRED SUPPLEMENTARY INFORMATION***

General Fund - Budgetary Comparison Schedule	45
----------------------------------------------	----

### ***SUPPLEMENTARY INFORMATION***

Schedule of Expenditures of Federal Awards	47
Local Education Agency Organization Structure	48
Schedule of Average Daily Attendance	49
Schedule of Instructional Time	50
Reconciliation of Annual Financial and Budget Report with Audited Financial Statements	51
Schedule of Financial Trends and Analysis	52
Schedule of Charter Schools	53
First Five Schedule of Grant Expenditures	54
Combining Statements - Non-Major Governmental Funds	
Combining Balance Sheet	55
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance	56
Note to Supplementary Information	57

### ***INDEPENDENT AUDITORS' REPORTS***

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	60
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133	62
Report on State Compliance	64

### ***SCHEDULE OF FINDINGS AND QUESTIONED COSTS***

Summary of Auditors' Results	67
Financial Statement Findings	68
Federal Awards Findings and Questioned Costs	75
State Awards Findings and Questioned Costs	76
Summary Schedule of Prior Audit Findings	77

---

---

***FINANCIAL SECTION***

---

---



## INDEPENDENT AUDITORS' REPORT

Governing Board  
King City Union School District  
King City, California

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the King City Union School District (the "District") as of and for the year ended June 30, 2009, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2008-09*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the King City Union School District, as of June 30, 2009, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in the Notes to the basic financial statements, the State of California continues to suffer the effects of a recessionary economy, which directly impacts the funding requirements of the State of California to the K-12 educational community.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2009, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The required supplementary information, such as management's discussion and analysis on pages 4 through 11 and budgetary comparison information on page 45, is not a required part of the basic financial statements, but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary information listed in the table of contents, including the Schedule of Expenditures of Federal Awards which is required by U.S. Office of Management and Budget Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*, and the Combining Statements – Non-Major Governmental Funds is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Vannink, Truitt, Day & Co., LLP

Fresno, California  
December 16, 2009

This section of King City Union School District's (the District) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2009. Please read it in conjunction with the District's financial statements, which immediately follow this section.

## OVERVIEW OF THE FINANCIAL STATEMENTS

### The Financial Statements

The financial statements presented herein include all of the activities of the District and its component units using the integrated approach as prescribed by Governmental Accounting Standards Board Statement No. 34.

The *Government-Wide Financial Statements* present the financial picture of the District from the economic resources measurement focus using the accrual basis of accounting. They present governmental activities and business-type activities separately. These statements include all assets of the District (including capital assets), as well as all liabilities (including long-term obligations). Additionally, certain eliminations have occurred as prescribed by the statement in regards to inter-fund activity, payables, and receivables.

The *Fund Financial Statements* include statements for each of the two categories of activities: governmental and fiduciary.

The *Governmental Funds* are prepared using the current financial resources measurement focus and modified accrual basis of accounting.

## REPORTING THE DISTRICT AS A WHOLE

### The Statement of Net Assets and the Statement of Activities

The Statement of Net Assets and the Statement of Activities report information about the District as a whole and about its activities. These statements include all assets and liabilities of the District using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

Superintendent

Tom Michaelson Ed. D.

KCUSD

Governing Board

Mike Howard  
Shannon Valladarez  
Holly Casey  
Aurora Gomez  
Barba Oetting

# KING CITY UNION SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2009

---

These two statements report the District's net assets and changes in them. Net assets are the difference between assets and liabilities, which is one way to measure the District's financial health, or financial position. Over time, increases or decreases in the District's net assets are one indicator of whether *its financial health is* improving or deteriorating. Other factors to consider are changes in the District's property tax base and the condition of the District's facilities.

The relationship between revenues and expenses is the District's *operating results*. Since the governing board's responsibility is to provide services to our students and not to generate profit as commercial entities do, one must consider other factors when evaluating the overall health of the District. The quality of the education and the safety of our schools will likely be an important component in this evaluation.

In the *Statement of Net Assets* and the *Statement of Activities*, we present the District activities as follows:

**Governmental Activities** - The District's services are reported in this category. This includes the education of kindergarten through grade eight students, the operation of child development activities, and the on-going effort to improve and maintain buildings and sites. Property taxes, state income taxes, user fees, interest income, Federal, State, and local grants, as well as general obligation bonds, finance these activities.

## REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

### Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds - not the District as a whole. Some funds are required to be established by State law and by bond covenants. However, management establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money that it receives from the U.S. Department of Education.

**Governmental Funds** - All of the District's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. The differences of results in the governmental fund financial statements to those in the government-wide financial statements are explained in a reconciliation following each governmental fund financial statement.

# KING CITY UNION SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2009

---

### THE DISTRICT AS A TRUSTEE

#### Reporting the District's Fiduciary Responsibilities

The District is the trustee, or *fiduciary*, for funds held on behalf of others, like our funds for associated student body activities. The District's fiduciary activities are reported in the *Statements of Fiduciary Net Assets*. We exclude these activities from the District's other financial statements because the District cannot use these assets to finance its operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

### FINANCIAL HIGHLIGHTS OF THE PAST YEAR

The 2008/09 fiscal year has been difficult for the King City Union School District. The development of the 2008/09 year Budget began in earnest in April 2008 utilizing the resources of a Budget Advisory Committee, the fiscal expertise of the District's Fiscal Experts and Fiscal Advisors, the resources of FCMAT, the expertise of the Assistant Superintendent, and Superintendent. Revenues and expenditures were reviewed, estimated and changed base on a number of factors. That revenue would be as provided in the Governor's May Revised Budget of 2008, expenditures would be reduced by \$1.9 million (which included the closure of San Lorenzo School and the District assuming responsibility for some Special Education programs), and that transfers of ending balances from Restricted Resources to Unrestricted programs would be permitted and the required allocations for Routine Restricted Maintenance and the Reserve for Economic Uncertainty would be relaxed. Due to the combination of all the previous factors the Governing Board, on June 30, 2008, adopted a balanced 2008/09 Budget.

On September 3, 2008, the Monterey County Office of Education gave a conditional approval of the District's Adopted Budget pending the Approval of the State Budget. On September 28, 2008, the State budget was signed into law, none of the provisions for Education funding were as provided in the May Revise. On November 5, 2008, the Governing Board approved a revised budget and a 1st Interim report that showed the District with a -\$2,466,178 fund balance. The interim report was certified as negative. The Governing Board reconvened its Budget Advisory Committee and on December 17, 2008, adopted recommendations for program elimination, staff lay-offs and other changes for the current year. After those actions, the budget was still negative by \$485,186. The State's economy continues to sour; the Legislature fails to address the problem.

In Mid-January 2009, the Governor proposed to revise the current year's funding which would decrease the ending balance to nearly a -\$2,000,000. In January and February, the Governing Board continued to take further action to reduce Staff. On February 20, 2009, a revised 2009 State budget is signed into law and some of the May revise proposals are included. On March 9, 2009, the Governing Board eliminated 40 teaching positions and authorized the Superintendent to notify affected staff with preliminary lay off notices for the 2009/10 year. On March 18, 2009, the Governing Board reviewed and certified "Negative" the 2nd Interim Report. The Governing Board certified a "Negative" 3rd Interim Report.

# KING CITY UNION SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

**JUNE 30, 2009**

---

On June 30, 2009, the Governing Board approved a 2009/10 Adoption Budget which is balanced and is projected to meet the requirements of AB1200. The reduction of District Personnel for which the Board of Education issued preliminary notices was finalized. The District will have a significantly fewer number of employees in the 2009/10 year than were employed in 2008/09. Additionally, over numerous years, King City Union School District had shared a number of administrative functions and personnel with the King City Joint Union High School District. Due to the High School District's loan from the State and subsequent take over by the State Superintendent of Public Instruction, the King City Union School District established its own freestanding Administrative function, personnel and office beginning July 1, 2009.

### THE DISTRICT AS A WHOLE

#### Net Assets

The District's net assets are \$26.2 million for the fiscal year ended June 30, 2009. Of this amount, \$1.3 million was unrestricted. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the governing board's ability to use those net assets for day-to-day operations. Our analysis below, in summary form, focuses on the net assets (Table 1) and change in net assets (Table 2) of the District's governmental activities.

**Table 1**

(Amounts in millions)

	Governmental Activities		
	2009	2008	Change
Current and other assets	\$ 9	\$ 8	\$ 1
Capital assets	36	37	(1)
<b>Total Assets</b>	<b>45</b>	<b>45</b>	<b>-</b>
Current liabilities	3	4	(1)
Long-term obligations	16	16	-
<b>Total Liabilities</b>	<b>19</b>	<b>20</b>	<b>(1)</b>
Net assets			
Invested in capital assets, net of related debt	21	20	1
Restricted	4	6	(2)
Unrestricted	1	(1)	2
<b>Total Net Assets</b>	<b>\$ 26</b>	<b>\$ 25</b>	<b>\$ 1</b>

The \$1.3 million in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations.

# KING CITY UNION SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2009

### Changes in Net Assets

The results of this year's operations for the District as a whole are reported in the *Statement of Activities*. Table 2 takes the information from the Statement, rounds off the numbers, and rearranges them slightly so you can see our total revenues for the year.

**Table 2**

(Amounts in millions)	Governmental Activities		
	2009	2008	Change
<b>Revenues</b>			
Program revenues:			
Charges for services	\$ -	\$ -	\$ -
Operating grants and contributions	8	8	-
General revenues:			
Federal and State aid not restricted	11	11	-
Property taxes	4	4	-
Other general revenues	1	1	-
<b>Total Revenues</b>	<u>24</u>	<u>24</u>	<u>-</u>
<b>Expenses</b>			
Instruction-related	16	18	(2)
Student support services	2	2	-
Administration	1	1	-
Maintenance and operations	2	2	-
Other	2	3	(1)
<b>Total Expenses</b>	<u>23</u>	<u>26</u>	<u>(3)</u>
<b>Change in Net Assets</b>	<u>\$ 1</u>	<u>\$ (2)</u>	<u>\$ 3</u>

### Governmental Activities

As reported in the *Statement of Activities*, the cost of all of our governmental activities this year was \$23 million. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only \$4 million because the cost was paid by other governments and organizations who subsidized certain programs with grants and contributions (\$8 million). We paid for the remaining "public benefit" portion of our governmental activities with \$11 million in State funds, and \$1 million with other revenues like interest and general entitlements.

In Table 3, we have presented the cost and net cost of each of the District's largest functions. As discussed above, net cost shows the financial burden that was placed on the District's taxpayers by each of these functions. Providing this information allows our citizens to consider the cost of each function in comparison to the benefits they believe are provided by that function.

# KING CITY UNION SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2009

---

**Table 3**

(Amounts in millions)	Total Cost of Services		Net Cost of Services	
	2009	2008	2009	2008
Instruction	\$ 16	\$ 18	\$ 11	\$ 12
Pupil services	2	2	1	1
Administration	2	1	1	1
Maintenance and operations	2	2	1	2
Other	2	3	1	2
<b>Total</b>	<b>\$ 24</b>	<b>\$ 26</b>	<b>\$ 15</b>	<b>\$ 18</b>

### THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of \$6.6 million, which is an increase of \$1.6 million from last year.

The primary reasons for the increase was:

- Our General Fund is our principal operating fund. The fund balance in the General Fund increased \$2.1 million to \$3.4 million. The increase is due partially to the District's ongoing budget reductions and the receiving of ARAA funding.
- Our special revenue funds remained fairly stable from the prior year.
- The Building Fund decreased approximately \$0.5 million because of the completion of construction projects.

### General Fund Budgetary Highlights

Over the course of the year, the District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. The final amendment to the budget was adopted on September 16, 2009. (A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided in our annual report on page 45.)

### CAPITAL ASSET AND DEBT ADMINISTRATION

#### Capital Assets

At June 30, 2009, the District had \$35.9 million in a broad range of capital assets (net of depreciation), including land, buildings, furniture, and equipment. This amount represents a net decrease (including additions, deductions, and depreciation) of about \$0.7 million from last year (Table 4).

