

**City of Yreka,
California**



Financial Statements

**For the Year Ended
June 30, 2013**

CITY OF YREKA, CALIFORNIA

FINANCIAL STATEMENTS

**FOR THE YEAR ENDED
JUNE 30, 2013**

Table of Contents

MANAGEMENT'S DISCUSSION AND ANALYSISI-XXI

INDEPENDENT AUDITORS' REPORT 1

BASIC FINANCIAL STATEMENTS:

 Government-wide Financial Statements:

 Statement of Net Position3

 Statement of Activities.....4

 Fund Financial Statements:

 Governmental Funds:

 Balance Sheet and Reconciliation of Total Governmental Fund Balance
 to the Statement of Net Position – Governmental Activities, Governmental Funds5

 Statement of Revenues, Expenditures and Changes in
 Fund Balance – Governmental Funds6

 Reconciliation of the Statement of Revenues, Expenditures and Changes in
 Fund Balance to the Statement of Activities – Governmental Funds7

 Proprietary Funds:

 Statement of Net Position – Proprietary Funds.....8

 Statement of Revenues, Expenses and Changes in Net Position – Proprietary Funds9

 Statement of Cash Flows – Proprietary Funds 10

 Notes to the Financial Statements 11

REQUIRED SUPPLEMENTARY INFORMATION (other than MD&A):

 Budgetary Comparison Schedules (Major Funds):

 General Fund32

 Special Grant Fund33

 Special Revenue Fund34

 Streets and Roads Fund35

SINGLE AUDIT SCHEDULES AND REPORTS

 Schedule of Expenditures of Federal Awards36

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS37

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-13339

Schedule of Findings and Questioned Costs41



City of Yreka

Management's Discussion and Analysis:

As management of the City of Yreka (City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2013. We provide this discussion and analysis to: 1) assist the reader in focusing on significant financial issues, 2) provide an overview of the City's financial activity, and 3) identify changes in the City's financial position.

2012-2013 Financial Highlights:

- In the combined statement of net position, the total net position for the City exceeded its liabilities at the close of the most recent fiscal year by \$46,692,893. Of this amount, \$11,170,790 of the unrestricted net position may be used to meet the government's ongoing obligations to citizens and creditors. Readers familiar with stockholder annual reports can think of the unrestricted net position as approximating the City's equity.
- Governmental activities total net position increased by \$108,011 from \$23,853,079 in 2011-2012 to \$23,961,090 in 2012-13.
- The increase in the net position is primarily due to a \$335,768 increase to the unrestricted net position. Correspondingly, current assets increased \$323,963, from \$6,501,023 in 2011-2012 to \$6,824,986 in 2012-2013.
- The governmental funds invested in capital assets decreased. The \$245,517 decrease is due to the net decrease in capital assets of \$373,645 (where depreciation expense of \$945,960 exceeded capital outlay of 572,315), offset by the repayment of long term debt \$128,128 associated with financing those assets.
- Total liabilities decreased \$208,663 from \$3,390,277 in 2011-2012 to \$3,181,614 in 2012-2013.
 - Long-term liabilities declined \$158,157, of which \$128,128 was related to debt financing capital assets, \$61,203 was related to other long term debt financing and a \$14,238 decrease in compensated absences. Offsetting the decreases was a \$36,860 increase to other post employment benefit or

OPEB liabilities, and a net change in the current portion of long term debt of \$8,552.

- Current liabilities decreased \$50,506 due to a decrease in vendor or trade payables of \$22,906, a decrease in deferred revenue of \$8,000, and a decrease in the current portion of both compensated absences payable of \$14,673 and long term debt of \$8,552. These decreases were offset by payroll related accounts payable of \$3,625.
- The business-type activities total net position increased by \$2,719,952 from \$20,011,851 in 2011-201 to \$22,731,803 in 2012-2013. Of this increase invested in capital assets net of related debt increased \$1,604,327. Correspondingly non current assets increased \$1,422,386. The restricted net position increased \$100,000 due to debt servicing reserve requirements. The unrestricted net position increased \$1,015,625 due to planned utility rate increases and grant proceeds.

2012-13 Capital Projects Highlights:

- The City expended:
 - \$1,360,898 in 2012-2013 for a project balance of \$10,861,216 over the past three years towards its \$11,185,000 Fall Creek water system improvement project (\$3,249,000 grant and \$6,810,000 loan) and the City contributed \$1,126,000 in matching funds.
 - \$401,356 of sewer enterprise funds for engineering design as contributory match to the USDA 2012 \$5 million certificate of participation loan offer.
 - \$255,837 for water and sewer line replacement from its enterprise funds during the fall of 2012, as part of the Oregon Street Overlay Project funded by State Transportation Improvement Program funds.



Greenhorn Park Pedestrian Bridge, February 2012

2012-13 Economic Development Highlights:

- The City of Yreka offers two grant programs for businesses, groups, and individuals in our Historic Downtown on Miner Street. These grants are funded entirely by a donation to the City from the Phyllis Stewart Trust for the “beautification of Miner Street.” The first program the City offers is a facade improvement grant. It is for businesses and building owners that are located east of the Police Department on Miner Street. The grant will reimburse a percentage of costs to applicants who make preapproved visual improvements to their buildings. The second grant program is for “community projects.” These projects can be organized by private individuals and groups looking to make improvements to public spaces on Miner Street. Direct grants can be provided to the individual or group organizing the project. The City hopes these grants will not only help beautify Miner Street, but also encourage businesses, individuals and groups to invest in the quality and character of our historic downtown.



Miner Street, February 2012

- The City, and its subrecipient partner, Siskiyou County Economic Development Council, are continuing work on a \$400,000 Environmental Protection Agency Brownfield’s Community Assessment Grant for Hazardous and Petroleum Waste to identify and perform contaminate testing on potentially contaminated sites that have significant reuse opportunities. Identifying the level of contamination on these sites can either clear them as “clean” for development or the results can be used to apply for future grants to clean up sites. In 2012-2013, the City received numerous developer inquiries on assessed parcels. Having background information and assessments, the interested parties are better able assess the levels of risk associated with purchasing those parcels.

Overview of the Financial Statements:

This discussion and analysis is intended to serve as an introduction to the City of Yreka's basic financial statements. The City of Yreka's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements:

The government-wide financial statements are designed to provide readers with a broad overview of the City of Yreka's finances in a manner similar to a private-sector business. The statement of net position presents information on all of the City of Yreka's assets and liabilities, with the difference between the two reported as the net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City of Yreka is improving or deteriorating.

The statement of activities presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Revenues and expenses are reported in this statement. For some items, that will only result in cash flows in future fiscal periods, an example would be the reporting for capital leases.

The government-wide financial statements distinguish functions of the City of Yreka that are principally supported by taxes, intergovernmental revenues and grants (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities).

The governmental activities of the City of Yreka include general government, public safety, recreation and culture, public works, planning and community development.

The business-type activities of the City of Yreka include water and wastewater operations.

The government-wide financial statements can be found on pages 3 through 4 of this report.

Fund Financial Statements:

A fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All City funds are divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds:

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus near term cash flows and ending fund balances available at the end of the fiscal year.

The Balance Sheet and the Reconciliation of Total Governmental Fund Balance to the Statement of Net Position Governmental Activities Governmental Funds, page 5, guides the reader through the significant reporting differences between these two statements. In 2012-2013, the differences are attributable to the recognition of capital assets and long-term liabilities. The analysis of these two statements helps the reader to understand better the long-term impact of the City's capital expenditures and financing decisions.

The reconciliation of the Statement of Revenues, Expenditures and Changes in Funds Balance to the Statement of Activities Governmental Funds, page 7, itemizes the differences between the net change in the governmental fund balance to the change in net position of governmental activities. In 2012-2013, the differences are attributable to (1) changes in capital outlay net of depreciation, (2) changes in long-term debt net of repayments, (3) changes in other post employment benefits, and (4) changes in compensated absences.

The major funds within governmental funds include the General Operating Fund, Special Revenue Fund, Special Grants Fund, and Streets and Roads Fund. The major governmental funds are presented in (1) the governmental fund balance sheet, (2) the governmental fund statement of revenues, expenditures, and changes in fund balances for the governmental funds, and (3) the reconciliation of the Statement of Revenues, Expenditures and Changes in Funds Balance to the Statement of Activities Governmental Funds, found on pages 5 through 7 of this report.

The City of Yreka adopts an annual appropriated budget for each of its governmental funds. A budgetary comparison statement for the governmental funds demonstrates compliance with the budget, and is located on pages 32 through 35 of this report.

Proprietary funds:

The City of Yreka maintains two different types of proprietary funds for its business-type activities. These are also referred to as Enterprise Funds, and are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of Yreka uses these funds to account for its water and wastewater operations. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water and wastewater funds, each of which is considered a major fund. The basic proprietary fund financial statements can be found on pages 8 through 10 of this report.

Fiduciary funds:

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. A fiduciary fund represents an agency fund, which is custodial in nature (assets equal liabilities) and does not involve measurement of results of operation. The City has no fiduciary funds.

Notes to the financial statements:

The notes provide additional information that is essential in understanding the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 11 through 31 of this report.

Other supplemental information:

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information that can be found on pages 32 through 35 of this report.

Financial Analysis of the City as a Whole:

Government-wide Financial Analysis:

As noted earlier, the net position may serve over time as a useful indicator of a government’s financial position. The City of Yreka’s assets exceeded liabilities by \$23,961,090 for governmental activities and \$22,731,803 for business type activities, \$46,692,893 in total, at the close of 2012-2013.

City of Yreka – Changes in Net Position

	Governmental Activities	Business- Type Activities	Total
Total Net Position for:			
Fiscal Year 2011-2012	\$23,853,079	\$20,011,851	\$43,864,930
Fiscal Year 2012-2013	23,961,090	22,731,803	46,692,893
Increase or (Decrease in Net Position)	\$108,011	\$2,719,952	\$2,827,963

The largest portion of the City’s net position reflects its investment in capital assets (e.g., land, buildings, machinery and equipment as well as infrastructure assets such as roads, bridges, water and sewer systems), less any related debt used to acquire those assets that is still outstanding. The City of Yreka uses these capital assets to provide services to citizens. Consequently, these assets are generally not available for future spending. Although the City of Yreka’s investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The schedule below displays a year over year comparative summary of the City's governmental activities net position:

City of Yreka – Governmental Activities Net Position

City of Yreka - Net Position
Governmental Activities

	Governmental Activities		Increase/ (Decrease)	Percentage Change <small>2011-2012 as the base year</small>
	2011-2012	2012-2013		
Assets:				
Current assets and other assets	\$6,501,023	\$6,824,986	\$323,963	5.0%
Restricted assets	1,963,731	1,912,761	(\$50,970)	-2.6%
Non current assets	18,778,602	18,404,957	(373,645)	-2.0%
<i>Total Assets</i>	27,243,356	27,142,704	(100,652)	-0.4%
Liabilities:				
Current liabilities	697,002	646,496	(50,506)	-7.2%
Long-term liabilities	2,693,275	2,535,118	(158,157)	-5.9%
<i>Total Liabilities</i>	3,390,277	3,181,614	(208,663)	-6.2%
Net position:				
Invested in capital assets, net of related debt	18,163,646	17,918,129	(245,517)	-1.4%
Restricted	3,206,050	3,223,810	17,760	0.6%
Unrestricted	2,483,383	2,819,151	335,768	13.5%
<i>Total Net Position</i>	\$23,853,079	\$23,961,090	\$108,011	0.5%

Total assets decreased by 0.4% from \$27,243,356 in 2011-12 to \$27,142,704 in 2012-13. Current assets and other assets increased 5.0%, while restricted assets decreased 2.6% and net non current assets decreased 2.0%. The decrease in the restricted net position is primarily due to cash dispersed through the Miner Street beautification grant program. Non current assets decreased due to depreciation in excess of asset additions.

Total liabilities decreased 6.29%, from \$3,390,277 in 2011-2012 to \$3,181,614 in 2012-2013. Of that decrease long-term liabilities declined 5.9% due to repayment of long term debt. Current liabilities decreased 7.2% primarily due to a decrease in trade, construction retention and payroll accounts payable.

The increase in the net position was 0.5%, where the unrestricted net position increased 13.5%. The increase is primarily due to insurance premium dividends and expenditure control.

The schedule below displays a year over year comparative summary of the City's business-type activities net position:

City of Yreka – Business Type Activities Net Position

City of Yreka - Net Position
Business-Type Activities

	Business-Type Activities		Increase/ (Decrease)	Percentage Change
	2011-2012	2012-2013		2011-2012 as the base year
Assets:				
Current assets and other assets	\$8,469,752	\$8,596,415	\$126,663	1.5%
Restricted assets	200,000	300,000	100,000	50.0%
Non current assets	20,832,857	22,255,243	1,422,386	6.8%
<i>Total Assets</i>	29,502,609	31,151,658	1,649,049	5.6%
Liabilities:				
Current liabilities	1,258,877	342,406	(916,471)	-72.8%
Long-term liabilities	8,231,881	8,077,449	(154,432)	-1.9%
<i>Total Liabilities</i>	9,490,758	8,419,855	(1,070,903)	-11.3%
Net position:				
Invested in capital assets, net of related debt	12,475,837	14,080,164	1,604,327	12.9%
Restricted	200,000	300,000	100,000	50.0%
Unrestricted	7,336,014	8,351,639	1,015,625	13.8%
<i>Total Net Position</i>	\$20,011,851	\$22,731,803	\$2,719,952	13.6%

Total assets increased 5.6% from \$29,502,609 in 2011-12 to \$31,151,658 in 2012-13. Cash balances increased 1.5%, restricted assets increased 50% due debt service reserve requirements, and non current assets increased 6.8% due to capital outlay to the water system.

Current liabilities decreased 72.8% due to lower accounts and construction contingencies payable, and long-term liabilities decreased 1.9% primarily due to scheduled debt servicing.

Correspondingly, the total net position increased 13.6%, the unrestricted net position increased by 13.8%. The restricted net position increased 50.0% due to debt servicing reserve requirements.

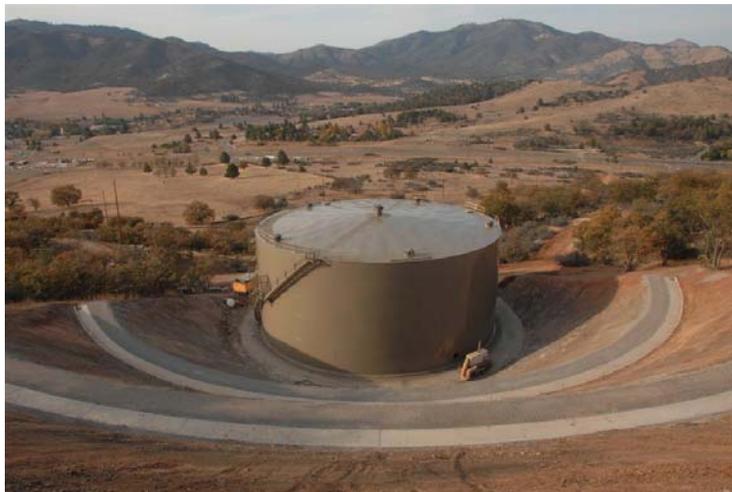


City of Yreka water treatment plant, photo taken 5/12/2009

Comparison of Government Wide General Revenues:

	2011-2012	2012-2013	Year over Year Change
General revenues:			
Governmental activities:			
Taxes:			
Property	\$925,163	\$977,429	52,266
Sales and use	1,766,735	1,761,695	(5,040)
Other	1,409,549	1,459,065	49,516
Investment earnings	49,189	43,301	(5,888)
Gain on disposal of capital assets	69,600	0	(69,600)
Transfers	0	231,892	231,892
<i>Total governmental activities</i>	<u>4,220,236</u>	<u>4,473,382</u>	<u>253,146</u>
Business-type activities:			
Investment earnings	23,165	23,316	151
Gain on disposal of capital assets	7,030	2,020	(5,010)
Transfers	0	(231,892)	(231,892)
<i>Total business-type activities</i>	<u>30,195</u>	<u>(206,556)</u>	<u>(236,751)</u>
Total primary government	<u><u>\$4,250,431</u></u>	<u><u>\$4,266,826</u></u>	<u><u>\$16,395</u></u>

Total government wide general revenues increased \$16,395 from \$4,250,431 in 2011-12, to \$4,266,826 in 2012-13. Property taxes related revenues increased \$52,266 from \$925,163 in 2011-2012 to \$977,429 in 2012-2013. Property values in the City of Yreka have experienced a significant decline however property values may be stabilizing. In 2012-13, sales tax revenue decreased slightly by \$5,040. Other tax revenues increased \$49,516, of which \$18,016 is vehicle license fees, \$17,031 is transit occupancy taxes and \$14,469 is franchise taxes. The gain on sale of capital assets of \$69,600 in 2011-2012 was due to the sale of land to the State of California, for new superior court facilities. The \$231,892 from the business-type activities to the governmental activities, is the water and sewer enterprise funds share of construction costs for main replacement while surface repaving Oregon Street, funded by State Transportation Improvement paving project.



View on Butcher Hill looking down on the 2.5 million gallon Clearwell tank, January, 2012.

Comparison of Government Wide Program Revenues:

<i>Program Revenue</i>	Year over Year		
	2011-2012	2012-2013	Change
Governmental activities:			
General government	\$833,816	\$457,406	(\$376,410)
Planning and development	287,466	316,809	29,343
Parks and recreation	305,750	108,579	(197,171)
Public works administration	2,018	7,012	4,994
Public works maintenance	467	20	(447)
Police protection	240,093	223,885	(16,208)
Fire protection	255,937	358,183	102,246
Senior nutrition and transportation	-	-	-
Streets and sidewalks	717,077	333,024	(384,053)
Public transportation	161,391	207,082	45,691
<i>Total governmental activities</i>	<u>2,804,015</u>	<u>2,012,000</u>	<u>(792,015)</u>
Business-type activities:			
Sewer	2,316,888	2,387,031	70,143
Water	3,948,400	4,223,833	275,433
Sanitary Landfill	-	-	-
<i>Total business-type activities</i>	<u>6,265,288</u>	<u>6,610,864</u>	<u>345,576</u>
Total primary government	<u><u>\$9,069,303</u></u>	<u><u>\$8,622,864</u></u>	<u><u>(\$446,439)</u></u>

Government wide program revenues decreased \$446,439.

Governmental activities program revenue decreased \$792,015 in 2012-2013.

- The \$376,410 decrease in general government is primarily due to the \$495,487 insurance premium refund received in 2011-2012, where \$143,591 of premium refunds were declared and received in 2012-2013.
- The \$197,171 decrease in revenue for parks and recreation is primarily due capital outlay associated with the grant funded projects 2011-2012.
- The \$102,246 increase in revenue for fire protection is primarily due to mutual aid reimbursements from federal and state agencies for wildfire line support in 2012-2013.
- The \$384,053 decrease in street and sidewalk revenue is due to capital outlay projects completed in 2011-2012.

Business activities program revenue increased \$345,576 in 2012-2013, primarily from utility fee revenues for water \$232,071 and wastewater \$78,754 as 2012-2013 was the final year of a planned five-year rate increase.

Comparison of Government Wide Program Expenses:

<i>Program Expenses</i>	2011-2012	2012-2013	Year over Year Change
Governmental activities:			
General government	\$729,348	\$658,095	(\$71,253)
Planning and development	742,515	745,195	2,680
Parks and recreation	589,618	549,039	(40,579)
Public works administration	73,771	70,937	(2,834)
Public works maintenance	126,777	98,914	(27,863)
Police protection	2,340,168	2,448,813	108,645
Fire protection	408,552	505,936	97,384
Senior nutrition and transportation	-	-	-
Streets and sidewalks	1,009,040	1,093,360	84,320
Public transportation	161,391	207,082	45,691
<i>Total governmental activities</i>	<u>6,181,180</u>	<u>6,377,371</u>	<u>196,191</u>
Business-type activities:			
Sewer	1,736,928	1,823,114	86,186
Water	1,625,700	1,861,242	235,542
Sanitary Landfill	-	-	-
<i>Total business-type activities</i>	<u>3,362,628</u>	<u>3,684,356</u>	<u>321,728</u>
Total primary government	<u><u>\$9,543,808</u></u>	<u><u>\$10,061,727</u></u>	<u><u>\$517,919</u></u>

Government wide functional expenses increased \$517,919 from \$9,543,808 in 2011-12 to \$10,061,727 in 2012-13.

Functional expenses for governmental activities increased \$196,191 from \$6,181,180 in 2011-12 to \$6,377,371 in 2012-13.

- General governmental expenses decreased \$71,253, primarily due to staffing restructures.
- Police protection expenses increased \$108,645, primarily due to overtime and part-time wages arising from caseload volume, disability leave, dispatcher turnover, and implementation of new dispatching and case reporting software .
- Fire protection expenses increased \$97,384 due costs related to mutual aid response to federal and state agencies for wildfire line support.

Functional expenses for business-type activities increased \$321,728 from \$3,362,628 in 2011-12 to \$3,684,356 in 2012-13. The water system's operating costs increased \$174,993 and debt servicing costs increased \$60,549. The increases are primarily due to the operational costs (additional pump, clear well tank, flocculation plant) and debt servicing costs relating to the Fall Creek Water Improvement Project.

Financial Analysis of the City's Funds:

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds:

The focus of the City of Yreka's governmental funds is to provide information on near-term cash inflows, cash outflows, and available ending balances and reserves for operations. Such information is useful in assessing the City of Yreka's financing requirements. In particular, fund balances serve as a useful measure of a government's net capital available for spending at the end of the fiscal year.

The general fund is the chief operating fund of the City of Yreka, and at the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$8,469,357. The following describes the fund balances designations.

Nonspendable: The nonspendable governmental fund balances for the City total \$509,402 and represents medium and long term loans to residents and businesses arising from housing and economic development grant lending programs.

Restricted: The restricted governmental fund balances for the City total \$3,223,810. The General Fund balance reserved for capital outlays of \$1,910,735 that represents funds in the Crandall account and \$87,819 of project specified donated funds. The Crandall account is an account where the City has expenditure control, but is restricted to expend only for special capital outlays pursuant to a will. Restricted balances of \$220,347 in special grant funds includes program income generated from the City's residential and business lending, that is restricted by the grantor in re-use. The special revenue funds have a restricted fund balance of \$467,415 of which \$375,220 is a voter approved parcel tax assessment for fire protective services, and \$92,195 are reserved for planned improvements arising from developer fees. Street and road restricted balances of \$537,494 are as result of statewide fuel (highway users tax accounts, or HUTA) and restricted sales taxes (local transportation funds), that are restricted to transit, road and street construction, maintenance and improvements.

Committed: The committed governmental fund balances for the City are zero.

Assigned: The restricted fund balances for the City are \$2,068,265. The City has assigned these balances to cover capital improvements, planning and development, budget stabilization, grant contingencies and general liability reserves.

Unassigned: The City has \$2,667,880 of unassigned governmental fund balances.

Proprietary funds:

The City of Yreka’s proprietary funds, also referred to as business-type activities or Enterprise Funds, provide the same type of information found in the government-wide financial statements, but in more detail. Total net position of the water and wastewater funds at the end of the year amounted to \$22,731,803, and the unrestricted net position was \$8,351,639. In the statement on Cash Flows, page 10, the net increase in cash shows an increase of \$1,143,877. The wastewater and water enterprise fund increased \$435,573 and \$708,304 respectively, in available cash. Planned capital outlay expenditures in the water fund of \$1,660,364 were grant funded. The City currently remains on track with its revenue increases, operating costs controls, and required capital outlay as identified from the rate analysis study.

Agency funds:

Agency funds consist of fiduciary funds that are used to account for assets held in a trustee or agent capacity for others. The City has no agency funds.



City of Yreka Website Home Page, December, 2012.

General Fund Budgetary Highlights:

Below is a table comparing the differences between the original budget and the final amended budget for revenue and expenses in the General Fund, Special Grant Fund, Special Revenue and Streets and Roads Fund. More line detail is available on pages 32 through 35 of this report.

Schedule of Revenues and Expenditures – Budget to Actual 2012-2013

General Fund	Original	Final	Actual
Revenue	\$4,459,925	\$4,665,877	\$4,868,878
Expense	4,513,095	4,596,707	4,449,629
Excess (deficiency) of revenue over (under) expenses	(53,170)	69,170	419,249
Other Financing Sources and (Uses)	(115,210)	(267,078)	(260,978)
Net Change in Fund Balance	(\$168,380)	(\$197,908)	\$158,271
Special Grants	Original	Final	Actual
Revenue	\$2,049,750	\$399,952	\$401,812
Expense	2,089,750	714,602	710,938
Excess (deficiency) of revenue over (under) expenses	(40,000)	(314,650)	(309,126)
Other Financing Sources and (Uses)	32,500	333,000	326,892
Net Change in Fund Balance	(\$7,500)	\$18,350	\$17,766
Special Revenue	Original	Final	Actual
Revenue	\$476,575	\$454,762	\$462,781
Expense	323,976	426,833	425,996
Net Change in Fund Balance	\$152,599	\$27,929	\$36,785
Streets and Roads	Original	Final	Actual
Revenue	\$476,100	\$510,850	\$520,019
Expense	741,803	728,117	598,545
Excess (deficiency) of revenue over (under) expenses	(265,703)	(217,267)	(78,526)
Other Financing Sources and (Uses)	90,210	165,978	165,978
Net Change in Fund Balance	(\$175,493)	(\$51,289)	\$87,452

General Operating Fund:

- Total revenues were \$4,459,925 in the original budget, \$4,665,877 in the final budget and \$4,868,878 for actuals. The revenue increase of \$205,962 in the final budget is due to an increase in other revenue for mutual aid fire reimbursement support on forest fires and one time insurance premium refund from SCORE. Actual revenue of \$4,868,878 was \$203,001 favorable to the final budget reflecting a modest increase in taxes (sales, property, franchise and transient occupancy taxes).
- Total expenses were \$4,513,095 in the original budget, \$4,596,707 in the final budget and \$4,449,629 for actuals. The final budget expense increased by \$83,612 from the original budget. Actual expenses of \$147,078 were favorable to the final budget, primarily due to mid-year retirements for positions that subsequently restructured.
- Other financing Sources and (Uses) were (\$115,210) in the original budget, (\$267,078) in the final budget and (\$260,978) for actuals. The increase in financing

uses of (\$151,868) from the original budget were to cover expenditures in the street funds in the amount of \$101,868, and Special Grant Funds in the amount of \$50,000 that were not gas tax or grant eligible expenditures, but were specific to the roads and streets and capital grants programs.

- The change in the general fund balance was (\$168,380) in the original budget, (\$197,908) in the final budget and \$158,271 for actuals.

Special Grant Fund:

- Grant revenue was \$2,049,750 in the original budget, \$399,952 in the final budget and actual revenue was \$401,812. The original budget showed funding for all grants projects that might have been completed in the fiscal year 2012-13. The decrease in actual project funding reflects delays in both construction work in process and implementation.
- Expenditure for community development was \$427,750 in the original budget, \$260,350 in the final budget, and \$261,264 for actuals. The \$167,400 expenditure decrease in the final budget is due to \$95,000 lower than planned expenditure for a community business training grant ending December 2012. For continuing grants, a \$56,900 lower than planned expenditure for the brownfield assessment and \$15,000 lower than planned expenditures for the tourism planning.
- Capital expenditures for street rehabilitation and greenway and park improvements were \$1,662,000 in the original budget, \$420,986 in the final budget and \$415,861 for actuals. Design delays, bid rejection and project approval have delayed \$1,106,000 of planned construction on a river parkway grant project at the north end of town near along the Yreka Creek. Oregon Street paving project finished in early July 2013, and \$135,000 of original budgeted expenditures were realized in the following year.
- Other financing sources \$32,500 in the original budget, \$333,000 in the final budget and \$326,892 for actuals. Operating transfers were increased \$300,500 in the final budget cover the water and sewer portion of the Oregon Street paving project \$231,900, and \$48,600 from general funds and \$20,000 street funds for capital outlay expenditures on grant projects not covered by or in excess of available grant revenues.

Special Revenue Fund:

- Revenues were \$476,575 in the original budget, \$454,762 in the final budget and \$462,781 for actuals.
- Expenses were \$323,976 in the original budget, \$426,833 in the final budget and \$425,996 for actuals. Capital outlay increased \$99,671, due a final payment and delivery delay of the brush fire response truck. The expense from the delay was not contemplated in the original budget. The truck was received in August of 2012, instead of the anticipated May-June 2012 promised date.

Streets and Roads Fund:

- Revenues were \$476,100 in the original budget, \$510,850 in the final budget and \$520,019 for actuals. Actual revenue in the road and streets funds is primarily from state gas tax allocations.

- Expenses were \$741,803 in the original budget, \$728,117 in the final budget and \$598,545 for actuals.
- Other financing sources were \$90,210 in the original budget, \$165,978 in the final budget and \$165,978 for actuals. Operating transfers in were increased to cover expenses not eligible for gas tax funding.
- Expenses for street and sidewalk maintenance were \$519,726 in original budget and \$498,940 in the final budget. Actual expenditures of \$375,828, were lower as less engineering and maintenance work was performed by City staff.

Capital Assets and Debt Administration

Changes in Capital Assets

	Balance June 30, 2012	Additions	Retirements	Transfers	Balance June 30, 2013
Governmental Activities:					
<i>Capital assets not being depreciated;</i>					
Land	\$1,909,498	\$0	\$0	\$0	\$1,909,498
Construction in Progress	722,250	515,532	-	(212,939)	1,024,843
<i>Capital assets being depreciated;</i>					
Building and Structures	4,787,391	-	-	-	4,787,391
Machinery and Equipment	3,584,142	56,783	(102,613)	212,939	3,751,251
Infrastructure	29,887,967	-	-	-	29,887,967
Governmental Activities Capital Assets	40,891,248	572,315	(102,613)	-	41,360,950
Less Accumulated Depreciation	(22,112,646)	(945,960)	102,613	-	(22,955,993)
Governmental Activities Capital Assets, net	\$18,778,602	(\$373,645)	\$0	\$0	\$18,404,957
Business-type Activities:					
<i>Capital assets not being depreciated;</i>					
Land	\$253,172	\$0	\$0	\$0	\$253,172
Construction in Progress	9,618,512	1,762,254	-	-	11,380,766
<i>Capital assets being depreciated;</i>					
Utility Plant	16,342,369	263,493	-	-	16,605,862
Building and Structures	7,159,848	-	-	-	7,159,848
Machinery and Equipment	4,417,356	35,972	(180)	-	4,453,148
Total Business Activities Capital Assets	37,791,257	2,061,719	(180)	-	39,852,796
Less Accumulated Depreciation	(16,958,400)	(639,333)	180	-	(17,597,553)
Business-type Capital Assets, net	20,832,857	1,422,386	-	-	22,255,243
Total Capital Assets, net	\$39,611,459	\$1,048,741	\$0	\$0	\$40,660,200

The City of Yreka's investment in capital assets for its governmental and business type activities as of June 30, 2013 amounts to \$40,660,200 (net of accumulated depreciation). Non-depreciable capital assets are land, land right of ways, used primarily for streets and construction that is in progress. Depreciable assets include buildings and structures, equipment and vehicles. Capital assets for infrastructure include streets and sidewalks, curbs and gutters, drainage systems, bridges, and lighting systems.

The City has completed numerous master plan studies and taken inventory of its assets. In these studies, engineers have identified several capital improvement projects needed within the next five to ten years for the City's infrastructure assets of streets, storm

drainage, water and sewer utilities. To that end, the City remains focused in its efforts to deal with ways to fund infrastructure improvements.

Capital grants, though more competitive, remain the primary source of funding for capital outlay to the City's aging infrastructure. The City's streets and roads in are in need of routine maintenance and rehabilitation. At present, there is not an adequate revenue stream for repairs, other than competitive grants.

The water and wastewater systems continue to improve in their safety and reliability. The City is undertaking major improvements projects to these systems through grants and borrowing against future revenues. Five years of planned utility rate increases, to adequately fund these utilities have made these loans possible due to the City's ability to demonstrate to its creditors that the City can debt service these obligations.

Major capital asset events during the year are listed as follows.

Governmental Activities

- Projects under construction or CIP increased \$515,532, while completed CIP projects totaled \$212,939 for a balance of \$1,024,843 in 2012-13. Those construction projects include street paving, storm drainage (flood corridor) system, and park greenway improvements.
- CIP transfer of \$212,939 was for the multi-year fabrication of the Yreka Volunteer Fire Department wildlands fire foam strike team engine.
- The City's police department replaced its data servers, operating system software and application programs for \$21,582.
- The City police department acquired a new police interceptor SUV, replacing an older vehicle for \$35,201.

Business Type Activities

- Projects under construction, or CIP, increased \$1,360,898 for water and \$401,356 for sewer enterprise funds, for a cumulative CIP balance of \$11,380,766 in 2012-13. The construction projects include major improvements to the City's water pumping, treatment and storage facilities, and preliminary engineering, design and environmental work for improvements to the sewer system.
- Purchases of field service equipment totaled \$35,972.
- Purchase of radio read meters and heads totaled \$263,493. The City is in a multi-year meter change out program to replace older meters and install radio read meter heads on all of the City's water meters.

Changes in Long Term Liabilities, Long Term Debt and Compensated Absences:

Changes in Long Term Liabilities and Compensated Absences

	June 30, 2012	Additions	Reductions	June 30, 2013	Current Portion
<i>Governmental Activities:</i>					
Loans Payable - Banks and Others	\$614,956	\$0	\$128,128	\$486,828	
Loans Payable - Governmental Agencies	2,109,946		61,203	2,048,743	180,779
Governmental Activities Debt	2,724,902	0	189,331	2,535,571	180,779
Compensated Absences	226,238	197,412	226,323	197,327	197,327
Total Governmental Activities	2,951,140	197,412	415,654	2,732,898	378,106
<i>Business-type Activities:</i>					
Loans Payable - Governmental Agencies	727,020	0	57,941	669,079	59,448
Certificates of participation - USDA Rural Development	7,630,000	0	124,000	7,506,000	127,000
Business-type Activities Debt	8,357,020	0	181,941	8,175,079	186,448
Compensated Absences	44,151	47,530	63,205	28,476	28,476
Total Business Activities	8,401,171	47,530	245,146	8,203,555	214,924
Total Outstanding Long Term Debt	\$11,352,311	\$244,942	\$660,800	\$10,936,453	\$593,030



North Street Water Main replacement, August 29, 2011

At the end of the 2012-2013, total long term liabilities were \$10,936,453 and the current portion was \$593,030. The City of Yreka's long term debt position decreased by \$371,272 for scheduled principal repayments. Net compensated absences decreased \$44,586. The net decrease was primarily due to staffing turnover and retirements in 2012-2013.

Detailed information on lenders, rates and maturities for long-term debt can be found on pages 23 through 25 of this report.

Next Year's Budgets and Rates:

Budget Highlights for 2013-2014:

Below are highlights from the City's 2013-14 adopted budget. The adopted was budget approved by the City Council on June 20, 2013, is located on the City's website <http://ci.yreka.ca.us/city/administration/finance/budgets>.

City of Yreka 2013-14 Adopted Budget

	Budgeted Revenue	Budgeted Expense	Excess of Revenue over Expense
Total General Fund	\$4,792,943	\$5,222,525	(\$429,582)
Total Special Rev. Fund	462,750	324,046	\$138,704
Total Streets and Roads	842,548	1,184,643	(\$342,095)
Special Grant Fund	2,517,420	2,511,470	\$5,950
Total Governmental Activity Fund	8,615,661	9,242,684	(627,023)
Sewer Fund	2,363,500	2,180,418	183,082
Water Fund	2,755,500	2,169,799	585,701
Total Business Type Funds	5,119,000	4,350,217	768,783
All Funds Combined	\$13,734,661	\$13,592,901	\$141,760

For Governmental Activities, the City projects an overall \$627,023 decrease in fund balances during fiscal year 2013-14. The anticipated excess of revenue over expense is (\$429,582) in the General Fund, (\$342,095) in Streets and Roads funds, offset by \$138,704 in the Special Revenue funds and \$5,950 in Special Grant Funds.

General Fund ongoing operating revenues are projected to exceed operating expenses by \$182,918, while expenditures of \$612,500 for capital outlay in 2013-14 are budgeted from capital reserves.

Street and Road Funds operating revenues exceeds operating expenses. The excess of revenues over expenses are budgeted from Street and Road reserves.

For Business Activities, the City anticipates a \$768,783 increase to fund balances.

Grant Awards:

Highlights of the budget include the continued diligence of the City to leverage public dollars with grants. The level of capital improvements and community operating grants would not be possible if it were not for the successful and continued efforts of City staff to obtain and administer these grants. In 2013-2014, the City plans to spend \$2,511,470 of grant funds for special grant projects.

General Fund Revenue Projections:

General Fund - Fiscal Year Main Stream Revenue Comparison

	Actual 10-11	Actual 11-12	Actual 12-13	Adopted Budget 13-14
Property Tax (secured & unsec. roll)	\$974,932	\$925,162	\$977,429	\$940,500
Transient Lodging	567,651	626,334	643,366	600,000
Sales Tax (1)	1,631,864	1,766,735	1,761,695	1,700,000
Franchises	239,658	252,400	266,868	250,000
Licenses and Permits	218,327	174,557	145,979	160,050
Fines and Forfeitures	8,394	9,650	8,183	6,500
Use of Money and Property	63,068	123,845	48,593	25,000
Intergovernmental (2)	710,976	708,256	679,954	676,000
User Fees and Charges	91,628	63,176	46,660	46,025
Administrative Cost Recovery (3)	370,958	316,414	318,311	367,868
Other Revenues	34,211	532,275	290,150	21,000
Transfers In	103,816	0	0	0
Subtotal General Fund Revenue	\$5,015,483	\$5,498,804	\$5,187,188	\$4,792,943

(1) Includes the tax shift impact of the Triple Flip in Lieu Sales Tax, whereas the State is withholding of 0.25% Sales Tax, that is offset by the Property Tax ERAF shift to in-lieu Sales Tax that is payable to the City as in-lieu Sales Tax.

(2) Includes in lieu prop tax for MVLF shift.

(3) Administrative Cost Recovery is netted against the departmental administrative and general governmental expense on in the Financial Statements, but represented as a revenue for budgeting purposes.

Enterprise Fund Revenue:

On October 1, 2012, the City entered into the fifth year of a five-year water and wastewater rate increase program. The first utility rates increase under this program went into effect October 1, 2008. The final year of the rates increases, brings the water and wastewater enterprise funds to a current funding level that allows for system maintenance, capital outlay, reserves, and debt servicing.

In September of 2012, the City received funding, and is clearing special conditions, by the USDA Rural Development for over five million dollars in loan funds for remediation and improvements at the City's wastewater treatment plant and various wastewater collection system improvements. The City expects to commence construction for these improvements in 2013-2014.

Expenditure Control:

The City is working to minimize expenditures while continuing to maintain the historic levels of service that the citizens of Yreka have come to expect and rely upon. In 2013-2014, the City budgeted for 49 full time employees, down two full time budgeted positions from 2012-2013.

Horizon Issues of concern to the City for 2013-2014:

1. The City faces a critical need to generate additional funding for street, storm drain, curbs, sidewalk, gutters and streetlight maintenance. The City is faced with rapid deterioration of its roadways, without a sufficient funding stream to maintain and improve those assets.
2. The City anticipates stabilization of taxes (property, sales, and franchisee and transit occupancy taxes), but not increases to previous levels.
3. The City continues to exercise expenditure controls, as well as the evaluation of staffing levels and vacancies for restructuring opportunities, however maintaining service levels with lower staff and financial resources will be challenging.
4. The City continues to seek funding grant funding for infrastructure, particularly roads, drainage, and maintenance of improved and expanded parks and greenways.



City-owned metal dragon sculpture, north of Yreka visible from Interstate 5, known as "Priscilla", photo dated 12/10/2008.

Requests for Information:

This financial report is designed to provide to all interested readers a general overview of the City of Yreka's finances. Questions concerning any of the information provided in this report, or requests for additional financial information, can directed to the City's Finance Director, 701 Fourth Street, Yreka, CA 96097, website www.ci.yreka.ca.us.



INDEPENDENT AUDITORS' REPORT

To the City Council
City of Yreka, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the City of Yreka, California, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the City of Yreka, California, as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require the management's discussion and analysis and budgetary comparison information on pages I-XXI and 32-35 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Yreka, California's financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2013, on our consideration of City of Yreka, California's internal control over financial reporting and 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 controls over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Yreka, California's internal control over financial reporting and compliance.

Aiello, Goodrich & Teuscher

Aiello, Goodrich & Teuscher
An Accountancy Corporation
Mt. Shasta, California
November 18, 2013



BASIC FINANCIAL STATEMENTS

City of Yreka
Statement of Net Position
June 30, 2013

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
ASSETS			
Current assets:			
Cash and investments	\$ 5,514,028	\$ 7,781,273	\$13,295,301
Receivables (net of allowances, where applicable)			
Trade accounts	-	539,170	539,170
Loans	509,402	-	509,402
Intergovernmental	353,494	25,788	379,282
Accounts	196,807	-	196,807
Taxes	497,315	-	497,315
Interest	4,124	-	4,124
Internal balances	(250,184)	250,184	-
Total current assets	<u>6,824,986</u>	<u>8,596,415</u>	<u>15,421,401</u>
Restricted assets:			
Cash and investments	<u>1,912,761</u>	<u>300,000</u>	<u>2,212,761</u>
Capital assets:			
Non-depreciable	2,934,341	11,633,938	14,568,279
Depreciable, net	<u>15,470,616</u>	<u>10,621,305</u>	<u>26,091,921</u>
Total capital assets	<u>18,404,957</u>	<u>22,255,243</u>	<u>40,660,200</u>
Total assets	<u>27,142,704</u>	<u>31,151,658</u>	<u>58,294,362</u>
LIABILITIES			
Current liabilities:			
Accounts payable	159,645	127,482	287,127
Payroll payable	99,225	-	99,225
Grant advances	9,520	-	9,520
Current portion of long-term debt	180,779	186,448	367,227
Current portion of compensated absences	197,327	28,476	225,803
Total current liabilities	<u>646,496</u>	<u>342,406</u>	<u>988,902</u>
Long-term liabilities:			
Long-term debt, net of current portion	2,354,792	7,988,631	10,343,423
OPEB Liability	180,326	88,818	269,144
Total long-term liabilities	<u>2,535,118</u>	<u>8,077,449</u>	<u>10,612,567</u>
Total liabilities	<u>3,181,614</u>	<u>8,419,855</u>	<u>11,601,469</u>
NET POSITION			
Invested in capital assets, net of related debt	17,918,129	14,080,164	31,998,293
Restricted, expendable	3,223,810	300,000	3,523,810
Unrestricted	<u>2,819,151</u>	<u>8,351,639</u>	<u>11,170,790</u>
Total net position	<u>\$23,961,090</u>	<u>\$22,731,803</u>	<u>\$46,692,893</u>

The accompanying notes are an integral part of these financial statements.

City of Yreka
Statement of Activities
Year Ended June 30, 2013

	Expense	Program Revenues			Net (Expense) Revenues and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental activities:							
General government	\$ 658,095	\$ 452,406	\$ 5,000	\$ -	\$ (200,689)	\$ -	\$ (200,689)
Planning and development	745,195	37,928	278,881	-	(428,386)	-	(428,386)
Parks and recreation	549,039	32,001	-	76,578	(440,460)	-	(440,460)
Public works administration	70,937	7,012	-	-	(63,925)	-	(63,925)
Public works maintenance	98,914	20	-	-	(98,894)	-	(98,894)
Police protection	2,448,813	70,104	153,781	-	(2,224,928)	-	(2,224,928)
Fire protection	505,936	322,886	35,297	-	(147,753)	-	(147,753)
Streets and sidewalks	1,093,360	41,494	271,443	20,087	(760,336)	-	(760,336)
Public transportation	207,082	-	207,082	-	-	-	-
Total governmental activities	<u>6,377,371</u>	<u>963,851</u>	<u>951,484</u>	<u>96,665</u>	<u>(4,365,371)</u>	<u>-</u>	<u>(4,365,371)</u>
Business-type activities:							
Sewer	1,823,114	2,387,031	-	-	-	563,917	563,917
Water	1,861,242	2,770,835	-	1,452,998	-	2,362,591	2,362,591
Total business-type activities	<u>3,684,356</u>	<u>5,157,866</u>	<u>-</u>	<u>1,452,998</u>	<u>-</u>	<u>2,926,508</u>	<u>2,926,508</u>
Total primary government	<u>\$10,061,727</u>	<u>\$ 6,121,717</u>	<u>\$ 951,484</u>	<u>\$ 1,549,663</u>	<u>(4,365,371)</u>	<u>2,926,508</u>	<u>(1,438,863)</u>
General revenues:							
Taxes:							
Property					977,429	-	977,429
Sales and use					1,761,695	-	1,761,695
Other (including motor vehicle license fees)					1,459,065	-	1,459,065
Investment earnings					43,301	23,316	66,617
Gain on disposal of capital assets					-	2,020	2,020
Transfers					231,892	(231,892)	-
Total general revenues and transfers					<u>4,473,382</u>	<u>(206,556)</u>	<u>4,266,826</u>
Change in net position					108,011	2,719,952	2,827,963
Net position, beginning as previously reported					23,648,965	20,011,851	43,660,816
Prior period adjustment					204,114	-	204,114
Net position, beginning					<u>23,853,079</u>	<u>20,011,851</u>	<u>43,864,930</u>
Net position, ending					<u>\$ 23,961,090</u>	<u>\$ 22,731,803</u>	<u>\$ 46,692,893</u>

The accompanying notes are an integral part of these financial statements.

City of Yreka
Balance Sheet
and
Reconciliation of Total Governmental Fund Balance to the Statement of Position - Governmental Activities
Governmental Funds
June 30, 2013

	General Fund	Special Grant Fund	Special Revenue Fund	Streets and Roads Fund	Total Governmental Funds
ASSETS					
Cash and investments	\$ 5,923,364	\$ 258,123	\$ 764,836	\$ 480,466	\$ 7,426,789
Receivables (net of allowance for doubtful accounts, where applicable):					
Loans, net of loan loss allowances	-	509,402	-	-	509,402
Intergovernmental	37,067	262,698	-	53,729	353,494
Accounts	154,513	(315)	38,543	4,066	196,807
Taxes	481,973	-	-	15,342	497,315
Interest	3,304	110	463	247	4,124
Due from other funds	302,217	-	-	-	302,217
Total assets	\$ 6,902,438	\$ 1,030,018	\$ 803,842	\$ 553,850	\$ 9,290,148
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 62,370	\$ 75,071	\$ 11,317	\$ 10,887	\$ 159,645
Payroll payable	99,225	-	-	-	99,225
Grant advances	2,000	7,520	-	-	9,520
Due to other funds	-	187,163	359,769	5,469	552,401
Total liabilities	163,595	269,754	371,086	16,356	820,791
Fund balances:					
Nonspendable:					
Noncurrent loans receivables	-	509,402	-	-	509,402
Total nonspendable	-	509,402	-	-	509,402
Restricted:					
Fire protection, voter tax assessment measure	-	-	375,220	-	375,220
Capital Improvements, impact fee reserves	-	-	92,195	-	92,195
Revolving loan funds	-	220,347	-	-	220,347
Streets and sidewalks	-	-	-	537,494	537,494
Donor specified for community services and activities	27,594	-	-	-	27,594
Donor specified for volunteer fire department	60,225	-	-	-	60,225
Capital outlays, Crandall Trust Funds	1,910,735	-	-	-	1,910,735
Total restricted	1,998,554	220,347	467,415	537,494	3,223,810
Assigned:					
Capital improvements	1,104,254	-	-	-	1,104,254
Planning and development	202,011	30,515	-	-	232,526
Budget stabilization	100,000	-	-	-	100,000
Grant contingencies, and general liability reserves	631,485	-	-	-	631,485
Total assigned	2,037,750	30,515	-	-	2,068,265
Unassigned:					
	2,702,539	-	(34,659)	-	2,667,880
Total fund balance	6,738,843	760,264	432,756	537,494	8,469,357
Total liabilities and fund balance	\$ 6,902,438	\$ 1,030,018	\$ 803,842	\$ 553,850	\$ 9,290,148
Total governmental fund balance, as above					\$ 8,469,357
Amounts reported for governmental activities in the statement of net position are different because:					
Capital assets used in governmental activities are not financial resources and therefore not reported in the funds					18,404,957
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds					(2,535,571)
Compensated absences are not due and payable in the current period and therefore are not reported on the balance sheet					(197,327)
OPEB liabilities are not due and payable in the current period and therefore are not reported on the balance sheet					(180,326)
Net position of governmental activities					\$ 23,961,090

City of Yreka
Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Funds
For The Year Ended June 30, 2013

	General Fund	Special Grant Fund	Special Revenue Fund	Streets and Roads Fund	Total Governmental Funds
REVENUES					
Property taxes	\$ 977,429	\$ -	\$ -	\$ -	\$ 977,429
Sales and use taxes	1,761,695	-	-	-	1,761,695
Transient occupancy taxes	643,366	-	-	-	643,366
Assessment	-	-	226,860	-	226,860
Franchise and fees	266,868	-	-	-	266,868
Licenses and permits	145,979	-	16,993	-	162,972
Intergovernmental revenues	679,954	391,976	-	475,188	1,547,118
Charges for services	46,660	-	216,767	-	263,427
Fines, forfeitures and penalties	8,183	-	-	28,356	36,539
Use of money and property	48,593	9,836	2,161	14,477	75,067
Other	290,151	-	-	1,998	292,149
Total revenues	<u>4,868,878</u>	<u>401,812</u>	<u>462,781</u>	<u>520,019</u>	<u>6,253,490</u>
EXPENDITURES					
Current:					
City council, manager, and clerk	202,728	-	-	-	202,728
General government	278,213	-	5,701	-	283,914
Planning and development	478,287	261,264	-	-	739,551
Parks and recreation	444,432	42	-	-	444,474
Public works administration	49,677	5,398	-	15,635	70,710
Public works maintenance	105,922	2,107	-	-	108,029
Police protection	2,401,477	26,266	-	-	2,427,743
Fire protection	415,150	-	9,820	-	424,970
Streets and sidewalks	-	-	-	375,828	375,828
Public transportation	-	-	-	207,082	207,082
Capital outlay	56,783	415,861	99,671	-	572,315
Debt service:					
Principal	16,960	-	172,371	-	189,331
Interest	-	-	138,433	-	138,433
Total expenditures	<u>4,449,629</u>	<u>710,938</u>	<u>425,996</u>	<u>598,545</u>	<u>6,185,108</u>
Excess of revenues over (under) expenditures	<u>419,249</u>	<u>(309,126)</u>	<u>36,785</u>	<u>(78,526)</u>	<u>68,382</u>
OTHER FINANCING SOURCES (USES)					
Operating transfers in	-	326,892	-	185,978	512,870
Operating transfers out	<u>(260,978)</u>	<u>-</u>	<u>-</u>	<u>(20,000)</u>	<u>(280,978)</u>
Total other financing sources (uses)	<u>(260,978)</u>	<u>326,892</u>	<u>-</u>	<u>165,978</u>	<u>231,892</u>
Excess of revenues and other sources over (under) expenditures and other uses	158,271	17,766	36,785	87,452	300,274
FUND BALANCE					
Beginning of year	<u>6,580,572</u>	<u>742,498</u>	<u>395,971</u>	<u>450,042</u>	<u>8,169,083</u>
End of the year	<u>\$ 6,738,843</u>	<u>\$ 760,264</u>	<u>\$ 432,756</u>	<u>\$ 537,494</u>	<u>\$ 8,469,357</u>

The accompanying notes are an integral part of these financial statements.

City of Yreka
 Reconciliation of the Statement of Revenues, Expenditures and
 Changes in Fund Balance to the Statement of Activities
 Governmental Funds
 For The Year Ended June 30, 2013

Change in fund balance, governmental funds	\$ 300,274
Amounts reported for governmental activities in the statement of activities is different because:	
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which the depreciation expense (\$945,960), exceeds the capital outlay of (\$572,315).	(373,645)
Government funds report repayment of long-term debt as an expenditure, but the repayment reduces long-term liabilities in the Statement of Net Assets and does not affect the Statement of Activities.	189,331
Governmental funds do not report the increase of OPEB liabilities as an expenditure, but it is reported in the Statement of Activities	(36,860)
Governmental funds do not report the increase of compensated absences as an expenditure, but it is reported in the Statement of Activities	<u>28,911</u>
Change in net position of governmental activities	<u><u>\$ 108,011</u></u>

City of Yreka
Statement of Net Position
Proprietary Funds
June 30, 2013

	Sewer Fund	Enterprise Water Fund	Total
ASSETS			
Current assets:			
Cash and investments	\$ 2,628,794	\$ 5,152,479	\$ 7,781,273
Receivables (net of allowances for bad debts, where applicable):			
Trade accounts	229,665	309,505	539,170
Intergovernmental	-	25,788	25,788
Due from other funds	250,184	-	250,184
Total current assets	<u>3,108,643</u>	<u>5,487,772</u>	<u>8,596,415</u>
Restricted assets:			
Cash and investments	<u>100,000</u>	<u>200,000</u>	<u>300,000</u>
Capital assets:			
Non-depreciable	714,542	10,919,396	11,633,938
Depreciable, net	<u>7,766,062</u>	<u>2,855,243</u>	<u>10,621,305</u>
Total capital assets, net	<u>8,480,604</u>	<u>13,774,639</u>	<u>22,255,243</u>
Total assets	<u>11,689,247</u>	<u>19,462,411</u>	<u>31,151,658</u>
LIABILITIES			
Current liabilities:			
Accounts payable	46,657	80,825	127,482
Current portion of long-term debt	73,448	113,000	186,448
Current portion of compensated absences	8,816	19,660	28,476
Total current liabilities	<u>128,921</u>	<u>213,485</u>	<u>342,406</u>
Long-term liabilities:			
Long-term debt, net of current portion	1,402,631	6,586,000	7,988,631
OPEB Liability	<u>40,372</u>	<u>48,446</u>	<u>88,818</u>
Total liabilities	<u>1,443,003</u>	<u>6,634,446</u>	<u>8,077,449</u>
Total liabilities	<u>1,571,924</u>	<u>6,847,931</u>	<u>8,419,855</u>
NET POSITION			
Invested in capital assets, net of related debt	7,004,525	7,075,639	14,080,164
Restricted, for debt service, expendable	100,000	200,000	300,000
Unrestricted	<u>3,012,798</u>	<u>5,338,841</u>	<u>8,351,639</u>
Total net position	<u>\$10,117,323</u>	<u>\$12,614,480</u>	<u>\$22,731,803</u>

City of Yreka
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Funds
June 30, 2013

	Sewer Fund	Enterprise Water Fund	Total
<u>OPERATING REVENUES</u>			
User fees and charges	\$ 2,386,416	\$ 2,770,773	\$ 5,157,189
Other	615	62	677
Total operating revenues	<u>2,387,031</u>	<u>2,770,835</u>	<u>5,157,866</u>
<u>OPERATING EXPENSES</u>			
Cost of power and water	213,310	270,918	484,228
Cost of treatment	652,863	463,320	1,116,183
Cost of water distribution and sewer collections	212,388	341,373	553,761
Cost of administration and billing	321,407	363,788	685,195
Depreciation and amortization	368,836	270,497	639,333
Total operating expenses	<u>1,768,804</u>	<u>1,709,896</u>	<u>3,478,700</u>
Operating income	<u>618,227</u>	<u>1,060,939</u>	<u>1,679,166</u>
<u>OTHER REVENUES (EXPENSES)</u>			
Intergovernmental revenues	-	1,452,998	1,452,998
Gain on asset disposals	-	2,020	2,020
Interest earned	7,873	15,443	23,316
Interest expense	(54,310)	(151,346)	(205,656)
Total other revenues (expenses)	<u>(46,437)</u>	<u>1,319,115</u>	<u>1,272,678</u>
<u>OTHER FINANCING SOURCES (USES)</u>			
Operating transfers out	(81,594)	(150,298)	(231,892)
Total other financing sources (uses)	<u>(81,594)</u>	<u>(150,298)</u>	<u>(231,892)</u>
Change in net position	490,196	2,229,756	2,719,952
<u>NET POSITION</u>			
Beginning of year	<u>9,627,127</u>	<u>10,384,724</u>	<u>20,011,851</u>
End of the year	<u>\$10,117,323</u>	<u>\$12,614,480</u>	<u>\$22,731,803</u>

City of Yreka
Statement of Cash Flows
Proprietary Funds
June 30, 2013

	Sewer Fund	Enterprise Water Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 2,399,446	\$ 2,768,649	\$ 5,168,095
Payments to suppliers	(876,351)	(1,690,498)	(2,566,849)
Payments to or on behalf of employees	(517,284)	(644,196)	(1,161,480)
Net cash provided by operating activities	<u>1,005,811</u>	<u>433,955</u>	<u>1,439,766</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES			
Intergovernmental revenues	-	2,299,406	2,299,406
Interfund transfers and payments	(51,505)	(119,810)	(171,315)
Net cash provided by non-capital financing activities	<u>(51,505)</u>	<u>2,179,596</u>	<u>2,128,091</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Proceeds from sale of fixed assets	-	2,020	2,020
Purchase of capital assets	(401,355)	(1,660,364)	(2,061,719)
Principal payments on debt	(70,941)	(111,000)	(181,941)
Interest payments on debt	(54,310)	(151,346)	(205,656)
Net cash (used) by investing activities	<u>(526,606)</u>	<u>(1,920,690)</u>	<u>(2,447,296)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest income received	<u>7,873</u>	<u>15,443</u>	<u>23,316</u>
Net increase in cash	435,573	708,304	1,143,877
CASH			
Beginning of the year	<u>2,293,221</u>	<u>4,644,175</u>	<u>6,937,396</u>
End of the year	<u><u>\$ 2,728,794</u></u>	<u><u>\$ 5,352,479</u></u>	<u><u>\$ 8,081,273</u></u>
Reconciliation of operating income to cash provided by operating activities:			
Operating income	\$ 618,227	\$ 1,060,939	\$ 1,679,166
Adjustments to reconcile operating income to cash provided by operating activities:			
Depreciation and amortization	368,836	270,497	639,333
(Increase) decrease in trade accounts receivable	12,415	(2,186)	10,229
Increase (decrease) in accounts payable	(3,672)	(489,420)	(493,092)
Increase (decrease) in construction retention	-	(413,362)	(413,362)
Increase (decrease) in compensated absences	(5,934)	(9,741)	(15,675)
Increase in OPEB liability	15,939	17,228	33,167
Net cash provided by operating activities	<u><u>\$ 1,005,811</u></u>	<u><u>\$ 433,955</u></u>	<u><u>\$ 1,439,766</u></u>

City of Yreka, California
Notes to Basic Financial Statement
June 30, 2013

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Yreka, California (hereafter “the City”) operates under a City Council – City Manager form of government and provides the following services: public safety, streets and roads, water and sewer, culture and recreation, public improvements, planning and zoning, and general administrative services.

The accounting policies of the City conform to accounting principles generally accepted in the United States of America as applicable to governmental entities. The following is a summary of the more significant policies.

The City applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. The enterprise/proprietary fund types apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) Opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

The financial statements of the City include all of the financial activities of the City. In evaluating how to define the City, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in generally accepted accounting principles (GAAP). The basic - but not the only - criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the City is able to exercise oversight responsibilities. Based upon the application of these criteria, the City does not have any component units.

B. Basis of Presentation

Government-wide Financial Statements:

The statement of net assets and statement of activities include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the governmental and business-type activities of the City. Governmental activities are reported separately from business-type activities (such as water and sewer funds).

The statement of activities presents a comparison between direct expenses and program revenues for each different identifiable activity of the City's business-type activities and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and therefore are clearly identifiable to a particular function. Program revenues include charges paid by recipients of goods and services offered by the program, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented instead as general revenues.

When both restricted and unrestricted net assets are available, generally restricted resources are depleted first before the unrestricted resources are used.

City of Yreka, California
Notes to Basic Financial Statement
June 30, 2013

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fund Financial Statements:

Fund financial statements of the City are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

Total assets, liabilities, revenues or expenditure/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category type; and

Total assets, liabilities, revenues, or expenditures/expenses for the individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The funds of the City are described below:

Major Governmental Funds:

General Fund – The general fund is the City’s primary operating fund. It is used to account for all financial resources of the general government, except those required to be accounted for in another fund.

Special Grants Fund – This fund is used to account for various federal and state grants which must be spent for infrastructure capital outlays, such as streets and parks, and economic and community development.

Special Revenues Fund – This fund is used to account for revenues and expenditures of the fire assessments, landfill assessments and development fees.

Streets and Roads Fund – This fund is used to account for revenues received from the State of California which must be spent for street maintenance or repairs.

Major Proprietary Funds:

The Enterprise Funds are used to account for operations that are financed and operated in a manner similar to a private business enterprise where the intent of the governing body is that the costs (expenses) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The Sewer Fund – This fund is used to account for the transportation and treatment of waste water within the City of Yreka. User charges to customers accounts for substantially all of the operating revenue of this fund.

The Water Fund – This fund is used to account for the treatment and distribution of water within the City of Yreka. User charges to customers based upon water consumption account for substantially all of the operating revenue in this fund.

City of Yreka, California
Notes to Basic Financial Statement
June 30, 2013

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

Measurement Focus:

In the government-wide statements, both governmental and business-type activities are presented using the economic resources measurement focus as defined below.

In the fund financial statements, the current financial resources measurement focus or the economic resources measurement focus is used as appropriate.

All governmental funds utilize a current financial resources measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present resources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the year.

All proprietary (enterprise) funds utilize an economic resources measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as a net asset.

Fiduciary (agency) funds are not involved in the measurement of results of operations; therefore, measurement focus is not applicable to them.

Basis of Accounting:

In the government-wide statements, both governmental and business-type activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental and agency funds are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when measurable and available. Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within 60 days after year end. Expenditures (including capital outlays) are recorded when the related fund liability is incurred.

All proprietary funds utilize the accrual basis of accounting, as described above.

City of Yreka, California
Notes to Basic Financial Statement
June 30, 2013

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Assets, Liabilities, Net Assets or Fund Equity

Cash and Cash Equivalents:

For purposes of the statement of cash flows, the City considers as cash equivalents all highly liquid investments with a maturity at the date of purchase of three months or less. The City reports its investments at the fair value in the balance sheet. All investment income, including changes in the fair value of investments, is recognized as revenue in the operating statement.

Investments:

The City participates in the California Local Agency Investment Fund ("LAIF"). LAIF is an external investment pool through which local governments may pool investments. Investments in LAIF are highly liquid, as deposits can be converted to cash within 24 hours without the loss of interest. The fair value of the City's portion of LAIF is the same as its value of the pool shares. The regulatory oversight of LAIF rests with the Local Agency Investment Board.

Receivables:

In the fund financial statements, material receivables in governmental funds are the same as those in the government-wide statements, since they are both measurable and available. Interest earnings are recorded when earned only if paid within 60 days since they would be considered both measurable and available. Proprietary fund material receivables consist of all revenues earned at year-end but not yet received. Allowances for uncollectible accounts receivable are based on historical trends, periodic aging of accounts receivable, and management's detailed analysis of the composition of accounts receivable.

Property Taxes:

The County of Siskiyou assesses, bills, and collects property taxes for the City. Assessed values are determined annually by the Siskiyou County Assessor as of January 1, and become a lien on such property January 1. Taxes are due November 1 and February 1 (secured), and July 1 (unsecured) and are delinquent if not paid by December 10 and April 10 (secured), and August 31 (unsecured). The County is permitted by the State Constitution (Article XIII A) to levy taxes at 1% of the full market value of the property (at the time of purchase) and can change a property's assessed valuation by reappraisal due to new construction, change in ownership, or by a change in the fair market value not to exceed a 2% increase each year. Property taxes collected by the County on behalf of the City but not remitted to the City by June 30 are accrued in revenue and included in other accounts receivable.

Interfund Receivables and Payables:

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. These may include amounts relating to goods and services type transactions, and interfund loans.

Restricted Assets:

Certain resources received by a bequest are classified as restricted assets on the balance sheet because their use is limited by the trust document for capital outlays. Also, there are cash deposits that are restricted for debt servicing as outlined in the certificates of participation debt agreements within the proprietary funds.

City of Yreka, California
Notes to Basic Financial Statement
June 30, 2013

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Loans Receivable:

Loans receivable consist of loans to individuals for housing rehabilitation and to businesses for construction and business loans. The City records loan loss allowances for any portion of the loan uncollectable.

Capital Assets:

The accounting treatment for property, plant, equipment and infrastructure assets (capital assets) depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

In the government-wide financial statements, property, plant, equipment with a cost of \$15,000 or more and infrastructure assets with a cost of \$50,000 or more are accounted for as capital assets. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available, except donated capital assets are recorded at their estimated fair market value at the date of donation. Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Buildings and building improvements	50 years
Land improvements	20 to 30 years
Equipment	3 to 20 years
Infrastructure	15 to 50 years
Water and sewer mains	50 years
Vehicles	5 to 10 years

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for the same as in the government-wide statements.

Compensated Absences:

Vacation pay and compensated time off is vested to the employees as it accrues and is payable upon separation of service. Sick leave does not vest to the employees and is paid only when sick leave is taken. Therefore, only vacation pay and compensated time off have been accrued in the accompanying financial statements.

Grant Advances:

Grant advances represent monies received that have not yet been expended by the City and are not earned (as revenue) until properly expended.

Long Term Liabilities:

In the government-wide financial statements and proprietary fund financial statements, long-term debt, compensated absences and other long-term obligations, including other post employment benefit liabilities are reported as liabilities in the statements of net assets.

In the governmental funds financial statements, activity related to long-term obligations are recognized during the current period. Debt proceeds are presented as financing sources and repayment of debt is presented as an expenditure.

City of Yreka, California
Notes to Basic Financial Statement
June 30, 2013

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Equity Classifications:

In the government-wide financial statements, equity is classified as net assets and displayed as follows:

Invested in capital assets, net of related debt, which consist of capital assets net of accumulated depreciation and reduced by any outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction or improvement of those assets.

Restricted net assets, which consists of net assets with constraints placed on the use either by external groups such as creditors, grantors, contributors, or laws or regulations of other governments, or by law through constitutional provisions or enabling legislation.

Unrestricted net assets, which consists of all other net assets that do not meet the definition of restricted or invested in capital assets, net of related debt.

In the fund financial statements, proprietary fund equity is classified the same as in the government-wide financial statements. Governmental fund equity is classified as fund balance as displayed as follows:

Nonspendable fund balance, which consists of amounts that are not in a spendable form or are legally or contractually required to be maintained intact. Not in a spendable form means the asset causing the City to report fund balances in this classification are not expected to be converted to cash, and would include things like inventory, prepayments, or long-term receivables such as loan receivables.

Restricted fund balance, which consists of fund balance with constraints placed on the use either by external groups such as creditors, grantors, contributors, or laws or regulations of other governments, or by law through constitutional provisions or enabling legislation.

Committed fund balance, which consists of amounts constrained to specific purposes as a result of formal action by the City Council, the City's highest level of decision-making authority. Committed resources cannot be used for any other purpose unless the Council takes the same action to remove the constraint.

Assigned fund balance, which consists of amounts constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. Assignments of fund balance can be made by the Council or an official to whom the Council delegates such authority.

Unassigned fund balance, which consists of residual amounts in the general fund that do not meet any of the above categories. It is also where negative fund balance in any other governmental fund is reported.

When expenditures are incurred for purposes for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first. When expenditures are incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the City has provided otherwise in its commitment or assignment actions.

City of Yreka, California
Notes to Basic Financial Statement
June 30, 2013

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Revenues, Expenditures and Expenses

Operating Revenues and Expenses:

Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering goods and/or services. It also includes all revenues and expenses not related to capital and related financing, noncapital financing, or investing activities.

Expenditures/Expenses:

In the government-wide financial statements, expenses are classified by function for both governmental and business-type activities.

In the fund financial statements, expenditures are classified by character (current, debt service or capital outlay) for governmental funds, and by operating or nonoperating classifications for proprietary funds.

In the fund financial statements, governmental funds report expenditures of financial resources. Proprietary funds report expenses relating to use of economic resources.

F. Estimates

The preparation of basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

G. Budgets

The budget of the City is a detailed operating plan which identifies estimated costs and results in relation to estimated revenues. The budget represents a process through which policy decisions are made, implemented and controlled.

The budget is adopted by the City Council each year. The City Manager is authorized to make transfers of excess appropriations within a department; however, any revisions that alter the total expenditures of any fund require City Council action. Expenditures may not legally exceed appropriations at the department level. Expending funds for which there is no legal appropriation is prohibited.

Budgetary data is presented in the required supplementary information section of the financial statements for the general fund and special revenue funds.

NOTE 2 CASH AND INVESTMENTS

As of June 30, 2013, cash and investments were reported in the accompanying financial statements as follows:

	Cash and Investments	Restricted Cash and Investments	Total
Governmental activities:	\$ 5,514,028	\$ 1,912,761	\$ 7,426,789
Business Type activities:	7,781,273	300,000	8,081,273
Total cash and investments	<u>\$ 13,295,301</u>	<u>\$ 2,212,761</u>	<u>\$ 15,508,062</u>

City of Yreka, California
Notes to Basic Financial Statement
June 30, 2013

NOTE 2 CASH AND INVESTMENTS (continued)

In the governmental activities statement of net assets, \$1,912,761 of cash is reserved for capital outlays per the trust document that governs the bequest of these funds to the City. In the business activities statement of net assets \$300,000 is reserved for debt servicing as outlined in the certificate of participation debt agreement.

The City of Yreka maintains a cash and investment pool that is available for use for all funds. Each fund type's position in the pool is reported on the combined balance sheet as cash and investments. The City has adopted an investment policy, which authorizes it to invest in various investments.

Deposits:

At June 30, 2013, the carrying amount of the City's deposits was \$536,486 and the bank balance was \$678,170. The difference represents outstanding checks.

The California Government Code requires California banks and savings and loan associations to secure a City's deposits by pledging government securities with a value of 110% of a City's deposits. California law also allows financial institutions to secure a City's deposits by pledging first trust deed mortgage notes having a value of 150% of a City's total deposits. The City Treasurer may waive the collateral requirement for deposits that are fully insured up to \$250,000 by the FDIC. The collateral for deposits in federal and state chartered banks is held in safekeeping by an authorized Agent of Depository recognized by the State of California Department of Banking. The collateral for deposits with savings and loan associations is generally held in safekeeping by the Federal Home Loan Bank in San Francisco, California as an Agent of Depository. These securities are physically held in an undivided pool for all California public agency depositors. Under Government Code Section 53655, the placement of securities by a bank or savings and loan association with an "Agent of Depository" has the effect of perfecting the security interest in the name of the local governmental agency. Accordingly, all collateral held by California Agents of Depository are considered to be held for, and in the name of, the local governmental agency.

Investments:

Under provision of the City's investment policy, and in accordance with the California Government Code, the following investments are authorized:

- U.S. Treasury Obligations (bills, notes, and bonds)
- U.S. Government Agency Securities and Instrumentalities' of Government Sponsored Corporations
- Banker's Acceptances
- Commercial paper
- Repurchase Agreements
- Time Deposits and Certificates of deposit
- Negotiable Certificates of deposit
- Local Agency Investment Fund (State Pool)

Investments Authorized by Debt Agreements:

The above investments do not address investment of debt proceeds held by a bond trustee. Investments of debt proceeds held by a bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the City's investment policy.

City of Yreka, California
Notes to Basic Financial Statement
June 30, 2013

NOTE 2 CASH AND INVESTMENTS (continued)

Investments in State Investment Pool:

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code Section 16429 under the oversight of the Treasurer of the State of California. LAIF is overseen by the Local Agency Investment Advisory Board, which consists of five members, in accordance with State statute. The State Treasurer's Office audits the fund annually. Copies of the report can be obtained from the State Treasurer's Office; LAIF; P.O. Box 942809; Sacramento, California 94209-0001. The fair value of the position in the investment pool is materially equivalent to the value of the pool shares. LAIF is an unrated external investment pool.

Credit Risk:

The City's investment policy limits investments in medium term notes (MTN's) to those rated "A" or higher by Standard and Poor's (S&P) or by Moody's. As of June 30, 2013, the City had no medium term notes. At June 30, 2013, the City's Federal Agency investments were rated AAA by S&P.

All securities were investment grade and were legal under State and City law. Investments in U.S. government securities are not considered to have credit risk and, therefore, their credit quality is not disclosed.

As of June 30, 2013, the City's investments in external investment pools were with LAIF.

Custodial Credit Risk:

The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party.

As of June 30, 2013, none of the City's deposits or investments were exposed to custodial credit risk.

Concentration of Credit Risk:

The City's investment policy states the City operates its investment pool with many state and self-imposed constraints. It does not buy stocks and it does not speculate. Assets shall be diversified to eliminate the risk of loss resulting from over concentration of assets in a specific maturity, a specific issuer, or a specific class of securities.

The City will diversify its investments by security type, institutions and maturity/call dates. The City's investment policy states that no more than 50% of the City's total investment portfolio shall be invested in a single security type or with a single financial institution. The only exception to these maturity limits shall be the investment of U.S. Treasury securities and authorized pools. Unless matched to a specific cash flow, the City shall not directly invest in securities maturing more than five years from the date of purchase.

The City is considered to be exposed to concentration of credit risk whenever they have invested more than 5% of their total investments in any one issuer. As of June 30, 2013, the City has not invested more than 5% of its portfolio in any one issuer. Investments guaranteed by the U.S. government and investments in mutual funds and external investment pools are excluded from this requirement.

City of Yreka, California
Notes to Basic Financial Statement
June 30, 2013

NOTE 2 CASH AND INVESTMENTS (continued)

Interest Rate Risk:

The City's investment policy does not limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The City has elected to use the segmented time distribution method of disclosure for its interest rate risk.

	<u>6 Months or Less</u>	<u>6 Months to 1 Year</u>	<u>1 to 3 Years</u>	<u>More than 5 Years</u>	<u>Total</u>	<u>Fair Value</u>
Local Agency Investment Fund	<u>\$ 14,971,576</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,971,576</u>	<u>\$ 14,971,576</u>
Total	<u><u>\$ 14,971,576</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u>\$ 14,971,576</u>	<u>\$ 14,971,576</u>
Bank demand deposits					678,170	
Outstanding Checks					<u>(141,684)</u>	
Total cash and investments					<u><u>\$ 15,508,062</u></u>	
Comprised of:						
Cash and Investments					13,295,301	
Restricted Cash and Investments					<u>2,212,761</u>	
Total cash and investments					<u><u>\$ 15,508,062</u></u>	

NOTE 3 LOANS RECEIVABLE

The City had the following loans receivable as of June 30, 2013:

Housing rehabilitation loans receivable	\$ 534,899
Loan loss reserve for housing loans	<u>(93,684)</u>
Net Housing loans receivable	<u>441,215</u>
Economic development business loans	174,187
Loan loss reserve for business loans	<u>(106,000)</u>
Net Economic development business loans	<u>68,187</u>
Total loans receivable	<u><u>\$ 509,402</u></u>

City of Yreka, California
Notes to Basic Financial Statement
June 30, 2013

NOTE 4 DUE TO / DUE FROM OTHER FUNDS AND OPERATING TRANSFERS IN/OUT

The following is a summary of the interfund receivables and payables at June 30, 2013:

		Due to other funds						
Due from other funds	General Fund	Special Grant Fund	Special Revenue Fund	Streets and Roads Fund	Water Fund	Sewer Fund	Total	
General Fund	\$ -	\$ 187,163	\$ 109,585	\$ 5,469			\$ 302,217	
Sewer Fund	-		250,184				250,184	
Total	\$ -	\$ 187,163	\$ 359,769	\$ 5,469	\$ -	\$ -	\$ 552,401	

The above amounts are to cover negative cash balances, approved interfund borrowings, expenditure transfers and payroll accruals in the respective funds' pooled cash accounts, and will be repaid by transferring monies from other cash accounts or from future revenues.

The following is a summary of operating transfers in/out:

		Transfers In	Transfers Out
Governmental Funds:			
General Fund:	For the General Fund's portion of expenses incurred by the Streets and Roads (\$185,978), and Special Grants Fund (\$75,000).	\$ -	\$ 260,978
Special Grants Fund:	For the General Fund's portion of expenses (\$75,000), the Streets and Roads portion of expenses (\$20,000), the Sewer Funds portion of expenses (\$81,594), and the Water Funds portion of portion of expenses (\$150,298).	326,892	
Streets and Roads Fund:	For the General Fund's portion of expenses (\$185,978) incurred by the Streets and Roads Fund and the Streets and Roads Fund's portion of expenses incurred by the Special Grants Fund (\$20,000).	185,978	20,000
		512,870	280,978
Proprietary Funds:			
Sewer Fund:	For the Sewer Funds portion of expenses incurred by the Special Grants Fund (\$81,594)		81,594
Water Fund:	For the Water Funds portion of expenses incurred by the Special Grants Fund (\$150,298)		150,298
		-	231,892
Total Transfers In/Out		\$ 512,870	\$ 512,870

City of Yreka, California
Notes to Basic Financial Statement
June 30, 2013

NOTE 5 CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2013 was as follows:

	June 30, 2012	Additions	Retirements	Transfers	June 30, 2013
Governmental activities:					
Capital assets, not being depreciated:					
Land	\$ 1,909,498	\$ -	\$ -	\$ -	\$ 1,909,498
Construction in progress	722,250	515,532	-	(212,939)	1,024,843
Total capital assets, not being depreciated:	<u>2,631,748</u>	<u>515,532</u>	<u>-</u>	<u>(212,939)</u>	<u>2,934,341</u>
Capital assets, being depreciated:					
Buildings	4,787,391	-	-	-	4,787,391
Machinery and equipment	3,584,142	56,783	(102,613)	212,939	3,751,251
Infrastructure	29,887,967	-	-	-	29,887,967
Total capital assets, being depreciated	<u>38,259,500</u>	<u>56,783</u>	<u>(102,613)</u>	<u>212,939</u>	<u>38,426,609</u>
Less accumulated depreciation for:					
Buildings	2,515,568	115,898	-	-	2,631,466
Machinery and equipment	2,588,478	133,431	(102,613)	-	2,619,296
Infrastructure	17,008,600	696,631	-	-	17,705,231
Total accumulated depreciation	<u>22,112,646</u>	<u>945,960</u>	<u>(102,613)</u>	<u>-</u>	<u>22,955,993</u>
Total capital assets, being depreciated, net	<u>16,146,854</u>	<u>(889,177)</u>	<u>-</u>	<u>212,939</u>	<u>15,470,616</u>
Subtotal, governmental activities	<u>18,778,602</u>	<u>(373,645)</u>	<u>-</u>	<u>-</u>	<u>18,404,957</u>
Business-type activities:					
Capital assets, not being depreciated:					
Land	253,172	-	-	-	253,172
Construction in progress	9,618,512	1,762,254	-	-	11,380,766
Total capital assets, not being depreciated	<u>9,871,684</u>	<u>1,762,254</u>	<u>-</u>	<u>-</u>	<u>11,633,938</u>
Capital assets, being depreciated:					
Utility plant	16,342,369	263,493	-	-	16,605,862
Buildings	7,159,848	-	-	-	7,159,848
Machinery and equipment	4,417,356	35,972	(180)	-	4,453,148
Total capital assets, being depreciated	<u>27,919,573</u>	<u>299,465</u>	<u>(180)</u>	<u>-</u>	<u>28,218,858</u>
Less accumulated depreciation for:					
Utility plant	10,394,991	300,580	-	-	10,695,571
Buildings	3,295,609	214,672	-	-	3,510,281
Machinery and equipment	3,267,800	124,081	(180)	-	3,391,701
Total accumulated depreciation	<u>16,958,400</u>	<u>639,333</u>	<u>(180)</u>	<u>-</u>	<u>17,597,553</u>
Total capital assets, being depreciated, net	<u>10,961,173</u>	<u>(339,868)</u>	<u>-</u>	<u>-</u>	<u>10,621,305</u>
Subtotal, business-type activities	<u>20,832,857</u>	<u>1,422,386</u>	<u>-</u>	<u>-</u>	<u>22,255,243</u>
Total, government-wide	<u>\$ 39,611,459</u>	<u>\$ 1,048,741</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 40,660,200</u>

City of Yreka, California
Notes to Basic Financial Statement
June 30, 2013

NOTE 5 CAPITAL ASSETS (continued)

Depreciation expense was charged to functions/programs as follows:

Governmental activities:		Business-type activities:	
General government	\$ 28,037		
Planning and development	11,599		
Parks and recreation	108,841	Sewer distribution	\$ 149,291
Police protection	25,723	Sewer treatment	219,545
Fire protection	56,330	Water distribution	119,206
Streets and sidewalks	715,430	Water treatment	151,291
Total depreciation expense		Total depreciation expense	
- governmental activities	\$ 945,960	- business type activities	\$ 639,333

NOTE 6 LONG TERM DEBT

The following is a summary of long-term liabilities activity during the year ended June 30, 2013:

	June 30, 2012	Additions	Reductions	June 30, 2013	Current Portion
Governmental activities					
Long term debt					
Financial Software	\$ 16,960	\$ -	\$ 16,960	\$ -	\$ -
Landfill Sale	2,109,946	-	61,203	2,048,743	64,504
Fire Equipment	597,996	-	111,168	486,828	116,275
Total long-term debt	2,724,902	-	189,331	2,535,571	180,779
Compensated absences	226,238	197,412	226,323	197,327	197,327
Governmental activities long-term liabilities	2,951,140	197,412	415,654	2,732,898	378,106
Business-type activities					
Long term debt					
Certificates of Participation-sewer	820,000	-	13,000	807,000	14,000
State Water Resources	727,020	-	57,941	669,079	59,448
Certificates of Participation-water	6,810,000	-	111,000	6,699,000	113,000
Total long-term debt	8,357,020	-	181,941	8,175,079	186,448
Compensated absences	44,151	47,530	63,205	28,476	28,476
Subtotal business-type activities long term liabilities	8,401,171	47,530	245,146	8,203,555	214,924
Total, government-wide	\$ 11,352,311	\$ 244,942	\$ 660,800	\$ 10,936,453	\$ 593,030

Payments on the bonds and notes payable that pertain to the City's governmental activities are made by the Special Revenue fund. Payments on the bonds and notes payable that pertain to the City's business-type activities are made by the Water and Sewer Funds.

City of Yreka, California
Notes to Basic Financial Statement
June 30, 2013

NOTE 6 LONG TERM DEBT (continued)

Debt service requirements for principal and interest for governmental activities bonds and notes payable for future years is as follows:

Interest rate	Landfill Sale		Fire Equipment	
	5.39%		4.50%	
	Principal	Interest	Principal	Interest
Year Ended June 30, ;				
2014	\$ 64,504	\$ 110,496	\$ 116,275	\$ 19,529
2015	67,983	107,017	121,617	14,187
2016	71,649	103,351	127,205	8,599
2017	75,514	99,486	121,731	2,756
2018	79,586	95,413	-	-
2019-2023	467,140	407,861	-	-
2024-2028	607,453	267,547	-	-
2029-2033	614,914	85,087	-	-
Total	\$ 2,048,743	\$ 1,276,258	\$ 486,828	\$ 45,071

Year Ended June 30, ;	Total	
	Principal	Interest
2014	\$ 180,779	\$ 130,025
2015	189,600	121,204
2016	198,854	111,950
2017	197,245	102,242
2018	79,586	95,413
2019-2023	467,140	407,861
2024-2028	607,453	267,547
2029-2033	614,914	85,087
Total	\$ 2,535,571	\$ 1,321,329

City of Yreka, California
Notes to Basic Financial Statement
June 30, 2013

NOTE 6 LONG TERM DEBT (continued)

Debt service requirements for principal and interest for Business-type activities bonds and notes payable for future years is as follows:

Interest rate	USDA Cert of Part		State Water Resources	
	4.50%		2.60%	
	Principal	Interest	Principal	Interest
<u>Year Ended June 30, ;</u>				
2014	\$ 14,000	\$ 36,000	\$ 59,448	\$ 17,396
2015	15,000	35,347	60,993	15,850
2016	15,000	34,672	62,579	14,265
2017	16,000	33,975	64,206	12,638
2018	17,000	33,233	65,876	10,968
2019-2023	96,000	153,810	355,977	28,241
2024-2028	120,000	129,603	-	-
2029-2033	149,000	99,563	-	-
2034-2038	185,000	62,032	-	-
2039-2043	180,000	16,650	-	-
Total	<u>\$ 807,000</u>	<u>\$ 634,885</u>	<u>\$ 669,079</u>	<u>\$ 99,358</u>

Interest rate	USDA Cert of Part		Total	
	2.25%			
	Principal	Interest	Principal	Interest
<u>Year Ended June 30, ;</u>				
2014	\$ 113,000	\$ 149,456	\$ 186,448	\$ 202,852
2015	116,000	146,880	191,993	198,077
2016	119,000	144,236	196,579	193,173
2017	121,000	141,536	201,206	188,149
2018	124,000	138,780	206,876	182,981
2019-2023	665,000	650,194	1,116,977	832,245
2024-2028	741,000	571,151	861,000	700,754
2029-2033	828,000	483,008	977,000	582,571
2034-2038	925,000	384,469	1,110,000	446,501
2039-2043	1,034,000	274,387	1,214,000	291,037
2044-2048	1,156,000	151,358	1,156,000	151,358
2049-2051	757,000	25,774	757,000	25,774
Total	<u>\$ 6,699,000</u>	<u>\$ 3,261,229</u>	<u>\$ 8,175,079</u>	<u>\$ 3,995,472</u>

City of Yreka, California
Notes to Basic Financial Statement
June 30, 2013

NOTE 7 PENSION PLAN

Plan Description – The City’s defined benefit pension plan, City of Yreka Pension Plan (“the Plan”) provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Plan is part of the Public Agency portion of the California Public Retirement System (CalPERS), a cost-sharing multiple-employer plan administered by CalPERS, which acts as a common investment and administrative agent for participating public employers within the State of California. A menu of benefit provisions as well as other requirements are established by State Statutes within the Public Employees’ Retirement Law. The City selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through local resolutions. CalPERS issues a separate comprehensive annual financial report. Copies of the CalPERS annual financial report may be obtained from the CalPERS Fiscal Services Division, PO Box 942703, Sacramento, CA 94229-2703 (1.888.CALPERS).

Funding Policy –The passage of California State Assembly Bill 340 created the Public Employees’ Pension Reform Act (PEPRA). PEPRA implemented new benefit formulas and final compensation period, as well as new contribution requirements for new employees hired on or after January 1, 2013 who meet the definition of a new member as per PEPRA. Employees enrolled in the Plan prior to January 1, 2013, are now referred to as Classic Plan members. The City is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS.

As of June 30, 2013		Percent of Annual Covered Salary	
<u>Plan</u>	<u>Benefit Formula</u>	<u>Employee Rate</u>	<u>Employer Rate</u>
Classic	Miscellaneous 2% at Age 55	7.000% (a)	9.716%
Classic	Safety 2% at Age 50	9.000% (a)	19.204%
PEPRA (b)	Miscellaneous 2% at Age 62	6.250%	6.250%
PEPRA (b)	Safety 2.7% at Age 57	11.500%	11.500%

- (a) Paid by the City
- (b) Effective January 1, 2013 by PEPRA

Classic Members Annual Pension Cost – For the year ended June 30, 2013 the City’s annual Classic Plan pension cost was \$341,683, and the City paid employee share was \$199,621, for a combined City contributed amount of \$541,304. The required contribution for the year ended June 30, 2013 was determined as part of the June 30, 2011 actuarial valuation using the entry age normal actuarial cost method with the contributions determined as a percentage of pay. The actuarial assumptions included (a) 7.50% investment rate of return (net of administrative expenses); (b) projected salary increases that vary by duration of service ranging from 3.30% to 14.20%, and: (c) 3.00% cost-of-living adjustment. Both (a) and (b) include an inflation component of 2.75%. The actuarial value of the Plan’s assets was determined using a technique that smoothes the effect of short-term volatility in the market value of investments over a fifteen year smoothed market method. The Plan’s unfunded actuarial accrued liability (or excess assets) is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2011 was 16 years for safety and 20 years for miscellaneous.

PEPRA Members Annual Pension Cost – For the year ended June 30, 2013 the City’s annual PEPRA plan pension cost was \$563, and the employees’ paid share was \$525, for a combined contributed amount of \$1,088. The required contribution for the year ended June 30, 2013 was determined as part of the August 31, 2012 actuarial cost analysis using the entry age normal actuarial cost method with the contributions determined as a percentage of pay. PEPRA will require all new members to contribute at least 50 percent of the total annual normal cost of their pension benefit as determined by the actuary, and aims to have all current members of CalPERS pay at least 50% of the total annual

City of Yreka, California
Notes to Basic Financial Statement
June 30, 2013

NOTE 7 PENSION PLAN (continued)

normal cost within the next five years. The actuarial assumptions reflect those in place for the June 30, 2011 actuarial valuations for the classic plans.

Three Year Trend Information:

	2013	2012	2011
Annual Pension Cost (APC) Paid by City	\$ 541,867	\$ 559,267	\$ 499,871
Annual Pension Cost (APC) Paid by Employee	525	-	-
Total Annual Pension Cost	<u>\$ 542,392</u>	<u>\$ 559,267</u>	<u>\$ 499,871</u>
Percentage APC contributed	100%	100%	100%
Net Pension Obligation	\$ -	\$ -	\$ -

During the year ended June 30, 2003, CalPERS grouped all small employers (defined as those with less than 100 members in the Plan) into a risk pool. Therefore, the following information for the years ended June 30, 2011, 2010 and 2009 (the latest available) are for the pool as a whole.

The following represents public safety Classic Plan members employees:

<u>Schedule of funding progress:</u>	June 30, 2011	June 30, 2010	June 30, 2009
Actuarial value of assets	\$ 421,374,728	\$ 396,740,091	\$ 368,645,673
Actuarial accrued liability (AAL) – entry age	\$ 503,491,275	\$ 469,525,634	\$ 440,333,381
Unfunded (overfunded) AAL (UAAL)	\$ 82,116,547	\$ 72,785,543	\$ 71,687,708
Funded ratio	83.7%	84.5%	83.7%
Covered payroll	\$ 63,392,685	\$ 61,878,177	\$ 60,158,108
UAAL as a percentage of covered payroll	129.5%	117.6%	119.2%

The following represents miscellaneous Classic Plan member employees:

<u>Schedule of funding progress:</u>	June 30, 2011	June 30, 2010	June 30, 2009
Actuarial value of assets	\$ 3,203,214,899	\$ 2,946,408,106	\$ 2,758,511,101
Actuarial accrued liability (AAL) – entry age	\$ 3,619,835,876	\$ 3,309,064,934	\$ 3,104,798,222
Unfunded (overfunded) AAL (UAAL)	\$ 416,620,977	\$ 362,656,828	\$ 346,287,121
Funded ratio	88.5%	89.0%	88.8%
Covered payroll	\$ 759,263,518	\$ 748,401,352	\$ 742,981,488
UAAL as a percentage of covered payroll	54.9%	48.5%	46.6%

City of Yreka, California
Notes to Basic Financial Statement
June 30, 2013

NOTE 8 – OTHER EMPLOYMENT AND POST-EMPLOYMENT BENEFITS (OPEB)

Plan description- The Plan is a single-employer defined benefit OPEB plan. The City of Yreka provides medical coverage to employees through its participation in the California Public Employees Retirement System (CalPERS) medical program. The City administers a Section 125 Cafeteria Plan by which active employees may fund participation in the CalPERS medical program. Retirees are provided continuing medical coverage through the same program. Retirees may elect to continue to participate in the program, and the City contributes the CalPERS defined minimum contribution for retirees.

The eligibility requirements are:

- Must retire within 120 days of separation and receive a retirement allowance from CalPERS.
- Must be enrolled in a CalPERS health plan at retirement, or enroll in a plan within 60 days of retirement or at any annual open enrollment period; and
- Must meet any other requirements of CalPERS for participation in a health plan.

Funding Policy- The minimum contribution requirements for the City are set in the Public Employees' Medical and Hospital Care Act. The balance of the premiums are paid by the employee or retiree through deductions from Cafeteria Plan allowance, salary, or retirement allowances. In fiscal year 2013, the City contributed \$15,895 to the plan for retirees.

Annual OPEB Cost and Net OPEB Obligation- The City's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the City's annual OPEB cost not to exceed thirty years. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and the changes in the City's net OPEB obligation.

Annual Required Contribution (ARC)	\$ 86,370
Interest on Net OPEB Obligation	7,965
Adjustment to ARC	<u>(8,413)</u>
Annual OPEB Cost	85,922
Contributions made in fiscal year 2013	<u>(15,895)</u>
Increase in net OPEB obligation	70,027
Net OPEB obligation, beginning of year	<u>199,117</u>
Net OPEB obligation, end of year	<u><u>\$ 269,144</u></u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2013 were as follows:

<u>Fiscal Year</u> <u>Ending</u>	<u>Annual OPEB</u> <u>Cost</u>	<u>Actual</u> <u>Contribution</u> <u>Made</u>	<u>Percentage of</u> <u>Annual OPEB</u> <u>Cost Contributed</u>	<u>Net OPEB</u> <u>Obligation</u>
2010	\$ 72,048	8,797	12.21%	\$ 63,251
2011	77,252	11,502	14.89%	129,001
2012	82,626	12,510	15.14%	199,117
2013	85,922	15,895	18.50%	269,144

City of Yreka, California
Notes to Basic Financial Statement
June 30, 2013

NOTE 8 – OTHER EMPLOYMENT AND POST-EMPLOYMENT BENEFITS (continued)

Funded Status and Funding Progress- As part of the June 30, 2013 report, the most recent actuarial valuation date, the actuarial accrued liability on pay as you go basis was \$954,494. The covered payroll (annual payroll of active employees covered by the plan) on June 30, 2013 was \$2,367,102 and the ratio of the unfunded actuarial accrued liability to the covered payroll was 40.32%.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions of the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the program and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplemental information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits (only on year presented in this year of implementation).

Methods and Assumptions- Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing the benefit costs between the employer and plan members to that point. The methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2013 actuarial valuation, the Entry Age Normal Cost, Level Percent of Pay actuarial method was used. The actuarial assumptions included a 4.00 percent investment rate of return (discount rate). Unfunded accrued actuarial liabilities are amortized to produce payments which are a level percentage of payroll over a 30-year period.

The actuarial valuation used the following annual health care cost trend rate assumptions;

Actual Trend		Projected Trend	
Year	Rate	Year	Rate
2009	3.70%	2014	4.50%
2010	3.20%	2015	4.50%
2011	3.40%	2016	4.50%
2012	3.00%	2017	4.50%
2013	3.70%	2018 & later	4.50%

At present, the City is on a pay as you go funding model and the table below reflects the funding progress;

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b - a) / c]
6/30/2010	\$ -	\$ 729,259	\$ 729,259	\$ -	\$ 2,696,496	27.04%
6/30/2013	-	954,494	954,494	-	2,367,102	40.32%

City of Yreka, California
Notes to Basic Financial Statement
June 30, 2013

NOTE 9 DEFICIT FUND BALANCE

At June 30, 2013 there were no deficit fund balances.

NOTE 10 RESTRICTED NET ASSETS

Restricted net assets are net assets whose use are subject to constraints that are either; (1) externally imposed by creditors (such as debt covenants), grantors, or laws or regulations of governments, or (2) imposed by law through constitutional provisions or enabling legislation. Restricted net assets at June 30, 2013 for governmental activities were restricted for capital outlays. Restricted net assets at June 30, 2013 for proprietary fund activities were restricted for capital outlays and debt servicing.

NOTE 11 FUND BALANCES

In the fund financial statements, governmental fund equity is classified as fund balance as follows:

Nonspendable fund balance - The City has long-term loans receivables, and those amounts, net of reserves are reported as nonspendable fund balances.

Restricted fund balances- The City's restricted fund balance consists of developer impact capital improvements, revolving loan funds, transportation improvement funds, amounts donated from trusts to the City and are legally restricted to capital outlay, and voter approved specified tax assessment revenues measures for fire protection.

Committed fund balances- The City had no committed fund balance at June 30, 2013.

Assigned fund balances – The City's assigned fund balance consists of amounts assigned for capital improvements, planning and development, grant contingencies, general liability reserves, and donor specified projects.

Unassigned fund balances- are the residual fund balance that is neither committed nor assigned.

NOTE 12 OVER-EXPENDITURE OF BUDGET

There were no over-expenditures of budget.

NOTE 13 RISK MANAGEMENT

The City participates in the following public entity risk pools:

The Small Cities Organized Risk Effort (S.C.O.R.E.) covers general liability claims in an amount up to \$500,000. The City has a deductible or uninsured liability of up to \$25,000 per claim. Once the City's deductible is met S.C.O.R.E. becomes responsible for payment of all claims up to the limit.

The Small Cities Organized Risk Effort covers workers' compensation claims up to the statutory limit. The City has no deductible for these claims.

The California Joint Risk Management Authority covers general liability claims that exceed S.C.O.R.E. coverage up to a maximum of \$5,000,000. The premium for this coverage is included with the annual payments made to S.C.O.R.E.

Actual surpluses or losses are shared according to a formula developed from overall loss costs and spread to member entities on a percentage basis after a retrospective rating.

City of Yreka, California
Notes to Basic Financial Statement
June 30, 2013

NOTE 13 RISK MANAGEMENT (continued)

There have been no significant reductions of coverage or insurance settlements that exceed insurance coverage for the past three years.

S.C.O.R.E. is governed by a board consisting of representatives from member municipalities. The board controls the operations of the risk pool, including selection of management and approval of operating budgets, independent of any influence by member municipalities beyond their representation on the Board.

NOTE 14 PRIOR PERIOD ADJUSTMENTS

In current year, it was discovered that capital outlay in 2003-2004 of \$263,373 had not been capitalized for government-wide statement of net position. The depreciation that would have been taken was \$59,259, resulting in a prior period adjustment for the net book value of \$204,114.

NOTE 15 CONTINGENCIES

The City participates in several Federal and State assisted grant programs that are subject to audit by the Grantors. Although the ultimate outcome of such audits cannot be determined at this time, the City believes that such audits will not have a material adverse effect on the City.

The following is a summary of the City's commitments at June 30, 2013:

City of Yreka Construction Commitments, as of June 30, 2013

Contractor	Project	Total Contract Amount	Incurred to date	Remaining
Sunrise Excavating, Inc.	Oregon Street Paving - STIP	\$ 526,198	\$ 217,904	\$ 308,293
Total. Construction commitments		<u>\$ 526,198</u>	<u>\$ 217,904</u>	<u>\$ 308,293</u>

The City is involved in litigation arising from the ordinary course of its operations. The City believes that its ultimate liability, if any, in connection with these matters, will not have a material effect on the City's financial condition or results of operations.

REQUIRED SUPPLEMENTARY INFORMATION

City of Yreka
 Budgetary Comparison Schedule
 General Fund
 For The Year Ended June 30, 2013

	Original Budget	Final Budget	Actual Amounts	Favorable (Unfavorable) Variance With Final Budget
REVENUES				
Property taxes	\$ 940,000	\$ 940,000	\$ 977,429	\$ 37,429
Sales and use taxes	1,700,000	1,700,000	1,761,695	61,695
Transient occupancy taxes	600,000	600,000	643,366	43,366
Franchise and other licenses	250,000	250,000	266,868	16,868
Licenses and permits	162,000	140,500	145,979	5,479
Intergovernmental revenues	671,000	652,750	679,954	27,204
Charges for services	53,800	44,300	46,660	2,360
Fines, forfeitures and penalties	6,800	6,800	8,183	1,383
Use of money and property	42,325	42,325	48,593	6,268
Other	34,000	289,202	290,151	949
Total revenues	<u>4,459,925</u>	<u>4,665,877</u>	<u>4,868,878</u>	<u>203,001</u>
EXPENDITURES				
Current:				
City council, manager, and clerk	180,953	204,053	202,728	1,325
General government	465,264	335,923	278,213	57,710
Planning and development	568,305	510,305	478,287	32,018
Parks and recreation	370,032	444,832	444,432	400
Public works administration	42,131	57,833	49,677	8,156
Public works maintenance	177,865	132,651	105,922	26,729
Police protection	2,337,219	2,410,436	2,401,477	8,959
Fire protection	316,866	426,632	415,150	11,482
Capital outlay	37,500	57,082	56,783	299
Debt service:				
Principal	16,960	16,960	16,960	-
Total expenditures	<u>4,513,095</u>	<u>4,596,707</u>	<u>4,449,629</u>	<u>147,078</u>
Excess of revenues over (under) expenditures	<u>(53,170)</u>	<u>69,170</u>	<u>419,249</u>	<u>350,079</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers out	(115,210)	(267,078)	(260,978)	6,100
Total other financing sources (uses)	<u>(115,210)</u>	<u>(267,078)</u>	<u>(260,978)</u>	<u>6,100</u>
Excess of revenues and other sources over (under) expenditures and other uses	<u>\$ (168,380)</u>	<u>\$ (197,908)</u>	<u>\$ 158,271</u>	<u>\$ 356,179</u>

City of Yreka
 Budgetary Comparison Schedule
 Special Grant Fund
 For The Year Ended June 30, 2013

	Original Budget	Final Budget	Actual Amounts	Favorable (Unfavorable) Variance With Final Budget
<u>REVENUES</u>				
Intergovernmental revenues	\$ 2,043,250	\$ 393,452	\$ 391,976	\$ (1,476)
Use of money and property	6,500	6,500	9,836	3,336
Total revenues	2,049,750	399,952	401,812	1,860
<u>EXPENDITURES</u>				
Current:				
Planning and development	427,750	260,350	261,264	(914)
Parks and recreation	-	-	42	(42)
Public administration	-	5,400	5,398	2
Police protection	-	26,266	26,266	-
Public Works Maintenance	-	1,600	2,107	(507)
Capital outlay	1,662,000	420,986	415,861	5,125
Total expenditures	2,089,750	714,602	710,938	3,664
Excess of revenues over (under) expenditures	(40,000)	(314,650)	(309,126)	5,524
<u>OTHER FINANCING (USES)</u>				
Operating transfers in	32,500	333,000	326,892	(6,108)
Total other financing sources (uses)	32,500	333,000	326,892	(6,108)
Excess of revenues over (under) expenditures and other uses	\$ (7,500)	\$ 18,350	\$ 17,766	\$ (584)

City of Yreka
 Budgetary Comparison Schedule
 Special Revenue Fund
 For The Year Ended June 30, 2013

	Original Budget	Final Budget	Actual Amounts	Favorable (Unfavorable) Variance With Final Budget
REVENUES				
Assessment	\$ 220,500	\$ 220,500	\$ 226,860	\$ 6,360
Licenses and permits	39,575	17,762	16,993	(769)
Charges for service	215,500	215,500	216,767	1,267
Use of money and property	1,000	1,000	2,161	1,161
Total revenues	476,575	454,762	462,781	8,019
EXPENDITURES				
Current:				
General Government	6,468	6,468	5,701	767
Fire protection	6,704	9,890	9,820	70
Capital outlay	-	99,671	99,671	-
Debt service:				
Principal	172,371	172,371	172,371	-
Interest	138,433	138,433	138,433	-
Total expenditures	323,976	426,833	425,996	837
Excess of revenues over (under) expenditures and other uses	\$ 152,599	\$ 27,929	\$ 36,785	\$ 8,856

City of Yreka
 Budgetary Comparison Schedule
 Streets and Roads Fund
 For The Year Ended June 30, 2013

	Original Budget	Final Budget	Actual Amounts	Favorable (Unfavorable) Variance With Final Budget
REVENUES				
Intergovernmental revenues	\$ 432,000	\$ 475,152	\$ 475,188	\$ 36
Fines and forfeitures	36,000	27,598	28,356	758
Use of money and property	8,100	8,100	14,477	6,377
Other revenue	-	-	1,998	1,998
Total revenues	<u>476,100</u>	<u>510,850</u>	<u>520,019</u>	<u>9,169</u>
EXPENDITURES				
Current:				
Public works administration	22,077	22,077	15,635	6,442
Streets and storm drainage	519,726	498,940	375,828	123,112
Public transportation	200,000	207,100	207,082	18
Total expenditures	<u>741,803</u>	<u>728,117</u>	<u>598,545</u>	<u>129,572</u>
Excess of revenues over (under) expenditures	<u>(265,703)</u>	<u>(217,267)</u>	<u>(78,526)</u>	<u>138,741</u>
OTHER FINANCING (USES)				
Operating transfers in	90,210	185,978	185,978	-
Operating transfers out	-	(20,000)	(20,000)	-
Total other financing sources (uses)	<u>90,210</u>	<u>165,978</u>	<u>165,978</u>	<u>-</u>
Excess of revenues over (under) expenditures and other uses	<u>\$ (175,493)</u>	<u>\$ (51,289)</u>	<u>\$ 87,452</u>	<u>\$ 138,741</u>

SINGLE AUDIT REPORTS AND SCHEDULES

City of Yreka
Schedule of Expenditures of Federal Awards
For The Year Ended June 30, 2013

Program Title	Federal CFDA #	Grant #	Award Amount	Federal Expenditures
Department of Housing and Urban Development				
Passed through California Department of Housing and Community Development				
Community Development Block Grant/State's Programs	14.228	08-EDEF-5874	\$ 300,000	\$ 75,076
Community Development Block Grant/Technical Assistance Program	14.227	09-PTAG-6494	35,000	13,965
Total Department of Housing and Urban Development				<u>89,041</u>
Department of Justice				
Bulletproof Vest Partnership Program				
C - Direct Payments for Specified Use	16.607	BA-2000S-SSM01	2,499	2,210
Total Department of Justice				<u>2,210</u>
Department of Agriculture				
Waste and Water Disposal Systems for Rural Communities (ARRA)				
E - Direct Grant	10.781	SF271-1924	3,249,000	1,452,978
Total Department of Agriculture				<u>1,452,978</u>
Environmental Protection Agency Office of Solid Waste and Emergency Response				
Brownfields Training, Research, and Technical Assistance Grants and Cooperative Agreements				
	66.818		400,000	151,621
Total Environmental Protection Agency Office of Solid Waste and Emergency Response				<u>151,621</u>
Total expenditure of federal awards				<u>\$1,695,850</u>

Notes:

The Schedule of Expenditures of Federal Awards is prepared using the modified accrual basis of accounting, which is the same basis used in preparing the basic financial statements.



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the City Council
City of Yreka, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, business-type activities and each major fund of the City of Yreka as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City of Yreka's basic financial statements, and have issued our report thereon dated November 18, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Yreka's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Yreka's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Yreka's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Yreka's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Aiello, Goodrich & Teuscher

Aiello, Goodrich & Teuscher
An Accountancy Corporation
Mt. Shasta, California
November 18, 2013





**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

To the City Council
City of Yreka, California

Report on Compliance for Each Major Federal Program

We have audited the City of Yreka's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of City of Yreka's major federal programs for the year ended June 30, 2013. The City of Yreka's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the City of Yreka's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Yreka's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City of Yreka's compliance.

Opinion on Each Major Federal Program

In our opinion, the City of Yreka complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control over Compliance

Management of the City of Yreka is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Yreka's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Yreka's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Aiello, Goodrich & Teuscher

Aiello, Goodrich & Teuscher
An Accountancy Corporation
Mt. Shasta, California
November 18, 2013



City of Yreka, California
Schedule of Findings and Questioned Costs
For The Year Ended June 30, 2013

Summary of Auditors' Results

1. The Independent Auditors' Report expresses an unqualified opinion on the financial statements of the City of Yreka, California.
2. No significant deficiencies or material weaknesses relating to the audit of the financial statements are reported in the Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on and Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. No instances of noncompliance material to the financial statements of City of Yreka which would be required to be reported in accordance with *Government Auditing Standards* were disclosed during the audit.
4. No significant deficiencies or material weaknesses relating to the audit of the major federal award programs are reported in the Independent Auditors' Report On Compliance For Each Major Program And On Internal Control Over Compliance Required By OMB Circular A-133.
5. The Independent Auditors' Report on compliance expressed an unqualified opinion on all major programs.
6. There were no audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
7. The program tested as a major program was Waste and Water Disposal Systems for Rural Communities ARRA, CFDA #10.781.
8. The threshold used for distinguishing between Type A and B programs was \$300,000.
9. City of Yreka, California was determined to be a low-risk auditee.

Findings-Financial Statement Audit

None

Findings and Questioned Costs-Major Federal Award Programs Audit

None

Summary of Prior Audit Findings

None