

CITY OF YREKA, CALIFORNIA

FINANCIAL STATEMENTS

**FOR THE YEAR ENDED
JUNE 30, 2009**

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City of Yreka

Management's Discussion and Analysis:

As management of the City of Yreka (the City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City of Yreka for the fiscal year ended June 30, 2009. The management provides 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.

Financial Highlights:

- In the statement of net assets, total net assets for the City of Yreka exceeded its liabilities at the close of the most recent fiscal year by \$34,027,208. Of this amount, \$9,170,929 of unrestricted net assets may be used to meet the government's ongoing obligations to citizens and creditors. Unrestricted net assets can also be compared to the financial statement fund of governmental funds ending fund balance of \$5,079,528, and add in the proprietary funds unrestricted net assets of \$4,091,401 for a total of \$9,170,929. One might think of unrestricted net assets as the City's total equity or capital balance.
- The governmental activities total net assets of \$19,479,895 increased by \$2,543,267 from the restated prior fiscal year 2007-08 total of \$16,936,628. The increase in net assets is primarily due to \$1.8 million net increase in capital assets.
- The governmental funds unreserved ending fund balance increased by \$625,107 in 2008-09, noteworthy given the contracting revenue and expenditure operating environment for the year.
- The business type activities total net assets and the ending fund balance of \$14,547,313 increased by a modest \$387,415 from the prior fiscal year 2007-08 of \$14,159,898.

The City continues to reduce expenses, to reflect its declining tax revenues. As a service-based organization, personnel costs are closely managed and the City evaluates vacancies in staffing and has worked with the bargaining units to establish a rate cap on the employer's share of health benefits costs.

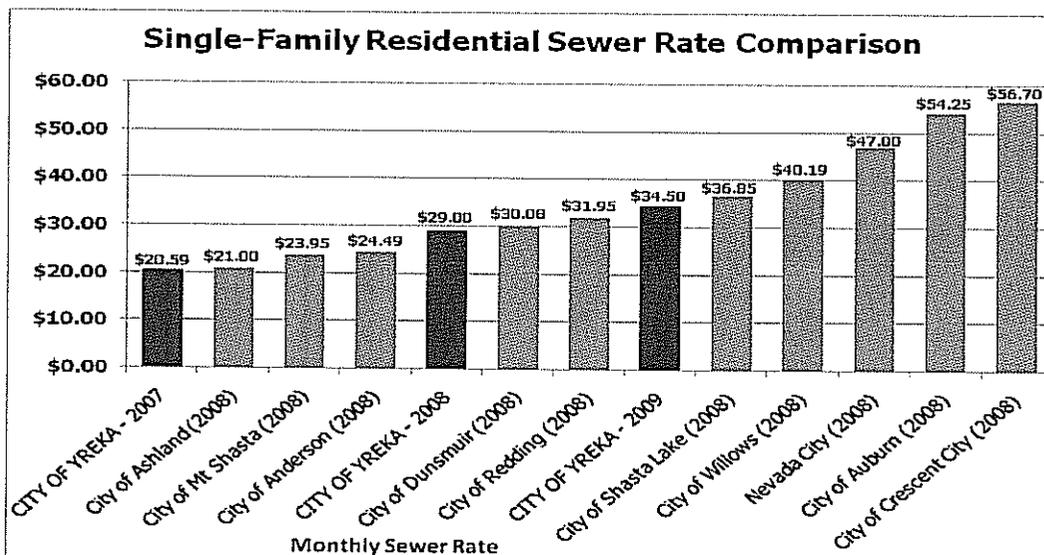
Over the past 10 years, the City has completed numerous master plan studies and taken inventory of its assets, with the last study completed December 2007. In these studies, engineers have identified over \$29 million of capital improvements needed within the next five to ten years for the City's infrastructure assets of streets, water and sewer utilities. That roughly translates to about \$7,800 per household.

The City Council realized it needed outreach to the community to educate the residents of the City's problems and engage them in being part of the solution. As part of the public outreach, the City of Yreka started publishing in March 2008 the Yreka City newsletter to outline issues, interests and inform the citizens of Yreka. The newsletter is included with the residents' monthly utility bills. Concurrent with that project, the City began work on its first website. The City's website went live December 2008, has been operational for over one year and strives to be informative, easy to use and navigate. The website encourages citizen participation incorporating links to community and service organizations, and includes a community calendar at www.ci.yreka.ca.us.

In 2008-09 the City Council acted on the following expenditure control measures:

- The City transferred the senior services grant to the Madrone hospice, a non-profit organization. The City continues to assist the program with a cash allocation, and transfer of three new buses to the associated senior transportation program.
- The City Council made the tough decisions to match operating revenues with expenditures in the general fund. One cost controlling measure was the cooperation of bargaining units in negotiations and agreement of 12 furlough days to reduce personnel costs and no cost of living increases to open contracts.

The City Council recognizes that there is work remaining and is focused on the City's economic development efforts to address its fiscal problems. The City is financially strong, working to remain fiscally responsible and serve its residents.



Above is a comparative rate chart for residential sewer services. In 2009, the City of Yreka will be in year two of a five-year rate hike, increasing to \$42.00 per month by 2012.



City Public Works staff plowing snow in Yreka, photo taken January 31, 2008.

2008-09 Operational Highlights:

- In 2008-09, the City completed \$863,829 of work for a cumulative completion of \$2,377,458 or 46% of the work on a \$5,000,000 Stormwater Attenuation (Prop. 40) grant administered by the State Regional Water Quality Control Board. This grant covers over 80% of the needed improvements that were identified in the City's storm drain master plan. This was the largest grant award received by the City. This project includes storm drain detention ponds, Greenhorn Park restoration and storm drain infrastructure repairs. The construction work for this grant is expected to be completed by the fall of 2010.
- State Transportation Improvement Program grants totaling \$1,013,140 were used to repair and rehabilitate the City's streets (Fourth Street and arterial street overlays).
- The City has started work on the \$1,501,000 Yreka Greenway Creek trails project. The work fulfills some of the goals identified and developed in Greenway Master Plan.
- The final two of four park restrooms and Greenhorn Park pedestrian bridge were built utilizing state grant funds of Roberti Z'Berg Harris Prop. 40 and California Housing and Community Development Workforce Housing awards. Two restrooms are located in Greenhorn Park. The third restroom is located in Miner Street Park, and the fourth restroom is located in the downtown Liberty Arts Center. The downtown arts center was another community and city collaboration which restored an historic building in downtown Yreka to house a non profit art gallery and public restrooms. The pedestrian bridge is a landmark structure adding to the development of a handicap accessible trail around the reservoir.

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 comprise 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 assets presents information on all of the City of Yreka's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets 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 assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, 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.

Both of the government-wide financial statements distinguish functions of the City of Yreka that are principally supported by taxes and intergovernmental revenues (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 2 through 3 this report.

Fund Financial Statements:

A fund is a grouping of related accounts that is 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 of the funds of the City 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 on near-term cash inflows and cash outflows of resources, as well as on ending fund balances available at the end of the fiscal year.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. 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 [a] the governmental fund balance sheet, and [b] the governmental fund statement of revenues, expenditures, and changes in fund balances for the governmental funds. The governmental fund is also combined into a single, aggregated presentation. 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 28 through 31 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 enterprise 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 7 through 9 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 no longer has any fiduciary funds.

Notes to the financial statements:

The notes provide additional information that is essential to fully understand the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 10 through 27 of this report.

Other supplemental information:

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information which can be found on pages 28 through 38 of this report.

Financial Analysis of the City as a Whole:

Government-wide Financial Analysis:

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The City of Yreka's assets exceeded liabilities by \$19,479,895 for governmental activities and \$14,547,313 for business type activities, or \$34,027,208 in total, at the close of 2008-09.

City of Yreka – Changes in Net Assets

	Governmental Activities	Business- Type Activities	Total
Total Net Assets for:			
Fiscal Year 2007-08, as restated	\$16,936,628	\$14,159,898	\$31,096,526
Fiscal Year 2008-09	19,479,895	14,547,313	34,027,208
Increase or (Decrease in Net Assets)	\$2,543,267	\$387,415	\$2,930,682

The largest portion of the City's net assets 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 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 assets:

City of Yreka – Governmental Activities Net Assets

	Governmental Activities		Percentage Change
	2007-08	2008-09	2007-08 as the base year
Assets:			
Current assets and other assets	\$6,483,675	\$6,901,374	6.4%
Restricted assets	1,904,102	1,958,525	2.9%
Non Current Assets	13,881,150	15,688,131	13.0%
<i>Total Assets</i>	<u>22,268,927</u>	<u>24,548,030</u>	10.2%
Liabilities:			
Current Liabilities	2,153,850	1,988,240	-7.7%
Long-term Liabilities	3,178,449	3,079,895	-3.1%
<i>Total Liabilities</i>	<u>5,332,299</u>	<u>5,068,135</u>	-5.0%
Net assets:			
Invested in capital assets, net of related debt	10,560,210	12,441,842	17.8%
Restricted	1,921,997	1,958,525	1.9%
Unrestricted	4,454,421	5,079,528	14.0%
<i>Total Net Assets</i>	<u>\$16,936,628</u>	<u>\$19,479,895</u>	15.0%

Total net assets increased by 15.0% or \$2,543,267 from 2007-08. The large increase is due to capital outlay for road and street rehabilitation.

Total liabilities decreased 5.0% due to repayment of loan balances that exceeded new debt and a reduction in current liabilities.

Unrestricted net assets increased 14.0% or \$625,107 from 2007-08, in part due to an increase in the ending fund balance, due to expenditure control, where revenues exceeded actual expenditures.



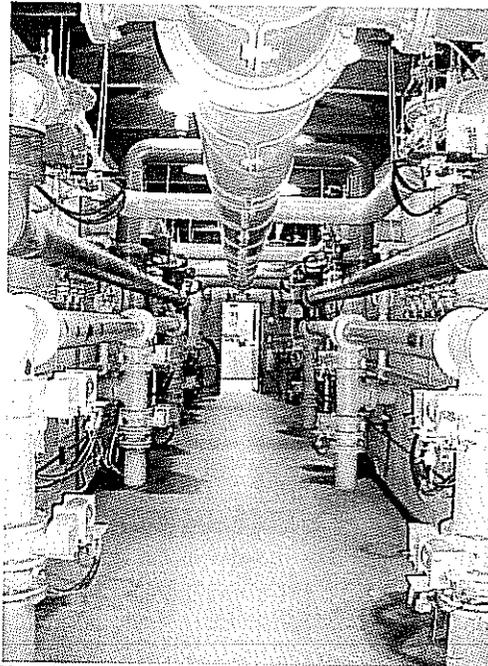
Fourth Street paving and rehabilitation grant project, photo taken 10/5/2009.

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

City of Yreka – Business Type Activities Net Assets

	Business-Type Activities		Percentage
	2007-08	2008-09	Change 2007-08 as the base year
Assets:			
Current assets and other assets	\$4,642,264	\$4,363,328	-6.0%
Restricted assets	49,183	50,295	2.3%
Non Current Assets	11,815,428	12,356,707	4.6%
<i>Total Assets</i>	16,506,875	16,770,330	1.6%
Liabilities:			
Current Liabilities	395,888	539,482	36.3%
Long-term Liabilities	1,951,089	1,683,535	-13.7%
<i>Total Liabilities</i>	2,346,977	2,223,017	-5.3%
Net assets:			
Invested in capital assets, net of related debt	9,603,242	10,405,617	8.4%
Restricted	49,183	50,295	2.3%
Unrestricted	4,507,473	4,091,401	-9.2%
<i>Total Net Assets</i>	\$14,159,898	\$14,547,313	2.7%

Total assets increased \$263,455 or 1.6%, and total liabilities decreased by \$123,960 or -5.3% primarily due to scheduled repayments on existing debt. Current liabilities increased 36.3% due to increases in customer accounts payable. Overall, unrestricted net assets decreased by -9.2% or \$416,072 from 2007-08, primarily due the increase in capital assets as the City invested in water main replacements and has commenced on multi-year capital improvement project to the water system.



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

Comparison of Government Wide General Revenues:

General revenues:	2007-08			2008-09		
	Governmental activities	Business-type activities	Total	Governmental activities	Business-type activities	Total
Taxes:						
Property	\$944,784	\$0	\$944,784	\$968,390	\$0	\$968,390
Sales and use	2,306,552	0	2,306,552	1,964,509	0	1,964,509
Other	1,370,059	0	1,370,059	1,439,367	0	1,439,367
Investment earnings	276,066	178,317	454,383	264,542	93,846	358,388
Other	225,486	(3,453,488)	(3,228,002)	22,477	(63,235)	(40,758)
Loss on disposal of capital assets				(215,695)		
Transfers	(1,555,126)	1,555,126	0	0	0	0
Total general revenues and transfers	\$3,567,821	(\$1,720,045)	\$1,847,776	\$4,443,590	\$30,611	\$4,689,896

Total general revenues increased in 2008-09 from 2007-08 by \$2,842,120, primarily due to the prior year's \$3,453,488 loss on the sale of the landfill. Transfers to be paid in 2007-08 included a \$2,500,000 note receivable to Siskiyou County from the sanitary landfill enterprise fund to the special revenue fund; less the repayment of a \$1,000,000 interfund loan from the sanitary landfill fund to the general operating fund. In 2006-07, the general fund lent \$1,000,000 to the sanitary landfill enterprise fund to open sale escrow that was repaid in 2007-08.

Sales and use tax revenues were down and are expected to remain lower in 2009-10. Overall investment earnings in 2008-09 were lower than 2007-08, reflecting lower investment rates, and in business type activities, lower investment balances and rates.

Other revenues for governmental activities, are lower in 2007-08 from 2008-09 due to a \$201,181 one-time insurance premium dividend received in 2007-08 from the Small Cities Organized Risk Effort joint power authority.



Yreka Phlox the official flower of Yreka, photo taken 5/6/2009.

Comparison of Government Wide Program Revenues:

<i>Program Revenue</i>	2007-08	2008-09	Year over Year Change
Governmental activities:			
General government	\$559,019	\$638,942	\$79,923
Planning and development	175,723	1,158,673	982,950
Parks and recreation	1,020,691	866,355	(154,336)
Public works administration	-	-	-
Public works maintenance	-	-	-
Police protection	142,525	158,477	15,952
Fire protection	254,085	297,203	43,118
Senior nutrition and transportation	331,097	251,735	(79,362)
Streets and sidewalks	3,237,896	2,297,928	(939,968)
Public transportation	62,310	160,649	98,339
<i>Total governmental activities</i>	<u>5,783,346</u>	<u>5,829,962</u>	<u>46,616</u>
Business-type activities:			
Sewer	1,423,858	1,409,734	(14,124)
Water	1,455,117	1,755,509	300,392
Sanitary Landfill	72,782	-	(72,782)
<i>Total business-type activities</i>	<u>2,951,757</u>	<u>3,165,243</u>	<u>213,486</u>
Total primary government	<u>\$8,735,103</u>	<u>\$8,995,205</u>	<u>\$260,102</u>

Governmental activities program revenue increased \$46,616 in 2008-09. The increase in planning and development is due to grant funds received for economic development activities. The decrease in revenue for parks and recreation, \$154,336, and streets and sidewalks, \$939,968 are due to the completion of projects funded with grant funds in the 2007-08.

Business activities program revenue increased \$213,486 in 2008-09, primarily due to a scheduled increase in the utility rates. The sewer fund \$14,124 revenue decrease was due to a \$439,794 decrease in one-time grant revenue received for capital projects 2007-08, that was offset by \$425,670 of utility rate fee revenue increases.

Comparison of Government Wide Program Expenses:

<i>Program Expenses</i>	2007-08	2008-09	Year over Year Change
Governmental activities:			
General government	\$908,457	\$1,125,207	\$216,750
Planning and development	618,852	1,443,990	825,138
Parks and recreation	995,232	657,622	(337,610)
Public works administration	183,902	165,550	(18,352)
Public works maintenance	208,891	137,699	(71,192)
Police protection	2,137,588	2,251,669	114,081
Fire protection	389,501	488,307	98,806
Senior nutrition and transportation	372,456	329,306	(43,150)
Streets and sidewalks	820,042	944,006	123,964
Public transportation	67,862	186,929	119,067
<i>Total governmental activities</i>	<u>6,702,783</u>	<u>7,730,286</u>	<u>1,027,503</u>
Business-type activities:			
Sewer	1,332,463	1,413,747	81,284
Water	1,368,686	1,394,692	26,006
Sanitary Landfill	100,365	-	(100,365)
<i>Total business-type activities</i>	<u>2,801,514</u>	<u>2,808,439</u>	<u>6,925</u>
Total primary government	<u>\$9,504,297</u>	<u>\$10,538,725</u>	<u>\$1,034,428</u>

Functional expenses for governmental activities increased \$1,027,503 in 2008-09 from 2007-08. Planning and development expenses increased \$825,138 due to economic development operating grants. General governmental activities increased \$216,750, primarily due to an increase of \$125,396 in interest expense increase for landfill debt service and a \$59,954 in liability insurance premiums. The park and recreation decrease was due to completion of one-time capital outlay grant projects in parks and recreation.

Functional expenses for business-type activities increased \$6,925 in 2008-09 from 2007-08. Of that increase, \$107,290 represents operating cost increases in the water and sewer funds offset by the \$100,365 decrease due to closure of the landfill enterprise fund in 2007-08.

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, unrestricted and undesignated fund balances may 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 \$7,038,053. Nearly 36% of this total amount or \$2,521,115 is restricted. The General Fund balance restricted for capital outlays of \$1,958,525 represents funds in the Crandell account. The Crandell account is an account where the City has expenditure control, but is restricted to expend only for special capital outlays by a will. The remaining \$562,590 represents non-current loans receivable. These loans arise from grant lending programs for economic development and housing rehabilitation.

Unreserved, but designated fund balances indicate that it is not available for spending. This is because it has already been committed to 1) roads and streets 2) capital improvements 3) grant projects 4) insurance reserves and other specified designations. The City has \$2,681,052 of unreserved but designated fund balances.

The City has \$1,835,887 of unreserved and undesignated governmental fund balances.

As a measurement of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 45% of total general fund expenditures, while total fund balance represents 71% of that same amount.

Governmental Funds revenue decreased by \$417,045 in 2008-09 (\$10,489,248) from 2007-08 (\$10,906,293) due to two major reasons. The first reason was a decrease in property and sales tax revenue, and those trending decreases are expected to continue. The second reason is due to a decrease in one time grant fund revenue from 2007-08, and a one-time insurance premium dividend in 2007-08.

Expenses decreased \$355,475 in 2008-09 from 2007-08; primarily due to infrastructure and capital outlays pursuant to the grant projects for infrastructure projects on the City's streets and roads, storm drainage, and parks and greenways. The City also restructured two general fund operating programs, that included the layoff of two managers for

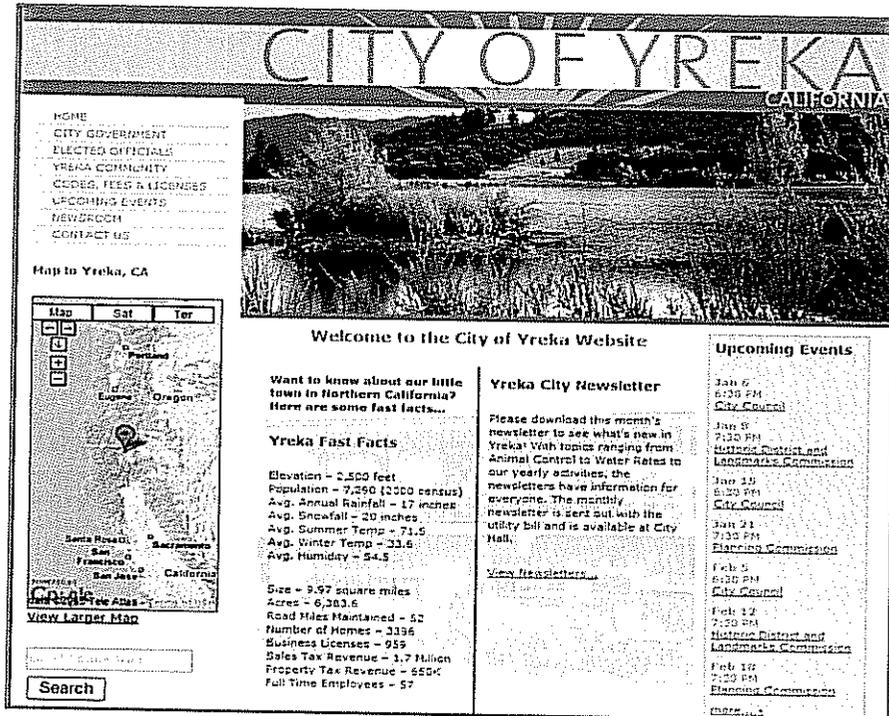
expenditure control, in anticipation of the declining tax revenue base.

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 assets of the water, and wastewater funds at the end of the year amounted to \$14,547,313, and unrestricted net assets were \$4,091,401. In the statement on Cash Flows, page 9, the net increase (decrease) in cash shows a decrease of \$295,217. The wastewater enterprise fund had a \$161,024 increase in available cash due to utility rate increases. The water fund also had rate increase, however offsetting that increase were planned capital outlay expenditures of \$1,049,185, which resulted in an overall cash decrease of \$456,241. In October 2008, the City implemented a five-year utility rate increase in an effort to bring revenues up to keeping pace with the required cash outlay for both operations and required capital outlay and financing. The City is 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.



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 item detail is available on pages 28 through 31 of this report.

Schedule of Revenues and Expenditures – Budget to Actual 2008-2009

General Fund	Original	Final	Actual
Revenue	\$5,348,200	\$5,476,936	\$5,466,456
Expense	5,003,304	5,075,608	5,102,003
Excess (deficiency) of revenue over (under) expenses	344,896	401,328	364,453
Other Financing Sources and (Uses)	(150,154)	(175,726)	(149,339)
Net Change in Fund Balance	\$194,742	\$225,602	\$215,114
Special Grants	Original	Final	Actual
Revenue	\$8,221,088	\$3,936,890	\$3,937,791
Expense	8,206,695	3,895,391	3,866,048
Excess (deficiency) of revenue over (under) expenses	14,393	41,499	71,743
Other Financing Sources and (Uses)	150,154	182,051	157,188
Net Change in Fund Balance	\$164,547	\$223,550	\$228,931
Special Revenue	Original	Final	Actual
Revenue	\$438,000	\$580,860	\$574,557
Expense	319,763	396,863	396,232
Excess (deficiency) of revenue over (under) expenses	118,237	183,997	178,325
Other Financing Sources and (Uses)	0	0	0
Net Change in Fund Balance	\$118,237	\$183,997	\$178,325
Streets and Roads	Original	Final	Actual
Revenue	\$346,602	\$516,801	\$510,444
Expense	754,272	582,654	548,129
Excess (deficiency) of revenue over (under) expenses	(407,670)	(65,853)	(37,685)
Other Financing Sources and (Uses)	0	78,476	76,951
Net Change in Fund Balance	(\$407,670)	\$12,623	\$39,266

General Operating Fund:

- Total revenues were \$5,348,200 in the original budget, \$5,476,936 in the final budget and \$5,466,456 for actuals. Revenue was increased by \$128,736 in the final budget to reflect increases in planning deposits and mutual aid fire response reimbursements.
- Total expenses were \$5,003,304 in the original budget, \$5,075,608 in the final budget and \$5,102,003 for actuals. The final budget expenses were increased by \$72,304 from the original budget due to relatively small widespread departmental adjustments.
- The change in the general fund balance was \$194,742 in the original budget, \$225,602 in the final budget and \$215,114 for actuals. Actual results were on target with performance expectations.

Special Grant Fund:

- Grant revenue was \$8,221,088 in the original budget, \$3,936,890 in the final budget and actual revenue was \$3,937,791. The original budget showed funding for all grants projects that could have happened in the fiscal year 2008-09. The final budget decreased by \$4,284,198, recognizing the actual project funding and implementation.
- Capital expenditures for street rehabilitation and storm drain projects and safe schools routes were \$5,082,000 in the original budget, \$1,889,829 in the final budget and \$1,887,597 for actuals. Work on many of these state funded grant projects were suspended, as the state was unable to reimburse the grantee for work completed until the state could complete open market bond sales.
- Capital expenditures for parks and recreation and community development projects were \$2,033,474 in the original budget, \$708,277 in the final budget and \$692,296 for actuals. The primary decrease was again due to temporary suspension of state grant programs.
- Expenditure for community development housing and business loans was \$729,702 in the original budget, \$941,716 in the final budget, and \$934,209 for actuals. The increase was due to state approval of a modified cost allocation plan for the community kitchen grant. This grant was on hold until a new cost allocation plan could be approved by the state HCD office.
- Other financing sources and (uses) were \$150,154 in the original budget, \$182,051 in the final budget and \$157,188 for actuals. Meal and transportation donations received from participants in the senior program, were below original expected revenues and in anticipation, the City increased its general fund contribution in the final budget to balance the program. At yearend, actual general fund transfers were only \$157,188, due to mid-year expenditure controls for that program.

Special Revenue Fund:

- Revenues were \$438,000 in the original budget, \$580,860 in the final budget and \$574,557 for actuals. The primary variance between the original budget and the final budget is due to \$92,960 increase in the collection of development impact fees, and \$30,900 increase in collection of landfill access fees due to a higher than projected increase to Engineering News Record cost of construction index applied to the landfill access charge for debt servicing.
- Expenses were \$319,763 in the original budget, \$396,863 in the final budget and \$396,232 for actuals.
- Expenditures for fire protection equipment were higher than the original budget by \$77,000 for purchase of equipment to outfit the City's recently financed purchase of two fire engines.

Streets and Roads Fund:

- Revenues were \$346,602 in the original budget, \$516,801 in the final budget and \$510,444 for actuals. The final budget increase reflects \$160,649 for the County of Siskiyou's allocation of the local transportation funds for the City's contribution to the STAGE bus transportation program.
- Expenditures primarily for capital projects in the Gas Tax Fund were \$754,272 in the original budget, \$582,654 in the final budget and \$548,129 for actuals. Capital projects in the original budget that were not completed totaled \$214,600 for road paving and storm drain projects, which was in part offset by an expenditure appropriation of \$160,649 for the City's contribution to the STAGE bus transportation program.



New Greenhorn Park Pedestrian Bridge, photo dated May 12, 2009

Capital Assets and Debt Administration

Changes in Capital Assets

	Balance			Balance
	June 30, 2008	Additions	Retirements	June 30, 2009
Governmental Activities:				
<i>Capital assets not being depreciated;</i>				
Land	\$1,702,314			\$1,702,314
Construction in Progress	2,495,897	2,705,938	526,285	4,675,550
<i>Capital assets being depreciated;</i>				
Building and Structures	3,963,149	444,723		4,407,872
Machinery and Equipment	3,758,827	-	374,095	3,384,732
Infrastructure	21,553,403	81,562		21,634,965
Governmental Activities Capital Assets	33,473,590	3,232,223	900,380	35,805,433
Less Accumulated Depreciation	(19,592,440)	(683,262)	(158,400)	(20,117,302)
Governmental Activities Capital Assets, net	\$13,881,150	\$2,548,961	\$741,980	\$15,688,131
Business-type Activities:				
<i>Capital assets not being depreciated;</i>				
Land	\$253,172			\$253,172
Construction in Progress	826,171	994,487	-	1,820,658
<i>Capital assets being depreciated;</i>				
Utility Plant	14,567,083			14,567,083
Building and Structures	6,994,027			6,994,027
Machinery and Equipment	3,775,000	83,396		3,858,396
Total Business Activities Capital Assets	26,415,453	1,077,883	-	27,493,336
Less Accumulated Depreciation	(14,600,025)	(536,605)	-	(15,136,630)
Business-type Capital Assets, net	11,815,428	541,278	-	12,356,706
Total Capital Assets, net	\$25,696,578	\$3,090,239	\$741,980	\$28,044,837

The City of Yreka's investment in capital assets for its governmental and business type activities as of June 30, 2009 amounts to \$28,044,837 (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. Public domain capital assets for infrastructure that include streets and sidewalks, curbs and gutters, drainage systems, bridges, and lighting systems.

Over the past 10 years, the City has completed numerous master plan studies and taken inventory of its assets, with the last study completed December 2007. In these studies, engineers have identified over \$29 million of capital improvements needed within the next five to ten years for the City's infrastructure assets of streets, water and sewer utilities. That roughly translates to about \$7,800 per household. To that end, the City remained focused its efforts, in 2008-09, to deal with ways to fund infrastructure improvements. Capital grants remain the primary source of funding for capital outlay to the City's aging infrastructure. Although the water, wastewater systems are safe and reliable, these infrastructure assets are aging and in need of replacement pipes, booster pumps, tank cleaning and resurfacing, filters, and other identified system upgrades.

Street and roads, in are serious need of rehabilitation but at present there is not an adequate revenue stream for repairs, other than competitive grants.

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

Governmental Activities

- In 2008-09 construction in progress increased \$2,179,653 million for major street repair and rehabilitation projects \$1,013,141, development of storm drain basins, floodplains and culverts \$834,140, several park and greenway restroom and trail developments projects \$247,572 and information technology conversion project for the City \$84,800. Cumulative construction in progress totals \$4,675,550.
- Utilizing both workforce housing and Prop. 40 state grant awards, the City completed new park restroom facility \$204,973 in Miner Street park and the downtown restroom facility \$239,750. The downtown restrooms are a cooperative community and grants project that provided for the rehabilitation of 108 West Miner Street into an art gallery and public restroom facilities, with the non-profit art organization, known as Liberty Arts.
- A USDA Collaborative Forest Restoration grant provided funds to prepare a comprehensive storm drain ecological mitigation plans for drainage along Yreka Creek for \$81,562.
- The City transferred its bus fleet, \$374,095, for senior transportation services to a non-profit organization, Madrone Hospice, as a part of an agreement to continue operation the senior programs in the community.

Business Type Activities

- Projects under construction increased \$994,487 in 2008-09, totaling \$1,820,658 cumulatively. Those projects include major improvements to the City's water pumping, treatment and storage facilities.
- Field service equipment (backhoe) was acquired for \$83,396.

Changes in Long Term Debt:

Changes in Long Term Debt

	Balance June 30, 2008	New Issues	Principal Payments	Balance June 30, 2009
<i>Governmental Activities:</i>				
Loans Payable - Banks and Others	\$995,940	\$84,800	\$109,847	\$970,893
Loans Payable - Governmental Agencies	2,325,000		49,604	2,275,396
Total Governmental Activities	3,320,940	84,800	159,451	3,246,289
<i>Business-type Activities:</i>				
Loans Payable - Banks and Others	0	0	0	0
Loans Payable - Governmental Agencies	1,344,186	0	250,096	1,094,090
Certificates of participation - USDA Rural Development	868,000	0	11,000	857,000
Total Business Activities	2,212,186	0	261,096	1,951,090
Total Outstanding Long Term Debt	\$5,533,126	\$84,800	\$420,547	\$5,197,379
Less Portion Classified as Current Debt				(433,949)
				<u>\$4,763,430</u>



Public Works summer help painting street markings, July 13, 2007.

At the end of the current fiscal year, the City of Yreka had total debt outstanding of \$5,197,379 and long term outstanding debt of \$4,763,430. Detailed information on lenders, rates and maturities for long-term debt can be found on pages 22 through 24 of this report.

The City of Yreka's total debt decreased by \$420,547 during the current fiscal year 2008-09 due to scheduled principal repayment on borrowings. The \$84,800 increase represents a loan agreement with Springbrook software to purchase an enterprise resource planning (ERP/financial) system.

Next Year's Budgets and Rates:

Budget Highlights for 09-10

Below are highlights from the City's 2009-10 original budget. The original budget was approved by the City Council on September 17, 2009. The original budget includes settlement and acceptance of bargaining unit contracts for 2009-10, from all of the City's bargaining units.

City of Yreka 2009-10 Original Budget

	Budgeted Revenue	Budgeted Expense
Total General Fund	\$4,920,218	\$5,042,765
Total Special Rev. Fund	492,550	319,527
Total Streets and Roads	1,217,195	1,516,091
Special Grant Fund	3,642,392	3,617,170
Total Governmental Activity Fund	10,272,355	10,495,553
Sewer Fund	1,550,400	2,163,516
Water Fund	1,789,800	2,119,938
Total Business Type Funds	3,340,200	4,283,454
All Funds Combined	\$13,612,555	\$14,779,007

The City projects a \$1.2 million decrease in working capital during fiscal year 2009-10, primarily in the enterprise funds \$943,254 and road and streets funds \$223,198. This is due to needed improvements to City's infrastructure system. Capital reserves will be used to offset the excess costs for these construction projects.

Grant Awards:

Highlights of the budget include the continued diligence of the City to leverage public dollars with grants awards. The level of capital improvements and community operating grants would not be included in this budget if it were not for the successful and continued efforts of City staff to obtain and administer these grants.

General Fund Revenue Projections:

Revenue projections for 2009-10, reflects the continued decline in the cities property, sales and transient lodging taxes

General Fund - Fiscal Year Main Stream Revenue Comparison

	Actual 05-06	Actual 06-07	Actual 07-08	Actual 08-09	Original Budget 09-10
Property Tax (secured & unsec. roll)	\$766,460	\$887,856	\$915,035	\$941,360	\$851,000
Transient Lodging	593,285	608,826	592,729	626,360	575,000
Sales Tax	1,599,734	1,607,462	1,709,256	1,462,862	1,400,000
Franchises	206,474	220,470	234,541	234,541	230,000
Business Licenses	75,191	77,491	80,060	79,378	80,000
Animal Licenses	9,223	10,431	10,842	21,488	25,000
Building Permits	175,363	94,546	77,343	51,279	35,000
Motor Vehicle License Fees (1)	512,914	524,463	542,789	570,778	496,800
Triple Flip In Lieu Sales Tax (2)	541,007	509,797	597,296	501,647	460,000
Subtotal General Fund Mainstream Revenue	\$4,479,651	\$4,541,342	\$4,759,891	\$4,489,693	\$4,152,800

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

(2) 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 Taxes ERAF shift to in-lieu Sales Tax that is payable to the City as in-lieu Sales Tax.

Enterprise Fund Revenue:

The City adopted in June 2008, a phased in five-year water and wastewater rate increase. A targeted educational campaign and community outreach programs helped to ensure, the successful implementation of the fees under the Proposition 218 rules. Public outreach explaining the new rate structure continues, as the City annually explaining the proposed projects supported by the rate increase in the Yreka City newsletter and information is available on the City's website. The first utility rates increase under this program went into effect October 1, 2008.

With City Council approval, Public Works submitted in the fall of 2008, loan and grant applications to the State Revolving Loan Fund and USDA Rural Development program seeking over \$10 million of water treatment infrastructure improvements. The City has received preliminary approval for its loan and grant funding request, with approximately 30% grant funded and 70% financed. The rate increases will pay for the financing costs relating to the construction of these facilities.

Expenditure Control:

The City is diligently working to keep expenditures under control while continuing to maintain the historic levels of service that the citizens of Yreka have come to expect and rely upon. The balancing of services with resources continues to challenge most notably the Public Safety and Public Works departments. In 2009-10, the City implemented a one-day a month furlough schedule (or its equivalent for some departments) for City employees.

Horizon Issues for 2009-10:

Not reflected in the budget, but of concern, to the City are the following three issues:

- [1] An expected decline in core general fund revenue of sales, property and transient occupancy taxes, that mirrors the overall economic downturn for the state.
- [2] The Council continues to seek funding sources for infrastructure, particularly roads, drainage, and maintenance of improved and expanded parks and greenways.
- [3] The State of California's budget crisis remains as the State has not found any long term solutions to its fiscal problems. The impact to cities continues to be deferrals and shifts of revenue streams, along with proposed revenue cuts.

Requests for Information:

This financial report is designed to provide a general overview of the City of Yreka's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report, or requests for additional financial information should be addressed to the City's Finance Director, 701 Fourth Street, Yreka, CA 96097, or contact us at www.ci.yreka.ca.us.

**INDEPENDENT AUDITORS' REPORT**

To the City Council
City of Yreka, California

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, 2009, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of Yreka, California management. Our responsibility is to express an opinion 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the City of Yreka, California, as of June 30, 2009, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 28, 2010 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, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis, and budgetary comparison information on pages II through XXII and 28 through 31, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying schedule of expenditures of federal awards on page 32, 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 also not a required part of the basic financial statements of City of Yreka, California. The schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Aiello, Goodrich & Teuscher
Aiello, Goodrich & Teuscher
An Accountancy Corporation
Mt. Shasta, California
February 28, 2010

BASIC FINANCIAL STATEMENTS

City of Yreka
Statement of Net Assets
June 30, 2009

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets:			
Cash and investments	\$ 3,459,637	\$ 3,669,451	\$ 7,129,088
Receivables (net of allowances for bad debts, where applicable):			
Trade accounts	-	343,877	343,877
Loans	562,590	-	562,590
Intergovernmental	2,356,118	350,000	2,706,118
Accounts	92,403	-	92,403
Taxes	418,719	-	418,719
Interest	11,907	-	11,907
Total current assets	<u>6,901,374</u>	<u>4,363,328</u>	<u>11,264,702</u>
Restricted assets:			
Cash and investments	1,946,940	50,295	1,997,235
Receivables, interest	11,585	-	11,585
Total restricted assets	<u>1,958,525</u>	<u>50,295</u>	<u>2,008,820</u>
Capital assets:			
Non-depreciable	6,377,863	2,073,830	8,451,693
Depreciable, net	9,310,267	10,282,877	19,593,144
Total capital assets	<u>15,688,131</u>	<u>12,356,707</u>	<u>28,044,838</u>
Total assets-	<u>24,548,030</u>	<u>16,770,330</u>	<u>41,318,360</u>
LIABILITIES			
Accounts payable	220,947	238,144	459,091
Payroll payable	214,329	33,783	248,112
Accrued vacation	273,980	-	273,980
Deferred revenue	1,112,590	-	1,112,590
Current portion of long-term debt	166,394	267,555	433,949
Total current liabilities	<u>1,988,240</u>	<u>539,482</u>	<u>2,527,722</u>
Long-term liabilities:			
Long-term debt, net of current portion	<u>3,079,895</u>	<u>1,683,535</u>	<u>4,763,430</u>
Total liabilities	<u>5,068,135</u>	<u>2,223,017</u>	<u>7,291,152</u>
NET ASSETS			
Invested in capital assets, net of related debt	12,441,842	10,405,617	22,847,459
Restricted for capital projects (expendable)	1,958,525	50,295	2,008,820
Unrestricted	5,079,528	4,091,401	9,170,929
Total net assets	<u>\$19,479,895</u>	<u>\$14,547,313</u>	<u>\$34,027,208</u>

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

City of Yreka
Statement of Activities
Year Ended June 30, 2009

	Program Revenues			Net (Expense) Revenues and Changes in Net Assets		
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental activities:						
General government	\$ 1,125,207	\$ 1,113	\$ -	\$ (486,265)	\$ -	\$ (486,265)
Planning and development	1,443,990	812,618	-	(285,317)	-	(285,317)
Parks and recreation	657,622	496	818,105	208,733	-	208,733
Public works administration	165,550	-	-	(165,550)	-	(165,550)
Public works maintenance	137,699	-	-	(137,699)	-	(137,699)
Police protection	2,251,669	131,451	-	(2,093,192)	-	(2,093,192)
Fire protection	488,307	83,639	-	(191,104)	-	(191,104)
Senior nutrition and transportation	329,306	251,735	-	(77,571)	-	(77,571)
Streets and sidewalks	944,006	261,658	1,958,165	1,353,922	-	1,353,922
Public transportation	186,929	160,649	-	(26,280)	-	(26,280)
Total governmental activities	<u>7,730,286</u>	<u>1,703,359</u>	<u>2,776,270</u>	<u>(1,900,324)</u>	<u>-</u>	<u>(1,900,324)</u>
Business-type activities:						
Sewer	1,413,747	-	-	-	(4,013)	(4,013)
Water	1,394,682	-	-	-	360,817	360,817
Total business-type activities	<u>2,808,439</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>356,804</u>	<u>356,804</u>
Total primary government	<u>\$ 10,538,725</u>	<u>\$ 1,703,359</u>	<u>\$ 2,776,270</u>	<u>(1,900,324)</u>	<u>356,804</u>	<u>(1,543,520)</u>
General revenues:						
Taxes:						
Property				968,390	-	968,390
Sales and use				1,964,509	-	1,964,509
Other				1,439,367	-	1,439,367
Investment earnings				264,542	93,846	358,388
Other				22,477	(63,235)	(40,758)
Loss on disposal of capital assets				(215,695)	-	(215,695)
Total general revenues and transfers				<u>4,443,591</u>	<u>30,611</u>	<u>4,474,202</u>
Change in net assets				<u>2,543,267</u>	<u>387,415</u>	<u>2,930,682</u>
Net assets, beginning as previously reported				<u>16,906,976</u>	<u>14,159,898</u>	<u>31,066,874</u>
Prior period adjustment				<u>29,652</u>	<u>-</u>	<u>29,652</u>
Net assets, as restated				<u>16,936,628</u>	<u>14,159,898</u>	<u>31,096,526</u>
Net assets, ending				<u>\$ 19,479,895</u>	<u>\$ 14,547,313</u>	<u>\$ 34,027,208</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 Net Assets - Governmental Activities
Governmental Funds
June 30, 2009

	General Fund	Special Grant Fund	Special Revenue Fund	Streets and Roads Fund	Total Governmental Funds
ASSETS					
Cash and investments	\$ 3,614,162	\$ -	\$ 337,621	\$ 1,454,794	\$ 5,406,577
Receivables (net of allowance for doubtful accounts, where applicable):					
Loans	-	562,590	-	-	562,590
Intergovernmental	62,616	2,239,444	-	54,057	2,356,118
Accounts	25,201	-	52,970	14,232	92,403
Taxes	418,719	-	-	-	418,719
Interest	16,255	248	1,897	5,092	23,492
Due from other funds	1,927,457	-	-	-	1,927,457
Total assets	\$ 6,064,410	\$ 2,802,282	\$ 392,488	\$ 1,528,176	\$ 10,787,356
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 57,610	\$ 103,135	\$ 11,317	\$ 48,886	\$ 220,947
Payroll payable	214,329	-	-	-	214,329
Accrued vacation	273,980	-	-	-	273,980
Deferred revenue	-	571,590	-	541,000	1,112,590
Due to other funds	-	1,927,457	-	-	1,927,457
Total liabilities	545,918	2,602,182	11,317	589,886	3,749,303
Fund balances:					
Reserved for:					
Noncurrent loans receivables	-	562,590	-	-	562,590
Capital outlays	1,958,525	-	-	-	1,958,525
Total	1,958,525	562,590	-	-	2,521,115
Unreserved:					
Designated for:					
Streets and sidewalks	-	-	-	938,290	938,290
Capital improvement	167,021	-	305,000	-	472,021
Fire protection	-	-	246,830	-	246,830
Grant projects	81,199	-	-	-	81,199
Other	942,712	-	-	-	942,712
Total	1,190,932	-	551,830	938,290	2,681,052
Undesignated	2,369,036	(362,490)	(170,659)	-	1,835,887
Total fund balance	5,518,492	200,100	381,171	938,290	7,038,054
Total liabilities and fund balance	\$ 6,064,410	\$ 2,802,282	\$ 392,488	\$ 1,528,176	\$ 10,787,356
Total governmental fund balance, as above					\$ 7,038,054
Amounts reported for governmental activities in the statement of net assets are different because:					
Capital assets used in governmental activities are not financial resources and therefore not reported in the funds					15,688,131
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds					(3,246,289)
Net assets of governmental activities					\$ 19,479,895

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

City of Yreka
Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Funds
For The Year Ended June 30, 2009

	General Fund	Special Grant Fund	Special Revenue Fund	Streets and Roads Fund	Total Governmental Funds
REVENUES					
Property taxes	\$ 968,390	\$ -	\$ -	\$ -	\$ 968,390
Sales and use taxes	1,964,509	-	-	-	1,964,509
Transient occupancy taxes	626,360	-	-	-	626,360
Assessment	-	-	213,564	-	213,564
Franchise and fees	242,229	-	-	-	242,229
Licenses and permits	185,616	-	138,037	-	323,653
Intergovernmental revenues	701,104	3,700,539	-	414,291	4,815,934
Charges for services	258,135	-	213,398	-	471,533
Indirect cost allocation	312,530	-	-	-	312,530
Fines, forfeitures and penalties	8,822	-	-	66,117	74,939
Use of money and property	127,970	99,286	9,558	27,727	264,542
Grants and donations	39,183	35,861	-	-	75,044
In-kind	8,016	102,106	-	-	110,121
Other	23,590	-	-	2,308	25,898
Total revenues	<u>5,466,456</u>	<u>3,937,791</u>	<u>574,557</u>	<u>510,444</u>	<u>10,489,248</u>
EXPENDITURES					
Current:					
City council, administrator, and clerk	346,848	-	-	-	346,848
General government	623,639	-	5,601	-	629,239
Planning and development	492,180	934,209	-	-	1,426,388
Parks and recreation	551,568	12,121	-	-	563,689
Public works administration	156,878	8,672	-	-	165,550
Public works maintenance	137,699	-	-	-	137,699
Police protection	2,228,638	-	-	-	2,228,638
Fire protection	288,480	-	79,827	-	368,308
Senior nutrition and transportation	-	329,305	-	-	329,305
Streets and sidewalks	174,313	-	-	344,198	518,511
Public transportation	-	1,849	-	160,649	162,498
Capital outlay	84,800	2,579,893	-	43,282	2,707,975
Debt service:					
Principal	16,960	-	142,491	-	159,451
Interest	-	-	168,313	-	168,313
Total expenditures	<u>5,102,003</u>	<u>3,866,048</u>	<u>396,232</u>	<u>548,129</u>	<u>9,912,412</u>
Excess of revenues over (under) expenditures	<u>364,453</u>	<u>71,743</u>	<u>178,324</u>	<u>(37,685)</u>	<u>576,836</u>
OTHER FINANCING SOURCES (USES)					
Proceeds from long-term debt	84,800	-	-	-	84,800
Operating transfers in	-	157,188	-	76,951	234,139
Operating transfers out	(234,139)	-	-	-	(234,139)
Total other financing sources (uses)	<u>(149,339)</u>	<u>157,188</u>	<u>-</u>	<u>76,951</u>	<u>84,800</u>
Excess of revenues and other sources over (under) expenditures and other uses	<u>215,114</u>	<u>228,931</u>	<u>178,324</u>	<u>39,266</u>	<u>661,636</u>
FUND BALANCE					
Beginning of year, as previously reported	5,303,378	(28,831)	202,847	899,024	6,376,418
End of the year	<u>\$ 5,518,492</u>	<u>\$ 200,100</u>	<u>\$ 381,171</u>	<u>\$ 938,290</u>	<u>\$ 7,038,054</u>

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, 2009

Change in fund balance, governmental funds	\$ 661,636
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 capital outlay (\$2,705,938), exceeds the depreciation expense (\$683,262) in the current period.	2,022,676
Loss on disposal of capital assets in the Statement of Activities:	(215,695)
Government funds report the proceeds of long-term debt as an other financing source on the Statement of Revenues, Expenditures and Changes in Fund Balances, but is an increase in long-term liabilities in the Statement of Net Assets:	159,450
Governmental funds report the proceeds of long-term debt as an other financing source on the Statement of Revenues, Expenditures and Changes in Fund Balance, but is an increase in long-term liabilities in the Statement of Net Assets.	<u>(84,800)</u>
Change in net assets of governmental activities	<u><u>\$2,543,267</u></u>

City of Yreka
Statement of Net Assets
Proprietary Funds
June 30, 2009

	Enterprise		Total
	Sewer Fund	Water Fund	
ASSETS			
Current assets:			
Cash and investments	\$ 162,622	\$3,506,829	\$ 3,669,451
Receivables (net of allowances for bad debts, where applicable):			
Trade accounts	144,502	199,375	343,877
Intergovernmental	350,000	-	350,000
Total current assets	<u>657,124</u>	<u>3,706,204</u>	<u>4,363,328</u>
Restricted assets:			
Cash and investments	<u>50,295</u>	-	<u>50,295</u>
Capital assets:			
Non-depreciable	937,014	1,136,816	2,073,830
Depreciable, net	7,900,766	2,382,111	10,282,877
Total capital assets, net	<u>8,837,780</u>	<u>3,518,927</u>	<u>12,356,707</u>
Total assets	<u>9,545,199</u>	<u>7,225,131</u>	<u>16,770,330</u>
LIABILITIES			
Current liabilities:			
Accounts payable	77,790	160,354	238,144
Payroll payable	12,877	20,906	33,783
Current portion of long-term debt	65,647	201,908	267,555
Total current liabilities	<u>156,314</u>	<u>383,168</u>	<u>539,482</u>
Long-term liabilities:			
Long-term debt, net of current portion	<u>1,683,535</u>	-	<u>1,683,535</u>
Total liabilities	<u>1,839,849</u>	<u>383,168</u>	<u>2,223,017</u>
NET ASSETS			
Invested in capital assets, net of related debt	7,088,598	3,317,019	10,405,617
Restricted, for debt service, expendable	50,295	-	50,295
Unrestricted	<u>566,457</u>	<u>3,524,943</u>	<u>4,091,401</u>
Total net assets	<u>\$7,705,350</u>	<u>\$6,841,963</u>	<u>\$14,547,313</u>

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

City of Yreka
Statement of Revenues, Expenses and Changes in Retained Earnings
Proprietary Funds
For The Year Ended June 30, 2009

	Sewer Fund	Enterprise Water Fund	Total
<u>OPERATING REVENUES</u>			
User fees and charges	\$1,409,734	\$1,754,885	\$ 3,164,619
Other	-	624	624
Total operating revenues	<u>1,409,734</u>	<u>1,755,509</u>	<u>3,165,243</u>
<u>OPERATING EXPENSES</u>			
Cost of power and water	115,185	212,692	327,877
Maintenance, operations and administration	934,644	939,853	1,874,498
Depreciation and amortization	300,714	235,891	536,605
Total operating expenses	<u>1,350,543</u>	<u>1,388,436</u>	<u>2,738,979</u>
Operating income	<u>59,191</u>	<u>367,073</u>	<u>426,264</u>
<u>OTHER REVENUES (EXPENSES)</u>			
Interest earned	3,141	90,705	93,846
Interest expense	(63,204)	(6,256)	(69,460)
Other (expenses)	(63,235)	-	(63,235)
Total other revenues (expenses)	<u>(123,297)</u>	<u>84,449</u>	<u>(38,849)</u>
Change in net assets	(64,107)	451,522	387,415
<u>NET ASSETS</u>			
Beginning of year	<u>7,769,457</u>	<u>6,390,441</u>	<u>14,159,898</u>
End of the year	<u>\$7,705,350</u>	<u>\$6,841,963</u>	<u>\$14,547,313</u>

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

City of Yreka
Statement of Cash Flows
Proprietary Funds
For The Year Ended June 30, 2009

	Sewer Fund	Enterprise Water Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$1,356,717	\$1,732,413	\$ 3,089,130
Payments to suppliers	(666,352)	(485,141)	(1,151,493)
Payments to employees	(374,386)	(539,283)	(913,669)
Net cash provided (used) by operating activities	<u>315,979</u>	<u>707,989</u>	<u>1,023,968</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES			
Intergovernmental revenues	64,704	2,690	67,394
Interfund transfers and payments	(4,375)	(4,375)	(8,750)
Net cash provided (used) by non-capital financing activities	<u>60,329</u>	<u>(1,685)</u>	<u>58,644</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchase of capital assets	(28,698)	(1,049,185)	(1,077,883)
Principal payments on debt	(63,288)	(197,809)	(261,097)
Interest payments on debt	(63,204)	(6,256)	(69,460)
Other	(63,235)	-	(63,235)
Net cash provided (used) by investing activities	<u>(218,425)</u>	<u>(1,253,250)</u>	<u>(1,471,675)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest income received	3,141	90,705	93,846
Net increase (decrease) in cash	161,024	(456,241)	(295,217)
CASH			
Beginning of the year	51,893	3,963,070	4,014,963
End of the year	<u>\$ 212,917</u>	<u>\$3,506,829</u>	<u>\$ 3,719,746</u>
Reconciliation of operating income (loss) to cash provided (used) by operating activities:			
Operating income (loss)	\$ 59,191	\$ 367,073	\$ 426,264
Adjustments to reconcile operating income (loss) to cash provided (used) by operating activities:			
Depreciation and amortization	300,714	235,891	536,605
(Increase) decrease in trade accounts receivable	(53,017)	(23,096)	(76,113)
Decrease in prepaid expenses	-	75	75
Increase in accounts payable	24,459	147,779	172,238
Decrease in payroll payable	(15,368)	(19,733)	(35,101)
Net cash provided (used) by operating activities	<u>\$ 315,979</u>	<u>\$ 707,989</u>	<u>\$ 1,023,968</u>

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

City Yreka, California
Notes To Basic Financial Statements
June 30, 2009

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Yreka, California (hereafter "the City") operates under a City Manager – City Council 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 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, sewer and sanitary landfill fund).

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, restricted resources are depleted first before the unrestricted resources are used.

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

City Yreka, California
Notes To Basic Financial Statements
June 30, 2009

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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.

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 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.

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.

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.

City Yreka, California
Notes To Basic Financial Statements
June 30, 2009

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

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.

City Yreka, California
Notes To Basic Financial Statements
June 30, 2009

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 increase a property's assessed valuation by reappraisal due to new construction, change in ownership, or by increase in fair market value not to exceed a 2% 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.

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 and infrastructure assets with a cost, as defined below, 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

City Yreka, California
Notes To Basic Financial Statements
June 30, 2009

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Deferred Revenue

Deferred revenue represents monies received that has not yet been expended by the City and is not earned (as revenue) until it is properly expended.

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, governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further split between designated and undesignated. Proprietary fund equity is classified the same as in the government-wide financial statements.

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.

City Yreka, California
Notes To Basic Financial Statements
June 30, 2009

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 requires 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, 2009, cash and investments were reported in the accompanying financial statements as follows:

Governmental activities	\$ 5,406,577
Business-type activities	<u>3,719,746</u>
Total cash and investments	<u>\$ 9,126,323</u>

In the governmental activities statement of net assets, \$1,943,665 of cash is reserved for capital outlays per the trust document that governs the bequest of these funds to the City.

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, 2009, the carrying amount of the City's deposits was \$571,508 and the bank balance was \$693,902. The difference represents outstanding checks.

City Yreka, California
Notes To Basic Financial Statements
June 30, 2009

NOTE 2 CASH AND INVESTMENTS (continued)

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 \$100,000 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 Instrumentality's 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 of the City's investment policy.

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. The fair value of the position in the investment pool is the same as the value of the pool shares.

GASB Statement No. 31:

The City adopted GASBE Statement No. 31, Accounting and Financial Reporting for certain investments and for External Investment Pools, as of July 1, 1997. GASB Statement No. 31 establishes fair value standards for investments in participating interest earning investment contracts, external investment pools, equity securities, option contracts, shock warrants and stock rights that have readily determinable fair values. Accordingly, 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.

City Yreka, California
Notes To Basic Financial Statements
June 30, 2009

NOTE 2 CASH AND INVESTMENTS (continued)

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, 2009, the City had no medium term notes. At June 30, 2009, 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, 2009, the City's investments in external investment pools, other than LAIF, were with Morgan Stanley Smith Barney.

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, 2009, 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.

As of June 30, 2009, in accordance with GASB 40 requirements, the City is 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, 2009, 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.

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.

City Yreka, California
Notes To Basic Financial Statements
June 30, 2009

NOTE 2 CASH AND INVESTMENTS (continued)

	<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	\$ 7,817,540	\$ -	\$ -	\$ -	\$ 7,817,540	\$ 7,817,540
Bank Certificates of Deposit	<u>567,640</u>	<u>169,635</u>	<u>-</u>	<u>-</u>	<u>737,275</u>	<u>737,275</u>
Total	<u>\$ 8,385,180</u>	<u>\$ 169,635</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,554,815</u>	<u>\$ 8,554,815</u>
Bank demand deposits					<u>571,508</u>	
Total cash and investments					<u>\$ 9,126,323</u>	

NOTE 3 LOANS RECEIVABLE

The City had the following loans receivable as of June 30, 2009:

Economic Development Loan Program	\$ 303,502
Housing Rehabilitation Loan Program	<u>259,088</u>
Total	<u>\$ 562,590</u>

There are no allowances for uncollectible accounts.

City Yreka, California
Notes To Basic Financial Statements
June 30, 2009

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, 2009:

<u>Due from other funds</u>	<u>Due to other funds</u> Special Grant Fund	<u>Total</u>
General Fund	\$ 1,927,457	\$ 1,927,457
	\$ 1,927,457	\$ 1,927,457

The above amounts are to cover negative cash balances 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:

	<u>Transfers In</u>	<u>Transfers Out</u>
Governmental Funds:		
General Fund:		
General Funds share of expenses incurred by Streets and Roads Fund (\$76,951) by the Special Grants Funds (\$157,188)	\$ -	\$ 234,139
Special Grants Fund:		
For the General Fund's portion of expenses (\$157,188).	157,188	-
Streets and Roads Fund:		
For the General Fund's portion of expenses (\$76,951).	76,951	-
	\$ 234,139	\$ 234,139

City Yreka, California
Notes To Basic Financial Statements
June 30, 2009

NOTE 5 CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2009 was as follows:

	June 30, 2008	Additions and Transfers	Retirements and Transfers	June 30, 2009
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 1,702,314	\$ -	\$ -	\$ 1,702,314
Construction in progress	2,495,897	2,705,938	(526,285)	4,675,550
Total capital assets, not being depreciated:	<u>4,198,211</u>	<u>2,705,938</u>	<u>(526,285)</u>	<u>6,377,864</u>
Capital assets, being depreciated:				
Buildings	3,963,149	444,723	-	4,407,872
Machinery and equipment	3,758,827	-	(374,095)	3,384,732
Infrastructure	21,553,403	81,562	-	21,634,965
Total capital assets, being depreciated	<u>29,275,379</u>	<u>526,285</u>	<u>(374,095)</u>	<u>29,427,569</u>
Less accumulated depreciation for:				
Buildings	2,467,936	95,798	-	2,563,734
Machinery and equipment	1,992,215	207,694	(158,400)	2,041,509
Infrastructure	15,132,289	379,770	-	15,512,059
Total accumulated depreciation	<u>19,592,440</u>	<u>683,262</u>	<u>(158,400)</u>	<u>20,117,302</u>
Total capital assets, being depreciated, net	<u>9,682,939</u>	<u>(156,977)</u>	<u>(215,695)</u>	<u>9,310,267</u>
Subtotal, governmental activities	<u>13,881,150</u>	<u>2,548,961</u>	<u>(741,980)</u>	<u>15,688,131</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land	253,172	-	-	253,172
Construction in progress	826,171	994,487	-	1,820,658
Total capital assets, not being depreciated	<u>1,079,343</u>	<u>994,487</u>	<u>-</u>	<u>2,073,830</u>
Capital assets, being depreciated:				
Utility plant	14,567,083	-	-	14,567,083
Buildings	6,994,027	-	-	6,994,027
Machinery and equipment	3,775,000	83,396	-	3,858,396
Total capital assets, being depreciated	<u>25,336,110</u>	<u>83,396</u>	<u>-</u>	<u>25,419,506</u>
Less accumulated depreciation for:				
Utility plant	9,195,313	296,766	-	9,492,079
Buildings	2,490,708	175,822	-	2,666,530
Machinery and equipment	2,914,004	64,018	-	2,978,022
Total accumulated depreciation	<u>14,600,025</u>	<u>536,605</u>	<u>-</u>	<u>15,136,630</u>
Total capital assets, being depreciated, net	<u>10,736,085</u>	<u>(453,209)</u>	<u>-</u>	<u>10,282,876</u>
Subtotal, business-type activities	<u>11,815,428</u>	<u>541,278</u>	<u>-</u>	<u>12,356,706</u>
Total, government-wide	<u>\$ 25,696,578</u>	<u>\$ 3,090,239</u>	<u>\$ (741,980)</u>	<u>\$ 28,044,837</u>

City Yreka, California
Notes To Basic Financial Statements
June 30, 2009

NOTE 5 CAPITAL ASSETS (continued)

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
General government	\$ 23,724
Planning and development	17,602
Parks and recreation	93,933
Police protection	23,031
Fire protection	77,082
Senior nutrition and transportation	24,431
Streets and sidewalks	<u>423,459</u>
Total depreciation expense – governmental activities	<u>\$683,262</u>

NOTE 6 LONG TERM DEBT

The following is a summary of governmental activities long-term liabilities activity during the year ended June 30, 2009:

	June 30, 2008	Additions	Reductions	June 30, 2009	Current Portion
Bonds and notes payable:					
Financial Software	\$ -	\$ 84,800	\$ 16,960	\$ 67,840	\$ 16,960
Landfill Sale	2,325,000	-	49,604	2,275,396	52,280
Fire Equipment	995,940	-	92,887	903,053	97,154
Total governmental activities long-term liabilities	<u>\$3,320,940</u>	<u>\$ 84,800</u>	<u>\$ 159,451</u>	<u>\$3,246,289</u>	<u>\$166,394</u>

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
<u>Year Ended June 30, ;</u>				
2010	52,280	122,720	97,154	38,650
2011	55,099	119,901	101,617	34,187
2012	58,071	116,929	106,286	29,518
2013	61,203	113,797	111,168	24,636
2014	64,504	110,496	116,275	19,529
2015-2019	378,611	496,389	370,552	25,543
2020-2024	492,334	382,666	-	-
2025-2029	640,216	234,784	-	-
2030-2034	473,077	51,923	-	-
Total	<u>\$ 2,275,396</u>	<u>\$ 1,749,604</u>	<u>\$ 903,053</u>	<u>\$ 172,061</u>

City Yreka, California
Notes To Basic Financial Statements
June 30, 2009

NOTE 6 LONG TERM DEBT (continued)

Interest rate	Financial Software		Total	
	0.00%			
	Principal	Interest	Principal	Interest
Year Ended June 30, ;				
2010	16,960	-	166,394	161,370
2011	16,960	-	173,677	154,087
2012	16,960	-	181,317	146,447
2013	16,960	-	189,331	138,433
2014	-	-	180,779	130,025
2015-2019	-	-	749,164	521,931
2020-2024	-	-	492,334	382,666
2025-2029	-	-	640,216	234,784
2030-2034	-	-	473,077	51,923
Total	<u>\$ 67,840</u>	<u>\$ -</u>	<u>\$ 3,246,289</u>	<u>\$ 1,921,666</u>

The following is a summary of business-type activities long-term liabilities activity during the year ended June 30, 2009:

	June 30, 2008	Additions	Reductions	June 30, 2009	Current Portion
Bonds and notes payable:					
Certificates of Participation	\$ 868,000	\$ -	\$ 11,000	\$ 857,000	\$ 12,000
State Water Resources	944,470	-	52,288	892,182	53,647
Total sewer fund	<u>1,812,470</u>	<u>-</u>	<u>63,288</u>	<u>1,749,182</u>	<u>65,647</u>
Dept of Water Resources	332,019	-	163,960	168,059	168,059
Dept of Water Resources	67,697	-	33,849	33,848	33,849
Total water fund	<u>399,716</u>	<u>-</u>	<u>197,809</u>	<u>201,907</u>	<u>201,908</u>
Total business-type activities long term liabilities	<u>\$ 2,212,186</u>	<u>\$ -</u>	<u>\$ 261,097</u>	<u>\$ 1,951,089</u>	<u>\$ 267,555</u>

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 Yreka, California
Notes To Basic Financial Statements
June 30, 2009

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 Year Ended June 30, ;	USDA Cert of Part		State Water Resources	
	4.50%		2.60%	
	Principal	Interest	Principal	Interest
2010	12,000	38,295	53,647	23,197
2011	12,000	37,755	55,042	21,802
2012	13,000	37,193	56,473	20,371
2013	13,000	36,608	57,941	18,903
2014	14,000	36,000	59,448	17,396
2015-2019	81,000	169,673	321,242	62,976
2020-2024	100,000	149,400	288,389	18,986
2025-2029	125,000	124,091	-	-
2030-2034	156,000	92,700	-	-
2035-2039	193,000	53,528	-	-
2040-2044	138,000	9,495	-	-
Total	\$ 857,000	\$ 784,736	\$ 892,182	\$ 183,630

Interest rate Year Ended June 30, ;	Dept of Water Resources		Dept of Water Resources	
	2.50%		2.50%	
	Principal	Interest	Principal	Interest
2010	\$ 168,059	\$ 2,118	\$ 33,849	\$ -
2011	-	-	-	-
2012	-	-	-	-
2013	-	-	-	-
2014	-	-	-	-
2015-2019	-	-	-	-
2020-2024	-	-	-	-
2025-2029	-	-	-	-
2030-2034	-	-	-	-
Total	\$ 168,059	\$ 2,118	\$ 33,849	\$ -

City Yreka, California
Notes To Basic Financial Statements
June 30, 2009

NOTE 6 LONG TERM DEBT (continued)

Year Ended June 30, ;	Total	
	Principal	Interest
2010	\$ 267,555	\$ 63,610
2011	67,042	59,557
2012	69,473	57,563
2013	70,941	55,510
2014	73,448	53,396
2015-2019	402,242	232,649
2020-2024	388,388	168,386
2025-2029	125,000	124,091
2030-2034	156,000	92,700
2035-2039	193,000	53,528
2040-2044	138,000	9,495
Total	\$ 1,951,089	\$ 970,484

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 – Active plan members of the Plan are required to contribute 9.00% (safety) or 7.00% (miscellaneous) of their annual covered salary. The City has elected to pay the employees’ contribution. 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 required employer contribution rate for the year ended June 30, 2009 was 12.767% (safety) and 8.034% (miscellaneous). 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.

Annual Pension Cost – For the year ended June 30, 2009 the City’s annual pension cost was \$263,338, and the City paid employee share was \$ 213,454, for a combined City contributed amount of \$476,792. The required contribution for the year ended June 30, 2009 was determined as part of the June 30, 2006 actuarial valuation using the entry age normal actuarial cost method with the contributions determined as a percentage of pay. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses); (b) projected salary increases that vary by duration of service ranging from 3.25% to 14.45%, and; (c) 3.25% cost-of-living adjustment. Both (a) and (b) include an inflation component of 3.00%. 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, 2006 was 30 years.

City Yreka, California
Notes To Basic Financial Statements
June 30, 2009

Three Year Trend Information:

	June 30, 2009	June 30, 2008	June 30, 2007
Annual Pension Cost (APC)	\$ 476,792	\$ 455,080	\$ 421,580
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, information for the years ended June 30, 2008, 2007 and 2006 (the latest available) are for the pool as a whole. The following represents public safety employees:

<u>Schedule of funding progress:</u>	<u>June 30, 2008</u>	<u>June 30, 2007</u>	<u>June 30, 2006</u>
Actuarial value of assets	\$ 438,674,996	\$ 403,484,775	\$ 460,948,462
Actuarial accrued liability (AAL) – entry age	\$ 504,295,839	\$ 462,354,459	\$ 534,135,011
Unfunded (overfunded) AAL (UAAL)	\$ 65,620,843	\$ 58,869,684	\$ 73,186,549
Funded ratio	87.0%	87.3%	86.3%
Covered payroll	\$ 77,903,428	\$ 72,308,836	\$ 84,179,637
UAAL as a percentage of covered payroll	84.2%	81.4%	86.9%

The following represents miscellaneous employees:

<u>Schedule of funding progress:</u>	<u>June 30, 2008</u>	<u>June 30, 2007</u>	<u>June 30, 2006</u>
Actuarial value of assets	\$ 2,547,323,278	\$ 2,391,434,447	\$ 2,492,226,176
Actuarial accrued liability (AAL) – entry age	\$ 2,780,280,768	\$ 2,611,746,790	\$ 2,754,396,608
Unfunded (overfunded) AAL (UAAL)	\$ 232,957,490	\$ 220,312,343	\$ 262,170,432
Funded ratio	91.6%	91.6%	90.5%
Covered payroll	\$ 688,606,681	\$ 665,522,859	\$ 699,897,835
UAAL as a percentage of covered payroll	33.8%	33.1%	37.5%

NOTE 8 DEFICIT FUND BALANCE

At June 30, 2009 there were no deficit fund balances.

City Yreka, California
Notes To Basic Financial Statements
June 30, 2009

NOTE 9 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, 2009 for governmental activities were restricted for capital outlays.

NOTE 10 RESERVED AND DESIGNATED FUND BALANCES

Fund balances, which are not available for appropriation or are not considered expendable available financial resources are reserved. Unreserved fund balances that have been earmarked for specified purposes are considered designated.

Reserved fund balances consist of amounts reserved for noncurrent loan receivables and capital outlays.

Unreserved, designated fund balances are designated for fund purpose.

NOTE 11 OVEREXPENDITURE OF BUDGET

The General Fund over expended its budget by \$26,395.

NOTE 12 SUBSEQUENT EVENTS

Subsequent to year end, the City incurred costs on several grants that are funded by the State of California and the United States Federal Government (FEMA). As of February 15, 2010, the City had approximately \$350,000 in receivables that are awaiting payment by these intergovernmental agencies from year end.

NOTE 13 PRIOR PERIOD ADJUSTMENT

The net Assets for Governmental Activities as of June 30, 2008, has been adjusted for the following:

- Understatement of capital assets	\$ 29,652
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These adjustments had no effect on the Statement of Activities, for the year ended June 30, 2009.

NOTE 14 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 Yreka, California
Notes To Basic Financial Statements
June 30, 2009

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 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 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, 2009

	Original Budget	Final Budget	Actual Amounts	Favorable (Unfavorable) Variance With Final Budget
REVENUES				
Property taxes	\$ 960,000	\$ 973,360	\$ 968,390	\$ (4,970)
Sales and use taxes	2,175,000	1,964,500	1,964,509	9
Transient occupancy taxes	607,000	635,000	626,360	(8,640)
Franchise and other licenses	225,000	248,000	242,229	(5,771)
Licenses and permits	214,500	184,800	185,616	816
Intergovernmental revenues	660,000	701,300	701,104	(196)
Charges for services	96,750	254,500	258,135	3,635
Indirect cost allocation	235,000	307,000	312,530	5,530
Fines, forfeitures and penalties	12,000	10,000	8,822	(1,178)
Use of money and property	120,800	128,810	127,970	(840)
Grants and donations	29,650	38,650	39,183	533
In-kind	-	8,016	8,016	(0)
Other	12,500	23,000	23,590	590
Total revenues	<u>5,348,200</u>	<u>5,476,936</u>	<u>5,466,456</u>	<u>(10,480)</u>
EXPENDITURES				
Current:				
City council, administrator, and clerk	360,736	356,786	346,848	9,938
General government	720,535	650,106	623,639	26,467
Planning and development	478,446	479,861	492,180	(12,319)
Parks and recreation	503,717	531,969	551,568	(19,599)
Public works administration	144,191	164,291	156,878	7,413
Public works maintenance	178,377	165,377	137,699	27,678
Police protection	2,174,151	2,178,301	2,228,638	(50,337)
Fire protection	293,327	282,477	288,480	(6,003)
Streets and sidewalks	149,824	181,640	174,313	7,327
Capital outlay	-	84,800	84,800	-
Debt service:				
Principal	-	-	16,960	(16,960)
Interest	-	-	-	-
Total expenditures	<u>5,003,304</u>	<u>5,075,608</u>	<u>5,102,003</u>	<u>(26,395)</u>
Excess of revenues over (under) expenditures	<u>344,896</u>	<u>401,328</u>	<u>364,453</u>	<u>(36,875)</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from long-term debt	-	84,800	84,800	-
Operating transfers in	-	-	-	-
Operating transfers out	(150,154)	(260,526)	(234,139)	26,387
Total other financing sources (uses)	<u>(150,154)</u>	<u>(175,726)</u>	<u>(149,339)</u>	<u>26,387</u>
Excess of revenues and other sources over (under) expenditures and other uses	<u>\$ 194,742</u>	<u>\$ 225,602</u>	<u>\$ 215,114</u>	<u>\$ (10,488)</u>

City of Yreka
 Budgetary Comparison Schedule
 Special Grant Fund
 For The Year Ended June 30, 2009

	Original Budget	Final Budget	Actual Amounts	Favorable (Unfavorable) Variance With Final Budget
REVENUES				
Intergovernmental revenues	\$ 8,091,346	\$ 3,701,816	\$ 3,700,539	\$ (1,277)
Use of money and property	11,100	99,500	99,286	(214)
Grants and donations	38,827	34,150	35,861	1,711
In-kind	79,815	101,424	102,106	681
Total revenues	<u>8,221,088</u>	<u>3,936,890</u>	<u>3,937,791</u>	<u>901</u>
EXPENDITURES				
Current:				
Planning and development	729,402	941,716	934,209	7,507
Parks and recreation	47,966	16,300	12,121	4,179
Public administration	-	8,600	8,672	(72)
Senior nutrition and transportation	313,853	330,669	329,305	1,364
Public transportation	-	-	1,849	(1,849)
Capital outlay	7,115,474	2,598,106	2,579,893	18,213
Total expenditures	<u>8,206,695</u>	<u>3,895,391</u>	<u>3,866,048</u>	<u>29,343</u>
Excess of revenues over (under) expenditures	<u>14,393</u>	<u>41,499</u>	<u>71,743</u>	<u>30,244</u>
OTHER FINANCING (USES)				
Operating transfers in	150,154	182,051	157,188	(24,863)
Operating transfers out	-	-	-	-
Total other financing sources (uses)	<u>150,154</u>	<u>182,051</u>	<u>157,188</u>	<u>(24,863)</u>
Excess of revenues over (under) expenditures and other uses	<u>\$ 164,547</u>	<u>\$ 223,550</u>	<u>\$ 228,931</u>	<u>\$ 5,381</u>

City of Yreka
 Budgetary Comparison Schedule
 Special Revenue Fund
 For The Year Ended June 30, 2009

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Favorable (Unfavorable) Variance With Final Budget</u>
<u>REVENUES</u>				
Assessment	\$ 200,000	\$ 220,000	\$ 213,564	\$ (6,436)
Licenses and permits	45,500	138,460	138,037	(423)
Charges for service	182,500	213,400	213,398	(2)
Use of money and property	10,000	9,000	9,558	558
Other	-	-	-	-
Total revenues	<u>438,000</u>	<u>580,860</u>	<u>574,557</u>	<u>(6,303)</u>
<u>EXPENDITURES</u>				
Current:				
General Government	5,812	5,912	5,601	311
Fire protection	3,146	80,146	79,827	319
Capital outlay	-	-	-	-
Debt service:				
Principal	142,144	142,144	142,491	(347)
Interest	168,661	168,661	168,313	348
Total expenditures	<u>319,763</u>	<u>396,863</u>	<u>396,232</u>	<u>630</u>
Excess of revenues over (under) expenditures	<u>118,237</u>	<u>183,997</u>	<u>178,324</u>	<u>(5,673)</u>
<u>OTHER FINANCING (USES)</u>				
Operating transfers in	-	-	-	-
Operating transfers out	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess of revenues over (under) expenditures and other uses	<u>\$ 118,237</u>	<u>\$ 183,997</u>	<u>\$ 178,324</u>	<u>\$ (5,673)</u>

City of Yreka
 Budgetary Comparison Schedule
 Streets and Roads Fund
 For The Year Ended June 30, 2009

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Favorable (Unfavorable) Variance With Final Budget</u>
<u>REVENUES</u>				
Intergovernmental revenues	\$ 256,602	\$ 419,751	\$ 414,291	\$ (5,460)
Fines and forfeitures	77,000	65,900	66,117	217
Use of money and property	13,000	28,750	27,727	(1,023)
Other revenue	-	2,400	2,308	(92)
Total revenues	<u>346,602</u>	<u>516,801</u>	<u>510,444</u>	<u>(6,357)</u>
<u>EXPENDITURES</u>				
Current:				
Streets and sidewalks	498,272	380,605	344,198	36,407
Public transportation	-	160,649	160,649	-
Capital outlay	256,000	41,400	43,282	(1,882)
Total expenditures	<u>754,272</u>	<u>582,654</u>	<u>548,129</u>	<u>34,525</u>
Excess of revenues over (under) expenditures	<u>(407,670)</u>	<u>(65,853)</u>	<u>(37,685)</u>	<u>28,168</u>
<u>OTHER FINANCING (USES)</u>				
Operating transfers in	-	78,476	76,951	(1,525)
Operating transfers out	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>78,476</u>	<u>76,951</u>	<u>(1,525)</u>
Excess of revenues over (under) expenditures and other uses	<u>\$ (407,670)</u>	<u>\$ 12,623</u>	<u>\$ 39,266</u>	<u>\$ 26,643</u>

SINGLE AUDIT REPORTS AND SCHEDULES

City of Yreka
 Schedule of Expenditures of Federal Awards
 For The Year Ended June 30, 2009

Program Title	Federal CFDA #	Pass Through Grantor #	Grant Award Amount	Federal Expenditures	Loan Disbursements Included In Expenditures
Department of Homeland Security					
Disaster Grants - Public Assistance	97.036	093-86944	\$ 511,348	\$ 14,417	\$ -
U.S. Department of Housing and Urban Development, passed through California Department of Housing and Community Development					
Community Development Block Grant/State's Programs	14.228	05-STBG-1422	1,500,000	277,099	202,810
Community Development Block Grant/State's Programs	14.228	05-EDBG-1968	300,000	22,675	-
Community Development Block Grant/State's Programs	14.228	06-EDBG-2703	500,000	376,160	-
Community Development Block Grant/State's Programs	14.228	08-STBG-4782	500,000	-	-
Community Development Block Grant/State's Programs	14.228	08-EDEF-5874	300,000	-	-
Community Development Block Grant/Technical Assistance Program	14.227	07-PTAE-3136	70,000	54,573	-
Community Development Block Grant/Technical Assistance Program	14.227	07-PTAA-3673	70,000	70,000	-
Community Development Block Grant/Technical Assistance Program	14.227	08-PTAE-5415	70,000	-	-
Total HUD Programs			3,310,000	800,507	202,810
U.S Department of Interior					
Partners in Fish and Wildlife, Fish and Wildlife Services	15.631	-	166,000	51,675	-
U.S Department of Agriculture					
Collaborative Forest Restoration	10.679		81,400	26,469	-
U.S. Department of Health and Human Services passed through Planning and Service Area 2, Area Agency on Aging					
Senior Nutrition	93.044	-	36,236	36,236	-
Senior Nutrition	93.045	-	52,634	52,312	-
Senior Nutrition	93.053	-	13,067	13,067	-
Total Department of Health and Human Services			101,937	101,615	-
Total			\$ 4,170,685	\$ 994,683	\$ 202,810

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.



**REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATERS 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 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, 2009, which collectively comprise the City of Yreka's basic financial statements, and have issued our report thereon dated February 28, 2010. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Yreka's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Yreka's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Yreka's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Yreka's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Yreka's financial statements that is more than inconsequential will not be prevented or detected by the City of Yreka's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Yreka's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Yreka's financial statements are free of material misstatements, we performed tests of it's 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 instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management, City Council, and federal awarding agencies and pass through entities and is not intended to be and should not be used by anyone other than these specified parties.

Aiello, Goodrich & Teuscher

Aiello, Goodrich & Teuscher
An Accountancy Corporation
Mt. Shasta, California
February 28, 2010





**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the City Council
City of Yreka, California

Compliance

We have audited the compliance of the City of Yreka with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. The City of Yreka's major programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Yreka's management. Our responsibility is to express an opinion on the City of Yreka's compliance based on our audit.

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. Our audit does not provide a legal determination on the City of Yreka's compliance with those requirements.

In our opinion, the City of Yreka complied, in all material respects, with requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

Internal Control Over Compliance

The management of the City of Yreka is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Yreka's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the City of Yreka's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, City Council, and federal awarding agencies and pass through agencies and is not intended to be and should not be used by anyone other than these specified parties.

Aiello, Goodrich & Teuscher

Aiello, Goodrich & Teuscher
An Accountancy Corporation
Mt. Shasta, California
February 28, 2010

City of Yreka, California
Schedule Of Findings And Questioned Costs
For The Year Ended June 30, 2009

Summary of Auditors' Results

1. The auditors' report expresses an unqualified opinion on the financial statements on the City of Yreka, California.
2. No significant deficiencies relating to the audit of the financial statements are reported in the *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*.
3. No instances of noncompliance material to the financial statements of City of Yreka, California which would be required to be reported in accordance with Government Auditing Standards, were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal awards programs are reported in the *Report On Compliance With Requirements Applicable to Each Major Program And On Internal Control Over Compliance Required By OMB Circular A-133*.
5. The auditors' report on compliance for the major federal award programs for the City of Yreka, California expresses an unqualified opinion on all major programs.
6. There are no audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this schedule.
7. The program tested as a major program was:
-Community Development Block Grant/State's Programs CFDA # 14.228
8. The threshold used to distinguishing between Type A and B programs was \$300,000.
9. City of Yreka, California did not qualify as a low risk auditee.

Findings-Financial Statement Audit

None.

Findings and Questioned Costs-Major Federal Award Programs Audit

None.

Summary of Prior Audit Findings

2008-1- Subrecipient Monitoring

Condition and Criteria: A subrecipient was not monitored in accordance with the "Compliance Supplement" of OMB Circular A-133.

Effect: Violations of grant agreements may be occurring which could cause questioned costs.

Cause: Procedures are not in place to determine which subrecipients should be monitored.

Auditors' Recommendation: City officials should implement policies and procedures for subrecipient monitoring.

Auditee Response: Yreka City staff meets regularly with subrecipients on program activities. However, there are areas where the City can improve its subrecipient monitoring compliance. Specifically, at award of the contract and monitoring during the contract award period. The Finance Director will:

1. Annually review subrecipient audit reports and prepare a summary report to the City Manager and City Council of subrecipient performance, including but not limited to:
 - (a) audit findings with corrective actions,
 - (b) a statement of overall fiscal health, and
 - (c) subrecipient's history of program history of compliance with federal grant awards.

2. City staff will make site visits to the subrecipients facility, request more detail on subrecipient performance activity monitoring reports by activity, and continue to maintain City staffs' regular contact with the subrecipient(s).

Resolution: Corrected.