

**CITY OF YREKA, CALIFORNIA**

**FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED  
JUNE 30, 2011**

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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, 2011. 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.

### 2010-2011 Financial Highlights:

- In the combined 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 \$39,884,890. Of this amount, \$6,699,306 of unrestricted net assets may be used to meet the government's ongoing obligations to citizens and creditors. One might think of unrestricted net assets as the City's total equity.
- The governmental activities total net assets increased by \$1,684,531 from \$21,121,363 as restated in 2009-10 to \$22,805,894 in 2010-11. The increase is primarily due to a \$1,988,447 net investment increase in capital assets.
- The governmental funds restricted net assets decreased by \$111,362 from \$3,291,605 as restated in 2009-2010 to \$3,180,243 in 2010-11, due to planned capital outlay for property, for an industrial development park.
- The governmental funds unrestricted net assets decreased by \$192,554 from \$2,016,943 as restated in 2009-10 to \$1,824,389 in 2010-11, where the City relied on reserves for planned expenditures and expected shortfalls in operating revenue.
- The business type activities total net assets increased by \$1,189,096 from \$15,889,900 in 2009-10 to \$17,078,996 in 2010-11. The increase in net assets is primarily due to a \$572,883 net investment increase (increase in capital outlay, net of related) to the City's water system. Unrestricted net assets increased \$616,213, primarily due to the City's higher rate structure.

## 2010-11 Capital Projects Highlights:

- The City completed \$4,730,599 of new construction successfully completing the \$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 project included storm drain detention ponds, Greenhorn Park restoration and storm drain infrastructure repairs.
- The City completed \$771,773 of improvements through a multi-grant, multi-year capital project to the City's Greenhorn park, a 455-acre hillside natural park and valley reservoir.
- The City also expended another \$1,031,522 in construction funds for improvements to its water systems as part of the \$11,185,000 water system improvement project.



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

## 2010-11 Economic Development Highlights:

- The City is organizing a specialized matrix-style project management team to streamline and ease processing for the developer and business community. The City held community focus meetings with businesses and developers. The City is now incorporating much of the community feedback and concerns into the new service model.
- The City acquired land in an industrial area using Crandall Trust funds, and the City completed an industrial development strategy plan, made possible from a \$35,000 community development block grant, technical planning study.
- The City, and its subrecipient partner, Siskiyou Economic Development Council, are continuing work on a \$400,000 Environmental Protection Grant Hazardous and Petroleum Waste grant to identify and perform contaminate testing on old lumber mill sites and other industrial or petroleum-related locations. By identifying the level of contamination on these sites, if any, the results can be used to apply for future clean-up grants.
- The City, through a competitive grant award, has been able to work with the Jefferson Economic Development Institute, its subrecipient partner, to provide \$300,000 of small business development training, coaching and counseling.



Ground breaking ceremony for the new Belcampo Butchery, featuring natural beef and other natural meats, December 2011.

## **Overview of the Financial Statements:**

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

### ***Government-wide Financial Statements:***

The government-wide financial statements are designed to provide readers with a broad overview of the City of Yreka's finances, in a manner similar to a private-sector business. The statement of net 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.

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

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

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

The government-wide financial statements can be found on pages 2 through 3 this report.

### ***Fund Financial Statements:***

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

The Balance Sheet and the Reconciliation of Total Governmental Fund Balance to the Statement of Net Assets Governmental Activities Governmental Funds, page 4, guides the reader through the significant reporting differences between these two statements. In 2010-2011, the differences are attributable to the recognition of capital assets and long-term liabilities. The analysis of these two statements together, helps the reader to understand better the long-term impact of the City's capital expenditures and financing decisions.

The reconciliation of the Statement of Revenues, Expenditures and Changes in Funds Balance to the Statement of Activities Governmental Funds, page 6, itemizes the differences between the net change in the governmental fund balance to the change in net assets of governmental activities. In 2010-2011, the differences are attributable to the (1) changes in capital outlay, net of depreciation, (2) changes in long-term debt, net of repayments, (3) changes in compensated absences, and (4) changes in other post employment benefits.

The major funds within governmental funds include the General Operating Fund, Special Revenue Fund, Special Grants Fund, and Streets and Roads Fund. The major governmental funds are presented in (1) the governmental fund balance sheet, (2) the governmental fund statement of revenues, expenditures, and changes in fund balances for the governmental funds, and (3) the reconciliation of the Statement of Revenues, Expenditures and Changes in Funds Balance to the Statement of Activities Governmental Funds, found on pages 4 through-6 of this report.

The City of Yreka adopts an annual appropriated budget for each of its governmental funds. A budgetary comparison statement for the governmental funds demonstrates compliance with the budget, and is located on pages 31 through 34 of this report.

*Proprietary funds.*

The City of Yreka maintains two different types of proprietary funds for its business-type activities. These are also referred to as Enterprise Funds and are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of Yreka uses these funds to account for its water and wastewater operations. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water and wastewater funds, each of which is considered a major fund. The basic proprietary fund financial statements can be found on pages 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 has no fiduciary funds.

*Notes to the financial statements:*

The notes provide additional information that is essential in understanding the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 10 through 30 of this report.

*Other supplemental information:*

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information that can be found on pages 31 through 34 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 \$22,805,894 for governmental activities and \$17,078,996 for business type activities, or \$39,884,890 in total, at the close of 2010-11.

**City of Yreka – Changes in Net Assets**

	Governmental Activities	Business- Type Activities	Total
Total Net Assets for:			
Fiscal Year 2009-10	\$21,121,363	\$15,889,900	\$37,011,263
Fiscal Year 2010-11	22,805,894	17,078,996	39,884,890
Increase or (Decrease in Net Assets)	\$1,684,531	\$1,189,096	\$2,873,627

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**

City of Yreka - Net Assets Governmental Activities

	Governmental Activities		Percentage Change
	2009-10 <sup>(1)</sup>	2010-11	2009-10 as the base year
<b>Assets:</b>			
Current assets and other assets	\$6,533,317	\$6,187,376	-5.3%
Restricted assets	2,166,123	1,969,721	-9.1%
Non current assets	16,669,594	18,539,464	11.2%
<i>Total Assets</i>	<u>25,369,034</u>	<u>26,696,561</u>	5.2%
<b>Liabilities:</b>			
Current liabilities	1,278,202	858,933	-32.8%
Long-term liabilities	2,969,469	3,031,734	2.1%
<i>Total Liabilities</i>	<u>4,247,671</u>	<u>3,890,667</u>	-8.4%
<b>Net assets:</b>			
Invested in capital assets, net of related debt	15,812,815	17,801,262	12.6%
Restricted	3,291,605	3,180,243	-3.4%
Unrestricted	2,016,943	1,824,389	-9.5%
<i>Total Net Assets</i>	<u>\$21,121,363</u>	<u>\$22,805,894</u>	8.0%

(1) as restated for prior period adjustments

Total assets increased by 5.2% or \$1,327,527 from 25,369,034 in 2009-10 to 26,696,561 in 2010-11. The increase is due to capital outlay for improvements to the City's storm drain system. Restricted assets decreased 9.1% or \$196,402 due the purchase of investment property \$184,598.

Total liabilities decreased 8.4% and current liabilities decreased by 32.8%, due to a decrease in deferred revenue on grants, decrease in accrued payroll, and decrease in the current portion of compensated absences.

Net assets, increased 8.0%, and investment in capital assets, net of related debt increase 15%.

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**

City of Yreka - Net Assets Business-Type Activities

	Business-Type Activities		Percentage Change
	2009-10	2010-11	2009-10 as the base year
<b>Assets:</b>			
Current assets and other assets	\$4,733,445	\$5,542,860	17.1%
Restricted assets	100,000	100,000	0.0%
Non current assets	13,214,731	14,429,362	9.2%
<i>Total Assets</i>	18,048,176	20,072,222	11.2%
<b>Liabilities:</b>			
Current liabilities	541,783	668,980	23.5%
Long-term liabilities	1,616,493	2,324,246	43.8%
<i>Total Liabilities</i>	2,158,276	2,993,226	38.7%
<b>Net assets:</b>			
Invested in capital assets, net of related debt	11,531,196	12,104,079	5.0%
Restricted	100,000	100,000	0.0%
Unrestricted	4,258,704	4,874,917	14.5%
<i>Total Net Assets</i>	\$15,889,900	\$17,078,996	7.5%

Total assets increased 11.2% from \$18,048,176 in 2009-10 to \$20,072,222 in 2010-11. Cash balances increased 17.1%, due to higher utility rates, and non current assets increased 9.2% due to capital outlay to the water system.

Total liabilities increased 38.7%, and long-term liabilities increased 43.8% for new debt, related to the water system improvement project.

Correspondingly, overall, net assets increased unrestricted net assets increased by 7.5%.



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

## Comparison of Government Wide General Revenues:

General revenues:	2009-10			2010-11		
	Governmental activities	Business-type activities	Total	Governmental activities	Business-type activities	Total
Taxes:						
Property	\$973,768	\$0	\$973,768	\$974,932	\$0	\$974,932
Sales and use	1,694,881	0	1,694,881	1,631,864	0	1,631,864
Other	1,393,182	0	1,393,182	1,385,289	0	1,385,289
Investment earnings	47,928	24,736	72,664	58,927	20,686	79,613
Other	302,983	0	302,983	0	0	0
Loss on disposal of capital assets	(774,763)	0	(774,763)	0	0	0
Transfers	(433,519)	433,519	0	7,218	(7,218)	0
Total general revenues and transfers	\$3,204,460	\$458,255	\$3,662,715	\$4,058,230	\$13,468	\$4,071,698

Total government wide general revenues increased \$408,983 from \$3,662,715 in 2009-10, to \$4,071,698 in 2010-11. In 2010-11, sales taxes decreased a modest \$63,017, when compared the previous two years of decline in sales tax revenue. Other revenue decreased \$302,986 from 2009-10, and represented a one-time insurance premium dividend of \$300,616 from the City's insurance, Small Cities Organized Risk Effort joint power authority, or SCORE. The loss on sale of capital assets of \$774,763 in 2009-10, related to the sale of land and buildings to the Siskiyou Family YMCA. Previously the YMCA had been leasing the facilities from the City.



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

## Comparison of Government Wide Program Revenues:

<i>Program Revenue</i>	2009-10	2010-11	Year over Year Change
Governmental activities:			
General government	\$311,378	\$384,435	\$73,057
Planning and development	722,360	663,867	(58,493)
Parks and recreation	201,698	86,991	(114,707)
Public works administration	-	9,160	9,160
Public works maintenance	155	50	(105)
Police protection	200,436	186,646	(13,790)
Fire protection	270,984	249,678	(21,306)
Senior nutrition and transportation	-	-	-
Streets and sidewalks	2,167,605	2,197,639	30,034
Public transportation	157,093	166,769	9,676
<i>Total governmental activities</i>	<u>4,031,709</u>	<u>3,945,235</u>	<u>(86,474)</u>
Business-type activities:			
Sewer	1,850,410	2,235,168	384,758
Water	1,949,034	2,259,650	310,616
Sanitary Landfill	-	-	-
<i>Total business-type activities</i>	<u>3,799,444</u>	<u>4,494,818</u>	<u>695,374</u>
<b>Total primary government</b>	<u>\$7,831,153</u>	<u>\$8,440,053</u>	<u>\$608,900</u>

Government wide program revenues increased \$608,900.

Governmental activities program revenue decreased \$86,474 in 2010-11.

- The \$73,057 increase in general government is primarily due to a \$76,117 increase in special development fee revenue in 2010-11 from 2009-10.
- The net decrease of \$58,493 in planning and development, is due to a \$79,635 increase from development and building fees, offset by \$138,128 decrease in one-time community development grant activities.
- The decrease in revenue for parks and recreation, \$114,707 is primarily due to the completion of projects funded with grant funds in the 2009-10.

Business activities program revenue increased \$695,374 in 2010-11, primarily due to a scheduled increase in the utility rates to cover operating costs, debt servicing, capital outlay and accumulation of reserves.

## Comparison of Government Wide Program Expenses:

<i>Program Expenses</i>	Year over Year		
	2009-10	2010-11	Change
Governmental activities:			
General government	\$854,663	\$765,325	(\$89,338)
Planning and development	898,153	884,753	(13,400)
Parks and recreation	575,033	586,966	11,933
Public works administration	80,468	74,600	(5,868)
Public works maintenance	160,032	141,902	(18,130)
Police protection	2,251,182	2,262,623	11,441
Fire protection	364,775	424,353	59,578
Senior nutrition and transportation	-	-	-
Streets and sidewalks	857,894	1,011,643	153,749
Public transportation	157,093	166,769	9,676
<i>Total governmental activities</i>	<u>6,199,293</u>	<u>6,318,934</u>	<u>119,641</u>
Business-type activities:			
Sewer	1,514,751	1,698,453	183,702
Water	1,412,436	1,620,737	208,301
Sanitary Landfill	-	-	-
<i>Total business-type activities</i>	<u>2,927,187</u>	<u>3,319,190</u>	<u>392,003</u>
<b>Total primary government</b>	<u>\$9,126,480</u>	<u>\$9,638,124</u>	<u>\$511,644</u>

Government wide functional expenses increase \$511,644 from \$9,126,480 in 2009-10 to \$9,638,124 in 2010-11.

Functional expenses for governmental activities increased \$119,641 from \$6,199,293 in 2009-10 to \$6,318,934 in 2010-11.

- General governmental expenses decreased \$89,338.
- Fire protection services increased \$59,578 in 2010-11, in part due to the first of two equal installment payments of \$113,689 for the fabrication of a specialized brush fire response truck.
- Streets and sidewalks expenditures increased \$153,749 due to the increase in capital projects spending primarily attributable to one time grants.

Functional expenses for business-type activities increased \$392,003 from \$2,927,187 in 2009-10 to \$3,319,190 in 2010-11. The operating cost increases in the water and sewer funds represents a \$121,873 increase in cost of depreciation, a \$47,977 increase in the cost of utilities, a \$77,918 increase for urban water management plans and water permitting, a \$35,186 for other post employer benefits, and \$109,049 other system-wide increases.

## **Financial Analysis of the City's Funds:**

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

### ***Governmental funds:***

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

The general fund is the chief operating fund of the City of Yreka, and at the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$7,495,814. The following describes the fund balances designations.

***Nonspendable:*** The nonspendable governmental fund balances for the City total \$681,110 and represents medium and long term loans to residents and businesses arising from housing and economic development grant lending programs.

***Restricted:*** The restricted governmental fund balances for the City total \$3,180,243. The General Fund balance reserved for capital outlays of \$1,971,882 that represents funds in the Crandall account and \$116,576 of project specified donated funds. The Crandall account is an account where the City has expenditure control, but is restricted to expend only for special capital outlays by a will. Restricted balances of \$175,973 in special grant funds includes program income generated from the City's residential and business lending, that is restricted by the grantor in re-use. The special revenue funds have a restricted fund balance of \$333,522 of which \$301,855 is a voter approved parcel tax assessment for fire protective services, and \$31,667 are reserved for planned improvements arising from developer fees. Street and road restricted balances of \$582,290 are as result of statewide fuel (highway users tax accounts, or HUTA) and restricted sales taxes (local transportation funds), that are restricted to transit, road and street construction, maintenance and improvements.

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

***Assigned:*** The restricted fund balances for the City are \$1,500,420. The City has assigned these balances to cover capital improvements, planning and development, grant contingencies, general liability reserves, and project specified donated funds.

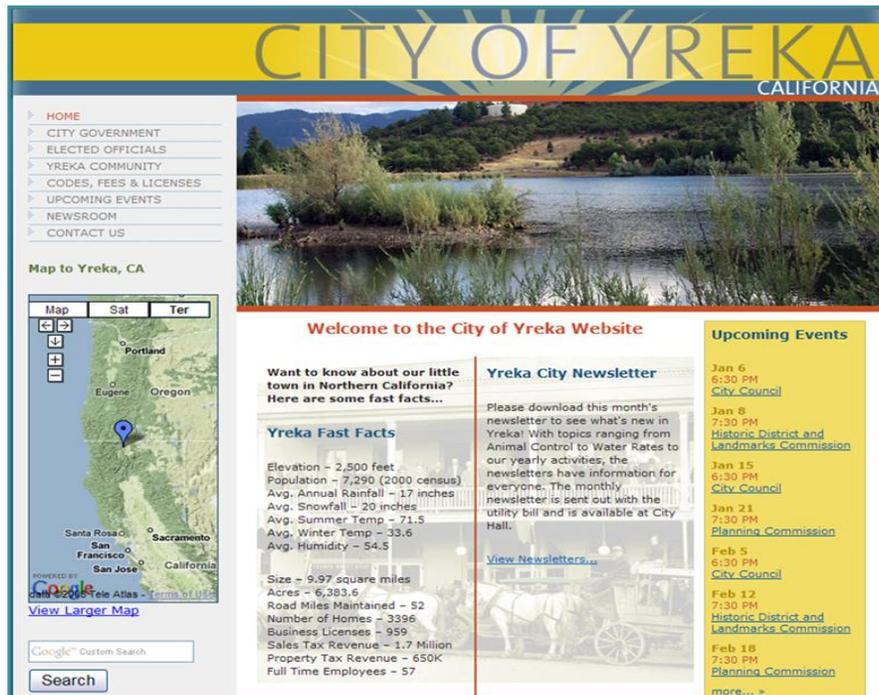
***Unassigned:*** The City has \$2,134,041 of unassigned governmental fund balances that are available to expend.

**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 \$17,078,996, and unrestricted net assets were \$4,874,917. In the statement on Cash Flows, page 9, the net increase (decrease) in cash shows an increase of \$727,045. The wastewater and water enterprise fund increased \$465,081, and \$261,964 respectively, in available cash due. Planned capital outlay expenditures in the water fund of \$1,877,268, were offset by new debt financing construction draws of \$708,790. The City remains on track with its revenue increases, operating costs controls, and required capital outlay as identified from the rate analysis study.

**Agency funds:**

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



## ***General Fund Budgetary Highlights:***

Below is a table comparing the differences between the original budget and the final amended budget for revenue and expenses in the General Fund, Special Grant Fund, Special Revenue and Streets and Roads Fund. More line detail is available on pages 31 through 34 of this report.

### **Schedule of Revenues and Expenditures – Budget to Actual 2010-2011**

<b>General Fund</b>	<b>Original</b>	<b>Final</b>	<b>Actual</b>
Revenue	\$4,438,479	\$4,548,979	\$4,540,709
Expense	5,318,392	4,874,171	4,793,531
Excess (deficiency) of revenue over (under) expenses	(879,913)	(325,192)	(252,822)
Other Financing Sources and (Uses)	(147,181)	(110,681)	(111,184)
Net Change in Fund Balance	(\$1,027,094)	(\$435,873)	(\$364,006)
<b>Special Grants</b>	<b>Original</b>	<b>Final</b>	<b>Actual</b>
Revenue	\$5,023,488	\$5,036,488	\$2,375,618
Expense	5,209,859	5,222,859	2,414,511
Excess (deficiency) of revenue over (under) expenses	(186,371)	(186,371)	(38,893)
Other Financing Sources and (Uses)	196,700	159,200	157,582
Net Change in Fund Balance	\$10,329	(\$27,171)	\$118,689
<b>Special Revenue</b>	<b>Original</b>	<b>Final</b>	<b>Actual</b>
Revenue	\$466,000	\$466,000	\$533,101
Expense	319,860	433,860	432,370
Excess (deficiency) of revenue over (under) expenses	146,140	32,140	100,731
Other Financing Sources and (Uses)	(80,000)	(65,000)	(64,271)
Net Change in Fund Balance	\$66,140	(\$32,860)	\$36,460
<b>Streets and Roads</b>	<b>Original</b>	<b>Final</b>	<b>Actual</b>
Revenue	\$672,500	\$672,500	\$546,819
Expense	918,258	918,258	688,251
Excess (deficiency) of revenue over (under) expenses	(245,758)	(245,758)	(141,432)
Other Financing Sources and (Uses)	39,231	25,231	25,090
Net Change in Fund Balance	(\$206,527)	(\$220,527)	(\$116,342)

### **General Operating Fund:**

- Total revenues were \$4,438,479 in the original budget, \$4,548,979 in the final budget and \$4,540,709 for actuals. The revenue increase of \$110,500 in the final budget reflects an increase in building permits and plan check fees and property tax revenue over budget. The City however, still anticipates lower property valuations.
- Total expenses were \$5,318,392 in the original budget, \$4,874,171 in the final budget and \$4,793,531 for actuals. The final budget expenses were decreased by \$444,221 from the original budget, primarily due to \$450,000 reduction in planned spending for capital outlay for a historic downtown pedestrian breezeway and parking lot project.

- The change in the general fund balance was (\$1,027,094) in the original budget, (\$435,873) in the final budget and (\$364,006) for actuals.

**Special Grant Fund:**

- Grant revenue was \$5,023,488 in the original budget, \$5,036,488 in the final budget and actual revenue was \$2,375,618. The original budget showed funding for all grants projects that might have been completed in the fiscal year 2010-11. The decrease in actual project funding reflects delays in both construction work in process and implementation.
- Expenditure for community development was \$631,200 in the original budget, \$631,200 in the final budget, and \$382,887 for actuals. The decrease was due to a delay in selecting a qualified subrecipient to administer and start-up in Yreka, an office to conduct small business or microenterprise training and development classes for local eligible businesses and employees.
- Capital expenditures for street rehabilitation, storm drain projects, safe schools routes, and greenway and park improvements were \$4,495,909 in the original budget, \$4,495,909 in the final budget and \$2,011,640 for actuals. Yreka experienced a high level of rain in the spring and early summer, that put all but a few of the construction projects on hold, due to the unfavorable construction conditions.

**Special Revenue Fund:**

- Revenues were \$466,000 in the original budget, \$466,000 in the final budget and \$533,101 for actuals. The primary favorable variance of \$67,101 between the original budget and the final budget is due to an increase of \$61,977 in the collection of development impact fees.
- Expenses were \$319,860 in the original budget, \$433,860 in the final budget and \$432,370 for actuals.
- Capital outlay increased \$114,000, due an installment payment made for the fabrication of brush fire response truck \$113,269.

**Streets and Roads Fund:**

- Revenues were \$672,500 in the original budget, \$672,500 in the final budget and \$546,819 for actuals. The decrease in revenue, was due to work being completed in 2009-2010, that had been budgeted for 2010-2011. Prop. 1B, a state voter measure resulted in a \$400,000 one-time allocation to the City for road maintenance and repairs.
- Expenditures for street and sidewalk maintenance was lower than expected by \$135,707, due to less engineering and maintenance work being performed by City staff.
- Expenditures for capital outlay were less than budgeted, again primarily due to work being completed in 2009-2010, that had been budgeted for 2010-2011.

## Capital Assets and Debt Administration

### Changes in Capital Assets

	Balance				Balance
	June 30, 2010	Additions	Retirements	Transfers	June 30, 2011
<b>Governmental Activities:</b>					
<i>Capital assets not being depreciated:</i>					
Land	\$1,661,821	\$256,205	\$ -	\$0	\$1,918,026
Construction in Progress	4,807,988	2,280,412	-	(5,917,792)	1,170,608
<i>Capital assets being depreciated:</i>					
Building and Structures	3,349,264	-	-	771,773	4,121,037
Machinery and Equipment	3,486,894	71,887	-	-	3,558,781
Infrastructure	23,779,146	-	-	5,146,019	28,925,165
<b>Governmental Activities Capital Assets</b>	<b>37,085,113</b>	<b>2,608,504</b>	<b>-</b>	<b>-</b>	<b>39,693,617</b>
Less Accumulated Depreciation	(20,415,519)	(738,634)	-	-	(21,154,153)
<b>Governmental Activities Capital Assets, net</b>	<b>\$16,669,594</b>	<b>\$1,869,870</b>	<b>\$0</b>	<b>\$0</b>	<b>\$18,539,464</b>
<b>Business-type Activities:</b>					
<i>Capital assets not being depreciated:</i>					
Land	\$253,172	\$0	\$0	\$0	\$253,172
Construction in Progress	1,064,347	1,786,234	-	(165,821)	2,684,760
<i>Capital assets being depreciated:</i>					
Utility Plant	16,077,388	-	-	-	16,077,388
Building and Structures	6,994,027	-	-	165,821	7,159,848
Machinery and Equipment	4,503,190	91,034	-	-	4,594,224
<b>Total Business Activities Capital Assets</b>	<b>28,892,124</b>	<b>1,877,268</b>	<b>-</b>	<b>-</b>	<b>30,769,392</b>
Less Accumulated Depreciation	(15,677,393)	(662,637)	-	-	(16,340,030)
<b>Business-type Capital Assets, net</b>	<b>13,214,731</b>	<b>1,214,631</b>	<b>-</b>	<b>-</b>	<b>14,429,362</b>
<b>Total Capital Assets, net</b>	<b>\$29,884,325</b>	<b>\$3,084,501</b>	<b>\$0</b>	<b>\$0</b>	<b>\$32,968,826</b>

The City of Yreka's investment in capital assets for its governmental and business type activities as of June 30, 2011 amounts to \$32,968,826 (net of accumulated depreciation). Non-depreciable capital assets are land, land right of ways, used primarily for streets and construction that is in progress. Depreciable assets include buildings and structures, equipment and vehicles. Capital assets for infrastructure include streets and sidewalks, curbs and gutters, drainage systems, bridges, and lighting systems.

The City has completed numerous master plan studies and taken inventory of its assets. In these studies, engineers have identified several capital improvement projects needed within the next five to ten years for the City's infrastructure assets of streets, storm drainage, water and sewer utilities. To that end, the City remains focused in its efforts to deal with ways to fund infrastructure improvements.

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

The water and wastewater systems are safe and reliable, and the City's planned improvements to these systems using grant and loan resources, are possible due to the

City's ability to demonstrate to its creditors, that the City can debt service these obligations, through implementation of the City's five year rate utility rate increase plan.

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

#### Governmental Activities

- Projects under construction or CIP increased \$2,280,412, while completed CIP projects totaled \$5,917,792 for a balance of \$1,170,608 in 2010-11. Those construction projects include street paving projects, storm drainage system, and park greenways. The City also made an installment for the fabrication of brush fire response truck \$113,269.
- Completed capital projects of \$5,917,792 include:
  - chip seal overlays citywide totaling \$415,419, using one-time Proposition 1B funding for \$400,000, and;
  - completed \$4,730,600 in new construction and improvements to the City's storm drainage system. This project was made possible by the City being awarded a competitive \$5,000,000 storm water attenuation grant from the state, and;
  - completed \$771,773 of improvements through a multi-grant, multi-year capital project to the City's Greenhorn park, a 455-acre hillside natural park and valley reservoir.
- The City purchased three new police patrol cars \$71,887.
- The City purchase land from restricted Crandall trust funds for the eventual creation of an industrial business development park for \$175,091. The City also had a unique opportunity to acquired land to square or even out the downtown historic Miner Street park for \$81,114.

#### Business Type Activities

- Projects under construction or CIP increased \$1,786,234, while completed CIP projects totaled \$165,821 for a cumulative CIP balance of \$2,684,760 in 2010-11. Those construction projects include major improvements to the City's water pumping, treatment and storage facilities.
- Completed capital projects of \$165,821 included the conversion to sodium hypochlorite granules from chlorine gas water for water purification treatment.
- Purchases of field service equipment totaled \$91,034 included radio read meter and meters heads. The City is in a multi-year meter change out program to replace older meters as needed and install radio read meter heads on all of the City's meters.

**Changes in Long Term Debt:**

**Changes in Long Term Debt**

	Balance June 30, 2010	New Issues	Principal Payments	Balance June 30, 2011
<b>Governmental Activities:</b>				
Loans Payable - Banks and Others	\$856,779	\$0	\$118,577	\$738,202
Loans Payable - Governmental Agencies	2,223,116		55,100	2,168,016
Total Governmental Activities	3,079,895	0	173,677	2,906,218
<b>Business-type Activities:</b>				
Loans Payable - Banks and Others	0	0	0	0
Loans Payable - Governmental Agencies	838,535	0	55,042	783,493
Certificates of participation - USDA Rural Development	845,000	708,790	12,000	1,541,790
Total Business Activities	1,683,535	708,790	67,042	2,325,283
Total Outstanding Long Term Debt	\$4,763,430	\$708,790	\$240,719	\$5,231,501
Less Portion Classified as Current Debt				(250,790)
				<u>\$4,980,711</u>



North Street Water Main replacement, August 29, 2011

At the end of the current fiscal year, the City of Yreka had total debt outstanding of \$5,231,501 and long term outstanding debt of \$4,980,711. The City of Yreka's long term debt position increased by \$468,071 during the current fiscal year 2010-11, due to \$708,790 of construction loan draws for the City's water system improvement project. Offsetting the increase were \$240,219 of scheduled principal repayment on borrowings.

Detailed information on lenders, rates and maturities for long-term debt can be found on pages 22 through 24 of this report.

## Next Year's Budgets and Rates:

### Budget Highlights for 2011-2012:

Below are highlights from the City's 2011-12 original budget. The original budget approved by the City Council on June 16, 2011, is located on the City's website <http://ci.yreka.ca.us/city/administration/finance/budgets>.

#### City of Yreka 2011-12 Original Budget

	Budgeted Revenue	Budgeted Expense	Excess of Revenue over Expense
Total General Fund	\$4,759,100	\$5,032,570	(\$273,470)
Total Special Rev. Fund	475,650	520,173	(\$44,523)
Total Streets and Roads	764,339	1,028,303	(\$263,964)
Special Grant Fund	2,556,500	2,782,000	(\$225,500)
<b>Total Governmental Activity Fund</b>	<b>8,555,589</b>	<b>9,363,046</b>	<b>(807,457)</b>
Sewer Fund	2,220,000	1,938,833	281,167
Water Fund	7,528,776	7,107,621	421,155
<b>Total Business Type Funds</b>	<b>9,748,776</b>	<b>9,046,454</b>	<b>702,322</b>
<b>All Funds Combined</b>	<b>\$18,304,365</b>	<b>\$18,409,500</b>	<b>(\$105,135)</b>

For Governmental Activities, the City projects an overall \$807,457 decrease in fund balances during fiscal year 2011-12. The anticipated gap is \$273,470 in the General Fund, \$44,523 in Special Revenue Funds, \$263,964 in Streets and Roads funds, and 225,500 in Special Grant Funds. The general fund gap is due to (1) \$135,277 for capital outlay (source of funds were from the one time insurance premium dividend received in 2009-10) and (2) an anticipated operating fund deficit of \$138,193, where recurring costs are expected to exceed current year revenue. In September of 2012, the general fund operating budget gap was reduced to \$38,193 as the State restored \$100,000 of funding for Citizens Options for Policing Communities grant, (or COPS). Combined projects both the Streets and Roads and Special Grant Funds for construction projects that include street paving and storm drain remediation, were budgeted to utilize established reserves. Expenditures to improve the City's infrastructure of roads and storm drain systems, replace equipment and make repairs to the City's buildings, community facilities and parks, are needed and the City is taking advantage of the favorable bid and construction cost environment.

For Business Activities, the City anticipates \$702,322, excess of revenue over expenses.

#### 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. In 2011-2012, the City plans to spend \$2,782,000 for special grant projects.

General Fund Revenue Projections:

**General Operating Fund - Fiscal Year Main Stream Revenue Comparison**

	Actual 07-08	Actual 08-09	Actual 09-10	Actual 10-11	Adopted Budget 11-12
Property Tax (secured & unsec. roll)	\$915,035	\$941,360	\$957,632	\$958,222	\$931,500
Transient Lodging	592,729	626,360	575,912	567,651	600,000
Sales Tax	1,709,256	1,462,862	1,270,793	1,250,339	1,200,000
Franchises	234,541	242,229	249,214	239,658	245,000
Business Licenses	80,060	79,378	72,515	70,961	73,350
Animal Licenses	10,842	21,488	29,361	42,065	35,000
Building Permits	104,410	77,079	41,466	141,349	80,000
Motor Vehicle License Fees (1)	542,789	570,778	569,057	577,980	555,000
Triple Flip In Lieu Sales Tax (2)	597,296	501,647	424,088	381,525	400,000
Administrative Cost Recovery (ICA)	241,775	312,680	318,831	370,959	374,500
Operating Grants	130,678	127,590	123,791	132,996	24,000
Other Revenues	215,313	282,175	98,736	96,466	293,667
<b>Subtotal General Operating Fund Mainstream Revenue</b>	<b>\$5,374,724</b>	<b>\$5,245,626</b>	<b>\$4,731,396</b>	<b>\$4,830,171</b>	<b>\$4,812,017</b>

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

Enterprise Fund Revenue:

On October 1, 2011, the City entered into the fourth year of a five-year water and wastewater rate increase. The first utility rates increase under this program went into effect October 1, 2008. The final year of the rates increases, should bring the water and wastewater enterprise funds to sustainable funding level that allows for system maintenance, capital outlay, reserves, and debt servicing.

In the fall of 2012, the City expects to complete its \$11,185,000 water system improvement project \$3,249,000 grant and \$6,810,000 loan project, where the City has expended already \$1,126,000 in matching funds. In December of 2011, the City was invited to by the USDA Rural Development to submit a full application requesting over five million dollar in loan funds for remediation and improvements at the City's wastewater treatment plant and for the repair and replacement of many of the City's aging sewer lines.

Expenditure Control:

The City is 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. Full time employee (FTE) count is currently at 49, down from 56 FTE in 2008-09, or a 12.5% reduction in staffing. The balancing of services with resources continues to challenge most notably the Public Safety and Public Works departments.

Horizon Issues of concern to the City for 2011-12:

1. Continued decline in core general fund revenue of sales, property and transient occupancy taxes, that mirrors the overall economic downturn for the state.
2. The City will continue to exercise expenditure controls, as well as the evaluation of staffing levels and vacancies for restructuring opportunities.
3. The City continues to seek funding sources for infrastructure, particularly roads, drainage, and maintenance of improved and expanded parks and greenways.
4. 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 from this crisis continues to be deferrals and shifts of revenue streams, along with proposed revenue cuts.



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

**Requests for Information:**

This financial report is designed to provide to all interested readers a general overview of the City of Yreka's finances. Questions concerning any of the information provided in this report, or requests for additional financial information, can be directed to the City's Finance Director, 701 Fourth Street, Yreka, CA 96097, website [www.ci.yreka.ca.us](http://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, 2011, 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 opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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, 2011, 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 January 25, 2012 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.

Accounting principles generally accepted in the United State of America requires that the Management's Discussion and Analysis and Budgetary Comparison information on pages I through XXIII, and pages 31-34 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historic context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with the management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Yreka, California's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.



Aiello, Goodrich & Teuscher  
An Accountancy Corporation  
Mt. Shasta, California  
January 25, 2012

## **BASIC FINANCIAL STATEMENTS**

City of Yreka  
Statement of Net Assets  
June 30, 2011

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
<b><u>ASSETS</u></b>			
Current assets:			
Cash and investments	\$ 4,267,673	\$ 4,427,393	\$ 8,695,066
Receivables (net of allowances, where applicable)			
Trade accounts	-	449,610	449,610
Loans	681,110	-	681,110
Intergovernmental	1,017,144	418,236	1,435,380
Accounts	63,471	-	63,471
Taxes	398,718	-	398,718
Interest	6,881	-	6,881
Internal balances	<u>(247,621)</u>	<u>247,621</u>	<u>-</u>
Total current assets	<u>6,187,376</u>	<u>5,542,860</u>	<u>11,730,236</u>
Restricted assets:			
Cash and investments	<u>1,969,721</u>	<u>100,000</u>	<u>2,069,721</u>
Capital assets:			
Non-depreciable	3,088,634	2,937,932	6,026,566
Depreciable, net	<u>15,450,830</u>	<u>11,491,430</u>	<u>26,942,260</u>
Total capital assets	<u>18,539,464</u>	<u>14,429,362</u>	<u>32,968,826</u>
 Total assets	 <u>26,696,561</u>	 <u>20,072,222</u>	 <u>46,768,783</u>
<b><u>LIABILITIES</u></b>			
Current liabilities:			
Accounts payable	471,802	452,869	924,671
Construction retention payable	43,663	136,360	180,023
Payroll payable	120,694	-	120,694
Deferred revenue	25,124	-	25,124
Current portion of long-term debt	181,317	69,473	250,790
Current portion of compensated absences	16,333	10,278	26,611
Total current liabilities	<u>858,933</u>	<u>668,980</u>	<u>1,527,913</u>
Long-term liabilities:			
Long-term debt, net of current portion	2,724,901	2,255,810	4,980,711
Compensated absences	213,018	33,250	246,268
OPEB Liability	93,815	35,186	129,001
Total long-term liabilities	<u>3,031,734</u>	<u>2,324,246</u>	<u>5,355,980</u>
 Total liabilities	 <u>3,890,667</u>	 <u>2,993,226</u>	 <u>6,883,893</u>
<b><u>NET ASSETS</u></b>			
Invested in capital assets, net of related debt	17,801,262	12,104,079	29,905,341
Restricted, expendable	3,180,243	100,000	3,280,243
Unrestricted	<u>1,824,389</u>	<u>4,874,917</u>	<u>6,699,306</u>
 Total net assets	 <u>\$22,805,894</u>	 <u>\$17,078,996</u>	 <u>\$39,884,890</u>

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

City of Yreka  
Statement of Activities  
Year Ended June 30, 2011

	Program Revenues			Net (Expense) Revenues and Changes in Net Assets			
	Expense	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- Type Activities	Total
Governmental activities:							
General government	\$ 765,325	\$ 384,435	\$ -	\$ -	\$ (380,890)	\$ -	\$ (380,890)
Planning and development	884,753	153,998	509,869	-	(220,886)	-	(220,886)
Parks and recreation	586,966	30,544	3,457	52,990	(499,975)	-	(499,975)
Public works administration	74,600	9,160	-	-	(65,440)	-	(65,440)
Public works maintenance	141,902	50	-	-	(141,852)	-	(141,852)
Police protection	2,262,623	52,836	133,810	-	(2,075,977)	-	(2,075,977)
Fire protection	424,353	224,454	25,224	-	(174,675)	-	(174,675)
Streets and sidewalks	1,011,643	44,809	199,987	1,952,843	1,185,996	-	1,185,996
Public transportation	166,769	-	166,769	-	-	-	-
Total governmental activities	<u>6,318,934</u>	<u>900,286</u>	<u>1,039,116</u>	<u>2,005,833</u>	<u>(2,373,699)</u>	<u>-</u>	<u>(2,373,699)</u>
Business-type activities:							
Sewer	1,698,453	2,164,952	-	70,216	-	536,715	536,715
Water	1,620,737	2,259,650	-	-	-	638,913	638,913
Total business-type activities	<u>3,319,190</u>	<u>4,424,602</u>	<u>-</u>	<u>70,216</u>	<u>-</u>	<u>1,175,628</u>	<u>1,175,628</u>
Total primary government	<u>\$ 9,638,124</u>	<u>\$ 5,324,888</u>	<u>\$ 1,039,116</u>	<u>\$ 2,076,049</u>	<u>(2,373,699)</u>	<u>1,175,628</u>	<u>(1,198,071)</u>
General revenues:							
Taxes:							
Property				974,932	-	974,932	
Sales and use				1,631,864	-	1,631,864	
Other (including motor vehicle license fees)				1,385,289	-	1,385,289	
Investment earnings				58,927	20,686	79,613	
Transfers				7,218	(7,218)	-	
Total general revenues and transfers				<u>4,058,230</u>	<u>13,468</u>	<u>4,071,698</u>	
Change in net assets				1,684,531	1,189,096	2,873,627	
Net assets, beginning as previously reported				20,516,771	15,889,900	36,406,671	
Prior period adjustment				604,592	-	604,592	
Net assets, beginning				<u>21,121,363</u>	<u>15,889,900</u>	<u>37,011,263</u>	
Net assets, ending				<u>\$ 22,805,894</u>	<u>\$ 17,078,996</u>	<u>\$ 39,884,890</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, 2011

	General Fund	Special Grant Fund	Special Revenue Fund	Streets and Roads Fund	Total Governmental Funds
<b>ASSETS</b>					
Cash and investments	\$4,915,647	\$ -	\$ 646,800	\$ 674,947	\$ 6,237,394
Receivables (net of allowance for doubtful accounts, where applicable):					
Loans, net of loan loss allowances	-	681,110	-	-	681,110
Intergovernmental	34,917	979,049	-	3,178	1,017,144
Accounts	15,174	2,471	45,826	-	63,471
Taxes	398,718	-	-	-	398,718
Interest	5,297	-	703	881	6,881
Due from other funds	619,049	11,000	-	-	630,049
Total assets	\$5,988,802	\$ 1,673,630	\$ 693,329	\$ 679,006	\$ 9,034,767
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Accounts payable	\$ 39,275	\$ 327,482	\$ 27,360	\$ 77,685	\$ 471,802
Construction retention payable	-	43,663	-	-	43,663
Payroll payable	120,694	-	-	-	120,694
Deferred revenue	-	25,124	-	-	25,124
Due to other funds	-	420,278	438,361	19,031	877,670
Total liabilities	159,969	816,547	465,721	96,716	1,538,953
Fund balances:					
Nonspendable:					
Noncurrent loans receivables	-	681,110	-	-	681,110
Total nonspendable	-	681,110	-	-	681,110
Restricted:					
Fire protection, voter tax assessment measure	-	-	301,855	-	301,855
Capital Improvements, impact fee reserves	-	-	31,667	-	31,667
Revolving loan funds	-	175,973	-	-	175,973
Streets and sidewalks	-	-	-	582,290	582,290
Donor specified for community services and activities	34,297	-	-	-	34,297
Donor specified for volunteer fire department	82,279	-	-	-	82,279
Capital outlays, Crandall Trust Funds	1,971,882	-	-	-	1,971,882
Total restricted	2,088,458	175,973	333,522	582,290	3,180,243
Assigned:					
Capital improvements	264,580	-	-	-	264,580
Planning and development	220,054	-	-	-	220,054
Grant contingencies, and general liability reserves	1,015,786	-	-	-	1,015,786
Total assigned	1,500,420	-	-	-	1,500,420
Unassigned:					
	2,239,955	-	(105,914)	-	2,134,041
Total fund balance	5,828,833	857,083	227,608	582,290	7,495,814
Total liabilities and fund balance	\$5,988,802	\$ 1,673,630	\$ 693,329	\$ 679,006	\$ 9,034,767
Total governmental fund balance, as above					\$ 7,495,814
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					18,539,464
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds					(2,906,218)
Compensated absences are not due and payable in the current period and therefore are not reported on the balance sheet					(229,351)
OPEB liabilities are not due and payable in the current period and therefore are not reported on the balance sheet					(93,815)
Net assets of governmental activities					\$ 22,805,894

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, 2011

	General Fund	Special Grant Fund	Special Revenue Fund	Streets and Roads Fund	Total Governmental Funds
<b>REVENUES</b>					
Property taxes	\$ 974,932	\$ -	\$ -	\$ -	\$ 974,932
Sales and use taxes	1,631,864	-	-	-	1,631,864
Transient occupancy taxes	567,651	-	-	-	567,651
Assessment	-	-	222,522	-	222,522
Franchise and fees	239,658	-	-	-	239,658
Licenses and permits	218,327	-	93,477	-	311,804
Intergovernmental revenues	710,976	2,358,562	-	498,574	3,568,112
Charges for services	91,628	-	214,875	-	306,503
Fines, forfeitures and penalties	8,394	-	-	39,978	48,372
Use of money and property	63,068	14,449	2,227	3,699	83,443
Grants and donations	27,295	-	-	-	27,295
In-kind	-	2,607	-	-	2,607
Other	6,916	-	-	4,568	11,484
Total revenues	<u>4,540,709</u>	<u>2,375,618</u>	<u>533,101</u>	<u>546,819</u>	<u>7,996,247</u>
<b>EXPENDITURES</b>					
Current:					
City council, administrator, and clerk	231,109	-	-	-	231,109
General government	351,110	-	5,032	-	356,142
Planning and development	482,498	382,887	-	-	865,385
Parks and recreation	525,218	1,035	-	-	526,253
Public works administration	44,042	-	-	23,101	67,143
Public works maintenance	124,239	18,949	-	-	143,188
Police protection	2,236,329	-	-	-	2,236,329
Fire protection	309,819	-	3,265	-	313,084
Streets and sidewalks	144,115	-	-	342,878	486,993
Public transportation	-	-	-	166,769	166,769
Capital outlay	328,092	2,011,640	113,269	155,503	2,608,504
Debt service:					
Principal	16,960	-	156,716	-	173,676
Interest	-	-	154,088	-	154,088
Total expenditures	<u>4,793,531</u>	<u>2,414,511</u>	<u>432,370</u>	<u>688,251</u>	<u>8,328,663</u>
Excess of revenues over (under) expenditures	<u>(252,822)</u>	<u>(38,893)</u>	<u>100,731</u>	<u>(141,432)</u>	<u>(332,416)</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Operating transfers in	64,271	157,582	-	45,993	267,846
Operating transfers out	(175,455)	-	(64,271)	(20,903)	(260,629)
Total other financing sources (uses)	<u>(111,184)</u>	<u>157,582</u>	<u>(64,271)</u>	<u>25,090</u>	<u>7,217</u>
Excess of revenues and other sources over (under) expenditures and other uses	<u>(364,006)</u>	<u>118,689</u>	<u>36,460</u>	<u>(116,342)</u>	<u>(325,199)</u>
<b>FUND BALANCE</b>					
Beginning of year, as previously reported	5,966,741	143,054	191,148	698,632	6,999,575
Prior period adjustment	226,098	595,340	-	-	821,438
Beginning of year as restated	<u>6,192,839</u>	<u>738,394</u>	<u>191,148</u>	<u>698,632</u>	<u>7,821,013</u>
End of the year	<u>\$ 5,828,833</u>	<u>\$ 857,083</u>	<u>\$ 227,608</u>	<u>\$ 582,290</u>	<u>\$ 7,495,814</u>

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

City of Yreka  
 Reconciliation of the Statement of Revenues, Expenditures and  
 Changes in Fund Balance to the Statement of Activities  
 Governmental Funds  
 For The Year Ended June 30, 2011

Change in fund balance, governmental funds	\$ (325,199)
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 (\$2,608,504), less the disposal of net assets (\$-0-), or net change in assets (\$2,608,504), exceeds the depreciation expense (\$738,634) in the current period.	1,869,870
Government funds report repayment of long-term debt as an expenditure, but the repayment reduces long-term liabilities in the Statement of Net Assets and does not affect the Statement of Activities.	173,676
Governmental funds do not report the increase of OPEB liabilities as an expenditure, but it is reported in the Statement of Activities	(30,563)
Governmental funds do not report the increase of Compensated absences as an expenditure, but it is reported in the Statement of Activities	<u>(3,253)</u>
Change in net assets of governmental activities	<u><u>\$1,684,531</u></u>

City of Yreka  
Statement of Net Assets  
Proprietary Funds  
June 30, 2011

	Sewer Fund	Enterprise Water Fund	Total
<b>ASSETS</b>			
Current assets:			
Cash and investments	\$ 1,027,395	\$ 3,399,998	\$ 4,427,393
Receivables (net of allowances for bad debts, where applicable):			
Trade accounts	223,327	226,283	449,610
Intergovernmental	418,236	-	418,236
Due from other funds	256,845	-	256,845
Total current assets	<u>1,925,803</u>	<u>3,626,281</u>	<u>5,552,084</u>
Restricted assets:			
Cash and investments	100,000	-	100,000
Capital assets:			
Non-depreciable	197,700	2,740,232	2,937,932
Depreciable, net	8,514,065	2,977,365	11,491,430
Total capital assets, net	<u>8,711,765</u>	<u>5,717,597</u>	<u>14,429,362</u>
Total assets	<u>10,737,568</u>	<u>9,343,878</u>	<u>20,081,446</u>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	47,008	405,861	452,869
Construction retention payable	-	136,360	136,360
Due to other funds	4,612	4,612	9,224
Current portion of long-term debt	69,473	-	69,473
Current portion of compensated absences	2,739	7,539	10,278
Total current liabilities	<u>123,832</u>	<u>554,372</u>	<u>678,204</u>
Long-term liabilities:			
Long-term debt, net of current portion	1,547,020	708,790	2,255,810
Compensated absences, net of current portion	11,365	21,885	33,250
Other post employment benefits	15,406	19,780	35,186
Total liabilities	<u>1,697,623</u>	<u>1,304,827</u>	<u>3,002,450</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	7,095,272	5,008,807	12,104,079
Restricted, for debt service, expendable	100,000	-	100,000
Unrestricted	1,844,673	3,030,244	4,874,917
Total net assets	<u>\$ 9,039,945</u>	<u>\$ 8,039,051</u>	<u>\$ 17,078,996</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  
June 30, 2011

	Sewer Fund	Enterprise Water Fund	Total
<b><u>OPERATING REVENUES</u></b>			
User fees and charges	\$ 2,163,745	\$ 2,258,238	\$ 4,421,983
Other	1,207	1,412	2,619
Total operating revenues	<u>2,164,952</u>	<u>2,259,650</u>	<u>4,424,602</u>
<b><u>OPERATING EXPENSES</u></b>			
Cost of power and water	183,379	209,756	393,135
Maintenance, operations and administration	1,062,336	1,139,333	2,201,669
Depreciation and amortization	394,315	268,322	662,637
Total operating expenses	<u>1,640,030</u>	<u>1,617,411</u>	<u>3,257,441</u>
Operating income (loss)	<u>524,922</u>	<u>642,239</u>	<u>1,167,161</u>
<b><u>OTHER REVENUES (EXPENSES)</u></b>			
Intergovernmental revenues	70,216	-	70,216
Interest earned	3,963	16,723	20,686
Interest expense	(58,423)	(3,326)	(61,749)
Total other revenues (expenses)	<u>15,756</u>	<u>13,397</u>	<u>29,153</u>
<b><u>OTHER FINANCING SOURCES (USES)</u></b>			
Operating transfers out	<u>-</u>	<u>(7,218)</u>	<u>(7,218)</u>
Change in net assets	540,678	648,418	1,189,096
<b><u>NET ASSETS</u></b>			
Beginning of year	<u>8,499,267</u>	<u>7,390,633</u>	<u>15,889,900</u>
End of the year	<u>\$ 9,039,945</u>	<u>\$ 8,039,051</u>	<u>\$ 17,078,996</u>

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

City of Yreka  
Statement of Cash Flows  
Proprietary Funds  
June 30, 2011

	Sewer Fund	Enterprise Water Fund	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers	\$ 2,140,650	\$ 2,232,103	\$ 4,372,753
Payments to suppliers	(1,095,558)	(191,294)	(1,286,852)
Payments to or on behalf of employees	(489,218)	(625,532)	(1,114,750)
Net cash provided (used) by operating activities	<u>555,874</u>	<u>1,415,277</u>	<u>1,971,151</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>			
Interfund transfers and payments	<u>30,709</u>	<u>1,768</u>	<u>32,477</u>
Net cash provided (used) by non-capital financing activities	<u>30,709</u>	<u>1,768</u>	<u>32,477</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Purchase of capital assets	-	(1,877,268)	(1,877,268)
Proceeds from debt financing	-	708,790	708,790
Principal payments on debt	(67,042)	-	(67,042)
Interest payments on debt	(58,423)	(3,326)	(61,749)
Net cash provided (used) by investing activities	<u>(125,465)</u>	<u>(1,171,804)</u>	<u>(1,297,269)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest income received	<u>3,963</u>	<u>16,723</u>	<u>20,686</u>
Net increase (decrease) in cash	465,081	261,964	727,045
<b>CASH</b>			
Beginning of the year	<u>662,314</u>	<u>3,138,034</u>	<u>3,800,348</u>
End of the year	<u>\$ 1,127,395</u>	<u>\$ 3,399,998</u>	<u>\$ 4,527,393</u>
Reconciliation of operating income (loss) to cash provided (used) by operating activities:			
Operating income (loss)	\$ 524,922	\$ 642,239	\$ 1,167,161
Adjustments to reconcile operating income (loss) to cash provided (used) by operating activities:			
Depreciation and amortization	394,315	268,322	662,637
(Increase) decrease in trade accounts receivable	(24,302)	(27,547)	(51,849)
Increase (decrease) in accounts payable	(357,205)	368,585	11,380
Increase (decrease) in construction retention	-	136,360	136,360
Increase (decrease) in compensated absences	2,738	7,538	10,276
Increase (decrease) in OPEB liability	15,406	19,780	35,186
Net cash provided (used) by operating activities	<u>\$ 555,874</u>	<u>\$ 1,415,277</u>	<u>\$ 1,971,151</u>

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

**City Yreka, California**  
**Notes To Basic Financial Statements**  
**June 30, 2011**

**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 and sewer funds).

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

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

**City Yreka, California**  
**Notes To Basic Financial Statements**  
**June 30, 2011**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Fund Financial Statements:

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

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

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

The funds of the City are described below:

Major Governmental Funds:

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

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

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

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

Major Proprietary Funds:

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

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

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

**City Yreka, California**  
**Notes To Basic Financial Statements**  
**June 30, 2011**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

C. Measurement Focus and Basis of Accounting

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

Measurement Focus:

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

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

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

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

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

Basis of Accounting:

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

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

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

**City Yreka, California**  
**Notes To Basic Financial Statements**  
**June 30, 2011**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

D. Assets, Liabilities, Net Assets or Fund Equity

Cash and Cash Equivalents:

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

Investments:

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

Receivables:

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

Property Taxes:

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

Interfund Receivables and Payables:

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

Restricted Assets:

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

**City Yreka, California**  
**Notes To Basic Financial Statements**  
**June 30, 2011**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Loans Receivable:

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

Capital Assets:

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

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

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

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

Compensated Absences:

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

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.

Long Term Liabilities:

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

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

**City Yreka, California**  
**Notes To Basic Financial Statements**  
**June 30, 2011**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Equity Classifications:

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

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

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

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

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

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

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

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

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

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

When an expenditure is incurred for unrestricted purposes the City typically uses committed resources, followed by assigned, then unassigned.

**City Yreka, California**  
**Notes To Basic Financial Statements**  
**June 30, 2011**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**E. Revenues, Expenditures and Expenses**

Operating Revenues and Expenses:

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

Expenditures/Expenses:

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

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

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

**F. Estimates**

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

**G. Budgets**

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

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

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

**NOTE 2 CASH AND INVESTMENTS**

As of June 30, 2011, cash and investments were reported in the accompanying financial statements as follows:

Governmental activities	\$ 6,237,394
Business-type activities	<u>4,527,393</u>
Total cash and investments	<u>\$10,764,787</u>

**City Yreka, California**  
**Notes To Basic Financial Statements**  
**June 30, 2011**

**NOTE 2 CASH AND INVESTMENTS (continued)**

In the governmental activities statement of net assets, \$1,969,721 of cash is reserved for capital outlays per the trust document that governs the bequest of these funds to the City and \$100,000 is reserved for debt servicing as outlined in the certificate of participation debt agreement.

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

Deposits:

At June 30, 2011, the carrying amount of the City's deposits was \$108,856 and the bank balance was \$428,757. The difference represents outstanding checks.

The California Government Code requires California banks and savings and loan associations to secure a City's deposits by pledging government securities with a value of 110% of a City's deposits. California law also allows financial institutions to secure a City's deposits by pledging first trust deed mortgage notes having a value of 150% of a City's total deposits. The City Treasurer may waive the collateral requirement for deposits that are fully insured up to \$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.

**City Yreka, California**  
**Notes To Basic Financial Statements**  
**June 30, 2011**

**NOTE 2 CASH AND INVESTMENTS (continued)**

Investments in State Investment Pool:

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

Credit Risk:

The City's investment policy limits investments in medium term notes (MTN's) to those rated "A" or higher by Standard and Poor's (S&P) or by Moody's. As of June 30, 2011, the City had no medium term notes. At June 30, 2011, 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, 2011, the City's investments in external investment pools, other than LAIF, were with TriCounties bank in a term deposit account.

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, 2011, none of the City's deposits or investments were exposed to custodial credit risk.

Concentration of Credit Risk:

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

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

The City is considered to be exposed to concentration of credit risk whenever they have invested more than 5% of their total investments in any one issuer. As of June 30, 2011, the City has not invested more than 5% of its portfolio in any one issuer. Investments guaranteed by the U.S. government and investments in mutual funds and external investment pools are excluded from this requirement.

**City Yreka, California**  
**Notes To Basic Financial Statements**  
**June 30, 2011**

**NOTE 2 CASH AND INVESTMENTS (continued)**

Interest Rate Risk:

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

	6 Months or Less	6 Months to 1 Year	1 to 3 Years	More than 5 Years	Total
Local Agency Investment Fund	\$ 10,631,541	\$ -	\$ -	\$ -	\$ 10,631,541
Bank Certificates of Deposit	-	24,390	-	-	24,390
Total	\$ 10,631,541	\$ 24,390	\$ -	\$ -	\$ 10,655,931
Bank demand deposits					428,757
Less: Outstanding Checks					(319,901)
Total cash and investments					\$ 10,764,787

**NOTE 3 LOANS RECEIVABLE**

The City had the following loans receivable as of June 30, 2011:

Housing rehabilitation loans receivable	\$ 634,024
Loan loss reserve for housing loans	(79,300)
Net Housing loans receivable	554,724
Economic development business loans	223,386
Loan loss reserve for business loans	(97,000)
Net Economic development business loans	126,386
Total loans receivable	\$ 681,110

**City Yreka, California**  
**Notes To Basic Financial Statements**  
**June 30, 2011**

**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, 2011:

	<b>Due to other funds</b>					
<b>Due from other funds</b>	Special Grant Fund	Special Revenue Fund	Streets and Roads Fund	Water Fund	Sewer Fund	Total
General Fund	\$ 420,278	\$ 181,516	\$ 8,031	\$ 4,612	\$ 4,612	\$ 619,049
Special Grant Fund	-	-	11,000	-	-	11,000
Sewer Fund	-	256,845	-	-	-	256,845
	\$ 420,278	\$ 438,361	\$ 19,031	\$ 4,612	\$ 4,612	\$ 886,894

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

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

	Transfers In	Transfers Out
<b>Governmental Funds:</b>		
General Fund:	\$ 64,271	\$ 175,455
For the Special Revenue Fund's share of expenses incurred by the General Fund (\$64,271), and the General Fund's share of expenses incurred by Streets and Roads (\$45,993) and Special Grants Fund (\$129,461).		
Special Grants Fund:	157,583	-
For the General Fund's portion of expenses (\$129,461), the Streets and Roads portion of expenses (\$20,903), and the Sewer Fund's portion of expenses (\$7,218).		
Special Revenue Fund:	-	64,271
For the Special Revenue Funds share of expenses incurred by the General Fund (\$64,271).		
Streets and Roads Fund:	45,993	20,903
For the General Fund's portion of expenses (\$45,993) and the Streets and Roads Fund's portion of expenses incurred by the Special Grants Fund (\$20,903).		
	267,847	260,629
<b>Proprietary Funds:</b>		
Water Fund:	-	7,218
Water Funds portion of expenses incurred by the Special Grants Fund (\$10,052)		
	-	7,218
<b>Total Transfers In/Out</b>	<b>\$ 267,847</b>	<b>\$ 267,847</b>

**City Yreka, California**  
**Notes To Basic Financial Statements**  
**June 30, 2011**

**NOTE 5 CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2011 was as follows:

	June 30, 2010	Additions	Retirements	Transfers	June 30, 2011
Governmental activities:					
Capital assets, not being depreciated:					
Land	\$ 1,661,821	\$ 256,205	-	-	\$ 1,918,026
Construction in progress	4,807,988	2,280,412	-	(5,917,792)	1,170,608
Total capital assets, not being depreciated:	<u>6,469,809</u>	<u>2,536,617</u>	<u>-</u>	<u>(5,917,792)</u>	<u>3,088,634</u>
Capital assets, being depreciated:					
Buildings	3,349,264	-	-	771,773	4,121,037
Machinery and equipment	3,486,894	71,887	-	-	3,558,781
Infrastructure	23,779,146	-	-	5,146,019	28,925,165
Total capital assets, being depreciated	<u>30,615,304</u>	<u>71,887</u>	<u>-</u>	<u>5,917,792</u>	<u>36,604,983</u>
Less accumulated depreciation for:					
Buildings	2,304,665	60,387	-	-	2,365,052
Machinery and equipment	2,194,306	186,579	-	-	2,380,885
Infrastructure	15,916,548	491,668	-	-	16,408,216
Total accumulated depreciation	<u>20,415,519</u>	<u>738,634</u>	<u>-</u>	<u>-</u>	<u>21,154,153</u>
Total capital assets, being depreciated, net	<u>10,199,785</u>	<u>(666,747)</u>	<u>-</u>	<u>5,917,792</u>	<u>15,450,830</u>
Subtotal, governmental activities	<u>16,669,594</u>	<u>1,869,870</u>	<u>-</u>	<u>-</u>	<u>18,539,464</u>
Business-type activities:					
Capital assets, not being depreciated:					
Land	253,172	-	-	-	253,172
Construction in progress	1,064,347	1,786,234	-	(165,821)	2,684,760
Total capital assets, not being depreciated	<u>1,317,519</u>	<u>1,786,234</u>	<u>-</u>	<u>(165,821)</u>	<u>2,937,932</u>
Capital assets, being depreciated:					
Utility plant	16,077,388	-	-	-	16,077,388
Buildings	6,994,027	-	-	165,821	7,159,848
Machinery and equipment	4,503,190	91,034	-	-	4,594,224
Total capital assets, being depreciated	<u>27,574,605</u>	<u>91,034</u>	<u>-</u>	<u>165,821</u>	<u>27,831,460</u>
Less accumulated depreciation for:					
Utility plant	9,788,833	228,459	-	-	10,017,292
Buildings	2,842,352	123,528	-	-	2,965,880
Machinery and equipment	3,046,208	310,650	-	-	3,356,858
Total accumulated depreciation	<u>15,677,393</u>	<u>662,637</u>	<u>-</u>	<u>-</u>	<u>16,340,030</u>
Total capital assets, being depreciated, net	<u>11,897,212</u>	<u>(571,603)</u>	<u>-</u>	<u>165,821</u>	<u>11,491,430</u>
Subtotal, business-type activities	<u>13,214,731</u>	<u>1,214,631</u>	<u>-</u>	<u>-</u>	<u>14,429,362</u>
Total, government-wide	<u>\$ 29,884,325</u>	<u>\$ 3,084,501</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 32,968,826</u>

**City Yreka, California**  
**Notes To Basic Financial Statements**  
**June 30, 2011**

**NOTE 5 CAPITAL ASSETS (continued)**

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
General government	\$ 31,260
Planning and development	17,602
Parks and recreation	64,756
Police protection	15,997
Fire protection	77,082
Streets and sidewalks	<u>531,937</u>
Total depreciation expense – governmental activities	<u><u>\$ 738,634</u></u>

**NOTE 6 LONG TERM DEBT**

The following is a summary of long-term liabilities activity during the year ended June 30, 2011:

	June 30, 2010	Additions	Reductions	June 30, 2011	Current Portion
Governmental activities					
Long term debt					
Financial Software	\$ 50,880	\$ -	\$ 16,960	\$ 33,920	\$ 16,960
Landfill Sale	2,223,116	-	55,100	2,168,016	58,071
Fire Equipment	<u>805,899</u>	-	<u>101,617</u>	<u>704,282</u>	<u>106,286</u>
Total long-term debt	<u>3,079,895</u>	-	<u>173,677</u>	<u>2,906,218</u>	<u>181,317</u>
Compensated absences	<u>226,098</u>	<u>199,793</u>	<u>196,540</u>	<u>229,351</u>	<u>16,333</u>
Governmental activities long-term liabilities	<u>3,305,993</u>	<u>199,793</u>	<u>370,217</u>	<u>3,135,569</u>	<u>197,650</u>
Business-type activities					
Long term debt					
Certificates of Participation-sewer	845,000	-	12,000	833,000	13,000
State Water Resources	838,535	-	55,042	783,493	56,473
Certificates of Participation-water	-	<u>708,790</u>	-	<u>708,790</u>	-
Total long-term debt	<u>1,683,535</u>	<u>708,790</u>	<u>67,042</u>	<u>2,325,283</u>	<u>69,473</u>
Compensated absences	<u>33,252</u>	<u>46,885</u>	<u>36,609</u>	<u>43,528</u>	<u>10,278</u>
Subtotal business-type activities long term liabilities	<u>1,716,787</u>	<u>755,675</u>	<u>103,651</u>	<u>2,368,811</u>	<u>79,751</u>
Total, government-wide	<u><u>\$ 5,022,780</u></u>	<u><u>\$ 955,468</u></u>	<u><u>\$ 473,868</u></u>	<u><u>\$ 5,504,380</u></u>	<u><u>\$ 277,401</u></u>

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

**City Yreka, California**  
**Notes To Basic Financial Statements**  
**June 30, 2011**

**NOTE 6 LONG TERM DEBT (continued)**

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

Interest rate	Landfill Sale		Fire Equipment	
	5.39%		4.50%	
	Principal	Interest	Principal	Interest
Year Ended June 30, ;				
2012	\$ 58,071	\$ 116,929	106,286	29,518
2013	61,203	113,797	111,168	24,636
2014	64,504	110,496	116,276	19,529
2015	67,983	107,017	121,617	14,187
2016	71,649	103,351	127,204	8,599
2017-2021	420,552	454,447	121,731	2,756
2022-2026	546,873	328,127	-	-
2027-2031	711,136	163,864	-	-
2032-2036	166,045	8,955	-	-
Total	\$ 2,168,016	\$ 1,506,983	\$ 704,282	\$ 99,225

Interest rate	Financial Software		Total	
	0.00%			
	Principal	Interest	Principal	Interest
Year Ended June 30, ;				
2012	\$ 16,960	\$ -	\$ 181,317	\$ 146,447
2013	16,960	-	189,331	138,433
2014	-	-	180,780	130,025
2015	-	-	189,600	121,204
2016	-	-	198,853	111,950
2017-2021	-	-	542,283	457,203
2022-2026	-	-	546,873	328,127
2027-2031	-	-	711,136	163,864
2032-2036	-	-	166,045	8,955
Total	\$ 33,920	\$ -	\$ 2,906,218	\$ 1,606,208

**City Yreka, California**  
**Notes To Basic Financial Statements**  
**June 30, 2011**

**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
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	15,000	35,347	60,993	15,850
2016	15,000	34,672	62,579	14,265
2017-2021	88,000	162,090	338,164	46,054
2022-2026	110,000	139,953	147,895	5,792
2027-2031	136,000	112,365	-	-
2032-2036	170,000	78,030	-	-
2037-2041	211,000	35,347	-	-
2042-2046	48,000	1,080	-	-
<b>Total</b>	<b>\$ 833,000</b>	<b>\$ 708,685</b>	<b>\$ 783,493</b>	<b>\$ 138,631</b>

Year Ended June 30, ;	USDA Cert of Part <sup>(1)</sup>		Total	
	2.50%		Principal	Interest
	Principal	Interest	Principal	Interest
2012		3987	\$ 69,473	\$ 57,564
2013	111,000	13,450	70,941	55,511
2014	113,000	10,908	73,448	53,396
2015	116,000	8,298	75,993	51,197
2016	119,000	5,620	77,579	48,937
2017-2021	245,000	3,006	426,164	208,144
2022-2026	4,790	107	257,895	145,745
2027-2031	-	-	136,000	112,365
2032-2036	-	-	170,000	78,030
2037-2041	-	-	211,000	35,347
2042-2046	-	-	48,000	1,080
<b>Total</b>	<b>\$ 708,790</b>	<b>\$ 45,376</b>	<b>\$ 1,616,493</b>	<b>\$ 847,316</b>

(1) USDA Certificate of Participation loan is for \$6,800,000. The City is currently in construction for this project and has drawn \$708,790 against the loan on June 30, 2011.

**City Yreka, California**  
**Notes To Basic Financial Statements**  
**June 30, 2011**

**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, 2011 was 13.436% (safety) and 8.475% (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, 2011 the City’s annual pension cost was \$287,267, and the City paid employee share was \$ 212,604, for a combined City contributed amount of \$499,871. The required contribution for the year ended June 30, 2011 was determined as part of the June 30, 2008 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, 2008 was 14 years for safety and 16 years for miscellaneous.

Three Year Trend Information:

	June 30, 2011	June 30, 2010	June 30, 2009
Annual Pension Cost (APC)	\$ 499,871	\$ 484,424	\$ 476,792
Percentage APC contributed	100%	100%	100%
Net Pension Obligation	\$ -	\$ -	\$ -

During the year ended June 30, 2003, CalPERS grouped all small employers (defined as those with less than 100 members in the Plan) into a risk pool. Therefore, the following information for the years ended June 30, 2010, 2009 and 2008 (the latest available) are for the pool as a whole.

**City Yreka, California**  
**Notes To Basic Financial Statements**  
**June 30, 2011**

**NOTE 7 PENSION PLAN (continued)**

The following represents public safety employees:

<u>Schedule of funding progress:</u>	<u>June 30, 2010</u>	<u>June 30, 2009</u>	<u>June 30, 2008</u>
Actuarial value of assets	\$396,740,091	\$368,645,673	\$438,674,996
Actuarial accrued liability (AAL) – entry age	\$469,525,634	\$440,333,381	\$504,295,839
Unfunded (overfunded) AAL (UAAL)	\$72,785,543	\$71,687,708	\$65,620,843
Funded ratio	84.5%	83.7%	87.0%
Covered payroll	\$61,878,177	\$60,158,108	\$77,903,428
UAAL as a percentage of covered payroll	117.6%	119.2%	84.2%

The following represents miscellaneous employees:

<u>Schedule of funding progress:</u>	<u>June 30, 2010</u>	<u>June 30, 2009</u>	<u>June 30, 2008</u>
Actuarial value of assets	\$2,946,408,106	\$2,758,511,101	\$2,547,323,278
Actuarial accrued liability (AAL) – entry age	\$3,309,064,934	\$3,104,798,222	\$2,780,280,768
Unfunded (overfunded) AAL (UAAL)	\$362,656,828	\$346,287,121	\$232,957,490
Funded ratio	89.0%	88.9%	91.6%
Covered payroll	\$748,401,352	\$742,981,488	\$688,606,681
UAAL as a percentage of covered payroll	48.5%	46.6%	33.8%

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

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

The eligibility requirements are:

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

**City Yreka, California**  
**Notes To Basic Financial Statements**  
**June 30, 2011**

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

Funding Policy- The minimum contribution requirements for the City are set in the Public Employees' Medical and Hospital Care Act. The balance of the premiums are paid by the employee or retiree through deductions from Cafeteria Plan allowance, salary, or retirement allowances. In fiscal year 2011, the City contributed \$11,502 to the plan for retirees.

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

Annual Required Contribution (ARC)	\$	77,090
Interest on Net OPEB Obligation		2,846
Adjustment to ARC		(2,684)
Annual OPEB Cost		77,252
Contributions made in fiscal year 2011		(11,502)
Increase in net OPEB obligation		65,750
Net OPEB obligation, beginning of year		63,251
Net OPEB obligation, end of year	\$	129,001

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2011 were as follows:

Fiscal Year Ending	Annual OPEB Cost	Actual Contribution Made	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2010	\$ 72,048	8,797	12.20%	\$ 63,251
2011	77,252	11,502	14.89%	129,001

Funded Status and Funding Progress- As part of the October 15, 2010 report, the most recent actuarial valuation date, the actuarial accrued liability on pay as you go basis is \$798,487, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$2,887,923 and the ratio of the unfunded actuarial accrued liability to the covered payroll was 27.65%.

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

**City Yreka, California**  
**Notes To Basic Financial Statements**  
**June 30, 2011**

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

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

In the July 1, 2009 actuarial valuation, the Entry Age Normal Cost, Level Percent of Pay actuarial method was used. The actuarial assumptions included a 4.50 percent investment rate of return (discount rate). Unfunded accrued actuarial liabilities are amortized to produce payments which are a level percentage of payroll over a 30-year period.

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

<u>Year</u>	<u>Rate</u>	<u>Year</u>	<u>Rate</u>
2011	8.50%	2015	6.50%
2012	8.00%	2016	5.50%
2013	7.50%	2017	4.50%
2014	7.00%	2018 & later	4.50%

**NOTE 9 DEFICIT FUND BALANCE**

At June 30, 2011 there were no deficit fund balances.

**NOTE 10 RESTRICTED NET ASSETS**

Restricted net assets are net assets whose use are subject to constraints that are either; (1) externally imposed by creditors (such as debt covenants), grantors, or laws or regulations of governments, or (2) imposed by law through constitutional provisions or enabling legislation. Restricted net assets at June 30, 2011 for governmental activities were restricted for capital outlays. Restricted net assets at June 30, 2011 for proprietary fund activities were restricted for capital outlays and debt servicing.

**NOTE 11 FUND BALANCES**

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

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

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

**Committed fund balances**- The City had no committed fund balance at June 30, 2011.

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

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

**City Yreka, California**  
**Notes To Basic Financial Statements**  
**June 30, 2011**

**NOTE 12 OVER-EXPENDITURE OF BUDGET**

There were no over-expenditures of budget.

**NOTE 13 PRIOR PERIOD ADJUSTMENTS**

In prior years, the City has recorded a deferred revenue amount equal to the loans receivable balance in the special grant fund as the City believed it was misleading to report a high fund balance. In the current year under new reporting standards for fund balance, it was determined that the net loans receivable should be reported as nonspendable fund balance. The result is an increase to beginning fund balance for \$595,340 (\$711,942 loans receivable less the loan loss allowance of \$116,602).

In prior years, the City has reported compensated absence liabilities in the fund financial statements. In the current year, it was determined that these should not be reported as liabilities in the governmental funds under proper accounting principles, but only in the government-wide statement of net assets. The result is a \$226,098 increase to beginning fund balance in the general fund.

In the current year, it was discovered that \$9,252 of acquisition costs relating to the purchase of a capital assets in 2010-11 were not capitalized in 2009-2010 due to the uncertainty of the land acquisition. In 2010-11, the land was acquired, and the acquisition costs were capitalized.

The effect of these prior period adjustments is shown in the financial statements as follows:

Fund financial statements:

Statement of Revenues, Expenditures and Changes

in Fund Balance, Governmental Funds:

Loans receivable	\$ 595,340
Compensated absences	226,098
Total prior period adjustments, Statement of Revenues, Expenditures and Changes in Fund Balance	\$ 821,438

Government-wide financial statements:

Statement of Activities - Governmental Activities:

Loans receivable	\$ 595,340
Land acquisition	9,252
Total prior period adjustments, Statement of Activities	\$ 604,592

**NOTE 14 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 6, 2012, the City had received most of invoiced grant payments from these intergovernmental agencies accrued at year end.

**City Yreka, California**  
**Notes To Basic Financial Statements**  
**June 30, 2011**

**NOTE 15 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.

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 16 CONTINGENCIES**

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

The following is a summary of the City's commitments at June 30, 2011:

Contractor	Project	Total Contract Amount	Incurred to date	Remaining
T&S Construction	USDA, Fall Creek Water System	\$ 7,862,408	\$ 1,363,602	\$ 6,498,806
Northwest Paving	STIP, Overlays Bruce Street	307,562	308,563	-
Sierra Traffic	TEA, Bike Lanes Oregon Street	30,530	28,370	2,160
Total Construction commitments		<u>\$ 8,200,500</u>	<u>\$ 1,700,535</u>	<u>\$ 6,500,966</u>

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

**REQUIRED SUPPLEMENTARY INFORMATION**

City of Yreka  
 Budgetary Comparison Schedule  
 General Fund  
 For The Year Ended June 30, 2011

	Original Budget	Final Budget	Actual Amounts	Favorable (Unfavorable) Variance With Final Budget
<b>REVENUES</b>				
Property taxes	\$ 930,000	\$ 975,000	\$ 974,932	\$ (68)
Sales and use taxes	1,644,000	1,644,000	1,631,864	(12,136)
Transient occupancy taxes	575,000	575,000	567,651	(7,349)
Franchise and other licenses	248,500	248,500	239,658	(8,842)
Licenses and permits	151,550	212,550	218,327	5,777
Intergovernmental revenues	693,500	693,500	710,976	17,476
Charges for services	92,225	92,225	91,628	(597)
Fines, forfeitures and penalties	10,700	10,700	8,394	(2,306)
Use of money and property	63,304	63,304	63,068	(236)
Grants and donations	12,500	27,000	27,295	295
Other	17,200	7,200	6,916	(284)
Total revenues	<u>4,438,479</u>	<u>4,548,979</u>	<u>4,540,709</u>	<u>(8,270)</u>
<b>EXPENDITURES</b>				
Current:				
City council, administrator, and clerk	257,447	240,447	231,109	9,338
General government	408,032	353,322	351,110	2,212
Planning and development	444,208	485,958	482,498	3,460
Parks and recreation	479,975	526,254	525,218	1,036
Public works administration	41,209	47,209	44,042	3,167
Public works maintenance	212,384	140,384	124,239	16,145
Police protection	2,206,593	2,236,593	2,236,329	264
Fire protection	301,447	315,947	309,819	6,128
Streets and sidewalks	152,297	146,297	144,115	2,182
Capital outlay	814,800	364,800	328,092	36,708
Debt service:				
Principal	-	16,960	16,960	-
Total expenditures	<u>5,318,392</u>	<u>4,874,171</u>	<u>4,793,531</u>	<u>80,640</u>
Excess of revenues over (under) expenditures	<u>(879,913)</u>	<u>(325,192)</u>	<u>(252,822)</u>	<u>72,370</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Operating transfers in	80,000	65,000	64,271	(729)
Operating transfers out	(227,181)	(175,681)	(175,455)	226
Total other financing sources (uses)	<u>(147,181)</u>	<u>(110,681)</u>	<u>(111,184)</u>	<u>(503)</u>
Excess of revenues and other sources over (under) expenditures and other uses	<u>\$ (1,027,094)</u>	<u>\$ (435,873)</u>	<u>\$ (364,006)</u>	<u>\$ 71,867</u>

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

City of Yreka  
 Budgetary Comparison Schedule  
 Special Grant Fund  
 For The Year Ended June 30, 2011

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Favorable (Unfavorable) Variance With Final Budget</u>
<b><u>REVENUES</u></b>				
Intergovernmental revenues	\$ 4,968,159	\$ 4,981,159	\$ 2,358,562	\$ (2,622,597)
Use of money and property	55,329	55,329	14,449	(40,880)
In-kind	-	-	2,607	2,607
Total revenues	<u>5,023,488</u>	<u>5,036,488</u>	<u>2,375,618</u>	<u>(2,660,870)</u>
<b><u>EXPENDITURES</u></b>				
Current:				
Planning and development	631,200	631,200	382,887	248,313
Parks and recreation	39,000	52,000	1,035	50,965
Public Works Maintenance	43,750	43,750	18,949	24,801
Capital outlay	4,495,909	4,495,909	2,011,640	2,484,269
Total expenditures	<u>5,209,859</u>	<u>5,222,859</u>	<u>2,414,511</u>	<u>2,808,348</u>
Excess of revenues over (under) expenditures	<u>(186,371)</u>	<u>(186,371)</u>	<u>(38,893)</u>	<u>147,478</u>
<b><u>OTHER FINANCING (USES)</u></b>				
Operating transfers in	196,700	159,200	157,582	(1,618)
Operating transfers out	-	-	-	-
Total other financing sources (uses)	<u>196,700</u>	<u>159,200</u>	<u>157,582</u>	<u>(1,618)</u>
Excess of revenues over (under) expenditures and other uses	<u>\$ 10,329</u>	<u>\$ (27,171)</u>	<u>\$ 118,689</u>	<u>\$ 145,860</u>

City of Yreka  
 Budgetary Comparison Schedule  
 Special Revenue Fund  
 For The Year Ended June 30, 2011

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Favorable (Unfavorable) Variance With Final Budget</u>
<b><u>REVENUES</u></b>				
Assessment	\$ 219,500	\$ 219,500	\$ 222,522	\$ 3,022
Licenses and permits	31,500	31,500	93,477	61,977
Charges for service	215,000	215,000	214,875	(125)
Use of money and property	-	-	2,227	2,227
Total revenues	<u>466,000</u>	<u>466,000</u>	<u>533,101</u>	<u>67,101</u>
<b><u>EXPENDITURES</u></b>				
Current:				
General Government	5,769	5,769	5,032	737
Fire protection	3,287	3,287	3,265	22
Capital outlay	-	114,000	113,269	731
Debt service:				
Principal	156,716	156,716	156,716	-
Interest	154,088	154,088	154,088	-
Total expenditures	<u>319,860</u>	<u>433,860</u>	<u>432,370</u>	<u>1,490</u>
Excess of revenues over (under) expenditures	<u>146,140</u>	<u>32,140</u>	<u>100,731</u>	<u>68,591</u>
<b><u>OTHER FINANCING (USES)</u></b>				
Operating transfers out	<u>(80,000)</u>	<u>(65,000)</u>	<u>(64,271)</u>	<u>729</u>
Total other financing sources (uses)	<u>(80,000)</u>	<u>(65,000)</u>	<u>(64,271)</u>	<u>729</u>
Excess of revenues over (under) expenditures and other uses	<u>\$ 66,140</u>	<u>\$ (32,860)</u>	<u>\$ 36,460</u>	<u>\$ 69,320</u>

City of Yreka  
 Budgetary Comparison Schedule  
 Streets and Roads Fund  
 For The Year Ended June 30, 2011

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Favorable (Unfavorable) Variance With Final Budget</u>
<b>REVENUES</b>				
Intergovernmental revenues	\$ 617,000	\$ 617,000	\$ 498,574	\$ (118,426)
Fines and forfeitures	48,500	48,500	39,978	(8,522)
Use of money and property	7,000	7,000	3,699	(3,301)
Other revenue	-	-	4,568	4,568
Total revenues	<u>672,500</u>	<u>672,500</u>	<u>546,819</u>	<u>(125,681)</u>
<b>EXPENDITURES</b>				
Current:				
Public works administration	31,173	31,173	23,101	8,072
Streets and sidewalks	478,585	478,585	342,878	135,707
Public transportation	200,000	200,000	166,769	33,231
Capital outlay	208,500	208,500	155,503	52,997
Total expenditures	<u>918,258</u>	<u>918,258</u>	<u>688,251</u>	<u>230,007</u>
Excess of revenues over (under) expenditures	<u>(245,758)</u>	<u>(245,758)</u>	<u>(141,432)</u>	<u>104,326</u>
<b>OTHER FINANCING (USES)</b>				
Operating transfers in	39,231	46,231	45,993	(238)
Operating transfers out	-	(21,000)	(20,903)	97
Total other financing sources (uses)	<u>39,231</u>	<u>25,231</u>	<u>25,090</u>	<u>(141)</u>
Excess of revenues over (under) expenditures and other uses	<u>\$ (206,527)</u>	<u>\$ (220,527)</u>	<u>\$ (116,342)</u>	<u>\$ 104,185</u>

**City of Yreka**  
**Schedule of Expenditures of Federal Awards**  
**For The Year Ended June 30, 2011**

Program Title	Federal CFDA #	Grant #	Award Amount	Federal Expenditures	Loan Disbursements Included In Expenditures
<b>Department of Housing and Urban Development</b>					
Passed through California Department of Housing and Community Development					
Community Development Block Grant/State's Programs	14.228	05-EDBG-1968	\$ 300,000	\$ 18,095	\$ 15,727
Community Development Block Grant/State's Programs	14.228	08-STBG-4782	500,000	314,921	195,861
Community Development Block Grant/State's Programs	14.228	08-EDEF-5874	300,000	25,613	
Community Development Block Grant/Technical Assistance Program	14.227	08-PTAE-5415	70,000	70,000	
Community Development Block Grant/Technical Assistance Program	14.227	09-PTAG-6494	70,000	11,541	
Total Department of Housing and Urban Development				<u>440,170</u>	
<b>Department of the Interior</b>					
Partners in Fish and Wildlife	15.631	F11Ac01280	7,250	-	
Partners in Fish and Wildlife	15.631	813338J020	29,000	28,134	
Partners in Fish and Wildlife	15.631	F07AC00140	120,000	47,318	
Total Department of the Interior				<u>75,452</u>	
<b>Department of Agriculture</b>					
Waste and Water Disposal Systems for Rural Communities (ARRA)					
B - Project Loan	10.781	SF271-1924	6,810,000	1,031,522	
E - Direct Grant	10.781	SF271-1924	3,249,000	-	
Watershed Restoration and Enhancement Agreement Authority					
B- Cooperative Agreements	10.693	PA11050500-083	13,000	13,000	
Total Department of Agriculture				<u>1,044,522</u>	
<b>Department of Transportation</b>					
Highway Planning and Construction, ARRA B- Project Grants	20.205		70,000	35,129	
Total Department of Transportation				<u>35,129</u>	
<b>Environmental Protection Agency Office of Solid Waste and Emergency Response</b>					
Brownfields Training, Research, and Technical Assistance Grants and Cooperative Agreements	66.818		400,000	57,732	
Total Environmental Protection Agency Office of Solid Waste and Emergency Response				<u>57,732</u>	
<b>Department of Homeland Security</b>					
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	093-86944	60,773	3,475	
Total Department of Homeland Security				<u>3,475</u>	
Total expenditure of federal awards				<u>\$ 1,656,480</u>	

Notes:

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

**SINGLE AUDIT REPORTS AND SCHEDULES**

**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, 2011, which collectively comprise the City of Yreka's basic financial statements, and have issued our report thereon dated January 25, 2012. 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 *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or 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 its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, City Council, others within the entity, 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  
An Accountancy Corporation  
Mt. Shasta, California  
January 25, 2012

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH  
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT  
ON 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 City of Yreka's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of City of Yreka's major federal programs for the year ended June 30, 2011. City of Yreka's major federal programs are identified in the summary of auditor's 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 City of Yreka's management. Our responsibility is to express an opinion on 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 of a major federal program occurred. An audit includes examining, on a test basis, evidence about 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 of City of Yreka's compliance with those requirements.

In our opinion, City of Yreka complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. 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, others within the entity, 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  
An Accountancy Corporation  
Mt. Shasta, California  
January 25, 2012

**City of Yreka, California**  
**Schedule of Findings and Questioned Costs**  
**For The Year Ended June 30, 2011**

Summary of Auditors' Results

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

None