

CITY OF YREKA

Financial Statements

June 30, 2004

City of Yreka, California

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INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Yreka
Yreka, California

I have audited the accompanying financial statement of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Yreka, California, as of and for the year ended June 30, 2004 which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. My responsibility is to express an opinion of these financial statements based on my audit.

I conducted my 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 I 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. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, based on my audit, the financial statements referred to above present fairly, in all material respects, the financial position of the government activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Yreka, California, as of June 30, 2004, 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, I have also issued a report dated August 17, 2006 on my consideration of the City's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of my audit.

The Management Discussion and Analysis (MD&A) and the required supplementary information other than MD&A, as listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

My audit was made for the purpose of forming an opinion on the financial statements that collectively comprise the City's basic financial statements. The combining and individual fund financial statements and schedules are presented for the purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements and schedules have been subjected to the auditing procedures applied by me in the audit of the basic financial statements and, in my opinion, based on my audit, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Jeffrey Chitwood
Certified Public Accountant
August 17, 2006

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, 2004. The management's discussion and analysis is designed to: 1) assist the reader in focusing on significant financial issues, 2) provide an overview of the City's financial activity, and 3) identify changes in the City's financial position.

Financial Highlights:

- The assets for the City of Yreka exceeded its liabilities at the close of the most recent fiscal year by \$23,427,119 (net assets). Of this amount, \$9,385,031 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The governmental activities funds total net assets decreased by \$404,371. This is due to budgeted deficit spending in the general fund and special grant funds. Expenditures outpaced revenue by \$225,705 and depreciation expense of capital assets, net of capital outlay was \$252,674. Those two decreases were offset by repayment of long term debt and reclassification of long term debt to short term debt for a net increase of \$74,008. The changes in net assets can be referenced on pages 5 through 6 and pages 36 through 38 of the financial statement.
- At the end of the current fiscal year, the unreserved fund balance for the general fund was \$3,285,346. This represents a decrease of \$179,069 which is slightly less than the prior year's deficit of \$223,031.

The City continues to take fiscal measures to reduce expenses by evaluating vacancies in staffing and worked with the bargaining units to offset part of the employee benefits costs in effort keep expenditures under control. In addition, General Fund revenue decreased slightly during fiscal year 2003-04, primarily due to revenue shifting and cutback in revenue by the State of California, during these tight fiscal years. The City however, remains fiscally sound and maintains an adequate operating reserve.

Overview of the Financial Statements:

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

Government-wide Financial Statements:

The government-wide financial statements are designed to provide readers with a broad

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

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

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

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

The business-type activities of the City of Yreka include water, wastewater and landfill operations. The government-wide financial statements can be found on pages 3 through 6 this report.

Fund Financial Statements:

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be 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 inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a City's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental

funds and governmental activities. The major funds within governmental funds include the General Operating Fund, the Local Transportation Fund and the Special Grants fund. All of the remaining governmental funds are combined into Other Governmental Funds. Information is presented in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund. Data from governmental funds are combined into a single, aggregated presentation. The City of Yreka adopts an annual appropriated budget for each of its governmental funds. A budgetary comparison statement has been provided for the general fund operating fund to demonstrate compliance with this budget, and can be found on pages 36 through 38 of this report.

Proprietary funds.

The City of Yreka maintains three different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of Yreka uses enterprise funds to account for its water, wastewater and landfill 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, wastewater and landfill 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. The City's 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 accounts for this agency fund on a spending or "economic resources" measurement focus. The basic fiduciary fund financial statements can be found on page 10 through 12 of this report.

Notes to the financial statements:

The notes provide additional information that is essential to fully understand the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 12 through 32 of this report.

Other supplemental information:

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information which can be found on pages 36 through 42 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 \$11,200,935 for governmental activities and \$12,226,184 for business type activities, or \$23,427,119 total, at the close of the most recent fiscal year.

The following schedule displays a summary breakdown of the City's net assets as of June 30, 2004:

City of Yreka – Net Assets ⁽¹⁾			
	Governmental Activities	Business- Type Activities	Total
	2003-04	2003-04	2003-04
Assets:			
Current assets and other assets	\$5,091,545	\$5,489,596	\$10,581,141
Non Current Assets	6,908,523	11,625,819	18,534,342
<i>Total Assets</i>	<u>12,000,068</u>	<u>17,115,415</u>	<u>29,115,483</u>
Liabilities:			
Current Liabilities	638,628	889,126	1,527,754
Long-term Liabilities	160,505	4,000,105	4,160,610
<i>Total Liabilities</i>	<u>799,133</u>	<u>4,889,231</u>	<u>5,688,364</u>
Net assets:			
Invested in capital assets, net of related debt	6,674,528	7,367,560	14,042,088
Restricted	-0-	-0-	-0-
Unrestricted	4,526,407	4,858,624	9,385,031
<i>Total Net Assets</i>	<u>\$11,200,935</u>	<u>\$12,226,184</u>	<u>\$23,427,119</u>

(1) Comparative data will be presented next year to assist analysis, as this is the first year to report under GASB 34.

The largest portion of the City's net assets reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that are 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.

City of Yreka – Changes in Net Assets

	Governmental Activities	Business- Type Activities	Total
Total Net Assets for:			
Fiscal Year 2002-03	11,605,306	12,214,480	23,819,786
Fiscal Year 2003-04	11,200,935	12,226,184	23,427,119
Increase or (Decrease) in Net Assets)	(404,371)	11,704	(392,667)

At the end of the current fiscal year, the City is able to report a positive balance in net assets, for both governmental and business-type activities. The government's net assets decreased by \$404,371 for Governmental Activities, and increased by \$11,704 for Business Type Activities during the current fiscal year. By referencing the Statement of Activities, page 2 of this report, the decrease in governmental activities is the due to static revenues and increased expenses, however, in for business type activities the revenues were just able to keep pace with the current operating expenditures.

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 inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City of Yreka's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$4,532,821. Over half of this total amount, \$2,659,628, constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of fund balance or \$1,873,193 is reserved to indicate that it is not available for spending because it has already been committed 1) roads and streets 2) capital improvements 3) grant projects 4) self insurance reserves and a variety of other designations.

The general fund is the chief operating fund of the City of Yreka. At the end of the current fiscal year, the unreserved fund balance of the general fund was \$2,659,628, while total fund balance reached \$4,532,821. As a measurement of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 50 percent of total general fund expenditures, while total fund balance represents 85 percent of that same amount. During the current fiscal year, the City of Yreka's general fund decreased by \$225,705.

Key factors in this decline are mainly a result of the increased personnel benefits costs, timing differences in multi-year capital projects in special grants and a slight decrease in general operating revenue.

Proprietary funds:

The City of Yreka's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Unrestricted net assets of the water, wastewater and landfill funds at the end of the year amounted to \$12,226,184. In the financial statement page 9, the decrease in cash from operations and capital and related financing activities resulted in a \$55,400 decrease in cash. Fiscal year 2003-04 revenues are not keeping pace with the required cash outlay for both operations and required capital outlay and financing.

Agency funds:

Agency funds consist of fiduciary funds that are used to account for assets held in a trustee or agent capacity for others. Fund classified as agency funds in this financial report are parkland trust funds, Campbell tract funds, Shasta Belle Redemption Funds, Senior Capital Fund and Senior Activity Program Fund, and Gifts and Donations funds.

The primary activity in these funds for 2003-04 consisted of property tax assessment collections \$51,776 that were used pay off development bonds \$51,248 for the Shasta Belle development. Total net assets at the end of the year for all of the agency funds were \$136,204.

General Fund Budgetary Highlights:

Differences between the original budget and the final amended budget were a revenue decrease of \$241,421 in the General Fund and a revenue decrease of \$458,449 in the Special Grants fund. The expenditure appropriations increased \$554,559 for the General Fund and decreased \$329,879 in the special projects fund. The changes can be seen in the table below and in more detail on pages 36 through 38 of this report.

Schedule of Revenues and Expenditures – Budget to Actual

		Original	Final	Actual
General Fund	Revenue	4,704,517	4,463,096	4,322,507
	Expense	4,711,248	5,024,386	4,451,322
	Excess (deficiency) of revenue over (under) expenses	(6,731)	(561,290)	(128,815)
	Other Financing Sources and (Uses)	(54,000)	(54,000)	(50,254)
	Net Change in Fund Balance	(60,731)	(615,290)	(179,069)
		Original	Final	Actual
Local Transportation	Revenue	97,430	71,923	69,593
	Expense	41,000	41,000	4,644
	Excess (deficiency) of revenue over (under) expenses	56,430	30,923	64,949
	Other Financing Sources and (Uses)	-0-	-0-	-0-
	Net Change in Fund Balance	56,430	30,923	64,949
		Original	Final	Actual
Special Grants	Revenue	1,328,000	869,551	242,627
	Expense	1,240,780	910,901	375,218
	Excess (deficiency) of revenue over (under) expenses	(87,220)	(41,350)	(132,591)
	Other Financing Sources and (Uses)	-0-	-0-	-0-
	Net Change in Fund Balance	(87,220)	(41,350)	(132,591)

In the General Operating Fund budgetary revenue changes included:

- \$80,000 decrease in revenue appropriations for Nor-Cal Electric Authority, a \$60,375 decrease in revenue appropriations RTPA funds, a \$50,000 decrease in revenue

appropriations for SCORE refunds, a \$47,000 decrease in revenue appropriations for Fines, Forfeitures and Penalties, a \$48,420 decrease in Sales Tax Revenue and a \$9,732 decrease in revenue appropriations for Franchise Fee revenue.

- \$132,102 increase in revenue appropriations for Motor Vehicle in Lieu.
- \$25,000 decrease in revenue appropriations for Greenhorn Park Development, and a \$41,000 decrease in revenue appropriations for Building Reserves.

In the General Operating Fund budgetary expenditure changes included:

- \$65,000 increase in expenditures appropriations for the purchase of Caterpillar motorgrader and \$17,000 increase in expenditures appropriations for a parks commercial riding mower.
- \$60,735 increase in expenditure appropriations for the Oberlin Road chip seal treatment.
-
- \$41,000 increase in expenditures appropriations Greenhorn Park property purchase.
- \$32,880 increase in expenditure appropriations for health insurance benefits.

In the Local Transportation Fund revenue

- \$28,007 decrease in revenue appropriations from the Local Transportation Council, and \$2,500 increase in revenue appropriations for investment interest.

In the Special Projects Fund budgetary revenue changes included:

- \$509,393 expenditure decrease in revenue related to STIP project on Greenhorn Road.
- \$19,000 revenue appropriations increase to resurface the tennis courts and \$22,794 revenue appropriations increase to refinish the community center floors.
- \$40,150 revenue appropriations increase for the Greenhorn Park Public Use Plan and \$20,000 revenue appropriation increase for Greenhorn Park Development.

In the Special Projects Fund budgetary expenditure changes included:

- \$455,393 expenditure decrease in capital outlay related to STIP project on Greenhorn Road.
- \$47,650 expenditure appropriations increase for the Greenhorn Park Public Use Plan and \$20,000 expenditure appropriation increase for Greenhorn Park Development.
- \$28,500 expenditure appropriations increase for Greenhorn Park Small Diameter Log Kiosk.
- \$19,000 expenditure appropriations increase to resurface the tennis courts and \$22,794 expenditure appropriations increase to refinish the community center floors.

Capital Assets and Debt Administration

Changes in Capital assets

	Balance June 30, 2003	Additions	Decreases	Balance June 30, 2004
Governmental Activities:				
<i>Capital assets not being depreciated;</i>				
Land	1,521,197	39,361	-0-	1,560,558
<i>Capital assets being depreciated;</i>				
Building and Structures	3,213,891	-0-	-0-	3,213,891
Machinery and Equipment	1,785,153	102,630	-0-	1,887,783
Infrastructure				
Bridges	251,500	-0-	-0-	251,500
Signs and Lights	3,436,800	12,800	-0-	3,449,600
Drainage System	732,450	-0-	-0-	732,450
Sidewalks	633,716	-0-	-0-	633,716
Pavement System	13,234,209	-0-	-0-	13,234,209
Governmental Activities Capital Assets	24,808,916	154,791	-0-	24,963,707
Less Accumulated Depreciation	(17,672,740)	(382,444)	-0-	(18,055,184)
Governmental Activities Capital Assets, net	7,136,176	(227,653)	-0-	6,908,523
Business-type Activities:				
<i>Capital assets not being depreciated;</i>				
Land	403,472	-0-	-0-	403,472
<i>Capital assets being depreciated;</i>				
Building and Structures	6,529,137	445,690	-0-	6,974,827
Machinery and Equipment	4,459,755	36,064	-0-	4,495,819
Water Delivery System	8,109,242	-0-	-0-	8,109,242
Sewer Delivery System	3,952,827	-0-	-0-	3,952,827
Total Business Activities Capital Assets	23,454,433	481,754	-0-	23,936,187
Less Accumulated Depreciation	(12,183,924)	(735,309)	-0-	(12,919,233)
Business-type Capital Assets, net	11,270,509	(253,555)	-0-	11,016,954
Total Capital Assets, net	18,446,046	(520,569)	-0-	17,925,477

The City of Yreka's investment in capital assets for its governmental and business type activities as of June 30, 2004, amounts to \$17,925,477 (net of accumulated depreciation). Non depreciable capital assets are land and land right of ways, used primarily for streets. Depreciable assets include buildings and structures, equipment and vehicles as well as construction in progress. Public domain capital assets (infrastructure) include streets and sidewalks, curbs and gutters, drainage systems, bridges, and lighting systems.

Major capital asset events during the year included the following:

- Machinery and equipment included a new police car, park grounds mower, and road graders for \$102,360.
- New street lights on Discover and Northview for \$12,800.
- Land acquisition of a small parcel for Greenhorn Park \$39,361.
- Filter rebuilding at the water treatment for \$36,064.
- At the sewer plant \$445,690 was spent on inflow and infiltration upgrades, as part of a CDBG grant award.

Changes in Long Term Debt:

Changes in Long Term Debt

	Balance June 30, 2003	Additions	Decreases	Balance June 30, 2004
<i>Governmental Activities:</i>				
Loans Payable - Banks and Others	313,629	-0-	79,634	233,995
Loans Payable - Governmental Agencies	-0-	-0-	-0-	-0-
Reclassification to Current Debt	-0-	-0-	-0-	-0-
Total Governmental Activities	313,629	-0-	79,634	233,995
<i>Business-type Activities:</i>				
Loans Payable - Banks and Others	649,191		143,420	505,771
Loans Payable - Governmental Agencies	2,425,807		232,887	2,192,920
Certificates of participation - USDA Rural Development	918,350	-0-	9,350	909,000
Other	-0-	-0-	-0-	-0-
Total Business Activities	3,993,348	-0-	385,657	3,607,691
Total Outstanding Long Term Debt	4,306,977	-0-	465,291	3,841,686
Less Portion Classified as Current Debt				(289,941)
Total Outstanding Long Term Debt Adjusted for Portion Classified as Current Debt				<u>3,551,745</u>

At the end of the current fiscal year, the City of Yreka had total debt outstanding of \$3,551,745. Detail information on lenders, rates and maturities for long term debt can be found on pages 25 through 27 of this report.

The City of Yreka's total debt decreased by \$465,291 during the current fiscal year, due to scheduled principal repayment on borrowings.

Next Year's Budgets and Rates:

Uncertainty resides in the 2004-05 adopted budget due to the State of California's various budget proposals and the consequences of each. In the 2004-05 adopted budget the City assumed a reduction in the Vehicle License fees revenue, eliminated both the SB90 State Mandate cost reimbursements and Prop. 42 revenue for Traffic Congestion Relief.

The City's Transit and Occupancy Tax increased from 8% to 10% based on voter approval.

The 2004-05 adopted budget includes a 2% cost of living adjustment on the salary schedule for employees.

The City's general liability, employment and workers' compensation insurance premiums are expected to increase by 8% over the prior year. And for the fourth year in a row, there continues to be a dramatic increase in the premiums paid toward the City's contracted Health Insurance benefit for all of the bargaining units. Employees did agree however, to pay for 10% of their health care premium that was formerly 100% employer paid expense.

The PERS retirement program is no longer super-funded (retirement plan with assets in excess of accrued liabilities). In 2004-2005, according to the most recent actuarial study, the City will be required to increase its contribution by 76% totaling \$364,626 for Miscellaneous and Safety personnel. The much higher PERS rates will be in place for several years as the investment losses are only partially recognized each year by the rate smoothing process. Only better CalPERS investment returns will stem the tide of these huge increases.

Offsetting the personnel cost increases the City has withheld in hiring replacements for certain open positions and refrained from making new vehicle and rolling stock purchases that are not grant funded.

Increased costs of operation for the Yreka Landfill over the last three years have impacted the City's bottom line. The City is depositing significant sums into closure funds, corrective measures, as well as legal and environmental expenses in order to complete the Environmental Impact Report and the Joint Technical Document and obtain the necessary permits to continue operation.

In spite of the austere fiscal environment the City has the following projects on schedule for 2004-05:

The City will continue with the second phase of the Sewer Rehabilitation program funded by the second \$500,000 CDBG grant and monies transferred from the EDBG Revolving Loan Fund.

The City has budgeted \$100,000 for a water master plan, part of which is being funded from a Planning and Technical Assistance grant. This master plan in conjunction with the recently completed sewer master plan will provide for systematic planning to meet existing and project improvements and upgrades.

Projects for 2004-05 that were not completed in 2003-04 that include capital improvements at the Wastewater treatment plant, including percolation pond renovations and recoating the inside walls of the clarifier; and completion of the Storm Drain Master plan that will provide information needed to correct current system problems as well as a plan for an adequate future storm drain system.

RTPA Exchange funds obtained from the Local Transportation Commission will be used to place on chip seal or other surface treatment on [1] Oberlin Road between Main Street and the City Limits and on [2] the Miner and Center Street.

For the City parks, a USFS grant small diameter logs grant is being utilized to build an information kiosk in Greenhorn Park and the mini park at North and Gold is being renovated with the help of volunteers and city staff.

The City hopes to complete the Greenhorn Park Reclamation and Reuse plan. This plan will be derived from several public hearings, input from design professionals with ultimate approval of the City Council. It will address the biological diversity, hydrology, and provide a detailed mapping of the area to be reclaimed.

The City has applied for a competitive grant from Transportation Enhancement Activities to construct pedestrian and bike paths from the intersection of Miner and Center Streets to the Yreka Family YMCA. Gas tax money is being utilized as matching funds.

The City and Yreka Family YMCA received a grant from Roberti-Z' Berg state grant to construct a teen center and senior fitness trail.

Requests for Information:

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

City of Yreka, California
Statement of Net Assets
June 30, 2004

	Primary Government		Total
	Governmental Activities	Business-type Activities	
ASSETS			
Current Assets:			
Cash and investments	\$ 4,030,905	\$ 5,302,949	\$ 9,333,854
Receivables (net):			
Accounts	978	186,647	187,625
Taxes	170,647		170,647
Intergovernmental	153,384		153,384
Interest	23,530		23,530
Loans	231,518		231,518
Due from other funds	480,583		480,583
Total current assets	<u>5,091,545</u>	<u>5,489,596</u>	<u>10,581,141</u>
Noncurrent Assets:			
Post closure reserve-landfill		608,865	608,865
Capital assets:			
Land, buildings and equipment	24,963,707	23,936,187	48,899,894
Accumulated depreciation	<u>(18,055,184)</u>	<u>(12,919,233)</u>	<u>(30,974,417)</u>
Total noncurrent assets	<u>6,908,523</u>	<u>11,625,819</u>	<u>18,534,342</u>
Total assets	<u>12,000,068</u>	<u>17,115,415</u>	<u>29,115,483</u>
LIABILITIES			
Current liabilities:			
Accounts payable	280,264	99,933	380,197
Payroll payable	101,958	17,797	119,755
Accrued vacation pay payable	176,502	32,659	209,161
Accrued interest	6,414	41,703	48,117
Due to other funds		480,583	480,583
Long-term debt-due within one year	73,490	216,451	289,941
Total current liabilities	<u>638,628</u>	<u>889,126</u>	<u>1,527,754</u>
Noncurrent liabilities:			
Long-term debt--due in more than one year	160,505	3,391,240	3,551,745
Reserved for closure/post closure-landfill		608,865	608,865
Total noncurrent liabilities	<u>160,505</u>	<u>4,000,105</u>	<u>4,160,610</u>
Total liabilities	<u>799,133</u>	<u>4,889,231</u>	<u>5,688,364</u>
NET ASSETS			
Investment in capital assets, net of related debt	6,674,528	7,367,560	14,042,088
Unrestricted	<u>4,526,407</u>	<u>4,858,624</u>	<u>9,385,031</u>
Total net assets	<u>\$ 11,200,935</u>	<u>\$ 12,226,184</u>	<u>\$ 23,427,119</u>

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

City of Yreka, California
Statement of Activities
For the Year Ended June 30, 2004

	Program Revenues				Net (Expenses Revenues and Changes in Net Assets		
	Expenses	Charges for Services	Operating		Governmental Activities	Business Type Activities	Total
			Grants and Contributions	Capital Grants and Contributions			
Functions/Programs							
Primary Government:							
Governmental activities:	\$				\$		\$
City council, administration & clerk	240,903				(240,903)		(240,903)
General government	1,329,227	\$ 2,433			(1,326,794)		(1,326,794)
Fire	210,267	34,664			(175,603)		(175,603)
Police	1,447,026	4,595	\$ 128,153		(1,314,278)		(1,314,278)
Planning and development	418,806	40,961	232,970		(144,875)		(144,875)
Parks and recreation	388,962	49,676		\$ 15,000	(324,286)		(324,286)
Public works administration	133,690				(133,690)		(133,690)
Public works mechanical maint.	251,508				(251,508)		(251,508)
Streets & sidewalks	792,062		393,159		(398,903)		(398,903)
Senior nutrition	306,283		264,333		(41,950)		(41,950)
Interest on long-term debt	6,929				(6,929)		(6,929)
Total governmental activities	5,525,663	132,329	1,018,615	15,000	(4,359,719)		(4,359,719)
Business type activities:							
Water	1,146,790	1,261,471				\$ 114,681	114,681
Sewer	1,060,727	818,449		111,220		(131,058)	(131,058)
Landfill	771,153	793,765				22,612	22,612
Total business type activities	2,978,670	2,873,685	-	111,220		6,235	6,235
Total primary government	8,504,333	3,006,014	1,018,615	126,220	(4,359,719)	6,235	(4,353,484)
General revenues:							
Property taxes					708,688		708,688
Sales taxes					1,840,114		1,840,114
Transient lodging taxes					437,779		437,779
Franchise taxes					161,925		161,925
Fuel taxes					151,576		151,576
Intergovernmental revenue					140,735		140,735
Licenses and permits					131,712		131,712
Fines and forfeitures					129,517		129,517
Unrestricted investment earnings					144,767	5,469	150,236
Other					108,535		108,535
Total general revenues					3,955,348	5,469	3,960,817
Change in net assets					(404,371)	11,704	(392,667)
Net assets - beginning of year					11,605,306	9,411,318	21,016,624
Prior period adjustments						2,803,162	2,803,162
Net assets - end of year					11,200,935	12,226,184	23,427,119

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

City of Yreka, California
 Balance Sheet
 Governmental Funds
 June 30, 2004

	Major Funds			Other Governmental Funds	Total Governmental Funds
	General	Local Transportation	Special Grants		
ASSETS					
Cash and investments	\$2,719,022	\$ 552,425	\$ 241,727	\$ 517,731	\$ 4,030,905
Receivables:					
Accounts	264			714	978
Taxes	170,647				170,647
Intergovernmental	141,622		3,792	7,970	153,384
Interest	23,530				23,530
Loans			231,518		231,518
Due from other funds	451,756		480,583		932,339
TOTAL ASSETS	<u>\$3,506,841</u>	<u>\$ 552,425</u>	<u>\$ 957,620</u>	<u>\$ 526,415</u>	<u>\$ 5,543,301</u>
LIABILITIES and FUND BALANCES					
LIABILITIES:					
Accounts payable	\$ 156,733	\$ 907	\$ 102,041	\$ 20,583	\$ 280,264
Payroll payable	97,994			3,964	101,958
Accrued vacation	145,837			30,665	176,502
Due to other funds			451,756		451,756
TOTAL LIABILITIES	<u>400,564</u>	<u>907</u>	<u>553,797</u>	<u>55,212</u>	<u>1,010,480</u>
FUND BALANCES:					
Unreserved:					
Designated for:					
Future building improvements	132,047				132,047
Future equipment purchases	17,084				17,084
Grant projects	81,198		403,823		485,021
Police				4,618	4,618
Road maintenance		551,518		437,172	988,690
Sidewalk maintenance				29,413	29,413
Self insurance	216,320				216,320
Undesignated reported in:					
General fund	2,659,628				2,659,628
TOTAL FUND BALANCES	<u>3,106,277</u>	<u>551,518</u>	<u>403,823</u>	<u>471,203</u>	<u>4,532,821</u>
TOTAL LIABILITIES and FUND BALANCES	<u>\$3,506,841</u>	<u>\$ 552,425</u>	<u>\$ 957,620</u>	<u>\$ 526,415</u>	<u>\$ 5,543,301</u>

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

City of Yreka, California

Reconciliation of the Governmental Funds Balance Sheet Total Fund Balances to the Statement of Net Assets

Governmental Funds

June 30, 2004

Total governmental fund Balances (page 3)	\$ 4,532,821
Capital assets (net of accumulated depreciation) used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	6,908,523
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in the governmental funds interest is not reported until due.	(6,414)
Long-term liabilities are not due and payable in the current period and, therefore are not reported in the governmental funds.	
Notes payable	<u>(233,995)</u>
Net assets of governmental activities (page 1)	<u>\$ 11,200,935</u>

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

City of Yreka, California
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2004

	Major Funds			Other Governmental Funds	Total Governmental Funds
	General	Local Transportation	Special Grants		
REVENUES					
Property taxes	\$ 708,688				\$ 708,688
Sales taxes	1,840,114				1,840,114
Transient lodging taxes	437,779				437,779
Franchise fees	161,925				161,925
Fuel taxes				\$ 151,576	151,576
Licenses and permits	131,712			5,385	137,097
Charges for services	92,580				92,580
Fines and forfeitures	69,711			59,806	129,517
Intergovernmental	140,735	\$ 63,923		197,129	401,787
Fire dept. reimbursements	34,364				34,364
Unrestricted investment earnings	124,085	5,670	\$ 9,657	5,355	144,767
Grants and donations	472,279		232,970	10,429	715,678
Other	108,535				108,535
In-kind				56,885	56,885
Total revenues	4,322,507	69,593	242,627	486,565	5,121,292
EXPENDITURES					
City council, administrator & clerk	240,903				240,903
General government	1,304,274				1,304,274
Fire	182,052				182,052
Police	1,379,286		22,638	8,439	1,410,363
Planning and development	286,481		132,325		418,806
Parks, culture and recreation	342,076				342,076
Public works administration	133,690				133,690
Public works mechanical maintenance	251,508				251,508
Streets and sidewalks	125,164	4,644	220,255	197,060	547,123
Capital outlays	129,770				129,770
Senior nutrition				278,212	278,212
Debt service:					
Principal	75,603			4,031	79,634
Interest	515				515
Total expenditures	4,451,322	4,644	375,218	487,742	5,318,926
Excess (deficiency) of revenues over (under) expenditures	(128,815)	64,949	(132,591)	(1,177)	(197,634)
OTHER FINANCING SOURCES AND (USES)					
Operating transfers in				38,149	38,149
Operating transfers out	(50,254)			(15,966)	(66,220)
Total other financing sources and (uses)	(50,254)	-	-	22,183	(28,071)
Net change in fund balances	(179,069)	64,949	(132,591)	21,006	(225,705)
Fund balances - beginning of year	3,285,346	486,569	536,414	450,197	4,758,526
Fund balances - end of year	\$ 3,106,277	\$ 551,518	\$ 403,823	\$ 471,203	\$ 4,532,821

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

City of Yreka, California

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities

Governmental Funds

For the Year Ended June 30, 2004

Net change in fund balances - total governmental funds \$ (225,705)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures.

However, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives. This is the amount by which capital outlay exceeded depreciation expense for the current period.

Expenditures for capital assets	\$ 129,770	
Less current year depreciation	<u>(382,444)</u>	(252,674)

Repayment of loan principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. Principal payments 79,634

Governmental funds report expenditures for interest on long-term debt when paid. However, in the statement of activities, any interest expense that is due and payable at year end is accrued. Accrued interest expense at year end. (5,626)

Change in net assets of governmental activities \$ (404,371)

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

CITY OF YREKA, CALIFORNIA

Statement of Net Assets

Enterprise Funds

June 30, 2004

	<u>WATER</u>	<u>SEWER</u>	<u>SANITARY LANDFILL</u>	<u>TOTAL</u>
ASSETS				
Current:				
Cash and investments	\$4,233,307	\$895,647	\$173,995	\$5,302,949
Accounts receivable	112,733	64,088	9,826	186,647
Total Current Assets	<u>4,346,040</u>	<u>959,735</u>	<u>183,821</u>	<u>5,489,596</u>
Noncurrent:				
Post Closure Reserve			608,865	608,865
Depreciable Capital Assets, Net	2,667,557	7,478,841	870,556	11,016,954
Total Noncurrent Assets	<u>2,667,557</u>	<u>7,478,841</u>	<u>1,479,421</u>	<u>11,625,819</u>
Total Assets	<u>7,013,597</u>	<u>8,438,576</u>	<u>1,663,242</u>	<u>17,115,415</u>
 LIABILITIES				
Current:				
Accounts payable	52,260	22,156	25,517	99,933
Payroll payable	9,452	3,186	5,159	17,797
Compensated absences	22,673	4,640	5,346	32,659
Accrued interest payable	11,791	29,912		41,703
Due to special grants fund		480,583		480,583
Current portion of long-term debt	36,897	85,075	94,479	216,451
Total Current Liabilities	<u>133,073</u>	<u>625,552</u>	<u>130,501</u>	<u>889,126</u>
Noncurrent:				
Long-term debt, net of current	1,109,189	2,004,495	277,556	3,391,240
Reserved for closure/post closure			608,865	608,865
Total Noncurrent Liabilities	<u>1,109,189</u>	<u>2,004,495</u>	<u>886,421</u>	<u>4,000,105</u>
Total Liabilities	<u>1,242,262</u>	<u>2,630,047</u>	<u>1,016,922</u>	<u>4,889,231</u>
 Net Assets				
Invested in Capital Assets, Net of Related Debt	1,509,680	5,359,359	498,521	7,367,560
Unrestricted	4,261,655	449,170	147,799	4,858,624
Total Net Assets	<u>\$5,771,335</u>	<u>\$5,808,529</u>	<u>\$646,320</u>	<u>\$12,226,184</u>

See accompanying notes to the financial statements.

CITY OF YREKA, CALIFORNIA
Statement of Revenues, Expenses and
Changes in Fund Net Assets
Enterprise Funds
For the year ended June 30, 2004

	<u>WATER</u>	<u>SEWER</u>	<u>SANITARY LANDFILL</u>	<u>TOTAL</u>
Operating revenues:				
User fees and charges	<u>\$1,261,471</u>	<u>\$818,449</u>	<u>\$793,765</u>	<u>\$2,873,685</u>
Operating expenses:				
Cost of power and water	177,930	75,681		253,611
Maintenance, operations and, administration	688,639	536,905	421,924	1,647,468
Closure/Post closure costs			257,000	257,000
Depreciation	<u>264,716</u>	<u>379,336</u>	<u>91,257</u>	<u>735,309</u>
Total operating expenses	<u>1,131,285</u>	<u>991,922</u>	<u>770,181</u>	<u>2,893,388</u>
Operating income (loss)	<u>130,186</u>	<u>(173,473)</u>	<u>23,584</u>	<u>(19,703)</u>
Non Operating Revenues (Expenses)				
Interest income	194,250			194,250
Unrealized gains/losses on investments	(188,781)			(188,781)
Interest expense	<u>(15,505)</u>	<u>(68,805)</u>	<u>(972)</u>	<u>(85,282)</u>
Total Non Operating Revenues (Expenses)	<u>(10,036)</u>	<u>(68,805)</u>	<u>(972)</u>	<u>(79,813)</u>
Net income (loss) before Capital Grants	<u>120,150</u>	<u>(242,278)</u>	<u>22,612</u>	<u>(99,516)</u>
Capital Grants		<u>111,220</u>		<u>111,220</u>
Total Capital Grants	<u>-</u>	<u>111,220</u>	<u>-</u>	<u>111,220</u>
Change in Net Assets	120,150	(131,058)	22,612	11,704
Total Net Assets - Beginning of Year	<u>4,222,857</u>	<u>4,909,793</u>	<u>278,668</u>	<u>9,411,318</u>
Prior Period Adjustment	1,428,328	1,029,794	345,040	2,803,162
Total Net Assets - End of Year	<u><u>\$5,771,335</u></u>	<u><u>\$5,808,529</u></u>	<u><u>\$646,320</u></u>	<u><u>\$12,226,184</u></u>

See accompanying notes to the financial statements.

CITY OF YREKA, CALIFORNIA

Statement of Cash Flows

Enterprise Funds

For the year ended June 30, 2004

	WATER	SEWER	SANITARY LANDFILL	TOTAL ENTERPRISE FUNDS
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$1,290,024	\$832,975	\$792,472	\$2,915,471
Payments to suppliers for goods and services	(268,379)	(356,837)	(245,050)	(870,266)
Payments for employee services and benefits	(571,887)	(309,070)	(196,038)	(1,076,995)
Payments to post closure reserve			(257,000)	(257,000)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>449,758</u>	<u>167,068</u>	<u>94,384</u>	<u>711,210</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Advances from other funds		150,924		150,924
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	<u>-</u>	<u>150,924</u>	<u>-</u>	<u>150,924</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Equipment purchases			(1,839)	(1,839)
Plant and system improvements	(93,292)	(465,898)		(559,190)
Principal payments on debt	(193,665)	(85,173)	(106,818)	(385,656)
Interest payments on debt	(15,561)	(71,005)	(972)	(87,538)
Capital grants		111,220		111,220
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(302,518)</u>	<u>(510,856)</u>	<u>(109,629)</u>	<u>(923,003)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest on investments	194,250			
Decrease in investment fair value	(188,781)			(188,781)
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>5,469</u>	<u>-</u>	<u>-</u>	<u>5,469</u>
NET INCREASE (DECREASE) IN CASH	152,709	(192,864)	(15,245)	(55,400)
CASH AND CASH EQUIVALENTS - BEGINNING	<u>4,080,598</u>	<u>1,088,511</u>	<u>189,240</u>	<u>5,358,349</u>
CASH AND CASH EQUIVALENTS - ENDING	<u>\$4,233,307</u>	<u>\$895,647</u>	<u>\$173,995</u>	<u>\$5,302,949</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
Operating Income	\$130,186	(\$173,473)	\$23,584	(\$19,703)
Adjustments:				
Depreciation	264,716	379,336	91,257	735,309
(Increase)Decrease in Assets:				
Accounts Receivable	28,553	14,527	(1,293)	41,787
Increase(Decrease) in Liabilities:				
Accounts payable	19,745	(52,121)	(21,737)	(54,113)
Compensated absences	3,198	(1,306)	412	2,304
Payroll payable	3,360	105	2,161	5,626
NET CASH PROVIDED(USED) BY OPERATING ACTIVITIES	<u>\$449,758</u>	<u>\$167,068</u>	<u>\$94,384</u>	<u>\$711,210</u>

See accompanying note to the financial statements.

CITY OF YREKA, CALIFORNIA
Statement of Fiduciary Net Assets
June 30, 2004

	Private-Purpose Trust Funds						TOTALS
	Parklands Trust	Campbell Tract Redemption Fund	Shasta Belle Redemption Fund	Senior Fund	Gift Donations	Senior Activity	
Assets							
Cash	\$ 12,943	\$ 52,513	\$ 4,830	\$ 42,654	\$ 13,549	\$ 9,715	\$ 136,204
Total assets	12,943	52,513	4,830	42,654	13,549	9,715	136,204
Liabilities	-	-	-	-	-	-	-
Net Assets							
Held in trust for beneficiaries	12,943			42,654	13,549	9,715	78,861
Held in trust for assessment district		52,513	4,830				57,343
Total net assets	\$ 12,943	\$ 52,513	\$ 4,830	\$ 42,654	\$ 13,549	\$ 9,715	\$ 136,204

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

CITY OF YREKA, CALIFORNIA

Statement of Changes in Fiduciary Net Assets

For the Year Ended June 30, 2004

	Private-Purpose Trust Funds						TOTALS
	Parklands Trust	Campbell Tract Redemption Fund	Shasta Belle Redemption Fund	Senior Fund	Gift Donations	Senior Activity	
Additions							
Donations and grants	\$ 300			\$ 650		\$ 4,333	\$ 5,283
Property assessments			\$ 51,776				51,776
Total Additions	300	-	51,776	650	-	4,333	57,059
Deductions							
Senior activities				16		2,732	2,748
Debt Service			51,248				51,248
Total Deductions	-	-	51,248	16	-	2,732	53,996
Change in net assets	300		528	634		1,601	3,063
Net assets - beginning of year	12,643	\$ 52,513	4,302	42,020	\$ 13,549	8,114	133,141
Net assets - end of year	\$ 12,943	\$ 52,513	\$ 4,830	\$ 42,654	\$ 13,549	\$ 9,715	\$ 136,204

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

CITY OF YREKA, CALIFORNIA
Notes to the Financial Statements
June 30, 2004

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the City have been prepared in conformity with accounting principals generally accepted in the United States of America (GAAP) as applicable to state and local governments. The following is a summary of the significant accounting policies used by the City of Yreka, California.

A. Reporting Entity

The City of Yreka, California is legally incorporated under California municipal law, and is governed by a five member City Council. The City provides public safety (police and fire), streets and roads, water and sewer services, economic development, community development, parks and recreation and general administrative services.

In evaluating how to define the City, for financial reporting purposes, management has considered all potential component units in the reporting entity by applying the criteria set forth in generally accepted accounting principals. 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 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. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. The effect of interfund activity has been removed from these statements where practicable. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely significantly on fees and charges for support.

CITY OF YREKA, CALIFORNIA
Notes to the Financial Statements
June 30, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES(continued)

B. Government-wide and Fund Financial Statements (continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or identifiable activity are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (a) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or identifiable activity; and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or identifiable activity. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recognized when earned and expenses are recognized when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, relating to compensated absences, and claims and judgments are recognized only when payment is due.

CITY OF YREKA, CALIFORNIA

Notes to the Financial Statements

June 30, 2004

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)

Property taxes, state-shared revenue, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be available only when cash is received by the city.

The City of Yreka, California reports the following 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.

Local Transportation Fund - This fund is used to account for revenues received from the State of California which must be spend for street maintenance or repairs.

Special Grants Fund - This fund is used to account for various federal and state grants which must be spent for police training, economic and community development and, road improvements.

The City of Yreka, California reports the following major proprietary funds:

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

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

Sanitary Landfill Fund - This fund is used to account for the operation of a sanitary landfill. User charges to customers account for substantially all of the operating revenue of this fund.

Additionally, the City reports the following fund types:

Fiduciary Funds - The City's fiduciary funds represent agency funds. Agency funds do not have a measurement focus, although they do have a basis of accounting. Accrual basis of accounting is used to record the financial transactions. Agency funds are custodial in nature (assets and liabilities) and do not involve measurement of results of operations.

CITY OF YREKA, CALIFORNIA
Notes to the Financial Statements
June 30, 2004

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

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)

Private sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989, for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are interfund transfers between funds that if omitted would distort the financial statements.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the proprietary funds relates to charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sale and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

D. Cash and Investments

The City follows the practice of pooling cash resources, consisting of cash and investments, from all funds for the purpose of increasing income through investment activities. Interest earned on pooled cash resources is allocated among funds based on the individual funds computed average interest rate of all investments.

During fiscal year 2001-2002, the City adopted GASB Statement 31, "Accounting and Financial Reporting for Certain Investments and For Investment Pools." Under GASB 31 investments are generally stated at fair value, rather than amortized cost, and the increase or decrease in fair value of investments is included as a component of income.

CITY OF YREKA, CALIFORNIA
Notes to the Financial Statements
June 30, 2004

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

E. Taxes Receivable

Property Taxes - The County of Siskiyou assesses, bills and collects property taxes for the City. The County property tax is levied each November 1 on the assessed valuation of property located in the County as of the Preceding lien date. Taxes are receivable in two equal installments which become delinquent the first working day after December 10 and April 10. City property tax revenues are recognized when levied to the extent that they result in current receivables.

Sales Tax - The State of California collects the City's portion (1%) of sales taxes collected from retail sales within the City. Sales tax receivable represents sales tax which is attributable to retail sales made before the end of the fiscal year but not yet remitted to the City.

F. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$50,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings and building improvements	50 years
Land improvements	20 to 30 years
Equipment	7 years
Infrastructure	15 to 50 years
Water and sewer mains	50 years
Vehicles	3 to 7 years

CITY OF YREKA, CALIFORNIA
Notes to the Financial Statements
June 30, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES(continued)

G. Accrued Vacation Pay

It is the City's policy to permit employees to accumulated up to two weeks of earned but unused vacation pay benefits. Vacation pay and other earned but unpaid wages have been accrued in the government-wide and proprietary fund financial statements.

H. Long-term Debt

In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. The face amount of debt issued is reported as other financing sources on the statement of revenues and expenditures while the amount outstanding is reported on the statement of net assets. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported a debt service expenditures.

I. Fund Equity

Fund Balances - In the fund financial statements, governmental funds report reservations of fund balances for amounts that are not available for appropriation or are legally restricted by outside parties for a specific purpose. Designations of fund balances represent tentative management plans that are subject to change.

Net Assets - In the government-wide financial statements, net assets are classified in the following categories:

Invested in capital assets, net of related debt - This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that attributed to the acquisition, construction, or improvement of the assets.

Restricted net assets - This amount is restricted by external creditors, grantors, contributors, or laws or regulation of other governments.

Unrestricted net assets - This amount is all net assets that do not meet the definition of "invested in capital assets, net of related debt" or "restricted net assets."

CITY OF YREKA, CALIFORNIA
Notes to the Financial Statements
June 30, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES(continued)

J. Budgetary Data

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.

K. Use of Estimates

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

L. Statement of Cash Flows

For purposes of the statement of cash flows, the proprietary fund type considers all U.S. Treasury Bonds and highly liquid investments with a maturity of three months or less to be cash equivalents.

CITY OF YREKA, CALIFORNIA

Notes to the Financial Statements

June 30, 2004

2. CASH AND INVESTMENTS

The following is a summary of pooled cash and investments at June 30, 2004:

	Cash and Investments (carrying value)	Fair Value of Investments
Petty cash	\$650	
Cash in bank - checking	483,842	
Cash in State Treasurer's Local Agency Investment Fund	<u>6,845,506</u>	\$6,845,506
 Total Cash	 <u>7,329,998</u>	
 U.S. Government and Federal Bonds in Smith Barney account	 1,061,706	 1,061,706
U.S. Treasury Bonds	<u>1,687,219</u>	<u>1,687,219</u>
 Total Investments	 <u>2,748,925</u>	 <u>\$9,594,431</u>
 Total Cash and Investments Per Financial Statement	 <u>\$10,078,923</u>	

Financial statement cash and investments balances is comprised of the following:

Governmental activities - Cash and invest.	\$4,030,905
Business type activities - Cash and invest.	5,302,949
Landfill postclosure reserve	608,865
Fiduciary funds - Cash and investments	<u>136,204</u>
 Total	 <u>\$10,078,923</u>

The City maintains a cash and investment pool that includes cash balances and authorized investment of all funds, which the City Treasurer invests to enhance interest earnings. The pooled interest earned is allocated to the funds based on average month-end and investment balances in these funds.

CITY OF YREKA, CALIFORNIA
Notes to the Financial Statements
June 30, 2004

2. CASH AND INVESTMENTS (continued)

A. Cash Deposits

The carrying amounts of the City's cash deposits were \$486,112 at June 30, 2004. Bank balances before reconciling items were \$514,396 at that date. The total amount of which was collateralized or insured with securities held by the pledging financial institutions in the City's name is discussed below.

The California Government Code requires California banks and savings and loan associations to secure the City's cash deposits by pledging securities as collateral. This Code states that collateral pledged in this manner shall have the effect of perfecting a security interest in such collateral superior to those of a general creditor. Thus, collateral for cash deposits is considered to be held in the City's name.

The market value of pledged securities must equal at least 110% of the City's cash deposits. California law also allows institutions to secure City deposits by pledging first trust deed mortgage notes that have a value of 150% to the City's total cash deposits. The City may waive collateral requirement for cash deposits which are fully insured up to \$100,000 by the Federal Deposit Insurance Corporation.

The City follows the practice of pooling cash and investments of all funds, except for funds required to be held separate accounts due to grant or bond agreements. Interest income earned on pooled cash and investments is allocated on an accounting period basis to the various funds based on the various funds period-end cash and investment balances. Interest income from cash and investments with fiscal agents is credited directly to the related fund.

B. Investments

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

- Securities of the U.S. Government or its agencies.
- Certificates of Deposit (or Time Deposits) placed with commercial banks and/or savings and loan companies.
- California Local Agency Investment Fund.
- Investment-grade obligations of state, local government or public authorities.
- Passbook savings account and demand deposits.

The City has complied with the provisions of GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investments Pools. No current adjustments have been made to the accompanying financial statements for the City's investment in LAIF because the fair value adjustment was immaterial.

CITY OF YREKA, CALIFORNIA

Notes to the Financial Statements

June 30, 2004

2. CASH AND INVESTMENTS (continued)

B. Investments (continued)

The City's investments with Local Agency Investment Fund (LAIF) at June 30, 2004 include a portion of the pool funds invested in Structured Notes and Asset-Backed Securities. These investment include the following:

- Structured Notes - debt securities (other than asset-backed securities) whose cash flow characteristics (coupon rate, redemption amount, or stated maturity) depend upon one or more indices and/or that have embedded forwards or options.
- Asset-Backed Securities - the bulk of which are mortgage-backed securities, entitle their purchasers to receive a share of the cash flows from a pool of assets such as principal and interest repayments from a pool of mortgages (such as CMO's) or credit card receivables.

LAIF is overseen by the Local Agency Investment Advisory Board, which consists of five members, in accordance with State statute.

As of June 30, 2004, the City had \$6,845,506 invested in LAIF. LAIF had 1.603% of the pool investment funds in Structured Notes and Asset-Backed Securities at June 30, 2004.

C. Credit Risk

Governmental Accounting Standards Board Statement No. 3 requires that deposits and investments be classified by credit risk.

Classifications of deposits and investments by credit risk are as follows:

Deposits:

- Category 1 - Insured or collateralized with securities held by the city or its agent in the City's name.
- Category 2 - Collateralized with securities held by the pledging financial institution's trust department or agent in the City's name.
- Category 3 - Deposits which are uninsured or uncollateralized.

Investments:

Investments made by the city are summarized below. The investments that are represented by specific identifiable investment securities are classified as to credit risk within the following three categories:

- Category 1 - Insured or registered, with securities held by the City or its agent in the City's name.

CITY OF YREKA, CALIFORNIA

Notes to the Financial Statements

June 30, 2004

2. CASH AND INVESTMENTS (continued)

C. Credit Risk (continued)

Category 2 Uninsured and unregistered, with securities held by the counter party trust department or agent in the City's name.

Category 3 Uninsured and unregistered, with securities held by the counter party, or by its trust department or agent but not in the City's name.

Investments Not Required to be Categorized - Investments in the California Local Agency Investment Fund (LAIF) are not categorized, as GASB No. 3 does not require categorization of investment pools managed by another government.

	Category			Not Required to be Categorized	Carrying Value
	1	2	3		
Demand deposits:					
Cash deposit	\$483,842	-	-	-	\$483,842
Investments:					
U.S. Government Securities	\$1,687,219				\$1,687,219
U.S. Government and Federal Agency Bonds (in Smith Barney account)	1,061,706				1,061,706
Local agency investment fund				\$6,845,506	6,845,506
Total Investments	\$2,748,925	-	-	\$6,845,506	\$9,594,431

Summary on Investments to Maturity

Investments grouped by maturity date at June 30, 2004 are shown below:

<u>Maturity</u>	<u>Fair Value</u>
Current to one year	\$6,849,625
August 15, 2004	201,250
May 15, 2006	1,687,219 *
December 28, 2007	100,247
November 12, 2008	341,657
February 24, 2009	297,093
September 17, 2009	117,340

* Treasury notes which are expected to be called due to their investment yield exceeding current market rates.

CITY OF YREKA, CALIFORNIA

Notes to the Financial Statements

June 30, 2004

3. LOANS RECEIVABLE

The City had the following loan receivable as of June 30, 2004:

Economic development loan program	<u>\$231,518</u>
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The City administers a economic development loan program using Community Development Act funds. Businesses meeting the programs requirements are eligible to receive low interest loans, secured by deeds of trust, for the creation or expansion of their business.

At June 30, 2004 the City had outstanding loans of \$231,518 with no allowance for uncollectible accounts. During the year ended June 30, 2004 the City received \$36,757 in repayments from the program participants and loaned \$18,270 to program participants.

In the governmental fund financial statements, these loans are reported as expenditures when disbursed and as revenues when repaid. Loans receivable are offset by deferred revenue as they are not expected to be repaid immediately.

4. INTERFUND ASSETS AND LIABILITIES

The following is a summary of interfund assets and liabilities as of June 30, 2004

<u>Fund</u>	<u>Due From Asset</u>	<u>Due To Liability</u>
General Fund	\$451,756	
Special Revenue Funds:		
Special Grants	480,583	\$451,756
Enterprise Funds:		
Sewer Fund		<u>480,583</u>
Totals	<u>\$932,339</u>	<u>\$932,339</u>

The interfund assets and liabilities will be closed out in the next fiscal year with interfund transfers.

5. INTERFUND TRANSFERS IN/(OUT)

Interfund transfers for the year ended June 30, 2004 were as follows:

	<u>Transfers In</u>
	Other
	Governmental
<u>Transfers (out)</u>	<u>Funds</u>
General Fund	<u>\$50,254</u>

The above transfer resulted from the Normal course of the City's operation.

CITY OF YREKA, CALIFORNIA
Notes to the Financial Statements
June 30, 2004

6 CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2004 consisted of the following:

	Primary Government			Balance June 30, 2004
	Balance July 1, 2003	Additions	Retirements	
Governmental Activities:				
Capital assets, not being depreciated:				
Land and land improvements	\$ 1,521,197	\$ 39,361		\$ 1,560,558
Total capital assets not being depreciated	<u>1,521,197</u>	<u>39,361</u>	<u>-</u>	<u>1,560,558</u>
Capital assets, being depreciated:				
Buildings and structures	3,213,891			3,213,891
Machinery and equipment	1,785,153	102,630		1,887,783
Infrastructure:				
Bridges	251,500			251,500
Signs and lights	3,436,800	12,800		3,449,600
Drainage system	732,450			732,450
Sidewalks	633,716			633,716
Street pavement system	13,234,209			13,234,209
Total capital assets being depreciated	<u>23,287,719</u>	<u>115,430</u>	<u>-</u>	<u>23,403,149</u>
Accumulated depreciation	<u>(17,672,740)</u>	<u>(382,444)</u>		<u>(18,055,184)</u>
Total capital assets being depreciated, net	<u>5,614,979</u>	<u>(267,014)</u>	<u>-</u>	<u>5,347,965</u>
Governmental activities capital assets, net	<u>\$ 7,136,176</u>	<u>\$ (227,653)</u>	<u>\$ -</u>	<u>\$ 6,908,523</u>

Depreciation Expense by Function:

City council, administration & clerk	\$ -
General government	25,741
Fire	28,215
Police	36,663
Planning and Development	-
Parks and recreation	46,886
Public works administration	-
Public works mechanical maintenance	-
Streets & sidewalks	244,939
Senior nutrition	-
Total	<u>\$ 382,444</u>

CITY OF YREKA, CALIFORNIA

Notes to the Financial Statements

June 30, 2004

6

CAPITAL ASSETS (continued)

Capital assets activity for the year ended June 30, 2004 consisted of the following: (continued)

In accordance with GASB Statement No. 34, the City has reported all capital assets including infrastructure in the Government-wide Statement of Net Assets. All Capital assets including other infrastructure systems were reported using the Basic Approach whereby accumulated depreciation and depreciation expense have been recorded.

Capital asset activity for individual enterprise funds is as follows:

	Balance July 1, 2003	Additions	Retirements	Balance June 30, 2004
<u>Water system</u>				
Capital assets, not being depreciated:				
Land	\$ 45,462			\$ 45,462
Capital assets, being depreciated:				
Buildings and structures	1,353,633			1,353,633
Machinery and equipment	1,820,348	\$ 36,064		1,856,412
Water system	8,109,242			8,109,242
Total capital assets being depreciated	<u>11,283,223</u>	<u>36,064</u>		<u>11,319,287</u>
Less accumulated depreciation:				
Buildings and structures	(785,269)	(34,269)		(819,538)
Machinery and equipment	(1,625,938)	(27,828)		(1,653,766)
Water system	<u>(6,021,269)</u>	<u>(202,619)</u>		<u>(6,223,888)</u>
Total accumulated depreciation	<u>(8,432,476)</u>	<u>(264,716)</u>		<u>(8,697,192)</u>
Total capital assets being depreciated, net	<u>2,850,747</u>	<u>(228,652)</u>		<u>2,622,095</u>
Water system capital assets, net	<u>\$2,896,209</u>	<u>\$(228,652)</u>	<u>\$ -</u>	<u>\$ 2,667,557</u>
	Balance July 1, 2003	Additions	Retirements	Balance June 30, 2004
<u>Sewer system</u>				
Capital assets, not being depreciated:				
Land	\$ 11,200			\$ 11,200
Capital assets, being depreciated:				
Buildings and structures	5,175,504	\$ 445,690		5,621,194
Machinery and equipment	1,628,804			1,628,804
Sewer system	3,952,827			3,952,827
Total capital assets being depreciated	<u>10,757,135</u>	<u>445,690</u>	<u>-</u>	<u>11,202,825</u>
Less accumulated depreciation:				
Buildings and structures	(701,685)	(161,357)		(863,042)
Machinery and equipment	(785,823)	(148,826)		(934,649)
Sewer system	<u>(1,868,340)</u>	<u>(69,153)</u>		<u>(1,937,493)</u>
Total accumulated depreciation	<u>(3,355,848)</u>	<u>(379,336)</u>	<u>-</u>	<u>(3,735,184)</u>
Total capital assets being depreciated, net	<u>7,401,287</u>	<u>66,354</u>	<u>-</u>	<u>7,467,641</u>
	22,203,861			
Sewer system capital assets, net	<u>\$7,412,487</u>	<u>\$ 66,354</u>	<u>\$ -</u>	<u>\$ 7,478,841</u>

CITY OF YREKA, CALIFORNIA

Notes to the Financial Statements

June 30, 2004

7. LONG-TERM DEBT

The following is a summary of changes in general long-term obligations for the year ended June 30, 2004:

	<u>Balance June 30, 2003</u>	<u>New Issues</u>	<u>Principal Payments</u>	<u>Balance June 30, 2004</u>
LaFrance Fire Truck	\$122,186		\$25,888	\$96,298
Street Sweeper	53,265		18,276	34,989
Ford Pickup F150	11,747		4,031	7,716
FL70 Freightliner	82,949		16,520	66,429
Ford Pickup	22,524		7,728	14,796
Fire Dept. Rescue Truck	20,958		7,191	13,767
Totals	<u>\$313,629</u>	<u>-</u>	<u>\$79,634</u>	<u>\$233,995</u>

The following is a summary of changes in Enterprise Fund long-term obligations for the year ended June 30, 2004:

	<u>Balance June 30, 2003</u>	<u>New Issues</u>	<u>Principal Payments</u>	<u>Balance June 30, 2004</u>
WATER FUND				
Water System	\$1,093,252		\$156,579	\$936,673
Deferred Interest	236,941		33,848	203,093
Ford Pickup	9,559		3,238	6,321
SEWER FUND				
Brown Bear Tractor	160,779		33,363	127,416
Plant Upgrade	1,095,614		42,460	1,053,154
Eastside Sewer Extension	918,350		9,350	909,000
SANITARY LANDFILL				
627G Caterpillar Scraper	430,077		89,244	340,833
FL Freightliner Water Truck	48,776		17,575	31,201
Totals	<u>\$3,993,348</u>	<u>-</u>	<u>\$385,657</u>	<u>\$3,607,691</u>

CITY OF YREKA, CALIFORNIA

Notes to the Financial Statements

June 30, 2004

7. LONG-TERM DEBT (continued)

Long-term debt at June 30, 2004 consists of the following:

	<u>Business Type Activities</u>	<u>Primary Government</u>
Note payable to California Dept. of Water Resources, unsecured, bearing interest at 2.5%. Principal payment due in annual installments ranging from 2.1% and accelerating to 4.95% in the 30th year (2010).	\$936,673	
Deferred interest payable to California Dept. of Water Resources, per applicable provisions of the above note, accumulated for initial 10 years of note, with no interest. Payments due in annual installments of \$33,849.	203,093	
Note payable to Sun Trust Leasing Corp., secured with equipment, which bears interest at 3.35%. Interest and principal is due annually thru 2007.	468,249	\$162,727
Note payable to Sun Trust Leasing Corp., secured with equipment, which bears interest at 3.35%, Interest and principal payments due annually thru 2005.	37,522	71,268
Note payable to California State Water Resources Control Board, bearing interest at 2.6%. Principal and interest payment due annually thru 2022.	1,053,154	
Certificates of participation., unsecured. Issued August 7, 2002, bearing interest at 4.5%, Interest and principal payments due September 1 annually thru 2022.	909,000	
	<u>3,607,691</u>	<u>233,995</u>
Less: portion classified as current	<u>(216,451)</u>	<u>(73,490)</u>
Total long-term obligations	<u>\$3,391,240</u>	<u>\$160,505</u>

CITY OF YREKA, CALIFORNIA
Notes to the Financial Statements
June 30, 2004

7. LONG-TERM DEBT (continued)

The aggregate maturities on long-term debt over the succeeding years are summarized below:

<u>Year Ended June 30</u>	<u>Business Type Activities</u>	<u>Primary Government</u>
2005	\$362,600	\$73,490
2006	371,388	77,364
2007	361,181	41,062
2008	374,462	42,079
2009	265,520	
2010	253,362	
2011	62,817	
2012	65,139	
2013	66,494	
2014	68,885	
2015	71,312	
2016	72,776	
2017	75,278	
2018	77,820	
2019	80,401	
2020	82,023	
2021	84,688	
2022	87,396	
2023	90,149	
2024	22,000	
2025	23,000	
2026	24,000	
2027	25,000	
2028	26,000	
2029	27,000	
2030	28,000	
2031	30,000	
2032	31,000	
2033	33,000	
2034	34,000	
2035	35,000	
2036	37,000	
2037	39,000	
2038	40,000	
2039	42,000	
2040	44,000	
2041	46,000	
2042	48,000	
Totals	<u>\$3,607,691</u>	<u>\$233,995</u>

CITY OF YREKA, CALIFORNIA
Notes to the Financial Statements
June 30, 2004

8. 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. During the fiscal year ended June 30, 2004, the City contributed \$235,958 general liability coverage.

The Small Cities Organized Risk Effort covers workers' compensation claims up to the statutory limit. The City has no deductible for these claims. During the fiscal year ended June 30, 2004, the City contributed \$353,734 for current year coverage.

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 exceeded 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.

The following represents summary audited financial information of S.C.O.R.E general liability plan for the fiscal year ended June 30, 2004:

Total assets	\$57,851,504
Total liabilities	\$30,248,694
Fund equity	\$27,602,810
Total revenues	\$12,673,643
Total expenses	\$ 2,644,717
Refund to members	\$ 2,491,515
Net increase in fund equity	\$ 7,537,411

CITY OF YREKA, CALIFORNIA

Notes to the Financial Statements

June 30, 2004

9. RISK MANAGEMENT(continued)

Audited financial information for the risk pool may be obtained from S.C.O.R.E at

S.C.O.R.E.
C/O Dover Alliant Rigel Services, Inc.
2933 Gold Pan Court, Suite E
Rancho Cordova, CA 95670

10. PENSION PLAN

A. Plan Description: The City of Yreka contributes to the California Public Employees Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and city ordinance. Copies of PERS' annual financial report may be obtained from their Executive Office - 400 P Street - Sacramento, CA 95814.

Funding Policy: Participants are required to contribute 7% (9% for safety employees) of their annual covered salary. The City makes the contributions required of City employees on their behalf and for their account. The City is required to contribute at an actuarially determined rate. The contribution requirements of plan members and the City are established and may be amended by PERS.

Annual Pension Cost: For fiscal year 2001/2002, the City of Yreka's annual pension cost was \$129,960 and the City of Yreka actually contributed \$129,960. The required contribution for fiscal year 2001/2002 was determined as part of the June 30, 2002 actuarial valuation using the entry age normal actuarial cost method with the contributions determined as a percentage of pay. The actuarial assumptions included (a) 8.25% investment rate of return (net of administrative expenses); (b) projected salary increases that vary by duration of service ranging from 3.75% to 14.2% for miscellaneous members (from 4.272% to 11.587% for safety members), and (C) 3.75% payroll growth. Both (a) and (b) include an inflation component of 3.5%.

CITY OF YREKA, CALIFORNIA

Notes to the Financial Statements

June 30, 2004

11. PENSION PLAN (continued)

The actuarial value of City of Yreka's plan assets was determined using a technique that smooths the effect of short-term volatility in the market value of investments over a two to five year period depending on the size of investment gains and/or losses. City of Yreka's unfunded actuarial accrued excess assets is being amortized as a level percentage of projected payroll on a closed basis.

Required Supplementary Information

Three Year Trend Information for Miscellaneous Plan of the City of Yreka:
Funded Status of Plan

Valuation Date	Entry Age Normal Accrued Liability	Actuarial Value of Assets	Unfunded Liability/ (Excess Assets)	Funded Status	Annual Covered Payroll	UAAL As a % of Payroll
06-30-2000	3,796,645	4,838,674	(1,042,029)	127.40%	583,434	-178.603%
06-30-2001	4,183,089	5,020,065	(836,976)	120.00%	712,199	-117.520%
06-30-2002	4,407,352	4,799,793	(392,441)	108.90%	741,086	-53.000%

Three Year Trend Information for Safety Plan of the City of Yreka:

Funded Status of Plan

Valuation Date	Entry Age Normal Accrued Liability	Actuarial Value of Assets	Unfunded Liability/ (Excess Assets)	Funded Status	Annual Covered Payroll	UAAL As a % of Payroll
06-30-2000	6,485,797	8,709,520	(2,223,723)	134.3%	1,615,067	-137.7%
06-30-2001	7,426,131	8,895,029	(1,468,898)	119.8%	1,747,318	-84.1%
06-30-2002	8,141,280	8,416,396	(275,116)	103.4%	1,781,482	-15.4%

9. EMPLOYEE DENTAL PLAN

Self Insured Dental Plan - The city provides dental insurance coverage for city employees through a self insurance plan. The plan is managed by a contract administrator. The cost of the plan for the year ended June 30, 2004 was \$44,977.

CITY OF YREKA, CALIFORNIA

Notes to the Financial Statements

June 30, 2004

10. NET ASSETS

As of June 30, 2004, investment in capital assets, net of related debt consisted of the following:

	Primary Government	Business-type Activities
Capital assets, net	\$6,908,523	\$11,016,954
Long-term debt	(233,955)	(3,649,394)
Investment in capital assets, net of related debt	\$6,674,568	\$7,367,560

11. SOLID WASTE LANDFILL CLOSURE/POST CLOSURE CARE COSTS

The City has established a restricted trust account to cover the costs associated with the eventual closure of the solid waste landfill operated by the City. This restricted trust account was established per the requirements of the California Integrated Waste Management Board. The trust fund balance is increased each year based on the estimated liability incurred to date and the landfill capacity used to date.

Landfill/Post closure care costs include the costs to construct a final cover and to monitor the landfill site after closure.

Information relating to the closure post closure care costs:

Liability for closure/post closure care as of June 30, 2004	\$608,865
Trust account balance as of June 30, 2004	\$608,865
Estimated total current cost remaining to be recognized	\$4,175,957
Percentage of landfill capacity used to date	23%
Estimated remaining landfill life	65 years
Increase in trust account balance and expenditure for the year ended June 30, 2004	\$257,000

There is the potential that these estimates will change due to changes in inflation/deflation, technology, or applicable laws and regulations.

CITY OF YREKA, CALIFORNIA
Notes to the Financial Statements
June 30, 2004

12. JOINT OWNERSHIP OF LANDFILL WITH SISKIYOU COUNTY

The City jointly owns a sanitary landfill facility with the county of Siskiyou. The day to day operation of the facility is handled by the City and is accounted for in an enterprise fund.

13. COMMITMENTS, CONTINGENT LIABILITIES AND LITIGATION

- A.** The City participates in a number of Federal and State assisted grant programs. These programs are subject to financial and compliance audits by the grantors or their representatives. Audits of certain grant programs, including those for the year ended June 30, 2004 have not yet been conducted.

Accordingly, the City's compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time. Management believes that such disallowances, if any, would not have a material effect on the financial statement.

- B.** Certain general obligation bonds which are issued exclusively as general obligations debt for the benefit of a governmental enterprise, but which, as a matter of discretionary financial policy, are actually serviced by earnings of an enterprise fund, are presented as an obligation of the enterprise fund rather than in general long-term debt. The City would be responsible for the debt only in the event that funds were not available in the enterprise fund. If this occurred, an interfund receivable would be created and remain until the enterprise fund was able to repay the City.
- C.** The City is subject to various disputes, legal proceedings and labor relation claims which arise in the normal course of its operations. The City management is of the opinion that the ultimate disposition of the various claims and legal proceedings will not have a material effect, if any, on the financial condition of the City.

CITY OF YREKA, CALIFORNIA

Notes to the Financial Statements

June 30, 2004

14. PRIOR PERIOD ADJUSTMENTS

The City recorded the following prior period adjustments as part of GASB Statement Number 34 implementation:

A prior period adjustment of \$1,428,328 was made to the water fund in order to adjust the capital asset balance per the revised capital asset inventory list prepared for GASB 34 implementation.

A prior period adjustment of \$1,209,794 was made to the sewer fund in order to adjust the capital asset balance per the revised capital asset inventory list prepared for GASB 34 implementation.

A prior period adjustment of \$345,040 was made to the sanitary landfill fund in order to adjust the capital asset balance per the revised capital asset inventory list prepared for GASB 34 implementation.

Supplementary Information

City of Yreka, California
 Required Supplementary Information
 Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
 General Fund
 For the Year Ended June 30, 2004

	Budget Amounts		Actual Amounts	Positive (Negative) Variance with Final Budget
	Original	Final		
REVENUES				
Property taxes	\$ 710,000	\$ 710,000	\$ 708,688	\$ (1,312)
Sales taxes	1,898,420	1,850,000	1,840,114	(9,886)
Transient lodging taxes	458,976	458,976	437,779	(21,197)
Franchise fees	159,732	150,000	161,925	11,925
Licenses and permits	130,723	130,723	131,712	989
Charges for services	75,988	74,143	92,580	18,437
Fines and forfeitures	114,000	67,000	69,711	2,711
Intergovernmental	282,611	141,876	140,735	(1,141)
Fire dept. reimbursements	10,000	10,000	34,364	24,364
Unrestricted investment earnings	237,000	237,000	124,085	(112,915)
Grants and donations	331,092	440,403	472,279	31,876
Other	295,975	192,975	108,535	(84,440)
Total revenues	<u>4,704,517</u>	<u>4,463,096</u>	<u>4,322,507</u>	<u>(140,589)</u>
EXPENDITURES				
City council, administrator & clerk	222,520	255,400	240,903	14,497
General government	1,268,214	1,379,320	1,304,274	75,046
Fire	215,500	227,000	182,052	44,948
Police	1,464,490	1,454,060	1,379,286	74,774
Planning and development	312,290	319,071	286,481	32,590
Parks, culture and recreation	426,611	408,196	342,076	66,120
Public works administration	141,220	156,033	133,690	22,343
Public works mechanical maintenance	296,760	289,303	251,508	37,795
Streets and sidewalks	187,520	228,870	125,164	103,706
Capital outlays	100,000	231,000	129,770	101,230
Debt service:				
Principal	75,606	75,616	75,603	13
Interest	517	517	515	2
Total expenditures	<u>4,711,248</u>	<u>5,024,386</u>	<u>4,451,322</u>	<u>573,064</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(6,731)</u>	<u>(561,290)</u>	<u>(128,815)</u>	<u>432,475</u>
OTHER FINANCING SOURCES AND (USES)				
Operating transfers in				
Operating transfers out	(54,000)	(54,000)	(50,254)	3,746
Debt proceeds				
Total other financing sources and (uses)	<u>(54,000)</u>	<u>(54,000)</u>	<u>(50,254)</u>	<u>3,746</u>
Net change in fund balances	(60,731)	(615,290)	(179,069)	436,221
Fund balances - beginning of year	3,285,346	3,285,346	3,285,346	-
Fund balances - end of year	<u>\$ 3,224,615</u>	<u>\$ 2,670,056</u>	<u>\$ 3,106,277</u>	<u>\$ 436,221</u>

The notes to the financial statements are an integral part of this statement.

City of Yreka, California
 Required Supplementary Information
 Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
 Local Transportation
 For the Year Ended June 30, 2004

	Budget Amounts		Actual Amounts	Positive (Negative) Variance with Final Budget
	Original	Final		
REVENUES				
Intergovernmental	\$ 91,930	\$ 63,923	\$ 63,923	\$ -
Unrestricted investment earnings	5,500	8,000	5,670	(2,330)
Total revenues	<u>97,430</u>	<u>71,923</u>	<u>69,593</u>	<u>(2,330)</u>
EXPENDITURES				
Streets and sidewalks	41,000	41,000	4,644	36,356
Total expenditures	<u>41,000</u>	<u>41,000</u>	<u>4,644</u>	<u>36,356</u>
Excess (deficiency) of revenues over (under) expenditures	<u>56,430</u>	<u>30,923</u>	<u>64,949</u>	<u>34,026</u>
OTHER FINANCING SOURCES AND (USES)				
Operating transfers in				-
Operating transfers out				-
Debt proceeds				-
Total other financing sources and (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	56,430	30,923	64,949	34,026
Fund balances - beginning of year	486,569	486,569	486,569	-
Fund balances - end of year	<u>\$ 542,999</u>	<u>\$ 517,492</u>	<u>\$ 551,518</u>	<u>\$ 34,026</u>

The notes to the financial statements are an integral part of this statement.

City of Yreka, California
 Required Supplementary Information
 Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
 Special Grants
 For the Year Ended June 30, 2004

	Budget Amounts		Actual Amounts	Positive (Negative) Variance with Final Budget
	Original	Final		
REVENUES				
Unrestricted investment earnings			\$ 9,657	\$ 9,657
Grants and donations	\$ 1,328,000	\$ 869,551	232,970	(636,581)
Total revenues	<u>1,328,000</u>	<u>869,551</u>	<u>242,627</u>	<u>(626,924)</u>
EXPENDITURES				
Police	15,000	15,000	22,638	(7,638)
Planning and development	701,780	809,944	132,325	677,619
Streets and sidewalks	524,000	85,957	220,255	(134,298)
Total expenditures	<u>1,240,780</u>	<u>910,901</u>	<u>375,218</u>	<u>535,683</u>
Excess (deficiency) of revenues over (under) expenditures	<u>87,220</u>	<u>(41,350)</u>	<u>(132,591)</u>	<u>(91,241)</u>
OTHER FINANCING SOURCES AND (USES)				
Operating transfers in				
Operating transfers out				
Debt proceeds				
Total other financing sources and (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	87,220	(41,350)	(132,591)	(91,241)
Fund balances - beginning of year	536,414	536,414	536,414	-
Fund balances - end of year	<u>\$ 623,634</u>	<u>\$ 495,064</u>	<u>\$ 403,823</u>	<u>\$ (91,241)</u>

The notes to the financial statements are an integral part of this statement.

City of Yreka, California

Notes to Required Supplementary Information
June 30, 2004

Budgets and Budgetary Accounting

As required by the laws of the State of California, the City prepares and legally adopts a final balanced operating budget that may include appropriations of ending fund balances (reserves). At least one public hearing is conducted to obtain comments on the proposed final budget and to review all appropriations and the sources of financing.

Budgets for the general and special revenue funds are adopted on a basis consistent with accounting principles generally accepted in the United States, utilizing the modified accrual basis of accounting and are presented accordingly in the financial statements. Budgets for the proprietary funds are adopted under accounting principles generally accepted in the United States; however, budgets for the proprietary funds, though not considered legally adopted budgets, are used for management and control purposes.

At the fund level, actual expenditures cannot exceed budgeted appropriations. In order to accommodate operational changes that may result during the course of a budget year, the City Council may authorize supplemental appropriations during the year by budget modification resolution. Management can modify line items of a budget, with the limitation that the overall departmental budget may not be exceeded without Council approval.

The budgetary data presented in the accompanying financial statements includes all revisions approved by the City Council.

CITY OF YREKA, CALIFORNIA
 Schedule of Expenditures of Federal Awards
 For the Year Ended June 30, 2004

<u>Federal Grantor/Pass-through Grantor</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Federal Expenditures</u>
U.S. Department of Health and Human Services. Passed Through California Dept. of Aging			
Pass Through Program From PSAII Local Area Agency on Aging FF-0102-02		4001	
Title III Congregate Meals (C1)	93.045		\$ 17,267
Title III Home Delivered Meals (C2)	93.045		34,033
Title III Supportive Services (III-B)	93.044		19,537
U.S. Department of Agriculture	10.570		20,651
			<hr/>
Total Expenditures of Federal Awards			<u>\$ 91,488</u>

See accompanying notes to the schedule of expenditures of federal awards.

CITY OF YREKA, CALIFORNIA

Notes to Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2004

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Yreka, California and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

I have audited the financial statements of the City of Yreka as of and for the fiscal year ended June 30, 2004, and have issued my report thereon dated August 17, 2006.

I conducted my 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.

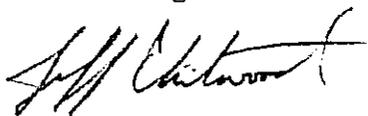
Compliance

As part of obtaining reasonable assurance about whether the City of Yreka's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, non-compliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the City of Yreka's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. I noted no matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect the City's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a reportable condition in which the design or operation of the specific internal control components does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. I also issued a separate letter Dated August 17, 2006 discussing other matters that came to my attention during the course of the audit.



Jeffrey Chitwood
Certified Public Accountant
August 17, 2006