

**CITY OF YREKA**

**Financial Statements**

**June 30, 2005**

# City of Yreka, California

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**JEFFREY CHITWOOD** CERTIFIED PUBLIC ACCOUNTANT

303 Bruce Street Suite B, Yreka, CA 96097  
Phone: (530) 841-1501  
Fax: (530) 841-1568

INDEPENDENT AUDITOR'S REPORT

To the City Council  
City of Yreka  
Yreka, California

I have audited the accompanying financial statements 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, 2005 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.

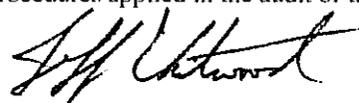
I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that I plan and perform 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, 2005, 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 May 22, 2007 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 grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of my audit.

The Management Discussion and Analysis (MD&A) and budgetary comparison information as listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principals generally accepted in the United States of America. 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 introductory section, combining and individual nonmajor fund financial statements, and statistical section schedules are presented for the purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and non-Profit Organizations, and is also not a required part of the basic financial statements of City of Yreka, California. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, based on my audit, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, I express no opinion on them.



Jeffrey Chitwood  
Certified Public Accountant  
May 22, 2007

email: [jccpa@nctv.com](mailto:jccpa@nctv.com)

# 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, 2005. 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 \$23,186,313 (net assets). Of this amount, \$8,853,928 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The governmental activities fund's total net assets decreased by \$622,699 from the prior fiscal year 2003-04. The ending fund balance decreased by \$663,802 in 2004-05. The ending fund balance decrease however, includes a \$1,521,739 payment to City's pension plan with CalPERS for unfunded pension liability. The City chose to repay with internal funds rather than finance the liability for 20 years at the CalPERS implied borrowing rate of 7.75%.
- The business type activities total net assets increased by \$439,741 from the prior fiscal year 2003-04, for an overall net increase of \$381,893 that includes the \$41,303 prior year negative adjustment. Over \$681,088 of that increase is due to \$414,616 in grant revenue and a \$266,472 allocation from the City's business revolving loan program income. Offsetting that increase was a net operating loss of \$183,389 in the enterprise funds, primarily the sewer which incurred a net operating loss of \$173,627 in fiscal year 2004-2005 and \$173,473 in fiscal year 2003-2004.

The City continues to take fiscal measures to reduce expenses, evaluate vacancies in staffing, and has worked with the bargaining units to establish a rate cap on the employer's share of health benefits costs.

The City realizes it needs to focus its efforts to increase services rates in its business-type activities to keep pace with the increasing cost of operations. And though the City has indexed its cost of utilities to the Engineering News Construction Cost Index, the baseline rate is so low that the 4.4% rate increase in 2004-05 amounted to a \$1.59 monthly increase to the water and sewer residential household bill.

Overall the City continues to remain fiscally sound and maintains an adequate operating reserve, but needs to take measured steps in covering the cost of business-type activities by restructuring its fees.

## **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 11 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 35 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 41 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 \$10,578,236 for governmental activities and \$12,608,077 for business type activities, or \$23,186,313 total, at the close of the most recent fiscal year.

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

City of Yreka Changes in Net Assets	Governmental	Business-Type	Total
	Activities	Activities	
Total Net Assets for:			
Fiscal Year 2003-04	11,200,935	12,226,184	23,427,119
Fiscal Year 2004-05	10,578,236	12,608,077	23,186,313
Increase or (Decrease in Net Assets)	(622,699)	381,893	(240,806)

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 is still outstanding. The City of Yreka uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Yreka's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

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

**City of Yreka – Governmental Activities Net Assets**

City of Yreka - Net Assets  
Governmental Activities

	Governmental Activities		Percentage
	2003-04	2004-05	Change
<b>Assets:</b>			<b>2003-04 base</b>
Current assets and other assets	5,091,545	6,119,646	20.2%
Non Current Assets	6,908,523	6,732,266	-2.6%
<i>Total Assets</i>	12,000,068	12,851,912	7.1%
<b>Liabilities:</b>			
Current Liabilities	638,628	2,223,140	248.1%
Long-term Liabilities	160,505	50,536	-68.5%
<i>Total Liabilities</i>	799,133	2,273,676	184.5%
<b>Net assets:</b>			
Invested in capital assets, net of related debt	6,674,528	6,604,304	-1.1%
Restricted	-	-	
Unrestricted	4,526,407	3,973,932	-12.2%
<i>Total Net Assets</i>	11,200,935	10,578,236	-5.6%

Net assets decreased by 5.6% or \$622,669. The 248.1% increase in currently liabilities reflects the \$1,521,739 payable to City's pension plan with CalPERS for unfunded pension liability. The 68.5% decrease in long-term liabilities reflects repayment three and five year notes for vehicles and equipment.

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

**City of Yreka – Business Type Activities Net Assets**

City of Yreka - Net Assets  
Business-Type Activities

	Business-Type Activities		Percentage
	2003-04	2004-05	Change
<b>Assets:</b>			<b>2003-04 base</b>
Current assets and other assets	5,489,596	5,188,526	-5.5%
Non Current Assets	11,625,819	11,878,819	2.2%
<i>Total Assets</i>	<u>17,115,415</u>	<u>17,067,345</u>	<u>-0.3%</u>
<b>Liabilities:</b>			
Current Liabilities	889,126	684,517	-23.0%
Long-term Liabilities	4,000,105	3,774,751	-5.6%
<i>Total Liabilities</i>	<u>4,889,231</u>	<u>4,459,268</u>	<u>-8.8%</u>
<b>Net assets:</b>			
Invested in capital assets, net of related debt	7,367,560	7,728,081	4.9%
Restricted	-	-	
Unrestricted	4,858,624	4,879,996	0.4%
<i>Total Net Assets</i>	<u>12,226,184</u>	<u>12,608,077</u>	<u>3.1%</u>

Net assets increased by 3.1% or \$381,893. Non current assets increased 2.2% reflecting the \$740,922 investment in the City's water and sewer distribution systems. The 5.6% decrease in long term liabilities reflects the reclassification of long term liabilities to current liabilities of \$375,987, whereas debt servicing paid in 2004-05 classified as current liabilities totaled \$368,309.

**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 \$3,660,732. Over half of this total amount, \$2,427,748, constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of fund balance or \$1,232,984 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 \$2,427,748. 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 42% of total general fund expenditures, while total fund balance represents 55% of that same amount. During the current fiscal year, the City of Yreka's general fund decreased by \$683,481.

Key factors in this decline are mainly a result of the \$1,521,739 payment to City's pension plan with CalPERS for unfunded pension liability. Governmental Funds revenue increased \$1,106,390 due primarily to an increase in grant revenue and the one time receipt of the motor vehicle license fees, previously withheld by the state.

***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 \$12,608,077. In the financial statement page 9, the decrease in cash from operations and capital and related financing activities resulted in a \$513,599 decrease in cash. Fiscal year 2004-05, as in fiscal year 2003-04, whereby 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 2004-05 consisted of property tax assessment collections \$5,776 that were used pay off development bonds \$7,014 for the Shasta Belle development. Total net assets at the end of the year for all of the agency funds were \$133,190.

***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

### Schedule of Revenues and Expenditures – Budget to Actual

		Original	Final	Actual
<b>General Fund</b>	Revenue	4,324,677	4,434,119	5,175,825
	Expense	4,417,990	6,008,884	5,824,936
	Excess (deficiency) of revenue over (under) expenses	(93,313)	(1,574,765)	(649,111)
	Other Financing Sources and (Uses)	-	(34,670)	(34,370)
	Net Change in Fund Balance	(93,313)	(1,609,435)	(683,481)

		Original	Final	Actual
<b>Local Transportation</b>	Revenue	48,979	48,979	84,862
	Expense	41,000	41,000	3,142
	Excess (deficiency) of revenue over (under) expenses	7,979	7,979	81,720
	Other Financing Sources and (Uses)	(42,000)	(42,000)	-
	Net Change in Fund Balance	(34,021)	(34,021)	81,720

		Original	Final	Actual
<b>Special Grants</b>	Revenue	1,633,790	1,633,790	489,969
	Expense	1,243,288	1,233,288	306,696
	Excess (deficiency) of revenue over (under) expenses	390,502	400,502	183,273
	Other Financing Sources and (Uses)	84,700	(168,272)	(224,772)
	Net Change in Fund Balance	475,202	232,230	(41,499)

**In the General Operating Fund budgetary revenue changes included:**

- \$109,442 operating budget increase in revenue for the securitization of the motor vehicle license fees;
- Actual revenue was \$741,706 higher than budget due to \$129,922 for sales tax and in lieu sales tax revenue, permit and license revenue came in \$141,424 over budget due to several large apartment complexes commencing construction in 2004-05. Grants revenue was \$144,642 higher than budget due to one time insurance premium refunds

**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.
- \$65,000 increase in expenditures appropriations for legal and negotiation fees.
- \$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 and expenditure changes included:

- Waste Water Treatment Plant upgrades budgeted receivable for \$264,100 was not released, but still remains a valid receivable.
- Revenue for the YMCA Teen Center for \$436,20000 revenue appropriations increase to resurface the tennis courts and \$22,794 revenue appropriations increase to refinish the community center floors.
- The Safe Routes to School grant was held back due to the State's fiscal crisis and the application remains pending. Therefore of the revenue of \$375,300, city match of \$42,000 and project expenditure of \$417,300 budgeted in 2004-05 incurred no actual expenses incurred in 2004-05.

## Capital Assets and Debt Administration

### Changes in Capital assets

	Balance June 30, 2004	Prior Year Adjustments	Additions	Retirements	Balance June 30, 2005
<b>Governmental Activities:</b>					
<i>Capital assets not being depreciated;</i>					
Land	1,560,558	37,060			1,597,618
<i>Capital assets being depreciated;</i>					
Building and Structures	3,213,891	47,276			3,261,167
Machinery and Equipment	1,887,783	(40,776)	23,757	20,000	1,850,764
Streets; Paving, Drainage, Curbs, Gutters, Sidewalks	14,600,375		147,617		14,747,992
Street Lighting	3,449,600				3,449,600
Streets Other; Bridges	251,500				251,500
Construction in Progress	-				-
<b>Assets</b>	<b>24,963,707</b>	<b>43,560</b>	<b>171,374</b>	<b>20,000</b>	<b>25,158,641</b>
Less Accumulated Depreciation	(18,055,184)		(391,191)	(20,000)	(18,426,375)
<b>Governmental Activities Capital Assets, net</b>	<b>6,908,523</b>	<b>43,560</b>	<b>(219,817)</b>	<b>-</b>	<b>6,732,266</b>
<b>Business-type Activities:</b>					
<i>Capital assets not being depreciated;</i>					
Land	403,472	(43,560)			359,912
<i>Capital assets being depreciated;</i>					
Building and Structures	6,974,827	19,200			6,994,027
Machinery and Equipment	4,495,819		64,200		4,560,019
Water Delivery System	8,109,242				8,109,242
Sewer Delivery System	3,952,827		740,922		4,693,749
<b>Total Business Activities Capital</b>	<b>23,936,187</b>	<b>(24,360)</b>	<b>805,122</b>	<b>-</b>	<b>24,716,949</b>
Less Accumulated Depreciation	(12,919,233)	(124)	(748,431)	-	(13,667,788)
<b>Business-type Capital Assets, net</b>	<b>11,016,954</b>	<b>(24,484)</b>	<b>56,691</b>	<b>-</b>	<b>11,049,161</b>
<b>Total Capital Assets, net</b>	<b>17,925,477</b>	<b>19,076</b>	<b>(163,126)</b>	<b>-</b>	<b>17,781,427</b>

The City of Yreka's investment in capital assets for its governmental and business type activities as of June 30, 2005, amounts to \$17,781,427 (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 for \$23,757.
- Paving at Miner and Center Streets \$117,223, as well as RPTA project at Oberlin and Fairlane \$30,394.

- Phase 2 (01STBG1620) of the Sewer Inflow and Infiltration Project for \$740,922, which was substantially funded by a HCD Grant STBG1468 for \$500,000 and EDBG Program Income Reuse Plan for \$220,000.
- Rebuilding of the Fall Creek Pump for \$30,226.
- Equipment acquisition of scales at the Landfill \$33,973

**Changes in Long Term Debt:**

**Changes in Long Term Debt**

	Balance June 30, 2004	Prior Year Adjustments	New Issues	Principal Payments	Balance June 30, 2005
<b>Governmental Activities:</b>					
Loans Payable - Banks and Others	233,995	(33,748)	-	72,285	127,962
Loans Payable - Governmental Agencies	-	-	-	-	-
Reclassification to Current Debt	-	-	-	-	-
<b>Total Governmental Activities</b>	<b>233,995</b>	<b>(33,748)</b>	<b>-</b>	<b>72,285</b>	<b>127,962</b>
<b>Business-type Activities:</b>					
Loans Payable - Banks and Others	505,771	35,241	-	130,486	410,526
Loans Payable - Governmental Agencies	2,192,920	11,791	34,666	227,823	2,011,554
Certificates of participation - USDA Rural Development	909,000	-	-	10,000	899,000
Other	-	-	-	-	-
<b>Total Business Activities</b>	<b>3,607,691</b>	<b>47,032</b>	<b>34,666</b>	<b>368,309</b>	<b>3,321,080</b>
<b>Total Outstanding Long Term Debt</b>	<b>3,841,686</b>	<b>13,284</b>	<b>34,666</b>	<b>440,594</b>	<b>3,449,042</b>
<b>Less Portion Classified as Current</b>					<b>(453,413)</b>
					<b>2,995,629</b>

At the end of the current fiscal year, the City of Yreka had total debt outstanding of \$3,449,042 and long term outstanding debt of \$2,995,629. Detail information on lenders, rates and maturities for long term debt can be found on pages 28 through 30 of this report.

The City of Yreka's total debt decreased by \$440,594 during the current fiscal year, due to scheduled principal repayment on borrowings. The \$34,666 increase represented a drawdown on the note payable to the California State Water Resources Control Board.

**Next Year's Budgets and Rates:**

Below are excerpts and highlights from the City's 2005-06 adopted budget that was approved by the City Council on September 1, 2005.

**A. Revenue Sources**

**Sales Tax, Property Tax and Motor Vehicle License Fees:**

The City has experienced mild increases in revenues while the State of California economy fell into a budget deficit as a result of dot.com bankruptcies impacting the investor markets.

The State's primary revenue sources for the General Fund of motor vehicle license fees, sales tax and property tax has been shifted, called in-lieu, and re-shifted in a political shell game which makes it next to impossible to "follow the money" for allocations to cities.

In fiscal year 03/04, the State reallocated the motor vehicle license fee revenue (VLF) to the property tax, the State then reduced the VLF allocated to cities from 2.0% to 0.67% and backfilled the VLF from ERAF funds. In 04-05, the State reduced the 1% sales tax traditionally received by cities to 0.75%. The State utilized 0.25% revenue thusly gained to pay the State issued Economic Recovery Bonds. The 0.25% sales tax shift is being distributed to cities via property tax ERAF III, as "in lieu" sales tax, and is commonly referred to as the "triple-flip."

The State, in supporting Measure A, is also withholding part of property tax due and payable to the City. The property tax withheld is being utilized to fund part of the ERAF to payback for sales tax "in lieu" and the VLF "in lieu." The revenue received from all these revenue shifts is nearly impossible to track (with all of its aliases) and significantly increases the difficulty of comparing revenue trends from one year to another.

It should be noted that the VLF "in lieu" revenue for 04/05 is will be higher than that of 05/06 due to a one time receipt of \$109,442 in 04/05.

#### Local Fees and Revenue:

Building permits are projected to be \$125,000 for 05-06, a decrease from 2004-05 fees received that included fees collected for several large multifamily housing units.

Transit Occupancy Tax increased from 8% to 10% in April 2004, and receipts from July 2004-05 reflect a nearly \$150,000 increase. Projections for 05-06 remain at 04-05 revenue levels.

#### Enterprise Fund Revenue:

Water and sewer rates will increase by 1.5% for fiscal year 05-06. This translates to a \$0.22 increase per month on the residential water utility bill and \$0.28 per month on the residential sewer rate.

Use fee revenue is not keeping up with the infrastructure costs of maintaining the City's water and sewer systems. A proposed Rate Study will assist in determining a fee schedule to sustain current and future services, as well as to determine the revenues necessary to support ongoing maintenance. To date the City has been extremely diligent in pursuing grants and loans to finance water and sewer improvements.

## B. Salaries, Benefits and Negotiations

Salary and benefit costs for 2005-06 expected to total \$4.8 million. The City settled multi-year agreements with each bargaining unit. The multi-year agreements in effect through June 2008 contained 5%-4%-5% to 0%-3.5%-3.5% cost of living adjustments depending upon the bargaining unit. The City also secured a rate cap for the employer share of the medical premium for all the bargaining units.

## C. Budget Highlights and Horizon Issues

### City Council, Administrative, Legal and Finance

- Funding of a new position for a 0.5 FTE confidential staff person to assist the Public Works Director and City Attorney.
- Purchase of a fleet car for administrative and staff travel out of town for meetings and conferences, thus reducing employee mileage claims.
- Finance Department is implementing the Cash Register module of its financial software package to allow for one-time transaction processing of cash receipts; \$15,000.
- Legal consulting costs of \$25,000 are budgeted to cover PERB and Casino related legal issues.

### Building and Planning

- Budgeting for the Planning Department includes a GIS mapping project for \$50,000, \$35,000 of which is funded through a CDBG technical planning grant. The GIS base mapping overlays development plans with Public Works utility maps. This is a resource for developers and planners.
- More than \$4,000 is budgeted for the Developer Fee Impact Study currently in progress with PMC.
- Horizon issues for both the Planning Department and Building Inspection Department will be to keep pace with the demands for services as the growth spurt in City planning and construction continues.

### Police and Animal Control

- Funding for 16 sworn officers, 8 dispatchers, an animal control officer and administrative secretary and various P/T positions.
- Capital outlay of \$23,000, for a new patrol car.
- Purchase of a Dead Animal Lift and repairs to the dog kennels that includes the repair or replacement of the dry storage area.
- Horizon issues include managing the rising costs of providing police services and identifying how optimal citizen security may best be provided in a cost and man power effective method.

### Fire

- Apron repair around the Fire House, budgeted for \$5,000 will continue in 05-06.
- The City has matched \$15,000 for a new Fire Chief vehicle.

- The Fire Dept. received, through the consortium of Volunteer Fire Departments, a FEMA grant for \$36,000 for the purchase of equipment. The City's contribution of 5% totals \$1,800.
- Horizon issues for the Volunteer Fire department include increased volunteer recruitment and determining a sustainable level of service, i.e., should the YVDF continue to respond to medical emergency calls and, if so, to what degree.

Public Works has an active year planned with infrastructure repairs and projects relating to the following:

#### Streets:

- Paving on Lennox / Herzog to Allen; \$77,000
- Foothill Chip Seal; \$69,000
- Oregon Street Chip Seal; \$43,000
- Chip/Slurry Seal Program; \$20,000
- A C Paving Program; \$10,000
- Routine Street Maintenance; \$25,000

#### Traffic Safety:

- Includes 0.5 FTE of a vacant position to direct traffic safety issues such as traffic lights and street markings.

#### Building Maintenance

- Recruit 1.0 FTE to split duties between general building maintenance and public works providing weekend coverage for staff currently working overtime for Public Works callouts.

#### Wastewater Treatment Plant

- Recruit for the vacant Wastewater Treatment Plant Manager position.
- \$50,000 to assess wastewater treatment plant capacity and expansion, \$35,000 of which has been proposed for funding through a CDBG Planning and Technical Assistance (PTA) grant.
- Assess ways to deal with sludge treatment disposal currently estimated at \$120,000. One example would be to evaluate the purchase or lease option of a sludge dryer, and re-use waste product as fertilizer.
- The Department is also working with Fleet Management to sell the retired Brown Bear equipment to offset the three remaining years of a 5-year lease payment (\$36,835 annually).

#### Wastewater Collection

- Phase II of a \$1,000,000 2-year sewer rehabilitation project that funded primarily with CDBG monies. The City has been awarded a 3-year grant of \$1,500,000 for CDBG projects of which \$1,000,000 is for Phase Two of sewer rehabilitation and \$500,000 is designated to rehabilitate housing.

- Purchase of a Sewer Line camera \$20,000.
- Maintenance and replacement of sewer lines, budgeted at \$40,000.

#### Fleet Management

- Recruit 0.5 FTE to be shared with public works, in lieu of 1.0 FTE not replaced following the departure of a department staff person in Dec. 04.
- Non-disposable supplies and site improvements budgeted for 05-06 include an Exhaust and Ventilation system for the shop \$15,052; Fuel tank covers, \$7,500; Waste Oil Containers Roof/Covering \$2,500; and replacement windows for the maintenance shop; \$1,800.

#### Landfill

- The future of the landfill has yet to be determined. Whether the landfill will operate as a transfer station with a third party provider is subject to pending negotiations with Siskiyou County. The budget presented for 05-06, assumes status quo operations, pending the outcome of the planned transfer station. Upon resolution of this issue, a budget revision for the landfill will be presented to the Council.
- It is estimated that the landfill revenue will increase by \$225,000 due to the new weight-based fee structure. This increases the revenue for the Enterprise Fund, offsetting waste collection fees that increased, correspondingly, for city departments.
- 3-year insurance policy for the landfill increased from \$35,544 to \$100,034 for the period of Sept. 2005 through Sept. 2008. The amount of \$42,000 is currently budgeted for the Year 1 premium.

#### Storm Drains

- The City received the findings of the Storm Drain Master Plan Study in 05-06 and the Department's projects are reflective of some of the suggested measures the City can implement. Continued work on the master plan is budgeted at \$50,000.
- N. Oregon and Lennox project; \$60,000.
- Fairchild-Yama Inlet; \$8,000.
- Storm Drain replacement and construction; \$10,000.

#### Water Distribution

- Replacement of the Broadway water line; \$100,000.
- General water line replacement; \$50,000.
- Pipe locator; \$15,000.
- Water Master Plan; \$50,000.
- Meter replacement; \$10,000

#### Water Supply and Treatment

- Motor starters, \$180,000. These are projected to reduce the cost of electricity.

- New service vehicle; \$23,000.
- Legal fees for the Fall Creek Water permit; \$40,000
- Legal settlement; \$10,025.
- Other projects include, two filter re-building and top-offs, \$31,000; filter control panel design, \$13,000; fencing around tanks and the filtration plant; \$11,000; replacement of the north well building, \$15,000, pipeline markers, \$1,000, installation of safety cages, \$10,000.

#### Special Grants and Projects

- Downtown Bike and Pedestrian path; \$302,000 (utilizing TEA grant funds).
- Safe Route to Schools; \$350,000 grant funds (application approval is pending).
- The YMCA Teen Center Improvement Project, currently under construction; \$426,200 (\$85,000 City cash and in-kind match).

#### Parks, Recreation and Community base projects

- The City is engaged in many community and volunteer-based collaborations and successfully received several collaborative grants for projects including the Yreka Urban Stream Restoration, Yreka Arboretum, Yreka Community Stage, and the Shasta Ave. Park Ponytail Baseball group, to list a few.
- The Arboretum Project is a collaboration of volunteer groups; utilizing a grant from the US Forest Service \$23,336 and in-kind assistance of \$17,430 and cash match grant of \$6,000 from the City of Yreka to develop a community arboretum in Lower Greenhorn Park.
- The Yreka Urban Stream Restoration project is funded through a \$267,700 grant to purchase open space along Yreka Creek. The project emphasis is on watershed restoration, flood hazard reduction, development of a greenbelt within the City and preservation of the waterways for wildlife and natural drainage. The City will contribute in-kind match and assist in the purchase of the Young property, budgeted for \$8,500. The balance of the budget details of the grant are pending until November 2005 and will be presented to Council at that time.
- Also pending is the status of the Greenhorn Park Accessibility project, a Roberti Zberg Harris grant for \$296,000.
- Still in progress is completion of the USDA Forest Service RAC grant for the Greenhorn Reclamation and Public Use Plan (scheduled for completion in September 2005).
- The Yreka Community Portable Stage is scheduled to arrive in Yreka at the beginning of September. This project is another community fundraising success, with financial support from the community, the Ford Family Foundation, and City of Yreka. The City's capital outlay \$85,000.

- Prop 40 projects include the construction of an ADA restroom in Miner Street Park, the construction of public restrooms adjacent to the Downtown Plaza and the purchase and installation of playground equipment at both Lewis Park and Ringe Park. (Total funding: \$303,810.)
- Construction of restrooms at the Shasta Avenue Sports Park. This is the result of collaboration between the Ponytail League, the McConnell Foundation and the City of Yreka (City contribution, \$5,000).
- Irrigation and landscaping for pocket park at North and Gold; \$3,100.
- New lawnmower for \$32,000
- Horizon issues for the City will be finding a funding stream for sustaining the maintenance of these many projects and facilities. Who will maintain and clean restroom, clear trails along the creek and maintain landscaping at the arboretum? How will volunteers be identified and engaged so that the improvements can be maintained on a long-term basis?

#### Community Theatre and Community Center

- Workforce Housing Grant of \$213,177 is providing funding for the renovation of the Yreka Community Theatre. Funds have been budgeted to remodel the theatre's restroom for ADA compliance, renovate the dressing room, add a storage room, pave the parking lot, update the sound and lighting systems, purchase and install oleo act drape and storage lockers. In addition, the Yreka Community center will benefit by replacing the commercial range and annexing part of the lounge area for administrative offices. The Police Department building will benefit by having windows replaced for safety and with respect for historic preservation. Finally, the Yreka City Hall will install a new Heating Ventilation and Air-Conditioning (HVAC) system.
- Horizon issue for the Community Theatre is again how to offset the operation costs of the theatre and place the theatre back into the hands of the user community.

#### Cable 4 TV

- Acquisition of a specialized DVD burner for video restoration and preservation of the video tape library.
- Horizon issues are to continue the self-sustainability course for Cable 4 TV. The budgeted General Fund contribution for 05-06 is \$19,269. A portion of this cost is recovered in the General Fund from cable franchise fee revenue.

#### Senior Grant Programs

- General fund match in cash is \$24,977, in kind of \$14,600 for rent, vehicle and liability insurance and \$16,675 of incremental operating costs of the Community Center.

- Horizon issues for the Senior Grant program will be how to fill the deficit in funding from Federal and State sources with local dollars. Federal and State dollars for these grants are not matching service needs of the elderly population. Education, community awareness and outreach to seniors, caregivers, family members and community members will be central to the continuation of current levels of service. Fundraising is ongoing and increasing.
- At what level will the City want to continue to provide services to older adults in light of the stagnant State and Federal funding? What is the cap or maximum level of support that the City can provide? For example, should senior transportation be reduced from 5 days per week to 4 days per week?
- By looking at the feasibility of spinning off the program into a 501c3 not-for-profit stand-alone agency, the program coordinator may compete for grant opportunities that are not currently available to organizations affiliated with governmental agencies.

#### Interfund and departmental Transfers

- Interfund and departmental Transfers reflect contributions between funds and programs for required grant and match support as well as upstream funding to the general fund for administrative costs for enterprise fund operations.

#### 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, 2005

	Primary Government		Total
	Governmental Activities	Business-type Activities	
<b>ASSETS</b>			
Current Assets:			
Cash and investments	\$ 4,886,242	\$ 4,789,350	\$ 9,675,592
Receivables (net):			
Accounts	212	379,830	380,042
Taxes	243,103		243,103
Intergovernmental	588,315	19,346	607,661
Interest	8,218		8,218
Loans	316,153		316,153
Due from other funds	77,403		77,403
Total current assets	<u>6,119,646</u>	<u>5,188,526</u>	<u>11,308,172</u>
Noncurrent Assets:			
Post closure reserve-landfill		829,658	829,658
Capital assets:			
Land, buildings and equipment	25,158,641	24,716,949	49,875,590
Accumulated depreciation	<u>(18,426,375)</u>	<u>(13,667,788)</u>	<u>(32,094,163)</u>
Total noncurrent assets	<u>6,732,266</u>	<u>11,878,819</u>	<u>18,611,085</u>
Total assets	<u>12,851,912</u>	<u>17,067,345</u>	<u>29,919,257</u>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	1,786,557	119,234	1,905,791
Payroll payable	165,705	38,312	204,017
Accrued vacation pay payable	193,452	37,590	231,042
Accrued interest		35,991	35,991
Due to other funds		77,403	77,403
Long-term debt-due within one year	77,426	375,987	453,413
Total current liabilities	<u>2,223,140</u>	<u>684,517</u>	<u>2,907,657</u>
Noncurrent liabilities:			
Long-term debt--due in more than one year	50,536	2,945,093	2,995,629
Reserved for closure/post closure-landfill		829,658	829,658
Total noncurrent liabilities	<u>50,536</u>	<u>3,774,751</u>	<u>3,825,287</u>
Total liabilities	<u>2,273,676</u>	<u>4,459,268</u>	<u>6,732,944</u>
<b>NET ASSETS</b>			
Investment in capital assets, net of related debt	6,604,304	7,728,081	14,332,385
Unrestricted	<u>3,973,932</u>	<u>4,879,996</u>	<u>8,853,928</u>
Total net assets	<u>\$ 10,578,236</u>	<u>\$ 12,608,077</u>	<u>\$ 23,186,313</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, 2005

	Program Revenues					Net (Expenses) Revenues and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business Type Activities		Total
<b>Functions/Programs</b>								
<b>Primary Government:</b>								
Governmental activities:								
City council, administration & clerk	\$ 310,688				\$ (310,688)			\$ (310,688)
General government	1,575,764	\$ 5,208			(1,570,556)			(1,570,556)
Fire	232,132	35,112	\$ 200		(196,820)			(196,820)
Police	1,882,751	2,986	154,901		(1,724,864)			(1,724,864)
Planning and development	672,166	102,385	345,071		(224,710)			(224,710)
Parks and recreation	548,045	46,119		\$ 15,363	(486,563)			(486,563)
Public works administration	174,643				(174,643)			(174,643)
Public works mechanical maint.	292,451				(292,451)			(292,451)
Streets & sidewalks	675,078		705,146		30,068			30,068
Senior nutrition	280,823		255,408		(25,415)			(25,415)
Interest on long-term debt	6,414				(6,414)			(6,414)
Total governmental activities	6,650,955	191,810	1,460,726	15,363	(4,983,056)			(4,983,056)
Business type activities:								
Water	1,250,739	1,287,914				\$ 37,175		37,175
Sewer	1,112,913	870,714		681,088		438,889		438,889
Landfill	1,171,264	1,078,723				(92,541)		(92,541)
Total business type activities	3,534,916	3,237,351	-	681,088		383,523		383,523
Total primary government	\$ 10,185,871	\$ 3,429,161	\$ 1,460,726	\$ 696,451	(4,983,056)	383,523		(4,599,533)
General revenues:								
Property taxes					684,917			684,917
Sales taxes					1,989,996			1,989,996
Transient lodging taxes					525,187			525,187
Franchise taxes					199,276			199,276
Fuel taxes					152,101			152,101
Intergovernmental revenue					110,073			110,073
Licenses and permits					274,400			274,400
Fines and forfeitures					120,939			120,939
Unrestricted investment earnings					225,916	56,218		282,134
Other					33,992			33,992
Total general revenues					4,316,797	56,218		4,373,015
Change in net assets					(666,259)	439,741		(226,518)
Net assets - beginning of year					11,200,935	12,226,184		23,427,119
Prior period adjustments					43,560	(57,848)		(14,288)
Net assets - end of year					\$ 10,578,236	\$ 12,608,077		\$ 23,186,313

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

City of Yreka, California  
Balance Sheet  
Governmental Funds  
June 30, 2005

	Major Funds			Other Governmental Funds	Total Governmental Funds
	General	Local Transportation	Special Grants		
<b>ASSETS</b>					
Cash and investments	\$3,767,537	\$ 567,293	\$ 92,130	\$ 459,282	\$ 4,886,242
Receivables:					
Accounts	-			212	212
Taxes	243,103				243,103
Intergovernmental	426,900	66,094	80,421	14,900	588,315
Interest	8,218				8,218
Loans			316,153		316,153
Supplies inventory				2,953	2,953
Due from other funds	77,403				77,403
<b>TOTAL ASSETS</b>	<u>\$4,523,161</u>	<u>\$ 633,387</u>	<u>\$ 488,704</u>	<u>\$ 477,347</u>	<u>\$ 6,122,599</u>
<b>LIABILITIES and FUND BALANCES</b>					
<b>LIABILITIES:</b>					
Accounts payable	\$1,749,620	\$ 148	\$ 23,467	\$ 13,322	\$ 1,786,557
Payroll payable	157,018			8,687	165,705
Accrued vacation	188,775			4,677	193,452
Deferred revenue - loans			316,153		316,153
<b>TOTAL LIABILITIES</b>	<u>2,095,413</u>	<u>148</u>	<u>339,620</u>	<u>26,686</u>	<u>2,461,867</u>
<b>FUND BALANCES:</b>					
Unreserved:					
Designated for:					
Future building improvements	154,999				154,999
Future equipment purchases	32,954				32,954
Grant projects	81,198		149,084		230,282
Police				5,070	5,070
Road maintenance		633,239		414,338	1,047,577
Sidewalk maintenance				31,253	31,253
Self insurance	216,320				216,320
Undesignated reported in:					
General fund	1,942,277				1,942,277
<b>TOTAL FUND BALANCES</b>	<u>2,427,748</u>	<u>633,239</u>	<u>149,084</u>	<u>450,661</u>	<u>3,660,732</u>
<b>TOTAL LIABILITIES and FUND BALANCES</b>	<u>\$4,523,161</u>	<u>\$ 633,387</u>	<u>\$ 488,704</u>	<u>\$ 477,347</u>	<u>\$ 6,122,599</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, 2005

Total governmental fund Balances (page 3)	\$ 3,660,732
Capital assets (net of accumulated depreciation) used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	6,732,266
In the statement of activities, supplies left over at year end are not expensed, whereas in the governmental funds supplies are expensed when purchased.	(2,953)
Long-term liabilities are not due and payable in the current period and, therefore are not reported in the governmental funds.	
Notes payable	(127,962)
Deferred Revenue - loans	<u>316,153</u>
Net assets of governmental activities (page 1)	<u>\$ 10,578,236</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, 2005**

	Major Funds			Other Governmental Funds	Total Governmental Funds
	General	Local Transportation	Special Grants		
<b>REVENUES</b>					
Property taxes	\$ 684,917				\$ 684,917
Sales taxes	1,989,996				1,989,996
Transient lodging taxes	525,187				525,187
Franchise fees	199,276				199,276
Fuel taxes				\$ 152,101	152,101
Licenses and permits	274,400			1,840	276,240
Charges for services	167,244				167,244
Fines and forfeitures	66,099			54,840	120,939
Intergovernmental	40,702	\$ 69,371		195,236	305,309
Fire dept. reimbursements	35,112				35,112
Unrestricted investment earnings	191,800	15,491	\$ 5,798	12,827	225,916
Grants and donations	724,984		441,602	10	1,166,596
Other	276,108		42,569		318,677
In-kind				60,172	60,172
<b>Total revenues</b>	<b>5,175,825</b>	<b>84,862</b>	<b>489,969</b>	<b>477,026</b>	<b>6,227,682</b>
<b>EXPENDITURES</b>					
City council, administrator & clerk	310,688				310,688
General government	1,792,602				1,792,602
Fire	209,620				209,620
Police	1,850,549		10,414	8,938	1,869,901
Planning and development	330,576		296,005		626,581
Parks, culture and recreation	420,290				420,290
Public works administration	174,643				174,643
Public works mechanical maintenance	292,451				292,451
Streets and sidewalks	360,330	3,142	277	200,477	564,226
Capital outlays	7,069				7,069
Senior nutrition				280,823	280,823
Debt service:					
Principal	69,704				69,704
Interest	6,414				6,414
<b>Total expenditures</b>	<b>5,824,936</b>	<b>3,142</b>	<b>306,696</b>	<b>490,238</b>	<b>6,625,012</b>
Excess (deficiency) of revenues over (under) expenditures	(649,111)	81,720	183,273	(13,212)	(397,330)
<b>OTHER FINANCING SOURCES AND (USES)</b>					
Operating transfers in			41,700	34,370	76,070
Operating transfers out	(34,370)		(266,472)	(41,700)	(342,542)
<b>Total other financing sources and (uses)</b>	<b>(34,370)</b>	<b>-</b>	<b>(224,772)</b>	<b>(7,330)</b>	<b>(266,472)</b>
Net change in fund balances	(683,481)	81,720	(41,499)	(20,542)	(663,802)
Fund balances - beginning of year	3,111,229	551,519	403,823	471,203	4,537,774
Prior period adjustment			(213,240)		(213,240)
<b>Fund balances - end of year</b>	<b>\$ 2,427,748</b>	<b>\$ 633,239</b>	<b>\$ 149,084</b>	<b>\$ 450,661</b>	<b>\$ 3,660,732</b>

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, 2005

Net change in fund balances - total governmental funds (page 5) \$ (663,802)

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	\$ 171,374	
Less current year depreciation	<u>(391,191)</u>	(219,817)

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 72,285

Governmental funds report EDBG & CDBG loans as expenditures when the loan is made and report the principal and interest payments as revenue when received. However, in the statement of activities, the loan is recorded as an asset which is reduced by the amount of principal payment that is received during the year. The statement of activities report the interest revenue when it is earned. 145,075

Change in net assets of governmental activities (page 2) \$ (666,259)

**CITY OF YREKA, CALIFORNIA**

**Statement on Net Assets**

Enterprise Funds

June 30, 2005

<b>ASSETS</b>	<b>Water</b>	<b>Sewer</b>	<b>Sanitary Landfill</b>	<b>Total</b>
<b>Current:</b>				
Cash and Investments	\$ 4,356,334	\$ 433,016		\$ 4,789,350
Accounts Receivable	137,986	58,062	\$ 183,782	379,830
Grant Receivable		19,346		19,346
<b>Total Current Assets</b>	<u>4,494,320</u>	<u>510,424</u>	<u>183,782</u>	<u>5,188,526</u>
<b>Noncurrent:</b>				
Post Closure Reserve			829,658	829,658
Land	45,462	197,700	116,750	359,912
Depreciable Capital Assets, Net	2,408,116	7,816,493	464,640	10,689,249
<b>Total Noncurrent Assets</b>	<u>2,453,578</u>	<u>8,014,193</u>	<u>1,411,048</u>	<u>11,878,819</u>
<b>Total Assets</b>	<u>6,947,898</u>	<u>8,524,617</u>	<u>1,594,830</u>	<u>17,067,345</u>
 <b>LIABILITIES</b>				
<b>Current:</b>				
Accounts Payable	32,041	14,077	73,116	119,234
Payroll Payable	19,883	8,345	10,084	38,312
Compensated Absences	29,453	3,144	4,993	37,590
Accrued Interest Payable	10,020	25,971		35,991
Due to General Fund			77,403	77,403
Current Portion of Long-Term Debt	188,969	86,189	100,829	375,987
<b>Total Current Liabilities</b>	<u>280,366</u>	<u>137,726</u>	<u>266,425</u>	<u>684,517</u>
<b>Noncurrent:</b>				
Long-Term Debt, Net of Current Reserved for Closure/Post Closure	783,604	1,952,973	208,516	2,945,093
			829,658	829,658
<b>Total Noncurrent Liabilities</b>	<u>783,604</u>	<u>1,952,973</u>	<u>1,038,174</u>	<u>3,774,751</u>
<b>Total Liabilities</b>	<u>1,063,970</u>	<u>2,090,699</u>	<u>1,304,599</u>	<u>4,459,268</u>
 <b>NET ASSETS</b>				
Invested in Capital Assets, Net of Related Debt	1,481,005	5,975,031	272,045	7,728,081
Unrestricted	4,402,923	458,887	18,186	4,879,996
<b>Total Net Assets</b>	<u>\$ 5,883,928</u>	<u>\$ 6,433,918</u>	<u>\$ 290,231</u>	<u>\$ 12,608,077</u>

See accompanying notes to the financial statement

**CITY OF YREKA, CALIFORNIA**  
**Statement of Revenue, Expenses and**  
**Changes in Fund Net Assets**  
**Enterprise Funds**  
**For the Year Ended June 30, 2005**

	<u>Water</u>	<u>Sewer</u>	<u>Sanitary Landfill</u>	<u>Total</u>
<b>Operating Revenues:</b>				
User Fees and Charges	\$ 1,287,914	\$ 870,714	\$ 1,078,723	\$ 3,237,351
<b>Operating Expenses:</b>				
Cost of Power and Water	175,601	76,921		252,522
Maintenance, Operations and Administration	819,810	575,350	835,758	2,230,918
Closure/Post Closure Costs			220,793	220,793
Depreciation	233,180	392,070	91,257	716,507
<b>Total Operating Expenses</b>	<u>1,228,591</u>	<u>1,044,341</u>	<u>1,147,808</u>	<u>3,420,740</u>
<b>Operating Income (Loss)</b>	<u>59,323</u>	<u>(173,627)</u>	<u>(69,085)</u>	<u>(183,389)</u>
<b>Non-Operating Revenues (Expenses)</b>				
Interest Income	218,531			218,531
Unrealized Gains/Losses on Investments	(162,313)			(162,313)
Interest Expense	(22,148)	(68,572)	(23,456)	(114,176)
<b>Total Non-Operating Revenues (Expenses)</b>	<u>34,070</u>	<u>(68,572)</u>	<u>(23,456)</u>	<u>(57,958)</u>
<b>Net Income (Loss) Before Capital Grants and Transfers</b>	<u>93,393</u>	<u>(242,199)</u>	<u>(92,541)</u>	<u>(241,347)</u>
Transfer From Special Grants Fund		266,472		266,472
Capital Grants		414,616		414,616
<b>Total Capital Grants and Transfers</b>	<u>-</u>	<u>681,088</u>	<u>-</u>	<u>681,088</u>
<b>Change in Net Assets</b>	<u>93,393</u>	<u>438,889</u>	<u>(92,541)</u>	<u>439,741</u>
<b>Total Net Assets - Beginning of Year</b>	<u>5,771,335</u>	<u>5,808,529</u>	<u>646,320</u>	<u>12,226,184</u>
Prior Period Adjustment	19,200	186,500	(263,548)	(57,848)
<b>TOTAL NET ASSETS - END OF YEAR</b>	<u>\$ 5,883,928</u>	<u>\$ 6,433,918</u>	<u>\$ 290,231</u>	<u>\$ 12,608,077</u>

See accompanying notes to the financial statement

**CITY OF YREKA, CALIFORNIA**  
**Statement on Cash Flows**  
**Enterprise Funds**  
**For the Year Ended June 30, 2005**

	<u>Water</u>	<u>Sewer</u>	<u>Sanitary Landfill</u>	<u>Total</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from Customers	\$ 1,262,661	\$ 881,165	\$ 904,767	\$ 3,048,593
Payments to Suppliers for Goods and Services	(421,152)	(472,715)	(539,390)	(1,433,257)
Payments for Employee Services and Benefits	(567,247)	(188,397)	(244,197)	(999,841)
Payments for Post Closure Reserve			(220,793)	(220,793)
<b>Net Cash Provided (Used) by Operating Activities</b>	<u>274,262</u>	<u>220,053</u>	<u>(99,613)</u>	<u>394,702</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Advances from Other Funds		(480,583)	77,403	(403,180)
<b>Net Cash Provided (Used) by Noncapital Financing Activities</b>	<u>-</u>	<u>(480,583)</u>	<u>77,403</u>	<u>(403,180)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Equipment Purchases			(33,973)	(33,973)
Plant and System Improvements		(740,922)		(740,922)
New Debt Issued		34,666		34,666
Principal Payments on Debts	(185,305)	(85,074)	(94,356)	(364,735)
Interest Payments on Debts	(22,148)	(72,512)	(23,456)	(118,116)
Capital Grants		661,741		661,741
<b>Net Cash Provided (Used) by Capital and Related Financing Activities</b>	<u>(207,453)</u>	<u>(202,101)</u>	<u>(151,785)</u>	<u>(561,339)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Interest on Investments	218,531			218,531
Decrease in Investment Fair Value	(162,313)			(162,313)
<b>Net Cash Provided (Used) by Investing Activities</b>	<u>56,218</u>	<u>-</u>	<u>-</u>	<u>56,218</u>
<b>NET INCREASE (DECREASE) IN CASH</b>	<u>123,027</u>	<u>(462,631)</u>	<u>(173,995)</u>	<u>(513,599)</u>
Cash and Cash Equivalents - Beginning	4,233,307	895,647	173,995	5,302,949
<b>CASH AND CASH EQUIVALENTS - ENDING</b>	<u>\$ 4,356,334</u>	<u>\$ 433,016</u>	<u>\$ -</u>	<u>\$ 4,789,350</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>				
Operating Income	59,323	(173,627)	(69,085)	(183,389)
<b>Adjustments:</b>				
Depreciation	233,180	392,070	91,257	716,507
<b>(Increase) Decrease in Assets:</b>				
Accounts Receivable	(25,253)	6,026	(173,956)	(193,183)
<b>Increase (Decrease) in Liabilities:</b>				
Accounts Payable	(10,199)	(8,079)	47,599	29,321
Compensated Absences	6,780	(1,496)	(353)	4,931
Payroll Payable	10,431	5,159	4,925	20,515
<b>Net Cash Provided (Used) by Operating Activities</b>	<u>274,262</u>	<u>220,053</u>	<u>(99,613)</u>	<u>394,702</u>

See accompanying notes to the financial statement

**CITY OF YREKA, CALIFORNIA**  
Statement of Fiduciary Net Assets  
June 30, 2005

	Private-Purpose Trust Funds					TOTALS
	Parklands Trust	Campbell Tract Redemption Fund	Shasta Belle Redemption Fund	Senior Fund	Gift Donations	
Assets						
Cash	\$ 14,643	\$ 52,513	\$ 2,259	\$ 42,654	\$ 13,549	\$ 130,112
Accounts receivable		1,745	1,333			3,078
Total assets	14,643	54,258	3,592	42,654	13,549	133,190
Liabilities	-	-	-	-	-	-
Net Assets						
Held in trust for beneficiaries	14,643			42,654	13,549	75,340
Held in trust for assessment district		54,258	3,592			57,850
Total net assets	\$ 14,643	\$ 54,258	\$ 3,592	\$ 42,654	\$ 13,549	\$ 133,190

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, 2005

	Private-Purpose Trust Funds					TOTALS
	Parklands Trust	Campbell Tract Redemption Fund	Shasta Belle Redemption Fund	Senior Fund	Gift Donations	
<b>Additions</b>						
Donations and grants	\$ 1,700					\$ 1,700
Property assessments		\$ 1,745	\$ 5,776			7,521
<b>Total Additions</b>	<u>1,700</u>	<u>1,745</u>	<u>5,776</u>	<u>-</u>	<u>-</u>	<u>9,221</u>
<b>Deductions</b>						
Senior activities						\$ 5,221
Debt Service			7,014			7,014
<b>Total Deductions</b>	<u>-</u>	<u>-</u>	<u>7,014</u>	<u>-</u>	<u>-</u>	<u>12,235</u>
<b>Change in net assets</b>	<u>1,700</u>	<u>1,745</u>	<u>(1,238)</u>	<u>-</u>	<u>-</u>	<u>(3,014)</u>
Net assets - beginning of year	12,943	52,513	4,830	\$ 42,654	\$ 13,549	136,204
<b>Net assets - end of year</b>	<u>\$ 14,643</u>	<u>\$ 54,258</u>	<u>\$ 3,592</u>	<u>\$ 42,654</u>	<u>\$ 13,549</u>	<u>\$ 133,190</u>

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

**CITY OF YREKA, CALIFORNIA**  
Notes to the Financial Statements  
June 30, 2005

**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. Government activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely significantly on fees and charges for support. 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. Taxes and other items not properly included among program revenues are reported instead as general revenue.

**CITY OF YREKA, CALIFORNIA**  
Notes to the Financial Statements  
June 30, 2005

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

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

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 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 time 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.

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 spent for street maintenance or repairs.

**CITY OF YREKA, CALIFORNIA**

Notes to the Financial Statements

June 30, 2005

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

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

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 in this fund.

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

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 Fund – 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.

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 the business-type activities.

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

**CITY OF YREKA, CALIFORNIA**  
Notes to the Financial Statements  
June 30, 2005

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

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

Proprietary funds distinguishing operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering foods 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 increase or decrease in fair value of investments is included as a component of income.

**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.

**CITY OF YREKA, CALIFORNIA**

Notes to the Financial Statements

June 30, 2005

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

**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 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
Waste and sewer mains	50 years
Vehicles	3 to 7 years

**G. Accrued Vacation Pay**

It is the City's policy to permit employees to accumulate 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 as debt service expenditures.

**CITY OF YREKA, CALIFORNIA**

Notes to the Financial Statements

June 30, 2005

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

**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.”

**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 requires City Council action. Expenditures may not legally exceed appropriations at the department level. Expending funds for which there is no legal appropriation is prohibited.

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

**CITY OF YREKA, CALIFORNIA**

Notes to the Financial Statements

June 30, 2005

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

**K. Use of Estimates**

The preparation of basic financial statements 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, 2005

2. CASH AND INVESTMENTS

The following is a summary of pooled cash and investments at June 30, 2005:

	Cash and Investments (carrying value)	Fair Value of Investments
Petty cash	\$ 650	
Cash in bank - checking	2,021,819	
Cash in State Treasurer's Local Agency Investment Fund	<u>6,021,738</u>	<u>\$ 6,021,738</u>
Total Cash	<u>8,044,207</u>	
U.S. Government and federal Bonds in Smith Barney account	1,066,249	1,066,249
U.S. Treasury Bonds	<u>1,524,906</u>	<u>1,524,906</u>
Total Investments	<u>2,591,155</u>	<u>\$ 8,612,893</u>
Total Cash and Investments Per Financial Statement	<u>\$ 10,635,362</u>	

Financial statement cash and investment balances are comprised of the following:

Governmental activities - Cash and invest	\$ 4,886,242
Business type activities - Cash and invest.	4,789,350
Landfill postclosure reserve	829,658
Fiduciary funds - Cash and invest.	<u>130,112</u>
Total Cash and Investments Per Financial Statement	<u>\$ 10,635,362</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, 2005

**2. Cash and Investments**

**A. Cash Deposits**

The carrying amounts of the City's cash deposits were \$2,021,820 as of June 30, 2005. Bank balances before reconciling items were \$2,117,614 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 pledge 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 in 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 Timed 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.

**CITY OF YREKA, CALIFORNIA**  
Notes to the Financial Statements  
June 30, 2005

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

B. Investments (continued)

The City has compiled 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.

The City's investments with Local Agency Investment Fund (LAIF) on June 30, 2005 include a portion of the pool funds invested in Structured Notes and Asset-Backed Securities. These investments 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, 2005, the City had \$6,021,738 invested in LAIF. LAIF had 2.967% of the pool investment funds in Structured Notes and Asset-Backed Securities on June 30, 2005.

**CITY OF YREKA, CALIFORNIA**  
Notes to the Financial Statements  
June 30, 2005

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

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.

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 because GASB No. 3 does not require categorization of investment pools managed by another government.

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

C. Credit Risk (continued)

	Category			Not Required to be Categorized	Carrying Value
	1	2	3		
Demand deposits:					
Cash deposit	<u>\$ 2,021,819</u>				<u>\$ 2,021,819</u>
Investments:					
U.S. Government Securities	\$ 1,524,906				\$ 1,524,906
U.S. Government and Federal Agency Bonds (in Smith Barney account)	1,066,249				1,066,249
Local agency investment fund				<u>\$ 6,021,738</u>	<u>6,021,738</u>
Total Investments	<u>\$ 2,591,155</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,021,738</u>	<u>\$ 8,612,893</u>

D. Summary on Investments to Maturity

Investments grouped by maturity date at June 30, 2005 are shown below:

<u>Maturity</u>	<u>Fair Value</u>
Current to one year	\$ 7,552,164 *
December 28, 2007	99,847
August 25, 2008	198,812
November 12, 2008	343,382
February 24, 2009	299,250
September 17, 2009	<u>119,438</u>
Total Investments	<u>\$ 8,612,893</u>

\* Includes Treasury notes valued at \$1,524,906 which are expected to be called due to their investment yield exceeding current market rates.

**CITY OF YREKA**  
Notes to the Financial Statements  
June 30, 2005

**3. LOANS RECEIVABLE**

The City had the following loan receivable as of June 30, 2005:

Economic development loan program	\$ 316,153
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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, 2005 the City had outstanding loans of \$316,153 with no allowance for uncollectible accounts. During the year ended June 30, 2005 the City received \$42,569 in repayments from the program participants and loaned \$145,482 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, 2005:

Fund	Due From Asset	Due To Liability
General Fund	\$ 77,403	
Business-type Activities:		
Sanitary Landfill		\$ 77,403
Totals	\$ 77,403	\$ 77,403

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, 2005 were as follows:

Transfers (out)	Transfers In		
	Special Grants Fund	Other Governmental Funds	Sewer Fund
General Fund		\$ 34,370	
Other Governmental Funds	\$ 41,700		\$ 266,472
Totals	\$ 41,700	\$ 34,370	\$ 266,472

The above transfers resulted from the normal course of the City's operation.

**CITY OF YREKA, CALIFORNIA**  
Notes to the Financial Statements  
June 30, 2005

**6. CAPITAL ASSETS**

Capital assets activity for the year ended June 30, 2005 consisted of the following:

	Primary Government			Balance June 30, 2005
	Balance July 1, 2004	Additions	Retirements	
Governmental Activities:				
Capital assets, not being depreciated:				
Land and land improvements	\$ 1,597,618			\$ 1,597,618
Total capital assets not being depreciated	<u>1,597,618</u>	-	-	<u>1,597,618</u>
Capital assets, being depreciated:				
Buildings and structures	3,261,167			3,261,167
Machinery and equipment	1,847,007	\$ 23,757	\$ 20,000	1,850,764
Infrastructure:				
Bridges	251,500			251,500
Signs and lights	3,449,600			3,449,600
Drainage system	732,450			732,450
Sidewalks	633,716			633,716
Street pavement system	13,234,209	147,617		13,381,826
Total capital assets being depreciated	<u>23,409,649</u>	171,374	20,000	<u>23,561,023</u>
Accumulated depreciation	<u>(18,055,184)</u>	<u>(391,191)</u>	<u>(20,000)</u>	<u>(18,426,375)</u>
Total capital assets being depreciated, net	5,354,465	(219,817)	-	5,134,648
<b>Governmental activities capital assets, net</b>	<u>\$ 6,952,083</u>	<u>\$ (219,817)</u>	<u>\$ -</u>	<u>\$ 6,732,266</u>

Depreciation Expense by Function:	
City council, administration & clerk	\$ -
General government	25,741
Fire	28,215
Police	36,607
Planning and Development	-
Parks and recreation	49,341
Public works administration	-
Public works mechanical maintenance	-
Streets & sidewalks	251,287
Senior nutrition	-
Total	<u>\$ 391,191</u>

**CITY OF YREKA, CALIFORNIA**

Notes to the Financial Statements

June 30, 2005

**6. CAPITAL ASSETS (continued)**

Capital assets activity for the year ended June 30, 2005 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, 2004	Additions	Retirements	Balance June 30, 2005
<b>Water system</b>				
<b>Capital assets, not being depreciated:</b>				
Land	\$ 45,462			\$ 45,462
<b>Capital assets, being depreciated:</b>				
Buildings and structures	1,372,833			1,372,833
Machinery and equipment	1,856,412	\$ 30,227		1,886,639
Water system	8,109,242	-		8,109,242
Total capital assets being depreciated	<u>11,338,487</u>	<u>30,227</u>		<u>11,368,714</u>
<b>Less accumulated depreciation:</b>				
Buildings and structures	(819,538)	(31,869)		(851,407)
Machinery and equipment	(1,653,766)	(28,919)		(1,682,685)
Water system	<u>(6,223,888)</u>	<u>(202,618)</u>		<u>(6,426,506)</u>
Total accumulated depreciation	<u>(8,697,192)</u>	<u>(263,406)</u>		<u>(8,960,598)</u>
Total capital assets being depreciated, net	<u>2,641,295</u>	<u>(233,179)</u>		<u>2,408,116</u>
<b>Water system capital assets, net</b>	<u>\$2,686,757</u>	<u>\$ (233,179)</u>	<u>\$ -</u>	<u>\$ 2,453,578</u>
	Balance July 1, 2004	Additions	Retirements	Balance June 30, 2005
<b>Sewer system</b>				
<b>Capital assets, not being depreciated:</b>				
Land	\$ 197,700			\$ 197,700
<b>Capital assets, being depreciated:</b>				
Buildings and structures	5,621,194			5,621,194
Machinery and equipment	1,628,804			1,628,804
Sewer system	3,952,827	\$ 740,922		4,693,749
Total capital assets being depreciated	<u>11,202,825</u>	<u>740,922</u>	-	<u>11,943,747</u>
<b>Less accumulated depreciation:</b>				
Buildings and structures	(863,042)	(174,091)		(1,037,133)
Machinery and equipment	(934,649)	(148,826)		(1,083,475)
Sewer system	<u>(1,937,493)</u>	<u>(69,153)</u>		<u>(2,006,646)</u>
Total accumulated depreciation	<u>(3,735,184)</u>	<u>(392,070)</u>	-	<u>(4,127,254)</u>
Total capital assets being depreciated, net	<u>7,467,641</u>	<u>348,852</u>	-	<u>7,816,493</u>
<b>Sewer system capital assets, net</b>	<u>\$7,665,341</u>	<u>\$ 348,852</u>	<u>\$ -</u>	<u>\$ 8,014,193</u>

**CITY OF YREKA, CALIFORNIA**

Notes to the Financial Statements

June 30, 2005

**6. CAPITAL ASSETS (continued)**

Capital asset activity for individual enterprise funds is as follows (continued):

	<u>Balance</u> <u>July 1, 2004</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2005</u>
<b><u>Sanitary landfill</u></b>				
Capital assets, not being depreciated:				
Land	\$ 116,750			\$ 116,750
Capital assets, being depreciated:				
Machinery and equipment	1,010,603	\$ 33,973		1,044,576
Total capital assets being depreciated	<u>1,010,603</u>	<u>33,973</u>	<u>-</u>	<u>1,044,576</u>
Less accumulated depreciation:				
Machinery and equipment	(486,981)	(92,955)		(579,936)
Total accumulated depreciation	<u>(486,981)</u>	<u>(92,955)</u>	<u>-</u>	<u>(579,936)</u>
 Total capital assets being depreciated, net	 <u>523,622</u>	 <u>(58,982)</u>		 <u>464,640</u>
 Sanitary landfill capital assets, net	 <u>\$ 640,372</u>	 <u>\$ (58,982)</u>	 <u>\$ -</u>	 <u>\$ 581,390</u>

The following adjustments were made to the July 1, 2004 capital asset balances in order to agree the financial statement with the updated capital asset schedule.

General fund - \$43,560 of land reclassified from landfill.

Water system - \$19,000 increase to buildings and structures.

Sewer system - \$186,500 reclassified from landfill land to sewer system.

Landfill - \$230,060 of land reclassified to general fund and sewer system.

**CITY OF YREKA, CALIFORNIA**  
Notes to the Financial Statements  
June 30, 2005

**7. LONG-TERM DEBT**

The following is a summary of changes in general long-term obligations for the year ended June 30, 2005.

	Balance June 30, 2004	New Issues	Principal Payments	Balance June 30, 2005
LaFrance Fire Truck	\$ 96,298		\$ 21,325	\$ 74,973
Street Sweeper	34,989		16,971	18,018
Ford Pickup F150	14,040		6,950	7,090
FL70 Freightliner	32,256		15,968	16,288
Ford Pickup F150	7,769		3,795	3,974
Fire Dept. Rescue Truck	14,895		7,276	7,619
Totals	<u>\$ 200,247</u>	<u>\$ -</u>	<u>\$ 72,285</u>	<u>\$ 127,962</u>

The following is a summary of changes in Enterprise Fund long-term obligations for the year ended June 30, 2005.

	Balance June 30, 2004	New Issues	Principal Payments	Balance June 30, 2005
<b>WATER FUND</b>				
Water System	\$ 948,464		\$ 148,408	\$ 800,056
Deferred Interest	203,093		33,849	169,244
Ford Pickup	6,321		3,048	3,273
<b>SEWER FUND</b>				
Brown Bear Tractor	127,416		29,508	97,908
Plant Upgrade	1,053,154	\$ 34,666	45,566	1,042,254
Eastside Sewer Extension	909,000		10,000	899,000
<b>SANITARY LANDFILL</b>				
627G Caterpillar Scraper	340,833		82,385	258,448
F1 Freightliner Water Truck	66,442		15,545	50,897
Totals	<u>\$ 3,654,723</u>	<u>\$ 34,666</u>	<u>\$ 368,309</u>	<u>\$ 3,321,080</u>

**CITY OF YREKA, CALIFORNIA**

Notes to the Financial Statements

June 30, 2005

**7. LONG-TERM DEBT (continued)**

Long-term debt at June 30, 2005 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).	\$ 800,057	
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.	169,244	
Note payable to Sun Trust Leasing Corp., secured with equipment, which bears interest at 3.35%, Interest and principal payments due annually thru 2007.	356,356	\$ 91,261
Note payable to Sun Trust Leasing Corp., secured with equipment which bears interest at 3.35%, Interest and principal payments due annually thru 2005.	54,170	36,701
Note payable to California State Water Resources Control Board, bearing interest at 2.6%. Principal and interest payment due annually thru 2022.	1,042,253	
Certificates of participation., unsecured. Issued August 7, 2002, bearing interest at 4.5%, Interest and principal payments due September 1 annually thru 2022.	<u>899,000</u>	
	3,321,080	127,962
Less: portion classified as current	<u>(375,987)</u>	<u>(77,426)</u>
Long-term obligations	<u>\$ 2,945,093</u>	<u>\$ 50,536</u>

**CITY OF YREKA, CALIFORNIA**

Notes to the Financial Statements

June 30, 2005

**7. LONG-TERM DEBT(continued)**

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

Year ended June 30	Business Type Activities	Primary Government
2006	\$ 375,987	\$ 77,426
2007	380,649	24,987
2008	391,068	25,549
2009	256,646	
2010	264,888	
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	54,664	
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	
	<u>\$ 3,321,080</u>	<u>\$ 127,962</u>

**CITY OF YREKA, CALIFORNIA**

Notes to the Financial Statements

June 30, 2005

**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, 2005, the City contributed \$225,144 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, 2005, the City contributed \$417,021 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 exceed insurance coverage for the past three years.

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

The following represents summary audited financial information of S.C.O.R.E. general liability plan for the fiscal year ended June 30, 2005:

Total assets	\$10,769,270
Total liabilities	\$ 5,349,667
Net assets	\$ 5,419,603
Total revenues	\$ 5,023,843
Total expenses	\$ 4,323,468
Refund to members/dividends	\$ 1,996,372
Net increase in fund equity	\$ 700,375

**CITY OF YREKA, CALIFORNIA**

Notes to the Financial Statements

June 30, 2005

**8. 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

**9. 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 2004/2005, the City of Yreka's annual pension cost was \$344,398 and the City of Yreka actually contributed \$344,398. The required contribution for fiscal year 2004/2005 was determined as part of the June 30, 2005 actuarial valuation using the entry age normal actuarial cost method assumptions included (a) 7.75% investment rate of return (net of administrative expenses); (b) projected salary increases that vary by duration of service ranging from 3.25% to 14.45% for miscellaneous members (from 4.25% to 14.45% for safety members), and (C) 3.25% payroll growth. Both (a) and (b) include an inflation component of 3.5%. The city paid \$1,500,000 during the fiscal year 2004/2005 in order to prepay a projected unfunded pension liability.

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 in being amortized as a level percentage of projected payroll on a closed basis.

**CITY OF YREKA, CALIFORNIA**

Notes to the Financial Statements

June 30, 2005

**9. PENSION PLAN (continued)**

Supplementary Information

Three Year Trend Information for Miscellaneous Plan of California PERS:  
Funded Status of Plan

Valuation Date	Entry Age Normal Accrued Liability	Actuarial Value of Assets	Unfunded Liability/ (Excess Assets)	Funded Status	Annual Covered Payroll	UL As a % of Payroll
06-30-2003	\$2,596,966,545	\$2,372,879,034	\$224,087,511	91.40%	\$725,020,458	30.9%
06-30-2004	\$2,746,095,668	\$2,460,944,656	\$285,151,012	89.60%	\$743,691,970	38.3%
06-30-2005	\$2,891,460,651	\$2,588,713,000	\$302,747,651	89.50%	\$755,046,679	40.1%

Three Year Trend Information for Safety Plan of California PERS:  
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
06-30-2003	\$1,218,082,935	\$1,083,690,137	\$134,392,798	89.0%	\$184,098,257	73.0%
06-30-2004	\$ 996,203,370	\$ 885,549,650	\$110,653,720	88.9%	\$149,407,703	74.1%
06-30-2005	\$ 742,247,338	\$ 646,358,708	\$ 95,888,630	87.1%	\$115,062,820	83.3%

**10. 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, 2005, was \$39,014.

**11. NET ASSETS**

As of June 30, 2005, investment in capital assets, net of related debt consisted of the following:

	Primary Government	Business-type Activities
Capital assets, net	\$ 6,732,266	\$ 11,049,161
Long-term debt	(127,962)	(3,321,080)
Investment in capital assets, net of related debt	\$ 6,604,304	\$ 7,728,081

**CITY OF YREKA, CALIFORNIA**

Notes to the Financial Statements

June 30, 2005

**12. 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 the closure/post closure care as of June 30, 2005	\$829,658
Trust account balance as of June 30, 2005	\$829,658
Estimated total current cost remaining to be recognized As of February 6, 2006	\$3,808,401
Percentage of landfill capacity used as of February 6, 2006	26%
Estimated remaining landfill life as of February 6, 2006	85years
Increase in trust account balance and expenditure for the year ended June 30, 2005	\$220,793

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

**13. JOINT OWNERSHIP OF THE 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.

As of the date of the auditor's report, the City of Yreka and Siskiyou County had entered into an agreement whereby the County will take over operation and ownership of the landfill.

## CITY OF YREKA, CALIFORNIA

### Notes to the Financial Statements

June 30, 2005

#### 14. COMMITMENTS, CONTIGENT 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, 2005 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.

#### 15. PRIOR PERIOD ADJUSTMENTS

The City recorded the following prior period adjustments for the year ended June 30, 2005.

A prior period adjustment of \$43,560 was made to governmental activities on the statement of activities in order to adjust the capital asset balance per the revised capital asset inventory.

Prior period adjustments totaling \$57,848 were made to the business type activities on the statement of activities and to the enterprise funds on the statement of revenue, expenses and changes in fund net assets in order to adjust the capital asset balance per the revised capital asset inventory list.

A prior period adjustment of \$213,240 was made to the special grants fund on the statement of revenues, expenditures and changes in fund balances in order to bring the accounting method used to account for program loans in the governmental funds in compliance with governmental accounting standards.

**CITY OF YREKA, CALIFORNIA**

Notes to the Financial Statements

June 30, 2005

**16. SUBSEQUENT EVENT**

As of the date of the auditor's report, the City of Yreka and County of Siskiyou, California had entered into an agreement where ownership and operation of the sanitary landfill will be turned over to the County of Siskiyou. This transaction will have a material effect to the financial statements of the City of Yreka.

## **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, 2005

	Budget Amounts		Actual Amounts	Positive (Negative) Variance with Final Budget
	Original	Final		
<b>REVENUES</b>				
Property taxes	\$ 703,000	\$ 703,000	\$ 684,917	\$ (18,083)
Sales taxes	1,860,074	1,860,074	1,989,996	129,922
Transient lodging taxes	510,000	510,000	525,187	15,187
Franchise fees	161,082	161,082	199,276	38,194
Licenses and permits	132,976	132,976	274,400	141,424
Charges for services	95,398	95,398	167,244	71,846
Fines and forfeitures	72,000	72,000	66,099	(5,901)
Intergovernmental	1,000	1,000	40,702	39,702
Fire dept. reimbursements	5,000	5,000	35,112	30,112
Unrestricted investment earnings	158,500	158,500	191,800	33,300
Grants and donations	470,900	580,342	724,984	144,642
Other	154,747	154,747	276,108	121,361
Total revenues	<u>4,324,677</u>	<u>4,434,119</u>	<u>5,175,825</u>	<u>741,706</u>
<b>EXPENDITURES</b>				
City council, administrator & clerk	289,957	289,957	310,688	(20,731)
General government	332,204	1,853,943	1,792,602	61,341
Fire	228,169	228,169	209,620	18,549
Police	1,900,309	1,900,309	1,850,549	49,760
Planning and development	350,088	358,988	330,576	28,412
Parks, culture and recreation	419,760	419,280	420,290	(1,010)
Public works administration	246,841	246,841	174,643	72,198
Public works mechanical maintenance	364,772	364,772	292,451	72,321
Streets and sidewalks	204,767	265,502	360,330	(94,828)
Capital outlays	5,000	5,000	7,069	(2,069)
Debt service:				
Principal	69,706	69,706	69,704	2
Interest	6,417	6,417	6,414	3
Total expenditures	<u>4,417,990</u>	<u>6,008,884</u>	<u>5,824,936</u>	<u>183,948</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(93,313)</u>	<u>(1,574,765)</u>	<u>(649,111)</u>	<u>925,654</u>
<b>OTHER FINANCING SOURCES AND (USES)</b>				
Operating transfers in				
Operating transfers out		(34,370)	(34,370)	-
Debt proceeds				
Total other financing sources and (uses)	<u>-</u>	<u>(34,370)</u>	<u>(34,370)</u>	<u>-</u>
Net change in fund balances	(93,313)	(1,609,135)	(683,481)	925,654
Fund balances - beginning of year	3,111,229	3,111,229	3,111,229	-
Fund balances - end of year	<u>\$ 3,017,916</u>	<u>\$ 1,502,094</u>	<u>\$ 2,427,748</u>	<u>\$ 925,654</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, 2005

	Budget Amounts		Actual Amounts	Positive (Negative) Variance with Final Budget
	Original	Final		
<b>REVENUES</b>				
Intergovernmental	\$ 40,979	\$ 40,979	\$ 69,371	\$ 28,392
Unrestricted investment earnings	8,000	8,000	15,491	7,491
Total revenues	<u>48,979</u>	<u>48,979</u>	<u>84,862</u>	<u>35,883</u>
<b>EXPENDITURES</b>				
Streets and sidewalks	41,000	41,000	3,142	37,858
Total expenditures	<u>41,000</u>	<u>41,000</u>	<u>3,142</u>	<u>37,858</u>
Excess (deficiency) of revenues over (under) expenditures	<u>7,979</u>	<u>7,979</u>	<u>81,720</u>	<u>73,741</u>
<b>OTHER FINANCING SOURCES AND (USES)</b>				
Operating transfers in				-
Operating transfers out	(42,000)	(42,000)		42,000
Debt proceeds				-
Total other financing sources and (uses)	<u>(42,000)</u>	<u>(42,000)</u>	<u>-</u>	<u>42,000</u>
Net change in fund balances	(34,021)	(34,021)	81,720	115,741
Fund balances - beginning of year	551,519	551,519	551,519	-
Fund balances - end of year	<u>\$ 517,498</u>	<u>\$ 517,498</u>	<u>\$ 633,239</u>	<u>\$ 115,741</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, 2005

	Budget Amounts		Actual Amounts	Positive (Negative) Variance with Final Budget
	Original	Final		
<b>REVENUES</b>				
Unrestricted investment earnings	\$ 12,720	\$ 12,720	\$ 5,798	\$ (6,922)
Grants and donations	1,621,070	1,621,070	441,602	(1,179,468)
Other			42,569	42,569
Total revenues	<u>1,633,790</u>	<u>1,633,790</u>	<u>489,969</u>	<u>(1,143,821)</u>
<b>EXPENDITURES</b>				
Police	15,000	15,000	10,414	4,586
Planning and development	784,388	774,388	296,005	478,383
Streets and sidewalks	443,900	443,900	277	443,623
Total expenditures	<u>1,243,288</u>	<u>1,233,288</u>	<u>306,696</u>	<u>926,592</u>
Excess (deficiency) of revenues over (under) expenditures	<u>390,502</u>	<u>400,502</u>	<u>183,273</u>	<u>(217,229)</u>
<b>OTHER FINANCING SOURCES AND (USES)</b>				
Operating transfers in	84,700	98,200	41,700	(56,500)
Operating transfers out		<u>(266,472)</u>	<u>(266,472)</u>	-
Total other financing sources and (uses)	<u>84,700</u>	<u>(168,272)</u>	<u>(224,772)</u>	<u>(56,500)</u>
Net change in fund balances	475,202	232,230	(41,499)	(273,729)
Fund balances - beginning of year	<u>403,823</u>	<u>403,823</u>	<u>403,823</u>	-
Prior period adjustment			<u>(213,240)</u>	<u>(213,240)</u>
Fund balances - end of year	<u>\$ 879,025</u>	<u>\$ 636,053</u>	<u>\$ 149,084</u>	<u>\$ (486,969)</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, 2005

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 undesignated 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, 2005

Federal Grantor/Pass-through Grantor	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
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		\$ 22,513
Title III Home Delivered Meals (C2)	93.045		25,493
Title III Supportive Services (III-B)	93.044		19,768
U.S. Department of Agriculture	10.570		22,321
U.S. Department of Housing and Urban Development Passed Through California Department of Housing & Community Development			
Community Development Block Grant			
Downtown Market Study	14.227		6,207
PTA Water Master Plan	14.227		33,695
Economic Development Block Grant			
Sewer Project EDBG 675	14.228		500,000
Sewer Project STBG 1620	14.228		4,000
Economic Development Block Grant 895	14.228		39,298
United States Department of Transportation Safety Belt Performance	20.600		6,688
United States Department of the Interior			
Green Public Use Plan	10.670		23,349
Small Diameter Log Kiosk	10.670		24,000
Total Expenditures of Federal Awards			\$ 727,332

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, 2005

#### 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.

**CITY OF YREKA, CALIFORNIA**  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2005

**SUMMARY OF AUDIT RESULTS**

1. The auditors report expresses a qualified opinion on the general purpose financial statements of the City of Yreka, California.
2. There were no reportable conditions disclosed during the audit of the general purpose financial statements
3. No instances of noncompliance material to the general purpose financial statements of the City of Yreka, California were disclosed during the audit.
4. The auditors report on compliance for the major federal award program for City of Yreka expresses an unqualified opinion.
5. The program tested as a major program was the Economic Development Block Grant.
6. The Economic Development Block Grant was considered to be a Type A program. The dollar threshold for distinguishing between Type A and B programs was \$300,000.
7. Title III Congregate Meals (C1), Title III Home Delivered Meals (C2), and Title III Supportive Services (III-B), U.S. Department of Agriculture, Downtown Market Study, PTA Water Master Plan, Sewer Project STBG 1620, Economic Development Block Grant 895, Safety Belt Performance, Green Public Use Plan and, Small Diameter Log Kiosk were considered to be Type B programs.
8. City of Yreka, California was determined to be a low-risk auditee.

**FINDINGS - FINANCIAL STATEMENT AUDIT**

I noted no findings during the financial statement audit.

**FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS**

**ECONOMIC DEVELOPMENT BLOCK GRANT**

I noted no findings during the audit of the Major Federal Award Programs.

**QUESTIONED COSTS**

None.

**CITY OF YREKA, CALIFORNIA**  
Schedule of Prior Year Findings and Questioned Costs  
For the year ended June 30, 2005

**FINDINGS**

None

**QUESTIONED COSTS**

None



**JEFFREY CHITWOOD** CERTIFIED PUBLIC ACCOUNTANT

303 Bruce Street Suite B, Yreka, CA 96097  
Phone: (530) 841-1501  
Fax: (530) 841-1568

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

To the City Council  
City of Yreka, California

Compliance

I have audited the compliance of City of Yreka, California, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2005. City of Yreka California major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of City of Yreka, California management. My responsibility is to express an opinion on City of Yreka's compliance based on my audit.

I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133 required that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Yreka, California's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination of City of Yreka, California's compliance with those requirements.

In my opinion, City of Yreka, California, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

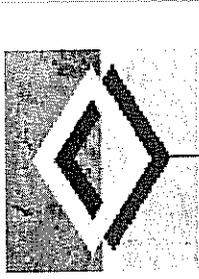
The management of City of Yreka, California, is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing my audit, I considered City of Yreka, California's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

My consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over compliance and its operation that I consider to be material weaknesses.

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



Jeffrey Chitwood  
Certified Public Accountant  
May 22, 2007



**JEFFREY CHITWOOD** CERTIFIED PUBLIC ACCOUNTANT

303 Bruce Street Suite B, Yreka, CA 96097  
Phone: (530) 841-1501  
Fax: (530) 841-1568

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

To the City Council  
City of Yreka  
Yreka, California

I have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of City of Yreka, California as and for the year ended June 30, 2005, which collectively comprise the City of Yreka's basic financial statements and have issued my report thereon dated May 22, 2007.

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.

Internal Control Over Financial Reporting

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control.

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

My consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Yreka's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, 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 or other matters that are required to be reported under Government Auditing Standards.

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



Jeffrey Chitwood  
Certified Public Accountant  
May 22, 2007