

CITY OF YREKA, CALIFORNIA

FINANCIAL STATEMENTS

**FOR THE YEAR ENDED
JUNE 30, 2010**

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City of Yreka

Management's Discussion and Analysis:

As management of the City of Yreka (the City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City of Yreka for the fiscal year ended June 30, 2010. The management provides this discussion and analysis to: 1) assist the reader in focusing on significant financial issues, 2) provide an overview of the City's financial activity, and 3) identify changes in the City's financial position.

Financial Highlights:

- In the statement of net assets, total net assets for the City of Yreka exceeded its liabilities at the close of the most recent fiscal year by \$36,406,671. Of this amount, \$9,077,872 of unrestricted net assets may be used to meet the government's ongoing obligations to citizens and creditors. One might think of unrestricted net assets as the City's total equity or capital balance.
- The governmental activities total net assets of \$20,516,771 increased by \$1,036,876 from the 2008-09 total of \$19,479,895. The increase in net assets is primarily due to a net increase in capital assets.
- The governmental funds unreserved ending fund balance decreased by \$260,360 in 2008-09, primarily due to a decrease in general tax revenues.
- The business type activities total net assets and the ending fund balance of \$15,889,900 increased by 1,342,587 from the prior fiscal year 2008-09 of \$14,547,313.

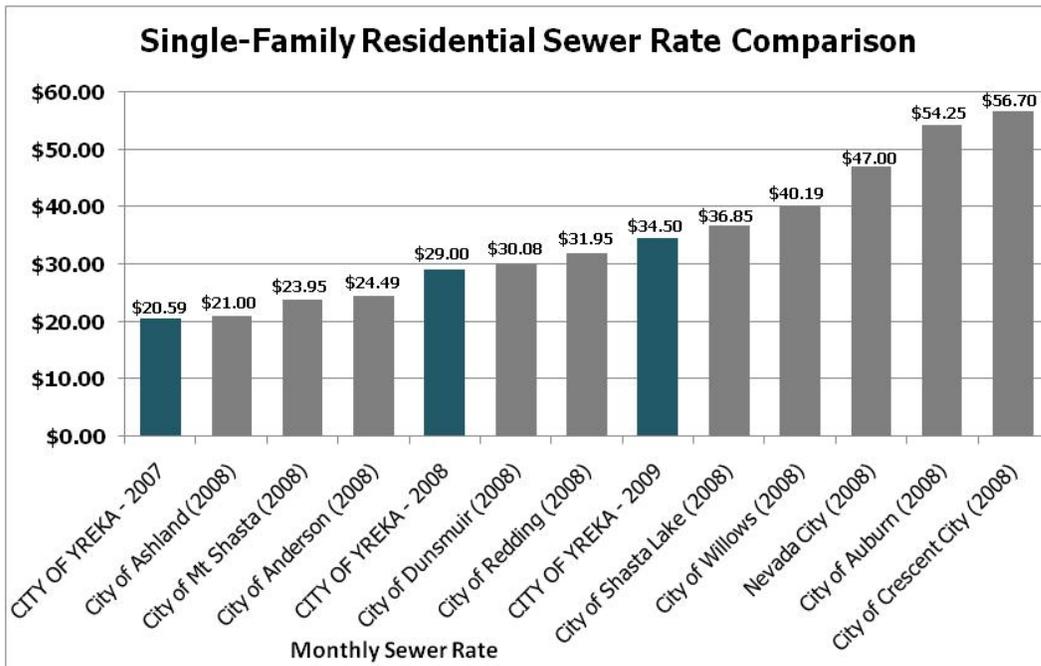
The City continues to reduce expenses, to reflect its declining tax revenues. As a service-based organization, personnel costs are closely managed and the City evaluates vacancies in staffing and has worked with the bargaining units to establish a rate cap on the employer's share of health benefits costs.

Over the past 10 years, the City has completed numerous master plan studies and taken inventory of its assets, with the last study completed December 2007. In these studies, engineers have identified over \$29 million of capital improvements needed within the

next five to ten years for the City’s infrastructure assets of streets, water and sewer utilities. That roughly translates to about \$7,800 per household.

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

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



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

2009-10 Capital Projects Highlights:

- In 2009-10, the City completed \$891,261 in work for a cumulative completion of \$3,268,719 or 65% of the work on a \$5,000,000 Stormwater Attenuation (Prop. 40) grant administered by the State Regional Water Quality Control Board. This grant covers over 80% of the needed improvements that were identified in the City's storm drain master plan. This was the largest grant award received by the City. This project includes storm drain detention ponds, Greenhorn Park restoration and storm drain infrastructure repairs. The construction work for this grant is expected to be completed by the fall of 2010.
- State Transportation Improvement Program grants totaling \$1,788,107, (with \$700,986 of construction of the work completed 2009-10) were completed to repair and rehabilitate the City's streets (Fourth Street and arterial street overlays)
- In 2009-10, the City expended \$145,713 in design work for a cumulative total of \$431,866 in project work completed on the \$1,501,000 Yreka Greenway Creek trails grant. The work fulfills some of the goals identified and developed in Greenway Master Plan.
- Finally, the City expended over \$900,582 of construction funds for improvements to its water and wastewater systems.



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

Overview of the Financial Statements:

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

Government-wide Financial Statements:

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

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

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

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

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

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

Fund Financial Statements:

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

Governmental funds:

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike

the government-wide financial statements, governmental fund financial statements focus on near-term cash inflows and cash outflows of resources, as well as on ending fund balances available at the end of the fiscal year.

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

The major governmental funds are presented in:

- the governmental fund balance sheet, and the
- governmental fund statement of revenues, expenditures, and changes in fund balances for the governmental funds.

The governmental fund is also combined into a single, aggregated presentation. The City of Yreka adopts an annual appropriated budget for each of its governmental funds. A budgetary comparison statement for the governmental funds demonstrates compliance with the budget, and is located on pages 29 through 32 of this report.

Proprietary funds.

The City of Yreka maintains two different types of proprietary funds for its business-type activities. These are also referred to as Enterprise Funds and are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of Yreka uses enterprise funds to account for its water and wastewater operations. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water and wastewater funds, each of which is considered a major fund. The basic proprietary fund financial statements can be found on pages 7 through 9 of this report.

Fiduciary funds:

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

Notes to the financial statements:

The notes provide additional information that is essential to fully understand the data provided in the government-wide and fund financial statements. The notes to the

financial statements can be found on pages 10 through 28 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 29 through 33 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 \$20,516,771 for governmental activities and \$15,889,900 for business type activities, or \$36,406,671 in total, at the close of 2009-10. Year-over-year net assets increased.

City of Yreka – Changes in Net Assets

	Governmental	Business-	
	Activities	Type	Total
		Activities	
Total Net Assets for:			
Fiscal Year 2008-09	\$19,479,895	\$14,547,313	\$34,027,208
Fiscal Year 2009-10	20,516,771	15,889,900	36,406,671
Increase or (Decrease in Net Assets)	\$1,036,876	\$1,342,587	\$2,379,463

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

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

City of Yreka – Governmental Activities Net Assets

	Governmental Activities		Percentage
	2008-09	2009-10	Change 2008-09 as the base year
Assets:			
Current assets and other assets	\$6,901,374	\$6,649,919	-3.6%
Restricted assets	1,958,525	2,166,123	10.6%
Non Current Assets	15,688,131	16,660,342	6.2%
<i>Total Assets</i>	24,548,030	25,476,384	3.8%
Liabilities:			
Current Liabilities	1,988,240	1,990,144	0.1%
Long-term Liabilities	3,079,895	2,969,469	-3.6%
<i>Total Liabilities</i>	5,068,135	4,959,613	-2.1%
Net assets:			
Invested in capital assets, net of related debt	12,441,842	13,580,447	9.2%
Restricted	1,958,525	2,117,156	8.1%
Unrestricted	5,079,528	4,819,168	-5.1%
<i>Total Net Assets</i>	\$19,479,895	\$20,516,771	5.3%

Total net assets increased by 3.8% or \$928,354 from 2008-09. The large increase is due to capital outlay for road and street rehabilitation. Restricted assets increased 10.6% due a one-time donation from an estate for \$156, 647. Total liabilities decreased 2.1% due to repayment of loan balances. Unrestricted net assets decreased 5.1% or \$260,360 from 2008-09, in part due to a decrease in the ending fund balance, where expenditures exceeded revenues.



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

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

City of Yreka – Business Type Activities Net Assets

	Business-Type Activities		Percentage
	2008-09	2009-10	Change 2008-09 as the base year
Assets:			
Current assets and other assets	\$4,363,328	\$4,733,445	8.5%
Restricted assets	50,295	100,000	98.8%
Non Current Assets	12,356,707	13,214,731	6.9%
<i>Total Assets</i>	<u>16,770,330</u>	<u>18,048,176</u>	7.6%
Liabilities:			
Current Liabilities	539,482	541,783	0.4%
Long-term Liabilities	1,683,535	1,616,493	-4.0%
<i>Total Liabilities</i>	<u>2,223,017</u>	<u>2,158,276</u>	-2.9%
Net assets:			
Invested in capital assets, net of related debt	10,405,617	11,531,196	10.8%
Restricted	50,295	100,000	98.8%
Unrestricted	4,091,401	4,258,704	4.1%
<i>Total Net Assets</i>	<u>\$14,547,313</u>	<u>\$15,889,900</u>	9.2%

Total assets increased \$1,277,846 or 7.6% and total liabilities decreased by \$64,738 or 2.9% primarily due to scheduled repayments on existing debt.

Overall, unrestricted net assets increased by 9.2% or \$1,342,587 from 2008-09, primarily due the increase in capital assets as the City invested in water main replacements and has commenced on multi-year capital improvement project to the water system. The \$49,705 or 98.8% increase to restricted net assets is attributable to debt servicing reserve requirements.



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

Comparison of Government Wide General Revenues:

General revenues:	2008-09			2009-10		
	Governmental activities	Business-type activities	Total	Governmental activities	Business-type activities	Total
Taxes:						
Property	\$968,390	\$0	\$968,390	\$973,768	\$0	\$973,768
Sales and use	1,964,509	0	1,964,509	1,694,881	0	1,694,881
Other	1,439,367	0	1,439,367	1,393,182	0	1,393,182
Investment earnings	264,542	93,846	358,388	47,928	24,736	72,664
Other	22,477	(63,235)	(40,758)	302,983	0	302,983
Loss on disposal of capital assets	(215,695)	0	(215,695)	(774,763)	0	(774,763)
Transfers	0	0	0	(433,519)	433,519	0
Total general revenues and transfers	\$4,443,590	\$30,611	\$4,474,201	\$3,204,460	\$458,255	\$3,662,715

Total general revenues decreased in 2009-10 from 2008-09 by \$811,486, of which \$559,068 is due to the change in loss on capital assets. In 2009-10, the City sold land and buildings to the Siskiyou Family YMCA. Taxes decreased \$310,435, primarily due to lower sales tax and property tax revenue. Investment earnings dropped markedly due to record low interest rates, and a slightly lower investment balance. Other revenue represents a one-time insurance premium dividend of \$300,616 from the City's insurance, Small Cities Organized Risk Effort joint power authority, or SCORE.



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

Comparison of Government Wide Program Revenues:

<i>Program Revenue</i>	2008-09	2009-10	Year over Year Change
Governmental activities:			
General government	\$638,942	\$630,209	(\$8,733)
Planning and development	1,158,673	722,360	(436,313)
Parks and recreation	866,355	201,698	(664,657)
Public works administration	-	-	-
Public works maintenance	-	155	155
Police protection	158,477	200,436	41,959
Fire protection	297,203	270,984	(26,219)
Senior nutrition and transportation	251,735	-	(251,735)
Streets and sidewalks	2,297,928	2,167,605	(130,323)
Public transportation	160,649	157,093	(3,556)
<i>Total governmental activities</i>	<u>5,829,962</u>	<u>4,350,540</u>	<u>(1,479,422)</u>
Business-type activities:			
Sewer	1,409,734	1,850,410	440,676
Water	1,755,509	1,949,034	193,525
Sanitary Landfill	-	-	-
<i>Total business-type activities</i>	<u>3,165,243</u>	<u>3,799,444</u>	<u>634,201</u>
Total primary government	<u>\$8,995,205</u>	<u>\$8,149,984</u>	<u>(\$845,221)</u>

Governmental activities program revenue decreased \$1,479,422 in 2009-10.

- The \$436,313 decrease in planning and development is due prior year grant funds received for economic development activities.
- The decrease in revenue for parks and recreation, \$664,657, and streets and sidewalks, \$130,323 are primarily due to the completion of projects funded with grant funds in the 2008-09.
- In 2009-10, the City no longer operated a senior services program, of which \$251,735 of revenue was attributable to operating grants and donations.

Business activities program revenue increased \$634,201 in 2009-10, primarily due to a scheduled increase in the utility rates.

Comparison of Government Wide Program Expenses:

<i>Program Expenses</i>	2008-09	2009-10	Year over Year Change
Governmental activities:			
General government	\$1,125,207	\$1,173,494	\$48,287
Planning and development	1,443,990	898,153	(545,837)
Parks and recreation	657,622	575,033	(82,589)
Public works administration	165,550	80,468	(85,082)
Public works maintenance	137,699	160,032	22,333
Police protection	2,251,669	2,251,182	(487)
Fire protection	488,307	364,775	(123,532)
Senior nutrition and transportation	329,306	-	(329,306)
Streets and sidewalks	944,006	857,894	(86,112)
Public transportation	186,929	157,093	(29,836)
<i>Total governmental activities</i>	<u>7,730,286</u>	<u>6,518,124</u>	<u>(1,212,162)</u>
Business-type activities:			
Sewer	1,413,747	1,514,751	101,004
Water	1,394,692	1,412,436	17,744
Sanitary Landfill	-	-	-
<i>Total business-type activities</i>	<u>2,808,439</u>	<u>2,927,187</u>	<u>118,748</u>
Total primary government	<u>\$10,538,725</u>	<u>\$9,445,311</u>	<u>(\$1,093,414)</u>

Functional expenses for governmental activities decreased \$1,212,162 in 2009-10 from 2008-09.

- Planning and development expenses decreased \$545,837 due to one-time economic development operating grants.
- As of June 30, 2009, the City no longer operated a senior services program, a decrease of \$329,306. The City coordinated with a qualified non-profit organization, Madrone Hospice to operate those programs and provide senior services.
- Fire protection services decreased \$123,532 in 2009-10, due to one-time capital outlay in 2008-09 for equipment.

Functional expenses for business-type activities increased \$118,748 in 2009-10 from 2008-09 that represents operating cost increases in the water and sewer funds.

Financial Analysis of the City's Funds:

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

Governmental funds:

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

The general fund is the chief operating fund of the City of Yreka, and at the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$6,999,575. The following describes the fund balances designations.

Reserved: The General Fund balance reserved for capital outlays of \$2,117,156 represents funds in the Crandall account. The Crandall account is an account where the City has expenditure control, but is restricted to expend only for special capital outlays by a will.

Unreserved, but designated: The City has \$2,895,867 of unreserved but designated fund balances. These fund balances indicate that they are not available for spending. This is because they have already been committed to 1) roads and streets 2) capital improvements 3) grant projects 4) insurance reserves and other specified designations.

Unreserved and undesignated: The City has \$1,986,552 of unreserved and undesignated governmental fund balances that are available to expend. As a measurement of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 45% of total general fund expenditures.

Total Governmental Funds revenue decreased by \$1,725,966 in 2009-10 (\$8,763,282) from 2008-09 (\$10,489,248) due to two major reasons;

1. a \$310,435 decline in tax revenues, primarily property and sales tax. Those trending decreases are expected to continue, and
2. a \$1.2 million decrease in one time grant fund and operating grant revenues from 2008-09.

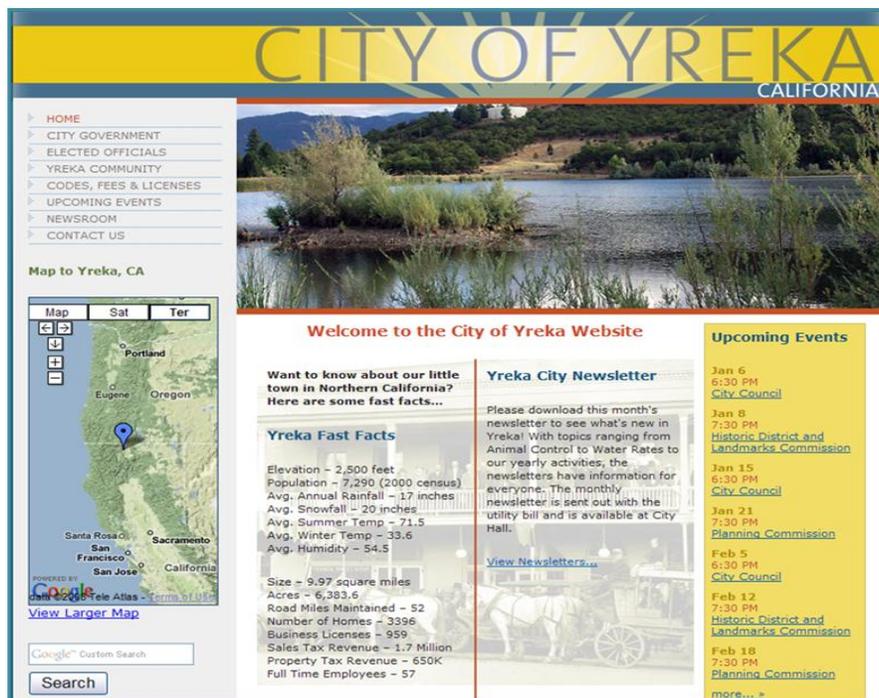
Correspondingly total Governmental Funds expenses decreased \$1,544,170 in 2009-10 (8,368,242) from 2008-09 (9,912,412); primarily due to grant projects for infrastructure projects and community development block grants for housing rehabilitation, business lending and targeted business training. As of June 30, 2009, the City no longer operated a senior services program.

Proprietary funds:

The City of Yreka’s proprietary funds, also referred to as business-type activities or Enterprise Funds, provide the same type of information found in the government-wide financial statements, but in more detail. Total net assets of the water, and wastewater funds at the end of the year amounted to \$15,889,900, and unrestricted net assets were \$4,258,704. In the statement on Cash Flows, page 9, the net increase (decrease) in cash shows a decrease of \$80,602. The wastewater enterprise fund had a \$449,397 increase in available cash due to utility rate increases. The water fund also had rate increase, however offsetting that increase were planned capital outlay expenditures of \$829,776, which resulted in an overall cash decrease of \$368,795. In October 2008, the City implemented a five-year utility rate increase in an effort to increase revenues to keep pace with the required cash outlay for both operations and required capital outlay as well as financing. The City is on track with its revenue increases, operating costs controls, and required capital outlay as identified from the rate analysis study.

Agency funds:

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



General Fund Budgetary Highlights:

Below is a table comparing the differences between the original budget and the final amended budget for revenue and expenses in the General Fund, Special Grant Fund, Special Revenue and Streets and Roads Fund. More line detail is available on pages 29 through 32 of this report.

Schedule of Revenues and Expenditures – Budget to Actual 2009-2010

General Fund	Original	Final	Actual
Revenue	\$4,842,025	\$5,338,005	\$5,333,858
Expense	4,922,993	4,737,896	4,669,963
Excess (deficiency) of revenue over (under) expenses	(80,968)	600,109	663,895
Other Financing Sources and (Uses)	(50,579)	(216,129)	(215,646)
Net Change in Fund Balance	(\$131,547)	\$383,980	\$448,249
Special Grants	Original	Final	Actual
Revenue	\$3,512,070	\$2,160,109	\$2,156,311
Expense	3,617,170	2,289,913	2,283,299
Excess (deficiency) of revenue over (under) expenses	(105,100)	(129,804)	(126,988)
Other Financing Sources and (Uses)	69,372	71,190	69,942
Net Change in Fund Balance	(\$35,728)	(\$58,614)	(\$57,046)
Special Revenue	Original	Final	Actual
Revenue	\$492,550	\$457,150	\$455,461
Expense	319,527	327,527	326,723
Excess (deficiency) of revenue over (under) expenses	173,023	129,623	128,738
Other Financing Sources and (Uses)	0	(319,000)	(318,761)
Net Change in Fund Balance	\$173,023	(\$189,377)	(\$190,023)
Streets and Roads	Original	Final	Actual
Revenue	\$830,383	\$819,683	\$817,652
Expense	1,179,857	1,097,061	1,088,257
Excess (deficiency) of revenue over (under) expenses	(349,474)	(277,378)	(270,605)
Other Financing Sources and (Uses)	50,579	31,129	30,946
Net Change in Fund Balance	(\$298,895)	(\$246,249)	(\$239,659)

General Operating Fund:

- Total revenues were \$4,842,025 in the original budget, \$5,338,005 in the final budget and \$5,333,858 for actuals.
 - Revenue was increased by \$495,980 in the final budget, primarily to reflect one-time insurance premium dividend of \$300,616 from the City insurance joint powers authority known as SCORE and a one donation from an estate for \$156,647.
 - Other decreases from the original budget to the final budget include a \$165,000 decrease in sales tax revenue, related to sluggish sales and the economic climate nationwide and a \$33,000 decrease in interest earnings, due to lower interest rates.

- Property tax revenue increased from the adopted budget to the final budget by \$94,500, as decreases in property values assessments were not as large as expected. That may be attributable to timing differences, as the City still anticipates declines in property tax revenue.
- Intergovernmental revenue increased \$95,200 from the adopted budget to the final budget due to increased revenue from motor vehicle license fees and mutual aid fire response reimbursements.
- Total expenses were \$4,922,993 in the original budget, \$4,737,896 in the final budget and \$4,669,963 for actuals. The final budget expenses were decreased by \$185,097 from the original budget, primarily due to a budget adjustment to the internal PERS unfunded liability accrual and salary savings in the general fund for street and sidewalk activities.
- The change in the general fund balance was (\$131,547) in the original budget, \$383,980 in the final budget and \$448,249 for actuals. One time revenues and expenditure controls resulted in the favorable excess of revenues over expense performance results.

Special Grant Fund:

- Grant revenue was \$3,512,070 in the original budget, \$2,160,109 in the final budget and actual revenue was \$2,156,311. The original budget showed funding for all grants projects that might have been completed in the fiscal year 2009-10. The final budget decreased by \$1,355,759, recognizing the actual project funding, both construction work in process and implementation.
- Expenditure for community development was \$1,104,220 in the original budget, \$450,879 in the final budget, and \$444,162 for actuals. The decrease was due to a slow down in being able to make both business and housing rehabilitation loans and slower than expected progress on an original \$400,000 EPA hazardous substances and petroleum grant.
- The expenditure of \$21,286 for public safety represents a small Department of Justice grant award.
- Capital expenditures for street rehabilitation, storm drain projects, safe schools routes, greenway and park improvements were \$2,512,950 in the original budget, \$1,817,797 in the final budget and \$1,817,434 for actuals. Work on many of these state funded grant projects are in progress and continuing into 2010-11.
- Other net financing sources and (uses) were \$69,372 in the original budget, \$71,190 in the final budget and \$69,942 for actuals. Transfers out were zero in the original budget, \$124,810 in the final budget and \$124,810 for actuals, due to one-time transfer of CDBG revolving loan funds to a sewer rehabilitation project. Transfers in, from the original budget were \$69,372, \$196,000 in the final budget and \$194,752 for actuals. The transfers in, increase was due to needed general funds matching for road and street funds for grant projects.

Special Revenue Fund:

- Revenues were \$492,550 in the original budget, \$457,150 in the final budget and \$455,461 for actuals. The primary variance between the original budget and the

final budget is due to \$30,900 decrease in the collection of development impact fees.

- Expenses were \$319,763 in the original budget, \$327,527 in the final budget and \$326,723 for actuals.
- Expenditures for general government were higher than the original budget by \$8,000 due to federal and state legislative extension of unemployment benefits to personnel displaced from the City's sale of its landfill to the County of Siskiyou in July 2007.
- Transfers out were zero in the original budget, \$319,000 in the final budget and \$318,761 for actuals. The transfer represented a financing opportunity mid-year for the City to acquire a sewer vacuum truck using develop impact fee revenue.

Streets and Roads Fund:

- Revenues were \$830,383 in the original budget, \$819,683 in the final budget and \$817,652 for actuals.
- Expenditures primarily for capital projects in the Gas Tax Fund were \$1,179,857 in the original budget, \$1,097,061 in the final budget and \$1,088,257 for actuals. Capital projects in the original budget that were not expended in actuals totaled \$240,825 for road paving and storm drain projects, which was offset in part by an actual expenditure appropriation of \$157,093 for the City's contribution to the County's STAGE bus transportation program.



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

Capital Assets and Debt Administration

Changes in Capital Assets

	Balance			Balance
	June 30, 2009	Additions	Retirements	June 30, 2010
Governmental Activities:				
<i>Capital assets not being depreciated;</i>				
Land	\$1,702,314	\$ -	(\$50,000)	\$1,652,314
Construction in Progress	4,675,549	2,361,674	(2,228,980)	4,808,243
<i>Capital assets being depreciated;</i>				
Building and Structures	4,407,872	-	(1,058,608)	3,349,264
Machinery and Equipment	3,384,732	102,162	-	3,486,894
Infrastructure	21,634,966	2,144,180		23,779,146
Governmental Activities Capital Assets	35,805,433	4,608,016	(3,337,588)	37,075,861
Less Accumulated Depreciation	(20,117,302)	(632,062)	333,845	(20,415,519)
Governmental Activities Capital Assets, net	\$15,688,131	\$3,975,954	(\$3,003,743)	\$16,660,342
Business-type Activities:				
<i>Capital assets not being depreciated;</i>				
Land	\$253,172			\$253,172
Construction in Progress	1,820,657	900,582	(1,656,892)	1,064,347
<i>Capital assets being depreciated;</i>				
Utility Plant	14,567,083	1,510,305		16,077,388
Building and Structures	6,994,027			6,994,027
Machinery and Equipment	3,858,396	644,794		4,503,190
Total Business Activities Capital Assets	27,493,335	3,055,681	(1,656,892)	28,892,124
Less Accumulated Depreciation	(15,136,629)	(540,764)	-	(15,677,393)
Business-type Capital Assets, net	12,356,706	2,514,917	(1,656,892)	13,214,731
Total Capital Assets, net	\$28,044,837	\$6,490,871	(\$4,660,635)	\$29,875,073

The City of Yreka's investment in capital assets for its governmental and business type activities as of June 30, 2010 amounts to \$29,875,073 (net of accumulated depreciation). Non-depreciable capital assets are land, land right of ways, used primarily for streets and construction that is in progress. Depreciable assets include buildings and structures, equipment and vehicles. Capital assets for infrastructure include streets and sidewalks, curbs and gutters, drainage systems, bridges, and lighting systems.

The City has completed numerous master plan studies and taken inventory of its assets. In these studies, engineers have identified over \$29 million of capital improvements needed within the next five to ten years for the City's infrastructure assets of streets, water and sewer utilities. To that end, the City remains focused in its efforts to deal with ways to fund infrastructure improvements.

Capital grants, though they are becoming more competitive, remain the primary source of funding for capital outlay to the City's aging infrastructure. Street and roads, in a serious need of rehabilitation but at present there is not an adequate revenue stream for repairs, other than competitive grants.

Although the water, wastewater systems are safe and reliable, these infrastructure assets are aging and in need of replacement pipes, booster pumps, tank cleaning and resurfacing, filters, and other identified system upgrades. In 2009-10, the City submitted several loan and grant application for these identified water and wastewater utility system improvements. The City will be able to debt service these potential debt obligations through its five year implementation of higher use fees.

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

Governmental Activities

- Projects under construction or CIP increased \$2,361,674, while completed CIP projects totaled \$2,228,980 for a balance of \$4,808,243 in 2009-10. Those construction projects include street paving projects and continued improvements to the City's storm drainage system.
- Completed capital projects of \$2,144,180 include
 - STIP funded grants for paving and overlays on various streets \$1,788,107,
 - and storm drains placed on Florentine, between Yreka Creek and SR#3, and SR3 and Bruce Street \$356,073,
- The City purchased and installed a new enterprise wide information technology system \$84,800 and 2-3 yard dump truck (½ sewer funds ½ street funds) \$17,362.
- The City sold with rights of reversion, the land and buildings to the Siskiyou Family YMCA, who has leased the property since the early 1990's. Land and building loss on sale net of accumulated depreciation was \$774,763.

Business Type Activities

- Projects under construction or CIP increased \$900,582, while completed CIP projects totaled \$1,656,892 for a cumulative CIP balance of \$1,317,519 in 2009-10. Those construction projects include major improvements to the City's water pumping, treatment and storage facilities.
- Completed capital projects of \$1,510,305 include
 - replacement of the water main on Fourth Street \$608,791,
 - inflow and infiltration rehabilitation work of sewer main on Yama Street \$162,448,
 - repair work from flood damage (FEMA project) in 2005 to the waste water treatment plant and effluent disposal fields \$713,814,
 - design plans for wastewater treatment plant aeration system \$25,252
- Purchases of field service equipment totaled \$644,794 and include:
 - new sewer vacuum truck \$318,761,
 - 2-3 yard dump truck (½ sewer funds ½ street funds) \$17,362,
 - radio read meter heads and meters \$91,394,
 - equipment trailer for the backhoe acquired in 2008-09 \$21,123,
 - bobcat flail mower for the effluent fields \$49,567, and
 - rebuilt water booster pump at State Street \$146,587.

Changes in Long Term Debt:

Changes in Long Term Debt

	Balance June 30, 2009	New Issues	Principal Payments	Balance June 30, 2010
Governmental Activities:				
Loans Payable - Banks and Others	\$970,893	\$0	\$114,114	\$856,779
Loans Payable - Governmental Agencies	2,275,396		52,280	2,223,116
Total Governmental Activities	3,246,289	0	166,394	3,079,895
Business-type Activities:				
Loans Payable - Banks and Others	0	0	0	0
Loans Payable - Governmental Agencies	1,094,090	0	255,555	838,535
Certificates of participation - USDA Rural Development	857,000	0	12,000	845,000
Total Business Activities	1,700,994	0	267,555	1,683,535
Total Outstanding Long Term Debt	\$4,947,283	\$0	\$433,949	\$4,763,430
Less Portion Classified as Current Debt				(240,719)
				<u>\$4,522,711</u>



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

At the end of the current fiscal year, the City of Yreka had total debt outstanding of \$4,763,430 and long term outstanding debt of \$4,522,711. Detailed information on lenders, rates and maturities for long-term debt can be found on pages 21 through 23 of this report.

The City of Yreka's total debt decreased by \$433,949 during the current fiscal year 2009-10 due to scheduled principal repayment on borrowings.

Next Year's Budgets and Rates:

Budget Highlights for 10-11

Below are highlights from the City's 2010-11 original budget. The original budget was approved by the City Council on October 7, 2010 and can be found on the City's website <http://ci.yreka.ca.us/city/administration/finance/budgets>. The original budget includes settlement and acceptance of bargaining unit contracts for 2010-11, from all of the City's bargaining units.

City of Yreka 2010-11 Original Budget

	Budgeted Revenue	Budgeted Expense
Total General Fund	\$4,957,979	\$5,985,073
Total Special Rev. Fund	466,000	399,860
Total Streets and Roads	923,258	1,129,785
Special Grant Fund	5,220,188	5,209,859
Total Governmental Activity Fund	11,567,425	12,724,577
Sewer Fund	12,524,875	12,120,869
Water Fund	2,028,125	1,889,745
Total Business Type Funds	14,553,000	14,010,614
All Funds Combined	\$26,120,425	\$26,735,191

The City projects an overall \$614,766 decrease in fund balances during fiscal year 2010-11, primarily in the General Fund \$1,027,094 and Streets and Roads funds \$206,527. The reduction is due to planned projects, primarily in the City's historic district and industrial park land acquisition. Streets and Roads construction projects include street paving and maintenance. Restricted and designated reserves will be used to offset the excess costs for these construction projects.

Grant Awards:

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

General Fund Revenue Projections:

Revenue projections for 2010-11, reflect the continued decline in the City's property, sales and transient lodging taxes

General Operating Fund - Fiscal Year Main Stream Revenue Comparison

	Actual 06-07	Actual 07-08	Actual 08-09	Actual 09-10	Original Budget 10-11
Property Tax (secured & unsec. roll)	\$887,856	\$915,035	\$941,360	\$957,632	\$920,000
Transient Lodging	608,826	592,729	626,360	575,912	575,000
Sales Tax	1,607,462	1,709,256	1,462,862	1,270,793	1,200,000
Franchises	220,470	234,541	242,229	249,214	248,500
Business Licenses	77,491	80,060	79,378	72,515	73,150
Animal Licenses	10,431	10,842	21,488	29,361	30,000
Building Permits	156,944	104,410	77,079	41,466	60,000
Motor Vehicle License Fees (1)	524,463	542,789	570,778	569,057	566,000
Triple Flip In Lieu Sales Tax (2)	509,797	597,296	501,647	424,088	444,000
Administrative Cost Recovery (ICA)	300,028	241,775	312,680	227,836	345,000
Operating Grants	129,791	130,678	127,590	123,791	130,000
Other Revenues	682,902	215,313	282,175	189,731	168,049
Subtotal General Operating Fund					
Mainstream Revenue	\$5,716,461	\$5,374,724	\$5,245,626	\$4,731,396	\$4,759,699

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

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

Enterprise Fund Revenue:

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

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

Expenditure Control:

The City is diligently working to keep expenditures under control while continuing to maintain the historic levels of service that the citizens of Yreka have come to expect and rely upon. The balancing of services with resources continues to challenge most notably the Public Safety and Public Works departments.

Horizon Issues for 2010-11:

Of concern to the City are the following issues:

1. Continued decline in core general fund revenue of sales, property and transient occupancy taxes, that mirrors the overall economic downturn for the state.
2. The City will need to continue to exercise expenditure controls, as well as the evaluation of staffing levels and vacancies for restructuring opportunities.
3. The Council continues to seek funding sources for infrastructure, particularly roads, drainage, and maintenance of improved and expanded parks and greenways.
4. The State of California's budget crisis remains as the State has not found any long-term solutions to its fiscal problems. The impact to cities continues to be deferrals and shifts of revenue streams, along with proposed revenue cuts.

Requests for Information:

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



To the City Council
City of Yreka, California

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the City of Yreka, California, as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of Yreka, California management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the City of Yreka, California, as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 17, 2011 on our consideration of City of Yreka, California's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal controls over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United State of America requires that the Management's Discussion and Analysis and Budgetary comparison information on pages I through XXIII, and pages 29-32 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historic context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with the management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Aiello, Goodrich & Teuscher
Aiello, Goodrich & Teuscher
An Accountancy Corporation
Mt. Shasta, California
August 17, 2011

BASIC FINANCIAL STATEMENTS

City of Yreka
Statement of Net Assets
June 30, 2010

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
ASSETS			
Current assets:			
Cash and investments	\$ 4,145,319	\$ 3,700,348	\$ 7,845,667
Receivables (net of allowances for bad debts, where applicable):			
Trade accounts	-	397,761	397,761
Loans	711,942	-	711,942
Intergovernmental	1,310,526	348,020	1,658,546
Accounts	368,237	-	368,237
Taxes	394,211	-	394,211
Interest	7,000	-	7,000
Internal balances	(287,316)	287,316	-
Total current assets	<u>6,649,919</u>	<u>4,733,445</u>	<u>11,383,364</u>
Restricted assets:			
Cash and investments	<u>2,166,123</u>	<u>100,000</u>	<u>2,266,123</u>
Capital assets:			
Non-depreciable	6,460,557	1,317,519	7,778,076
Depreciable, net	<u>10,199,785</u>	<u>11,897,212</u>	<u>22,096,997</u>
Total capital assets	<u>16,660,342</u>	<u>13,214,731</u>	<u>29,875,073</u>
Total assets	<u>25,476,384</u>	<u>18,048,176</u>	<u>43,524,560</u>
LIABILITIES			
Accounts payable	429,571	441,489	871,060
Payroll payable	283,820	33,252	317,072
Accrued vacation	226,098	-	226,098
Deferred revenue	876,978	-	876,978
Current portion of long-term debt	173,677	67,042	240,719
Total current liabilities	<u>1,990,144</u>	<u>541,783</u>	<u>2,531,927</u>
Long-term liabilities:			
Long-term debt, net of current portion	2,906,218	1,616,493	4,522,711
OPEB Liability	63,251	-	63,251
Total long-term liabilities	<u>2,969,469</u>	<u>1,616,493</u>	<u>4,585,962</u>
Total liabilities	<u>4,959,613</u>	<u>2,158,276</u>	<u>7,117,889</u>
NET ASSETS			
Invested in capital assets, net of related debt	13,580,447	11,531,196	25,111,643
Restricted for capital projects (expendable)	2,117,156	100,000	2,217,156
Unrestricted	<u>4,819,168</u>	<u>4,258,704</u>	<u>9,077,872</u>
Total net assets	<u>\$20,516,771</u>	<u>\$15,889,900</u>	<u>\$36,406,671</u>

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

City of Yreka
Statement of Activities
Year Ended June 30, 2010

	Program Revenues			Net (Expense) Revenues and Changes in Net Assets		
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental activities:						
General government	\$ 1,173,494	\$ 5,000	\$ -	\$ (543,285)	\$ -	\$ (543,285)
Planning and development	898,153	647,997	-	(175,793)	-	(175,793)
Parks and recreation	575,033	4,164	150,689	(373,335)	-	(373,335)
Public works administration	80,468	-	-	(80,468)	-	(80,468)
Public works maintenance	160,032	-	-	(159,877)	-	(159,877)
Police protection	2,251,182	167,730	-	(2,050,746)	-	(2,050,746)
Fire protection	364,775	48,747	-	(93,791)	-	(93,791)
Senior nutrition and transportation	-	-	-	-	-	-
Streets and sidewalks	857,894	465,566	1,631,921	1,309,711	-	1,309,711
Public transportation	157,093	157,093	-	-	-	-
Total governmental activities	<u>6,518,124</u>	<u>1,496,297</u>	<u>1,782,610</u>	<u>(2,167,584)</u>	<u>-</u>	<u>(2,167,584)</u>
Business-type activities:						
Sewer	1,514,751	-	12,075	-	347,734	347,734
Water	1,412,436	-	-	-	536,598	536,598
Total business-type activities	<u>2,927,187</u>	<u>-</u>	<u>12,075</u>	<u>-</u>	<u>884,332</u>	<u>884,332</u>
Total primary government	<u>\$ 9,445,311</u>	<u>\$ 1,496,297</u>	<u>\$ 1,794,685</u>	<u>(2,167,584)</u>	<u>884,332</u>	<u>(1,283,252)</u>
General revenues:						
Taxes:						
Property				973,768	-	973,768
Sales and use				1,694,881	-	1,694,881
Other				1,393,182	-	1,393,182
Investment earnings				47,928	24,736	72,664
Other				302,983	-	302,983
Loss on Disposal of Capital Assets				(774,763)	-	(774,763)
Transfers				(433,519)	433,519	-
Total general revenues and transfers				<u>3,204,460</u>	<u>458,255</u>	<u>3,662,715</u>
Change in net assets				1,036,876	1,342,587	2,379,463
Net assets, beginning				19,479,895	14,547,313	34,027,208
Net assets, ending				<u>\$ 20,516,771</u>	<u>\$ 15,889,900</u>	<u>\$ 36,406,671</u>

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

City of Yreka
Balance Sheet
and
Reconciliation of Total Governmental Fund Balance to the Statement of Net Assets - Governmental Activities
Governmental Funds
June 30, 2010

	General Fund	Special Grant Fund	Special Revenue Fund	Streets and Roads Fund	Total Governmental Funds
ASSETS					
Cash and Investments	\$ 4,665,426	\$ 136,667	\$ 582,242	\$ 927,107	\$ 6,311,442
Receivables (net of allowance for doubtful accounts, where applicable):					
Loans	-	711,942	-	-	711,942
Intergovernmental	18,968	1,267,063	-	24,495	1,310,526
Accounts	317,757	-	50,480	-	368,237
Taxes	394,211	-	-	-	394,211
Interest	4,590	106	837	1,467	7,000
Due from other funds	<u>1,147,640</u>	<u>257</u>	<u>-</u>	<u>149,199</u>	<u>1,297,096</u>
Total assets	<u>\$ 6,548,592</u>	<u>\$ 2,116,035</u>	<u>\$ 633,559</u>	<u>\$ 1,102,268</u>	<u>\$ 10,400,454</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 64,431	\$ 90,271	\$ 11,317	\$ 263,552	\$ 429,571
Payroll payable	283,820	-	-	-	283,820
Accrued vacation	226,098	-	-	-	226,098
Deferred revenue	-	736,894	-	140,084	876,978
Due to other funds	<u>7,502</u>	<u>1,145,816</u>	<u>431,094</u>	<u>-</u>	<u>1,584,412</u>
Total liabilities	<u>581,851</u>	<u>1,972,981</u>	<u>442,411</u>	<u>403,636</u>	<u>3,400,879</u>
Fund balances:					
Reserved for:					
Capital outlays	<u>2,117,156</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,117,156</u>
Total	<u>2,117,156</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,117,156</u>
Unreserved:					
Designated for:					
Streets and sidewalks	-	-	-	698,632	698,632
Capital improvement	167,021	-	2,745	-	169,766
Fire protection	-	-	330,018	-	330,018
Grant projects	81,199	143,054	-	-	224,253
Other	<u>1,473,198</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,473,198</u>
Total	<u>1,721,418</u>	<u>143,054</u>	<u>332,763</u>	<u>698,632</u>	<u>2,895,867</u>
Undesignated	<u>2,128,167</u>	<u>-</u>	<u>(141,615)</u>	<u>-</u>	<u>1,986,552</u>
Total fund balance	<u>5,966,741</u>	<u>143,054</u>	<u>191,148</u>	<u>698,632</u>	<u>6,999,575</u>
Total liabilities and fund balance	<u>\$ 6,548,592</u>	<u>\$ 2,116,035</u>	<u>\$ 633,559</u>	<u>\$ 1,102,268</u>	<u>\$ 10,400,454</u>

Total governmental fund balance, as above \$ 6,999,575

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

Capital assets used in governmental activities are not financial resources and therefore not reported in the funds 16,660,342

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds (3,079,895)

OPEB liabilities are not due and payable in the current period and therefore are not reported on the balance sheet (63,251)

Net assets of governmental activities \$ 20,516,771

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

City of Yreka
Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Funds
For The Year Ended June 30, 2010

	General Fund	Special Grant Fund	Special Revenue Fund	Streets and Roads Fund	Total Governmental Funds
REVENUES					
Property taxes	\$ 973,768	\$ -	\$ -	\$ -	\$ 973,768
Sales and use taxes	1,694,881	-	-	-	1,694,881
Transient occupancy taxes	575,585	-	-	-	575,585
Assessment	-	-	220,396	-	220,396
Franchise and fees	248,540	-	-	-	248,540
Licenses and permits	154,906	-	15,819	-	170,725
Intergovernmental revenues	739,888	2,114,671	-	763,659	3,618,218
Charges for services	86,273	-	215,431	-	301,704
Indirect cost allocation	318,831	-	-	-	318,831
Fines, forfeitures and penalties	9,322	-	-	46,099	55,421
Use of money and property	50,165	38,219	3,815	7,894	100,093
Grants and donations	178,716	-	-	-	178,716
In-kind	-	3,421	-	-	3,421
Other	302,983	-	-	-	302,983
Total revenues	<u>5,333,858</u>	<u>2,156,311</u>	<u>455,461</u>	<u>817,652</u>	<u>8,763,282</u>
EXPENDITURES					
Current:					
City council, administrator, and clerk	356,292	-	-	-	356,292
General government	596,552	-	12,675	-	609,227
Planning and development	436,389	444,162	-	-	880,551
Parks and recreation	502,859	-	-	-	502,859
Public works administration	58,847	-	-	21,621	80,468
Public works maintenance	159,615	417	-	-	160,032
Police protection	2,211,169	21,286	-	-	2,232,455
Fire protection	245,799	-	3,244	-	249,043
Streets and sidewalks	85,481	-	-	347,088	432,569
Public transportation	-	-	-	157,093	157,093
Capital outlay	-	1,817,434	-	562,455	2,379,889
Debt service:					
Principal	16,960	-	149,434	-	166,394
Interest	-	-	161,370	-	161,370
Total expenditures	<u>4,669,963</u>	<u>2,283,299</u>	<u>326,723</u>	<u>1,088,257</u>	<u>8,368,242</u>
Excess of revenues over (under) expenditures	<u>663,895</u>	<u>(126,988)</u>	<u>128,738</u>	<u>(270,605)</u>	<u>395,040</u>
OTHER FINANCING SOURCES (USES)					
Operating transfers in	-	194,752	-	30,946	225,698
Operating transfers out	(215,646)	(124,810)	(318,761)	-	(659,217)
Total of	<u>(215,646)</u>	<u>69,942</u>	<u>(318,761)</u>	<u>30,946</u>	<u>(433,519)</u>
Excess of revenues and other sources over (under) expenditures and other uses	448,249	(57,046)	(190,023)	(239,659)	(38,479)
FUND BALANCE					
Beginning of year, as previously reported	<u>5,518,492</u>	<u>200,100</u>	<u>381,171</u>	<u>938,291</u>	<u>7,038,054</u>
End of the year	<u>\$ 5,966,741</u>	<u>\$ 143,054</u>	<u>\$ 191,148</u>	<u>\$ 698,632</u>	<u>\$ 6,999,575</u>

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

City of Yreka
 Reconciliation of the Statement of Revenues, Expenditures and
 Changes in Fund Balance to the Statement of Activities
 Governmental Funds
 For The Year Ended June 30, 2010

Change in fund balance, governmental funds	\$ (38,479)
Amounts reported for governmental activities in the statement of activities is different because:	
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay (\$2,379,036), less the disposal of net assets (\$774,763), or net change in assets (\$1,604,273), exceeds the depreciation expense (\$632,062) in the current period.	972,211
Government funds report repayment of long-term debt as an expenditure, but the repayment reduces long-term liabilities in the Statement of Net Assets and does not affect the Statement of Activities.	166,394
Governmental funds do not report the increase of OPEB liabilities as an expenditure, but it is reported in the Statement of Activities	(63,251)
Other	1
	1
Change in net assets of governmental activities	\$1,036,876

City of Yreka
Statement of Net Assets
Proprietary Funds
June 30, 2010

	Sewer Fund	Enterprise Water Fund	Total
ASSETS			
Current assets:			
Cash and investments	\$ 562,314	\$3,138,034	\$ 3,700,348
Receivables (net of allowances for bad debts, where applicable):			
Trade accounts	199,025	198,736	397,761
Intergovernmental	348,020	-	348,020
Due from other funds	282,942	4,631	287,573
Total current assets	<u>1,392,301</u>	<u>3,341,401</u>	<u>4,733,702</u>
Restricted assets:			
Cash and investments	<u>100,000</u>	<u>-</u>	<u>100,000</u>
Capital assets:			
Non-depreciable	197,700	1,119,819	1,317,519
Depreciable, net	<u>8,908,380</u>	<u>2,988,832</u>	<u>11,897,212</u>
Total capital assets, net	<u>9,106,080</u>	<u>4,108,651</u>	<u>13,214,731</u>
Total assets	<u>10,598,381</u>	<u>7,450,052</u>	<u>18,048,433</u>
LIABILITIES			
Current liabilities:			
Accounts payable	404,213	37,276	441,489
Payroll payable	11,366	21,886	33,252
Due to other funds	-	257	257
Current portion of long-term debt	<u>67,042</u>	<u>-</u>	<u>67,042</u>
Total current liabilities	<u>482,621</u>	<u>59,419</u>	<u>542,040</u>
Long-term liabilities:			
Long-term debt, net of current portion	<u>1,616,493</u>	<u>-</u>	<u>1,616,493</u>
Total liabilities	<u>2,099,114</u>	<u>59,419</u>	<u>2,158,533</u>
NET ASSETS			
Invested in capital assets, net of related debt	7,422,545	4,108,651	11,531,196
Restricted, for debt service, expendable	100,000	-	100,000
Unrestricted	<u>976,722</u>	<u>3,281,982</u>	<u>4,258,704</u>
Total net assets	<u>\$8,499,267</u>	<u>\$7,390,633</u>	<u>\$15,889,900</u>

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

City of Yreka
Statement of Revenues, Expenses and Changes in Retained Earnings
Proprietary Funds
June 30, 2010

	Sewer Fund	Enterprise Water Fund	Total
<u>OPERATING REVENUES</u>			
User fees and charges	\$1,850,345	\$1,947,810	\$ 3,798,155
Other	65	1,224	1,289
Total operating revenues	<u>1,850,410</u>	<u>1,949,034</u>	<u>3,799,444</u>
<u>OPERATING EXPENSES</u>			
Cost of power and water	146,099	199,109	345,208
Maintenance, operations and administration	1,007,556	971,159	1,978,715
Depreciation and amortization	300,714	240,050	540,764
Total operating expenses	<u>1,454,369</u>	<u>1,410,318</u>	<u>2,864,687</u>
Operating income (loss)	<u>396,041</u>	<u>538,716</u>	<u>934,757</u>
<u>OTHER REVENUES (EXPENSES)</u>			
Intergovernmental revenues	12,075	-	12,075
Interest earned	2,611	22,125	24,736
Interest expense	(60,382)	(2,118)	(62,500)
Total other revenues (expenses)	<u>(45,696)</u>	<u>20,007</u>	<u>(25,689)</u>
<u>OTHER FINANCING SOURCES (USES)</u>			
Operating transfers in	443,571	-	443,571
Operating transfers out		(10,052)	(10,052)
Total other financing sources (uses)	<u>443,571</u>	<u>(10,052)</u>	<u>433,519</u>
Change in net assets	793,916	548,671	1,342,587
<u>NET ASSETS</u>			
Beginning of year	<u>7,705,351</u>	<u>6,841,962</u>	<u>14,547,313</u>
End of the year	<u>\$8,499,267</u>	<u>\$7,390,633</u>	<u>\$15,889,900</u>

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

City of Yreka
Statement of Cash Flows
Proprietary Funds
For The Year Ended June 30, 2010

	Sewer Fund	Enterprise Water Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$1,795,887	\$1,949,674	\$ 3,745,561
Payments to suppliers	(370,020)	(683,576)	(1,053,596)
Payments to employees	(458,723)	(608,790)	(1,067,513)
Net cash provided (used) by operating activities	<u>967,144</u>	<u>657,308</u>	<u>1,624,452</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES			
Intergovernmental revenues	14,055	-	14,055
Interfund transfers and payments	160,629	(14,426)	146,203
Net cash provided (used) by non-capital financing activities	<u>174,684</u>	<u>(14,426)</u>	<u>160,258</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchase of capital assets	(569,013)	(829,776)	(1,398,789)
Principal payments on debt	(65,647)	(201,908)	(267,555)
Interest payments on debt	(60,382)	(2,118)	(62,500)
Net cash provided (used) by investing activities	<u>(695,042)</u>	<u>(1,033,802)</u>	<u>(1,728,844)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest income received	2,611	22,125	24,736
Net increase (decrease) in cash	449,397	(368,795)	80,602
CASH			
Beginning of the year	212,917	3,506,829	3,719,746
End of the year	<u>\$ 662,314</u>	<u>\$3,138,034</u>	<u>\$ 3,800,348</u>
Reconciliation of operating income (loss) to cash provided (used) by operating activities:			
Operating Income (loss)	\$ 396,041	\$ 538,716	\$ 934,757
Adjustments to reconcile operating income (loss) to cash provided (used) by operating activities:			
Depreciation and amortization	300,714	240,050	540,764
(Increase) decrease in trade accounts receivable	(54,523)	640	(53,883)
Decrease in prepaid expenses	-	-	-
Increase (decrease) in accounts payable	326,423	(123,078)	203,345
Increase (decrease) in payroll payable	(1,511)	980	(531)
Net cash provided (used) by operating activities	<u>\$ 967,144</u>	<u>\$ 657,308</u>	<u>\$ 1,624,452</u>

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

City Yreka, California
Notes To Basic Financial Statements
June 30, 2010

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

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

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

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

B. Basis of Presentation

Government-wide Financial Statements:

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

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

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

Fund Financial Statements:

Fund financial statements of the City are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into three major

City Yreka, California
Notes To Basic Financial Statements
June 30, 2010

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

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

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

The funds of the City are described below:

Major Governmental Funds:

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

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

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

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

Major Proprietary Funds:

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

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

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

City Yreka, California
Notes To Basic Financial Statements
June 30, 2010

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Measurement Focus and Basis of Accounting

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

Measurement Focus:

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

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

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

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

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

Basis of Accounting:

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

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

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

D. Assets, Liabilities, Net Assets or Fund Equity

Cash and Cash Equivalents:

For purposes of the statement of cash flows, the City considers as cash equivalents all highly liquid investments with a maturity at the date of purchase of three months or less.

City Yreka, California
Notes To Basic Financial Statements
June 30, 2010

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments:

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

Receivables:

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

Property Taxes:

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

Interfund Receivables and Payables:

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

Restricted Assets:

Certain resources received by a bequest are classified as restricted assets on the balance sheet because their use is limited by the trust document for capital outlays.

Capital Assets:

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

City Yreka, California
Notes To Basic Financial Statements
June 30, 2010

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

Compensated Absences:

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

Deferred Revenue

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

Equity Classifications:

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

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

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

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

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

City Yreka, California
Notes To Basic Financial Statements
June 30, 2010

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Revenues, Expenditures and Expenses

Operating Revenues and Expenses:

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

Expenditures/Expenses:

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

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

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

F. Estimates

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

G. Budgets

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

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

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

NOTE 2 CASH AND INVESTMENTS

As of June 30, 2010, cash and investments were reported in the accompanying financial statements as follows:

Governmental activities	\$ 6,311,442
Business-type activities	<u>3,800,348</u>
Total cash and investments	<u>\$10,111,790</u>

City Yreka, California
Notes To Basic Financial Statements
June 30, 2010

NOTE 2 CASH AND INVESTMENTS (continued)

In the governmental activities statement of net assets, \$2,166,123 of cash is reserved for capital outlays per the trust document that governs the bequest of these funds to the City and \$100,000 is reserved for debt servicing as outlined in the certificate of participation debt agreement.

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

Deposits:

At June 30, 2010, the carrying amount of the City's deposits was (\$13,338) and the bank balance was \$555,475. The difference represents outstanding checks.

The California Government Code requires California banks and savings and loan associations to secure a City's deposits by pledging government securities with a value of 110% of a City's deposits. California law also allows financial institutions to secure a City's deposits by pledging first trust deed mortgage notes having a value of 150% of a City's total deposits. The City Treasurer may waive the collateral requirement for deposits that are fully insured up to \$100,000 by the FDIC. The collateral for deposits in federal and state chartered banks is held in safekeeping by an authorized Agent of Depository recognized by the State of California Department of Banking. The collateral for deposits with savings and loan associations is generally held in safekeeping by the Federal Home Loan Bank in San Francisco, California as an Agent of Depository. These securities are physically held in an undivided pool for all California public agency depositors. Under Government Code Section 53655, the placement of securities by a bank or savings and loan association with an "Agent of Depository" has the effect of perfecting the security interest in the name of the local governmental agency. Accordingly, all collateral held by California Agents of Depository are considered to be held for, and in the name of, the local governmental agency.

Investments:

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

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

Investments Authorized by Debt Agreements:

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

City Yreka, California
Notes To Basic Financial Statements
June 30, 2010

NOTE 2 CASH AND INVESTMENTS (continued)

Investments in State Investment Pool:

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code Section 16429 under the oversight of the Treasurer of the State of California. LAIF is overseen by the Local Agency Investment Advisory Board, which consists of five members, in accordance with State statute. The State Treasurer's Office audits the fund annually. The fair value of the position in the investment pool is the same as the value of the pool shares.

GASB Statement No. 31:

The City adopted GASBE Statement No. 31, Accounting and Financial Reporting for certain investments and for External Investment Pools, as of July 1, 1997. GASB Statement No. 31 establishes fair value standards for investments in participating interest earning investment contracts, external investment pools, equity securities, option contracts, shock warrants and stock rights that have readily determinable fair values. Accordingly, the City reports its investments at the fair value in the balance sheet. All investment income, including changes in the fair value of investments, is recognized as revenue in the operating statement.

Credit Risk:

The City's investment policy limits investments in medium term notes (MTN's) to those rated "A" or higher by Standard and Poor's (S&P) or by Moody's. As of June 30, 2010, the City had no medium term notes. At June 30, 2010, the City's Federal Agency investments were rated AAA by S&P.

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

As of June 30, 2010, the City's investments in external investment pools, other than LAIF, were with Morgan Stanley Smith Barney.

Custodial Credit Risk:

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

As of June 30, 2010, none of the City's deposits or investments were exposed to custodial credit risk.

Concentration of Credit Risk:

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

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

City Yreka, California
Notes To Basic Financial Statements
June 30, 2010

NOTE 2 CASH AND INVESTMENTS (continued)

As of June 30, 2010, in accordance with GASB 40 requirements, the City is exposed to concentration of credit risk whenever they have invested more than 5% of their total investments in any one issuer. As of June 30, 2010, the City has not invested more than 5% of its portfolio in any one issuer. Investments guaranteed by the U.S. government and investments in mutual funds and external investment pools are excluded from this requirement.

Interest Rate Risk:

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

	<u>6 Months or Less</u>	<u>6 Months to 1 Year</u>	<u>1 to 3 Years</u>	<u>More than 5 Years</u>	<u>Total</u>	<u>Fair Value</u>
Local Agency Investment Fund	\$ 9,038,119	\$ -	\$ -	\$ -	\$ 9,038,119	\$ 9,038,119
Bank Certificates of Deposit	<u>638,078</u>	<u>448,931</u>	<u>-</u>	<u>-</u>	<u>1,087,009</u>	<u>1,087,009</u>
Total	<u>\$ 9,676,197</u>	<u>\$ 448,931</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,125,128</u>	<u>\$ 10,125,128</u>
Bank demand deposits					555,475	
Outstanding Checks					<u>(568,813)</u>	
Total cash and investments					<u>\$ 10,111,790</u>	

NOTE 3 LOANS RECEIVABLE

The City had the following loans receivable as of June 30, 2010:

Economic development loan program: \$ 446,020 and Housing Rehabilitation loan program: \$265,921 or a combined program: \$711,942, as the City considers all loans to be collectible.

City Yreka, California
Notes To Basic Financial Statements
June 30, 2010

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

The following is a summary of the interfund receivables and payables at June 30, 2010:

Due to other funds

Due from other funds	General Fund	Special Grant Fund	Special Revenue Fund	Streets and Roads Fund	Water Fund	Sewer Fund	Total
General Fund	\$ -	\$ 984,542	\$ 163,098	-	\$ -	-	\$ 1,147,640
Special Revenue Fund	-	-	-	-	-	-	-
Streets and Roads Fund	-	149,199	-	-	-	-	149,199
Special Grant Fund	-	-	-	-	257	-	257
Water Fund	4,631	-	-	-	-	-	4,631
Sewer Fund	2,871	12,075	267,996	-	-	-	282,942
	<u>\$ 7,502</u>	<u>\$ 1,145,816</u>	<u>\$ 431,094</u>	<u>\$ -</u>	<u>\$ 257</u>	<u>\$ -</u>	<u>\$ 1,584,669</u>

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

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

Governmental Funds:	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund:		
General Funds share of expenses incurred by Streets and Roads Fund (\$30,946) and expenses incurred by the Special Grants Funds (\$184,700).	\$ -	\$ 215,646
Special Grants Fund:		
For the General Fund's portion of expenses (\$184,700) and Special Grants share of expenses incurred by the Sewer Fund by the Sewer Fund (\$124,810)	194,752	124,810
Special Revenue Fund:		
Special Revenue Funds share of expenses incurred by the Sewer Fund (\$318,761).	-	318,761
Streets and Roads Fund:		
For the General Fund's portion of expenses (\$30,946).	30,946	-
	<u>225,698</u>	<u>659,217</u>
Proprietary Funds:		
Sewer Fund:		
For the Special Grant's portion of expenses (\$124,810) and Special Revenue's portion of expenses (\$318,761)	443,571	-
Water Fund:		
Water Funds share of expenses incurred by the Special Grants Fund (\$10,052)	-	10,052
	<u>443,571</u>	<u>10,052</u>
Total Transfers In/Out	<u>\$ 669,269</u>	<u>\$ 669,269</u>

City Yreka, California
Notes To Basic Financial Statements
June 30, 2010

NOTE 5 CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2010 was as follows:

	June 30, 2009	Additions and Transfers	Retirements and Transfers	June 30, 2010
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 1,702,314	\$ -	\$ (50,000)	\$ 1,652,314
Construction in progress	4,675,549	2,361,674	(2,228,980)	4,808,243
Total capital assets, not being depreciated:	<u>6,377,863</u>	<u>2,361,674</u>	<u>(2,278,980)</u>	<u>6,460,557</u>
Capital assets, being depreciated:				
Buildings	4,407,872	-	(1,058,608)	3,349,264
Machinery and equipment	3,384,732	102,162	-	3,486,894
Infrastructure	21,634,966	2,144,180	-	23,779,146
Total capital assets, being depreciated	<u>29,427,570</u>	<u>2,246,342</u>	<u>(1,058,608)</u>	<u>30,615,304</u>
Less accumulated depreciation for:				
Buildings	2,563,734	74,776	(333,845)	2,304,665
Machinery and equipment	2,041,509	152,797	-	2,194,306
Infrastructure	15,512,059	404,489	-	15,916,548
Total accumulated depreciation	<u>20,117,302</u>	<u>632,062</u>	<u>(333,845)</u>	<u>20,415,519</u>
Total capital assets, being depreciated, net	<u>9,310,268</u>	<u>1,614,280</u>	<u>(724,763)</u>	<u>10,199,785</u>
Subtotal, governmental activities	<u>15,688,131</u>	<u>3,975,954</u>	<u>(3,003,743)</u>	<u>16,660,342</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land	253,172	-	-	253,172
Construction in progress	1,820,657	900,582	(1,656,892)	1,064,347
Total capital assets, not being depreciated	<u>2,073,829</u>	<u>900,582</u>	<u>(1,656,892)</u>	<u>1,317,519</u>
Capital assets, being depreciated:				
Utility plant	14,567,083	1,510,305	-	16,077,388
Buildings	6,994,027	-	-	6,994,027
Machinery and equipment	3,858,396	644,794	-	4,503,190
Total capital assets, being depreciated	<u>25,419,506</u>	<u>2,155,099</u>	<u>-</u>	<u>27,574,605</u>
Less accumulated depreciation for:				
Utility plant	9,492,078	296,755	-	9,788,833
Buildings	2,666,530	175,822	-	2,842,352
Machinery and equipment	2,978,021	68,187	-	3,046,208
Total accumulated depreciation	<u>15,136,629</u>	<u>540,764</u>	<u>-</u>	<u>15,677,393</u>
Total capital assets, being depreciated, net	<u>10,282,877</u>	<u>1,614,335</u>	<u>-</u>	<u>11,897,212</u>
Subtotal, business-type activities	<u>12,356,706</u>	<u>2,514,917</u>	<u>(1,656,892)</u>	<u>13,214,731</u>
Total, government-wide	<u>\$ 28,044,837</u>	<u>\$ 6,490,871</u>	<u>\$ (4,660,635)</u>	<u>\$ 29,875,073</u>

City Yreka, California
Notes To Basic Financial Statements
June 30, 2010

NOTE 5 CAPITAL ASSETS (continued)

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
General government	\$ 22,004
Planning and development	17,602
Parks and recreation	72,175
Police protection	18,726
Fire protection	77,082
Streets and sidewalks	<u>424,473</u>
Total depreciation expense – governmental activities	<u>\$632,062</u>

NOTE 6 LONG TERM DEBT

The following is a summary of governmental activities long-term liabilities activity during the year ended June 30, 2010:

	<u>June 30, 2009</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2010</u>	<u>Current Portion</u>
Bonds and notes payable:					
Financial Software	\$ 67,840	\$ -	\$ 16,960	\$ 50,880	\$ 16,960
Landfill Sale	2,275,396	-	52,280	2,223,116	55,100
Fire Equipment	<u>903,053</u>	-	<u>97,154</u>	<u>805,899</u>	<u>101,617</u>
Total governmental activities long-term liabilities	<u>\$ 3,246,289</u>	<u>\$ -</u>	<u>\$ 166,394</u>	<u>\$ 3,079,895</u>	<u>\$ 173,677</u>

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

Interest rate	<u>Landfill Sale</u>		<u>Fire Equipment</u>	
	5.39%		4.50%	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
<u>Year Ended June 30, ;</u>				
2011	\$ 55,100	\$ 119,901	\$ 101,617	\$ 34,187
2012	58,071	116,929	106,286	29,518
2013	61,203	113,797	111,168	24,636
2014	64,504	110,496	116,275	19,529
2015	67,983	107,017	121,617	14,187
2016-2020	399,031	475,969	248,936	11,355
2021-2025	518,888	356,112	-	-
2026-2030	674,745	200,255	-	-
2031-2035	<u>323,591</u>	<u>26,408</u>	-	-
Total	<u>\$ 2,223,116</u>	<u>\$ 1,626,884</u>	<u>\$ 805,899</u>	<u>\$ 133,412</u>

City Yreka, California
Notes To Basic Financial Statements
June 30, 2010

NOTE 6 LONG TERM DEBT (continued)

Interest rate	Financial Software		Total	
	0.00%			
	Principal	Interest	Principal	Interest
<u>Year Ended June 30, ;</u>				
2011	\$ 16,960	\$ -	\$ 173,677	\$ 154,088
2012	16,960	-	181,317	146,447
2013	16,960	-	189,331	138,433
2014	-	-	180,779	130,025
2015	-	-	189,600	121,204
2016-2020	-	-	647,967	487,324
2021-2025	-	-	518,888	356,112
2026-2030	-	-	674,745	200,255
2031-2035	-	-	323,591	26,408
Total	\$ 50,880	\$ -	\$ 3,079,895	\$ 1,760,296

The following is a summary of business-type activities long-term liabilities activity during the year ended June 30, 2010:

	<u>June 30, 2009</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2010</u>	<u>Current Portion</u>
Bonds and notes payable:					
Certificates of Participation	\$ 857,000	\$ -	\$ 12,000	\$ 845,000	\$ 12,000
State Water Resources	892,182	-	53,647	838,535	55,042
Total sewer fund	<u>1,749,182</u>	<u>-</u>	<u>65,647</u>	<u>1,683,535</u>	<u>67,042</u>
Dept of Water Resources	168,060	-	168,060	-	-
Dept of Water Resources	33,848	-	33,848	-	-
Total water fund	<u>201,908</u>	<u>-</u>	<u>201,908</u>	<u>-</u>	<u>-</u>
Total business-type activities long term liabilities	<u>\$ 1,951,090</u>	<u>\$ -</u>	<u>\$ 267,555</u>	<u>\$ 1,683,535</u>	<u>\$ 67,042</u>

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

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

City Yreka, California
Notes To Basic Financial Statements
June 30, 2010

NOTE 6 LONG TERM DEBT (continued)

Interest rate Year Ended June 30, ;	USDA Cert of Part		State Water Resources	
	4.50%		2.60%	
	Principal	Interest	Principal	Interest
2011	\$ 12,000	\$ 37,755	\$ 55,042	\$ 21,802
2012	13,000	37,193	56,473	20,371
2013	13,000	36,608	57,941	18,903
2014	14,000	36,000	59,447	17,396
2015	15,000	35,347	60,993	15,850
2016-2020	84,000	165,960	329,595	54,624
2021-2025	105,000	144,788	219,044	11,488
2026-2030	130,000	118,353	-	-
2031-2035	163,000	85,522	-	-
2036-2040	202,000	44,640	-	-
2041-2045	94,000	4,275	-	-
Total	\$ 845,000	\$ 746,441	\$ 838,535	\$ 160,434

Year Ended June 30, ;	Total	
	Principal	Interest
2011	\$ 67,042	\$ 59,557
2012	69,473	57,564
2013	70,941	55,511
2014	73,447	53,396
2015	75,993	51,197
2016-2020	413,595	220,584
2021-2025	324,044	156,276
2026-2030	130,000	118,353
2031-2035	163,000	85,522
2036-2040	202,000	44,640
2041-2045	94,000	4,275
Total	\$ 1,683,535	\$ 906,875

City Yreka, California
Notes To Basic Financial Statements
June 30, 2010

NOTE 7 PENSION PLAN

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

Funding Policy – Active plan members of the Plan are required to contribute 9.00% (safety) or 7.00% (miscellaneous) of their annual covered salary. The City has elected to pay the employees’ contribution. The City is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rate for the year ended June 30, 2010 was 12.767% (safety) and 8.034% (miscellaneous). The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS.

Annual Pension Cost – For the year ended June 30, 2010 the City’s annual pension cost was \$272,127, and the City paid employee share was \$ 212,297, for a combined City contributed amount of \$484,424. The required contribution for the year ended June 30, 2010 was determined as part of the June 30, 2009 actuarial valuation using the entry age normal actuarial cost method with the contributions determined as a percentage of pay. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses); (b) projected salary increases that vary by duration of service ranging from 3.25% to 14.45%, and: (c) 3.25% cost-of-living adjustment. Both (a) and (b) include an inflation component of 3.00%. The actuarial value of the Plan’s assets was determined using a technique that smoothes the effect of short-term volatility in the market value of investments over a fifteen year smoothed market method. The Plan’s unfunded actuarial accrued liability (or excess assets) is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2009 was 16 years for safety and 18 years for miscellaneous.

Three Year Trend Information:

	June 30, 2010	June 30, 2009	June 30, 2008
Annual Pension Cost (APC)	\$ 484,424	\$ 476,792	\$ 455,080
Percentage APC contributed	100%	100%	100%
Net Pension Obligation	\$ -	\$ -	\$ -

During the year ended June 30, 2003, CalPERS grouped all small employers (defined as those with less than 100 members in the Plan) into a risk pool. Therefore, information for the years ended June 30, 2009, 2008 and 2007 (the latest available) are for the pool as a whole.

The following represents public safety employees:

<u>Schedule of funding progress:</u>	<u>June 30, 2009</u>	<u>June 30, 2008</u>	<u>June 30, 2007</u>
Actuarial value of assets	\$ 368,645,673	\$ 438,674,996	\$ 403,484,775

City Yreka, California
Notes To Basic Financial Statements
June 30, 2010

Actuarial accrued liability (AAL) – entry age	\$ 440,333,381	\$ 504,295,839	\$ 462,354,459
Unfunded (overfunded) AAL (UAAL) Funded ratio	\$ 71,687,708 83.7%	\$ 65,620,843 87.0%	\$ 58,869,684 87.3%
Covered payroll UAAL as a percentage of covered payroll	\$ 60,158,108 119.2%	\$ 77,903,428 84.2%	\$ 72,308,836 81.4%

The following represents miscellaneous employees:

<u>Schedule of funding progress:</u>	<u>June 30, 2009</u>	<u>June 30, 2008</u>	<u>June 30, 2007</u>
Actuarial value of assets	\$ 2,758,511,101	\$ 2,547,323,278	\$ 2,391,434,447
Actuarial accrued liability (AAL) – entry age	\$ 3,104,798,222	\$ 2,780,280,768	\$ 2,611,746,790
Unfunded (overfunded) AAL (UAAL) Funded ratio	\$ 346,287,121 88.9%	\$ 232,957,490 91.6%	\$ 220,312,343 91.6%
Covered payroll UAAL as a percentage of covered payroll	\$ 742,981,488 46.6%	\$ 688,606,681 33.8%	\$ 665,522,859 33.1%

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

Effective for fiscal year 2010, the City implemented GASB Statement 45 "Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions (OPEB)" prospectively (no beginning Net OPEB Obligation).

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

The eligibility requirements are:

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

City Yreka, California
Notes To Basic Financial Statements
June 30, 2010

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

Funding Policy- The minimum contribution requirements for the City are set in the Public Employees' Medical and Hospital Care Act. The balance of the premiums are paid by the employee or retiree through deductions from Cafeteria Plan allowance, salary, or retirement allowances. In fiscal year 2010, the City contributed \$8,797 to the plan for retirees. In fiscal year 2010, total member contributions were \$64,892.

Annual OPEB Cost and Net OPEB Obligation- The City's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and the changes in the City's net OPEB obligation. Because fiscal year 2010 is the first year of implementation of GASB Statement 45, the OPEB obligation at the beginning of the year is zero and the OPEB cost (expense) is equal to the ARC.

Annual Required contribution (ARC)	\$ 72,048
Contributions made in fiscal year 2010	8,797
Increase in net OPEB obligation	63,251
Net OPEB obligation, beginning of the year	-
Net OPEB obligation, end of the year	\$ 63,251

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2010 were as follows:

Fiscal Year Ending	Annual OPEB Cost	Actual Contribution Made	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2010	\$ 72,048	8,797	12.20%	\$ 63,251

Funded Status and Funding Progress- As part of the October 15, 2010 report, the most recent actuarial valuation date, the actuarial accrued liability on pay as you go basis is \$729,259, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$2,696,496 and the ratio of the unfunded actuarial accrued liability to the covered payroll was 27.04%.

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

City Yreka, California
Notes To Basic Financial Statements
June 30, 2010

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

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

In the July 1, 2009 actuarial valuation, the Entry Age Normal Cost, Level Percent of Pay actuarial method was used. The actuarial assumptions included a 4.50 percent investment rate of return (discount rate)

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

<u>Year</u>	<u>Rate</u>	<u>Year</u>	<u>Rate</u>
2010	2.90%	2015	6.50%
2011	8.50%	2016	5.50%
2012	8.00%	2017	4.50%
2013	7.50%	2018 & later	4.50%
2014	7.00%		

NOTE 9 DEFICIT FUND BALANCE

At June 30, 2010 there were no deficit fund balances.

NOTE 10 RESTRICTED NET ASSETS

Restricted net assets are net assets whose use are subject to constraints that are either; (1) externally imposed by creditors (such as debt covenants), grantors, or laws or regulations of governments, or (2) imposed by law through constitutional provisions or enabling legislation. Restricted net assets at June 30, 2010 for governmental activities were restricted for capital outlays. Restricted net assets at June 30, 2010 for proprietary fund activities were restricted for capital outlays and debt servicing.

NOTE 11 RESERVED AND DESIGNATED FUND BALANCES

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

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

Unreserved, designated fund balances are designated for fund purpose.

NOTE 12 OVEREXPENDITURE OF BUDGET

There were no overexpenditures of budget.

NOTE 13 SUBSEQUENT EVENTS

Subsequent to year end, the City incurred costs on several grants that are funded by the State of California and the United States Federal Government (FEMA). As of August 17, 2011, the City had received those receivables that were awaiting payment by these intergovernmental agencies from year end.

NOTE 14 RISK MANAGEMENT

The City participates in the following public entity risk pools:

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

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

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

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

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

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

NOTE 15 CONTINGENCIES

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

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

REQUIRED SUPPLEMENTARY INFORMATION

City of Yreka
 Budgetary Comparison Schedule
 General Fund
 For The Year Ended June 30, 2010

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Favorable (Unfavorable) Variance With Final Budget</u>
<u>REVENUES</u>				
Property taxes	\$ 878,000	\$ 972,500	\$ 973,768	\$ 1,268
Sales and use taxes	1,860,000	1,695,000	1,694,881	(119)
Transient occupancy taxes	575,000	576,000	575,585	(415)
Franchise and other licenses	230,000	249,000	248,540	(460)
Licenses and permits	161,000	155,000	154,906	(94)
Intergovernmental revenues	641,800	737,000	739,888	2,888
Charges for services	85,875	84,975	86,273	1,298
Indirect cost allocation	270,000	319,700	318,831	(869)
Fines, forfeitures and penalties	10,000	10,300	9,322	(978)
Use of money and property	85,850	52,850	50,165	(2,685)
Grants and donations	24,500	181,064	178,716	(2,348)
Other	20,000	304,616	302,983	(1,633)
Total revenues	<u>4,842,025</u>	<u>5,338,005</u>	<u>5,333,858</u>	<u>(4,147)</u>
<u>EXPENDITURES</u>				
Current:				
City council, administrator, and clerk	357,296	363,545	356,292	7,253
General government	765,180	609,947	596,552	13,395
Planning and development	419,330	449,355	436,389	12,966
Parks and recreation	598,130	523,616	502,859	20,757
Public works administration	43,243	58,644	58,847	(203)
Public works maintenance	154,155	159,855	159,615	240
Police protection	2,170,086	2,223,411	2,211,169	12,242
Fire protection	252,568	246,868	245,799	1,069
Streets and sidewalks	163,005	85,855	85,481	374
Debt service:				
Principal	-	16,800	16,960	(160)
Total expenditures	<u>4,922,993</u>	<u>4,737,896</u>	<u>4,669,963</u>	<u>67,933</u>
Excess of revenues over (under) expenditures	<u>(80,968)</u>	<u>600,109</u>	<u>663,895</u>	<u>63,786</u>
<u>OTHER FINANCING SOURCES (USES)</u>				
Operating transfers in	65,000	-	-	-
Operating transfers out	(115,579)	(216,129)	(215,646)	483
Total other financing sources (uses)	<u>(50,579)</u>	<u>(216,129)</u>	<u>(215,646)</u>	<u>483</u>
Excess of revenues and other sources over (under) expenditures and other uses	<u>\$ (131,547)</u>	<u>\$ 383,980</u>	<u>\$ 448,249</u>	<u>\$ 64,269</u>

City of Yreka
 Budgetary Comparison Schedule
 Special Grant Fund
 For The Year Ended June 30, 2010

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Favorable (Unfavorable) Variance With Final Budget</u>
<u>REVENUES</u>				
Intergovernmental revenues	\$ 3,455,570	\$2,117,138	\$2,114,671	\$ (2,467)
Use of money and property	56,500	39,550	38,219	(1,331)
In-kind	-	3,421	3,421	-
Total revenues	<u>3,512,070</u>	<u>2,160,109</u>	<u>2,156,311</u>	<u>(3,798)</u>
<u>EXPENDITURES</u>				
Current:				
Planning and development	1,104,220	450,879	444,162	6,717
Police protection	-	21,237	21,286	(49)
Public Works Maintenance	-	-	417	(417)
Capital outlay	2,512,950	1,817,797	1,817,434	363
Total expenditures	<u>3,617,170</u>	<u>2,289,913</u>	<u>2,283,299</u>	<u>6,614</u>
Excess of revenues over (under) expenditures	<u>(105,100)</u>	<u>(129,804)</u>	<u>(126,988)</u>	<u>2,816</u>
<u>OTHER FINANCING (USES)</u>				
Operating transfers in	69,372	196,000	194,752	(1,248)
Operating transfers out	-	(124,810)	(124,810)	-
Total other financing sources (uses)	<u>69,372</u>	<u>71,190</u>	<u>69,942</u>	<u>(1,248)</u>
Excess of revenues over (under) expenditures and other uses	<u>\$ (35,728)</u>	<u>\$ (58,614)</u>	<u>\$ (57,046)</u>	<u>\$ 1,568</u>

City of Yreka
 Budgetary Comparison Schedule
 Special Revenue Fund
 For The Year Ended June 30, 2010

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Favorable (Unfavorable) Variance With Final Budget</u>
<u>REVENUES</u>				
Assessment	\$ 223,000	\$ 220,500	\$ 220,396	\$ (104)
Licenses and permits	48,550	17,650	15,819	(1,831)
Charges for service	215,000	215,000	215,431	431
Use of money and property	6,000	4,000	3,815	(185)
Total revenues	<u>492,550</u>	<u>457,150</u>	<u>455,461</u>	<u>(1,689)</u>
<u>EXPENDITURES</u>				
Current:				
General Government	5,552	13,552	12,675	877
Fire protection	3,170	3,170	3,244	(74)
Debt service:				
Principal	149,435	149,435	149,434	1
Interest	161,370	161,370	161,370	-
Total expenditures	<u>319,527</u>	<u>327,527</u>	<u>326,723</u>	<u>803</u>
Excess of revenues over (under) expenditures	<u>173,023</u>	<u>129,623</u>	<u>128,738</u>	<u>(886)</u>
<u>OTHER FINANCING (USES)</u>				
Operating transfers in	-	-	-	-
Operating transfers out	-	(319,000)	(318,761)	239
Total other financing sources (uses)	<u>-</u>	<u>(319,000)</u>	<u>(318,761)</u>	<u>239</u>
Excess of revenues over (under) expenditures and other uses	<u>\$ 173,023</u>	<u>\$ (189,377)</u>	<u>\$ (190,023)</u>	<u>\$ (647)</u>

City of Yreka
 Budgetary Comparison Schedule
 Streets and Roads Fund
 For The Year Ended June 30, 2010

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Favorable (Unfavorable) Variance With Final Budget</u>
<u>REVENUES</u>				
Intergovernmental revenues	\$ 763,383	\$ 765,883	\$ 763,659	\$ (2,224)
Fines and forfeitures	61,000	46,300	46,099	(201)
Use of money and property	6,000	7,500	7,894	394
Total revenues	<u>830,383</u>	<u>819,683</u>	<u>817,652</u>	<u>(2,031)</u>
<u>EXPENDITURES</u>				
Current:				
Public works administration	29,489	22,990	21,621	1,369
Streets and sidewalks	489,368	375,171	347,088	28,083
Public transportation	-	158,000	157,093	907
Capital outlay	661,000	540,900	562,455	(21,555)
Total expenditures	<u>1,179,857</u>	<u>1,097,061</u>	<u>1,088,257</u>	<u>8,804</u>
Excess of revenues over (under) expenditures	<u>(349,474)</u>	<u>(277,378)</u>	<u>(270,605)</u>	<u>6,773</u>
<u>OTHER FINANCING (USES)</u>				
Operating transfers in	50,579	31,129	30,946	(183)
Total other financing sources (uses)	<u>50,579</u>	<u>31,129</u>	<u>30,946</u>	<u>(183)</u>
Excess of revenues over (under) expenditures and other uses	<u>\$ (298,895)</u>	<u>\$ (246,249)</u>	<u>\$ (239,659)</u>	<u>\$ 6,590</u>



**OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the City Council
City of Yreka, California

We have audited the financial statements of the governmental activities, business-type activities and each major of the City of Yreka as of and for the year ended June 30, 2010, which collectively comprise the City of Yreka's basic financial statements, and have issued our report thereon dated August 17, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

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

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

Aiello, Goodrich & Teuscher
Aiello, Goodrich & Teuscher
An Accountancy Corporation
Mt. Shasta, California
August 17, 2011