

CITY OF CRESCENT CITY,

CALIFORNIA

**FINANCIAL STATEMENTS
TOGETHER WITH
INDEPENDENT AUDITORS' REPORT
FOR THE YEAR ENDED
JUNE 30, 2012**

**CITY OF CRESCENT CITY, CALIFORNIA
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2012**

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ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2012**

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INTRODUCTORY SECTION

City Officials

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**CITY OF CRESCENT CITY, CALIFORNIA
CITY OFFICIAL
FOR THE YEAR ENDED JUNE 30, 2012**

<u>Name</u>	<u>Office</u>
Kathryn Murry	Mayor
Richard Enea	Mayor Pro Tem
Richard Holley	Member
Kelly Schellong	Member
Donna Westfall	Member

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FINANCIAL SECTION

**Independent Auditor's Report
Management Discussion and Analysis
Basic Financial Statements
Notes to the Basic Financial Statements**

Donald R. Reynolds

Certified Public Accountant

INDEPENDENT AUDITOR'S REPORT

To The Honorable Mayor and Members of the City Council
City of Crescent City
Crescent City, California

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Crescent City, California (City), as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. My responsibility is to express opinions on these financial statements based on my audit.

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

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of June 30, 2012, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

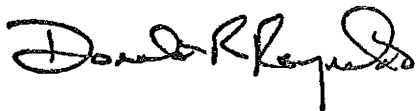
In accordance with *Government Auditing Standards*, I have also issued my report dated October 30, 2012, on my consideration of the City's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

The management's discussion and analysis and budgetary comparison information on pages 3 through 9, and the Schedule of Funding Progress and the Budgetary Comparison Schedules presented on pages 51 and 52 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of

The Honorable Mayor and Members of the City Council
City of Crescent City
Crescent City, California

management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements as a whole. The introductory section is presented for purposes of additional analysis and are not a required part of the financial statements. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, I do not express an opinion or provide any assurance on it.

A handwritten signature in black ink, appearing to read "Donald R. Reynolds". The signature is fluid and cursive, with a large initial "D" and "R".

Donald R. Reynolds, CPA
Redding, California
October 30, 2012

CITY OF CRESCENT CITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2012

Our discussion and analysis of the City of Crescent City's (City) financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2012. Management's Discussion and Analysis (MD&A) presents financial highlights; an overview of the accompanying financial statements; an analysis of financial position and results of operations; a current-to-prior year analysis; a discussion on restrictions, commitments and limitations; a discussion on significant activity involving capital assets and long-term debt. The discussion focuses on the City's primary government and unless otherwise noted, component units reported separately from government are not included.

Financial Highlights

- The City has begun utilizing the rehabilitated Wastewater Treatment Plant (WWTP) and made the first payment of thirty to the State Revolving Loan Fund (SRF), which financed the \$52 million dollar project that began in 2005.
- Also during the year the Front Street Design project has begun, along with the Beachfront Park Master Plan.

The City's assets exceeded its liabilities by \$22,793,336 (net assets) for the fiscal year reported. This compares to the previous year when assets exceed liabilities by \$30,468,326.

Total net assets are comprised of the following:

- (1) Capital assets, net of related debt, of \$63,880,205 include property and equipment, net of accumulated depreciation, and reduced for outstanding debt related to the purchase or construction of capital assets.
- (2) Net assets of \$1,271,435 are listed as Internal balances, which represent the Water Fund loan to the Redevelopment Agency that has become restricted by recent state legislation eliminating the agency and imposing restrictions to repayment.
- (3) Unrestricted net assets of \$7,611,021 represent the portion available to maintain the City's continuing obligations to citizens and creditors.

The City's governmental funds reported total ending net assets of \$1,858,754 this year. This compares to the prior year ending net assets of \$2,395,318 showing a decrease of \$536,564 during the current year. The unrestricted governmental net assets were \$1,324,146 at year-end. This compares to the prior year ending unrestricted governmental net assets of \$100,499 showing an increase of \$1,223,647. This is due mainly to the elimination of the Redevelopment agency, which is now being reported as Fiduciary Funds within the Successor Agency.

Overview of the Financial Statements

Management's Discussion and Analysis introduces the City's basic financial statements. The basic financial statements include: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The City also includes in this report additional information to supplement the basic financial statements.

Government-Wide Financial Statements

The City's annual report includes two government-wide financial statements. These statements provide both long-term and short-term information about the City's overall status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in full accrual accounting and elimination or reclassification of internal activities.

The first of these government-wide statements is the Statement of Net Assets. This is the citywide statement of position presenting information that includes all of the City's assets and liabilities, with the difference 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 as a whole is improving or deteriorating. Evaluation of the overall economic health of the City would extend to other non-financial factors such as diversification of the taxpayer base or the condition of City infrastructure in addition to the financial information provided in this report.

The second government-wide statement is the Statement of Activities, which reports how the City's net assets changed during the current fiscal year. All current year revenues and expenses are included regardless of when cash is received or paid. An important purpose of the design of the statement of activities is to show the financial reliance of the City's distinct activities or functions on revenues provided by the City's taxpayers.

Both government-wide financial statements distinguish governmental activities of the City that are principally supported by taxes and intergovernmental revenues, such as grants, from business-type activities that are intended to recover all or a significant portion of their costs through user fees and charges. Governmental activities include general government, public safety, public services, swimming pool, and recreation. Business-type activities include the Shoreline RV Park, Water and Sewer Utilities and Internal Service Funds. Internal Service Funds consist of Information Technology, Building and Equipment Maintenance, along with Insurance, Payroll services and Other Post Employment Benefits (OPEB) Trust Contributions. Fiduciary activities such as employer pension plans and the Successor Agency to the Redevelopment Agency are not included in the government-wide statements since these assets are not available to fund City programs.

The City's financial reporting includes the funds of the City (primary government) and organizations for which the City is accountable (component units). Most of these legally separate organizations operate like City departments, serve as financing vehicles for City services (revenue bond issues), or are governed by a board of trustees wholly comprised of the City's Mayor and Council. These organizations are blended into the primary government for financial reporting purposes. Examples of blended organizations reported as City funds include the Housing Authority and the Public Financing Authority.

Fund Financial Statements

A fund is an accountability unit used to maintain control over resources segregated for specific activities or objectives. The City uses funds to ensure and demonstrate compliance with finance-related laws and regulations. Within the basic financial statements, fund financial statements focus on the City's most significant funds rather than the City as a whole. Major funds are separately reported while all others are combined into a single, aggregated

presentation. Individual fund data for non-major funds is provided in the form of combining statements in a later section of this report. The City has two kinds of funds:

Governmental funds are reported in the fund financial statements and encompass essentially the same functions reported as governmental activities in the government-wide financial statements. However, the focus is very different with fund statements providing a distinctive view of the City's governmental funds. These statements report short-term fiscal accountability focusing on the use of spendable resources during the year and balances of spendable resources available at the end of the year. They are useful in evaluating annual financial requirements of governmental programs and the commitment of spendable resources for the near-term.

Since the government-wide focus includes the long-term view, comparisons between these two perspectives may provide insight into the long-term impact of short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide reconciliation to the government-wide statements to assist in understanding the differences between these two perspectives.

Budgetary comparison statements are included in the basic financial statements for the general fund and major special revenue funds. Budgetary comparison schedules for other special revenue funds can be found in a later section of this report. These statements and schedules demonstrate compliance with the City's adopted and final revised budget.

Proprietary funds are reported in the fund financial statements and generally report services for which the City charges customers a fee. There are two kinds of proprietary funds. These are enterprise funds and internal service funds. Enterprise funds essentially encompass the same functions reported as business-type activities in the government-wide statements. Services are provided to customers external to the City organization such as the Water and Sewer Utilities, and Shoreline RV Park. Internal service funds provide services and charge fees to customers within the City organization and to the County and Fire Protection Districts such as equipment services (repair and maintenance of City vehicles) and Insurance Reserve Fund. Because the City's Equipment internal service funds primarily serve enterprise functions, they are included within the business activities of the government-wide financial statements.

Notes to the financial statements

The accompanying notes to the financial statements provide information essential to a full understanding of the government-wide and fund financial statements. The notes to the financial statements begin immediately following the basic financial statements.

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension benefits to its employees. Other supplementary information includes detail by fund for receivables, payables, transfers, and payments within the reporting entity. Supplementary information follows the notes to the financial statements.

Major funds are reported in the basic financial statements as discussed. Individual and combining statements and schedules for non-major and internal service funds are presented in subsequent sections of this report.

Financial Analysis of the City as a Whole

As year-to-year financial information is accumulated on a consistent basis, changes in net assets may be observed and used to discuss the changing financial position of the City as a whole.

The City's net assets at fiscal year-end are \$22,793,336. This is a \$7,674,990 decrease over last year's net assets of \$ 30,468,326. The following table provides a summary of the City's net assets at June 30, 2012.

	Governmental Activities	Business-type Activities	Totals
Current & other assets	2,964,982	5,917,474	8,882,456
Capital assets	6,757,893	57,122,312	63,880,205
Total assets	9,722,875	63,039,786	72,762,661
Long-term liabilities	138,451	48,370,521	48,508,972
Other liabilities	893,121	567,232	1,460,353
Total liabilities	1,031,572	48,937,753	49,969,325
Net assets			
Invested in capital assets			
Net of related debt	6,619,442	8,751,791	15,371,233
Restricted	204,221	0	204,221
Unrestricted	1,867,640	5,350,242	7,217,882
Total net assets	8,691,303	14,102,033	22,793,336

The City reported positive balances in net assets for both governmental and business-type activities. Net assets decreased \$21,944 for governmental activities and decreased \$7,653,046 for business-type activities. The City's overall financial position decreased during fiscal year ended 2012; this is mainly due to the Treatment Plant Rehabilitation Project completion, related debt and first year payment. This compares to the previous year as follows.

	Fiscal Year June 30, 2012	Fiscal Year June 30, 2011	Net Difference
Current & other assets	8,882,456	10,874,376	(1,991,920)
Capital assets	63,880,205	72,761,529	(8,881,324)
Total assets	72,762,661	83,635,905	(10,873,244)
Long-term liabilities	48,508,972	49,992,928	(1,483,956)
Other liabilities	1,460,353	3,174,651	(1,714,298)
Total liabilities	49,969,325	53,167,579	(3,198,254)
Net assets			
Invested in capital assets			
Net of related debt	15,371,233	22,768,601	(7,397,368)

Restricted	204,221	1,580,694	(1,376,473)
Unrestricted	<u>7,217,882</u>	<u>6,119,031</u>	<u>1,098,851</u>
Total net assets	<u>22,793,336</u>	<u>30,468,326</u>	<u>(7,674,990)</u>

Financial Analysis of the City's Funds

Governmental funds

As discussed, governmental funds are reported in the fund statements with a short-term, inflow and outflow of spendable resources focus. This information is useful in assessing resources available at the end of the year in comparison with upcoming financing requirements. Governmental funds reported ending net assets of \$1,858,754. Of this year-end total, \$1,324,146 is unrestricted indicating availability for continuing City service requirements.

Major Governmental Funds

The General Fund is one of the City's three primary operating funds and is the second largest source of day-to-day service delivery. The fund balance of the General Fund has increased by \$117,046 from the prior year. This was caused by additional revenue inflows and expenditure reductions incurred to reverse the past trends of spending general fund reserves to finance ongoing operations. This trend should continue with cuts in the general fund expenditures to achieve a balanced budget for the fiscal year 2012/13.

Proprietary funds

The proprietary fund statements share the same focus as the government-wide statements, reporting both short-term and long-term information about financial status.

Major Proprietary Funds

Renovation of the Crescent City Wastewater Treatment Plant will have significant impact on the City's Sewer Fund, which is now the largest source of day-to-day service delivery. The original facility was constructed in the 1950's with the first major plant expansion occurring in 1973. The last major upgrade to the plant occurred in 1978.

Most of the equipment at the plant was nearly 30 years old and in need of significant repair or replacement. The existing plant also had insufficient hydraulic and organics removal capacity to adequately treat wastewater flows and organic loading. Historically, the plant has exceeded the National Pollutant Discharge Elimination System (NPDES) permit discharge limits and had been operating under a cease and desist order issued by the Regional Water Quality Control Board (RWQCB) since 1997.

Prior to the implementation of a significant repair effort, a large portion of the wastewater collection system was old and the pipe material and construction practices of the time contributed to excessive rain-derived inflow and infiltration (RDII). During the rainy season, excessive RDII caused surcharging in some areas of the system as well as hydraulic overflows at the WWTP; both of which are not permitted under the City's current NPDES permit. Sewer surcharging released raw sewage at some manholes into the community while hydraulic overflows at the WWTP resulted in the discharge of treated (disinfected) wastewater to the Harbor.

Efforts to repair the collection system have significantly reduced the RDII problems, although the new plant will deliver the capacity to meet current needs or to sustain future growth. The requirement to design and construct the new facility that will meet additional capacity needs and future growth included in the initial RWQCB Cease & Desist Order have been rescinded as of June 27, 2011.

General Fund Budgetary Highlights

The General Fund budget for fiscal year ended 2012 was approximately \$5.15 million. This was an increase of about \$47,000 over the previous year amended budget. Although the actual results achieved of \$4.81 million was a decrease of about \$703,000 over the previous year's actual results.

The General Fund budget complied with financial policies approved by the City Council and maintained core City services.

Capital Asset and Debt Administration

Capital assets

The City's investment in capital assets, net of accumulated depreciation, for governmental and business-type activities as of June 30, 2012, was \$ 6,757,893 and \$57,122,312 respectively. This represented a decrease in this net investment of 1.35 % for governmental and 13.57 % for business-type activities. The overall decrease was 12.21 % for the City as a whole, this is due to adding the new treatment plant and removing the previous assets that have been replaced or taken out of service.

Contacting the City's Financial Management

This financial report is designed to provide a general overview of the City's finances, comply with finance-related laws and regulations, and demonstrate the City's commitment to public accountability. If you have questions about this report or would like to request additional information, contact the City's Finance Department, 377 J Street, Crescent City, CA 95531, (707) 464-7483.

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BASIC FINANCIAL STATEMENTS

Government-Wide Financial Statements

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CITY OF CRESCENT CITY
STATEMENT OF NET ASSETS
JUNE 30, 2012

<u>ASSETS</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Cash and investments	\$ 1,274,994	\$ 4,057,082	\$ 5,332,076
Restricted cash and investments with fiscal agent	-	-	-
Receivables (net)	567,023	588,957	1,155,980
Due from other governments	792,578	-	792,578
Prepaid items	874	-	874
Inventory	-	-	-
Notes receivable	329,513	-	329,513
Internal balances	-	1,271,435	1,271,435
Capital assets net of accumulated depreciation	<u>6,757,893</u>	<u>57,122,312</u>	<u>63,880,205</u>
Total assets	<u>9,722,875</u>	<u>63,039,786</u>	<u>72,762,661</u>
 <u>LIABILITIES</u>			
Accounts payable	458,020	228,935	686,955
Accrued expenses	-	-	-
Deposits and deferred revenues	234,012	230,965	464,977
Compensated absences	201,089	107,332	308,421
Long term liabilities:			
Due within one year	58,242	-	58,242
Due in more than one year	<u>80,209</u>	<u>48,370,521</u>	<u>48,450,730</u>
Total liabilities	<u>1,031,572</u>	<u>48,937,753</u>	<u>49,969,325</u>
 <u>NET ASSETS</u>			
Invested in capital assets, net of related debt	6,619,442	8,751,791	15,371,233
Restricted for:			
Capital projects and community development	204,221	-	204,221
Debt service	-	-	-
Unrestricted	<u>1,867,640</u>	<u>5,350,242</u>	<u>7,217,882</u>
Total net assets	<u>\$ 8,691,303</u>	<u>\$ 14,102,033</u>	<u>\$ 22,793,336</u>

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

CITY OF CRESCENT CITY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012

	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Function/Program activities				
Governmental Activities				
General government	\$ 595,348	\$ 245,784	\$ 751,862	\$ 418,903
Public safety	1,947,968	835,556	244,432	53,920
Human services and recreation	4,447,661	189,062	2,856,479	-
Public works	1,839,377	120,309	5,000	-
Administrative overhead allocation	347,525	-	-	-
Interest on long-term debt	3,284	-	-	-
Total Governmental Activities	<u>9,181,163</u>	<u>1,390,711</u>	<u>3,857,773</u>	<u>472,823</u>
Business-type Activities				
Sewer	5,539,210	4,722,083	-	224,980
Swimming pool	-	-	-	-
Water	1,880,263	1,558,851	-	-
RV Park	200,818	252,039	-	-
Total Business-type Activities	<u>7,620,291</u>	<u>6,532,973</u>	<u>-</u>	<u>224,980</u>
Total	<u>16,801,454</u>	<u>7,923,684</u>	<u>3,857,773</u>	<u>697,803</u>

Continued on the next page

CITY OF CRESCENT CITY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012

	Net (Expense) Revenue and Changes in Net Assets		
	Governmental Activities	Business-type Activities	Total
Function/Program activities			
Governmental Activities			
General government	\$ 821,201	\$ -	\$ 821,201
Public safety	(814,060)	-	(814,060)
Human services and recreation	(1,402,120)	-	(1,402,120)
Public works	(1,714,068)	-	(1,714,068)
Administrative overhead allocation	(347,525)	-	(347,525)
Interest on long-term debt	(3,284)	-	(3,284)
Total Governmental Activities	<u>(3,459,856)</u>	<u>-</u>	<u>(3,459,856)</u>
Business-type Activities			
Sewer	-	(592,147)	(592,147)
Swimming pool	-	-	-
Water	-	(321,412)	(321,412)
RV Park	-	51,221	51,221
Total Business-type Activities	<u>-</u>	<u>(862,338)</u>	<u>(862,338)</u>
Total	<u>(3,459,856)</u>	<u>(862,338)</u>	<u>(4,322,194)</u>
Taxes:			
Property taxes and In Lieu Fees	680,146	-	680,146
Sales and Gas taxes	1,120,702	-	1,120,702
Occupancy Taxes	867,957	-	867,957
Licenses and permits	115,689	-	115,689
Motor vehicle in lieu	285,352	-	285,352
Investment Earnings	17,735	17,215	34,950
Miscellaneous revenue	64,798	-	64,798
Transfers	<u>50,000</u>	<u>(50,000)</u>	<u>-</u>
Total General revenues and transfers	<u>3,202,379</u>	<u>(32,785)</u>	<u>3,169,594</u>
Change in Net Assets, before extraordinary items	(257,477)	(895,123)	(1,152,600)
Extraordinary loss - increase to net assets of			
Successor Agency	<u>(115,839)</u>	<u>-</u>	<u>(115,839)</u>
Change in Net Assets, before extraordinary items	<u>(373,316)</u>	<u>(895,123)</u>	<u>(1,268,439)</u>
Net Assets - Beginning	8,713,247	21,755,078	30,468,325
Prior period adjustments	<u>235,533</u>	<u>(6,757,922)</u>	<u>(6,522,389)</u>
Net Assets - Beginning restated	<u>8,948,780</u>	<u>14,997,156</u>	<u>23,945,936</u>
Net Assets - Ending	<u>\$ 8,691,303</u>	<u>\$ 14,102,033</u>	<u>\$ 22,793,336</u>

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

CITY OF CRESCENT CITY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2012

	General Fund	Housing Authority Section 8	Other Governmental Funds	Totals Governmental Funds
<u>ASSETS</u>				
Cash and investments	\$ 368,559	\$ 240,375	\$ 230,421	\$ 839,355
Restricted cash and investments with fiscal a	-	-	-	-
Accounts receivable:				
Consumers and others	359,633	204,575	-	564,208
County/State/Federal government	624,358	-	168,220	792,578
Due from other funds	185,801	-	63,653	249,454
Prepaid items	874	-	-	874
Notes receivable	-	-	329,513	329,513
Total assets	<u>\$ 1,539,225</u>	<u>\$ 444,950</u>	<u>\$ 791,807</u>	<u>\$ 2,775,982</u>
<u>LIABILITIES AND FUND BALANCES</u>				
Liabilities:				
Accounts payable	\$ 327,661	\$ 2,710	\$ 103,391	\$ 433,762
Accrued wages	-	-	-	-
Deferred revenue	29,437	204,575	-	234,012
Due to other funds	179,034	-	70,420	249,454
Total liabilities	<u>536,132</u>	<u>207,285</u>	<u>173,811</u>	<u>917,228</u>
Fund Balances:				
Reserved for				
Prepaid items	874	-	-	874
Debt service	-	-	-	-
Low and moderate income housing	-	-	204,221	204,221
Section 8 housing	-	-	-	-
Notes and loans receivable	-	-	329,513	329,513
Unreserved	<u>1,002,219</u>	<u>237,665</u>	<u>84,262</u>	<u>1,324,146</u>
Total fund balances	<u>1,003,093</u>	<u>237,665</u>	<u>617,996</u>	<u>1,858,754</u>
Total liabilities and fund balances	<u>\$ 1,539,225</u>	<u>\$ 444,950</u>	<u>\$ 791,807</u>	<u>\$ 2,775,982</u>

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

**CITY OF CRESCENT CITY
RECONCILIATION OF THE
GOVERNMENTAL FUNDS - BALANCE SHEET
WITH THE GOVERNMENTAL ACTIVITIES
STATEMENT OF NET ASSETS
JUNE 30, 2012**

TOTAL FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ 1,858,754

Amounts reported for Governmental Activities in the Statement of Net Assets are different from those reported in the Governmental Funds above because of the following:

INTERNAL SERVICE FUNDS

Internal service funds are used by the City to charge the cost of unemployment insurance, dental insurance, fleet services and telephone services to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.

Internal service fund net assets are: 1,060,528

CAPITAL ASSETS

Capital Assets used in Governmental Activities are not current assets or financial resources and therefore are not reported in the Governmental Funds.

5,792,979

LONG TERM ASSETS AND LIABILITIES

The assets and liabilities below are not due and payable in the current period and therefore are not reported in the Funds:

Capital leases	(20,958)
1991 Public Financing Authority Revenue and Tax Allocation bonds	-
Non-current portion of compensated absences	-
	<hr/>

NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ 8,691,303

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

**CITY OF CRESCENT CITY
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2012**

	General Fund	Housing Authority Section 8	Other Governmental Funds	Totals Governmental Funds
Revenues:				
Taxes	\$ 2,821,457	\$ -	\$ 534,926	\$ 3,356,383
Use of money and property:				
Interest	1,539	-	9,128	10,667
Rental Income	21,007	-	4,655	25,662
Licenses and permits	285,436	-	-	285,436
Fines and permits	15,855	-	-	15,855
Intergovernmental revenues	887,312	3,013,098	612,863	4,513,273
Charges for services	603,456	-	-	603,456
Gifts and donations	27,768	-	-	27,768
Other revenue	14,462	20,224	500	35,186
Total revenues	<u>4,678,292</u>	<u>3,033,322</u>	<u>1,162,072</u>	<u>8,873,686</u>
Expenditures:				
Current:				
General government	595,162	-	663	595,825
Public safety	1,949,527	-	-	1,949,527
Human services and recreation	961,437	3,088,090	390,550	4,440,077
Public works	958,731	-	699,161	1,657,892
Administrative overhead allocation	347,803	-	-	347,803
Debt service:				
Principal	-	-	350,000	350,000
Interest	-	-	3,287	3,287
Total expenditures	<u>4,812,660</u>	<u>3,088,090</u>	<u>1,443,661</u>	<u>9,344,411</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(134,368)</u>	<u>(54,768)</u>	<u>(281,589)</u>	<u>(470,725)</u>
Other Financing Sources (uses):				
Transfers in	251,414	-	53,843	305,257
Transfers out	-	-	(255,257)	(255,257)
Total other financing sources (uses)	<u>251,414</u>	<u>-</u>	<u>(201,414)</u>	<u>50,000</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses before extraordinary items	<u>117,046</u>	<u>(54,768)</u>	<u>(483,003)</u>	<u>(420,725)</u>
Extraordinary Item - Loss on transfer to Successor Agency	-	-	(115,839)	(115,839)
Excess (deficiency) of revenues and other sources over expenditures and other uses after extraordinary items	<u>117,046</u>	<u>(54,768)</u>	<u>(598,842)</u>	<u>(536,564)</u>
Fund balances, beginning of period	886,047	292,433	1,216,838	2,395,318
Fund balances, beginning of period restated	<u>886,047</u>	<u>292,433</u>	<u>1,216,838</u>	<u>2,395,318</u>
Fund balances, end of period	<u>\$ 1,003,093</u>	<u>\$ 237,665</u>	<u>\$ 617,996</u>	<u>\$ 1,858,754</u>

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

**CITY OF CRESCENT CITY
RECONCILIATION OF THE NET CHANGE IN FUND BALANCES - TOTAL
GOVERNMENTAL FUNDS WITH THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012**

The schedule below reconciles the Net Changes in Fund Balances reported on the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance, which measures only changes in current assets and current liabilities on the modified accrual basis.

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ (536,564)

Amounts reported for governmental activities in the Statement of Activities are different because of the following:

CAPITAL ASSETS TRANSACTIONS

Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is capitalized and allocated over their estimated useful lives and reported as depreciation expense.

The capital outlay expenditures are therefore added back to fund balance 50,497

Depreciation expense is deducted from the fund balance -

LONG TERM DEBT PROCEEDS AND PAYMENT

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of bond principal is an expenditure in the governmental funds, but in the Statement of Net Assets the repayment reduces long-term liabilities.

Repayment and adjustment of debt principal is added back to fund balance 350,000

ACCRUAL OF NON-CURRENT ITEMS

The amounts below included in the Statement of Activities do not provide or (require) the use of current financial resources and therefore are not reported as revenue or expenditures in the governmental funds (net change):

Interest payable on long-term debt -
Long-term compensated absences 7,193

Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue of certain activities of the internal service funds is reported with governmental activities. (128,603)

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ (257,477)

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

CITY OF CRESCENT CITY
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2012

	Business-type Activities Enterprise Funds		
	Sewer	Water	RV Park
ASSETS			
Current assets:			
Cash and investments	\$ 2,791,983	\$ 1,167,821	\$ 97,278
Accounts receivable	411,767	177,190	-
Inventory	-	-	-
Due from other funds	-	1,271,435	-
Total Current Assets	<u>3,203,750</u>	<u>2,616,446</u>	<u>97,278</u>
Non Current Assets:			
Capital assets, net of accumulated depreciation	48,322,466	8,799,846	-
Total assets	<u>\$ 51,526,216</u>	<u>\$ 11,416,292</u>	<u>\$ 97,278</u>
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 130,206	\$ 89,580	\$ 9,149
Accrued expenses	-	-	-
Deposits and deferred revenue	-	230,965	-
Due to Other Funds	-	-	-
Short term loan payable	-	-	-
Compensated absences payable	64,090	43,242	-
Current maturities of long term debts:	-	-	-
Fire truck capital lease	-	-	-
State Safe Drinking Water Loan	-	-	-
FMHA loan - Series A	-	-	-
FMHA loan - Series B	-	-	-
Re-dip loan	-	-	-
Total Current Liabilities	<u>194,296</u>	<u>363,787</u>	<u>9,149</u>
Long-term Liabilities:			
Fire truck capital lease	-	-	-
FMHA loan - Series A	-	-	-
FMHA loan - Series B	-	-	-
State of California loan	44,345,521	4,025,000	-
Total Liabilities	<u>44,539,817</u>	<u>4,388,787</u>	<u>9,149</u>
NET ASSETS			
Invested in capital assets, net of related debt	3,976,945	4,774,846	-
Unrestricted	3,009,454	2,252,659	88,129
Total Net Assets	<u>\$ 6,986,399</u>	<u>\$ 7,027,505</u>	<u>\$ 88,129</u>

Continued on the following page

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

<u>Totals</u>	<u>Business-type Activities - Internal Service Funds</u>
\$ 4,057,082	\$ 435,639
588,957	2,815
-	-
1,271,435	-
<u>5,917,474</u>	<u>438,454</u>
57,122,312	964,914
<u>\$ 63,039,786</u>	<u>\$ 1,403,368</u>
\$ 228,935	\$ 24,258
-	-
230,965	-
-	-
-	-
107,332	201,089
-	-
-	33,847
-	-
-	-
-	-
-	-
<u>567,232</u>	<u>259,194</u>
-	83,646
-	-
-	-
48,370,521	-
<u>48,937,753</u>	<u>342,840</u>
8,751,791	847,421
5,350,242	213,107
<u>\$ 14,102,033</u>	<u>\$ 1,060,528</u>

CITY OF CRESCENT CITY
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	Business-type Activities Enterprise Funds		
	Sewer	Water	RV Park
Operating revenues:			
Charges for services	\$ 4,722,083	\$ 1,558,851	\$ 252,039
Grant and Other Revenue	<u>153,323</u>	<u>68,441</u>	<u>3,216</u>
Total operating revenues	<u>4,875,406</u>	<u>1,627,292</u>	<u>255,255</u>
Operating expenses:			
Personnel services	1,165,052	785,266	68,394
Materials, supplies, rent and services	481,019	406,007	71,206
Repair and maintenance	482,047	59,798	27,420
Administrative Overhead	379,621	372,394	33,798
Depreciation	<u>1,962,194</u>	<u>256,798</u>	<u>-</u>
Total operating expenses	<u>4,469,933</u>	<u>1,880,263</u>	<u>200,818</u>
Operating income (loss)	<u>405,473</u>	<u>(252,971)</u>	<u>54,437</u>
Non-operating revenues (expenses):			
Interest income	3,243	13,851	121
Interest expense	<u>(1,069,277)</u>	<u>-</u>	<u>-</u>
Total non-operating revenues (expenses)	<u>(1,066,034)</u>	<u>13,851</u>	<u>121</u>
Transfers:			
Transfers in	77,695	-	-
Transfers out	<u>(77,695)</u>	<u>-</u>	<u>(50,000)</u>
Change in net assets	<u>(660,561)</u>	<u>(239,120)</u>	<u>4,558</u>
Net assets, beginning of period	14,439,168	7,232,339	83,571
Prior period adjustments	<u>(6,792,208)</u>	<u>34,286</u>	<u>-</u>
Net assets, beginning of period restated	7,646,960	7,266,625	83,571
Net assets, end of period	<u>\$ 6,986,399</u>	<u>\$ 7,027,505</u>	<u>\$ 88,129</u>

Continued on the following page

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

<u>Totals</u>	<u>Business-type Activities - Internal Service Funds</u>
\$ 6,532,973	\$ -
224,980	53,920
<u>6,757,953</u>	<u>53,920</u>
2,018,712	441,760
958,232	376,322
569,265	-
785,813	(781,268)
2,218,992	145,997
<u>6,551,014</u>	<u>182,811</u>
<u>206,939</u>	<u>(128,891)</u>
17,215	288
<u>(1,069,277)</u>	<u>-</u>
<u>(1,052,062)</u>	<u>288</u>
77,695	-
<u>(127,695)</u>	<u>-</u>
<u>(895,123)</u>	<u>(128,603)</u>
21,755,078	953,598
<u>(6,757,922)</u>	<u>235,533</u>
<u>14,997,156</u>	<u>1,189,131</u>
<u>\$ 14,102,033</u>	<u>\$ 1,060,528</u>

**CITY OF CRESCENT CITY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2012**

	Sewer	Water	RV Park
Cash flows from operating activities:			
Receipts from customers	\$ 4,968,571	\$ 1,723,653	\$ 255,255
Payments to suppliers	(2,735,648)	(838,766)	(131,944)
Payments to employees	(1,165,052)	(785,267)	(68,394)
Net cash provided (used) by operating activities	<u>1,067,871</u>	<u>99,620</u>	<u>54,917</u>
Cash flows from noncapital financing activities:			
Due from other funds	-	80,179	-
Due to other funds	-	-	-
Transfers	-	-	(50,000)
Net cash provided (used) by noncapital financing activities	<u>-</u>	<u>80,179</u>	<u>(50,000)</u>
Cash flows from capital and related financing activities:			
Principal payments on capital debt	(888,000)	-	-
Interest paid on capital debt	(1,069,277)	-	-
Proceeds from debt	-	(350,000)	-
Acquisition of capital assets	(4,727)	(276,340)	-
Disposal of capital assets	-	-	-
Net cash provided (used) by capital and related financing activities	<u>(1,962,004)</u>	<u>(626,340)</u>	<u>-</u>
Cash flows from investing activities:			
Interest earned	3,243	13,851	121
Net cash provided by investing activities	<u>3,243</u>	<u>13,851</u>	<u>121</u>
Net increase (decrease) in cash and cash equivalents	(890,890)	(432,690)	5,038
Cash and cash equivalents - beginning of period	<u>3,682,873</u>	<u>1,600,181</u>	<u>92,241</u>
Cash and cash equivalents - end of period	<u>\$ 2,791,983</u>	<u>\$ 1,167,491</u>	<u>\$ 97,279</u>

Continued on the following page

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

<u>Total</u>	<u>Internal Service</u>
\$ 6,947,479	\$ -
(3,706,358)	393,063
<u>(2,018,713)</u>	<u>(252,223)</u>
1,222,408	140,840
80,179	-
-	-
<u>(50,000)</u>	<u>-</u>
30,179	-
(888,000)	(35,524)
(1,069,277)	-
(350,000)	-
(281,067)	-
<u>-</u>	<u>-</u>
<u>(2,588,344)</u>	<u>(35,524)</u>
17,215	288
<u>17,215</u>	<u>288</u>
(1,318,542)	105,604
<u>5,375,295</u>	<u>46,980</u>
<u>\$ 4,056,753</u>	<u>\$ 152,584</u>

Continued on the following page

**CITY OF CRESCENT CITY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2012**

	Sewer	Water	RV Park
Reconciliation of operating income (loss) to net cash provided (used in) operating activities:			
Operating income (loss)	\$ 405,473	\$ (252,971)	\$ 54,437
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation	1,962,194	256,798	-
Changes in certain assets and liabilities:			
Accounts receivable	93,165	57,426	-
Inventory	-	-	-
Accounts payable	(1,362,423)	21,217	2,325
Accrued expenses	(30,538)	(21,784)	(1,845)
Deposits and deferred revenue	-	38,935	-
Compensated absences	-	(1)	-
Total adjustments	<u>662,398</u>	<u>352,591</u>	<u>480</u>
Net cash provided (used) by operating activities	<u>\$ 1,067,871</u>	<u>\$ 99,620</u>	<u>\$ 54,917</u>

Continued on the following page

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

<u>Total</u>	<u>Internal Service</u>
\$ 206,939	\$ (128,891)
2,218,992	145,997
150,591	(2,707)
-	-
(1,338,881)	(9,176)
(54,167)	-
38,935	-
(1)	189,537
<u>1,015,469</u>	<u>323,651</u>
<u>\$ 1,222,408</u>	<u>\$ 194,760</u>

CITY OF CRESCENT CITY
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2012

	Private Purpose Funds		
	Successor Agency LMIHF	Successor Agency Other RDA	Totals Trust Funds
<u>ASSETS</u>			
Cash and investments	\$ 972,145	\$ 68,684	\$ 1,040,829
Restricted cash and investments with fiscal agent	-	-	-
Accounts receivable:			
Consumers and others	346	-	346
Due from other funds	290,705	-	290,705
Notes receivable	-	331,875	331,875
Total assets	<u>\$ 1,263,196</u>	<u>\$ 400,559</u>	<u>\$ 1,663,755</u>
<u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Accounts payable	\$ -	\$ 68,684	\$ 68,684
Due to other funds	-	290,705	290,705
Due to other agencies (Water Utility Fund)	-	1,271,434	1,271,434
Total liabilities	<u>-</u>	<u>1,630,823</u>	<u>1,630,823</u>
<u>NET ASSETS</u>			
Reserved for			
Redevelopment Successor Agency	1,263,196	(1,230,264)	32,932
Total net assets	<u>1,263,196</u>	<u>(1,026,043)</u>	<u>237,153</u>
Total liabilities and net assets	<u>\$ 1,263,196</u>	<u>\$ 604,780</u>	<u>\$ 1,867,976</u>

The accompanying notes are an integral part of these financial statements

CITY OF CRESCENT CITY
STATEMENT OF CHANGE IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	Private Purpose Funds		
	Successor Agency LMIHF	Successor Agency Other RDA	Totals Trust Funds
<u>Additions:</u>			
Taxes	\$ -	\$ -	\$ -
Use of money and property:			
Interest	696	5,797	6,493
Other revenue	-	500	500
Total revenues	<u>696</u>	<u>6,297</u>	<u>6,993</u>
<u>Deductions</u>			
<u>Current:</u>			
Payroll and Benefits	-	8,153	8,153
Other	-	11,724	11,724
Special tax repayment	-	67,716	67,716
<u>Debt service:</u>			
Interest	-	1,806	1,806
Total expenditures	<u>-</u>	<u>89,399</u>	<u>89,399</u>
Excess (deficiency) of revenues over (under) expenditures	<u>696</u>	<u>(83,102)</u>	<u>(82,406)</u>
<u>Other Financing Sources (uses):</u>			
Extraordinary transfer in	-	-	-
Transfers out	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>
Change in net assets - Before extraordinary items	696	(83,102)	(82,406)
Extraordinary Gain (Loss) on transfer to successor agency	<u>1,262,500</u>	<u>(1,146,662)</u>	<u>115,838</u>
Change in net assets - After extraordinary items	<u>1,263,196</u>	<u>(1,229,764)</u>	<u>33,432</u>
Net assets, beginning of period	-	-	-
Prior period adjustments	-	-	-
Net assets, beginning of period restated	-	-	-
Net assets, end of period	<u>\$ 1,263,196</u>	<u>\$ (1,229,764)</u>	<u>\$ (82,406)</u>

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

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BASIC FINANCIAL STATEMENTS

Notes to Basic Financial Statements

**CITY OF CRESCENT CITY, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

**NOTE 1: FINANCIAL REPORTING ENTITY AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES**

REPORTING ENTITY

The City operates under a Council form of government and provides the following services: public safety, highways and streets, health and sanitation, culture-recreation, public improvements, planning and zoning, general administrative services, electric, water, sewer and solid waste.

The accounting methods and procedures adopted by the City conform to generally accepted accounting principles as applied to governmental entities. These financial statements present the government and its component units, entities for which the government is considered to be financially accountable under the criteria set by Governmental Accounting Standards Board (GASB) Statement No. 14.

The governmental reporting entity consists of the City and its component units. Component units are legally separate organizations for which the City Council is financially accountable or other organizations whose component units nature and significant relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. Financial accountability is defined as the appointment of a voting majority of the component unit's board, and (I) either the City's ability to impose its will on the organization or (ii) there is potential for the organization to provide a financial benefit to or impose a financial burden on the City.

Reporting for component units on the City's financial statements can be blended or discretely presented. Blended component units are, although legally separate entities, in substance part of the City's operations and, therefore, data from these units are combined with data of the primary government. Discretely presented component units, on the other hand, would be reported in a separate column in the government-wide financial statements to emphasize it is legally separate from the government.

Based on the application of the criteria set forth by the Governmental Standards Board, management has determined that the dissolved Redevelopment Agency was a component unit of the City.

BASIS OF PRESENTATION

Government-Wide Financial Statements

The statement of net assets and statement of activities display information on all of the nonfiduciary activities of the City, and its blended component units. These statements 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

(Continued on the following page)

**CITY OF CRESCENT CITY, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

**NOTE 1: FINANCIAL REPORTING ENTITY AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES (Continued)**

BASIS OF PRESENTATION (Continued)

Government-Wide Financial Statements (Continued)

governmental and business-type activities of the City. Governmental activities, which are normally supported by taxes and inter-governmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees charged to external parties.

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 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. Certain indirect costs, which cannot be identified and broken down, are included in the program expense reported for individual functions and activities. Program revenues include 1) charges paid by the recipients of goods and services offered by the program, 2) operating grants and contributions, and (3) capital grants and contributions. Taxes and other items not properly included among program revenues are presented instead as general revenues.

FUND FINANCIAL STATEMENTS

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

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

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

(Continued on the following page)

**CITY OF CRESCENT CITY, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

**NOTE 1: FINANCIAL REPORTING ENTITY AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES (Continued)**

BASIS OF PRESENTATION (Continued)

Fund Financial Statements (Continued)

The City reports the following major governmental funds:

The General Fund is used to account for all revenues and expenditures necessary to carry out basic governmental activities of the City that are not accounted for through other funds. For the City, the General Fund includes such activities as public safety, community development, and recreation and culture services.

The Crescent City Housing Authority is a special revenue fund used to account for revenues and expenditures related to the City's housing assistance activities under HUD Section 8 regulations.

The City reports the following major proprietary funds:

The Sewer fund is an enterprise fund used to account for activity related to providing customers with sewer service and billing for service provided by the City.

The Recreational Vehicle (RV) fund is an enterprise fund used to account for activity related to providing a City owned recreational vehicle park to the general public.

The Water fund is an enterprise fund used to account for activity related to providing customers with water service and billing for service provided by the City.

The City reports the following additional fund types:

Agency Funds account for assets held by the City as an agent for various local governments and for individuals.

(Continued on the following page)

**CITY OF CRESCENT CITY, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

**NOTE 1: FINANCIAL REPORTING ENTITY AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES (Continued)**

BASIS OF ACCOUNTING AND MEASUREMENT FOCUS

The government-wide and proprietary funds financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property and sales tax, grants,

entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenues from sales tax are recognized when the underlying transactions take place. Revenues from grants, entitlements, and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide financial statements for the business-type activities and the proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board (GASB). Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to the same limitation. The City has elected not to follow subsequent private-sector guidance.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. The City considers revenues reported in the governmental funds to be available if they are collected within forty-five days after the end of the current fiscal year. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due. Governmental capital assets acquisitions are reported as expenditures in the various functions of the governmental funds. Proceeds of governmental long-term debt and acquisitions under capital leases are reported as other financing sources.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation

(Continued on the following page)

**CITY OF CRESCENT CITY, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

**NOTE 1: FINANCIAL REPORTING ENTITY AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES (Continued)**

BASIS OF ACCOUNTING AND MEASUREMENT FOCUS (Continued)

of capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Fiduciary funds include agency funds. Agency funds are reported using the accrual basis of accounting to recognize receivables and payables.

CASH AND CASH EQUIVALENTS

For purposes of the accompanying statement of cash flows, the City considers all highly liquid investments with a maturity of three months or less when purchased, to be cash equivalents. All cash and investments of the proprietary funds are pooled with the City's cash and investments.

CASH AND INVESTMENTS

The City pools cash and investments of all funds. Each fund's share in this pool is displayed in the accompanying financial statements as cash and investments. State statutes authorize the City to invest its cash surplus in obligations of the U.S. Treasury, agencies and instrumentalities, corporate bonds, medium term notes, bankers' acceptances, certificates of deposit, commercial paper, repurchase agreements, and the State of California Local Agency Investment Fund. Investment income from pooled investments is allocated to all funds in the pool. Interest is allocated on the basis of average daily cash balance at quarter end in relation to the total pool investments. The interest income is recorded in the fund that earned the interest, except for those funds which have a negative cash balance and are excluded from the interest apportionment.

Investments are reported in the accompanying balance sheet at fair value which is determined using selected bases annually. Short term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Cash deposits are reported at carrying amount which reasonably estimates fair value. Managed funds not listed on an established market are reported at the estimated fair value as determined by the respective fund managers based on quoted sales prices of the underlying securities.

RECEIVABLES

In the government-wide and proprietary fund financial statements, receivables consist of all revenues earned at year-end and not yet received. Allowances for uncollectible accounts receivable are based

(Continued on the following page)

**CITY OF CRESCENT CITY, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

**NOTE 1: FINANCIAL REPORTING ENTITY AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES (Continued)**

RECEIVABLES (Continued)

upon historical trends and the periodic aging of accounts receivable. Major receivable balances for the governmental activities include taxes, grants, and interest. Business-type activities report user fees and interest earnings as their major receivables. The sewer, electric, water and solid waste revenues are recognized based on cycle billings rendered to customers.

In the fund financial statements, material receivables in governmental funds include revenue accruals such as taxes, grants, interest, and other similar intergovernmental revenues since they are usually both measurable and available. Nonexchange transactions collectible but not available are deferred in the fund financial statements in accordance with modified accrual, but not deferred in the government-wide financial statements in accordance with the accrual basis.

The City records an allowance for doubtful accounts based on past experience. The allowance for doubtful accounts at June 30, 2012 are Sewer fund \$3,000 and the Water fund \$6,000.

INTERFUND TRANSACTIONS

Interfund transactions are reflected as either loans, services provided or used, reimbursements or transfers.

Loans reported as receivables and payables are referred to as either "due to/from other funds" (i.e. the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans) as appropriate and are subject to elimination upon consolidation. Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances". Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not available financial resources.

Services provided or used, deemed to be at market or near market rates, are treated as revenues and expenditures or expenses. These services provide information on the net cost of each governmental function and therefore are not eliminated in the process of preparing the government-wide statement of activities.

Reimbursements occur when the funds responsible for particular expenditures or expenses repay the funds that initially paid for them. Such reimbursements are treated as an adjustment to expenditures

(Continued on the following page)

**CITY OF CRESCENT CITY, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

**NOTE 1: FINANCIAL REPORTING ENTITY AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES (Continued)**

INTERFUND TRANSACTIONS (Continued)

or expenses; that is, a corresponding increase in expenditures or expenses in the reimbursing fund and a corresponding decrease in expenditures or expenses in the reimbursed fund.

All other interfund transactions are treated as transfers. Transfers between governmental and proprietary funds are netted as part of the reconciliation to the government-wide presentation.

See Note 3 for details of interfund transactions, including receivables and payables at year end.

INVENTORY AND PREPAID COSTS

Governmental fund inventories are recorded as expenditures at the time the inventory is purchased. Records are not maintained of inventory and supplies on hand, although these amounts are not considered material.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid costs.

LOANS RECEIVABLE

For the purpose of the governmental fund financial statements, special revenue fund expenditures relating to long-term loans receivable arising from mortgage subsidy programs are charged to operations upon funding and the loans receivable are recorded. The balance of the long-term receivable includes loans that may be forgiven if certain terms and conditions of the loans are met.

CAPITAL ASSETS

The accounting treatment over property, plant, and equipment (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.

Government-Wide Financial Statements

In the government-wide financial statements, property, plant, equipment and infrastructure are accounted for as capital assets in both the governmental and business-type activities column. Capital assets, which include property, plant, equipment, and infrastructure assets (roads, bridges, sidewalks, and similar items), are defined by the City as an asset with a cost greater than \$500 and a useful life

(Continued on the following page)

**CITY OF CRESCENT CITY, CALIFORNIA
 NOTES TO BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2012**

NOTE 1: FINANCIAL REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

CAPITAL ASSETS (Continued)

of more than two years. Such assets are recorded at historical or estimated historical cost. Contributed capital assets are recorded at 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:

<u>Depreciable Asset</u>	<u>Estimated Lives</u>
Equipment	3-20 years
Structures and improvements	10-40 years
Infrastructure	15-50 years

Maintenance and repairs are charged to operations when incurred. Betterments and major improvements which significantly increase values, change capacities or extend useful lives are capitalized. Upon sale or retirement of capital assets, the cost and related accumulated depreciation are removed from the respective accounts and any resulting gain or loss is included in the results of operations.

Fund Financial Statements

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 financial statements.

UNEARNED REVENUE/DEFERRED REVENUE

Unearned revenue is recorded for assets recognized in connection with a transaction before the earnings process is complete. Those assets are offset by a corresponding liability for unearned revenue. In addition, loans receivable for which the balance may be forgiven if certain terms and conditions of the loans are met have also been offset by unearned revenue.

Deferred revenue is recorded under the modified accrual basis of accounting when revenue which has been earned during the current period has met the measurable criteria but has not met the available criteria. See Note 3 for details of unearned/deferred revenues at year end.

(Continued on the following page)

**CITY OF CRESCENT CITY, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

**NOTE 1: FINANCIAL REPORTING ENTITY AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES (Continued)**

LONG-TERM DEBT

The accounting treatment of long-term debt 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.

All long-term debt to be repaid from governmental and business-type resources is reported as liabilities in the government-wide financial statements. The long-term debt consists primarily of loans payable, capital lease payable, accrued compensated absences and OPEB liability.

Long-term debt for governmental funds is not reported as a liability in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest is reported as expenditures. The long-term debt associated with proprietary funds is accounted for the same as in the government-wide statements.

COMPENSATED ABSENCES

The City's policy regarding compensated absences is to permit employees to accumulate earned but unused vacation and sick leave. The liability for these compensated absences is recorded as debt in the government-wide and proprietary fund financial statements. The current portion of this debt is estimated based on historical trends. In the governmental fund financial statements the expenditures and liabilities related to those obligations are recognized only when they mature, while the proprietary funds report the liability as it is incurred. The City includes its share of social security and medicare taxes payable on behalf of the employees in the accrual for compensated absences. Compensated absences liability is typically liquidated by the General Fund for all non proprietary fund compensated absences.

OTHER POSTEMPLOYMENT BENEFITS (OPEB)

The City of Crescent City sponsors, under a defined benefit plan, retiree healthcare plan to qualifying employees retiring directly from the City. The benefit level is determined by date of hire and length of service and bargaining agreements. The City has contracted for medical coverage to be provided through an agent multiple-employer CalPERS Healthcare (PEMHCA) plan.

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**CITY OF CRESCENT CITY, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

**NOTE 1: FINANCIAL REPORTING ENTITY AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES (Continued)**

NET ASSETS

Equity Classifications

Beginning with fiscal year 2011, the City implemented GASB Statement 54 "Fund Balance Reporting and Governmental Fund Type Definitions". This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balance more transparent. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

Nonspendable fund balance - Amounts in fund balance that cannot be spent because they are either not in spendable form (such as prepaids and inventory) or legally/contractually are required to be maintained intact.

Restricted fund balance - Resources that are constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through externally enforceable legal restrictions (cannot be spent due to their form).

Committed fund balance - Amounts are constrained to specific purposes by action of the City itself, using its highest level of decision-making authority; removal or modification of the restrictions on the use of these amounts can only be accomplished if the City takes the same highest level action to remove or change the constraint.

Assigned fund balance - Amounts the City intends to use for a specific purpose; intent can be expressed by the City, a City created committee, or an official designated by the City to which it delegates the authority; Informal commitments (no formal action by the City).

Unassigned fund balance - Resources in the fund balance that cannot be classified into any of the other categories. These amounts that are available for any purpose; positive amounts are reported only in the general fund.

The City establishes fund balance commitments by passage of a resolution. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the City.

FUND BALANCES

In the governmental fund financial statements, reserves and designations segregate portions of fund

(Continued on the following page)

**CITY OF CRESCENT CITY, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

**NOTE 1: FINANCIAL REPORTING ENTITY AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES (Continued)**

FUND BALANCES (Continued)

balance. Reservations of fund balance are for amounts that are not available or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance are established by action of management and represent tentative plans that are subject to change.

As of June 30, 2012, reservation of fund balance included:

Reserved for loans receivable - to reflect the portion of loans receivable which is long term in nature. Such amounts do not represent available spendable resources.

As of June 30, 2012, designations of fund balance included:

Contingencies - to reflect the funds the City has set aside to fund subsequent year expenditures and projects not yet approved.

As of June 30, 2012, the City's designated fund balance as reported in the financial statements was:

Designated for contingencies - General Fund	\$ <u>50,548</u>
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PROPERTY TAXES

Del Norte County assesses properties, bills, collects, and distributes property taxes to the City. The County remits the entire amount levied and handles all delinquencies, retaining interest and penalties. Secured and unsecured property taxes are levied on July 1. Secured property taxes become a lien on real property on January 1 of the preceding fiscal year.

Secured property tax is due in two installments, on November 1 and March 1. Property taxes become delinquent after December 10 and April 10, respectively. Unsecured property tax is due on July 1, and becomes delinquent on August 31.

The term "unsecured" refers to taxes on personal property other than real estate, land and buildings. These taxes are secured by liens on the property being taxed.

GRANT REVENUES

Certain grant revenues are recognized when specific related expenditures have been incurred. In

(Continued on the following page)

**CITY OF CRESCENT CITY, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

NOTE 1: FINANCIAL REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

GRANT REVENUES (CONTINUED)

other grant programs, monies are virtually unrestricted as to purpose of expenditure and are only revocable for failure to comply with prescribed compliance requirements. These revenues are recognized at the time of receipt, or earlier if susceptible to accrual criteria is met. Cash received prior to incurrence of the related expenditure is recorded as unearned revenue.

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 as follows:

Government Funds — By Character
 Current (further classified by function)
 Debt Service
 Capital Outlay

Proprietary Fund — By Operating and Nonoperating

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.

NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

DEFICIT FUND BALANCE/NET ASSETS

Deficit fund balance at June 30, 2012 are reflected on Page 46 in the Required Supplementary Information. Some of these deficits may be eliminated in the future through grant reimbursements. Other deficits may be the result of expenditures in excess of reimbursements or misclassification of revenues or expenditures in prior years.

(Continued on the following page)

**CITY OF CRESCENT CITY, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (Continued)

IMPLEMENTATION OF GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENTS

GASB Statement No. 45

For fiscal year ended June 30, 2011, the City has implemented GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions. This statement addresses how state and local governments should account for and report their costs and obligations related to postemployment healthcare and other nonpension benefits. These benefits are collectively referred to as other postemployment benefits (OPEB).

The GASB allows governments to apply this statement prospectively, establish the OPEB liability at zero at the beginning of the initial year of implementation, and does not require governments to fund the OPEB plans. The statement supersedes or amends all previous authoritative guidance on accounting and financial reporting for an employer's OPEB expense and related information.

GASB Statement No. 51

GASB has issued Statement No. 51, Accounting and Financial Reporting for Intangible Assets. The objective of this Statement is to establish accounting and financial reporting requirements for intangible assets to reduce prior inconsistencies in accounting for these assets. This statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. This change is reported as a cumulative effect of a change in accounting principle or for governments that were classified as phase 3 governments such as the City, the Statement may be implemented prospectively. As permitted by GASB Statement No. 51, the financial statements have not been restated for prior year costs, if any, associated with implementing GASB Statement No. 51, but the statement will be prospectively implemented. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2009.

NOTE 3: DETAILED NOTES

CASH AND INVESTMENTS

As of June 30, 2012, the City's cash and investments are reported in the financial statements as follows:

Primary government	\$ 1,723,403
Agency funds	<u>3,366</u>
Total Cash and Investments	\$ <u>1,726,769</u>

(Continued on the following page).

**CITY OF CRESCENT CITY, CALIFORNIA
 NOTES TO BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2012**

NOTE 3: DETAILED NOTES (Continued)

CASH AND INVESTMENTS (Continued)

As of June 30, 2012, the City's cash and investments consisted of the following:

Cash:

Cash on hand	\$ 400
Deposits (less outstanding checks)	<u>541,536</u>
Total Cash	<u>541,936</u>

As of June 30, 2012, the City's investments consisted of the following:

Investments:	
In City's pool	<u>1,184,833</u>
Total Investments	<u>1,184,833</u>
Total Cash and Investments	<u>\$ 1,726,769</u>

At year end, the carrying amount of the City's cash deposits (including amount in checking accounts and money market accounts) was \$541,936 and the bank balance was \$540,834. The difference between the bank balance and the carrying amount represents outstanding checks and deposits in transit.

Custodial Credit Risk For Deposits - Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, the City will not be able to recover its deposits or collateral securities that are in the possession of an outside party. The City's investment policy requires that deposits in banks must meet the requirements of the California Government Code. Under this code, deposits of more than \$250,000 must be collateralized at 105 percent to 150 percent of the value of the deposit to guarantee the safety of the public funds. The first \$250,000 of the City's deposits are insured by the Federal Deposit Insurance Corporation (FDIC). Deposits of more than the \$250,000 insured amount are collateralized. The City's investment policy does not further limit its deposits.

Interest Rate Risk - Interest rate risk is the risk of loss due to the fair value of an investment falling due to interest rates rising. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. All investments of the City are pooled with the State of California Local Agency Investment Fund. The City's investment policy generally limits investment maturities as needed to maintain adequate liquidity to meet the City's cash flow

(Continued on the following page)

**CITY OF CRESCENT CITY, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

NOTE 3: DETAILED NOTES (Continued)

CASH AND INVESTMENTS (Continued)

requirements and to limit its exposure to fair value losses arising from increasing interest rates.

Credit Risk - Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. State law and City investment policy limits investments in commercial paper to the rating of A or better by Standards & Poor's or P-1 or better by Moody's Investors Service; corporate bonds to the rating of A or better by both Standards & Poor's and Moody's Investors Service. No limits are placed on U.S. government agency securities and U.S. Treasuries. The City's investment policy does not further limit its investment choices.

Concentration of Credit Risk - Concentration of credit risk is the risk of loss attributed to the magnitude of the City's investment in a single issuer of securities. When investments are concentrated in one issuer, this concentration presents a heightened risk of potential loss. State law restricts the City's investments in commercial paper to 40% of its investment pool and to 10% per issuer and corporate bonds and medium term notes to 30% of its investment pool and to 10% per issuer, and banker's acceptances to 15% of its investment pool and to 10% per issuer. The City has invested all cash, other than deposits and imprest cash, in the California Local Agency Investment Fund (LAIF). At June 30, 2012, the City's investments were in compliance with concentration of credit risk State law.

Investment in Local Agency Investment Fund - The City of Crescent City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. At June 30, 2012, the City's investment position in the State of California Local Agency Investment Fund (LAIF) was \$1,184,833. The total amount invested by all public agencies in LAIF on that day was \$69,555,776,591. Of that amount, 94.58% is invested in non-derivative financial products and 5.42% in structured notes and asset-backed securities. The value of the pool shares in LAIF is determined on an amortized cost basis, which approximates fair value. The Local Investment Advisory Board, which consists of five members designated by the State statutes, has oversight responsibility for LAIF.

(Continued on the following page)

**CITY OF CRESCENT CITY, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

NOTE 3: DETAILED NOTES (Continued)

CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2012, was as follows:

	<u>Balance</u> <u>July 1, 2011</u>	<u>Additions</u>	<u>Adjustments/ Retirements</u>	<u>Transfers</u>	<u>Balance</u> <u>June 30, 2012</u>
Governmental Activities					
Capital Assets, Not Being Depreciated:					
Land	\$ 2,474,586	\$ -	\$ (10,760)	\$ -	\$ 2,463,826
Construction in progress	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Capital Assets, Not Being Depreciated	<u>2,474,586</u>	<u>-</u>	<u>(10,760)</u>	<u>-</u>	<u>2,463,826</u>
Capital Assets, Being Depreciated:					
Buildings and improvements	6,867,245	301,692	-	-	7,168,937
Machinery and equipment	675,244	-	-	-	675,244
Infrastructure	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Capital Assets, Being Depreciated	<u>7,542,489</u>	<u>301,692</u>	<u>-</u>	<u>-</u>	<u>7,844,181</u>
Less Accumulated Depreciation	<u>(4,223,248)</u>	<u>(291,780)</u>	<u>-</u>	<u>-</u>	<u>(4,515,028)</u>
Total Capital Assets, Being Depreciated, Net	<u>3,319,241</u>	<u>9,912</u>	<u>-</u>	<u>-</u>	<u>3,329,153</u>
Total Governmental Activities, Net	<u>\$ 5,793,827</u>	<u>\$ 9,912</u>	<u>\$ (10,670)</u>	<u>\$ -</u>	<u>\$ 5,792,979</u>
	<u>Balance</u> <u>July 1, 2011</u>	<u>Additions</u>	<u>Adjustments/ Retirements</u>	<u>Transfers</u>	<u>Balance</u> <u>June 30, 2012</u>
Business-Type Activities					
Capital Assets, Not Being Depreciated:					
Land	\$ 551,556	\$ -	\$ -	\$ -	\$ 551,556
Construction in progress	<u>43,952,747</u>	<u>-</u>	<u>-</u>	<u>(43,952,747)</u>	<u>-</u>
Total Capital Assets, Not Being Depreciated	<u>44,504,303</u>	<u>-</u>	<u>-</u>	<u>(43,952,747)</u>	<u>551,556</u>
Capital Assets, Being Depreciated:					
Structures and improvements	21,497,395	1,932,173	(831,447)	28,544,461	51,142,582
Machinery and equipment	<u>6,288,551</u>	<u>-</u>	<u>(1,509,666)</u>	<u>15,408,286</u>	<u>20,187,171</u>
Total Capital Assets, Being Depreciated	<u>27,785,946</u>	<u>1,932,173</u>	<u>(2,341,113)</u>	<u>43,952,747</u>	<u>71,329,753</u>
Less Accumulated Depreciation	<u>(13,403,361)</u>	<u>(2,585,837)</u>	<u>2,341,113</u>	<u>-</u>	<u>(13,648,085)</u>
Total Capital Assets, Being Depreciated, Net	<u>14,382,585</u>	<u>(653,664)</u>	<u>-</u>	<u>43,952,747</u>	<u>57,681,668</u>
Total Business-type Activities, Net	<u>\$ 58,886,888</u>	<u>\$ (653,664)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 58,233,224</u>

(Continued on the following page)

**CITY OF CRESCENT CITY, CALIFORNIA
 NOTES TO BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2012**

NOTE 3: DETAILED NOTES (Continued)

CAPITAL ASSETS (Continued)

Depreciation

Depreciation expense was charged to governmental functions as follows:

General government	\$ 590
Public ways and facilities	59,070
Public protection	12,874
Culture and recreation	<u>36,259</u>
Total Depreciation Expense -- Governmental Functions	<u>\$ 108,793</u>

Depreciation expense was charged to the business-type functions as follows:

Sewer	\$ 39,017
Recreational Vehicle Park	46,567
Water	<u>105,928</u>
Total Depreciation Expense - Business-Type Functions	<u>\$ 191,512</u>

Construction in Progress:

Construction in progress for business-type activities related to work performed on the Sewer Plant expansion that was placed in service in the current fiscal year.

Unearned Revenue:

At June 30, 2012, the components of unearned revenue reported were as follows:

LONG-TERM DEBT

Long-term debt for the year ended June 30, 2012, was as follows:

	Balance <u>July 1, 2011</u>	<u>Additions</u>	<u>Adjustments/ Retirements</u>	Balance <u>June 30, 2012</u>	Amounts Due Within <u>One Year</u>
Governmental Activities					
Capital Leases	\$ 214,407	\$ -	\$ 75,956	\$ 138,451	\$ 58,242
Tax Allocation Bonds	420,000	-	420,000	-	-
Compensated Absences (Note 1)	—	—	—	—	—
Total Government Activities	<u>\$ 634,407</u>	<u>\$ -</u>	<u>\$ 495,956</u>	<u>\$ 138,451</u>	<u>\$ 58,242</u>

(Continued on the following page)

**CITY OF CRESCENT CITY, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

NOTE 3: DETAILED NOTES (Continued)

LONG-TERM DEBT (Continued)

	<u>Balance</u> <u>July 1, 2011</u>	<u>Additions</u>	<u>Adjustments/ Retirements</u>	<u>Balance</u> <u>June 30, 2012</u>	<u>Amounts</u> <u>Due Within</u> <u>One Year</u>
Business-Type Activities					
Safe Water Revolving Loan	\$ 4,375,000	-	\$ 350,000	\$ 4,025,000	\$ 350,000
State Water Resources - Safe Water Loan	45,233,521	174,410	1,062,410	44,345,521	1,075,424
Compensated Absences (Note 1)	<u>49,140</u>	<u>36,775</u>	<u>34,323</u>	<u>51,592</u>	<u>17,670</u>
Total Business-Type Activities	\$ <u>4,263,990</u>	\$ <u>36,775</u>	\$ <u>85,923</u>	\$ <u>4,214,842</u>	\$ <u>74,770</u>

At June 30, 2012, loans consisted of the following:

	<u>Government</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>
California Water Resources Control Board, Safe Drinking Water Revolving Loan in the amount of \$45,407,931, dated June 10, 2011, payable in annual installments of \$2,139,716 with an interest rate of 2.40% and maturity of August 1, 2041. Loan proceeds were used for wastewater system improvements	\$ -	\$ 44,345,521
California Department of Health Services, Safe Drinking Water Revolving Loan in the amount of \$7,000,000, dated June 28, 2004, payable in annual installments of \$350,000 with an interest rate of 0% and maturity of January 1, 2024. Loan proceeds were used for water system improvements	<u>-</u>	<u>4,025,000</u>
Total Loans	\$ <u>-</u>	\$ <u>48,370,521</u>

Capital Leases

During the 2005 fiscal year the City acquired a fire truck at a total cost of \$433,577. The City paid \$100,000 down and entered into a ten-year capital lease to finance the remaining \$333,577 at an interest rate of 4.957% per year. This lease has been, for accounting purposes, capitalized and included in the Long-Term Liabilities section of the balance sheet.

During the 2009 fiscal year the City acquired a street sweeper at a total cost of \$190,828. The City entered into a five-year capital lease to finance the sweeper at an interest rate of 4.83% per year. The lease calls for quarterly payments of \$10,688 including interest. This lease has been, for accounting purposes, capitalized and included in the Long-Term Liabilities section of the balance sheet.

(Continued on the following page)

CITY OF CRESCENT CITY, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

NOTE 3: DETAILED NOTES (Continued)

LONG-TERM DEBT (Continued)

Future minimum lease payments are as follows:

	Fire Engine	Street Sweeper	Total
2012-13	\$ 43,110	\$ 21,337	\$ 64,447
2013-14	43,110	-	43,110
2014-15	43,110	-	43,110
2015-16	-	-	-
Later	-	-	-
Total Minimum Lease Payments	129,330	21,337	150,667
Less: Amounts representing interest	(11,836)	(380)	(12,216)
Present value of future minimum lease payments	\$ <u>117,494</u>	\$ <u>20,957</u>	\$ <u>138,451</u>

Future note payments are as follows:

The annual aggregate maturities for the years subsequent to June 30, 2012, are as follows:

Year Ended June 30	Loans				Total
	Safe Drinking Water		Water Resources Control Board		
	Principal	Interest	Principal	Interest	
2013	\$ 350,000	\$ -	\$ 1,075,423	\$ 1,064,293	\$ 2,489,716
2014	350,000	-	1,101,234	1,038,482	2,489,716
2015	350,000	-	1,127,663	1,012,053	2,489,716
2016	350,000	-	1,154,727	984,989	2,489,716
2017	350,000	-	1,182,441	957,275	2,489,716
2018-2020	1,050,000	-	3,720,335	2,698,813	6,419,148
2021-2025	1,225,000	-	6,819,944	3,878,636	10,698,580
2026-2030	-	-	7,678,798	3,019,782	10,698,580
2031-2035	-	-	8,645,557	2,053,023	10,698,580
2036-2040	-	-	9,434,033	1,264,547	10,698,580
2041-2045	-	-	2,405,366	50,524	2,455,890
Total Government Activities	\$ <u>4,025,000</u>	\$ -	\$ <u>44,345,521</u>	\$ <u>18,022,417</u>	\$ <u>62,367,938</u>

Operating Leases

Rental expenses incurred under operating leases are not considered material.

(Continued on the following page)

CITY OF CRESCENT CITY, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

NOTE 3: DETAILED NOTES (Continued)

INTERFUND TRANSACTIONS

Due To/From Other Funds

During the course of operations, transactions occur between funds to account for goods received or services rendered. These receivables and payables are classified as due from or due to other funds. In addition, when funds overdraw their share of pooled cash, the receivables and payables are also classified as due from or due to other funds. The following are due from and due to balances as of June 30, 2012:

	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General Fund	\$ 52,314	\$ -
SR2S Improvement		88,523
Tea 2005 Improvement Project		22,508
Home Grant		53,259
Non-Major Governmental Funds		121,771
Sewer	40,506	113,624
Electric	311,678	-
Non-Major Enterprise Funds	<u>-</u>	<u>4,813</u>
Total	<u>\$ 404,498</u>	<u>\$ 404,498</u>

Transfers

Transfers are indicative of funding for capital projects, lease payments or debt service, subsidies of various City operations and re-allocations of special revenues. The following are the interfund transfers for fiscal year ended June 30, 2012:

	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General Fund	\$ 135,842	\$ 83,309
Non-Major Governmental Funds	23,430	5,430
Electric	<u>-</u>	<u>70,533</u>
Total	<u>\$ 159,272</u>	<u>\$ 159,272</u>

(Continued on the following page)

**CITY OF CRESCENT CITY, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

NOTE 4: EMPLOYEES' RETIREMENT PLAN

Plan Description

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

Funding Policy

Miscellaneous plan members are required to contribute 8 percent of their annual covered salary. 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 PERS Board of Administration. The required employer contribution rate for fiscal year 2009/2012 was 8.695 percent for miscellaneous employees. The contribution requirements of the plan are established by State statute and the employer contribution rate is established and may be amended by PERS.

Annual Pension Cost

For fiscal year 2011/2012, the City's annual pension cost of \$917,310 for the miscellaneous and public safety plans was equal to the City's actual contributions. The required contribution for fiscal year 2011/2012 was determined as part of the June 30, 2010, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.75 percent investment rate of return (net of administrative expenses), (b) projected annual salary increases of 3.25 percent to 14.45 percent, depending on age, service, and type of employment, and (c) 3.25 percent per year cost of living adjustment. Both (a) and (b) included an inflation component of 3.0 percent. The actuarial value of PERS assets was determined using techniques that smooth the effect of short term volatility in the market value of investments over a two to five year period (smoothed market value). PERS unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. Initial unfunded liabilities are amortized over a closed period that depends on the plan's date of entry into PERS. Subsequent plan amendments are amortized as a level percentage of pay over a closed 20 year period. The table below presents three-year trend information.

(Continued on the following page)

CITY OF CRESCENT CITY, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

NOTE 4: EMPLOYEES' RETIREMENT PLAN (Continued)

Annual Pension Cost (Continued)

Miscellaneous

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2010	\$ 586,234	100%	\$ -
June 30, 2011	626,977	100%	-
June 30, 2012	917,310	100%	-

Funded Status and Funding Progress

Since the City Miscellaneous plan has less than 100 active members in at least one valuation since June 30, 2003, it is required to participate in a risk pool and does not present individual plan funded status.

NOTE 5: OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan Description

The City participates in the CalPERS medical program as permitted under the Public Employees' Medical and Hospital and Care Act (PEMHCA). As such, the City is obligated to contribute toward the cost of retiree medical coverage for the retiree's lifetime or until coverage is discontinued. Based on CalPERS' requirements and the terms of the PEMHCA resolutions, the City is currently obligated to provide the greater of the following amounts to its retirees:

- a) The minimum required contribution under PEMHCA (\$112 per month for 2012)
- b) The amounts shown in the table below (pursuant to collective bargaining or other employee agreements)

Monthly Subsidy Toward Medical	
CCMEA Council, Elected	\$ 296.00
CCPOA	\$ 150.00
CEOC	\$ 250.00
CCEA	\$ 150.00

(Continued on the following page)

**CITY OF CRESCENT CITY, CALIFORNIA
 NOTES TO BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2012**

NOTE 5: OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

Funding Policy (Continued)

Assets have been set aside in an irrevocable trust through PARS to prefund these obligations. The City is funding these liabilities over a closed 30-year period with liabilities calculated on a level percent of pay basis.

Annual OPEB Cost and Net OPEB Obligation

The City's annual other post-employment benefits (OPEB) cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determine in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a 30 year period. The following table shows the components of the City's annual OPEB cost for the year, amounts actually contributed to the plan, and changes in the City's net OPEB obligation.

Annual required contribution	\$ 121,201
Interest on net OPEB obligation	-
Adjustment to annual required contribution	<u>-</u>
Annual OPEB cost (expense)	121,201
Contributions made	<u>121,201</u>
Increase in net OPEB obligation	-
Net OPEB obligation - Beginning of year	<u>-</u>
Net OPEB obligation - End of year	<u><u>\$ -</u></u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2011-2012, 2010-2011, and 2009-2010 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Employer OPEB Contributions	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2010	\$ 122,290	\$ 122,290	100%	\$ -
June 30, 2011	119,070	119,070	100%	-
June 30, 2012	121,201	121,201	100%	-

(Continued on the following page)

**CITY OF CRESCENT CITY, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

NOTE 5: OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

Funding Status and Funding Progress

Generally accepted accounting principles permit contributions to be treated as OPEB assets and deducted from the Actuarial Accrued Liability when such contributions are placed in an irrevocable trust or equivalent arrangement. During the fiscal year ended June 30, 2012, the City funded OPEB benefits on a prefunding basis. The Agency contributed a total of \$73,670 to retiree premiums, in addition to a contribution of \$47,532 to PARS. The OPEB trust account balance on June 30, 2011 was \$178,863.

The Agency's annual OPEB cost, the percentage of annual OPEB cost contributed to the plans, and the net OPEB obligations (assets), by plan, for fiscal years 2011, 2010, and 2009 were as follows:

Schedule of Funding Progress						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
7/1/2009	\$ -	\$ 1,094,063	\$ 1,094,063	0%	\$ 2,953,000	37.05%
7/1/2010	\$ 67,888	\$ 1,161,534	\$ 1,093,647	6%	\$ 3,048,973	35.87%
7/1/2011	\$ 118,194	\$ 1,233,068	\$ 1,114,874	10%	\$ 3,148,064	35.41%

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and the plan members to that point. The actuarial 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 perspectives of the calculations.

In the actuarial valuation conducted on July 1, 2009, the entry age normal cost method was used. The unfunded actuarial accrued liability is being amortized using the level percent of pay method over a closed 30-year period. Actuarial assumptions included a discount rate of 7.75% and an annual healthcare cost trend 9% initially, reduced gradually to an ultimate rate of 4.5% in 2017 and thereafter.

(Continued on the following page)

**CITY OF CRESCENT CITY, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

NOTE 6: RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City has joined together with other municipalities to participate in Small Cities Organized Risk Effort (SCORE) for general liability, vehicle liability, workers' compensation, crime, and errors and omissions purposes. SCORE is a public entity risk pool which serves as a common risk management and insurance program for member cities. The City pays an annual premium to SCORE for its insurance coverage. The agreements with SCORE provide that they will be self sustaining through member premiums and will reinsure through commercial companies for excess coverage.

The City continues to carry commercial insurance for all other risks of loss. Settled claims resulting from their risks have not exceeded commercial insurance in any of the past three fiscal years. There is no claims liability to be reported based on the requirements of Governmental Accounting Standards Board Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

NOTE 7: OTHER INFORMATION

Contingent Liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the appreciable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the government expects such amounts, if any, to be immaterial.

Joint Agencies

The Small Cities Organized Risk Effort (SCORE) is a joint powers authority organized to provide for a banking plan whereby the member cities can share in the administrative costs of providing liability and worker's compensation insurance. The SCORE is composed of 20 member cities and is governed by a board of directors appointed by the member cities. The governing board has authority over budget and financing.

Complete audited financial statements can be obtained from SCORE offices at 3017 Gold Canal Drive #500, Rancho Cordova, California 95670-6129.

The California Joint Powers Risk Management Authority (CJPRMA) is a joint power authority organized

(Continued on the following page)

**CITY OF CRESCENT CITY, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

NOTE 7: OTHER INFORMATION (Continued)

to provide excess coverage for its members. The CJPRMA is governed by a board of directors representing its member cities. Complete audited financial statements can be obtained from the Claims Administrator at 574 Manzanita Avenue, Suite 12, Chico, California 95926.

Subsequent Event

Management has evaluated events subsequent to June 30, 2012 through October 30, 2012, the date on which the financial statements were available for issuance. Management has determined no subsequent events requiring disclosure have occurred.

Proposition 1A Borrowing by the State of California

Under the provisions of Proposition 1A and as part of the 2009-10 budget package passed by the California state legislature on July 28, 2009, the State of California borrowed 8% of the amount of property tax revenue, including those property taxes associated with the in-lieu motor vehicle license fee, the triple flip in lieu sales tax, and supplemental property tax, apportioned to cities, counties and special districts (excluding redevelopment agencies). The state is required to repay this borrowing plus interest by June 30, 2013. After repayment of this initial borrowing, the California legislature may consider only one additional borrowing within a ten-year period. The amount of this borrowing pertaining to the City was \$25,744.

Authorized with the 2009-10 State budget package, the Proposition 1A Securitization Program was instituted by the California Statewide Communities Development Authority ("California Communities"), a joint powers authority sponsored by the California State Association of Counties and the League of California Cities, to enable local governments to sell their Proposition 1A receivables to California Communities. Under the Securitization Program, California Communities simultaneously purchased the Proposition 1A receivables and issued bonds ("Prop 1A Bonds") to provide local agencies with cash proceeds in two equal installments, on January 15, 2012 and May 3, 2012. The purchase price paid to the local agencies equaled 100% of the amount of the property tax reduction. All transaction costs of issuance and interest were paid by the State of California. Participating local agencies have no obligation on the bonds and no credit exposure to the State. The City participated in the securitization program and accordingly property taxes have been recorded in the same manner as if the State had not exercised its rights under Proposition 1A. The receivable sale proceeds were equal to the book value and, as a result, no gain or loss was recorded.

(Continued on the following page)

**CITY OF CRESCENT CITY, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

**NOTE 8: SUCCESSOR AGENCY TRUST FOR ASSETS OF FORMER
REDEVELOPMENT AGENCY**

On December 29, 2011, the California Supreme Court upheld Assembly Bill 1X 26 (“the Bill”) that provides for the dissolution of all redevelopment agencies in the State of California. This action impacted the reporting entity of the City of Crescent City that previously had reported a redevelopment agency within the reporting entity of the City as a blended component unit. The Bill provides that upon dissolution of a redevelopment agency, either the city or another unit of local government will agree to serve as the “successor agency” to hold the assets until they are distributed to other units of state and local government. On January 17, 2012, the City Council elected to become the Successor Agency for the former redevelopment agency in accordance with the Bill as part of City resolution number 2012-03.

After enactment of the law, which occurred on June 28, 2011, redevelopment agencies in the State of California cannot enter into new projects, obligations or commitments. Subject to the control of a newly established oversight board, remaining assets can only be used to pay enforceable obligations in existence at the date of dissolution (including the completion of any unfinished projects that were subject to legally enforceable contractual commitments). In future fiscal years, successor agencies will only be allocated revenue in the amount that is necessary to pay the estimated annual installment payments on enforceable obligations of the former redevelopment agency until all enforceable obligations of the prior redevelopment agency have been paid in full and all assets have been liquidated.

The Bill directs the State Controller of the State of California to review the propriety of any transfers of assets between redevelopment agencies and other public bodies that occurred after January 1, 2011. If the public body that received such transfers is not contractually committed to a third party for the expenditure or encumbrance of those assets, the State Controller is required to order the available assets to be transferred to the public body designated as the successor agency by the Bill. Management believes, in consultation with legal counsel, that the obligations of the former redevelopment agency due to the City are valid enforceable obligations payable by the successor agency trust under the requirements of the Bill. The City’s position on this issue is not a position of settled law and there is considerable legal uncertainty regarding this issue. It is reasonably possible that a legal determination may be made at a later date by an appropriate judicial authority that would resolve this issue unfavorably to the City.

In accordance with the time line set forth in the Bill (as modified by the California Supreme Court on December 29, 2011) all redevelopment agencies in the State of California were dissolved and ceased to operate as a legal entity as of February 1, 2012. Prior to that date, the final seven months of the activity of the redevelopment agency continued to be reported in the governmental funds of the City. After the date of dissolution, the assets and activities of the dissolved redevelopment agency are reported in a fiduciary fund (private-purpose trust fund) in the financial statements of the City.

The transfer of the assets and liabilities of the former redevelopment agency as of February 1, 2012

(Continued on the following page)

**CITY OF CRESCENT CITY, CALIFORNIA
 NOTES TO BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2012**

**NOTE 8 SUCCESSOR AGENCY TRUST FOR ASSETS OF FORMER
 REDEVELOPMENT AGENCY (Continued)**

(effectively the same date as January 31, 2012) from governmental funds of the City to fiduciary funds was reported in the governmental funds as an extraordinary loss in the governmental fund financial statements. The receipt of these assets and liabilities as of January 31, 2012 was reported in the private-purpose trust fund as an extraordinary gain.

Due to the composition of the assets of the dissolved redevelopment agency, and Because of the different measurement focus of the governmental funds (current financial resources measurement

focus) and the measurement focus of the trust funds (economic resources measurement focus), the extraordinary loss recognized in the governmental funds may not be the same amount as the extraordinary gain that was recognized in the fiduciary fund financial statements.

The difference between the extraordinary loss recognized in the fund financial statements and the extraordinary gain recognized in the fiduciary fund financial statements is reconciled as follows:

Total extraordinary loss reported in governmental funds increase to net assets of the Successor Agency Trust Fund	\$ 115,839
Capital assets recorded in the government-wide financial statements – increase to net assets of the Successor Agency Trust Fund	1,270,433
Long-term debt reported in the government-wide financial Statements – decrease to net assets of the Successor Agency Trust Fund	<u>(-0-)</u>
Net decrease to net assets of the Successor Agency Trust Fund as a result of initial transfers (equal to amount of extraordinary gain reported in the government-wide financial statements of the City)	\$ <u>1,386,272</u>

NOTE 9: NOTES RECEIVABLE

The City engages in programs designed to encourage business enterprises, construction or improvement in low-to-moderate income housing, or other projects. Under these programs, grants or loans are provided with favorable terms to businesses, homeowners or developers who agree to spend these funds in accordance with the City's terms. The maximum loan amount is \$230,380, and the notes are carrying various interest rates and payment dates.

(Continued on the following page)

**CITY OF CRESCENT CITY, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

NOTE 9: NOTES RECEIVABLE (Continued)

Although these notes are expected to be repaid in full, their balance has been offset in the fund financial statements by a reservation of fund balance, as they are not expected to be repaid during the fiscal year 2012. These notes receivable comprised the following at June 30, 2012:

Business Enterprise Notes	\$ 256,855
Sidewalk Notes	71,494
Housing Rehabilitation and Affordable Housing Notes	<u>613,420</u>
	<u>\$ 941,769</u>

NOTE 10: CONTINGENCIES

The City participates in a number of Federal and State assisted grant programs. These programs are subject to program compliance audits by the grantors. Accordingly, the City's compliance with applicable grant requirements will be established at some future date. While the contingency for un-reimbursed expenditures could potentially be material, the amount, if any, of which may be disallowed by the granting agencies can not be determined at this time.

The City Council authorized and adopted on November 1, 1992 benefits for Council Members and selected employees consisting of medical insurance or comparable reimbursement and a payment of \$150 per month toward an annuity. The City amended its benefits for City Council Members on September 8, 1998 to expressly provide for reimbursement of medical premiums at a level comparable to that provided to City employees. The amount contributed toward the annuity was continued at \$150. The City also amended the City Council Members benefits effective January 1, 2000 and the contribution toward the annuity was increased to \$300 per month. During the time period from November 1, 1992 through December 31, 2012, the City provided benefit payments on behalf of City Council Members for medical expenses, alternate insurance coverage and cash in lieu of other benefits. The City has approximately \$198,068 in assets invested in annuities and equity mutual funds that are held by the City's brokerage firm at June 30, 2012. The effects, if any, of noncompliance to be reported on the accompanying financial statements has not been determined. As of June 30, 2012 all annuities had been returned to the City and deposited back into the City's accounts.

NOTE 11: PRIOR PERIOD ADJUSTMENTS

The City made certain adjustments to prior year's equity to reflect the final capitalization of the new sewer treatment plant and reflect amounts that were double posted in the June 30, 2005 through 2007 fiscal years. The amount was not evident until the project was complete and all costs certified. Double reported amounts equaled \$6,757,922. In addition previously unrecorded assets in the amount of \$235,533 were added to the internal service funds.

REQUIRED SUPPLEMENTARY INFORMATION

Unaudited

**CITY OF CRESCENT CITY, CALIFORNIA
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF FUNDING PROGRESS - UNAUDITED
 FOR THE YEAR ENDED JUNE 30, 2012**

**SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS
 (OPEB)**

The table below shows a one year analysis of the actuarial value of assets as a percentage of the actuarial accrued liability and the unfunded actuarial accrued liability as a percentage of the annual covered payroll as of June 30, 2012, for the City other Postemployment Benefit Plan. As additional years are available, a three-year trend analysis will be presented.

Miscellaneous Plan:

<u>Actuarial Valuation Date</u>	<u>Actuarial Accrued Liability (AAL) Entry Age</u>	<u>Actuarial Value of Assets</u>	<u>Unfunded Liability (UAAL)</u>	<u>Funded Status</u>	<u>Annual Covered Payroll</u>	<u>UAAL as a % of Payroll</u>
July 1, 2009	\$ 118,409	\$ -	\$ 118,409	0%	\$ 429,000	27.6%

CITY OF CRESCENT CITY
GENERAL FUND
COMBINING STATEMENTS OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2012
(UNAUDITED)

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
<u>Revenues:</u>				
Taxes	\$ 2,859,652	\$ 2,739,520	\$ 2,821,457	\$ 81,937
Use of money and property:				
Interest	1,000	500	1,539	1,039
Rental income	33,670	18,320	21,007	2,687
Licenses and permits	272,660	272,885	285,436	12,551
Fines and Penalties	27,000	22,200	15,855	(6,345)
Intergovernmental revenues	847,933	957,469	887,312	(70,157)
Charges for services	786,019	781,710	603,456	(178,254)
Gifts and donations	-	4,083	27,768	23,685
Other revenue	7,600	3,500	14,462	10,962
Total revenues	<u>4,835,534</u>	<u>4,800,187</u>	<u>4,678,292</u>	<u>(121,895)</u>
<u>Expenditures</u>				
Current:				
General government	587,370	613,405	595,162	18,243
Public safety	2,086,537	1,986,446	1,949,527	36,919
Human services and recreation	886,405	1,001,575	961,437	40,138
Public works	1,220,139	1,253,340	958,731	294,609
Administrative overhead allocation	335,047	293,537	347,803	(54,266)
Total expenditures	<u>5,115,498</u>	<u>5,148,303</u>	<u>4,812,660</u>	<u>335,643</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(279,964)</u>	<u>(348,116)</u>	<u>(134,368)</u>	<u>213,748</u>
<u>Other Financing Sources (Uses)</u>				
Transfers in	279,964	251,614	251,414	(200)
Transfers out	-	8,400	-	8,400
Total other financing sources (uses)	<u>279,964</u>	<u>260,014</u>	<u>251,414</u>	<u>8,200</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	<u>\$ -</u>	<u>\$ (88,102)</u>	117,046	<u>\$ 221,948</u>
Fund Balances, beginning of period			886,047	
Prior period adjustments			-	
Fund balance, beginning of period restated			<u>886,047</u>	
Fund Balances, end of period			<u>\$ 1,003,093</u>	

**CITY OF CRESCENT CITY
HOUSING AUTHORITY SECTION 8
COMBINING STATEMENTS OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2012
(UNAUDITED)**

	<u>Budgeted Amounts</u>			<u>Variance with</u>
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Final Budget</u>
<u>Revenues:</u>				
Use of money and property:				
Interest	\$ -	\$ -	\$ -	\$ -
Intergovernmental revenues	2,497,591	2,497,591	3,013,098	515,507
Other revenue	14,000	14,000	20,224	6,224
Total revenues	<u>2,511,591</u>	<u>2,511,591</u>	<u>3,033,322</u>	<u>521,731</u>
<u>Expenditures</u>				
Current:				
Human services and recreation	<u>2,504,921</u>	<u>2,507,722</u>	<u>3,088,090</u>	<u>(580,368)</u>
Total Expenditures	<u>2,504,921</u>	<u>2,507,722</u>	<u>3,088,090</u>	<u>(580,368)</u>
Excess (deficiency) of Revenues Over Expenditures	<u>\$ 6,670</u>	<u>\$ 3,869</u>	(54,768)	<u>\$ (58,637)</u>
Fund Balances, beginning of period			<u>292,433</u>	
Fund Balances, end of period			<u>\$ 237,665</u>	

**CITY OF CRESCENT CITY, CALIFORNIA
REQUIRED SUPPLEMENTARY INFORMATION
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2012**

SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS (OPEB)

The Schedule of Funding Progress - Other Postemployment Benefits on Page 40, presents a consolidated snapshot of the City's ability to meet current and future liabilities with the plan assets. Of particular interest to most is the funded status ratio. This ratio conveys a plan's level of assets to liabilities, an important indicator to determine the financial health of the OPEB plan. The closer the plan is to a 100% funded status, the better position it will be in to meet all of its future liabilities.

BUDGETARY BASIS OF ACCOUNTING

The approved City procedures for establishing the budgetary data reflected in the financial statements is as follows:

In May of each year, the Finance Department is to submit to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and estimated revenues.

Public hearings are to be conducted at City Hall to obtain taxpayer comments.

Generally by the first of July, after adjustment as appropriate by the City Council, the budget is to be legally enacted through council motion.

Council approval is required for transfers between funds, or for an increase in total appropriations. Therefore, the level of budgetary responsibility is by total appropriations; however, for report purposes, this level has been expanded to a functional basis (General Government, Public Safety, etc.).

Formal budgetary integration is employed as a management control device during the year for the General fund, and Special Revenue funds. Budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP). Accordingly, actual revenues and expenditures can be compared with related budgeted amounts without any significant adjustments. The HOME Grant major special revenue fund did not have a legally adopted budget.

All unused appropriations for budgeted amounts lapse at the end of the year.

Individual fund budgetary comparisons are not presented at the detail budget unit level due to their excessive length. A separate document presenting this information is available.

The City does not use encumbrance accounting under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation.

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OTHER REPORTS AND SCHEDULES

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

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

STATUS OF PRIOR YEAR RECOMMENDATIONS

Donald R. Reynolds

Certified Public Accountant

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

The Honorable Mayor and Members of the City Council
City of Crescent City
Crescent City, California

I have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Crescent City, as of and for the year ended June 30, 2012, which collectively comprise the Authority's basic financial statements and have issued my report thereon dated October 30, 2012. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the City of Crescent City is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing my audit, I considered the City of Crescent City's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority'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.

My consideration of 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. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above.

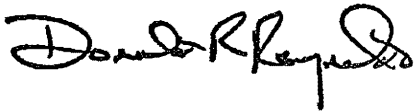
1438 Oregon Street, P.O. Box 994508 Redding, CA 96099-4508 (530) 246-2834 fax (530) 244-0331

The Honorable Mayor and Members of the City Council
City of Crescent City
Crescent City, California

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Crescent City's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the City Council, City management 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.

A handwritten signature in black ink, appearing to read "Donald R. Reynolds". The signature is fluid and cursive, with a large initial "D" and "R".

Donald R. Reynolds
Certified Public Accountant
October 30, 2012

Donald R. Reynolds

Certified Public Accountant

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Honorable City Council
City of Crescent City
Crescent City, California

Compliance

I have audited the City of Crescent City's compliance with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that would have a direct and material effect on the City of Crescent City's major federal programs for the year ended June 30, 2012. City of Crescent City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of City of Crescent City's management. My responsibility is to express an opinion on City of Crescent City's compliance based on my audit.

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

In my opinion, City of Crescent City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2012.

P.O. Box 994508, Redding, California 96099-4508 . (530) 246-2834 . FAX (530) 244-0331

The Honorable Mayor and Members of the City Council
City of Crescent City
Crescent City, California

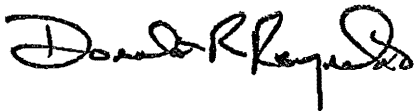
Internal Control Over Compliance

The management of City of Crescent City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing my audit, I considered City of Crescent City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of the Authority's internal control over compliance.

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

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

This report is intended for the information of the City Council, City management 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.



Donald R. Reynolds
Certified Public Accountant
October 30, 2012

Donald R. Reynolds

Certified Public Accountant

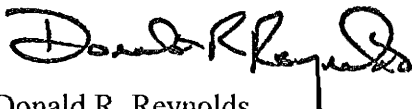
INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Honorable City Council
City of Crescent City
Crescent City, California

I have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Crescent City, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements and have issued my report thereon dated October 30, 2012. These financial statements are the responsibility of the City of Crescent City's management. My responsibility was to express an opinion of these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards for financial audits contained in the Government Auditing Standards, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Circular A-133, "Audits of State and Local Governments and Non Profit Organizations." Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provided a reasonable basis for my opinion.

My audit was made for the purpose of forming an opinion on the financial statements taken as a whole and on the combining financial statements. The accompanying Schedule of Federal Financial Assistance is presented for the purposes of additional analysis and is not a required part of the financial statements of the City of Crescent City. The information in this schedule has been subjected to the auditing procedures applied in the audit of the general purpose and combining financial statements and, in my opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.



Donald R. Reynolds
Certified Public Accountants
October 30, 2012

**CITY OF CRESCENT CITY
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED JUNE 30, 2012**

<u>Federal Grantor/Pass-Through Grantor Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Disbursements Expenditures</u>
<u>U.S. Department of Housing and Urban Development</u>			
CommunityDevelopment Block Grant	14.228	N/A	\$ 223,679
Section Housing Choice Vouchers*	14.871	N/A	<u>3,088,090</u>
Total U.S. Department of Housing & Urban Development			<u>3,311,769</u>
Total Expenditure of Federal Awards			<u>\$ 3,311,769</u>

* Major Program

CITY OF CRESCENT CITY
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012

Note 1: General

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal awards programs of the City of Crescent City. The City reporting entity is defined in Note 1 to the City's basic financial statements. All Federal awards received from federal agencies as well as federal awards passed through other government agencies are included in the schedule.

Note 2: Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards is prepared on a basis other than that used to record transactions in the accounting records and as reported in the basic financial statements. Sources of information for preparation of the Schedule of Expenditures of Federal Awards varies, depending on the accounting practices and reporting requirements of the departments implementing the program

Note 3: Relationship to Financial Statements

The amounts reported in the accompanying Schedule of Expenditures of Federal Awards agree, in all material respects, to amounts reported within the City's financial statements. Federal award revenues are reported principally in the City's financial statements as intergovernmental revenues in the General and Special Revenue funds.

**CITY OF CRESCENT CITY
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FOR THE YEAR ENDED JUNE 30, 2012**

Section 1

Financial Statements

Summary of Auditor's Results

- a.) Type of auditor's report issued on financial statements **Unqualified**
- b.) Internal control over financial reporting:
 Material weaknesses identified: **No**
 Significant Deficiencies indentified that
 are not considered to be material weaknesses: **No**
- c.) Noncompliance which is material to the financial
 statements: **No**

Federal Awards

- d.) Internal control over major programs:
 Material weaknesses identified: **No**
 Significant Deficiencies indentified that are not
 considered to be material weaknesses: **No**
- e.) Type of auditors' report issued on compliance for
 major programs: **Unqualified**
- f.) Any audit findings which are required to be reported
 under Section .510(a) of OMB Circular A-133: **No**
- g.) The dollar threshold used to distinguish between
 Type "A" and Type "B" programs was **\$300,000**
- h.) Program identified as a major program
CFDA Number Name of Federal Program
 14.871 Section Housing Choice Vouchers*
- i.) Auditee qualified as a low risk auditee under Section
 0.530 of OMB Circular A-133: **No.**

CITY OF CRESCENT CITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012

SECTION 2

None Reported

Federal Award Findings and Questioned Costs

None reported

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