

CITY OF CRESCENT CITY,

CALIFORNIA

**FINANCIAL STATEMENTS
TOGETHER WITH
INDEPENDENT AUDITORS' REPORT
FOR THE YEAR ENDED
JUNE 30, 2013**

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**CITY OF CRESCENT CITY, CALIFORNIA
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2013**

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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, 2013**

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

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FINANCIAL SECTION

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

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INDEPENDENT AUDITOR'S REPORT

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

Report On the Financial Statements

I have audited the accompanying consolidated financial statements of City of Crescent City (City), which comprise the consolidated statement of financial position as of June 30, 2013, and the related consolidated statements of activities and changes in net assets and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

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

Opinion

In my opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of City of Crescent City as of June 30, 2013, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Supplementary Information

My audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The schedule of revenues, expenditures and changes in net assets - budget versus actual on page 22 for purposes of additional analysis and is not a required part of the consolidated financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures. These additional procedures included comparing and reconciling the information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the supplementary information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

In accordance with *Government Auditing Standards*, I have also issued my report dated December 20, 2013, 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

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.

Donald R. Reynolds, CPA
Redding, California
October 30, 2013

CITY OF CRESCENT CITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2013

As Management of the City of Crescent City (City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2013. We encourage readers to consider the information presented here in conjunction with the City's basic financial statements following this section.

The 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 and commitments; and 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

Government-Wide

All funds of the City are reported together in the Government-Wide Reports. Total assets of the City were \$70,274,482 and total liabilities were \$48,612,330 at June 30, 2013. The City's assets exceeded its liabilities by \$21,662,152 (net position) for the fiscal year reported. This is a decrease of \$1,131,184 from the previous year when assets exceeded liabilities by \$22,793,336; a decline due to an unfavorable variance of revenues over expenses. Most of this unfavorable experience (\$1,008,087) was a result of negative operations in the City's business-type activities; the Sewer and Water Funds.

Total net position is comprised of the following:

- (1) Capital assets, net of related debt and accumulated depreciation, of \$15,564,478 include property and equipment.
- (2) Net assets of \$432,998 are restricted for capital projects, community development and debt service.
- (3) Unrestricted net assets of \$5,664,676 represent the portion available to maintain the City's continuing obligations to citizens and creditors.

Fund Based – Governmental Funds

Governmental funds include the General Fund and all other funds, except those classified as business type. The City's governmental funds reported total ending net position of \$2,530,616 this year. This compares to the prior year ending net position of \$1,858,754 and is an increase of \$671,862 during the current year; \$396,524 was from prior year adjustments and \$275,338 was the result of operations.

For the fiscal year ending June 30, 2013, the fund balance of the General Fund was \$1,000,777; of this amount \$1,000,000 is committed to fund balance reserve. The Fund Balance Reserve Policy is the City Council's goal to achieve a minimum of 25.0% of the annual general fund appropriations. For the fiscal year 2012-13, the \$1,000,000 fund balance reserve is 23.7% of reported expenditures (\$4,203,462).

Fund Based – Business Type Activities

The City's business type activities include the Sewer Fund, the Water Fund, and the Recreational Vehicle (RV) Fund. These funds reported total ending net position of \$13,093,946 as of June 30, 2013. This compares to the prior year ending net position of \$14,102,033 showing a decrease of \$1,008,087 during the current year.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction of 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. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements

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

The *Statement of Net Position* is measured as the difference between (a) assets and deferred outflow of resources and (b) liabilities and deferred inflow of resources. This is one way to measure the City's financial health, or financial position. Over time, increases or decreases in the City's net position may serve as an indicator of whether or not its financial health is improving or deteriorating.

The *Statement of Activities* presents information on how the City's net position changed during the fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in the statement for some items that only result in cash flows in future periods; e.g. earned but unused vacation leaves.

In both the Statement of Net Position and Statement of Activities we divide the City into two kinds of activities:

Governmental Activities – Most of the City's basic services are reported here, including General Government (City Council, City Clerk, City Manager's Department, General and Fiscal Services), Public Safety (Police and Fire), Community Development and Planning, Swimming Pool and Public Works. Revenues from property taxes, transient occupancy taxes (TOT), sales tax, business license tax, etc. finance most of these activities.

Business-type Activities – The City charges a fee to customers to recover all or most of certain services it provides. The City's water, sewer and recreational vehicle park are included in this category.

Fund Financial Statements

The Fund Financial Statements are designed to report information about groupings (funds) of related accounts, which are used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, used fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds can be divided into three categories: governmental funds, proprietary funds and fiduciary funds. The City uses all three types, each using different accounting methods.

Governmental Funds – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

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

The City adopts an annual appropriated budget for the General Fund. A budgetary comparison statement has been provided in the Required Supplementary Information section of this report.

Proprietary Funds – Proprietary funds are primarily used to account for when the City charges for the services it provides, whether to outside customers or to other units of the City. These funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities, using an accrual basis of accounting. In fact, the City's enterprise funds (a component of proprietary funds) are the same as the business-type activities that are reported in the government-wide

financial statements but provide more detailed information, such as the statement of cash flows. The City used internal service funds (the other component of proprietary funds) to report activities that provide supplies and services for the City's other programs and activities, such as Building and Equipment Services, Self-Insurance and Information Technology funds. Since these activities predominantly benefit governmental rather than business-type functions, they are included with the governmental activities in the government-wide financial statements.

Fiduciary Funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the City. In these cases, the City has a fiduciary responsibility and is acting as a trustee. The Statement of Fiduciary Net Position separately reports all of the City's fiduciary activities. The City excludes those activities from the City's other financial statements because the City cannot use these assets to finance its operations. However, the City is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

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.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain Required Supplementary Information. The City's progress in funding its obligation to provide pension benefits to its employees is presented. The Statements of Revenues, Expenditures, and Changes in Fund balances – Budget and Actual for the General Fund and the Housing Authority Section 8 Fund are also presented.

Financial Analysis of the City as a Whole

This analysis will focus on the City's net position (Table 1) and changes in net position (Table 2) of the governmental and business-type activities for the fiscal year ending June 30, 2013.

TABLE 1 - NET POSITION						
	Governmental Activities		Business-Type Activities		Government-Wide Totals	
	2013	2012	2013	2012	2013	2012
Assets:						
Current and other	3,367,052	2,964,982	5,418,881	5,917,474	8,785,933	8,882,456
Capital assets	6,088,768	6,757,893	55,399,781	57,122,312	61,488,549	63,880,205
Total Assets	9,455,820	9,722,875	60,818,662	63,039,786	70,274,482	72,762,661
Liabilities						
Current and other	846,541	882,993	2,230,852	530,739	3,077,393	1,413,732
Long-term liabilities	41,073	148,579	45,493,864	48,407,014	45,534,937	48,555,593
Total Liabilities	887,614	1,031,572	47,724,716	48,937,753	48,612,330	49,969,325
Net Position						
Invested in capital assets net of related debt	6,008,561	6,619,442	9,555,917	8,751,791	15,564,478	15,371,233
Restricted	432,998	204,221	-	-	432,998	204,221
Unrestricted	2,126,647	1,867,640	3,538,029	5,350,242	5,664,676	7,217,882
Total Net Position	8,568,206	8,691,303	13,093,946	14,102,033	21,662,152	22,793,336

In fiscal year 2012-13, Governmental activities decreased the City's net position by \$123,097 and business-type activities decreased the City's net position by \$1,008,087 as compared to the prior fiscal year.

	Governmental Activities		Business-Type Activities		Government-Wide Totals	
	2013	2012	2013	2012	2013	2012
Revenues:						
Program revenues:						
Charges for services	1,336,326	1,390,711	6,102,948	6,532,973	7,439,274	7,923,684
Operating grants and contributions	3,190,197	3,857,773			3,190,197	3,857,773
Capital grants and contributions	363,722	472,823	200,809	224,980	564,531	697,803
General revenues:						
Property taxes	482,047	680,146			482,047	680,146
Sales and gas taxes	1,169,055	1,120,702			1,169,055	1,120,702
Occupancy taxes	950,575	867,957			950,575	867,957
Investment earnings	2,453	17,735	5,285	17,215	7,738	34,950
Other revenues	650,764	465,839			650,764	465,839
Total Revenues	8,145,139	8,873,686	6,309,042	6,775,168	14,454,181	15,648,854
Expenses:						
General government	605,987	598,632			605,987	598,632
Public safety	2,086,376	1,947,968			2,086,376	1,947,968
Human services and recreation	4,332,073	4,447,661			4,332,073	4,447,661
Public works	963,360	1,839,377			963,360	1,839,377
Administrative overhead allocation	226,754	347,525			226,754	347,525
Sewer			5,459,908	5,539,210	5,459,908	5,539,210
Water			1,634,647	1,880,263	1,634,647	1,880,263
RV park			222,574	200,818	222,574	200,818
Total Expenses	8,214,550	9,181,163	7,317,129	7,620,291	15,531,679	16,801,454
Increase(Decrease) in Net Position before transfers, prior period adjustments and extraordinary items	(69,411)	(307,477)	(1,008,087)	(845,123)	(1,077,498)	(1,152,600)
Transfers	-	50,000		(50,000)	-	-
Prior period adjustments	(53,686)	235,533	-	(6,757,922)	(53,686)	(6,522,389)
Increase(Decrease) in Net Position	(123,097)	(21,944)	(1,008,087)	(7,653,045)	(1,131,184)	(7,674,989)

Governmental activities revenues decreased by \$725,547, or 8.2%, due primarily to operating grant revenues in FY2011-12 which did not recur in FY2012-13, notably the Regional Surface Transportation Program (RSTP) grant, a reduction in CDBG claims, and a reduction in the amount of Section 8 Housing Choice Vouchers. Expenses in the governmental activities decreased by \$966,613, or 10.5%; \$876,017 of this decline is in the public works category due to fewer street projects and decline by attrition in staffing levels.

Business-type activities revenues decreased by \$466,126 or 6.9%. In fiscal year 2012, both the sewer and water funds had one-time connection fees for a new apartment complex; there were no comparable connection fees in fiscal year 2013.

Financial Analysis of the City's Funds

As noted earlier, the City of Crescent City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Under the Government Accounting Standards Board Statement 54 (GASB54), fund balances are now classified as Nonspendable, Restricted, and Unassigned. Nonspendable fund balances are amounts that are inherently Nonspendable, i.e. cannot be spent because of their form or because they must be maintained intact. Restricted fund balances are amounts with externally enforceable limitations on use, such as limitations imposed by creditors or grantors, and limitations imposed by other governments. Unassigned fund balances (residual net resources) are the amount in excess of Nonspendable and Restricted amounts.

Governmental Funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of resources that are available for spending. Such information is useful in assessing the City's financial requirements.

At the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$2,530,616 an increase of \$671,862 in comparison with the prior year. Of this amount, \$396,623 is due to a restatement of Successor Agency Trust Fund and Successor Agency Special Revenue Fund balances stemming from the dissolution of the former City of Crescent City Redevelopment Agency. The majority of the remaining \$275,239 is due to net favorable operating results.

The following discussion focuses on the City's three primary operating fund types.

General Fund. The General Fund is the chief operating fund of the City of Crescent City. The General Fund experienced an excess of revenues over expenditures in the amount of \$370,845; transfers in and out (primarily for capital projects) netted to a negative \$320,658, leaving an excess balance of \$50,187. This amount was reduced by a negative prior period adjustment for liabilities not previously recorded of \$52,503, leaving a net change in General Fund balance of negative \$2,316.

The following table, Revenue by Source (Table 3) and Expenditure by Function (Table 4), provide a two-year comparison. Accompanying the tables are brief explanations of significant changes.

Fiscal year 2012-13 General Fund revenue declined 2.3% in comparison with the prior year. Significant changes were an increase in taxes and assessments of 5.9% and a decrease in intergovernmental revenues of -10.2%. The increase in taxes and assessments is primarily due to an increase in transient occupancy tax, an increase in sales tax, and an increase in residual residential and pass-through taxes resulting from the dissolution of the former City of Crescent City Redevelopment Agency. The decrease in intergovernmental revenues is primarily due to the decline in operating grants.

Total General Fund expenditures decreased by \$296,178 or 7.0% from the prior fiscal year indicating a continuing trend of prudent spending and declining personnel costs.

	2013		2012		Increase/(Decrease)	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total
	Taxes and assessments	3,090,431	67.6%	2,821,457	60.3%	268,974
Use of money and property:						
Interest	1,693	0.0%	1,539	0.0%	154	0.0%
Rental Income	26,029	0.6%	21,007	0.4%	5,022	0.1%
Licenses and permits	264,386	5.8%	285,436	6.1%	(21,050)	-0.5%
Fines and permits	11,088	0.2%	15,855	0.3%	(4,767)	-0.1%
Intergovernmental revenues	418,747	9.2%	887,312	19.0%	(468,565)	-10.2%
Charges for services	651,050	14.2%	603,456	12.9%	47,594	1.0%
Gifts and donations	87,417	1.9%	27,768	0.6%	59,649	1.3%
Other revenue	23,466	0.5%	14,462	0.3%	9,004	0.2%
Total	4,574,307	100.0%	4,678,292	100.0%	(103,985)	-2.3%

	2013		2012		Increase/(Decrease)	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total
	General Government	607,360	14.4%	595,162	12.4%	12,198
Public Safety	2,033,023	48.4%	1,949,527	40.5%	83,496	2.0%
Human services and recreation	688,320	16.4%	961,437	20.0%	(273,117)	-6.5%
Public works	647,491	15.4%	958,731	19.9%	(311,240)	-7.4%
Administrative overhead allocation	227,268	5.4%	347,803	7.2%	(120,535)	-2.9%
Total	4,203,462	100.0%	4,812,660	100.0%	(609,198)	-14.5%

Housing Fund. The Housing Authority revenues are provided by the Department of Housing and Urban Development (HUD) on a calendar year basis. They are provided to the Housing Authority (HA) through Housing Assistance Payments (HAP) and Administrative funds. The HAP payments are designated for rental assistance for tenants and paid to property owners with Housing Choice Vouchers (HCV). The Administrative funds are designated for any costs associated with administering the (HCV) program.

The Housing Authority is included in these financials as a governmental fund. It is a Basic Component Unit of the City of Crescent City and, as such, it is more fully reported on in its stand alone financial statement, also issued as of June 30, 2013. In fiscal year 2013, the Housing Authority experienced an excess of expenditures over revenues in the amount of \$195,430, due to cuts in federal funding. This reduced the Housing Authority's fund balance from \$237,665 to \$42,235.

Proprietary funds. Proprietary funds operate in a business-type environment. The proprietary fund statements share the same focus as the government-wide statements, reporting both short-term and long-term information about financial status. The City's proprietary funds include the Sewer and Water utilities and the Recreational Vehicle (RV) Park.

As of June 30, 2013, the rate structure within the Water and Sewer Utilities do not provide adequate revenue to maintain assets in a prudent manner, meeting both the communities long term infrastructure needs and ongoing system reliability concerns. These utilities have been operating with insufficient funding to implement a minimum level of preventative maintenance, major maintenance overhauls and equipment upgrades required to ensure facilities remain functional over their planned equipment life expectancies. These basic maintenance needs will be addressed in fiscal year 2013-14 through a reevaluation of the utility rate structures.

Water Fund -- In the fiscal year ended June 30, 2013, the Water Fund had a negative change in net assets of \$211,418 and the Sewer Fund had a negative change in net assets of \$852,317. The RV Park Fund had a positive change in net assets of \$55,648. A two-year comparison of change in net assets for these funds is in the following tables.

The Water Fund reported an 11.6% decrease in the negative change in net assets in fiscal year 2012-13 compared to fiscal year 2011-12. Although revenues declined, expenses also declined, and the net effect was a slight reduction in the amount of loss in fiscal year 2012-13 compared to fiscal year 2011-12.

TABLE 5 - WATER FUND				
For the periods ending June 30				
	2013	2012	Variance	
	Amount	Amount	Amount	Percent
Water Fund				
Operating				
Revenues	1,420,968	1,627,292	(206,324)	-12.7%
Expenses	(1,634,647)	(1,880,263)	245,616	-13.1%
Non-operating revenue(expense)	2,261	13,851	(11,590)	-83.7%
Change in net assets	(211,418)	(239,120)	27,702	-11.6%

Sewer Fund -- The Sewer Fund reported an increase in the negative change in net assets in fiscal year 2012-13 compared to fiscal year 2011-12. Although both revenues and expenses declined, the net effect was still a 29.0% increase in the amount of loss in fiscal year 2012-13 compared to fiscal year 2011-12.

TABLE 6 - SEWER FUND				
For the periods ending June 30				
	2013	2012	Variance	
	Amount	Amount	Amount	Percent
Sewer Fund				
Operating				
Revenues	4,604,804	4,875,406	(270,602)	-5.6%
Expenses	(4,395,615)	(4,469,933)	74,318	-1.7%
Non-operating revenue(expense)	(1,061,506)	(1,066,034)	4,528	-0.4%
Change in net assets	(852,317)	(660,561)	(191,756)	29.0%

Shoreline Recreational Vehicle Park Fund -- In fiscal year 2012-13, the RV Park did not contribute to the General Fund of the City as it had done in prior fiscal years. The intention was to continue building the RV Park Fund Balance in order to have sufficient funds available to complete the RV Park renovations in the subsequent fiscal years. The change in net assets in fiscal year 2012-13 was \$55,648 as compared to the change in net assets in fiscal year 2011-12 of \$4,558.

TABLE 7 - RV PARK FUND				
For the periods ending June 30				
	2013	2012	Variance	
	Amount	Amount	Amount	Percent
RV Park Fund				
Operating				
Revenues	277,985	255,255	22,730	8.9%
Expenses	(222,574)	(200,818)	(21,756)	10.8%
Non-operating revenue(expense)	237	(49,879)	50,116	-100.5%
Change in net assets	55,648	4,558	51,090	1120.9%

General Fund Budgetary Highlights. In preparing its budgets, the City attempts to estimate its revenues using realistic, but conservative, methods and budgets its expenditure activities in a prudent manner. As a result the City Council adopts budget adjustments during the course of the fiscal year to reflect both changed priorities and availability of additional revenues.

The General Fund budget for fiscal year 2012-13 anticipated a shortfall of \$161,691. The results of the General Fund were more favorable than anticipated, with an actual surplus of \$50,187. The negative experience of fiscal year 2011-12 has been reduced in the fiscal year 2012-13. Revenues in fiscal year 2012-13 were \$314,542, or 7.4%, more than the budget estimate, primarily due to one-time and catch-up revenue receipts. Expenditures in fiscal year 2012-13 were \$327,994, or 7.8%, less than the budget estimate, primarily due to personnel cost savings from budgeted but unfilled vacancies and the deferral of capital expenditures.

Table 6 shows a two-year comparison of General Fund budgets and actual results.

	2013			2012		
	Budget	Actual	Variance	Budget	Actual	Variance
Revenues	4,259,765	4,574,307	(314,542)	3,960,153	4,603,318	(643,165)
Expenditures	(4,531,456)	(4,203,462)	(327,994)	(5,101,192)	(5,516,170)	414,978
Operating Result	(271,691)	370,845	(642,536)	(1,141,039)	(912,852)	(228,187)
Transfers In	210,000	168,742	41,258	169,598	270,809	(101,211)
Transfers Out	(100,000)	(489,400)	389,400	(15,900)	(69,084)	53,184
Net Result	(161,691)	50,187	(211,878)	(987,341)	(711,127)	(276,214)

Capital Asset and Debt Administration

Capital assets. *The City's practice has been to capitalize buildings, machinery and equipment.* As a "small" City under the definition of Governmental Accounting Standards Board Statement No. 34 (GASB34), the City is not required to report, and has not reported, infrastructure (i.e. streets, streetlights, sidewalks, etc.) assets acquired prior to June 30, 2003 in accounting for capital assets. GASB34 requires small cities to report infrastructure acquired after June 30, 2003. To date, the City has noted no infrastructure acquisitions.

The City's investment in capital assets, net of accumulated depreciation, for governmental and business-type activities as of June 30, 2013, was \$6,088,768 and \$55,399,781 respectively. This represented a decrease in this net investment of 8.7 % for governmental and 16.2 % for business-type activities. The overall decrease was 15.5% for the City as a whole, which clearly illustrates that the City's capital assets are depreciating faster than they are being replaced.

Governmental Funds			
2013	2012	Variance \$	Variance %
6,088,768	6,667,829	(579,061)	-8.7%
Business-type Funds			
2013	2012	Variance \$	Variance %
55,399,781	66,093,700	(10,693,919)	-16.2%

Long-term debt. As of June 30, 2013, the City had total debt outstanding of \$47,303,936; this is a decrease from the total debt outstanding at June 30, 2012, of \$1,256,628. This reduction is primarily due to loan principal pay downs.

Table 7 provides a two-year comparison of the City’s long-term debt.

	Governmental Activities		Business-Type Activities		Government-Wide Totals	
	2013	2012	2013	2012	2013	2012
Capital Leases	80,207	138,451			80,207	138,451
Compensated Absences	183,532	-	95,099	51,592	278,631	51,592
Safe Drinking Water Loan			3,675,000	4,025,000	3,675,000	4,025,000
State Revolving Loan			43,270,098	44,345,521	43,270,098	44,345,521
Total	263,739	138,451	47,040,197	48,422,113	47,303,936	48,560,564

Economic Factors and Next Year’s Budget and Rates

The City Council, working with City staff, implemented a number of cost saving measures which have improved the City’s financial outlook. In March, 2013, the City contracted with an outside consulting firm to review the rate structures of both the water and sewer funds with an expectation that rates will be adjusted during fiscal year 2013-14. Additionally, it appears the local economy is beginning a slow recovery with the City’s sales tax and transient occupancy tax revenues increasing over the prior fiscal year. Sales tax revenue in fiscal year 2012-13 was \$991,360 and in fiscal year 2011-12 were \$902,537, an increase of \$88,823 or 9.8%. Transient occupancy tax revenue in fiscal year 2012-13 was \$948,612 and in fiscal year 2011-12 was \$849,384, an increase of \$99,228 or 11.7%. The fiscal year 2013-14 budget is balanced with projected revenues equal to anticipated expenditures.

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.

BASIC FINANCIAL STATEMENTS

Government-Wide Financial Statements

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CITY OF CRESCENT CITY
STATEMENT OF NET POSITION
JUNE 30, 2013

<u>ASSETS</u>	Governmental Activities	Business-type Activities	Total
Cash and investments	\$ 1,828,711	\$ 3,206,090	\$ 5,034,801
Restricted cash and investments with fiscal agent	-	-	-
Receivables (net)	275,903	941,356	1,217,259
Due from other governments	541,372	-	541,372
Prepaid items	1,306	-	1,306
Inventory	-	-	-
Other assets	89,752	-	89,752
Notes receivable	323,137	-	323,137
Internal balances	306,871	1,271,435	1,578,306
Capital assets net of accumulated depreciation	<u>6,088,768</u>	<u>55,399,781</u>	<u>61,488,549</u>
Total assets	<u>9,455,820</u>	<u>60,818,662</u>	<u>70,274,482</u>
 <u>LIABILITIES</u>			
Accounts payable	377,883	437,376	815,259
Accrued expenses	237,981	-	237,981
Deposits and deferred revenues	8,011	247,143	255,154
Compensated absences	183,532	95,099	278,631
Long term liabilities:			
Due within one year	39,134	1,451,234	1,490,368
Due in more than one year	<u>41,073</u>	<u>45,493,864</u>	<u>45,534,937</u>
Total liabilities	<u>887,614</u>	<u>47,724,716</u>	<u>48,612,330</u>
 <u>NET POSITION</u>			
Invested in capital assets, net of related debt	6,008,561	9,555,917	15,564,478
Restricted for:			
Capital projects and community development	432,998	-	432,998
Debt service	-	-	-
Unrestricted	<u>2,126,647</u>	<u>3,538,029</u>	<u>5,664,676</u>
Total net position	<u>\$ 8,568,206</u>	<u>\$ 13,093,946</u>	<u>\$ 21,662,152</u>

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

CITY OF CRESCENT CITY
STATEMENT OF ACTIVITIES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2013

	<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	\$ 605,987	\$ 250,159	\$ 140,782	\$ 363,722
Public safety	2,086,376	728,220	244,756	-
Human services and recreation	4,332,073	221,730	2,786,659	-
Public works	963,360	136,217	18,000	-
Administrative overhead allocation	226,754	-	-	-
Interest on long-term debt	-	-	-	-
Total Governmental Activities	<u>8,214,550</u>	<u>1,336,326</u>	<u>3,190,197</u>	<u>363,722</u>
Business-type Activities				
Sewer	5,459,908	4,515,076	-	200,809
Swimming pool	-	-	-	-
Water	1,634,647	1,312,728	-	-
RV Park	<u>222,574</u>	<u>275,144</u>	<u>-</u>	<u>-</u>
Total Business-type Activities	<u>7,317,129</u>	<u>6,102,948</u>	<u>-</u>	<u>200,809</u>
Total	<u>15,531,679</u>	<u>7,439,274</u>	<u>3,190,197</u>	<u>564,531</u>

Continued on the next page

CITY OF CRESCENT CITY
STATEMENT OF ACTIVITIES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2013

	Net (Expense) Revenue and		
	Changes in Net Position		
	Governmental	Business-type	Total
	Activities	Activities	
Function/Program activities			
Governmental Activities			
General government	\$ 148,676	\$ -	\$ 148,676
Public safety	(1,113,400)	-	(1,113,400)
Human services and recreation	(1,323,684)	-	(1,323,684)
Public works	(809,143)	-	(809,143)
Administrative overhead allocation	(226,754)	-	(226,754)
Interest on long-term debt	-	-	-
Total Governmental Activities	<u>(3,324,305)</u>	<u>-</u>	<u>(3,324,305)</u>
Business-type Activities			
Sewer	-	(744,023)	(744,023)
Swimming pool	-	-	-
Water	-	(321,919)	(321,919)
RV Park	-	52,570	52,570
Total Business-type Activities	<u>-</u>	<u>(1,013,372)</u>	<u>(1,013,372)</u>
Total	<u>(3,324,305)</u>	<u>(1,013,372)</u>	<u>(4,337,677)</u>
Taxes:			
Property taxes and In Lieu Fees	482,047	-	482,047
Sales and Gas taxes	1,169,055	-	1,169,055
Occupancy Taxes	950,575	-	950,575
Licenses and permits	137,147	-	137,147
Motor vehicle in lieu	316,986	-	316,986
Investment Earnings	2,453	5,285	7,738
Miscellaneous revenue	196,631	-	196,631
Transfers	<u>-</u>	<u>-</u>	<u>-</u>
Total General revenues and transfers	<u>3,254,894</u>	<u>5,285</u>	<u>3,260,179</u>
Change in Net Assets, before extraordinary items	(69,411)	(1,008,087)	(1,077,498)
Extraordinary loss - increase to net assets of			
Successor Agency	<u>-</u>	<u>-</u>	<u>-</u>
Change in Net Assets, before extraordinary items	<u>(69,411)</u>	<u>(1,008,087)</u>	<u>(1,077,498)</u>
Net Position - Beginning	8,691,303	14,102,033	22,793,336
Residual equity transfer	(99)	-	(99)
Prior period adjustments	<u>(53,587)</u>	<u>-</u>	<u>(53,587)</u>
Net Position - Beginning restated	<u>8,637,617</u>	<u>14,102,033</u>	<u>22,739,650</u>
Net Position - Ending	<u>\$ 8,568,206</u>	<u>\$ 13,093,946</u>	<u>\$ 21,662,152</u>

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

BASIC FINANCIAL STATEMENTS

Fund Financial Statements

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**CITY OF CRESCENT CITY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2013**

	General Fund	Housing Authority Section 8	Other Governmental Funds	Totals Governmental Funds
<u>ASSETS</u>				
Cash and investments	\$ 495,311	\$ 42,854	\$ 764,182	\$ 1,302,347
Restricted cash and investments with fiscal a	-	-	-	-
Accounts receivable:				
Consumers and others	274,271	1,617	-	275,888
County/State/Federal government	395,728	-	145,644	541,372
Due from other funds	89,799	-	306,871	396,670
Prepaid items	1,306	-	-	1,306
Other assets	-	-	89,752	89,752
Notes receivable	-	-	323,137	323,137
Total assets	<u>\$ 1,256,415</u>	<u>\$ 44,471</u>	<u>\$ 1,629,586</u>	<u>\$ 2,930,472</u>
<u>LIABILITIES AND FUND BALANCES</u>				
Liabilities:				
Accounts payable	\$ 247,627	\$ 2,236	\$ 52,183	\$ 302,046
Accrued wages	-	-	-	-
Deferred revenue	8,011	-	-	8,011
Due to other funds	-	-	89,799	89,799
Total liabilities	<u>255,638</u>	<u>2,236</u>	<u>141,982</u>	<u>399,856</u>
Fund Balances:				
Nonspendable:				
Notes and loans receivable	-	-	198,219	198,219
Committed	1,000,000	-	455,963	1,455,963
Restricted:				
Low and moderate income housing	-	42,235	390,763	432,998
Council restricted	-	-	442,660	442,660
Unassigned	777	-	(1)	776
Total fund balances	<u>1,000,777</u>	<u>42,235</u>	<u>1,487,604</u>	<u>2,530,616</u>
Total liabilities and fund balances	<u>\$ 1,256,415</u>	<u>\$ 44,471</u>	<u>\$ 1,629,586</u>	<u>\$ 2,930,472</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 POSITION
JUNE 30, 2013**

TOTAL FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ 2,530,616

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: 132,354

CAPITAL ASSETS

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

6,088,768

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	-
1991 Public Financing Authority Revenue and Tax Allocation bonds	-
Non-current portion of compensated absences	(183,532)
	<hr/>

NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ 8,568,206

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, 2013**

	General Fund	Housing Authority Section 8	Other Governmental Funds	Totals Governmental Funds
<u>Revenues:</u>				
Taxes	\$ 3,090,431	\$ -	\$ 99	\$ 3,090,530
Use of money and property:				
Interest	1,693	-	258	1,951
Rental Income	26,029	-	-	26,029
Licenses and permits	264,386	-	-	264,386
Fines and permits	11,088	-	-	11,088
Intergovernmental revenues	418,747	2,957,907	480,231	3,856,885
Charges for services	651,050	-	-	651,050
Gifts and donations	87,417	-	-	87,417
Other revenue	23,466	27,956	10	51,432
Total revenues	<u>4,574,307</u>	<u>2,985,863</u>	<u>480,598</u>	<u>8,040,768</u>
<u>Expenditures:</u>				
Current:				
General government	607,360	-	-	607,360
Public safety	2,033,023	-	-	2,033,023
Human services and recreation	688,320	3,181,293	259,165	4,128,778
Public works	647,491	-	121,510	769,001
Administrative overhead allocation	227,268	-	-	227,268
Total expenditures	<u>4,203,462</u>	<u>3,181,293</u>	<u>380,675</u>	<u>7,765,430</u>
Excess (deficiency) of revenues over (under) expenditures	<u>370,845</u>	<u>(195,430)</u>	<u>99,923</u>	<u>275,338</u>
<u>Other Financing Sources (uses):</u>				
Transfers in	168,742	-	489,403	658,145
Transfers out	(489,400)	-	(168,745)	(658,145)
Total other financing sources (uses)	<u>(320,658)</u>	<u>-</u>	<u>320,658</u>	<u>-</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses before extraordinary items	<u>50,187</u>	<u>(195,430)</u>	<u>420,581</u>	<u>275,338</u>
Extraordinary Item - Loss on transfer to Successor Agency	-	-	-	-
Excess (deficiency) of revenues and other sources over expenditures and other uses after extraordinary items	<u>50,187</u>	<u>(195,430)</u>	<u>420,581</u>	<u>275,338</u>
Fund balances, beginning of period	1,003,093	237,665	617,996	1,858,754
Residual equity transfers	(52,503)	-	52,404	(99)
Prior period adjustments	-	-	396,623	396,623
Fund balances, beginning of period restated	<u>950,590</u>	<u>237,665</u>	<u>1,067,023</u>	<u>2,255,278</u>
Fund balances, end of period	<u>\$ 1,000,777</u>	<u>\$ 42,235</u>	<u>\$ 1,487,604</u>	<u>\$ 2,530,616</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
AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2013**

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	\$ 275,338
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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.

Depreciation expense is deducted from the fund balance	(270,579)
--	-----------

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	17,557

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.	(91,727)
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CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$ (69,411)
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The accompanying notes are an integral part of these financial statements.

CITY OF CRESCENT CITY
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2013

	Business-type Activities Enterprise Funds		
	Sewer	Water	RV Park
<u>ASSETS</u>			
Current assets:			
Cash and investments	\$ 1,924,295	\$ 1,132,394	\$ 149,401
Accounts receivable	801,712	139,598	46
Inventory	-	-	-
Due from other funds	-	1,271,435	-
Total Current Assets	<u>2,726,007</u>	<u>2,543,427</u>	<u>149,447</u>
Non Current Assets:			
Capital assets, net of accumulated depreciation	<u>46,853,556</u>	<u>8,546,225</u>	<u>-</u>
Total assets	<u>\$ 49,579,563</u>	<u>\$ 11,089,652</u>	<u>\$ 149,447</u>
<u>LIABILITIES</u>			
Current liabilities:			
Accounts payable	\$ 122,738	\$ 308,968	\$ 5,670
Accrued expenses	-	-	-
Deposits and deferred revenue	-	247,143	-
Due to Other Funds	-	-	-
Short term loan payable	-	-	-
Compensated absences payable	52,645	42,454	-
Current maturities of long term debts:			
Fire truck capital lease	-	-	-
State Safe Drinking Water Loan	1,101,234	350,000	-
FMHA loan - Series A	-	-	-
FMHA loan - Series B	-	-	-
Re-dip loan	-	-	-
Total Current Liabilities	<u>1,276,617</u>	<u>948,565</u>	<u>5,670</u>
Long-term Liabilities:			
Fire truck capital lease	-	-	-
FMHA loan - Series A	-	-	-
FMHA loan - Series B	-	-	-
State of California loan	<u>42,168,864</u>	<u>3,325,000</u>	<u>-</u>
Total Liabilities	<u>43,445,481</u>	<u>4,273,565</u>	<u>5,670</u>
<u>NET POSITION</u>			
Invested in capital assets, net of related debt	4,684,692	4,871,225	-
Unrestricted	<u>1,449,390</u>	<u>1,944,862</u>	<u>143,777</u>
Total Net Position	<u>\$ 6,134,082</u>	<u>\$ 6,816,087</u>	<u>\$ 143,777</u>

Continued on the following page

Totals	Business-type Activities - Internal Service Funds
\$ 3,206,090	\$ 526,364
941,356	15
-	-
1,271,435	-
<u>5,418,881</u>	<u>526,379</u>
55,399,781	836,447
<u>\$ 60,818,662</u>	<u>\$ 1,362,826</u>
\$ 437,376	\$ 75,837
-	237,981
247,143	-
-	-
-	-
95,099	-
-	39,134
1,451,234	-
-	-
-	-
-	-
<u>2,230,852</u>	<u>352,952</u>
-	41,073
-	-
-	-
45,493,864	-
<u>47,724,716</u>	<u>394,025</u>
9,555,917	756,240
3,538,029	212,561
<u>\$ 13,093,946</u>	<u>\$ 968,801</u>

The accompanying notes are an integral part of these financial statements.
City of Crescent City Financial Section Page 19

CITY OF CRESCENT CITY
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

	Business-type Activities Enterprise Funds		
	Sewer	Water	RV Park
Operating revenues:			
Charges for services	\$ 4,515,076	\$ 1,312,728	\$ 275,144
Grant and Other Revenue	89,728	108,240	2,841
Total operating revenues	<u>4,604,804</u>	<u>1,420,968</u>	<u>277,985</u>
Operating expenses:			
Personnel services	1,124,214	605,490	63,222
Materials, supplies, rent and services	426,360	179,380	96,478
Repair and maintenance	653,654	235,875	41,924
Administrative Overhead	386,352	360,279	20,950
Depreciation	<u>1,805,035</u>	<u>253,623</u>	<u>-</u>
Total operating expenses	<u>4,395,615</u>	<u>1,634,647</u>	<u>222,574</u>
Operating income (loss)	<u>209,189</u>	<u>(213,679)</u>	<u>55,411</u>
Non-operating revenues (expenses):			
Interest income	2,787	2,261	237
Interest expense	<u>(1,064,293)</u>	<u>-</u>	<u>-</u>
Total non-operating revenues (expenses)	<u>(1,061,506)</u>	<u>2,261</u>	<u>237</u>
Transfers:			
Transfers in	59,157	-	-
Transfers out	<u>(59,157)</u>	<u>-</u>	<u>-</u>
Change in net assets	<u>(852,317)</u>	<u>(211,418)</u>	<u>55,648</u>
Net position, beginning of period	6,986,399	7,027,505	88,129
Prior period adjustments	<u>-</u>	<u>-</u>	<u>-</u>
Net position, beginning of period restated	<u>6,986,399</u>	<u>7,027,505</u>	<u>88,129</u>
Net position, end of period	<u>\$ 6,134,082</u>	<u>\$ 6,816,087</u>	<u>\$ 143,777</u>

Continued on the following page

<u>Totals</u>	Business-type Activities - Internal Service Funds
\$ 6,102,948	\$ -
200,809	104,120
6,303,757	104,120
1,792,926	435,232
702,218	371,416
931,453	-
767,581	(756,547)
2,058,658	145,997
6,252,836	196,098
50,921	(91,978)
5,285	251
(1,064,293)	-
(1,059,008)	251
59,157	-
(59,157)	-
(1,008,087)	(91,727)
14,102,033	1,060,528
-	-
14,102,033	1,060,528
\$ 13,093,946	\$ 968,801

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

**CITY OF CRESCENT CITY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2013**

	Sewer	Water	RV Park
Cash flows from operating activities:			
Receipts from customers	\$ 4,214,859	\$ 1,474,738	\$ 277,939
Payments to suppliers	(1,473,834)	(556,146)	(162,831)
Payments to employees	(1,135,659)	(606,278)	(63,222)
Net cash provided (used) by operating activities	<u>1,605,366</u>	<u>312,314</u>	<u>51,886</u>
Cash flows from noncapital financing activities:			
Due from other funds	-	-	-
Due to other funds	-	-	-
Transfers	-	-	-
Net cash provided (used) by noncapital financing activities	<u>-</u>	<u>-</u>	<u>-</u>
Cash flows from capital and related financing activities:			
Principal payments on capital debt	(1,075,423)	(700,000)	-
Interest paid on capital debt	(1,064,293)	-	-
Proceeds from debt	-	350,000	-
Acquisition of capital assets	(336,125)	-	-
Disposal of capital assets	-	-	-
Net cash provided (used) by capital and related financing activities	<u>(2,475,841)</u>	<u>(350,000)</u>	<u>-</u>
Cash flows from investing activities:			
Interest earned	<u>2,787</u>	<u>2,261</u>	<u>237</u>
Net cash provided by investing activities	<u>2,787</u>	<u>2,261</u>	<u>237</u>
Net increase (decrease) in cash and cash equivalents	(867,688)	(35,425)	52,123
Cash and cash equivalents - beginning of period	<u>2,791,983</u>	<u>1,167,819</u>	<u>97,278</u>
Cash and cash equivalents - end of period	<u>\$ 1,924,295</u>	<u>\$ 1,132,394</u>	<u>\$ 149,401</u>

Continued on the following page

<u>Total</u>	<u>Internal Service</u>
\$ 5,967,536	\$ 104,120
(2,192,811)	439,510
<u>(1,805,159)</u>	<u>(398,340)</u>
<u>1,969,566</u>	<u>145,290</u>
-	-
-	-
-	-
<u>-</u>	<u>-</u>
<u>-</u>	<u>-</u>
(1,775,423)	(37,286)
(1,064,293)	-
350,000	-
(336,125)	(17,530)
<u>-</u>	<u>-</u>
<u>(2,825,841)</u>	<u>(54,816)</u>
<u>5,285</u>	<u>251</u>
<u>5,285</u>	<u>251</u>
(850,990)	90,725
<u>4,057,080</u>	<u>435,639</u>
<u>\$ 3,206,090</u>	<u>\$ 526,364</u>

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

**CITY OF CRESCENT CITY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2013**

	<u>Sewer</u>	<u>Water</u>	<u>RV Park</u>
Reconciliation of operating income (loss) to net cash provided (used in) operating activities:			
Operating income (loss)	\$ 209,189	\$ (213,679)	\$ 55,411
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation	1,805,035	253,623	-
Changes in certain assets and liabilities:			
Accounts receivable	(389,945)	37,592	(46)
Inventory	-	-	-
Accounts payable	(7,468)	219,388	(3,479)
Accrued expenses	-	-	-
Deposits and deferred revenue	-	16,178	-
Compensated absences	(11,445)	(788)	-
Total adjustments	<u>1,396,177</u>	<u>525,993</u>	<u>(3,525)</u>
Net cash provided (used) by operating activities	<u>\$ 1,605,366</u>	<u>\$ 312,314</u>	<u>\$ 51,886</u>

Continued on the following page

<u>Total</u>	<u>Internal Service</u>
\$ 50,921	\$ (91,978)
2,058,658	145,997
(352,399)	2,800
-	-
208,441	51,579
-	237,981
16,178	-
<u>(12,233)</u>	<u>(201,089)</u>
<u>1,918,645</u>	<u>237,268</u>
<u>\$ 1,969,566</u>	<u>\$ 145,290</u>

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

CITY OF CRESCENT CITY
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2013

	Private Purpose Funds		
	Successor Agency LMIHF	Successor Agency Other RDA	Totals Trust Funds
<u>ASSETS</u>			
Cash and investments	\$ -	\$ 293,958	\$ 293,958
Restricted cash and investments with fiscal agent	-	-	-
Accounts receivable:			
Consumers and others	-	-	-
Due from other funds	-	-	-
Notes receivable	-	153,700	153,700
Total assets	<u>\$ -</u>	<u>\$ 447,658</u>	<u>\$ 447,658</u>
<u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Accounts payable	\$ -	\$ -	\$ -
Due to other funds	-	306,871	306,871
Due to other agencies (Water Utility Fund)	-	1,271,434	1,271,434
Total liabilities	<u>-</u>	<u>1,578,305</u>	<u>1,578,305</u>
NET ASSETS			
Reserved for			
Redevelopment Successor Agency	-	(1,130,647)	(1,130,647)
Debt service	-	-	-
Low and moderate income housing	-	-	-
Section 8 housing	-	-	-
Notes and loans receivable	-	-	-
Total net assets	<u>-</u>	<u>(1,130,647)</u>	<u>(1,130,647)</u>
Total liabilities and net assets	<u>\$ -</u>	<u>\$ 447,658</u>	<u>\$ 447,658</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, 2013

	Private Purpose Funds		
	Successor Agency LMIHF	Successor Agency Other RDA	Totals Trust Funds
<u>Additions:</u>			
Taxes	\$ -	\$ 175,503	\$ 175,503
Use of money and property:			
Interest	418	10,903	11,321
Other revenue	-	-	-
Total revenues	<u>418</u>	<u>186,406</u>	<u>186,824</u>
 <u>Deductions</u>			
Current:			
Payroll and Benefits	-	41,702	41,702
Other	972,909	28,920	1,001,829
Special tax repayment	-	-	0
Debt service:			
Interest	-	-	-
Total expenditures	<u>972,909</u>	<u>70,622</u>	<u>1,043,531</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(972,491)</u>	<u>115,784</u>	<u>(856,707)</u>
 <u>Other Financing Sources (uses):</u>			
Extraordinary transfer in	-	-	-
Transfers out	<u>(290,606)</u>	<u>-</u>	<u>(290,606)</u>
Total other financing sources (uses)	<u>(290,606)</u>	<u>-</u>	<u>(290,606)</u>
Change in net assets - Before extraordinary items	(1,263,097)	115,784	(1,147,313)
Extraordinary Gain (Loss) on transfer to successor agency	-	-	-
Change in net assets - After extraordinary items	<u>(1,263,097)</u>	<u>115,784</u>	<u>(1,147,313)</u>
Net assets, beginning of period	1,263,196	(1,230,264)	32,932
Net equity transfer	(99)	-	(99)
Prior period adjustments	-	(16,167)	(16,167)
Net assets, beginning of period restated	<u>1,263,097</u>	<u>(1,246,431)</u>	<u>16,666</u>
 Net assets, end of period	<u>\$ -</u>	<u>\$ (1,130,647)</u>	<u>\$ (1,130,647)</u>

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

BASIC FINANCIAL STATEMENTS

Notes to Basic Financial Statements

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CITY OF CRESCENT CITY, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

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

The following is a summary of the more significant accounting policies of the City of Crescent City (City), all of which conform to generally accepted accounting principles as applicable to governmental units.

The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

Reporting Entity

The financial reporting entity (the government) includes all the funds of the primary government (i.e., the City as legally defined), as well as all of its component units. Component units are legally separate entities for which the primary government is financially accountable. The government provides a full range of services including police and fire protection; sanitation, electric, water, and wastewater services; the construction and maintenance of streets and infrastructure; recreational activities and cultural events.

As required by GAAP, the accompanying basic financial statements present the City and its component units. Component units are entities for which the City is considered to be financially accountable. GASB defines component units as legally separate entities that meet any one of the following tests:

The City appoints the voting majority of the board of the entity and:

is able to impose its will on the entity and/or
is in a relationship of financial benefit or burden with the entity.

The entity is fiscally dependent upon the City.

The financial statements of the City would be misleading if data from the entity were omitted.

Management determined that the following component units should be blended based on the criteria above:

Crescent City Housing Authority
Crescent City Public Financing Corporation - Inactive

These component units are included in the primary government because of the significance of their financial or operational relationship and the same City governing body.

Each of the blended component units in the accompanying basic financial statements of the City are described below:

(Continued on the following page)

**CITY OF CRESCENT CITY, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

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

Reporting Entity, Continued

Crescent City Housing Authority (Authority) manages certain programs which are funded by the U.S. Department of Housing and Urban Development, primarily to provide services under the Housing Assistance Payments Program. The five City Council members and one person appointed by the City Council, in a separate session, serve as the governing board of the Authority. The financial activity of the Authority has been included in the City's financial statements as a special revenue fund.

Crescent City Public Financing Corporation was created with the purpose of financing public capital improvements. City Council members, in a separate session, serve as the governing board of the Corporation. The financing corporation is not active at this time.

Financial statements for each of the individual component units may be obtained from the Finance Department of the City at 377 J. Street, Crescent City, California 965531.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

(Continued on the following page)

**CITY OF CRESCENT CITY, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The City considers all revenues as available if they are collected within sixty days of the end of the current fiscal period, except for sales tax which has a ninety day availability period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The reconciliations of the Fund Financial Statements to the Government-Wide Financial Statements are provided to explain the differences created by the integrated approach of GASB Statement No. 34.

Property taxes, sales taxes, transient occupancy tax, grants, licenses, fees, charges and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Fiduciary fund financial statements include a statement of net assets. The City's fiduciary funds represent a Private-purpose Trust Fund. This fund is accounted for on the accrual basis of accounting.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

Basis of Presentation

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for in a separate self-balancing set of

(Continued on the following page)

CITY OF CRESCENT CITY, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

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

Basis of Presentation, Continued

accounts for its assets, other debits, liabilities, other credits, equity, revenue and expenditures or expenses, as appropriate.

Governmental Funds - Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Enterprise Funds - account for operations (1) that are financed and operated in a manner similar to private business enterprises. The intent of the governing body is that costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (2) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The City has elected to follow GASB pronouncements, and not Financial Accounting Standards Board (FASB) pronouncements after 1989, as presented by GASB Statement Number 20.

Internal Service Funds - account for the financing of goods or services provided by one department to other departments of the City on a cost-reimbursement basis. Internal service funds used by the City are:

Equipment Fund - this fund is used to account for vehicle maintenance and communication costs.

Information Technology Fund - this fund is used to provide computer technology services as well as providing programming and general information systems support services.

General Building Maintenance Fund - this fund is used to account for general government building and maintenance services.

Insurance Reserve Fund - this fund is used to account for the accumulation of monies necessary to pay for liability insurance claims and retentions under a self-insurance program.

Payroll Trust Fund- this fund is used to account for the various payroll disbursements that related to providing benefits City wide.

Other Post-Employment Benefits Trust Fund - this fund is used to accumulate the costs associated with providing funding of the City's liability for Other Post-Employment Benefits.

(Continued on the following page)

**CITY OF CRESCENT CITY, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

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

Basis of Presentation, Continued

Fiduciary Funds

Private-purpose Trust Fund - is a fiduciary fund type used to report all trust arrangements, other than those properly reported in pension trust funds or investment trust funds, under which principal and interest benefit individuals, private organizations, or other governments.

Major Governmental Funds

The City reports the following major governmental funds:

General Fund - is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Housing Authority - is the fund that accounts for the City's low income housing activities.

The City reports the following major proprietary funds:

The Water Utility Fund accounts for the operations of the City's water utility, a self-supporting activity which renders a service on a user-charge basis to residents and businesses.

The Sewer Utility Fund accounts for the operations of the City's wastewater utility, a self-supporting activity which renders a service on a user-charge basis to residents and businesses.

Additionally, the following non-major proprietary fund is also discretely presented:

The Recreational Vehicle Park Fund accounts for the operations of the City owned recreational vehicle park, a self-supporting activity which renders a service on a user-charge basis to residents and travelers.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's business type activities and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

(Continued on the following page)

CITY OF CRESCENT CITY, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

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

Basis of Presentation, Continued

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 City's enterprise funds and of the government's internal service funds are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Assets, Liabilities, and Net Assets or Equity 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 monthly 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.

General Receivables and Property Taxes Receivable

The City records an allowance for doubtful accounts on general accounts receivable based on the experience method.

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 (Continued on the following page)

**CITY OF CRESCENT CITY, CALIFORNIA
 NOTES TO BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2013**

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

Assets, Liabilities, and Net Assets or Equity

General Receivables and Property Taxes Receivable, Continued

real estate, land and buildings. These taxes are secured by liens on the property being taxed.

Inventories

Inventories are physically counted at year-end and valued at their average cost. All inventories consist of expendable supplies held for consumption. The cost is recorded as inventory when items are purchased and as expenditures when the items are used (the consumption method of accounting for inventories). The weighted average method is used for establishing the cost of inventory consumed.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial cost of more than \$5,000 and an estimated useful life in excess of one year. Such depreciation has been provided over the estimated useful lives using the straight-line method.

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

Assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

(Continued on the following page)

CITY OF CRESCENT CITY, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

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

Pension Plan

All full-time and certain part-time City employees are members of the State of California Public Employees' Retirement System (PERS), an agent multiple-employer defined benefit pension plan. The City's policy is to fund all pension costs accrued; such costs to be funded are determined annually as of June 30 by the PERS's actuary.

Vacation and Sick Pay

Vacation pay is vested to the employees as it accrues and is payable upon retirement or termination. Sick leave, however, does not vest to the employees and is payable only when sick leave is taken.

Unused vacation and sickleave have been accrued in the accompanying government-wide financial statements and the accompanying proprietary fund financial statements.

Deferred Revenue

In the government-wide financial statements, unearned revenue is recorded for transactions for which revenues have not been earned.

In the fund financial statements, deferred revenue is recorded when transactions have not yet met the revenue recognition criteria based on the modified accrual basis of accounting. The City records deferred revenues when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received by the City before it has a legal claim to them. In subsequent periods, when both revenue recognition criteria are met, or when the City has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Continued on following page.

CITY OF CRESCENT CITY, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

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

Assets, Liabilities, and Net Assets or Equity, Continued

Fund Equity

In the fund financial statements, governmental funds aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of these resources. The non-spendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form - prepaid items or inventories; or (b) legally or contractually required to be maintained intact.

The spendable portion of the fund balance comprises the remaining four classifications; restricted, committed, assigned, and unassigned.

Restricted fund balance. This classification reflects the constraints imposed on resources either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed fund balance. These amounts can only be used for specific purposes pursuant to constraints imposed by the City Council, the government's highest level of decision making authority. Those committed amounts cannot be used for any other purpose unless the City Council removes the specified use by taking the same type of action imposing the commitment. This classification also includes contractual obligations to the extent that existing resources in the fund have been specifically committed for the use in satisfying those contractual requirements.

Assigned fund balance. This classification reflects the amounts constrained by the City Council's "intent" to be used for specific purposes, but are neither restricted nor committed. The City Council and City Manager have the authority to assign amounts to be used for specific purposes. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as non-spendable and are neither restricted nor committed.

Unassigned fund balance. This fund balance is the residual classification for the General fund. It is also used to report negative fund balances in other governmental funds.

When both restricted and unrestricted resources are available for use, it is the City's policy to use externally restricted resources first, the unrestricted resources-committed, assigned, and unassigned-in order as needed.

Net Position

Net position is comprised of three categories: (1) net investment in capital assets (2) restricted net position,

(Continued on the following page)

CITY OF CRESCENT CITY, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

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

Assets, Liabilities, and Net Assets or Equity, Continued

Net Position, Continued

and (3) unrestricted net position. Each component of net position is reported separately on the statements of net position.

Net investment in capital assets represents the balance of capital assets less accumulated depreciation, net of outstanding related debt.

Restricted net position is subject to constraints externally imposed by funding agencies or legislation. The amount of restricted net position is calculated by reducing the carrying value of restricted assets by their related liabilities. These items are restricted by agreements that detail specific purpose and use.

The unrestricted component of net position represents the portion remaining after the “invested in capital assets” and “restricted” amounts have been determined. The City’s positive value of unrestricted net position may be used to meet ongoing obligations.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

New Pronouncements

Governmental Accounting Standards Board Statement No. 61

The City adopted the provisions of GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*. This Statement modifies existing requirements for the assessment of potential component units in determining what should be included in the financial reporting entity and financial reporting entity display and disclosure requirements. The requirements of Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements.

(Continued on the following page)

CITY OF CRESCENT CITY, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

New Pronouncements, Continued

Governmental Accounting Standards Board Statement No. 62, Continued

The City adopted the provisions of GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This Statement directly incorporates the applicable guidance from Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the American Institute of Certified Public Accountants’ Committee on Accounting Procedure, issued on or before November 30, 1989, into the state and local government accounting and financial reporting standards, with the provisions modified, as appropriate, to recognize the effects of the governmental environment and the needs of governmental financial statement users without affecting the substance of the applicable guidance.

Governmental Accounting Standards Board Statement No. 63

The City adopted the provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement provides financial reporting guidance for deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures. It also identifies net position as the residual of all other elements presented in a statement of financial position, or the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources. As implied above, this Statement changes the previous classification of net assets to net position, and consequently the statement of net assets to the statement of net position.

Restatement of Net Position

For the fiscal year ending June 30, 2013, GASB Statements No. 60 *Accounting and Financial Reporting for Service Concession Arrangements* and No. 62 *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* (“the Statements”) were implemented. The City had no contracts that, considering the implementation of Statement No. 60, were previously reported at their gross value, that had to be discounted to their present value. The City had no service concession arrangements, and therefore no identifiable intangible assets relating to them. The implementation of Statement No. 62 resulted in the City’s government-wide net position as of June 30, 2012, being restated as follows:

Restatement of Net Position, Continued

	<u>Governmental Activities</u>
Net assets at June 30, 2012, as previously reported	\$ 21,662,152
GASB Statement No. 60 adjustment:	
Service concession arrangement	None
GASB Statement No. 62 adjustment:	
Capital lease additions	<u>None</u>
Net position at July 1, 2012, as restated	\$ <u><u>21,662,152</u></u>

(Continued on the following page)

CITY OF CRESCENT CITY, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

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

Accounting Standards Issued But Not Yet Adopted

Governmental Accounting Standards Board Statement No. 65

Items Previously Reported as Assets Liabilities. The objective of this statement is to either (a) properly classify certain items that were previously reported as assets and liabilities as deferred outflows resources or deferred inflows of resources or (b) recognize certain items that were previously reported as assets and liabilities as outflows of resources (expenses) inflows of resources (revenues). The provisions of this Statement are effective fiscal periods beginning after December 15, 2012. The City has not completed the process of evaluating the impact that may result from adopting GASB 65.

Deficit Fund Balance/Net Assets

The financial statements reflect no deficit fund balances at June 30, 2013.

NOTE 3: DETAILED NOTES

Cash and Investments

As of June 30, 2013, the City's cash and investments are reported in the financial statements as follows:

Primary government	\$ 5,034,801
Fiduciary funds	<u>294,057</u>
Total Cash and Investments	<u>\$ 5,328,858</u>

As of June 30, 2013, the City's cash and investments consisted of the following:

Cash:	
Cash on hand	\$ 1,300
Deposits (less outstanding checks)	<u>3,067,781</u>
Total Cash	<u>3,069,081</u>

As of June 30, 2013, the City's investments consisted of the following:

Investments:	
In California Local Agency Investment Fund (at market):	<u>2,259,777</u>
Total Investments	<u>2,259,777</u>
Total Cash and Investments	<u>\$ 5,328,858</u>

(Continued on the following page)

CITY OF CRESCENT CITY, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

NOTE 3: DETAILED NOTES

Cash and Investments, Continued

At year end, the carrying amount of the City's cash deposits (including amount in checking accounts and money market accounts) was \$3,067,781 and the bank balance was \$3,072,605. 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 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, 2013, the City's investments were in compliance with concentration of credit risk State law.

Investment in Local Agency Investment Fund - 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

(Continued on the following page).

CITY OF CRESCENT CITY, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

NOTE 3: DETAILED NOTES (Continued)

Cash and Investments (Continued)

by the California Government Code Section 16429 and is managed by the Treasurer of the State of California. The Local Investment Advisory Board, which consists of five members as designed by State statute, has oversight responsibility for LAIF. Investments in LAIF are available upon demand and are stated at amortized cost, which approximates fair value. At June 30, 2013, the City's investment position in LAIF was \$2,259,777. The total amount invested by all public agencies in LAIF on that day was \$58,803,312,428. Of that amount, 96.08% is invested in non-derivative financial products and 3.92% in structured notes and asset-backed securities.

Investments - The City reports its investments in accordance with GASB Statement Number 31. This standard requires that the City's investments be reported at fair value with realized and unrealized gains or losses reported in the statement of operations.

Capital Assets

Capital assets activity for the year ended June 30, 2013, was as follows:

	Balance July 1, 2012	Additions	Adjustments/ Retirements	Transfers	Balance June 30, 2013
Governmental Activities					
Capital Assets, Not Being Depreciated:					
Land	\$ 2,463,826	\$ -	\$ (200,000)	\$ 42,525	\$ 2,306,351
Construction in progress	-	-	-	-	-
Total Capital Assets, Not Being Depreciated	<u>2,463,826</u>	<u>-</u>	<u>(200,000)</u>	<u>42,525</u>	<u>2,306,351</u>
Capital Assets, Being Depreciated:					
Buildings and improvements	7,168,937	-	(852,343)	(600,561)	5,716,033
Machinery and equipment	675,244	17,529	-	3,049,149	3,741,922
Infrastructure	-	-	-	-	-
Total Capital Assets, Being Depreciated	7,844,181	17,529	(852,343)	2,448,588	9,457,955
Less Accumulated Depreciation	<u>(4,515,028)</u>	<u>(270,579)</u>	<u>323,896</u>	<u>(1,672,195)</u>	<u>(6,133,906)</u>
Total Capital Assets, Being Depreciated, Net	<u>3,329,153</u>	<u>(253,050)</u>	<u>(528,447)</u>	<u>776,393</u>	<u>3,324,049</u>
Total Governmental Activities, Net	\$ <u>5,792,979</u>	\$ <u>(253,050)</u>	\$ <u>(728,447)</u>	\$ <u>818,918</u>	\$ <u>5,630,400</u>

(Continued on the following page)

CITY OF CRESCENT CITY, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

NOTE 3: DETAILED NOTES (Continued)

Capital Assets, Continued

	Balance July 1, 2012	Additions	Adjustments/ Retirements	Transfers	Balance June 30, 2013
Business-Type Activities					
Capital Assets, Not Being Depreciated:					
Land	\$ 551,556	\$ -	\$ -	\$ (42,525)	\$ 509,031
Construction in progress	-	-	-	-	-
Total Capital Assets, Not Being Depreciated	<u>551,556</u>	<u>-</u>	<u>-</u>	<u>(42,525)</u>	<u>509,031</u>
Capital Assets, Being Depreciated:					
Structures and improvements	51,142,582	336,125	-	(272,764)	51,205,943
Machinery and equipment	<u>20,187,171</u>	<u>-</u>	<u>-</u>	<u>(2,175,824)</u>	<u>18,011,347</u>
Total Capital Assets, Being Depreciated	<u>71,329,753</u>	<u>336,125</u>	<u>-</u>	<u>(2,448,588)</u>	<u>69,217,290</u>
Less Accumulated Depreciation	<u>(13,648,085)</u>	<u>(2,058,657)</u>	<u>(291,992)</u>	<u>1,672,195</u>	<u>(14,326,539)</u>
Total Capital Assets, Being Depreciated, Net	<u>57,681,668</u>	<u>(1,722,532)</u>	<u>(291,992)</u>	<u>(776,393)</u>	<u>54,890,751</u>
Total Business-type Activities, Net	<u>\$ 58,233,224</u>	<u>\$ (1,722,532)</u>	<u>\$ (291,992)</u>	<u>\$ (818,918)</u>	<u>\$ 55,399,782</u>

Transfers result from classifying Internal Service Fund assets, previously reported as business-type assets as governmental assets. In addition, amounts representing assets of the Successor Agency to the Crescent City Redevelopment Agency are reflected as transfers and shown separately in Note 8.

Depreciation

Depreciation expense was charged to governmental functions as follows:

General government	\$ 8,993
Public ways and facilities	15,066
Public protection	7,906
Culture and recreation	<u>116,049</u>
Total Depreciation Expense -- Governmental Functions	<u>\$ 148,014</u>

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

Sewer	\$ 1,805,035
Water	<u>253,622</u>
Total Depreciation Expense - Business-Type Functions	<u>\$ 2,058,657</u>

Unearned Revenue

At June 30, 2013, the components of deposits and unearned revenue consist of deposits in the Water revenue fund in the amount of \$247,143, and \$6,778 in general deposits and \$1,233 in deferred revenue in the General Fund.

(Continued on the following page)

CITY OF CRESCENT CITY, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

NOTE 3: DETAILED NOTES (Continued)

Long-term Debt

Long-term debt for the year ended June 30, 2013, was as follows:

	Balance July 1, 2012	Additions	Adjustments/ Retirements	Balance June 30, 2013	Amounts Due Within One Year
Governmental Activities					
Capital Leases	\$ 138,451	\$ -	\$ (58,243)	\$ 80,207	\$ 39,134
Compensated Absences (Note 1)	<u>201,089</u>		<u>(17,557)</u>	<u>183,532</u>	<u>121,964</u>
Total Government Activities	\$ <u>339,540</u>	\$ <u>-</u>	\$ <u>(75,800)</u>	\$ <u>263,739</u>	\$ <u>161,098</u>
Business-Type Activities					
Safe Water Revolving Loan	\$ 4,025,000	-	\$ (350,000)	\$ 3,675,000	\$ 350,000
State Water Resources - Safe Water Loan	44,345,521	-	(1,075,423)	43,270,098	1,101,234
Compensated Absences (Note 1)	<u>107,332</u>	-	<u>(12,233)</u>	<u>95,099</u>	<u>63,197</u>
Total Business-Type Activities	\$ <u>48,477,853</u>	\$ <u>-</u>	\$ <u>(1,437,656)</u>	\$ <u>47,040,197</u>	\$ <u>1,514,431</u>

	Government Activities	Business-Type Activities
At June 30, 2013, loans consisted of the following:		
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. an proceeds were used for wastewater system improvements	\$ -	\$ 43,270,098
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. The required debt service reserve of \$350,000 is reported as restricted cash in the water enterprise fund. Loan proceeds were used for water system improvements	-	<u>3,675,000</u>
Total Loans	\$ <u>-</u>	\$ <u>46,945,098</u>

(Continued on the following page)

CITY OF CRESCENT CITY, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

NOTE 3: DETAILED NOTES (Continued)

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. The book value of the capitalized asset was \$311,734 at June 30, 2013.

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. The lease was paid off during the current fiscal year. Future minimum lease payments are as follows:

	Fire Engine
2013-14	\$ 43,110
2014-15	43,110
Later	-
Total Minimum Lease Payments	86,220
Less: Amounts representing interest	(6,012)
Present value of future minimum lease payments	\$ <u>80,208</u>

Future note payments are as follows:

The annual aggregate maturities for the years subsequent to June 30, 2013, are as follows:

Year Ended June 30	Loans				Total
	Safe Drinking Water		Water Resources Control Board		
	Principal	Interest	Principal	Interest	
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	350,000	-	1,210,820	928,896	2,489,716
2018-2020	700,000	-	2,509,515	1,769,917	4,979,432
2021-2025	1,225,000	-	6,819,944	3,878,636	11,923,580
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>3,675,000</u>	\$ <u>-</u>	\$ <u>43,270,098</u>	\$ <u>16,958,124</u>	\$ <u>63,903,222</u>

(Continued on the following page)

CITY OF CRESCENT CITY, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

NOTE 3: DETAILED NOTES (Continued)

Operating Leases

Rental expenses incurred under operating leases are not considered material.

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, 2013:

	Due From Other Funds	Due To Other Funds
General Fund	\$ 89,799	\$ -
CDBG Project Fund		34,926
CDBG PTAA Fund		18,599
EDBG Fund		36,274
Successor agency special revenue fund	306,871	-
RDA Set-Aside Fund		306,871
Water Fund	1,271,435	-
RDA Set-Aside Fund	-	1,271,435
Total	\$ <u>1,668,105</u>	\$ <u>1,668,105</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, 2013:

<u>Transfer From:</u>		<u>Transfer To:</u>	
General Fund	\$ 489,400	Capital Improvement Fund	\$ 307,000
		Fire Vehicle Replacement	45,000
		Police Vehicle Replacement	35,000
		CDBG PTAA Fund	8,400
		Code Enforcement Fund	94,000
Gas Tax Funds	160,332	General Fund	160,332
Sewer Capital Improvement Fund	59,157	Sewer Fund	59,157
Non-Major Governmental Funds	<u>8,410</u>	General Fund	<u>8,410</u>
Total	\$ <u>717,299</u>		\$ <u>717,299</u>

(Continued on the following page)

CITY OF CRESCENT CITY, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

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 and Safety plan member are required to contribute 9 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 rates for fiscal year 2012-13 was 15.129% for miscellaneous employees, 6.25% for miscellaneous 2nd tier, 54.399% for fire, and 36.19% for police. 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 2012/2013, the City's annual pension cost of \$830,108 for the miscellaneous and public safety plans was equal to the City's actual contributions. The required contribution for fiscal year 2012/2013 was determined as part of the June 30, 2012, 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.

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CITY OF CRESCENT CITY, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

NOTE 4: EMPLOYEES' RETIREMENT PLAN, Continued

Annual Pension Cost (Continued)

Miscellaneous and Public Safety

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2011	\$ 876,478	100%	\$ -
June 30, 2012	924,996	100%	-
June 30, 2013	830,108	100%	-

Funded Status and Funding Progress

Since the City's plans have 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 POST-EMPLOYMENT 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 (\$115 per month for 2013)
- 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
CECC	\$ 250.00
CCEA	\$ 150.00

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.

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CITY OF CRESCENT CITY, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

NOTE 5: OTHER POST-EMPLOYMENT BENEFITS (OPEB), Continued

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 determined 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	\$ 103,694
Interest on net OPEB obligation	-
Adjustment to annual required contribution	<u>-</u>
Annual OPEB cost (expense)	103,694
Contributions made	<u>103,694</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 2012-2013, 2011-2012, and 2010-2011 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Employer OPEB Contributions	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2011	\$ 119,070	\$ 119,070	100%	\$ -
June 30, 2012	121,201	121,201	100%	-
June 30, 2013	103,694	103,694	100%	-

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, 2013, the City funded OPEB benefits on a prefunding basis. The Agency contributed a total of \$86,247 to retiree premiums, in addition to a contribution of \$17,447 to PARS. The OPEB trust account balance on June 30, 2012 was \$178,863.

(Continued on the following page)

CITY OF CRESCENT CITY, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

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

Funding Policy (Continued)

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%
7/1/2012	\$ 178,863	\$ 1,138,594	\$ 959,431	15.7%	\$ 2,491,787	38.52%

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, 2012 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 7.00% and an annual healthcare cost trend of 4.5% annually.

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, and natural disasters. The City manages risk by participating in the public entity risk pools described below and by retaining certain risks.

Public entity risk pools are formally organized separate entities established under the Joint Exercise of Powers Act of the State of California. As separate legal entities, these risk pools exercise full powers and authorities within the scope of the related Joint Powers Agreements including the preparation of annual budgets, accountability for all funds, the power to make and execute contracts and the right to sue and be sued.

Each risk pool is governed by a board consisting of representatives from member agencies. Each board

(Continued on the following page)

CITY OF CRESCENT CITY, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

NOTE 6: RISK MANAGEMENT, (Continued)

controls the operations of the respective risk pool, including selection of management and approval of operation budgets, independent of any influence by member agencies. Obligations and liabilities of these risk pools are not the City's responsibility.

Golden State Risk Management Authority (GSRMA) covers general liability up to \$250,000 per occurrence. GSRMA purchases excess general liability coverage from the CSAC Excess Insurance Authority (EIA) that provides \$49,750,000 limits excess of GSRMA's \$250,000 for total limits of \$50,000,000 per occurrence. The City has no deductible for general liability.

The City is a participant in the GSRMA workers' compensation risk pool, which provides \$300,000 per occurrence coverage. GSRMA participates in the EIA Excess Workers' Compensation program, which provides statutory limits excess of GSRMA's \$300,000 limits for workers' compensation losses and \$5,000,000 in per occurrence limits for employers' liability.

During the fiscal year ended June 30, 2013, the City incurred cost of \$279,900 for coverage premiums including general liability, workers compensation, property, automobile, and crime bond.

There have been no significant reductions in pooled or insured liability coverage from coverage in the prior year.

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.

Subsequent Event

Management has evaluated events subsequent to June 30, 2013 through December 20, 2013, the date on which the financial statements were available for issuance. Management has determined no subsequent events requiring disclosure have occurred.

(Continued on the following page)

CITY OF CRESCENT CITY, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

NOTE 7: OTHER INFORMATION, Continued

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, 2013 and May 3, 2013. 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. In June 2013, the State of California repaid these loans.

Compensated Absences

The compensated absences liability will be paid from the General Fund, Housing Authority, Street Maintenance, Community Development, Water Utility, Sewer Utility, Information Systems, General Support Services, and Risk Management.

The City's changes in compensated absences for the year ended June 30, 2013 were as follows:

	Balance July 1, 2012	Additions	Adjustments/ Deletions	Balance June 30, 2013	Due within One Year
Governmental activities	\$ 201,089	\$ -	\$ (17,557)	\$ 183,532	\$ 161,964
Business-type activities	107,332	-	(12,233)	95,099	63,197
Total compensated absences	\$ 308,421	\$ -	\$ (29,790)	\$ 278,631	\$ 225,161

(Continued on the following page)

**CITY OF CRESCENT CITY, CALIFORNIA
 NOTES TO BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2013**

NOTE 7: OTHER INFORMATION (Continued)

Pledged Revenue

Revenue Pledged	Borrowing Fund/Entity - Bond/Loan	Use of Funds	Year of Loan or Year Repayments and/or Interest Payments Began	Original Issue/Loan Amount	Payments Amortized Through
Net Revenues	Water Utility / Bond	System Expansion and Improvements	2011	\$45,407,931	2041
Net Revenues	Wastewater Utility / Bond	System Expansion and Improvements	2004	\$7,000,000	2024

NOTE 8: SUCCESSOR 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).

Successor agencies are only allocating 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

(Continued on the following page)

CITY OF CRESCENT CITY, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

NOTE 8: SUCCESSOR TRUST FOR ASSETS OF FORMER REDEVELOPMENT AGENCY,
Continued

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.

Cash and investments

As of June 30, 2013, cash and investments in the amount of \$294,087 were reported in the accompanying financial statements in the Fiduciary funds.

Long-Term Debt

The Successor Agency is obligated to the Successor Housing Agency and the City Water Fund in the amounts of \$306,871 and \$1,271,434 respectively. Of these amounts, \$290,705 and \$1,271,434 were advanced to the Crescent City Redevelopment Agency prior to its dissolution under State law. An additional \$16,166 was added during the current fiscal year to allow for the payment of current obligations.

Long-term debt for the year ended June 30, 2013, was as follows:

	Balance July 1, 2012	Additions	Adjustments/ Retirements	Balance June 30, 2013	Amounts Due Within One Year
Fiduciary Fund Debt					
Successor Housing Agency	\$ 290,705	\$ -	\$ 16,166	\$ 306,871	\$ -
Compensated Absences (Note 1)	1,271,434	-	-	1,271,434	-
Total Fiduciary Fund Debt	\$ 1,562,139	\$ -	\$ 16,166	\$ 1,578,305	\$ -

(Continued on the following page)

CITY OF CRESCENT CITY, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

NOTE 8: SUCCESSOR TRUST FOR ASSETS OF FORMER REDEVELOPMENT AGENCY,
Continued

Capital Assets

Capital assets activity for the successor agency for the year ended June 30, 2013, was as follows:

	Balance		Adjustments/		Balance
	July 1, 2012	Additions	Retirements	Transfers	June 30, 2013
Fiduciary Fund Activities					
Capital Assets, Not Being Depreciated:					
Land	\$ 200,000	\$ -	\$ -	\$ -	\$ 200,000
Construction in progress	-	-	-	-	-
Total Capital Assets, Not Being Depreciated	<u>200,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>200,000</u>
Capital Assets, Being Depreciated:					
Buildings and improvements	602,343	-	-	-	602,343
Machinery and equipment	-	-	-	-	-
Infrastructure	-	-	-	-	-
Total Capital Assets, Being Depreciated	602,343	-	-	-	602,343
Less Accumulated Depreciation	<u>(323,896)</u>	<u>(20,078)</u>	<u>-</u>	<u>-</u>	<u>(343,974)</u>
Total Capital Assets, Being Depreciated, Net	<u>278,447</u>	<u>(20,078)</u>	<u>-</u>	<u>-</u>	<u>258,369</u>
Total Fiduciary Fund Activities, Net	<u>\$ 478,447</u>	<u>\$ (20,078)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 458,369</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 notes carry various interest rates and payment dates.

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 2013. These notes receivable comprised the following at June 30, 2013:

Business Enterprise Notes	\$ 153,700
Sidewalk Notes	21,627
Housing Rehabilitation and Affordable Housing Notes	<u>301,510</u>
	<u>\$ 476,837</u>

(Continued on the following page)

CITY OF CRESCENT CITY, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

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, 2013, 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, 2013. The effects, if any, of noncompliance to be reported on the accompanying financial statements has not been determined. As of June 30, 2013 all annuities had been returned to the City and deposited back into the City's accounts.

NOTE 11: PRIOR PERIOD ADJUSTMENTS AND RESTATEMENTS

The city recorded certain adjustments to opening fund balances to reflect the establishment of the successor agency trust funds as well as the successor agency special revenue fund. All of these adjustments result from the dissolution of the Crescent City Redevelopment Agency in accordance with state law as of January 21st, 2012. In addition to the affect on fund equity, the capital assets of the successor agency, which were previously reported in combination with the general fixed asset account group are now separately stated in footnote 9 above. An adjustment in the amount of \$396,623 was made to record the interfund receivable in the amount of \$306,871 amd other assets in the amount of \$89,752.

Effective July 1, 2012, governmental compensated absences have been reported as governmental activities, as long-term debt. In the prior year, at June 30, 2012, the obligation was reported as an internal service fund liability. Correspondingly, the business-type compensated absences, as of July 1, 2012, have been restated at \$107,332. The obligation was stated at \$51,592 in the prior year.

Residual equity transfers in the amount of \$52,503 and \$99 were recorded between the Gas Tax Fund and the General Fund, and the General Fund and the Successor Housing Fund to reflect the separation of the gas tax activities from the General Fund and the establishment of the Successor Housing Fund respectively.

REQUIRED SUPPLEMENTARY INFORMATION

Unaudited

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**CITY OF CRESCENT CITY, CALIFORNIA
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF FUNDING PROGRESS - UNAUDITED
 FOR THE YEAR ENDED JUNE 30, 2013**

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, 2013, for the City other Post-Employment Benefit Plan. As additional years are available, a three-year trend analysis will be presented.

Miscellaneous Plan:

Actuarial Valuation Date	Actuarial Accrued Liability (AAL) Entry Age	Actuarial Value of Assets	Unfunded Liability (UAAL)	Funded Status	Annual Covered Payroll	UAAL as a % of Payroll
July 1, 2009	\$ 1,094,063	\$ -	\$ 1,094,063	0%	\$ 2,953,000	37.05%
July 1, 2012	1,138,594	178,863	959,731	15.7%	2,491,787	38.52%

**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, 2013
(UNAUDITED)**

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
<u>Revenues:</u>				
Taxes	\$ 2,770,974	\$ 2,743,220	\$ 3,090,431	\$ 347,211
Use of money and property:				
Interest	500	500	1,693	1,193
Rental income	36,820	18,320	26,029	7,709
Licenses and permits	272,885	247,110	264,386	17,276
Fines and Penalties	222	22,425	11,088	(11,337)
Intergovernmental revenues	241,072	427,899	418,747	(9,152)
Charges for services	430,819	709,491	651,050	(58,441)
Gifts and donations	-	82,700	87,417	4,717
Other revenue	33,445	8,100	23,466	15,366
Total revenues	<u>3,786,737</u>	<u>4,259,765</u>	<u>4,574,307</u>	<u>314,542</u>
<u>Expenditures</u>				
Current:				
General government	587,370	693,027	607,360	85,667
Public safety	2,086,537	2,154,425	2,033,023	121,402
Human services and recreation	886,405	789,752	688,320	101,432
Public works	656,446	674,954	647,491	27,463
Administrative overhead allocation	333,505	219,298	227,268	(7,970)
Total expenditures	<u>4,550,263</u>	<u>4,531,456</u>	<u>4,203,462</u>	<u>327,994</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(763,526)</u>	<u>(271,691)</u>	<u>370,845</u>	<u>642,536</u>
<u>Other Financing Sources (Uses)</u>				
Transfers in	210,000	210,000	168,742	(41,258)
Transfers out	<u>(100,000)</u>	<u>(100,000)</u>	<u>(489,400)</u>	<u>389,400</u>
Total other financing sources (uses)	<u>110,000</u>	<u>110,000</u>	<u>(320,658)</u>	<u>348,142</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	<u>\$ (653,526)</u>	<u>\$ (161,691)</u>	50,187	<u>\$ 990,678</u>
Fund Balances, beginning of period			1,003,093	
Residual equity transfer			(52,503)	
Prior period adjustments			-	
Fund balance, beginning of period restated			<u>950,590</u>	
Fund Balances, end of period			<u>\$ 1,000,777</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, 2013
(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	3,129,457	3,113,157	2,957,907	(155,250)
Other revenue	21,778	16,500	27,956	11,456
Total revenues	<u>3,151,235</u>	<u>3,129,657</u>	<u>2,985,863</u>	<u>(143,794)</u>
<u>Expenditures</u>				
Current:				
Human services and recreation	3,149,165	3,148,367	3,181,293	(32,926)
Total Expenditures	<u>3,149,165</u>	<u>3,148,367</u>	<u>3,181,293</u>	<u>(32,926)</u>
Excess (deficiency) of Revenues Over Expenditures	<u>\$ 2,070</u>	<u>\$ (18,710)</u>	(195,430)	<u>\$ (176,720)</u>
Fund Balances, beginning of period			<u>237,665</u>	
Fund Balances, end of period			<u>\$ 42,235</u>	

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**CITY OF CRESCENT CITY
COMBINING BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2013**

	Fund 103 CDBG Project Fund	Fund 104 CDBG Program Income Fund	Fund 105 CDBG PI Administration Fund	Fund 106 89-93 Rehab & Sidewalk Funds
<u>Assets</u>				
Cash and investments	\$ -	\$ 139,124	\$ 38,986	\$ -
Restricted cash and investments with fiscal agent	-	-	-	
Accounts receivable: County/State government	67,505	-		-
Due from other funds				
Prepaid items	-			
Other assets				
Notes receivable	-	-	-	108,467
Total assets	<u>\$ 67,505</u>	<u>\$ 139,124</u>	<u>\$ 38,986</u>	<u>\$ 108,467</u>
<u>Liabilities and Fund Balances</u>				
<u>Liabilities</u>				
Vendors	\$ 32,580	\$ -	\$ 2,017	\$ -
Due to other funds	<u>34,926</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>67,506</u>	<u>-</u>	<u>2,017</u>	<u>-</u>
<u>Fund Balances</u>				
<u>Nonspendable:</u>				
Notes and loans receivable	-	-	-	108,467
<u>Committed</u>				
<u>Restricted:</u>				
Low and moderate income housing	-	-	-	-
Council Restricted	-	139,124	36,969	-
Unassigned	(1)	-	-	-
Total fund balances	<u>(1)</u>	<u>139,124</u>	<u>36,969</u>	<u>108,467</u>
Total liabilities and fund balances	<u>\$ 67,505</u>	<u>\$ 139,124</u>	<u>\$ 38,986</u>	<u>\$ 108,467</u>

Continued on the next page

Fund 107 CDBG 03/04 Program Fund	Fund 108 CDBG PTAA Fund	Fund 109 EDBG Fund	Fund 115 Gas Tax Fund	Fund 116 Successor Housing Fund	Fund 251 Code Enforcement Fund	Totals Governmental Funds
\$ -	\$ -	\$ -	\$ 128,180	\$ -	\$ 70,892	\$ 377,182
						-
	22,984	38,931	16,224	-	-	145,644
			-	306,871		306,871
				-		-
				89,752		89,752
214,670					-	323,137
<u>\$ 214,670</u>	<u>\$ 22,984</u>	<u>\$ 38,931</u>	<u>\$ 144,404</u>	<u>\$ 396,623</u>	<u>\$ 70,892</u>	<u>\$ 1,242,586</u>
\$ -	\$ 4,385	\$ 2,657	\$ 8,615	\$ -	\$ 1,929	\$ 52,183
-	18,599	36,274	-	-	-	89,799
-	22,984	38,931	8,615	-	1,929	141,982
-	-	-	-	89,752	-	198,219
-	-	-	-	-	68,963	68,963
-	-	-	-	-	-	-
214,670	-	-	-	-	-	390,763
-	-	-	135,789	306,871	-	442,660
-	-	-	-	-	-	(1)
<u>214,670</u>	<u>-</u>	<u>-</u>	<u>135,789</u>	<u>396,623</u>	<u>68,963</u>	<u>1,100,604</u>
<u>\$ 214,670</u>	<u>\$ 22,984</u>	<u>\$ 38,931</u>	<u>\$ 144,404</u>	<u>\$ 396,623</u>	<u>\$ 70,892</u>	<u>\$ 1,242,586</u>

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, 2013**

	Fund 103 CDBG Project Fund	Fund 104 CDBG Program Income Fund	Fund 105 CDBG Administrative Fund	Fund 106 89-93 Rehab & Sidewalk Funds
<u>Revenues:</u>				
Property and other taxes	\$ -	\$ -	\$ -	\$ -
Use of money and property:				
Interest	-	15	-	-
Rental Income	-			
Licenses and permits				
Intergovernmental revenues	148,385	-	-	-
Charges for services	-	-	-	-
Other revenue	-	-	-	-
Total revenues	<u>148,385</u>	<u>15</u>	<u>-</u>	<u>-</u>
<u>Expenditures</u>				
Current:				
General Government	-	-	-	-
Public safety	-	-	-	-
Human services and recreation	148,386	-	-	-
Public works		16,251	11,871	-
Administrative overhead allocation	-	-	-	-
Debt service:				
Principal	-	-	-	-
Interest expense	-	-	-	-
Total expenditures	<u>148,386</u>	<u>16,251</u>	<u>11,871</u>	<u>-</u>
Excess (Deficiency) of revenues over (under) expenditures	<u>(1)</u>	<u>(16,236)</u>	<u>(11,871)</u>	<u>-</u>
<u>Other Financing Sources (Uses)</u>				
Transfers in	-	-	3	-
Transfers out	-	(24)	-	(8,189)
Total other financing sources (uses)	<u>-</u>	<u>(24)</u>	<u>3</u>	<u>(8,189)</u>
Excess (Deficiency) of revenues and other sources over expenditures and and other uses Before Extraordinary Items	<u>(1)</u>	<u>(16,260)</u>	<u>(11,868)</u>	<u>(8,189)</u>
Extraordinary Gain / Loss	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (Deficiency) of revenues and other sources over expenditures and and other uses Before Extraordinary Items	<u>(1)</u>	<u>(16,260)</u>	<u>(11,868)</u>	<u>(8,189)</u>
Fund balance, beginning of period	-	155,384	48,837	116,656
Net equity transfer	-	-	-	-
Prior period adjustments	-	-	-	-
Fund balance, beginning of period restated	<u>-</u>	<u>155,384</u>	<u>48,837</u>	<u>116,656</u>
Fund balance, end of period	<u>\$ (1)</u>	<u>\$ 139,124</u>	<u>\$ 36,969</u>	<u>\$ 108,467</u>

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Fund 107 CDBG 03/04 Program Fund	Fund 108 CDBG PTAA Fund	Fund 109 EDBG Fund	Fund 115 Gas Tax Fund	Fund 116 Successor Housing Fund	Fund 251 Code Enforcement Fund	Totals Governmental Funds
\$ -		\$ -	\$ -	\$ 99	\$ -	\$ 99
-	-	-	243	-	-	258
-	43,372	110,779	177,695	-	-	480,231
-	-	-	-	-	-	-
10	-	-	-	-	-	10
<u>10</u>	<u>43,372</u>	<u>110,779</u>	<u>177,938</u>	<u>99</u>	<u>-</u>	<u>480,598</u>
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	110,779	-	-	-	259,165
-	50,872	-	17,479	-	25,037	121,510
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>-</u>	<u>50,872</u>	<u>110,779</u>	<u>17,479</u>	<u>-</u>	<u>25,037</u>	<u>380,675</u>
<u>10</u>	<u>(7,500)</u>	<u>-</u>	<u>160,459</u>	<u>99</u>	<u>(25,037)</u>	<u>99,923</u>
-	8,400	-	-	-	94,000	102,403
<u>(200)</u>	<u>-</u>	<u>-</u>	<u>(160,332)</u>	<u>-</u>	<u>-</u>	<u>(168,745)</u>
<u>(200)</u>	<u>8,400</u>	<u>-</u>	<u>(160,332)</u>	<u>-</u>	<u>94,000</u>	<u>(66,342)</u>
(190)	900	-	127	99	68,963	33,581
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
(190)	900	-	127	99	68,963	33,581
214,860	(900)	-	83,159	-	-	617,996
-	-	-	52,503	(99)	-	52,404
-	-	-	-	396,623	-	396,623
<u>214,860</u>	<u>(900)</u>	<u>-</u>	<u>135,662</u>	<u>396,524</u>	<u>-</u>	<u>1,067,023</u>
\$ 214,670	\$ -	\$ -	\$ 135,789	\$ 396,623	\$ 68,963	\$ 1,100,604

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

**CITY OF CRESCENT CITY
 COMBINING BALANCE SHEET
 CAPITAL PROJECTS FUNDS
 JUNE 30, 2013**

	Fund 901 Capital Improvement Fund	Fund 930 Fire Vehicle Replacement Fund
	<hr/>	<hr/>
<u>Assets</u>		
Cash and investments	\$ 307,000	\$ 45,000
Restricted cash and investments with fiscal agent	-	-
Accounts receivable:		
County/State government	-	-
Due from other funds	-	-
Prepaid items	-	-
Other assets	-	-
Notes receivable	-	-
Total assets	<hr/> <hr/> \$ 307,000	<hr/> <hr/> \$ 45,000
 <u>Liabilities and Fund Balances</u>		
Liabilities		
Vendors	\$ -	\$ -
Due to other funds	-	-
Total liabilities	<hr/> -	<hr/> -
 Fund Balances		
Committed:	307,000	45,000
Unassigned	-	-
Total fund balances	<hr/> 307,000	<hr/> 45,000
Total liabilities and fund balances	<hr/> <hr/> \$ 307,000	<hr/> <hr/> \$ 45,000

Continued on the next page

Fund 940 Police Vehicle Replacement Funds	Totals Governmental Funds
\$ 35,000	\$ 387,000
-	-
-	-
-	-
-	-
-	-
<u>\$ 35,000</u>	<u>\$ 387,000</u>
-	-
-	-
<u>35,000</u>	<u>387,000</u>
-	-
<u>35,000</u>	<u>387,000</u>
<u>\$ 35,000</u>	<u>\$ 387,000</u>

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

**CITY OF CRESCENT CITY
STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN
FUND BALANCES
CAPITAL PROJECTS FUNDS
FOR THE YEAR ENDED JUNE 30, 2013**

	Fund 901 Capital Improvement Fund	Fund 930 Fire Vehicle Replacement Fund
<u>Revenues:</u>		
Property and other taxes	\$ -	\$ -
Other revenue	-	-
Total revenues	-	-
<u>Expenditures</u>		
Current:		
General Government	-	-
Excess (Deficiency) of revenues over (under) expenditures	-	-
<u>Other Financing Sources (Uses)</u>		
Transfers in	307,000	45,000
Transfers out	-	-
Total other financing sources (uses)	307,000	45,000
Excess (Deficiency) of revenues and other sources over expenditures and and other uses Before Extraordinary Items	307,000	45,000
Extraordinary Gain / Loss	-	-
Excess (Deficiency) of revenues and other sources over expenditures and and other uses Before Extraordinary Items	307,000	45,000
Fund balance, beginning of period	-	-
Prior period adjustments	-	-
Fund balance, beginning of period restated	-	-
Fund balance, end of period	<u>\$ 307,000</u>	<u>\$ 45,000</u>

Continued on the next page

Fund 940 Police Vehicle Replacement Funds	Totals Governmental Funds
\$ -	\$ -
-	-
-	-
-	-
-	-
-	-
35,000	387,000
-	-
<u>35,000</u>	<u>387,000</u>
35,000	387,000
-	-
<u>35,000</u>	<u>387,000</u>
-	-
-	-
-	-
<u>\$ 35,000</u>	<u>\$ 387,000</u>

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

**CITY OF CRESCENT CITY
 COMBINING STATEMENT OF
 FUND NET POSITION
 INTERNAL SERVICE FUNDS
 JUNE 30, 2013**

	Fund 420	Fund 506	Fund 508
	Information	Maintenance	Equipment
	Tech	Building	Equipment
	Fund	Fund	Fund
	<hr/>		
<u>ASSETS</u>			
Current Assets:			
Cash and investments	\$ 17,431	\$ 5,404	\$ 240,113
Accounts receivable	-	-	15
Due from other funds	-	-	-
Total Current Assets	<hr/> 17,431	<hr/> 5,404	<hr/> 240,128
Non Current Assets:			
Capital assets, net of accumulated depreciation	<hr/> -	<hr/> -	<hr/> 836,447
Total assets	<hr/> 17,431	<hr/> 5,404	<hr/> 1,076,575
 <u>LIABILITIES</u>			
Current liabilities:			
Accounts payable	17,431	5,404	27,567
Payroll Liabilities	-	-	-
Current maturities of long term debt:			
Fire truck capital lease payable	<hr/> -	<hr/> -	<hr/> 39,134
Total Current Liabilities	<hr/> 17,431	<hr/> 5,404	<hr/> 66,701
Long-term Liabilities:			
Fire truck capital lease payable	<hr/> -	<hr/> -	<hr/> 41,073
Total liabilities	<hr/> 17,431	<hr/> 5,404	<hr/> 107,774
 <u>NET POSITION</u>			
Invested in capital assets, net of related debt			756,240
Unrestricted	<hr/> -	<hr/> -	<hr/> 212,561
Total Net Assets	<hr/> \$ -	<hr/> \$ -	<hr/> \$ 968,801

Continued on the next page

Fund 610 Payroll Trust Fund	Fund 620 Insurance Reserve Fund	Fund 630 OPEB Trust Contributions Fund	Totals
\$ 237,981	\$ -	\$ 25,435	\$ 526,364
-	-	-	15
-	-	-	-
<u>237,981</u>	<u>-</u>	<u>25,435</u>	<u>526,379</u>
-	-	-	836,447
<u>237,981</u>	<u>-</u>	<u>25,435</u>	<u>1,362,826</u>
-	-	25,435	75,837
237,981	-	-	237,981
-	-	-	39,134
<u>237,981</u>	<u>-</u>	<u>25,435</u>	<u>352,952</u>
-	-	-	41,073
<u>237,981</u>	<u>-</u>	<u>25,435</u>	<u>394,025</u>
-	-	-	756,240
-	-	-	212,561
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 968,801</u>

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

**CITY OF CRESCENT CITY
COMBINING STATEMENT OF
REVENUES, EXPENSES AND CHANGES
IN NET POSITION
- INTERNAL SERVICE FUNDS
FISCAL YEAR ENDED JUNE 30, 2013**

	Fund 420 Information Tech Fund	Fund 506 Maintenance Building Fund	Fund 508 Equipment Fund
Operating revenues:			
Charges for services	\$ -	\$ -	\$ -
S.C.O.R.E. rebate	-	-	-
Other revenues	-	720	7,310
Total Operating Revenues	<u>-</u>	<u>720</u>	<u>7,310</u>
Operating Expenses			
Personnel services	110,852	74,057	142,570
Materials, supplies, rent and services	49,093	31,591	115,926
Administrative overhead allocation	(159,945)	(104,928)	(305,205)
Depreciation	-	-	145,997
Total operating expenses	<u>-</u>	<u>720</u>	<u>99,288</u>
Operating Income (loss)	<u>-</u>	<u>-</u>	<u>(91,978)</u>
<u>Non-operating Revenues (Expenses)</u>			
Interest income	-	-	251
Total Non-operating Revenues (Exp)	<u>-</u>	<u>-</u>	<u>251</u>
Change in net assets	<u>-</u>	<u>-</u>	<u>(91,727)</u>
Transfers out	-	-	-
Net assets, beginning of period	-	-	1,060,528
Prior period adjustments	-	-	-
Net assets, beginning of period restated	<u>-</u>	<u>-</u>	<u>1,060,528</u>
Net assets, end of period	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 968,801</u>

Continued on the next page

Fund 610 Payroll Trust Fund	Fund 620 Insurance Reserve Fund	Fund 630 OPEB Trust Contributions Fund	Totals
\$ -	\$ -	\$ -	\$ -
-	96,090	-	96,090
-	-	-	8,030
-	96,090	-	104,120
-	-	107,753	435,232
-	170,906	3,900	371,416
-	(74,816)	(111,653)	(756,547)
-	-	-	145,997
-	96,090	-	196,098
-	-	-	(91,978)
-	-	-	251
-	-	-	251
-	-	-	(91,727)
-	-	-	-
-	-	-	1,060,528
-	-	-	-
-	-	-	1,060,528
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 968,801</u>

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

**CITY OF CRESCENT CITY, CALIFORNIA
REQUIRED SUPPLEMENTARY INFORMATION
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2013**

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.

Submission of the proposed budget will be at a public hearing 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.

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

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**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, 2013, which collectively comprise the Authority's basic financial statements and have issued my report thereon dated December 20, 2013. 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 City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City'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.

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.

Donald R. Reynolds
Certified Public Accountant
December 20, 2013

**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, 2013. 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, 2013.

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

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

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 City'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
December 20, 2013

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, 2013, which collectively comprise the City's basic financial statements and have issued my report thereon dated December 20, 2013. 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
December 20, 2013

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

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**CITY OF CRESCENT CITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013**

<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>			
Section Housing Choice Vouchers*	14.871	N/A	<u>3,197,198</u>
Passed through the State of California Department of Housing and Community Development			
Community Development Block Grant	14.228	11-PTEC-7618	\$ 50,872
Community Development Block Grant	14.228	10-EDEF-7253	110,785
Community Development Block Grant	14.228	10-STBG-6708	140,782
Community Development Block Grant	14.228	12-CDBG-8380	7,603
Community Development Block Grant	14.228	PI-Projects	16,475
Community Development Block Grant	14.228	PI-Admin	<u>11,877</u>
			<u>338,394</u>
Total U.S. Department of Housing & Urban Development			<u>3,535,592</u>
<u>U.S. Department of Justice</u>			
Public Safety Partnership and Community Policing Grant	16.710	N/A	<u>85,425</u>
Total Expenditure of Federal Awards			<u>\$ 3,621,017</u>

* Major Program

**CITY OF CRESCENT CITY
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013**

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, 2013**

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

<u>CFDA Number</u>	<u>Name of Federal Program</u>
14.871	3,197,198
- 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, 2013

SECTION 2

None Reported

Federal Award Findings and Questioned Costs

None reported

SECTION 3 - STATUS OF PRIOR YEARS FINDINGS

None reported