

# City of Crescent City

Crescent City, California

*Annual Audit Report and Financial  
Statements*

*For the year ended June 30, 2014*



**City of Crescent City**  
**Annual Audit Report and Financial Statements**  
**For the year ended June 30, 2014**

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**For the year ended June 30, 2014**

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**City of Crescent City**  
**City Officials**  
**For the year ended June 30, 2014**

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

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## INDEPENDENT AUDITOR'S REPORT

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Crescent City, California (City), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 entity's internal control. Accordingly, we 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 financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2014, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of funding progress and budgetary comparison information on pages 5-13 and 69-72 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, and combining and individual nonmajor fund financial statements on pages 75-79 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.



The Honorable Mayor and Members of the City Council  
of the City of Crescent City  
Crescent City, California  
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**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated February 5, 2015 on our consideration of the City's internal control over financial reporting and on our 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 our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Badawi & Associates". The signature is written in a cursive, flowing style.

Badawi and Associates, CPAs  
Oakland, CA  
February 5, 2015

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**CITY OF CRESCENT CITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the Year Ended June 30, 2014**

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, 2014. 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 \$72,710,957 and total liabilities were \$47,795,245 at June 30, 2014. The City's assets exceeded its liabilities by \$24,915,712 (net position) for the fiscal year reported. This is an increase of \$3,253,560 from the previous year when assets exceeded liabilities by \$21,662,152. The increase includes: \$2,436,475 increase in total assets due to (a) improvements in cash management and (b) improvements in recording and collecting receivables, and \$817,085 net decline in liabilities due to continued pay down of debt

Total net position is comprised of the following:

- (1) Capital assets, net of related debt and accumulated depreciation, of \$17,592,861 includes property and equipment.
- (2) Net position of \$1,116,826 are restricted for capital projects, community development and debt service.
- (3) Unrestricted net position of \$6,206,025 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 \$2,935,452 this year. This compares to the prior year ending net position of \$2,530,616 and is an increase of \$404,836 which was the result of operations.

For the fiscal year ending June 30, 2014, the fund balance of the General Fund was \$1,426,367. 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 2013-14, the \$1,426,367 fund balance reserve is 35.3% of reported expenditures (\$4,042,663). The \$1,426,367 is 31.5% of the fiscal year 2014-15 General Fund expenditure budget (\$4,533,171).

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 \$13,879,655 as of June 30, 2014. This compares to the prior year ending net position of \$13,093,946 showing an increase of \$785,709 during the current year. The increase is primarily due to grant funded capital improvements.

**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, Parks 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, uses 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 uses 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, 2014.

In fiscal year 2013-14, including adjustments, governmental activities increased the City's net position by \$2,467,851 and business-type activities increased the City's net position by \$785,709 as compared to the prior fiscal year.

| <b>TABLE 1 - NET POSITION</b>                     |                                |                  |                                 |                   |                               |                   |
|---|--------------------------------|------------------|---------------------------------|-------------------|-------------------------------|-------------------|
|   | <u>Governmental Activities</u> |                  | <u>Business-Type Activities</u> |                   | <u>Government-Wide Totals</u> |                   |
|   | <u>2014</u>                    | <u>2013</u>      | <u>2014</u>                     | <u>2013</u>       | <u>2014</u>                   | <u>2013</u>       |
| <b>Assets:</b>                                    |                                |                  |                                 |                   |                               |                   |
| Current and other                                 | 3,791,977                      | 3,367,052        | 5,791,181                       | 5,418,881         | 9,583,158                     | 8,785,933         |
| Capital assets                                    | 8,023,288                      | 6,088,768        | 55,104,511                      | 55,399,781        | 63,127,799                    | 61,488,549        |
| <b>Total Assets</b>                               | <b>11,815,265</b>              | <b>9,455,820</b> | <b>60,895,692</b>               | <b>60,818,662</b> | <b>72,710,957</b>             | <b>70,274,482</b> |
| <b>Liabilities</b>                                |                                |                  |                                 |                   |                               |                   |
| Current and other                                 | 533,073                        | 846,541          | 1,418,244                       | 2,230,852         | 1,951,317                     | 3,077,393         |
| Long-term liabilities                             | 246,135                        | 41,073           | 45,597,793                      | 45,493,864        | 45,843,928                    | 45,534,937        |
| <b>Total Liabilities</b>                          | <b>779,208</b>                 | <b>887,614</b>   | <b>47,016,037</b>               | <b>47,724,716</b> | <b>47,795,245</b>             | <b>48,612,330</b> |
| <b>Net Position</b>                               |                                |                  |                                 |                   |                               |                   |
| Invested in capital assets<br>net of related debt | 7,982,214                      | 6,008,561        | 9,610,647                       | 9,555,917         | 17,592,861                    | 15,564,478        |
| Restricted  | 1,116,826                      | 432,998          | -                               | -                 | 1,116,826                     | 432,998           |
| Unrestricted                                      | 1,937,017                      | 2,126,647        | 4,269,008                       | 3,538,029         | 6,206,025                     | 5,664,676         |
| <b>Total Net Position</b>                         | <b>11,036,057</b>              | <b>8,568,206</b> | <b>13,879,655</b>               | <b>13,093,946</b> | <b>24,915,712</b>             | <b>21,662,152</b> |

Including capital grants/contributions, fiscal year 2013-14 governmental activities revenues increased \$1,227,172 or 15.1% over fiscal year 2012-13 primarily due to a CDBG capital grant for the 2<sup>nd</sup> Street Sewer project (\$1,215,004). While received into the CDBG Government Activities fund, the capital grant was then transferred to the Sewer Fund (a business-type activity). Governmental activities expenses decreased \$682,598 or 8.3% due primarily to unfilled vacancies and deferrals of operational expenses which occurred while the City worked through the process of balancing budgets and recovering fund balances decimated by the recent recession.

Business-type activities revenues increased by \$983,714 or 15.6%, attributable to (a) a modest increase in the water rates and (b) improvements in accounting processes and revenue recognition. Business-type activities expenses declined by \$250,033 or 3.4% due primarily to deferrals of major maintenance needs.

|   | Governmental Activities |                  | Business-Type Activities |                    | Government-Wide Totals |                    |
|---|-------------------------|------------------|--------------------------|--------------------|------------------------|--------------------|
|   | 2014                    | 2013             | 2014                     | 2013               | 2014                   | 2013               |
| <b>Revenues:</b>                          |                         |                  |                          |                    |                        |                    |
| Charges for Services                      | 668,406                 | 1,336,326        | 6,378,834                | 6,102,948          | 7,047,240              | 7,439,274          |
| Operating Grants/Contributions            | 4,045,031               | 3,190,197        | -                        | -                  |                        | 3,190,197          |
| Capital Grants/Contributions              | 1,215,004               | 363,722          | 910,000                  | 200,809            | 2,125,004              | 564,531            |
| General revenues                          | 3,443,870               | 3,254,894        | 3,922                    | 5,285              | 3,447,792              | 3,260,179          |
| <b>Total Revenues</b>                     | <b>9,372,311</b>        | <b>8,145,139</b> | <b>7,292,756</b>         | <b>6,309,042</b>   | <b>12,620,036</b>      | <b>14,454,181</b>  |
| <b>Expenses:</b>                          |                         |                  |                          |                    |                        |                    |
| General government                        | 441,546                 | 605,987          |                          |                    | 441,546                | 605,987            |
| Public safety                             | 1,872,339               | 2,086,376        |                          |                    | 1,872,339              | 2,086,376          |
| Human services and recreation             | 3,933,288               | 4,332,073        |                          |                    | 3,933,288              | 4,332,073          |
| Public works                              | 1,031,003               | 963,360          |                          |                    | 1,031,003              | 963,360            |
| Admin overhead allocation                 | 253,776                 | 226,754          |                          |                    | 253,776                | 226,754            |
| Sewer                                     |                         |                  | 5,140,355                | 5,459,908          | 5,140,355              | 5,459,908          |
| Water                                     |                         |                  | 1,716,925                | 1,634,647          | 1,716,925              | 1,634,647          |
| RV park                                   |                         |                  | 209,816                  | 222,574            | 209,816                | 222,574            |
| <b>Total Expenses</b>                     | <b>7,531,952</b>        | <b>8,214,550</b> | <b>7,067,096</b>         | <b>7,317,129</b>   | <b>14,599,048</b>      | <b>15,531,679</b>  |
| Transfers and Adjustments                 | (1,215,004)             | (53,686)         | 1,215,004                | -                  | -                      | (53,686)           |
| <b>Increase(Decrease) in Net Position</b> | <b>625,355</b>          | <b>(123,097)</b> | <b>1,440,664</b>         | <b>(1,008,087)</b> | <b>(1,979,012)</b>     | <b>(1,131,184)</b> |

### 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.

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 \$133,090; transfers in and out netted to a positive \$292,500, leaving a net change in Fund Balance of \$425,590.

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 2013-14 General Fund revenue declined 8.7% in comparison with the prior year. Significant changes included a decrease in residuals and pass thru payments due to RDA dissolution and a decrease due to the change in cost allocation methodology.

|                            | <b>2014</b>      |                   | <b>2013</b>      |                   | <b>Increase/(Decrease)</b> |                   |
|----------------------------|------------------|-------------------|------------------|-------------------|----------------------------|-------------------|
|                            | <b>Amount</b>    | <b>Percent of</b> | <b>Amount</b>    | <b>Percent of</b> | <b>Amount</b>              | <b>Percent of</b> |
|                            |                  | <b>Total</b>      |                  | <b>Total</b>      |                            | <b>Total</b>      |
| Taxes and assessments      | 2,952,386        | 70.7%             | 3,090,431        | 67.6%             | (138,045)                  | -3.0%             |
| Use of money and property: |                  |                   |                  |                   |                            |                   |
| Interest                   | 1,443            | 0.0%              | 1,693            | 0.0%              | (250)                      | 0.0%              |
| Rental Income              | 43,459           | 1.0%              | 26,029           | 0.6%              | 17,430                     | 0.4%              |
| Licenses and permits       | 378,676          | 9.1%              | 264,386          | 5.8%              | 114,290                    | 2.5%              |
| Fines and forfeitures      | 16,490           | 0.4%              | 11,088           | 0.2%              | 5,402                      | 0.1%              |
| Intergovernmental revenues | 304,485          | 7.3%              | 418,747          | 9.2%              | (114,262)                  | -2.5%             |
| Charges for services       | 353,382          | 8.5%              | 651,050          | 14.2%             | (297,668)                  | -6.5%             |
| Gifts and donations        | 35,980           | 0.9%              | 87,417           | 1.9%              | (51,437)                   | -1.1%             |
| Other revenue              | 89,452           | 2.1%              | 23,466           | 0.5%              | 65,986                     | 1.4%              |
| <b>Total</b>               | <b>4,175,753</b> | <b>100.0%</b>     | <b>4,574,307</b> | <b>100.0%</b>     | <b>(398,554)</b>           | <b>-8.7%</b>      |

Total General Fund expenditures decreased by \$160,799 or 3.8% from the prior fiscal year indicating a continuing trend of fiscal responsibility.

|                               | <b>2014</b>      |                   | <b>2013</b>      |                   | <b>Increase/(Decrease)</b> |                   |
|-------------------------------|------------------|-------------------|------------------|-------------------|----------------------------|-------------------|
|                               | <b>Amount</b>    | <b>Percent of</b> | <b>Amount</b>    | <b>Percent of</b> | <b>Amount</b>              | <b>Percent of</b> |
|                               |                  | <b>Total</b>      |                  | <b>Total</b>      |                            | <b>Total</b>      |
| General Government            | 611,405          | 15.1%             | 607,360          | 14.4%             | 4,045                      | 0.1%              |
| Public Safety                 | 1,787,984        | 44.2%             | 2,033,023        | 48.4%             | (245,039)                  | -5.8%             |
| Human services and recreation | 477,950          | 11.8%             | 688,320          | 16.4%             | (210,370)                  | -5.0%             |
| Community Development *       | 234,231          | 5.8%              | -                | 0.0%              | 234,231                    | 5.6%              |
| Public works                  | 687,510          | 17.0%             | 647,491          | 15.4%             | 40,019                     | 1.0%              |
| Administrative overhead alloc | 243,583          | 6.0%              | 227,268          | 5.4%              | 16,315                     | 0.4%              |
| <b>Total</b>                  | <b>4,042,663</b> | <b>100.0%</b>     | <b>4,203,462</b> | <b>100.0%</b>     | <b>(160,799)</b>           | <b>-3.8%</b>      |

*\* In 2013, Community Development was included in Human services and recreation*

*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, 2014. In fiscal year 2014, the Housing Authority experienced an excess of revenues over expenditures in the amount of \$105,020. This increased the Housing Authority’s fund balance from \$42,235 to \$147,255. The Housing Fund continues to recover the Federal sequestration imposed during the recession.

*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. A two-year comparison of change in net position for these funds is in the following tables.

*Sewer Fund --* As of June 30, 2014, the rate structure in the Sewer Utility does not provide adequate revenue to maintain assets in a prudent manner, meeting both the community’s long term infrastructure needs and ongoing system reliability concerns. This utility has 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. Additionally the debt service structure of the loan from the State of California (State Revolving Fund—SRF) has, over the period from 2011 through 2014 fiscal years, depleted the Sewer Fund’s reserve. The City spent much of fiscal year 2013-14 working with the State to modify the terms of the loan. On November 18, 2014, the State reduced the interest charged on the loan from 2.4% to 0.0%, saving rate payers approximately \$15 million over the remaining 26 years on the loan. Although this reduction in debt service stops the Sewer Fund from depleting reserves, it does not by itself ensure the future fiscal viability of the sewer system. Funding for major maintenance and future capital improvements that have been deferred must still be addressed.

In fiscal year 2013-14, the change in net position was \$1,524,325 which includes one-time grant funds, accelerated revenue recognition, and deferral of major maintenance and operational expenditures.

|                                | <b>2014</b>      | <b>2013</b>      | <b>Variance</b> |                |
|--------------------------------|------------------|------------------|-----------------|----------------|
|                                | <b>Amount</b>    | <b>Amount</b>    | <b>Amount</b>   | <b>Percent</b> |
| Sewer Fund                     |                  |                  |                 |                |
| Operating                      |                  |                  |                 |                |
| Revenues                       | 4,537,723        | 4,515,076        | 22,647          | 0.5%           |
| Grants and other revenues      | 910,000          | 89,728           | 820,272         | 914.2%         |
| Expenses                       | (4,126,100)      | (4,395,615)      | 269,515         | -6.1%          |
| Non-operating revenue(expense) | (1,012,302)      | (1,061,506)      | 49,204          | -4.6%          |
| Net Changes before transfers   | 309,321          | (852,317)        |                 |                |
| Net Transfers                  | 1,215,004        | -                |                 |                |
| <b>Change in net position</b>  | <b>1,524,325</b> | <b>(852,317)</b> |                 |                |



*Water Fund* -- In the fiscal year ended June 30, 2014, the Water Fund had a negative change in net position of \$105,568, which is \$105,850 less than the negative change of fiscal year 2012-13. Although water rates were increased in fiscal year 2013-14, the increase came too late in the year to end the year with a positive change in net position. It is expected that in fiscal year 2014-15, this fund will break even.

|                                | <u>2014</u>      | <u>2013</u>      | <u>Variance</u> |               |
|--------------------------------|------------------|------------------|-----------------|---------------|
|                                | Amount           | Amount           | Amount          | Percent       |
| Water Fund                     |                  |                  |                 |               |
| Operating                      |                  |                  |                 |               |
| Revenues                       | 1,609,677        | 1,420,968        | 188,709         | 13.3%         |
| Expenses                       | (1,716,925)      | (1,634,647)      | (82,278)        | 5.0%          |
| Non-operating revenue(expense) | 1,680            | 2,261            | (581)           | -25.7%        |
| <b>Change in net position</b>  | <b>(105,568)</b> | <b>(211,418)</b> | <b>105,850</b>  | <b>-44.3%</b> |

*Shoreline Recreational Vehicle (RV) Park* – Revenues in fiscal year 2013-14 declined \$46,551 or 16.7% from the preceding fiscal year. It was known in the community that the RV Park was scheduled to close for renovations and it is management’s belief that revenues fell off because many extended stay customers went to other facilities; they did not want to encounter the possibility they would be required to move once the renovations began. Operating expenses also declined and the fund ended the year with a change in net position of \$21,907.

|                                | <u>2014</u>   | <u>2013</u>   | <u>Variance</u> |               |
|--------------------------------|---------------|---------------|-----------------|---------------|
|                                | Amount        | Amount        | Amount          | Percent       |
| RV Park Fund                   |               |               |                 |               |
| Operating                      |               |               |                 |               |
| Revenues                       | 231,434       | 277,985       | (46,551)        | -16.7%        |
| Expenses                       | (209,816)     | (222,574)     | 12,758          | -5.7%         |
| Non-operating revenue(expense) | 289           | 237           | 52              | 21.9%         |
| <b>Change in net position</b>  | <b>21,907</b> | <b>55,648</b> | <b>(33,741)</b> | <b>-60.6%</b> |

*General Fund Budgetary Highlights.* In preparing its budgets, the City attempts to estimate its revenues using realistic and 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 2013-14 was balanced, and the actual results were more favorable than anticipated, with an actual excess of revenues over expenditures of \$425,590. This excess was primarily due to budgeted but unspent funds for personnel (unfilled vacancies) and operations (deferred maintenance).

Table 8 shows a two-year comparison of General Fund budgets and actual results.

|                   | <b>2014</b>   |                |                  | <b>2013</b>      |               |                  |
|-------------------|---------------|----------------|------------------|------------------|---------------|------------------|
|                   | <b>Budget</b> | <b>Actual</b>  | <b>Variance</b>  | <b>Budget</b>    | <b>Actual</b> | <b>Variance</b>  |
| Revenues          | 4,186,366     | 4,175,753      | 10,613           | 4,259,765        | 4,574,307     | (314,542)        |
| Expenditures      | (4,487,366)   | (4,042,663)    | (444,703)        | (4,531,456)      | (4,203,462)   | (327,994)        |
| Operating Result  | (301,000)     | 133,090        | (434,090)        | (271,691)        | 370,845       | (642,536)        |
| Transfers In      | 318,500       | 310,000        | 8,500            | 210,000          | 168,742       | 41,258           |
| Transfers Out     | (17,500)      | (17,500)       | -                | (100,000)        | (489,400)     | 389,400          |
| <b>Net Result</b> | <b>-</b>      | <b>425,590</b> | <b>(425,590)</b> | <b>(161,691)</b> | <b>50,187</b> | <b>(211,878)</b> |

### Capital Asset and Debt Administration

*Capital assets* – In fiscal year 2013-14 an effort was undertaken to ensure that all land, buildings, vehicles and equipment belonging to the City was included in the City’s financial records. As a result, the amount reported as investment in capital assets, net of accumulated depreciation and related debt, increased in the governmental funds by 31.1% and in the business funds by 0.6%. This is reflective of improvements in accounting records rather than new investments.

| <b>Governmental Funds</b>  |             |                    |                   |
|----------------------------|-------------|--------------------|-------------------|
| <b>2014</b>                | <b>2013</b> | <b>Variance \$</b> | <b>Variance %</b> |
| 7,982,214                  | 6,088,768   | 1,893,446          | 31.1%             |
| <b>Business-type Funds</b> |             |                    |                   |
| <b>2014</b>                | <b>2013</b> | <b>Variance \$</b> | <b>Variance %</b> |
| 9,610,647                  | 9,555,917   | 54,730             | 0.6%              |

*Long-term debt.* As of June 30, 2014, the City had total debt outstanding of \$45,843,928; this is a decrease from the total debt outstanding at June 30, 2013, of \$1,460,008. This reduction is primarily due to loan principal pay downs.

|                          | <b>Governmental Activities</b> |                | <b>Business-Type Activities</b> |                   | <b>Government-Wide Totals</b> |                   |
|--------------------------|--------------------------------|----------------|---------------------------------|-------------------|-------------------------------|-------------------|
|                          | <b>2014</b>                    | <b>2013</b>    | <b>2014</b>                     | <b>2013</b>       | <b>2014</b>                   | <b>2013</b>       |
| Capital Leases           | 41,074                         | 80,207         |                                 |                   | 41,074                        | 80,207            |
| Compensated Absences     | 205,061                        | 183,532        | 103,929                         | 95,099            | 308,990                       | 278,631           |
| Safe Drinking Water Loan |                                |                | 3,325,000                       | 3,675,000         | 3,325,000                     | 3,675,000         |
| State Revolving Loan     |                                |                | 42,168,864                      | 43,270,098        | 42,168,864                    | 43,270,098        |
| <b>Total</b>             | <b>246,135</b>                 | <b>263,739</b> | <b>45,597,793</b>               | <b>47,040,197</b> | <b>45,843,928</b>             | <b>47,303,936</b> |

### **Economic Factors and Next Year's Budget and Rates**

The City Council, working with City staff, continue to implement cost saving measures while also improving revenues. The result of these efforts has been a City wide improvement in fiscal health. The City's net position (assets minus liabilities) improved significantly in fiscal year 2013-14, net invested in capital assets has increased while total debt has decreased, revenues are up and expenditures are down. The City's budget for fiscal year 2014-15 reflects continued commitment to sound management practices, and four of the five operating funds have balanced budgets. The City continues to work on improving the financial structure of the Sewer Fund and events early in fiscal year 2014-15 have proved encouraging. While the State of California has reduced the interest charged on the Sewer Fund's SRF loan, the City must still increase user rates in order to meet major maintenance and future capital needs of the sewer system.

The City's commitment to elimination of blight within the City limits continues to improve health and safety conditions as well as aesthetics. It is hoped that this improvement will continue to attract businesses and residents to the City thus improving the transient occupancy tax and sales tax revenue base.

The City has several grant funded capital improvement projects underway. The Shoreline RV Park is being renovated. The Fire Hall is to receive a seismic retrofit. The City was awarded a 2014 CDBG grant which will fund sewer line improvements along B Street.

### **Contacting the City's Financial Management**

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

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# **BASIC FINANCIAL STATEMENTS**

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# GOVERNMENT-WIDE FINANCIAL STATEMENTS

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**City of Crescent City**  
**Statement of Net Position**  
**June 30, 2014**

|  | <b>Governmental<br/>Activities</b> | <b>Business-type<br/>Activities</b> | <b>Total</b>  |
|--|------------------------------------|-------------------------------------|---------------|
| <b>Assets</b>                                    |                                    |                                     |               |
| Cash and investments                             | \$ 2,362,906                       | \$ 2,750,925                        | \$ 5,113,831  |
| Receivables (net)                                | 220,694                            | 1,464,977                           | 1,685,671     |
| Due from other governments                       | 824,869                            | -                                   | 824,869       |
| Due from Successor Agency                        | 306,871                            | 1,203,719                           | 1,510,590     |
| Prepaid items                                    | 27,954                             | 14,554                              | 42,508        |
| Land held for redevelopment                      | 89,752                             | -                                   | 89,752        |
| Notes receivable                                 | 315,937                            | -                                   | 315,937       |
| Internal balances                                | (357,006)                          | 357,006                             | -             |
| Nondepreciable capital assets                    | 3,117,389                          | 1,842,293                           | 4,959,682     |
| Depreciable capital assets, net                  | 4,905,899                          | 53,262,218                          | 58,168,117    |
| Total Assets                                     | 11,815,265                         | 60,895,692                          | 72,710,957    |
| <b>Liabilities</b>                               |                                    |                                     |               |
| Accounts payable                                 | 300,737                            | 208,648                             | 509,385       |
| Interest Payable                                 | -                                  | 927,715                             | 927,715       |
| Accrued Wages                                    | 226,242                            | 9,704                               | 235,946       |
| Deposits   | 6,094                              | 272,177                             | 278,271       |
| Long term liabilities                            |                                    |                                     |               |
| Compensated absences - Due within one year       | 130,553                            | 66,167                              | 196,720       |
| Compensated absences - Due in more than one year | 74,508                             | 37,762                              | 112,270       |
| Loans and Leases Payable - Due within one year   | 41,074                             | 1,477,665                           | 1,518,739     |
| Loans Payable - Due in more than one year        | -                                  | 44,016,199                          | 44,016,199    |
| Total Liabilities                                | 779,208                            | 47,016,037                          | 47,795,245    |
| <b>Net Position</b>                              |                                    |                                     |               |
| Net Investment in capital assets                 | 7,982,214                          | 9,610,647                           | 17,592,861    |
| Restricted for:                                  |                                    |                                     |               |
| Capital projects and community development       | 1,018,302                          | -                                   | 1,018,302     |
| Other purposes                                   | 98,524                             | -                                   | 98,524        |
| Unrestricted                                     | 1,937,017                          | 4,269,008                           | 6,206,025     |
| Total Net Position                               | \$ 11,036,057                      | \$ 13,879,655                       | \$ 24,915,712 |

See accompanying Notes to Basic Financial Statements.

**City of Crescent City**  
**Statement of Activities**  
**For the year ended June 30, 2014**

| Functions/Programs:                                  | Program Revenues |                            |  |  |               | Net (Expense) Revenue and Changes in |                                 |               |
|--|------------------|----------------------------|--|--|---------------|--------------------------------------|---------------------------------|---------------|
|  | Expenses         | Charges<br>for<br>Services | Operating<br>Grants and<br>Contributions | Capital<br>Grants and<br>Contributions | Total         | Net Position                         |                                 |               |
|  |                  |                            |  |  |               | Governmental<br>Activities           | Business<br>-Type<br>Activities | Total         |
| <b>Primary Government:</b>                           |                  |                            |  |  |               |                                      |                                 |               |
| <b>Governmental activities:</b>                      |                  |                            |  |  |               |                                      |                                 |               |
| General government                                   | \$ 203,339       | \$ 582,080                 | \$ 79,211                                | \$ -                                   | \$ 661,291    | \$ 457,952                           | \$ -                            | \$ 457,952    |
| Public safety  | 1,872,339        | 61,308                     | 176,482                                  | -                                      | 237,790       | (1,634,549)                          | -                               | (1,634,549)   |
| Community Development                                | 234,231          | 6,604                      | -  | 1,215,004                              | 1,221,608     | 987,377                              | -                               | 987,377       |
| Human services and recreation                        | 3,933,288        | 12,512                     | 3,497,175                                | -                                      | 3,509,687     | (423,601)                            | -                               | (423,601)     |
| Public works   | 1,031,003        | 5,902                      | 292,163                                  | -                                      | 298,065       | (732,938)                            | -                               | (732,938)     |
| Administrative overhead allocation                   | 253,776          | -                          | -  | -                                      | -             | (253,776)                            | -                               | (253,776)     |
| Interest and fiscal charges                          | 3,976            | -                          | -  | -                                      | -             | (3,976)                              | -                               | (3,976)       |
| Total governmental activities                        | 7,531,952        | 668,406                    | 4,045,031                                | 1,215,004                              | 5,928,441     | (1,603,511)                          | -                               | (1,603,511)   |
| <b>Business-type activities:</b>                     |                  |                            |  |  |               |                                      |                                 |               |
| Sewer  | 5,140,355        | 4,537,723                  | -  | 910,000                                | 5,447,723     | -                                    | 307,368                         | 307,368       |
| Water  | 1,716,925        | 1,609,677                  | -  | -                                      | 1,609,677     | -                                    | (107,248)                       | (107,248)     |
| RV Park  | 209,816          | 231,434                    | -  | -                                      | 231,434       | -                                    | 21,618                          | 21,618        |
| Total business-type activities                       | 7,067,096        | 6,378,834                  | -  | 910,000                                | 7,288,834     | -                                    | 221,738                         | 221,738       |
| Total primary government                             | \$ 14,599,048    | \$ 7,047,240               | \$ 4,045,031                             | \$ 2,125,004                           | \$ 13,217,275 | (1,603,511)                          | 221,738                         | (1,381,773)   |
| <b>General Revenues:</b>                             |                  |                            |  |  |               |                                      |                                 |               |
| Taxes:   |                  |                            |  |  |               |                                      |                                 |               |
| Property   |                  |                            |  |  |               | 545,225                              | -                               | 545,225       |
| Sales tax  |                  |                            |  |  |               | 936,223                              | -                               | 936,223       |
| Motor vehicle in-lieu                                |                  |                            |  |  |               | 505,259                              | -                               | 505,259       |
| Franchise fees                                       |                  |                            |  |  |               | 218,388                              | -                               | 218,388       |
| Transient occupancy taxes                            |                  |                            |  |  |               | 965,679                              | -                               | 965,679       |
| Busines Licenses                                     |                  |                            |  |  |               | 52,756                               | -                               | 52,756        |
| Total Taxes  |                  |                            |  |  |               | 3,223,530                            | -                               | 3,223,530     |
| Unrestricted investment earnings                     |                  |                            |  |  |               | 46,555                               | 3,922                           | 50,477        |
| Other  |                  |                            |  |  |               | 173,785                              | -                               | 173,785       |
| Transfers  |                  |                            |  |  |               | (1,215,004)                          | 1,215,004                       | -             |
| Total general revenues and transfers                 |                  |                            |  |  |               | 2,228,866                            | 1,218,926                       | 3,447,792     |
| <b>Change in net position</b>                        |                  |                            |  |  |               | 625,355                              | 1,440,664                       | 2,066,019     |
| <b>Net position - beginning of year, as restated</b> |                  |                            |  |  |               | 10,410,702                           | 12,438,991                      | 22,849,693    |
| <b>Net position - end of year</b>                    |                  |                            |  |  |               | \$ 11,036,057                        | \$ 13,879,655                   | \$ 24,915,712 |

See accompanying Notes to Basic Financial Statements.

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# FUND FINANCIAL STATEMENTS

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*Governmental Fund Financial Statements*

*Proprietary Fund Financial Statements*

*Fiduciary Fund Financial Statements*

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## GOVERNMENTAL FUND FINANCIAL STATEMENTS

*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.

*CDBG* - accounts for revenue and expenditures of CDBG funds awarded by the Department of Housing and Urban Development

*Non-Major Governmental Funds* is the aggregate of all the non-major governmental funds.

City of Crescent City  
Balance Sheet  
Governmental Funds  
June 30, 2014

|  | Major Funds         |                                   | Major Funds       |                     | Total Nonmajor<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|--|---------------------|-----------------------------------|-------------------|---------------------|---|--------------------------------|
|  | General             | Housing<br>Authority<br>Section 8 | CDBG              |                     |   |                                |
| <b>Assets</b>  |                     |                                   |                   |                     |   |                                |
| Cash and investments   | \$ 1,094,505        | \$ 138,612                        | \$ 163,331        | \$ 489,060          | \$ 1,885,508                            |                                |
| Receivables:   |                     |                                   |                   |                     |   |                                |
| Consumers and others   | 215,813             | 1,617                             | 36                | 286                 | 217,752                                 |                                |
| County/State/Federal Government  | 392,504             | 6,703                             | 386,408           | 39,254              | 824,869                                 |                                |
| Due from RDA Successor Agency  |                     |                                   |                   | 306,871             | 306,871                                 |                                |
| Due from other funds   | 31,829              | -                                 | -                 | -                   | 31,829                                  |                                |
| Prepaid items  | 22,674              | 2,508                             | 17                | -                   | 25,199                                  |                                |
| Land held for redevelopment  | -                   | -                                 | -                 | 89,752              | 89,752                                  |                                |
| Note Receivable  | -                   | -                                 | 212,670           | 103,267             | 315,937                                 |                                |
| <b>Total Assets</b>  | <b>\$ 1,757,325</b> | <b>\$ 149,440</b>                 | <b>\$ 762,462</b> | <b>\$ 1,028,490</b> | <b>\$ 3,697,717</b>                     |                                |
| <b>Liabilities, Deferred Inflow of Resources,<br/>and Fund Balance</b>       |                     |                                   |                   |                     |   |                                |
| <b>Liabilities:</b>  |                     |                                   |                   |                     |   |                                |
| Accounts payable   | \$ 169,965          | \$ 604                            | 7,676             | \$ 32,611           | \$ 210,856                              |                                |
| Accrued expenses   | 20,397              | 1,581                             | -                 | -                   | 21,978                                  |                                |
| Deposits   | 6,094               | -                                 | -                 | -                   | 6,094                                   |                                |
| Due to other funds   | -                   | -                                 | 387,919           | 916                 | 388,835                                 |                                |
| <b>Total Liabilities</b>   | <b>196,456</b>      | <b>2,185</b>                      | <b>395,595</b>    | <b>33,527</b>       | <b>627,763</b>                          |                                |
| <b>Deferred Inflow of Resources</b>  |                     |                                   |                   |                     |   |                                |
| Unavailable revenues   | 134,502             | -                                 | -                 | -                   | 134,502                                 |                                |
| <b>Total Deferred Inflow of Resources</b>                                    | <b>134,502</b>      | <b>-</b>                          | <b>-</b>          | <b>-</b>            | <b>134,502</b>                          |                                |
| <b>Fund Balance:</b>   |                     |                                   |                   |                     |   |                                |
| Nonspendable   | 22,674              | -                                 | -                 | -                   | 22,674                                  |                                |
| Restricted   |                     |                                   |                   |                     |   |                                |
| Low and moderate income housing  | -                   | 147,255                           | 366,867           | 395,707             | 909,829                                 |                                |
| Other Purposes   | -                   | -                                 | -                 | 206,997             | 206,997                                 |                                |
| Assigned for Capital Improvement and Vehicle Replacement                     | -                   | -                                 | -                 | 392,259             | 392,259                                 |                                |
| Unassigned   | 1,403,693           | -                                 | -                 | -                   | 1,403,693                               |                                |
| <b>Total Fund Balance</b>  | <b>1,426,367</b>    | <b>147,255</b>                    | <b>366,867</b>    | <b>994,963</b>      | <b>2,935,452</b>                        |                                |
| <b>Total Liabilities, Deferred Inflow of Resources,<br/>and Fund Balance</b> | <b>\$ 1,757,325</b> | <b>\$ 149,440</b>                 | <b>\$ 762,462</b> | <b>\$ 1,028,490</b> | <b>\$ 3,697,717</b>                     |                                |

See accompanying Notes to Basic Financial Statements.

**City of Crescent City**  
**Reconciliation of the Governmental Funds Balance Sheet**  
**to the Government-Wide Statement of Net Position**  
**June 30, 2014**

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|  |                     |
|--|---------------------|
| <b>Total Fund Balance - Governmental Funds</b> | \$ <u>2,935,452</u> |
|--|---------------------|

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

|   |         |
|---|---------|
| Internal Service Funds are used by the City to charge the cost of unemployment insurance, dental insurance, and fleet services to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position. Internal service fund net position is: | 947,992 |
|---|---------|

|   |           |
|---|-----------|
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. | 7,223,172 |
|---|-----------|

|  |         |
|--|---------|
| Revenues from Grants, Taxes, and Miscellaneous Revenue that are funded in this fiscal year that will not be collected for several months after the City's fiscal year ends are not considered "available" revenue and are classified as deferred inflow of resources in the governmental funds | 134,502 |
|--|---------|

|  |                  |
|--|------------------|
| Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds. | <u>(205,061)</u> |
|--|------------------|

|  |                             |
|--|-----------------------------|
| <b>Net position of governmental activities</b> | <b>\$ <u>11,036,057</u></b> |
|--|-----------------------------|

**City of Crescent City**  
**Statements of Revenues, Expenditures, and Changes in Fund Balance**  
**For the Year Ended June 30, 2014**

|  | Major Funds         |                                   | Major Fund         | Total Nonmajor<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|--|---------------------|-----------------------------------|--------------------|---|--------------------------------|
|  | General             | Housing<br>Authority<br>Section 8 | CDBG               |   |                                |
| <b>Revenues</b>                                |                     |                                   |                    |   |                                |
| Taxes  | 2,952,386           | \$ -                              | \$ -               | \$ -                                    | \$ 2,952,386                   |
| Use of Money and Property                      |                     |                                   |                    |   |                                |
| Interest                                       | 1,443               | 10                                | 213                | 1,025                                   | 2,691                          |
| Rental Income                                  | 43,459              | -                                 | -                  | -                                       | 43,459                         |
| Licenses and permits                           | 378,676             | -                                 | -                  | -                                       | 378,676                        |
| Fines and forfeitures                          | 16,490              | -                                 | -                  | -                                       | 16,490                         |
| Intergovernmental                              | 304,485             | 3,046,696                         | 1,696,183          | 261,463                                 | 5,308,827                      |
| Charges for services                           | 353,382             | -                                 | -                  | 42,300                                  | 395,682                        |
| Gifts and donations                            | 35,980              | -                                 | -                  | -                                       | 35,980                         |
| Other reimbursements                           | 63,930              | -                                 | -                  | -                                       | 63,930                         |
| Other revenue                                  | 25,522              | 13,761                            | -                  | -                                       | 39,283                         |
| <b>Total Revenues</b>                          | <b>4,175,753</b>    | <b>3,060,467</b>                  | <b>1,696,396</b>   | <b>304,788</b>                          | <b>9,237,404</b>               |
| <b>Expenditures</b>                            |                     |                                   |                    |   |                                |
| Current:                                       |                     |                                   |                    |   |                                |
| General government                             | 611,405             | -                                 | -                  | -                                       | 611,405                        |
| Public safety                                  | 1,787,984           | -                                 | -                  | -                                       | 1,787,984                      |
| Community Development                          | 234,231             | -                                 | -                  | -                                       | 234,231                        |
| Human services and recreation                  | 477,950             | 2,945,254                         | 409,349            | 962                                     | 3,833,515                      |
| Public works                                   | 687,510             | -                                 | 45,938             | 166,505                                 | 899,953                        |
| Administrative overhead allocation             | 243,583             | 10,193                            | -                  | -                                       | 253,776                        |
| <b>Total Expenditures</b>                      | <b>4,042,663</b>    | <b>2,955,447</b>                  | <b>455,287</b>     | <b>167,467</b>                          | <b>7,620,864</b>               |
| Excess (Deficit) of Revenues Over Expenditures | 133,090             | 105,020                           | 1,241,109          | 137,321                                 | 1,616,540                      |
| <b>Other Financing Sources (Uses)</b>          |                     |                                   |                    |   |                                |
| Transfers in                                   | 310,000             | -                                 | -                  | 20,800                                  | 330,800                        |
| Transfers out                                  | (17,500)            | -                                 | (1,265,004)        | (260,000)                               | (1,542,504)                    |
| <b>Total Other Financing Sources (Uses)</b>    | <b>292,500</b>      | <b>-</b>                          | <b>(1,265,004)</b> | <b>(239,200)</b>                        | <b>(1,211,704)</b>             |
| Net Change in Fund Balance                     | 425,590             | 105,020                           | (23,895)           | (101,879)                               | 404,836                        |
| <b>Fund Balance - Beginning of year</b>        | <b>1,000,777</b>    | <b>42,235</b>                     | <b>390,762</b>     | <b>1,096,842</b>                        | <b>\$ 2,530,616</b>            |
| <b>Fund Balance - End of year</b>              | <b>\$ 1,426,367</b> | <b>\$ 147,255</b>                 | <b>\$ 366,867</b>  | <b>\$ 994,963</b>                       | <b>\$ 2,935,452</b>            |

See accompanying Notes to Basic Financial Statements.



**City of Crescent City**  
**Reconciliation of the Statements of Revenues, Expenditures,**  
**and Changes in Fund Balance of Governmental Funds to the Statements of Activities**  
**For the Year Ended June 30, 2014**

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Net change in fund balance - governmental funds \$ 404,836

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

Governmental funds reported additions of capital assets as capital outlay and program expenditures. However, in the Government-Wide Statement of Activities, the cost of those assets was allocated over their estimated useful lives as depreciation expense. This was the amount of capital assets recorded in the current period (net of Internal Service Funds, \$71,998). 355,867

Depreciation expense on capital assets was reported in the Government-Wide Statement of Activities, but it did not require the use of current financial resources. Therefore, depreciation expense was not reported as expenditures in the Governmental Funds (net of Internal Services Funds, \$143,516). (192,322)

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. (55,999)

Revenues from Grants, Taxes, and Miscellaneous Revenue that are funded in this fiscal year that will not be collected for several months after the City's fiscal year ends are not considered "available" revenue and are classified as deferred inflow of resources in the governmental funds 134,502

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental fund. In addition, some expenditures recorded in the governmental funds have already been expensed in the government-wide in prior years. (21,529)

**Change in net position of governmental activities** \$ 625,355

See accompanying Notes to Basic Financial Statements.

**City of Crescent City**  
**Statement of Net Position**  
**Proprietary Funds**  
**June 30, 2014**

|                                       | <b>Business-type Activities Enterprise Funds</b> |                     |                   |                      | <b>Business-type</b>                               |
|---------------------------------------|--|---------------------|-------------------|----------------------|--|
|                                       | <b>Sewer</b>                                     | <b>Water</b>        | <b>RV Park</b>    | <b>Totals</b>        | <b>Activities -<br/>Internal Service<br/>Funds</b> |
| <b>Assets</b>                         |  |                     |                   |                      |  |
| Current assets:                       |  |                     |                   |                      |  |
| Cash and investments                  | \$ 1,902,074                                     | \$ 705,063          | \$ 143,788        | \$ 2,750,925         | \$ 477,398   |
| Accounts Receivable                   | 1,240,460  | 224,355             | 162               | 1,464,977            | 2,942  |
| Prepaid items                         | 8,290  | 5,804               | 460               | 14,554               | 2,755  |
| Due from RDA Successor Agency         | -  | 1,203,719           | -                 | 1,203,719            | -  |
| Due from other funds                  | 357,006  | -                   | -                 | 357,006              | -  |
| <b>Total Current Assets</b>           | <b>3,507,830</b>                                 | <b>2,138,941</b>    | <b>144,410</b>    | <b>5,791,181</b>     | <b>483,095</b>                                     |
| Non Current Assets:                   |  |                     |                   |                      |  |
| Capital assets not being depreciated  | 1,343,071  | 465,578             | 33,644            | 1,842,293            | 42,525   |
| Net capital assets being depreciated  | 45,437,219                                       | 7,824,999           | -                 | 53,262,218           | 757,591  |
| <b>Total assets</b>                   | <b>50,288,120</b>                                | <b>10,429,518</b>   | <b>178,054</b>    | <b>60,895,692</b>    | <b>1,283,211</b>                                   |
| <b>Liabilities</b>                    |  |                     |                   |                      |  |
| Current liabilities:                  |  |                     |                   |                      |  |
| Accounts payable                      | 141,925  | 62,161              | 4,562             | 208,648              | 89,881   |
| Interest Payable                      | 927,715  | -                   | -                 | 927,715              | -  |
| Accrued Expenses                      | 5,609  | 3,264               | 831               | 9,704                | 204,264  |
| Deposits                              | -  | 272,177             | -                 | 272,177              | -  |
| Current maturities of long term debt: |  |                     |                   |                      |  |
| Compensated absences payable          | 35,470   | 26,255              | 4,442             | 66,167               | -  |
| Fire truck capital lease              | -  | -                   | -                 | -                    | 41,074   |
| Current portion of loans payable      | 1,127,665  | 350,000             | -                 | 1,477,665            | -  |
| <b>Total Current Liabilities</b>      | <b>2,238,384</b>                                 | <b>713,857</b>      | <b>9,835</b>      | <b>2,962,076</b>     | <b>335,219</b>                                     |
| Long-term Liabilities:                |  |                     |                   |                      |  |
| Compensated absences payable          | 20,243   | 14,984              | 2,535             | 37,762               | -  |
| Loans payable                         | 41,041,199                                       | 2,975,000           | -                 | 44,016,199           | -  |
| <b>Total Liabilities</b>              | <b>\$ 43,299,826</b>                             | <b>\$ 3,703,841</b> | <b>\$ 12,370</b>  | <b>\$ 47,016,037</b> | <b>\$ 335,219</b>                                  |
| <b>Net Position</b>                   |  |                     |                   |                      |  |
| Net investment in capital assets      | 4,611,426  | 4,965,577           | 33,644            | 9,610,647            | 759,042  |
| Unrestricted                          | 2,376,868  | 1,760,100           | 132,040           | 4,269,008            | 188,950  |
| <b>Total Net Position</b>             | <b>\$ 6,988,294</b>                              | <b>\$ 6,725,677</b> | <b>\$ 165,684</b> | <b>\$ 13,879,655</b> | <b>\$ 947,992</b>                                  |

**City of Crescent City**  
**Statement of Revenues, Expenses, and Changes in Net Position**  
**Proprietary Funds**  
**For the year ended June 30, 2014**

|   | <u>Business-type Activities Enterprise Funds</u> |                     |                   |                      | <b>Business-type<br/>Activities -<br/>Internal Service<br/>Funds</b> |
|---|--|---------------------|-------------------|----------------------|--|
|   | <u>Sewer</u>                                     | <u>Water</u>        | <u>RV Park</u>    | <u>Totals</u>        |  |
| Operating revenues                        |  |                     |                   |                      |  |
| Charges for services                      | \$ 4,537,723                                     | \$ 1,589,976        | \$ 224,323        | \$ 6,352,022         | \$ 757,863   |
| Grant and Other Revenue                   | 910,000  | 19,701              | 7,111             | 936,812              | 102,657  |
| Total operating revenues                  | <u>5,447,723</u>                                 | <u>1,609,677</u>    | <u>231,434</u>    | <u>7,288,834</u>     | <u>860,520</u>   |
| Operating expenses:                       |  |                     |                   |                      |  |
| Personnel services                        | 1,158,359  | 657,437             | 73,701            | 1,889,497            | 428,183  |
| Materials, supplies, rent and services    | 664,707  | 395,785             | 95,335            | 1,155,827            | 264,291  |
| Repair and maintenance                    | 295,107  | 142,081             | 17,824            | 455,012              | 73,658   |
| Administrative Overhead                   | 189,463  | 268,166             | 22,956            | 480,585              | -  |
| Depreciation                              | 1,818,464  | 253,456             | -                 | 2,071,920            | 143,516  |
| Total operating expenses                  | <u>4,126,100</u>                                 | <u>1,716,925</u>    | <u>209,816</u>    | <u>6,052,841</u>     | <u>909,648</u>   |
| Operating income (loss)                   | <u>1,321,623</u>                                 | <u>(107,248)</u>    | <u>21,618</u>     | <u>1,235,993</u>     | <u>(49,128)</u>  |
| Non-operating revenues (expense):         |  |                     |                   |                      |  |
| Interest income                           | 1,953  | 1,680               | 289               | 3,922                | 405  |
| Interest expense                          | (1,014,255)                                      | -                   | -                 | (1,014,255)          | (3,976)  |
| Total non-operating revenues (expenses)   | <u>(1,012,302)</u>                               | <u>1,680</u>        | <u>289</u>        | <u>(1,010,333)</u>   | <u>(3,571)</u>   |
| Transfers:                                |  |                     |                   |                      |  |
| Transfers in                              | 1,215,004  | -                   | -                 | 1,215,004            | -  |
| Transfers out                             | -  | -                   | -                 | -                    | (3,300)  |
| Change in net position                    | <u>1,524,325</u>                                 | <u>(105,568)</u>    | <u>21,907</u>     | <u>1,440,664</u>     | <u>(55,999)</u>  |
| <b>Net Position - beginning</b>           | 6,134,082  | 6,816,087           | 143,777           | 13,093,946           | 968,801  |
| <b>Prior period adjustments</b>           | (670,113)  | 15,158              | -                 | (654,955)            | 35,190   |
| <b>Net Position - beginning, restated</b> | <u>5,463,969</u>                                 | <u>6,831,245</u>    | <u>143,777</u>    | <u>12,438,991</u>    | <u>1,003,991</u>   |
| <b>Net Position - ending</b>              | <u>\$ 6,988,294</u>                              | <u>\$ 6,725,677</u> | <u>\$ 165,684</u> | <u>\$ 13,879,655</u> | <u>\$ 947,992</u>  |

See accompanying Notes to Basic Financial Statements.

**City of Crescent City**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the year ended June 30, 2014**

|  | <u>Sewer</u>        | <u>Water</u>      | <u>RV Park</u>    | <u>Totals</u>       | <u>Internal<br/>Service Funds</u> |
|--|---------------------|-------------------|-------------------|---------------------|-----------------------------------|
| Cash flows from operating activities:                                |                     |                   |                   |                     |                                   |
| Receipts from customers  | \$ 5,270,325        | \$ 1,609,986      | \$ 231,317        | \$ 7,111,628        | \$ -                              |
| Receipts from other funds  | -                   | -                 | -                 | -                   | 857,593                           |
| Payments to suppliers  | (1,132,771)         | (1,030,345)       | (136,852)         | (2,299,968)         | (361,409)                         |
| Payments to employees  | (1,155,291)         | (658,652)         | (66,724)          | (1,880,667)         | (427,151)                         |
| Net cash provided (used) by operating activities                     | <u>2,982,263</u>    | <u>(79,011)</u>   | <u>27,741</u>     | <u>2,930,993</u>    | <u>69,033</u>                     |
| Cash flows from noncapital financing activities:                     |                     |                   |                   |                     |                                   |
| Due from other funds   | (357,006)           | -                 | -                 | (357,006)           | -                                 |
| Transfers  | 1,215,004           | -                 | -                 | 1,215,004           | (3,300)                           |
| Net cash provided (used) by noncapital financing activities          | <u>857,998</u>      | <u>-</u>          | <u>-</u>          | <u>857,998</u>      | <u>(3,300)</u>                    |
| Cash flows from capital and related financing activities:            |                     |                   |                   |                     |                                   |
| Principal payments on capital debt                                   | (1,101,234)         | (350,000)         | -                 | (1,451,234)         | (39,134)                          |
| Interest paid on capital debt  | (1,038,482)         | -                 | -                 | (1,038,482)         | (3,976)                           |
| Acquisition of capital assets  | (1,724,719)         | -                 | (33,643)          | (1,758,362)         | (71,994)                          |
| Net cash provided (used) by capital and related financing activities | <u>(3,864,435)</u>  | <u>(350,000)</u>  | <u>(33,643)</u>   | <u>(4,248,078)</u>  | <u>(115,104)</u>                  |
| Cash flows from investing activities:                                |                     |                   |                   |                     |                                   |
| Interest earned  | 1,953               | 1,680             | 289               | 3,922               | 405                               |
| Net cash provided by investing activities                            | <u>1,953</u>        | <u>1,680</u>      | <u>289</u>        | <u>3,922</u>        | <u>405</u>                        |
| Net increase (decrease) in cash and cash equivalents                 | <u>(22,221)</u>     | <u>(427,331)</u>  | <u>(5,613)</u>    | <u>(455,165)</u>    | <u>(48,966)</u>                   |
| Cash and cash equivalents - beginning of period                      | 1,924,295           | 1,132,394         | 149,401           | 3,206,090           | 526,364                           |
| Cash and cash equivalents - end of period                            | <u>\$ 1,902,074</u> | <u>\$ 705,063</u> | <u>\$ 143,788</u> | <u>\$ 2,750,925</u> | <u>\$ 477,398</u>                 |

See accompanying Notes to Basic Financial Statements.

**City of Crescent City**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the year ended June 30, 2014**

|  | <u>Sewer</u>        | <u>Water</u>       | <u>RV Park</u>   | <u>Totals</u>       | <u>Internal<br/>Service Funds</u> |
|--|---------------------|--------------------|------------------|---------------------|-----------------------------------|
| Reconciliation of operating income (loss) to net cash provided (used in) operating activities: |                     |                    |                  |                     |                                   |
| Operating income (loss)  | \$ 1,321,623        | \$ (107,248)       | \$ 21,618        | \$ 1,235,993        | \$ (49,128)                       |
| Adjustments to reconcile operating income (loss) to net cash provided by operating activities: |                     |                    |                  |                     |                                   |
| Depreciation   | 1,818,464           | 253,456            | -                | 2,071,920           | 143,516                           |
| Changes in certain assets and liabilities:   |                     |                    |                  |                     |                                   |
| Accounts receivable  | (177,398)           | 309                | (117)            | (177,206)           | (2,927)                           |
| Prepaid expenses   | (8,290)             | (5,804)            | (460)            | (14,554)            | (2,755)                           |
| Accounts payable   | 19,187              | (246,807)          | (1,108)          | (228,728)           | 14,044                            |
| Accrued expenses   | 5,609               | 3,264              | 831              | 9,704               | (33,717)                          |
| Deposits and deferred revenue  | -                   | 25,034             | -                | 25,034              | -                                 |
| Compensated absences   | 3,068               | (1,215)            | 6,977            | 8,830               | -                                 |
| Total adjustments  | <u>1,660,640</u>    | <u>28,237</u>      | <u>6,123</u>     | <u>1,695,000</u>    | <u>118,161</u>                    |
| Net cash provided (used) by operating activities   | <u>\$ 2,982,263</u> | <u>\$ (79,011)</u> | <u>\$ 27,741</u> | <u>\$ 2,930,993</u> | <u>\$ 69,033</u>                  |

See accompanying Notes to Basic Financial Statements.

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**FIDUCIARY FUND FINANCIAL STATEMENTS**

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**City of Crescent City**  
**Statement of Fiduciary Net Position**  
**Fiduciary Funds**  
**June 30, 2014**

|   | <u>Private Purpose Funds</u>              |                                   |
|---|---|-----------------------------------|
|   | <u>Successor<br/>Agency<br/>Other RDA</u> | <u>Totals<br/>Trust<br/>Funds</u> |
| <b>Assets</b>   |   |                                   |
| Cash and investments                                  | \$ 238,332                                | \$ 238,332                        |
| Interest receivable                                   | 136                                       | 136                               |
| Prepaid items   | 189                                       | 189                               |
| Notes receivable                                      | 141,531                                   | 141,531                           |
| Land held for redevelopment                           | 67,500                                    | 67,500                            |
| Total Assets  | <u>447,688</u>                            | <u>447,688</u>                    |
| <b>Liabilities</b>                                    |   |                                   |
| Due to the City of Crescent City                      | 306,871                                   | 306,871                           |
| Due to the City of Crescent City (Water Utility Fund) | 1,203,719                                 | 1,203,719                         |
| Total Liabilities                                     | <u>1,510,590</u>                          | <u>1,510,590</u>                  |
| <b>Net Position</b>                                   |   |                                   |
| Unrestricted  | (1,062,902)                               | (1,062,902)                       |
| Total Net Position                                    | <u>\$ (1,062,902)</u>                     | <u>\$ (1,062,902)</u>             |

See accompanying Notes to Basic Financial Statements.

**City of Crescent City**  
**Statement of Changes in Fiduciary Net Position**  
**Fiduciary Fund**  
**For the year ended June 30, 2014**

|  | <b>Private Purpose Funds</b>              |                                   |
|--|---|-----------------------------------|
|  | <b>Successor<br/>Agency<br/>Other RDA</b> | <b>Totals<br/>Trust<br/>Funds</b> |
| <b>Additions</b>   |   |                                   |
| Use of money and property:                                   |   |                                   |
| Interest   | \$ 4,907                                  | \$ 4,907                          |
| Total revenues   | <u>4,907</u>                              | <u>4,907</u>                      |
| <b>Deductions</b>  |   |                                   |
| Current:   |   |                                   |
| Payroll and Benefites  | 56,659                                    | 56,659                            |
| Other  | 15,719                                    | 15,719                            |
| Total expenditures   | <u>72,378</u>                             | <u>72,378</u>                     |
| Excess (deficiency) of revenues<br>over (under) expenditures | <u>(67,471)</u>                           | <u>(67,471)</u>                   |
| <b>Net Position - beginning</b>                              | (1,130,647)                               | (1,130,647)                       |
| <b>Prior period adjustments</b>                              | 135,216                                   | 135,216                           |
| <b>Net Position - beginning, as restated</b>                 | <u>(995,431)</u>                          | <u>(995,431)</u>                  |
| <b>Net Position - ending</b>                                 | <u>\$ (1,062,902)</u>                     | <u>\$ (1,062,902)</u>             |

See accompanying Notes to Basic Financial Statements.

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# NOTES TO BASIC FINANCIAL STATEMENTS

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**City of Crescent City**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2014**

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**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; 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:

*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

**City of Crescent City**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2014**

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

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 the Crescent City Housing Authority 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 position 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.

***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

**City of Crescent City**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2014**

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

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 position. 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 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.

**City of Crescent City**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2014**

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

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 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.

***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.

CDBG - accounts for revenue and expenditures of CDBG funds awarded by the Department of Housing and Urban Development

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.



**City of Crescent City**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2014**

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

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 Shoreline 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 included 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.

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 services 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 Position or Equity*

**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. All other investments are reported at fair value.

**City of Crescent City**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2014**

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

For the purpose of the statement of cash flows, the City considers all pooled cash and investments (consisting of cash and investments and restricted cash and investments) held by the City as cash and cash equivalents because the pool is used essentially as a demand deposit account from the standpoint of the funds. The City also considers all non-pooled cash and investments (consisting of cash with fiscal agent and restricted cash and investments held by fiscal agent) as cash and cash equivalents because investments meet the criteria for cash equivalents defined above.

**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 taxes are due in two installments, on November 1 and March 1. Property taxes become delinquent after December 10 and April 10, respectively. Unsecured property taxes are due on July 1, and becomes delinquent on August 31. The term "unsecured" refers to taxes on personal property other than real estate, land and buildings. These taxes are secured by liens on the property being taxed.

**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 three years. Such depreciation has been provided over the estimated useful lives using the straight-line method.

**City of Crescent City**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2014**

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

The range of estimated useful lives by type of asset is as follows:

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

Assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair 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.

**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 has been accrued in the accompanying government-wide financial statements and the accompanying proprietary fund financial statements.

**Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then. The government has no items that qualifies for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has only one type of this item, which arises only under a modified accrual basis of

**City of Crescent City**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2014**

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

accounting. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

**Long-Term Obligations**

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

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.

**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.

**City of Crescent City**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2014**

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

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, 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, 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**

- GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* - This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. There was no effect on net position as part of implementation of this standard.

**City of Crescent City**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2014**

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

- GASB Statement No. 66, *Technical Corrections – 2012 – An Amendment of GASB Statements No. 10 and No. 62* – The objective of this statement is to resolve conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. There was no effect on net position as part of implementation of this standard.
- GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees* – The objective of this statement is to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. There was no effect on net position as part of implementation of this standard.

**2. CASH AND INVESTMENTS**

As of June 30, 2014, the City's cash and investments are reported in the financial statements as follows:

|                            |                     |
|----------------------------|---------------------|
| Primary government         | \$ 5,113,831        |
| Fiduciary Funds            | 238,332             |
| Total Cash and Investments | <u>\$ 5,352,163</u> |

As of June 30, 2014, the City's cash and investments consisted of the following:

Cash:

|                                    |                |
|------------------------------------|----------------|
| Cash on hand:                      | \$ 1,250       |
| Deposits (less outstanding checks) | 559,748        |
| Total Cash                         | <u>560,998</u> |

As of June 30, 2014, the City's investments consisted of the following:

Investments:

|   |                         |
|---|-------------------------|
| In California Local Agency Investment Fund (at market): | <u>4,791,165</u>        |
| Total Investments                                       | <u>4,791,165</u>        |
| Total Cash and Investments                              | <u><u>5,352,163</u></u> |

At year end, the carrying amount of the City's cash deposits (including amounts in checking accounts and money market accounts) was \$559,748 and the bank balance was \$960,246. The difference between the bank balance and the carrying amount represents outstanding checks and deposits in transit.

**City of Crescent City**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2014**

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**2. CASH AND INVESTMENTS, Continued**

**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 110 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, 2014, 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 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, 2014, the City's investment position in LAIF was \$4,791,165. The total amount invested by all public agencies in LAIF on that day was \$64,870,214,443. Of that amount, 98.14% is invested in non-derivative financial products and 1.86% in structured notes and asset-backed securities.

**City of Crescent City**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2014**

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**2. CASH AND INVESTMENTS, Continued**

**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.

**3. 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 2014.

|   |    |                |
|---|----|----------------|
| Business Enterprise Notes                           | \$ | 141,531        |
| Sidewalk Notes                                      |    | 16,427         |
| Housing Rehabilitation and Affordable Housing Notes |    | 299,510        |
|   | \$ | <u>457,468</u> |



**City of Crescent City**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2014**

**4. CAPITAL ASSETS**

Capital assets activity for the year ended June 30, 2014, was as follows:

|   | Balance<br>July 1, 2013 | Prior Year<br>Adjustments | Additions    | Adjustments/<br>Retirements | Balance<br>June 30, 2014 |
|---|-------------------------|---------------------------|--------------|-----------------------------|--------------------------|
| <b>Governmental Activities</b>                  |                         |                           |              |                             |                          |
| Capital Assets, Not Being Depreciated:          |                         |                           |              |                             |                          |
| Land  | \$ 2,306,351            | \$ 170,710                | \$ 323,091   | \$ -                        | \$ 2,800,152             |
| Construction in progress                        | -                       | 297,640                   | 19,597       | -                           | 317,237                  |
| Total Capital Assets,<br>Not Being Depreciated  | 2,306,351               | 468,350                   | 342,688      | -                           | 3,117,389                |
| Capital Assets, Being Depreciated:              |                         |                           |              |                             |                          |
| Building and improvements                       | 5,716,033               | 602,343                   | -            | -                           | 6,318,376                |
| Machinery and equipment                         | 3,741,922               | 35,069                    | 101,538      | -                           | 3,878,529                |
| Infrastructure                                  | -                       | 1,410,470                 | -            | -                           | 1,410,470                |
| Total Capital Assets, Being Depreciated:        | 9,457,955               | 2,047,882                 | 101,538      | -                           | 11,607,375               |
| Less Accumulated Depreciation                   | (6,133,906)             | (231,730)                 | (335,840)    | -                           | (6,701,476)              |
| Total Capital Assets,<br>Being Depreciated, Net | 3,324,049               | 1,816,152                 | (234,302)    | -                           | 4,905,899                |
| Total Governmental Activities, Net              | \$ 5,630,400            | \$ 2,284,502              | \$ 108,386   | \$ -                        | \$ 8,023,288             |
| <b>Business-Type Activities</b>                 |                         |                           |              |                             |                          |
| Capital Assets, Not Being Depreciated:          |                         |                           |              |                             |                          |
| Land  | \$ 509,031              | \$ (22,802)               | \$ 7,626     | \$ -                        | \$ 493,855               |
| Construction in progress                        | -                       | -                         | 1,348,438    | -                           | 1,348,438                |
| Total Capital Assets,<br>Not Being Depreciated  | 509,031                 | (22,802)                  | 1,356,064    | -                           | 1,842,293                |
| Capital Assets, Being Depreciated:              |                         |                           |              |                             |                          |
| Structures and improvements                     | 51,205,943              | 47,978                    | -            | -                           | 51,253,921               |
| Machinery and equipment                         | 18,011,347              | -                         | 402,129      | -                           | 18,413,476               |
| Total Capital Assets, Being Depreciated:        | 69,217,290              | 47,978                    | 402,129      | -                           | 69,667,397               |
| Less Accumulated Depreciation                   | (14,326,539)            | (6,717)                   | (2,071,920)  | -                           | (16,405,176)             |
| Total Capital Assets,<br>Being Depreciated, Net | 54,890,751              | 41,261                    | (1,669,794)  | -                           | 53,262,218               |
| Total Business-Type Activities, Net             | \$ 55,399,782           | \$ 18,459                 | \$ (313,730) | \$ -                        | \$ 55,104,511            |

**City of Crescent City**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2014**

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**4. CAPITAL ASSETS, Continued**

**Depreciation**

Depreciation expense was charged to governmental functions as follows:

|   |    |                |
|---|----|----------------|
| General government                                  | \$ | 20,660         |
| Public ways and facilities                          |    | 131,049        |
| Public protections                                  |    | 84,355         |
| Culture and recreation                              |    | 99,773         |
| Total Depreciation Expense - Governmental Functions | \$ | <u>335,837</u> |

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

|  |    |                  |
|--|----|------------------|
| Sewer  | \$ | 1,818,464        |
| Water  |    | 253,456          |
| Total Depreciation Expense - Business-Type Functions | \$ | <u>2,071,920</u> |

The City has a contract with Mercer Fraser for the 2nd Street Sewer project. The project consists of replacing the 2nd Street main sewer line between B and H streets. The original contract was for \$1,318,548 including change orders, and the remaining balance including retention as of June 30, 2014 was approximately \$94,375. The contract is expected to be completed by June 30, 2015.

**5. DEFERRED INFLOWS/OUTFLOWS OF RESOURCES**

At June 30, 2014, the Deferred Inflows of Resources consisted of \$134,502 of revenues that were not available to finance expenditures of the current period relating to the General Fund.

**City of Crescent City**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2014**

**6. LONG-TERM DEBT**

Long-term debt for the year ended June 30, 2014, was as follows:

|   | Balance<br>July 1, 2013 | Additions        | Adjustments/<br>Retirements | Balance<br>June 30, 2014 | Amounts<br>Due Within<br>One year |
|---|-------------------------|------------------|-----------------------------|--------------------------|-----------------------------------|
| <b>Governmental Activities</b>          |                         |                  |                             |                          |                                   |
| Capital Leases                          | \$ 80,207               | \$ -             | \$ 39,133                   | \$ 41,074                | \$ 41,074                         |
| Compensated Absences (Note 1)           | 183,532                 | 21,529           | -                           | 205,061                  | 130,553                           |
| <b>Total Governmental Activities</b>    | <b>\$ 263,739</b>       | <b>\$ 21,529</b> | <b>\$ 39,133</b>            | <b>\$ 246,135</b>        | <b>\$ 171,627</b>                 |
| <b>Business-Type Activities</b>         |                         |                  |                             |                          |                                   |
| Safe Water Revolving Loan               | \$ 3,675,000            | \$ -             | \$ 350,000                  | \$ 3,325,000             | \$ 350,000                        |
| State Water Resources - Safe Water Loan | 43,270,098              | -                | 1,101,234                   | 42,168,864               | 1,127,665                         |
| Compensated Absences (Note 1)           | 95,099                  | 10,045           | 1,215                       | 103,929                  | 66,167                            |
| <b>Total Business-Type Activities</b>   | <b>\$ 47,040,197</b>    | <b>\$ 10,045</b> | <b>\$ 1,452,449</b>         | <b>\$ 45,597,793</b>     | <b>\$ 1,543,832</b>               |

At June 30, 2014, 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 date in fiscal year 2041. The loan agreement for this loan requires the city to establish a Wastewater Capital Reserve Fund and maintain this fund in compliance with the "Policy for Implementing The State Revolving Fund for Construction of Wastewater Treatment Facilities" in effect at the time of the agreement. Loan proceeds were used for wastewater system improvements

|  | Government<br>Activities | Business-Type<br>Activities |
|--|--------------------------|-----------------------------|
|  | \$ -                     | \$ 42,168,864               |

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 loan agreement for this loan requires a debt service reserve of \$350,000. Loan proceeds were used for water system improvements

|                    |             |                      |
|--------------------|-------------|----------------------|
|                    | \$ -        | \$ 3,325,000         |
| <b>Total Loans</b> | <b>\$ -</b> | <b>\$ 45,493,864</b> |

**City of Crescent City**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2014**

**6. LONG-TERM DEBT, Continued**

As of June 30, 2014, the City is not in compliance with the debt service reserve and Wastewater Capital Reserve Fund requirements as stated in the loan agreements of each loan payable.

**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 \$294,334 at June 30, 2014.

|  |                         |
|--|-------------------------|
|  | Fire Engine             |
| 2014-15  | \$ 43,110               |
| Total Minimum Lease Payments                   | <u>\$ 43,110</u>        |
| Less: Amounts representing interest            | <u>\$ (2,036)</u>       |
| Present value of future minimum lease payments | <u><u>\$ 41,074</u></u> |

The annual aggregate maturities for the years subsequent to June 30, 2014, are as follows:

| Year Ended<br>June 30         | Loans               |             |                               |                      | Total                |
|-------------------------------|---------------------|-------------|-------------------------------|----------------------|----------------------|
|                               | Safe Drinking Water |             | Water Resources Control Board |                      |                      |
|                               | Principal           | Interest    | Principal                     | Interest             |                      |
| 2015                          | \$ 350,000          | \$ -        | \$ 1,127,664                  | \$ 1,012,052         | \$ 2,489,716         |
| 2016                          | 350,000             | -           | 1,154,728                     | 984,988              | 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            |
| 2019                          | 350,000             | -           | 1,239,879                     | 899,837              | 2,489,716            |
| 2020-2024                     | 1,575,000           | -           | 6,660,296                     | 4,038,283            | 12,273,579           |
| 2025-2029                     | -                   | -           | 7,498,826                     | 3,199,753            | 10,698,579           |
| 2030-2034                     | -                   | -           | 8,442,927                     | 2,255,652            | 10,698,579           |
| 2035-2039                     | -                   | -           | 9,505,891                     | 1,192,687            | 10,698,578           |
| 2040-2041                     | -                   | -           | 4,145,392                     | 150,012              | 4,295,404            |
| Total Governmental Activities | <u>\$ 3,325,000</u> | <u>\$ -</u> | <u>\$ 42,168,864</u>          | <u>\$ 15,619,435</u> | <u>\$ 61,113,299</u> |

**City of Crescent City**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2014**

**6. LONG-TERM DEBT, Continued**

**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, 2014 were as follows:

|                                | Balance<br>July 1, 2013 | Additions        | Adjustments/<br>Retirements | Balance<br>June 30, 2014 | Amounts<br>Due Within<br>One year |
|--------------------------------|-------------------------|------------------|-----------------------------|--------------------------|-----------------------------------|
| Governmental Activities        | \$ 183,532              | \$ 21,529        | \$ -                        | \$ 205,061               | \$ 130,553                        |
| Business-Type Activities       | 95,099                  | 10,045           | 1,215                       | 103,929                  | 66,167                            |
| Total Business-Type Activities | <u>\$ 278,631</u>       | <u>\$ 31,574</u> | <u>\$ 1,215</u>             | <u>\$ 308,990</u>        | <u>\$ 196,720</u>                 |

**7. 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, 2014:

|                          | Due From Other<br>Funds | Due to Other<br>Funds |
|--------------------------|-------------------------|-----------------------|
| General Fund             | \$ 31,829               | \$ -                  |
| EDBG Small Business Fund | -                       | 30,913                |
| Successor Housing Fund   | -                       | 916                   |
| Sewer Fund               | 357,006                 | -                     |
| CDBG                     | -                       | 357,006               |
| Total                    | <u>\$ 388,835</u>       | <u>\$ 388,835</u>     |

**City of Crescent City**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2014**

**7. INTERFUND TRANSACTIONS, Continued**

**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, 2014:

| Transfer To:                  |                     | Transfer From:              |                     |
|-------------------------------|---------------------|-----------------------------|---------------------|
| General Fund                  | \$ 310,000          | Gas Tax Fund                | \$ 260,000          |
|                               |                     | CDBG                        | 50,000              |
| Capital Improvement Fund      | 10,800              | Information Technology Fund | 3,300               |
|                               |                     | General Fund                | 7,500               |
| Sewer Capital Projects Fund   | 1,215,004           | CDBG                        | 1,215,004           |
| Fire Vehicle Replacement Fund | 10,000              | General Fund                | 10,000              |
| Total                         | <u>\$ 1,545,804</u> |                             | <u>\$ 1,545,804</u> |

The purpose of the transfer from the CDBG fund to the Sewer Capital Projects Fund was to transfer grant funds that were intended to fund the Sewer Rehabilitation Project.

**8. 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 members are required to contribute 4-1/2 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 2013-14 was 16.211% for miscellaneous employees, 6.25% for miscellaneous 2nd tier, 52.672% for fire, and 37.579% 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.

**City of Crescent City**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2014**

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**8. EMPLOYEES' RETIREMENT PLAN, Continued**

**Annual Pension Cost**

For fiscal year 2013/2014, the City's annual pension cost of \$619,774 for the miscellaneous and public safety plans was equal to the City's actual contributions. The required contribution for fiscal year 2013/2014 was determined as part of the June 30, 2011, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.50 percent investment rate of return (net of administrative expenses), (b) projected annual salary increases of 3.30 percent to 14.20 percent, depending on age, service, and type of employment, and (c) 3.00 percent per year cost of living adjustment. Both (a) and (b) included an inflation component of 2.75 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 fifteen year period (smoothed market value). PERS unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis and the average remaining period is 21 years. 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.

Miscellaneous and Public Safety

| Fiscal Year Ending | Annual Pension<br>Cost (APC) | Percentage of APC<br>Contributed | Net Pension<br>Obligation |
|--------------------|------------------------------|----------------------------------|---------------------------|
| June 30, 2012      | \$ 664,278                   | 100%                             | \$ -                      |
| June 30, 2013      | 596,029                      | 100%                             | -                         |
| June 30, 2014      | 619,774                      | 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.

**City of Crescent City**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2014**

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**9. 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 (\$119 per month for 2014)
- 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.

PARS issues a separate comprehensive annual financial report. Copies of PARS annual financial report may be obtained from the PARS Executive Office, 3961 MacArthur Boulevard, Suite 200, Newport Beach, CA 92660.

**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 costs 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.



**City of Crescent City**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2014**

**9. OTHER POST-EMPLOYMENT BENEFITS (OPEB), Continued**

|  |    |             |
|--|----|-------------|
| Annual required contribution               | \$ | 107,064     |
| Interest on net OPEB obligation            |    | -           |
| Adjustment to annual required contribution |    | -           |
|  |    | <hr/>       |
| Annual OPEB cost (expense)                 |    | 107,064     |
| Contributions made                         |    | 107,064     |
|  |    | <br>        |
| Increase in net OPEB obligation            |    | -           |
| Net OPEB obligation - Beginning of year    |    | -           |
| Net OPEB obligation - End of year          | \$ | <hr/> <hr/> |

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2013-2014, 2012-2013, and 2011-2012 were as follows:

| Fiscal Year<br>Ended | Annual<br>OPEB<br>Cost | Employer<br>OPEB<br>Contributions | Annual OPEB<br>Cost<br>Contribution | Net OPEB<br>Obligation |
|----------------------|------------------------|-----------------------------------|-------------------------------------|------------------------|
| June 30, 2012        | \$ 121,201             | \$ 121,201                        | 100%                                | \$ -                   |
| June 30, 2013        | 103,694                | 103,694                           | 100%                                | -                      |
| June 30, 2014        | 107,064                | 107,064                           | 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, 2014, the City funded OPEB benefits on a prefunding basis. The Agency contributed a total of \$82,229 to retiree premiums, in addition to a contribution of \$24,835 to PARS. The OPEB trust account balance on June 30, 2014 was \$257,513.

**City of Crescent City**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2014**

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**9. OTHER POST-EMPLOYMENT BENEFITS (OPEB), Continued**

**Actuarial Methods and Assumptions**

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as Required Supplementary Information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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. See required supplementary schedule for Funding Progress.

**10. 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 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.

**City of Crescent City**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2014**

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**10. RISK MANAGEMENT, Continued**

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 in 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 in 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, 2014, the City incurred costs of \$311,000 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.

**11. CONTINGENCIES AND SUBSEQUENT EVENTS**

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. 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

Throughout the course of FY2013-14 and into FY2014-15, the City worked with the State Water Resources Control Board (SWRCB) to modify the terms of the Sewer Fund's State Revolving Fund (SRF) Loan. This loan was originally issued in December 2007 in the amount of \$43,814,176 bearing an interest rate of 2.4%. The purpose of the loan was to fund upgrades to the Wastewater Treatment Plant. As construction costs were incurred, the City requested draws against the loan principal to pay those costs. Interest charges were accrued on the draws and the total interest accrued during the course of construction was added to the principal balance of the loan. When the project was completed in November 2012, the actual construction costs incurred were \$43,754,058 and construction period interest charges were \$1,653,873, bringing the total principal balance to \$45,407,931. The City made full principal and interest payments each August in 2011, 2012, and 2013 for a total of \$3,172,052 in interest and \$3,239,068 in principal. The principal balance due following the August 1, 2013 payment was \$42,168,863. As a result, the financial resources of the Sewer Fund were depleted. As of June 30, 2013, the Sewer Fund's Working Capital Balance was \$497,448 and it was expected that operating results for FY13-14 would not be sufficient to meet the August 1, 2014 principal and interest payment. The City

**City of Crescent City**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2014**

**11. CONTINGENCIES AND SUBSEQUENT EVENTS, Continued**

approached the SWRCB requesting a modification of the loan terms. At a hearing on November 18, 2014, the SWRCB approved a loan modification reducing the interest rate from 2.4% to 0.0% for the remaining 26 years of the loan. Additionally, the payments were modified to a graduated principal payment plan. The August 1, 2014 loan payment made by the City was applied first to interest of \$1,012,053 and then to principal of \$115,611. Future payments will be interest free, i.e. the total amount of the payments will be applied to principal. This interest relief results in a savings of approximately \$15 million over the remaining life of the loan.

| Year Ended<br>June 30         | Loans               |          |                         |              |               |  |
|-------------------------------|---------------------|----------|-------------------------|--------------|---------------|--|
|                               | Safe Drinking Water |          | Water Resources Control |              | Total         |  |
|                               | Principal           | Interest | Principal               | Interest     |               |  |
| 2015                          | \$ 350,000          | \$ -     | \$ 115,611              | \$ 1,012,053 | \$ 1,477,664  |  |
| 2016                          | 350,000             | -        | 1,100,000               | -            | 1,450,000     |  |
| 2017                          | 350,000             | -        | 1,200,000               | -            | 1,550,000     |  |
| 2018                          | 350,000             | -        | 1,300,000               | -            | 1,650,000     |  |
| 2019                          | 350,000             | -        | 1,400,000               | -            | 1,750,000     |  |
| 2020-2024                     | 1,575,000           | -        | 8,192,988               | -            | 9,767,988     |  |
| 2025-2029                     | -                   | -        | 8,488,313               | -            | 8,488,313     |  |
| 2030-2034                     | -                   | -        | 8,488,313               | -            | 8,488,313     |  |
| 2035-2039                     | -                   | -        | 8,488,313               | -            | 8,488,313     |  |
| 2040-2041                     | -                   | -        | 3,395,325               | -            | 3,395,325     |  |
| Total Governmental Activities | \$ 3,325,000        | \$ -     | \$ 42,168,864           | \$ 1,012,053 | \$ 46,505,916 |  |

**12. PLEDGED REVENUE**

| Revenue Pledge | 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   | Wastewater Utility / Loan         | System Expansion and Improvements | 2011   | \$ 45,407,931              | 2041                       |
| Net Revenues   | Water Utility / Loan              | System Expansion and Improvements | 2004   | \$ 7,000,000               | 2024                       |

The City has pledged future revenues derived from the operation of the Crescent City Wastewater System, net of operating and maintenance expenses, to repay a \$45,407,931 loan payable to the State Water Resources Control Board. Proceeds from the loan provided financing for improvements to the Wastewater System. The loan is payable solely from the net earnings of the Wastewater System and are payable through 2041. The total principal and interest remaining to be paid on the loan is \$42,168,864. Principal and interest paid for the current year and net system revenues were \$2,115,489 and \$3,140,087, respectively.

**City of Crescent City**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2014**

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**12. PLEDGED REVENUE, Continued**

The City has pledged future revenues derived from the operation of the Crescent City Water System, net of operating and maintenance expenses, to repay a \$7,000,000 loan payable to the State Water Resources Control Board. Proceeds from the loan provided financing for improvements to the Water System. The loan is payable solely from the net earnings of the Wastewater System and are payable through 2024. The total principal and interest remaining to be paid on the loan is \$3,325,000. Principal and interest paid for the current year and net system revenues were \$350,000 and \$146,208, respectively.

**13. 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 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.

**City of Crescent City**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2014**

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**13. SUCCESSOR TRUST FOR ASSETS OF FORMER REDEVELOPMENT AGENCY, Continued**

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, 2014, cash and investments in the amount of \$238,332 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 \$1,203,719 respectively. Of these amounts, \$290,705 and \$1,203,719 were advanced to the Crescent City Redevelopment Agency prior to its dissolution under State law.

|                           | Balance<br>July 1, 2013 | Additions   | Adjustments/<br>Retirements | Balance<br>June 30, 2014 | Amounts<br>Due Within<br>One year |
|---------------------------|-------------------------|-------------|-----------------------------|--------------------------|-----------------------------------|
| Fiduciary Fund Debt       |                         |             |                             |                          |                                   |
| Successor Housing Agency  | \$ 306,871              | \$ -        | \$ -                        | \$ 306,871               | \$ -                              |
| City Water Fund           | 1,271,435               | -           | (67,716)                    | 1,203,719                | -                                 |
| Total Fiduciary Fund Debt | <u>\$ 1,578,306</u>     | <u>\$ -</u> | <u>\$ (67,716)</u>          | <u>\$ 1,510,590</u>      | <u>\$ -</u>                       |

**City of Crescent City**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2014**

**13. SUCCESSOR TRUST FOR ASSETS OF FORMER REDEVELOPMENT AGENCY, Continued**

**Capital Assets**

Capital assets activity for the successor agency for the year ended June 30, 2014, was as follows:

|  | Balance<br>July 1, 2013 | Prior Year<br>Adjustments | Additions | Adjustments/<br>Retirements | Balance<br>June 30, 2014 |
|--|-------------------------|---------------------------|-----------|-----------------------------|--------------------------|
| <b>Fiduciary Fund Activities</b>             |                         |                           |           |                             |                          |
| Capital Assets, Not Being Depreciated:       |                         |                           |           |                             |                          |
| Land   | \$ 200,000              | \$ (132,500)              | \$ -      | \$ -                        | \$ 67,500                |
| Construction in progress                     | -                       | -                         | -         | -                           | -                        |
| Total Capital Assets, Not Being Depreciated  | 200,000                 | (132,500)                 | -         | -                           | 67,500                   |
| Capital Assets, Being Depreciated:           |                         |                           |           |                             |                          |
| Building and improvements                    | 602,343                 | (602,343)                 | -         | -                           | -                        |
| Machinery and equipment                      | -                       | -                         | -         | -                           | -                        |
| Infrastructure                               | -                       | -                         | -         | -                           | -                        |
| Total Capital Assets, Being Depreciated      | 602,343                 | (602,343)                 | -         | -                           | -                        |
| Less Accumulated Depreciation                | (343,974)               | 343,974                   | -         | -                           | -                        |
| Total Capital Assets, Being Depreciated, Net | 258,369                 | (258,369)                 | -         | -                           | -                        |
| Total Fiduciary Fund Activities, Net         | \$ 458,369              | \$ (390,869)              | \$ -      | \$ -                        | \$ 67,500                |

**14. PRIOR PERIOD ADJUSTMENTS AND RESTATEMENTS**

The City recorded prior period adjustments to correct various accounting errors and to record certain capital assets not previously reported.

**Government-wide Statements**

|                               | Net Position, as<br>Previously<br>Reported | Prior Period Adjustment |                    |                  |             | Net Position,<br>as<br>Restated |
|-------------------------------|--|-------------------------|--------------------|------------------|-------------|---------------------------------|
|                               |  | Capital Assets          | Unbilled Utilities | Interest Payable | Other       |                                 |
| Government-Wide<br>Statements |  |                         |                    |                  |             |                                 |
| Governmental Activities       | \$ 8,568,206                               | \$ 1,842,496            | \$ -               | \$ -             | \$ -        | \$ 10,410,702                   |
| Business-type Activities      | \$ 13,093,946                              | \$ 18,457               | \$ 336,545         | \$ (951,942)     | \$ (58,015) | \$ 12,438,991                   |

**City of Crescent City**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2014**

**14. PRIOR PERIOD ADJUSTMENTS AND RESTATEMENTS, Continued**

**Fund Statements**

|                  | Net Position, as<br>Previously<br>Reported | Prior Period Adjustment |                    |                  |             | Net Position,<br>as<br>Restated |
|------------------|--|-------------------------|--------------------|------------------|-------------|---------------------------------|
|                  |  | Capital Assets          | Unbilled Utilities | Interest Payable | Other       |                                 |
| Fund Statements: |  |                         |                    |                  |             |                                 |
| Sewer Fund       | \$ 6,134,082                               | \$ 20,649               | \$ 251,479         | \$ (951,942)     | \$ 9,701    | \$ 5,463,969                    |
| Water Fund       | \$ 6,816,087                               | \$ (2,192)              | \$ 85,066          | \$ -             | \$ (67,716) | \$ 6,831,245                    |
| Equipment Fund   | \$ 968,801                                 | \$ 35,190               | \$ -               | \$ -             | \$ -        | \$ 1,003,991                    |
| Successor Agency | \$ (1,130,647)                             | \$ 67,500               | \$ -               | \$ -             | \$ 67,716   | \$ (995,431)                    |

The effect on prior years' Statement of Net Position for Governmental Activities was understated assets of \$1,842,496. The effect on prior years' Statement of Net Position for Business-Type Activities was understated assets of \$296,987 and understated liabilities of \$951,942. The effect on prior years' Statement of Activities for Business-Type Activities was understated revenues of \$336,545 and understated expenses of \$951,942. The effect on prior years' Statement of Net Position for Proprietary Funds was that the Sewer fund assets were understated by \$281,829 and liabilities were understated by \$951,942; in the Water fund, assets were understated by \$15,158; in the Equipment fund, assets were understated by \$35,190. The effect on prior years' Statement of Revenues, Expenses, and Changes in Net Position for Proprietary Funds was that the Sewer fund revenues were understated by \$251,479 and expenses were understated by \$951,942; in the Water fund, revenues were understated by \$85,066.



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**REQUIRED  
SUPPLEMENTARY INFORMATION**

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**City of Crescent City**  
**Notes to the Required Supplementary Information**  
**For the year ended June 30, 2014**

**1. SCHEDULE OF FUNDING PROGRESS**

In order to comply with GASB Statement 45, an actuarial valuation of the City’s OPEB obligations must be performed every other year. The City’s most recent valuation was prepared with data as of June 30, 2012.

| <b>Schedule of Funding Progress (OPEB Plan)</b> |                               |                                 |  |                    |                     |   |
|---|-------------------------------|---------------------------------|--|--------------------|---------------------|---|
| 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%  |

**2. BUDGETARY INFORMATION**

The City Council has the responsibility for adoption of the City’s budgets. Budgets are adopted for governmental funds. From the effective date of the budget, the amounts stated as proposed expenditures become appropriations to the various City departments. The City Council may amend the budget by resolution during each fiscal year. The City Manager is authorized to transfer funds from one major expenditure category to another within the same department and fund. Any revisions that alter the total expenditures of any fund must be approved by the City Council.

All appropriations lapse at the end of the fiscal year to the extent that they have not been expended.

Budgetary comparisons are provided in the accompanying financial statements for all funds with legally adopted budgets. Budget amounts are adopted on a basis consistent with accounting principles accepted in the United States of America.

**Excess of expenditures over appropriations**

The following funds reported an excess of expenditures over appropriations at June 30, 2014:

|                                  | <u>Final</u> | <u>Actual</u> | <u>Variance</u> |
|----------------------------------|--------------|---------------|-----------------|
| Housing Authority Section 8 Fund | \$ 2,902,072 | 2,955,447     | \$ (53,375)     |

**City of Crescent City**  
**Statements of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual**  
**General Fund**  
**For the year ended June 30, 2014**  
**(Unaudited)**

|  | Budgeted Amounts |                  | Actual<br>Amounts   | Variance with<br>Final Budget |
|--|------------------|------------------|---------------------|-------------------------------|
|  | Original         | Final            |                     | Positive<br>(Negative)        |
| <b>Revenues</b>                                |                  |                  |                     |                               |
| Taxes  | \$ 2,875,974     | \$ 2,958,881     | \$ 2,952,386        | \$ (6,495)                    |
| Use of Money and Property                      |                  |                  |                     |                               |
| Interest                                       |                  | 500              | 1,443               | 943                           |
| Rental Income                                  |                  | 24,000           | 43,459              | 19,459                        |
| Licenses and permits                           | 271,535          | 266,210          | 378,676             | 112,466                       |
| Fines and forfeitures                          | 22,925           | 22,925           | 16,490              | (6,435)                       |
| Intergovernmental                              | 348,710          | 348,710          | 304,485             | (44,225)                      |
| Charges for services                           | 753,702          | 549,051          | 353,382             | (195,669)                     |
| Gifts and donations                            |                  |                  | 35,980              | 35,980                        |
| Other reimbursements                           |                  |                  | 63,930              | 63,930                        |
| Other revenue                                  | 10,605           | 16,089           | 25,522              | 9,433                         |
| Total Revenues                                 | <u>4,283,451</u> | <u>4,186,366</u> | <u>4,175,753</u>    | <u>(10,613)</u>               |
| <b>Expenditures</b>                            |                  |                  |                     |                               |
| Current:                                       |                  |                  |                     |                               |
| General government                             | 694,839          | 694,839          | 611,405             | 83,434                        |
| Public safety                                  | 1,999,522        | 1,964,995        | 1,787,984           | 177,011                       |
| Community Development                          | 243,676          | 263,676          | 234,231             | 29,445                        |
| Human services and recreation                  | 786,838          | 792,365          | 477,950             | 314,415                       |
| Public works                                   | 534,426          | 550,376          | 687,510             | (137,134)                     |
| Administrative overhead allocation             | 262,835          | 221,115          | 243,583             | (22,468)                      |
| Total Expenditures                             | <u>4,522,136</u> | <u>4,487,366</u> | <u>4,042,663</u>    | <u>444,703</u>                |
| Excess (Deficit) of Revenues Over Expenditures | <u>(238,685)</u> | <u>(301,000)</u> | <u>133,090</u>      | <u>434,090</u>                |
| <b>Other Financing Sources (Uses)</b>          |                  |                  |                     |                               |
| Transfers in (Note 4)                          | 260,000          | 318,500          | 310,000             | (8,500)                       |
| Transfers out (Note 4)                         | (10,000)         | (17,500)         | (17,500)            | -                             |
| Total Other Financing Sources (Uses)           | <u>250,000</u>   | <u>301,000</u>   | <u>292,500</u>      | <u>(8,500)</u>                |
| Net Change in Fund Balance                     | <u>11,315</u>    | <u>-</u>         | <u>425,590</u>      | <u>\$ 425,590</u>             |
| <b>Fund Balance - Beginning of year</b>        |                  |                  | <u>1,000,777</u>    |                               |
| <b>Fund Balance - End of year</b>              |                  |                  | <u>\$ 1,426,367</u> |                               |

**City of Crescent City**  
**Statements of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual**  
**Housing Authority Section 8 Fund**  
**For the year ended June 30, 2014**  
**(Unaudited)**

|  | Budgeted Amounts |                  | Actual<br>Amounts | Variance with<br>Final Budget<br>Positive<br>(Negative) |
|--|------------------|------------------|-------------------|---|
|  | Original         | Final            |                   |   |
| <b>Revenues</b>                                |                  |                  |                   |   |
| Use of Money and Property                      |                  |                  |                   |   |
| Interest                                       | \$ -             | \$ -             | \$ 10             | \$ 10   |
| Intergovernmental                              | 2,981,597        | 2,999,597        | 3,046,696         | 47,099  |
| Other revenue                                  | -                | -                | 13,761            | 13,761  |
| Total Revenues                                 | <u>2,981,597</u> | <u>2,999,597</u> | <u>3,060,467</u>  | <u>60,870</u>   |
| <b>Expenditures</b>                            |                  |                  |                   |   |
| Current:                                       |                  |                  |                   |   |
| Human services and recreation                  | 2,871,566        | 2,889,566        | 2,945,254         | (55,688)  |
| Administrative overhead allocation             | 18,000           | 12,506           | 10,193            | 2,313   |
| Total Expenditures                             | <u>2,889,566</u> | <u>2,902,072</u> | <u>2,955,447</u>  | <u>(53,375)</u>   |
|  |                  |                  | -                 |   |
| Excess (Deficit) of Revenues Over Expenditures | <u>92,031</u>    | <u>97,525</u>    | <u>105,020</u>    | <u>7,495</u>  |
| Net Change in Fund Balance                     | <u>\$ 92,031</u> | <u>\$ 97,525</u> | 105,020           | <u>\$ 7,495</u>   |
| <b>Fund Balance - Beginning of year</b>        |                  |                  | 42,235            |   |
| <b>Fund Balance - End of year</b>              |                  |                  | <u>\$ 147,255</u> |   |

**City of Crescent City**  
**Statements of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual**  
**CDBG Fund**  
**For the year ended June 30, 2014**  
**(Unaudited)**

|  | Budgeted Amounts |             | Actual<br>Amounts | Variance with<br>Final Budget<br>Positive<br>(Negative) |
|--|------------------|-------------|-------------------|---|
|  | Original         | Final       |                   |   |
| <b>Revenues</b>                                |                  |             |                   |   |
| Use of Money and Property                      |                  |             |                   |   |
| Interest                                       | \$ -             | \$ -        | \$ 213            | \$ 213  |
| Intergovernmental                              | 631,274          | 1,696,183   | 1,696,183         | -   |
| Total Revenues                                 | 631,274          | 1,696,183   | 1,696,396         | 213   |
| <b>Expenditures</b>                            |                  |             |                   |   |
| Current:                                       |                  |             |                   |   |
| Human services and recreation                  | 631,274          | 409,349     | 409,349           | -   |
| Public works                                   | -                | 45,938      | 45,938            | -   |
| Total Expenditures                             | 631,274          | 455,287     | 455,287           | -   |
| Excess (Deficit) of Revenues Over Expenditures | -                | 1,240,896   | 1,241,109         | 213   |
| <b>Other Financing Sources (Uses)</b>          |                  |             |                   |   |
| Transfers out (Note 4)                         |                  | (1,265,004) | (1,265,004)       | -   |
| Total Other Financing Sources (Uses)           | -                | (1,265,004) | (1,265,004)       | -   |
| Net Change in Fund Balance                     | \$ -             | \$ (24,108) | (23,895)          | \$ 213  |
| Fund Balance - Beginning of year               |                  |             | 390,762           |   |
| Fund Balance - End of year                     |                  |             | \$ 366,867        |   |

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# **SUPPLEMENTARY INFORMATION**

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City of Crescent City  
Combining Balance Sheets  
Nonmajor Governmental Funds  
June 30, 2014

|  | Special Revenue Funds           |                   |                           |                             | Capital Projects Funds         |                                     |  | Total Nonmajor<br>Governmental<br>Funds |
|--|---------------------------------|-------------------|---------------------------|-----------------------------|--------------------------------|-------------------------------------|--|---|
|  | Fund 106                        | Fund 115          | Fund 116                  | Fund 251                    | Fund 901                       | Fund 930                            | Fund 940                               |   |
|  | 89-93 Rehab &<br>Sidewalk Funds | Gas Tax Fund      | Successor<br>Housing Fund | Code<br>Enforcement<br>Fund | Capital<br>Improvement<br>Fund | Fire Vehicle<br>Replacement<br>Fund | Police Vehicle<br>Replacement<br>Funds |   |
| <b>Assets</b>  |                                 |                   |                           |                             |                                |                                     |  |   |
| Cash and investments                                     | \$ 5,204                        | \$ 80,495         | \$ -                      | \$ 15,414                   | \$ 297,848                     | \$ 55,055                           | \$ 35,044                              | \$ 489,060                              |
| Restricted cash and investments with fiscal agent        | -                               | -                 | -                         | -                           | -                              | -                                   | -                                      | -                                       |
| Receivables:   |                                 |                   |                           |                             |                                |                                     |  |   |
| Consumers and others                                     | 2                               | 85                | -                         | 7                           | 148                            | 27                                  | 17                                     | 286                                     |
| County/State/Federal Government                          | -                               | 23,859            | -                         | -                           | 15,395                         | -                                   | -                                      | 39,254                                  |
| Due from RDA Successor Agency                            | -                               | -                 | 306,871                   | -                           | -                              | -                                   | -                                      | 306,871                                 |
| Prepaid items  | -                               | -                 | -                         | -                           | -                              | -                                   | -                                      | -                                       |
| Land held for redevelopment                              | -                               | -                 | 89,752                    | -                           | -                              | -                                   | -                                      | 89,752                                  |
| Note Receivable  | 103,267                         | -                 | -                         | -                           | -                              | -                                   | -                                      | 103,267                                 |
| <b>Total Assets</b>                                      | <b>\$ 108,473</b>               | <b>\$ 104,439</b> | <b>\$ 396,623</b>         | <b>\$ 15,421</b>            | <b>\$ 313,391</b>              | <b>\$ 55,082</b>                    | <b>\$ 35,061</b>                       | <b>\$ 1,028,490</b>                     |
| <b>Liabilities and Fund Balance</b>                      |                                 |                   |                           |                             |                                |                                     |  |   |
| <b>Liabilities:</b>                                      |                                 |                   |                           |                             |                                |                                     |  |   |
| Accounts payable   | \$ -                            | 5,915             | \$ -                      | 2,501                       | 24,195                         | \$ -                                | \$ -                                   | \$ 32,611                               |
| Accrued wages  | -                               | -                 | -                         | -                           | -                              | -                                   | -                                      | -                                       |
| Deferred revenues  | -                               | -                 | -                         | -                           | -                              | -                                   | -                                      | -                                       |
| Due to other funds                                       | -                               | -                 | 916                       | -                           | -                              | -                                   | -                                      | 916                                     |
| <b>Total Liabilities</b>                                 | <b>-</b>                        | <b>5,915</b>      | <b>916</b>                | <b>2,501</b>                | <b>24,195</b>                  | <b>-</b>                            | <b>-</b>                               | <b>33,527</b>                           |
| <b>Fund Balance:</b>                                     |                                 |                   |                           |                             |                                |                                     |  |   |
| <b>Restricted</b>  |                                 |                   |                           |                             |                                |                                     |  |   |
| Low and moderate income housing                          | -                               | -                 | 395,707                   | -                           | -                              | -                                   | -                                      | 395,707                                 |
| Other Purposes   | 108,473                         | 98,524            | -                         | -                           | -                              | -                                   | -                                      | 206,997                                 |
| Assigned for Capital Improvement and Vehicle Replacement | -                               | -                 | -                         | 12,920                      | 289,196                        | 55,082                              | 35,061                                 | 392,259                                 |
| Unassigned   | -                               | -                 | -                         | -                           | -                              | -                                   | -                                      | -                                       |
| <b>Total Fund Balance</b>                                | <b>108,473</b>                  | <b>98,524</b>     | <b>395,707</b>            | <b>12,920</b>               | <b>289,196</b>                 | <b>55,082</b>                       | <b>35,061</b>                          | <b>994,963</b>                          |
| <b>Total Liabilities and Fund Balance</b>                | <b>\$ 108,473</b>               | <b>\$ 104,439</b> | <b>\$ 396,623</b>         | <b>\$ 15,421</b>            | <b>\$ 313,391</b>              | <b>\$ 55,082</b>                    | <b>\$ 35,061</b>                       | <b>\$ 1,028,490</b>                     |

**City of Crescent City**  
**Combining Statements of Revenues, Expenditures, and Changes in Fund Balance**  
**Nonmajor Governmental Funds**  
**For the Year Ended June 30, 2014**

|  | Special Revenue Funds           |              |                           |                          | Capital Projects Funds         |                                     |  | Total Nonmajor<br>Governmental<br>Funds |
|--|---------------------------------|--------------|---------------------------|--------------------------|--------------------------------|-------------------------------------|--|---|
|  | Fund 106                        | Fund 115     | Fund 116                  | Fund 251                 | Fund 901                       | Fund 930                            | Fund 940                               |   |
|  | 89-93 Rehab &<br>Sidewalk Funds | Gas Tax Fund | Successor<br>Housing Fund | Code Enforcement<br>Fund | Capital<br>Improvement<br>Fund | Fire Vehicle<br>Replacement<br>Fund | Police Vehicle<br>Replacement<br>Funds |   |
| <b>Revenues</b>                                |                                 |              |                           |                          |                                |                                     |  |   |
| Use of Money and Property                      |                                 |              |                           |                          |                                |                                     |  |   |
| Interest                                       | \$ 6                            | \$ 242       | \$ 46                     | \$ 62                    | \$ 526                         | \$ 82                               | \$ 61                                  | \$ 1,025                                |
| Intergovernmental                              | -                               | 241,068      | -                         | -                        | 20,395                         | -                                   | -                                      | 261,463                                 |
| Charges for services                           | -                               | -            | -                         | 42,300                   | -                              | -                                   | -                                      | 42,300                                  |
| Total Revenues                                 | 6                               | 241,310      | 46                        | 42,362                   | 20,921                         | 82                                  | 61                                     | 304,788                                 |
| <b>Expenditures</b>                            |                                 |              |                           |                          |                                |                                     |  |   |
| Current:                                       |                                 |              |                           |                          |                                |                                     |  |   |
| Human services and recreation                  | -                               | -            | 962                       | -                        | -                              | -                                   | -                                      | 962                                     |
| Public works                                   | -                               | 18,575       | -                         | 98,405                   | 49,525                         | -                                   | -                                      | 166,505                                 |
| Total Expenditures                             | -                               | 18,575       | 962                       | 98,405                   | 49,525                         | -                                   | -                                      | 167,467                                 |
| Excess (Deficit) of Revenues Over Expenditures | 6                               | 222,735      | (916)                     | (56,043)                 | (28,604)                       | 82                                  | 61                                     | 137,321                                 |
| <b>Other Financing Sources (Uses)</b>          |                                 |              |                           |                          |                                |                                     |  |   |
| Transfers in                                   | -                               | -            | -                         | -                        | 10,800                         | 10,000                              | -                                      | 20,800                                  |
| Transfers out                                  | -                               | (260,000)    | -                         | -                        | 0                              | -                                   | -                                      | (260,000)                               |
| Total Other Financing Sources (Uses)           | -                               | (260,000)    | -                         | -                        | 10,800                         | 10,000                              | -                                      | (239,200)                               |
| Net Change in Fund Balance                     | 6                               | (37,265)     | (916)                     | (56,043)                 | (17,804)                       | 10,082                              | 61                                     | (101,879)                               |
| <b>Fund Balance - Beginning of year</b>        | 108,467                         | 135,789      | 396,623                   | 68,963                   | 307,000                        | 45,000                              | 35,000                                 | 1,096,842                               |
| <b>Fund Balance - End of year</b>              | \$ 108,473                      | \$ 98,524    | \$ 395,707                | \$ 12,920                | \$ 289,196                     | \$ 55,082                           | \$ 35,061                              | \$ 994,963                              |

City of Crescent City  
Combining Statement of Net Position  
Internal Service Funds  
June 30, 2014

|  | Fund 420<br>Information<br>Tech<br>Fund | Fund 506<br>Maintenance<br>Building<br>Fund | Fund 508<br>Equipment<br>Fund | Fund 610<br>Payroll<br>Trust<br>Fund | Fund 620<br>Insurance<br>Reserve<br>Fund | Fund 630<br>OPEB Trust<br>Contributions<br>Fund | Totals     |
|--|---|---|-------------------------------|--------------------------------------|--|---|------------|
| <b>Assets</b>                          |   |   |                               |                                      |  |   |            |
| Current assets:                        |   |   |                               |                                      |  |   |            |
| Cash and investments                   | \$ 3,148                                | \$ 1,015                                    | \$ 250,733                    | \$ 201,691                           | \$ -                                     | \$ 20,811                                       | \$ 477,398 |
| Accounts Receivable                    | -                                       | -   | 1,394                         | 1,541                                | -  | 7   | 2,942      |
| Prepaid items                          | 770                                     | 752   | 1,233                         | -                                    | -  | -   | 2,755      |
| Total Current Assets                   | 3,918                                   | 1,767                                       | 253,360                       | 203,232                              | -  | 20,818  | 483,095    |
| Non Current Assets:                    |   |   |                               |                                      |  |   |            |
| Nondepreciable capital assets          | -                                       | -   | 42,525                        | -                                    | -  | -   | 42,525     |
| Depreciable capital assets, net        | -                                       | -   | 757,591                       | -                                    | -  | -   | 757,591    |
| Total assets                           | 3,918                                   | 1,767                                       | 1,053,476                     | 203,232                              | -  | 20,818  | 1,283,211  |
| <b>Liabilities</b>                     |   |   |                               |                                      |  |   |            |
| Current liabilities:                   |   |   |                               |                                      |  |   |            |
| Accounts payable                       | 3,918                                   | 1,767                                       | 83,595                        | -                                    | -  | 601   | 89,881     |
| Accrued expenses                       | 369                                     | 207   | 456                           | 203,232                              | -  | -   | 204,264    |
| Current maturities of long term debts: |   |   |                               |                                      |  |   |            |
| Fire truck capital lease               | -                                       | -   | 41,074                        | -                                    | -  | -   | 41,074     |
| Total Current Liabilities              | 4,287                                   | 1,974                                       | 125,125                       | 203,232                              | -  | 601   | 335,219    |
| Total Liabilities                      | \$ 4,287                                | \$ 1,974                                    | \$ 125,125                    | \$ 203,232                           | \$ -                                     | \$ 601  | \$ 335,219 |
| <b>Net Position</b>                    |   |   |                               |                                      |  |   |            |
| Invested in capital assets             | -                                       | -   | 759,042                       | -                                    | -  | -   | 759,042    |
| Unrestricted                           | (369)                                   | (207)                                       | 169,309                       | -                                    | -  | 20,217  | 188,950    |
| Total Net Position                     | \$ (369)                                | \$ (207)                                    | \$ 928,351                    | \$ -                                 | \$ -                                     | \$ 20,217                                       | \$ 947,992 |

City of Crescent City  
Combining Statement of Revenues, Expenses, and Changes in Net Position  
Internal Service Funds  
For the year ended June 30, 2014

|   | Fund 420<br>Information<br>Tech<br>Fund | Fund 506<br>Maintenance<br>Building<br>Fund | Fund 508<br>Equipment<br>Fund | Fund 610<br>Payroll<br>Trust<br>Fund | Fund 620<br>Insurance<br>Reserve<br>Fund | Fund 630<br>OPEB Trust<br>Contributions<br>Fund | Totals     |
|---|---|---|-------------------------------|--------------------------------------|--|---|------------|
| Operating revenues                      |   |   |                               |                                      |  |   |            |
| Charges for services                    | \$ 142,698                              | \$ 81,067                                   | \$ 316,713                    | \$ -                                 | \$ 83,810                                | \$ 133,575                                      | \$ 757,863 |
| Grant and Other Revenue                 | -                                       | -   | 15,887                        | -                                    | 86,770                                   | -   | 102,657    |
| Total operating revenues                | 142,698                                 | 81,067                                      | 332,600                       | -                                    | 170,580                                  | 133,575   | 860,520    |
| Operating expenses:                     |   |   |                               |                                      |  |   |            |
| Personnel services                      | 110,339                                 | 65,522                                      | 142,541                       | -                                    | -  | 109,781   | 428,183    |
| Materials, supplies, rent and services  | 7,662                                   | 6,472                                       | 75,977                        | -                                    | 170,580                                  | 3,600   | 264,291    |
| Repair and maintenance                  | 21,766                                  | 9,280                                       | 42,612                        | -                                    | -  | -   | 73,658     |
| Depreciation                            | -                                       | -   | 143,516                       | -                                    | -  | -   | 143,516    |
| Total operating expenses                | 139,767                                 | 81,274                                      | 404,646                       | -                                    | 170,580                                  | 113,381   | 909,648    |
| Operating income (loss)                 | 2,931                                   | (207)                                       | (72,046)                      | -                                    | -  | 20,194  | (49,128)   |
| Non-operating revenues (expense):       |   |   |                               |                                      |  |   |            |
| Interest income                         | -                                       | -   | 382                           | -                                    | -  | 23  | 405        |
| Interest expense                        | -                                       | -   | (3,976)                       | -                                    | -  | -   | (3,976)    |
| Total non-operating revenues (expenses) | -                                       | -   | (3,594)                       | -                                    | -  | 23  | (3,571)    |
| Transfers:                              |   |   |                               |                                      |  |   |            |
| Transfers out                           | (3,300)                                 | -   | -                             | -                                    | -  | -   | (3,300)    |
| Change in net position                  | (369)                                   | (207)                                       | (75,640)                      | -                                    | -  | 20,217  | (55,999)   |
| Net Position - beginning                | -                                       | -   | 968,801                       | -                                    | -  | -   | 968,801    |
| Prior period adjustments                | -                                       | -   | 35,190                        | -                                    | -  | -   | 35,190     |
| Net Position - beginning, restated      | -                                       | -   | 1,003,991                     | -                                    | -  | -   | 1,003,991  |
| Net Position - ending                   | \$ (369)                                | \$ (207)                                    | \$ 928,351                    | \$ -                                 | \$ -                                     | \$ 20,217                                       | \$ 947,992 |

**City of Crescent City**  
**Combining Statement of Cash Flows**  
**Internal Service Funds**  
**For the year ended June 30, 2014**

|   | <b>Fund 420<br/>Information<br/>Tech<br/>Fund</b> | <b>Fund 506<br/>Maintenance<br/>Building<br/>Fund</b> | <b>Fund 508<br/>Equipment<br/>Fund</b> | <b>Fund 610<br/>Payroll<br/>Trust<br/>Fund</b> | <b>Fund 620<br/>Insurance<br/>Reserve<br/>Fund</b> | <b>Fund 630<br/>OPEB Trust<br/>Contributions<br/>Fund</b> | <b>Totals</b> |
|---|---|---|--|--|--|---|---------------|
| <b>Cash flows from operating activities:</b>  |   |   |  |  |  |   |               |
| Charges received from other funds   | 142,698   | 81,067  | 331,221                                | (1,541)  | 170,580  | 133,568   | 857,593       |
| Payments to suppliers   | (43,711)  | (20,141)  | (63,794)                               | (34,749)                                       | (170,580)  | (28,434)  | (361,409)     |
| Payments to employees   | (109,970)   | (65,315)  | (142,085)                              | -  | -  | (109,781)   | (427,151)     |
| Net cash provided (used) by operating activities  | (10,983)  | (4,389)   | 125,342                                | (36,290)                                       | -  | (4,647)   | 69,033        |
| <b>Cash flows from noncapital financing activities:</b>   |   |   |  |  |  |   |               |
| Transfers   | (3,300)   | -   | -                                      | -  | -  | -   | (3,300)       |
| Net cash provided (used) by noncapital financing activities   | (3,300)   | -   | -                                      | -  | -  | -   | (3,300)       |
| <b>Cash flows from capital and related financing activities:</b>                                      |   |   |  |  |  |   |               |
| Principal payments on capital debt  | -   | -   | (39,134)                               | -  | -  | -   | (39,134)      |
| Interest paid on capital debt   | -   | -   | (3,976)                                | -  | -  | -   | (3,976)       |
| Acquisition of capital assets   | -   | -   | (71,994)                               | -  | -  | -   | (71,994)      |
| Net cash provided (used) by capital and related financing activities                                  | -   | -   | (115,104)                              | -  | -  | -   | (115,104)     |
| <b>Cash flows from investing activities:</b>  |   |   |  |  |  |   |               |
| Interest earned   | -   | -   | 382                                    | -  | -  | 23  | 405           |
| Net cash provided by investing activities   | -   | -   | 382                                    | -  | -  | 23  | 405           |
| Net increase (decrease) in cash and cash equivalents  | (14,283)  | (4,389)   | 10,620                                 | (36,290)                                       | -  | (4,624)   | (48,966)      |
| Cash and cash equivalents - beginning of period   | 17,431  | 5,404   | 240,113                                | 237,981  | -  | 25,435  | 526,364       |
| Cash and cash equivalents - end of period   | 3,148   | 1,015   | 250,733                                | 201,691  | -  | 20,811  | 477,398       |
| <b>Reconciliation of operating income (loss) to net cash provided (used in) operating activities:</b> |   |   |  |  |  |   |               |
| Operating income (loss)   | \$ 2,931  | \$ (207)  | \$ (72,046)                            | \$ -   | \$ -   | \$ 20,194   | \$ (49,128)   |
| <b>Adjustments to reconcile operating income (loss) to net cash provided by operating activities:</b> |   |   |  |  |  |   |               |
| Depreciation  | -   | -   | 143,516                                | -  | -  | -   | 143,516       |
| <b>Changes in certain assets and liabilities:</b>   |   |   |  |  |  |   |               |
| Accounts receivable   | -   | -   | (1,379)                                | (1,541)  | -  | (7)   | (2,927)       |
| Prepaid expenses  | (770)   | (752)   | (1,233)                                | -  | -  | -   | (2,755)       |
| Accounts payable  | (13,513)  | (3,637)   | 56,028                                 | -  | -  | (24,834)  | 14,044        |
| Accrued expenses  | 369   | 207   | 456                                    | (34,749)                                       | -  | -   | (33,717)      |
| Total adjustments   | (13,914)  | (4,182)   | 197,388                                | (36,290)                                       | -  | (24,841)  | 118,161       |
| Net cash provided (used) by operating activities  | (10,983)  | (4,389)   | 125,342                                | (36,290)                                       | -  | (4,647)   | 69,033        |

See accompanying Notes to Basic Financial Statements.

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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  
of the City of Crescent City  
Crescent City, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standard* issued by the Comptroller General of the United States, 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, California (City), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise City’s basic financial statements, and have issued our report thereon dated February 5, 2015.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered City’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City’s internal control. Accordingly, we do not express an opinion on the effectiveness of City’s internal control.

*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 a 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. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control 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 material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency as FS2014-01.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance that is required to be reported under *Governmental Auditing Standards*, which is described in the accompanying schedule of findings and questioned costs as FS2014-02.

### **City's Responses to Findings**

The City's responses to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Badawi and Associates, CPAs  
Oakland, California  
February 5, 2015





## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

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

### **Report on Compliance for Each Major Federal Program**

We have audited City Crescent City, California's (City) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2014. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

#### ***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

#### ***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our 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 we 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 the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

#### ***Opinion on Each Major Federal Program***

In our opinion, the City, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

### **Report on Internal Control over Compliance**

Management of the City, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we 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 over compliance 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 over compliance* 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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our 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 over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Purpose of this Report**

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Badawi and Associates  
Certified Public Accountants  
Oakland, California  
February 5, 2015

**City of Crescent City**  
**Schedule of Expenditures of Federal Awards**  
**For the year ended June 30, 2014**

| Federal Grantor/Pass-Through<br>Grantor Program Title                | Federal<br>CFDA<br>Number | Agency or<br>Pass-Through<br>Number        | Federal<br>Expenditures |
|--|---------------------------|--|-------------------------|
| <b><u>Federal Emergency Management Agency:</u></b>                   |                           |  |                         |
| <i>Passed through Del Norte County Office of Emergency Services:</i> |                           |  |                         |
| Emergency Management Performance Grant                               | 97.042                    | DNCO #2013-132                             | 26,480                  |
| <i>Passed through California Office of Emergency Services:</i>       |                           |  |                         |
| Elk Creek Revetment Repair   | 97.036                    | 015-17022                                  | 34,659                  |
| <b>Total Federal Emergency Management Agency</b>                     |                           |  | <b>61,139</b>           |
| <br><b><u>U.S. Department of Housing and Urban Development:</u></b>  |                           |  |                         |
| Housing Voucher Cluster:   |                           |  |                         |
| <i>Direct Programs:</i>  |                           |  |                         |
| Section 8 Housing Choice Vouchers                                    | 14.871                    | n/a  | 2,954,461               |
|  |                           | Housing Voucher Cluster Total              | 2,954,461               |
| <br>CDBG State Administered CDBG Cluster:                            |                           |  |                         |
| <i>Passed through the State:</i>                                     |                           |  |                         |
| Community Development Block Grant                                    | 14.228                    | 10-EDEF-7253                               | 133,822                 |
| Community Development Block Grant                                    | 14.228                    | 11-PTEC-7618                               | 30,700                  |
| Community Development Block Grant                                    | 14.228                    | 12-CDBG-8380                               | 1,540,530               |
| Community Development Block Grant                                    | 14.228                    | PI-Projects                                | -                       |
| Community Development Block Grant                                    | 14.228                    | PI-Admin                                   | 15,238                  |
| Housing Counseling Program   | 14.228                    | Loans Outstanding                          | 212,670                 |
|  |                           | CDBG State Administered CDBG Cluster Total | 1,932,961               |
| <b>Total U.S. Department of Housing and Urban Development</b>        |                           |  | <b>4,887,422</b>        |
| <br><b><u>U.S. Department of Justice:</u></b>                        |                           |  |                         |
| <i>Direct Programs:</i>  |                           |  |                         |
| Community Oriented Policing Services (COPS)                          | 16.710                    | n/a  | 87,368                  |
| COPS Hiring Program  | 16.710                    | n/a  | 91,610                  |
| Bulletproof Vests  | 16.607                    | n/a  | 1,475                   |
| <b>Total U.S. Department of Justice</b>                              |                           |  | <b>180,453</b>          |
| <br><b>Total Federal Expenditures</b>                                |                           |  | <br><b>\$ 5,129,014</b> |

**City of Crescent City**  
**Notes to the Schedule of Expenditures of Federal Awards**  
**For the year ended June 30, 2014**

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**A. *Basis of Accounting***

Funds received under the various grant programs have been recorded within the general fund, special revenue funds and enterprise funds of the City. The City utilizes the modified accrual method of accounting for the general fund and special revenue funds and full accrual basis of accounting for the enterprise funds. The accompanying Schedule of Expenditures of Federal Awards (Schedule) is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in the Schedule may differ from amounts presented in, or used in, the preparation of City's basic financial statements.

**City of Crescent City**  
**Schedule of Findings and Questioned Costs**  
**For the year ended June 30, 2014**

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**SECTION I - SUMMARY OF AUDITORS' RESULTS**

**Financial Statements**

Types of auditors' report issued: Unmodified

Internal control over financial reporting:

- Material weakness identified? No
- Significant deficiency identified? Yes

Any noncompliance material to the financial statements noted? No

**Federal Awards**

Internal control over major programs:

- Material weakness identified? No
- Significant deficiencies identified? None noted

Type of auditor's report issued on compliance for major programs Unmodified

Any audit findings disclosed that are required to be reported in Accordance with section 510(a) of OMB Circular A-133 No

Identification of major programs:

| CFDA Number(s) | Name of Federal Cluster or Program               | Expenditures |
|----------------|--|--------------|
| 14.871         | Section 8 Housing Choice Vouchers                | 2,954,461    |
| 14.228         | CDBG State Administered CDBG Cluster Total       | 1,932,961    |
|                | Total Expenditures of all Major Programs         | \$ 4,887,422 |
|                | Total Expenditures of Federal Award              | \$ 5,129,014 |
|                | Percentage of Total Expenditure of Federal Award | 95%          |

Dollar threshold used to distinguish between type A and type B program \$300,000

Auditee qualified as low-risk auditee under section 530 of OMB Circular A-133? Yes

**City of Crescent City**  
**Schedule of Findings and Questioned Costs**  
**For the year ended June 30, 2014**

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**SECTION II - Financial Statement Audit Findings**

**FS2014-01. Restatement of Previously Issued Financial Statements**

**Criteria:**

The City is responsible for the fair presentation of the financial statements in conformity with accounting principles generally accepted in the United States of America.

**Condition:**

The City recorded prior period adjustments to correct various accounting errors and to record certain capital assets not previously reported.

**Cause:**

The City's internal controls over financial reporting did not identify the misstatements in a timely manner resulting in the restatement.

**Context and Effect:**

The City's previously issued financial statements were not fairly stated in conformity with accounting principles generally accepted in the United States of America.

**Recommendation:**

We recommend that the City enhance its internal control over financial reporting to ensure complete and accurate financial reporting. The City can accomplish this by expanding its year-end closing procedures to ensure that all nonroutine and nonsystematic transactions were accounted for, the appropriate accounting standards were applied, and transactions were accounted for in the proper period.

**View of Responsible Officials and Planned Corrective Action:**

In the past, the City did not have optimal year-end closing processes and procedures. The prior period adjustments that are included in the fiscal year 2013-14 report are the result of efforts to address this prior deficiency.

**City of Crescent City**  
**Schedule of Findings and Questioned Costs**  
**For the year ended June 30, 2014**

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**SECTION II - Financial Statement Audit Findings, Continued**

**FS2014-02. Compliance with Loan Agreements**

**Criteria:**

The City has an agreement for a loan payable to the California Water Resources Control Board. According to this agreement, the City is required to establish a Wastewater Capital Reserve Fund and maintain this fund in compliance with the "Policy for Implementing The State Revolving Fund for Construction of Wastewater Treatment Facilities" in effect at the time of the agreement.

The City also has loan agreement for a loan payable to the California Department of Health Services. According to this agreement, the City is required to maintain a debt service reserve of \$350,000.

**Condition:**

As of June 30, 2014, the City does not have a debt service reserve or a Wastewater Capital Reserve Fund as required by the loan agreements.

**Cause:**

The City did not have the financial resources to comply with these requirements.

**Context and Effect:**

The City is not in compliance with the debt service reserve and Wastewater Capital Reserve Fund requirements as stated in the loan agreements.

**Recommendation:**

We recommend that the City maintain a debt service reserve and Wastewater Capital Reserve Fund as required by loan agreements.

**View of Responsible Officials and Planned Corrective Action:**

For many years the City's utility enterprises have operated at a loss making it difficult to fund the required reserves. In fiscal year 2013-14, these enterprises have begun to change that negative operating outcome. Toward the end of the fiscal year water rates were increased; this increase cut the operating loss in the Water Fund in half. It is expected that in fiscal year 2014-15 the Water Fund will have an excess of revenues over expenditures of approximately \$100,000. At that time the Water Fund will be able to begin funding the required debt service reserve. The Sewer Fund is still struggling to resolve its financial issues. The Sewer Fund received approximately \$2.1M in grant funding for capital projects (\$910K in Prop 50 funds and \$1.2M in CDBG funds) which greatly improved the bottom line. However, those were one time monies for capital projects and do not improve operating results over the long term. In fiscal year 2014-15, the City successfully negotiated a modification to the terms of the loan and that, along with additional sewer rate increases, will enable to the City to begin funding the capital reserve. That funding is expected to begin in fiscal year 2015-16.

**City of Crescent City**  
**Schedule of Findings and Questioned Costs**  
**For the year ended June 30, 2014**

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**SECTION III -**

**Findings and Questioned Costs - Major Federal Award Program**

No findings or questioned costs were noted.

**Status of Prior Year Findings and Questioned Costs**

No findings were noted.