

CITY OF WEED, CALIFORNIA

FINANCIAL STATEMENTS

**FOR THE YEAR ENDED
JUNE 30, 2011**

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INDEPENDENT AUDITORS' REPORT

To the City Council
City of Weed, California

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 City of Weed, California as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of Weed, California's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of City of Weed, California as of June 30, 2011, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 27, 2013 on our consideration of City of Weed, California'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* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require the budgetary comparison information on pages 26 through 28 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.

Management has omitted *Management's Discussion and Analysis* that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Weed, California's financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Aiello, Goodrich & Teuscher
An Accountancy Corporation
Mt. Shasta, California
February 27, 2013

BASIC FINANCIAL STATEMENTS

City of Weed
Statement of Net Assets
June 30, 2011

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets:			
Cash and investments	\$ 436,057	\$ 107,984	\$ 544,041
Receivables (net of allowances for bad debts, where applicable):			
Trade accounts	347,546	134,033	481,579
Loans	3,591,491	-	3,591,491
Internal balances	25,060	(25,060)	-
Total current assets	4,400,154	216,957	4,617,111
Capital assets:			
Non-depreciable	6,498,827	4,010,708	10,509,535
Depreciable, net	6,286,718	8,743,946	15,030,664
Total capital assets	12,785,545	12,754,654	25,540,199
Total assets	17,185,699	12,971,611	30,157,310
 LIABILITIES			
Accounts payable	192,695	1,380	194,075
Accrued liabilities	53,727	7,374	61,101
Deposits	-	44,341	44,341
Current portion, compensated absences	91,866	41,932	133,798
Current portion of long-term debt	-	10,000	10,000
Total current liabilities	338,288	105,027	443,315
Long-term liabilities:			
Long-term compensated absences, net of current portion	10,207	13,142	23,349
Long-term debt, net of current portion	-	54,000	54,000
Total long-term liabilities	10,207	67,142	77,349
Total liabilities	348,495	172,169	520,664
 NET ASSETS			
Invested in capital assets, net of related debt	12,785,545	12,690,654	25,476,199
Restricted, spendable	495,406	-	495,406
Unrestricted	3,556,253	108,788	3,665,041
Total net assets	\$ 16,837,204	\$ 12,799,442	\$ 29,636,646

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

City of Weed
Statement of Activities
Year Ended June 30, 2011

	Expense	Program Revenues			Net (Expense) Revenues and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- Type Activities	Total
Governmental activities:							
General government	\$ 322,917	\$ 67,986	\$ -	\$ -	\$ (254,931)	\$ -	\$ (254,931)
Police	1,332,121	45,948	148,759	-	(1,137,414)	-	(1,137,414)
Fire	340,162	63,702	-	-	(276,460)	-	(276,460)
Streets and roads	1,366,368	-	730,358	-	(636,010)	-	(636,010)
Community and economic development	194,296	-	140,071	-	(54,225)	-	(54,225)
Total governmental activities	3,555,864	177,636	1,019,188	-	(2,359,040)	-	(2,359,040)
Business-type activities:							
Water	513,757	312,618	-	-	-	(201,139)	(201,139)
Sewer	568,657	382,376	-	-	-	(186,281)	(186,281)
Solid waste	457,102	454,003	5,000	-	-	1,901	1,901
Total business-type activities	1,539,516	1,148,997	5,000	-	-	(385,519)	(385,519)
Total primary government	\$ 5,095,380	\$ 1,326,633	\$ 1,024,188	\$ -	(2,359,040)	(385,519)	(2,744,559)
General revenues:							
Taxes:							
					651,518	-	651,518
					566,859	-	566,859
					305,811	-	305,811
					70,289	-	70,289
					92,737	-	92,737
							-
					1,687,214	-	1,687,214
					(671,826)	(385,519)	(1,057,345)
					17,504,013	13,189,978	30,693,991
					5,017	(5,017)	-
					17,509,030	13,184,961	30,693,991
					\$ 16,837,204	\$ 12,799,442	\$ 29,636,646

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

**City of Weed
Balance Sheet and
Reconciliation of Total Governmental Fund Balance to the Statement of Net Assets - Governmental Activities
Governmental Funds
June 30, 2011**

	General Fund	Community and Economic Development Block Grant Fund	Special Revenue Fund	Nonmajor Funds	Total Governmental Funds
ASSETS					
Cash and investments	\$ 18,433	\$ 85,407	\$ -	\$ 332,217	\$ 436,057
Receivables (net of allowance for doubtful accounts):					
Loans	1,049,014	2,542,477	-	-	3,591,491
Intergovernmental	250,113	6,078	-	91,355	347,546
Due from other funds	25,060	-	-	-	25,060
	<u>\$ 1,342,620</u>	<u>\$ 2,633,962</u>	<u>\$ -</u>	<u>\$ 423,572</u>	<u>\$ 4,400,154</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 162,753	\$ 2,682	\$ -	\$ 27,260	\$ 192,695
Accrued liabilities	52,816	-	-	911	53,727
Total liabilities	<u>215,569</u>	<u>2,682</u>	<u>-</u>	<u>28,171</u>	<u>246,422</u>
Fund balances:					
Nonspendable:					
Noncurrent receivables	1,049,014	2,542,477	-	-	3,591,491
Restricted for:					
Streets and roads	-	-	-	282,368	282,368
Public safety	6,636	-	-	-	6,636
Parks maintenance	4,566	-	-	-	4,566
Community and economic development	-	88,803	-	113,033	201,836
Total	<u>11,202</u>	<u>88,803</u>	<u>-</u>	<u>395,401</u>	<u>495,406</u>
Assigned for:					
Special projects	66,835	-	-	-	66,835
Unassigned					
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total fund balance	<u>1,127,051</u>	<u>2,631,280</u>	<u>-</u>	<u>395,401</u>	<u>4,153,732</u>
Total liabilities and fund balance	<u>\$ 1,342,620</u>	<u>\$ 2,633,962</u>	<u>\$ -</u>	<u>\$ 423,572</u>	<u>\$ 4,400,154</u>

Total governmental fund balance, as above \$ 4,153,732

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

Capital assets used in governmental activities are not financial resources and therefore not reported in the statement of net assets 12,785,545

Compensated absences in governmental activities are not due and payable in the current period and therefore are not reported in the balance sheet (102,073)

Net assets of governmental activities \$ 16,837,204

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

City of Weed
Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Funds
For The Year Ended June 30, 2011

	General Fund	Community and Economic Development Block Grant Fund	Special Revenue Fund	Nonmajor Funds	Total Governmental Funds
REVENUES					
Property taxes	\$ 651,518	\$ -	\$ -	\$ -	651,518
Sales and use taxes	566,859	-	-	-	566,859
Transient occupancy taxes	244,649	-	-	61,162	305,811
Franchise and other taxes	70,289	-	-	-	70,289
Licenses and permits	8,606	-	-	-	8,606
Fines, forfeitures and penalties	23,285	-	-	-	23,285
Intergovernmental revenues	148,759	140,071	468,297	262,061	1,019,188
Charges for services	107,767	-	-	-	107,767
Use of money and property	50,284	42,453	-	-	92,737
Other	37,978	-	-	-	37,978
Total revenues	<u>1,909,994</u>	<u>182,524</u>	<u>468,297</u>	<u>323,223</u>	<u>2,884,038</u>
EXPENDITURES					
Current:					
General government	287,156	-	-	-	287,156
Police protection	1,298,757	-	-	-	1,298,757
Fire protection	282,976	-	-	-	282,976
Streets and roads	279,589	-	468,297	446,822	1,194,708
Community and economic development	-	114,549	-	64,273	178,822
Bad debt expense	-	15,474	-	-	15,474
Total expenditures	<u>2,148,478</u>	<u>130,023</u>	<u>468,297</u>	<u>511,095</u>	<u>3,257,893</u>
Excess of revenues over (under) expenditures	<u>(238,484)</u>	<u>52,501</u>	<u>-</u>	<u>(187,872)</u>	<u>(373,855)</u>
FUND BALANCE					
Beginning of the year, as previously reported	(441,174)	468,090	-	583,221	610,137
Prior period adjustments	1,806,709	2,110,689	-	52	3,917,450
Beginning of the year, as restated	<u>1,365,535</u>	<u>2,578,779</u>	<u>-</u>	<u>583,273</u>	<u>4,527,587</u>
End of the year	<u>\$ 1,127,051</u>	<u>\$ 2,631,280</u>	<u>\$ -</u>	<u>\$ 395,401</u>	<u>\$ 4,153,732</u>

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

City of Weed
Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balance to the Statement of Activities
Governmental Funds
For The Year Ended June 30, 2011

Change in fund balance, governmental funds	\$ (373,855)
Amounts reported for governmental activities in the statement of activities is different because:	
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:	
Depreciation expense:	(295,594)
Government funds do not report the change in compensated absences as revenue or expenditure, but it is reported in the Statement of Activities	<u>(2,377)</u>
Change in net assets of governmental activities	<u><u>\$ (671,826)</u></u>

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

**City of Weed
Statement of Net Assets
Proprietary Funds
June 30, 2011**

	Enterprise			Total
	Water Fund	Sewer Fund	Solid Waste Fund	
ASSETS				
Current assets:				
Cash and investments	\$ -	\$ 107,984	\$ -	\$ 107,984
Receivables (net of allowances for bad debts, where applicable):				
Trade accounts	26,326	40,203	67,504	134,033
Due from other funds	-	37,172	-	37,172
Total current assets	<u>26,326</u>	<u>185,359</u>	<u>67,504</u>	<u>279,189</u>
Capital assets:				
Non-depreciable	24,090	3,986,618	-	4,010,708
Depreciable, net	4,742,128	4,001,818	-	8,743,946
Total capital assets, net	<u>4,766,218</u>	<u>7,988,436</u>	<u>-</u>	<u>12,754,654</u>
 Total assets	 <u>4,792,544</u>	 <u>8,173,795</u>	 <u>67,504</u>	 <u>13,033,843</u>
LIABILITIES				
Current liabilities:				
Accounts payable	888	329	163	1,380
Accrued liabilities	4,622	2,752	-	7,374
Deposits	44,341	-	-	44,341
Due to other funds	45,688	13,686	2,858	62,232
Current portion of compensated absences	19,233	17,539	5,160	41,932
Current portion of long-term debt	-	10,000	-	10,000
Total current liabilities	<u>114,772</u>	<u>44,306</u>	<u>8,181</u>	<u>167,259</u>
Long-term liabilities:				
Compensated absences, net of current portion	2,137	5,846	5,159	13,142
Long-term debt, net of current portion	-	54,000	-	54,000
Total long-term liabilities	<u>2,137</u>	<u>59,846</u>	<u>5,159</u>	<u>67,142</u>
 Total liabilities	 <u>116,909</u>	 <u>104,152</u>	 <u>13,340</u>	 <u>234,401</u>
NET ASSETS				
Invested in capital assets, net of related debt	4,766,218	7,924,436	-	12,690,654
Unrestricted	(90,583)	145,207	54,164	108,788
 Total net assets	 <u>\$ 4,675,635</u>	 <u>\$ 8,069,643</u>	 <u>\$ 54,164</u>	 <u>\$ 12,799,442</u>

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

City of Weed
Statement of Revenues, Expenses and Changes in Retained Earnings
Proprietary Funds
For The Year Ended June 30, 2011

	Enterprise			Total
	Water Fund	Sewer Fund	Solid Waste Fund	
<u>REVENUES</u>				
User fees and charges	\$ 312,618	\$ 382,376	\$ 454,003	\$ 1,148,997
<u>OPERATING EXPENSES</u>				
Cost of power	38,754	69,115	-	107,869
Maintenance, operations, and administration	341,386	362,897	457,102	1,161,385
Depreciation	133,617	132,945	-	266,562
Total operating expenses	<u>513,757</u>	<u>564,957</u>	<u>457,102</u>	<u>1,535,816</u>
Operating (loss)	<u>(201,139)</u>	<u>(182,581)</u>	<u>(3,099)</u>	<u>(386,819)</u>
<u>OTHER REVENUES (EXPENSES)</u>				
Intergovernmental revenues	-	-	5,000	5,000
Interest expense	-	(3,700)	-	(3,700)
Total other revenues (expenses)	<u>-</u>	<u>(3,700)</u>	<u>5,000</u>	<u>1,300</u>
Change in net assets	<u>(201,139)</u>	<u>(186,281)</u>	<u>1,901</u>	<u>(385,519)</u>
<u>NET ASSETS</u>				
Beginning of year, as previously reported	4,881,791	8,255,924	52,263	13,189,978
Prior period adjustment	(5,017)	-	-	(5,017)
Beginning of year, as restated	<u>4,876,774</u>	<u>8,255,924</u>	<u>52,263</u>	<u>13,184,961</u>
End of the year	<u>\$ 4,675,635</u>	<u>\$ 8,069,643</u>	<u>\$ 54,164</u>	<u>\$ 12,799,442</u>

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

City of Weed
Statement of Cash Flows
Proprietary Funds
For The Year Ended June 30, 2011

	Enterprise			Total
	Water Fund	Sewer Fund	Solid Waste Fund	
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>				
Receipts from customers	\$ 324,117	\$ 380,084	\$ 435,474	\$ 1,139,675
Payments to suppliers	(204,293)	(363,715)	(471,112)	(1,039,120)
Payments to or on behalf of employees	(147,857)	(119,752)	-	(267,609)
Net cash (used) by operating activities	<u>(28,033)</u>	<u>(103,383)</u>	<u>(35,638)</u>	<u>(167,054)</u>
<u>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</u>				
Receipt of intergovernmental revenues	-	-	5,000	5,000
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING</u>				
Purchase of fixed assets	-	(22,298)	-	(22,298)
Principal payments on capital debt	-	(10,000)	-	(10,000)
Interest payments on capital debt	-	(3,700)	-	(3,700)
Net cash (used) by investing activities	<u>-</u>	<u>(35,998)</u>	<u>-</u>	<u>(35,998)</u>
Net decrease in cash	(28,033)	(139,381)	(30,638)	(198,052)
Cash and investments, beginning of the year	<u>28,033</u>	<u>247,365</u>	<u>30,638</u>	<u>306,036</u>
Cash and investments, end of year	<u>\$ -</u>	<u>\$ 107,984</u>	<u>\$ -</u>	<u>\$ 107,984</u>
Reconciliation of operating (loss) to cash (used) by operating activities				
Operating (loss)	\$ (201,139)	\$ (182,581)	\$ (3,099)	\$ (386,819)
Adjustments to reconcile operating (loss) to cash used by operating activities:				
Depreciation and amortization	133,617	132,945	-	266,562
(Increase) decrease in:				
Accounts receivable	11,499	(2,292)	(18,529)	(9,322)
Due from other funds	-	(37,172)	-	(37,172)
Increase (decrease) in:				
Accounts payable	(1,933)	(3,860)	(17,307)	(23,100)
Accrued liabilities	1,031	611	-	1,642
Due to other funds	27,091	(14,579)	2,858	15,370
Compensated absences	1,801	3,545	439	5,785
Net cash (used) by operating activities	<u>\$ (28,033)</u>	<u>\$ (103,383)</u>	<u>\$ (35,638)</u>	<u>\$ (167,054)</u>

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

City of Weed, California
Notes to the Basic Financial Statements
June 30, 2011

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Weed, California (hereafter “the City”) is legally incorporated under California municipal law, and is governed by a five member City Council. The City provides the following services: public safety, streets and roads, water, sewer, and solid waste services, community development, parks and recreation and general administrative services.

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

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

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

B. Basis of Presentation

Government-wide Financial Statements:

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

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

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

City of Weed, California
Notes to the Basic Financial Statements
June 30, 2011

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fund Financial Statements:

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

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

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

The funds of the City are described below:

Major Governmental Funds:

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

The Community Development Block Grant (CDBG) and Economic Development Block Grant (EDBG) Fund accounts for the financing of home rehabilitation, as financed by monies passed through the State by the federal government.

The Special Revenue fund accounts for a street project federally funded with American Recovery and Reinvestment Act awards.

Major Proprietary Funds:

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

The Water Fund was established to account 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 within the City.

The Sewer Fund was established to account for the operations of the City's sewer utility, a self-supporting activity which renders a service on a user charge basis to residents and businesses within the City.

The Solid Waste Fund was established to account refuse collection, a self-supporting activity which renders a service on a user charge basis to residents and businesses within the City.

C. Measurement Focus and Basis of Accounting

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

City of Weed, California
Notes to the Basic Financial Statements
June 30, 2011

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement Focus:

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

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

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

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

Basis of Accounting:

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

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

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

D. Assets, Liabilities, Net Assets or Fund Equity

Cash and Cash Equivalents:

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

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

City of Weed, California
Notes to the Basic Financial Statements
June 30, 2011

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Receivables:

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

Property Taxes:

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

Interfund Receivables and Payables:

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

Restricted Assets:

Certain resources set aside for the repayment of the City's sewer and water funds long-term debt are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable debt covenants.

Capital Assets:

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

In the government-wide financial statements, property, plant, equipment and infrastructure assets with a cost, as defined below, of \$1,000 or more are accounted for as capital assets. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available, except donated capital assets are recorded at their estimated fair market value at the date of donation. Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Utility plant	50 years
Buildings	40 years
Machinery and equipment	5 to 40 years
Infrastructure	20-50 years

City of Weed, California
Notes to the Basic Financial Statements
June 30, 2011

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Compensated Absences:

Vacation pay and compensated time off is vested to the employees as it accrues and is payable upon separation of service and therefore, have been accrued in the accompanying financial statements.

Fund Balance Classification:

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

Nonspendable: This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact.

Restricted: This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. The City has classified public safety, streets and roads, community development and parks maintenance fund balances as restricted for fund purposes.

Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the City Council. These amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The City did not have any committed resources as of June 30, 2011.

Assigned: This classification includes amounts that are constrained by the City's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the City Council or through the City Council delegating this responsibility to the City manager through the budgetary process. This classification also includes the remaining positive fund balance for all governmental funds except for the General Fund. The City had assigned resources for various special projects as of June 30, 2011.

Unassigned: This classification includes the residual fund balance for the General Fund. The Unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of Assigned fund balance amounts.

The City would typically use Restricted fund balances first, followed by Committed resources, and then Assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend Unassigned resources first to defer the use of these other classified funds.

City of Weed, California
Notes to the Basic Financial Statements
June 30, 2011

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Revenues, Expenditures and Expenses

Operating Revenues and Expenses:

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

Expenditures/Expenses:

In the government-wide financial statements, expenses are classified by function for both governmental and business-type activities. In the fund financial statements, expenditures are classified by character (current, debt service or capital outlay) for governmental funds, and by operating or nonoperating classifications for proprietary funds. In the fund financial statements, governmental funds report expenditures of financial resources. Proprietary funds report expenses relating to use of economic resources.

F. Estimates

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

G. Budgets

The City adopts an annual budget for the fiscal year commencing the following July 1. Budgets are adopted on a basis consistent with generally accepted accounting principles. The level of control, the level at which expenditures may not exceed budget, is the fund. Unused appropriations lapse at the end of the fiscal year. The City does not use encumbrance accounting.

NOTE 2 CASH AND INVESTMENTS

The City follows the practice of pooling cash of all funds, unless the funds are required by law, debt covenant or other instrument to be held in a separate account. Interest income on pooled cash invested is allocated monthly to the various funds based on the same proportion that such funds bear to the total monies invested. Cash and investments as of June 30, 2011 are classified in the accompanying financial statements as follows:

Statement of Net Assets:	
Governmental activities	\$ 436,057
Business-type activities	107,984
	\$ 544,041
Consisting of:	
Deposits with financial institutions	\$ 540,047
Local Agency Investment Fund (LAIF)	3,644
Cash on hand	350
	\$ 544,041

City of Weed, California
Notes to the Basic Financial Statements
June 30, 2011

NOTE 2 CASH AND INVESTMENTS (continued)

Investments Authorized:

The City manages its pooled idle cash investments under the guidelines of the State of California Government Code Section 53601 which specifically authorizes investments in the following instruments: treasury bills, treasury notes, federal agency securities, bankers' acceptances, nonnegotiable certificates of deposit, commercial paper, negotiable certificates of deposit, and repurchase agreements. All investments activities are conducted with financial institutions approved by the City Council.

Disclosure Relating to Interest Rate Risk:

Interest rate risk is the risk that changes in market rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value in market interest rates. As of year end, the weighted average maturity, as well as the estimated fair value of each investment, are shown in the table below.

	Cost	Fair Value	Maturity Date
Local Agency Investment Fund	\$ 3,644	\$ 3,644	270 day average

Disclosure Relating to Credit Risk:

Generally, credit risk is the risk that an issuer if an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. LAIF does not have such a rating.

Concentration of Credit Risk:

The investment policy of the City contains no limitation on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. There are no investments in any one issuer that represent 5 percent or more of total City investments. There are no investments in any one issuer that represent 5 percent or more of total investments by reporting unit.

Custodial Credit Risk:

Custodial credit risk of deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provisions for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits.

The City's balance in banks was \$621,694, all of which was covered by federal depository insurance, or the collateral requirements discussed in the preceding paragraph. The bank balance differs from the book balance of \$540,047 because of outstanding checks and deposits in transit.

City of Weed, California
Notes to the Basic Financial Statements
June 30, 2011

NOTE 2 CASH AND INVESTMENTS (continued)

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in possession of another party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF).

Investment in State Investment Pool (LAIF):

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the City's investment in this pool is reported in the accompanying financial statements at amounts based upon the City's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on accounting records maintained by LAIF, which are recorded on an amortized cost basis.

NOTE 3 LOANS RECEIVABLE

The following is the composition of loans receivable at June 30, 2011:

Community development loan program	\$ 2,377,076
Economic development loan program	1,233,784
	3,610,860
Less: allowance for doubtful accounts	(19,369)
Loans receivable, net	\$ 3,591,491

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

The following is a summary of the interfund receivables and payables at June 30, 2011:

Fund	Due From	Due to
General Fund	\$ 25,060	\$ -
Business-type Activities:		
Water Fund	-	11,374
Sewer Fund	-	13,686
	\$ 25,060	\$ 25,060
Totals		

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

There were no transfers in/out during the year ended June 30, 2011.

City of Weed, California
Notes to the Basic Financial Statements
June 30, 2011

NOTE 5 CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2011 was as follows:

	June 30, 2010	Additions and Transfers	Retirements and Transfers	June 30, 2011
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 6,498,827	\$ -	\$ -	\$ 6,498,827
Capital assets being depreciated:				
Buildings	2,448,357	-	-	2,448,357
Machinery and equipment	2,430,265	-	-	2,430,265
Infrastructure	6,719,386	-	-	6,719,386
Total capital assets being depreciated	11,598,008	-	-	11,598,008
Less accumulated depreciation for:				
Buildings	974,719	47,035	-	1,021,754
Machinery and equipment	2,247,290	113,252	-	2,360,542
Infrastructure	1,793,687	135,307	-	1,928,994
Total accumulated depreciation	5,015,696	295,594	-	5,311,290
Total capital assets being depreciated, net	6,582,312	(295,594)	-	6,286,718
Subtotal, governmental activities	13,081,139	(295,594)	-	12,785,545
Business-type activities:				
Capital assets not being depreciated:				
Land	4,010,708	-	-	4,010,708
Capital assets being depreciated:				
Utility plant	11,824,302	-	-	11,824,302
Buildings	301,374	-	-	301,374
Machinery and equipment	131,341	22,298	-	153,639
Total capital assets being depreciated	12,257,017	22,298	-	12,279,315
Less accumulated depreciation for:				
Utility plant	2,945,053	236,486	-	3,181,539
Buildings	227,715	7,088	-	234,803
Machinery and equipment	96,039	22,988	-	119,027
Total accumulated depreciation	3,268,807	266,562	-	3,535,369
Total capital assets being depreciated, net	8,988,210	(244,264)	-	8,743,946
Subtotal, business-type activities	12,998,918	(244,264)	-	12,754,654
Total, government-wide	\$ 26,080,057	\$ (539,858)	\$ -	\$ 25,540,199

City of Weed, California
Notes to the Basic Financial Statements
June 30, 2011

NOTE 5 CAPITAL ASSETS (continued)

Depreciation and amortization expense was charged to functions/programs as follows:

Governmental activities		
General government	\$	33,384
Public safety		90,550
Streets and roads		<u>171,660</u>
Total depreciation expense - governmental activities	\$	<u>295,594</u>
Business-type activities:		
Water fund	\$	133,617
Sewer fund		<u>132,945</u>
Total depreciation expense - business-type activities	\$	<u>266,562</u>

NOTE 6 LONG TERM DEBT

The following is a summary of Business-type activities long-term liabilities activity during the year ended June 30, 2011:

	June 30, 2010	Additions	Reductions	June 30, 2011	Current Portion
Certificates of Participation:					
System Upgrade	<u>\$ 74,000</u>	<u>\$ -</u>	<u>\$ 10,000</u>	<u>\$ 64,000</u>	<u>\$ 10,000</u>

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

	1977 Sewer System Upgrade	
Interest rate	5.00%	
Maturity date	July 1, 2017	
Year Ended	Principal	Interest
June 30,		
2012	\$ 10,000	\$ 2,950
2013	10,000	2,450
2014	10,000	1,950
2015	10,000	1,450
2016	12,000	900
2017	<u>12,000</u>	<u>300</u>
	<u>\$ 64,000</u>	<u>\$ 10,000</u>

City of Weed, California
Notes to the Basic Financial Statements
June 30, 2011

NOTE 7 RISK MANAGEMENT

The City participates in the following public entity risk pools:

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

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

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

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

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

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

Audited financial information for the risk pool may be obtained from S.C.O.R.E. c/o Alliant Insurance Services, Inc., 1792 Tribute Road, Suite 450, Sacramento, CA 95815.

NOTE 8 COMPENSATED ABSENCES

Compensated absence activity for the year ended June 30, 2011 is summarized as follows:

	June 30, 2010	Additions	Reductions	June 30, 2011	Current Portion
Governmental activities:					
General fund	\$ 99,696	\$ 100,259	\$ 97,882	\$ 102,073	\$ 91,866
Business-type activities:					
Water fund	19,569	20,036	18,235	21,370	19,233
Sewer fund	19,840	18,549	15,004	23,385	17,539
Solid Waste fund	9,880	4,638	4,199	10,319	5,160
Total business-type	<u>49,289</u>	<u>43,223</u>	<u>37,438</u>	<u>55,074</u>	<u>41,932</u>
Total compensated absences	<u>\$ 148,985</u>	<u>\$ 143,482</u>	<u>\$ 135,320</u>	<u>\$ 157,147</u>	<u>\$ 133,798</u>

City of Weed, California
Notes to the Basic Financial Statements
June 30, 2011

NOTE 9 PENSION PLAN

Plan Description – The City’s defined benefit pension plan, City of Weed Pension Plan (“the Plan”) provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Plan is part of the Public Agency portion of the California Public Retirement System (CalPERS), an agent multiple-employer plan administered by CalPERS, which acts as a common investment and administrative agent for participating public employers within the State of California. A menu of benefit provisions as well as other requirements are established by State Statutes within the Public Employees’ Retirement Law. The City selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through local resolutions. CalPERS issues a separate comprehensive annual financial report. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 Q Street, Sacramento, California 95814.

Funding Policy – Active plan members of the Plan are required to contribute 7.00% for miscellaneous employees and 7.00% for safety employees of their annual covered salary. The City has elected to pay the employees’ contribution. The City is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rate for the year ended June 30, 2011 was 6.238% (miscellaneous) and 18.429% (safety). The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS.

Annual Pension Cost – For the year ended June 30, 2011 the City’s annual pension cost was \$146,998, which is also the amount the City contributed. The required contribution for the year ended June 30, 2011 was determined as part of the June 30, 2008 actuarial valuation using the entry age normal actuarial cost method with the contributions determined as a percentage of pay. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses); (b) projected salary increases that vary by duration of service ranging from 3.25% to 14.45%, and: (c) 3.25% cost-of-living adjustment. Both (a) and (b) include an inflation component of 3.00%. The actuarial value of the Plan’s assets was determined using a technique that smoothes the effect of short-term volatility in the market value of investments over a three year period. The Plan’s unfunded actuarial accrued liability (or excess assets) is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2011 was 13 years.

Three Year Trend Information:

	June 30, 2010	June 30, 2009	June 30, 2008
Annual Pension Cost (APC)	\$ 146,998	\$ 232,108	\$ 202,462
Percentage APC contributed	100%	100%	100%
Net Pension Obligation	\$ -	\$ -	\$ -

City of Weed, California
Notes to the Basic Financial Statements
June 30, 2011

NOTE 9 PENSION PLAN (continued)

Therefore, the information below is for the pool as a whole, and is the latest available.

Three Year Trend Information for Miscellaneous Plan of CalPERS:

	<u>June 30, 2010</u>	<u>June 30, 2009</u>	<u>June 30, 2008</u>
Actuarial Accrued Liability (AAL)	\$ 624,423,437	\$ 582,841,869	\$ 532,483,463
Actuarial Value of Assets	594,492,164	553,953,526	513,147,099
Unfunded AAL (UAAL)	29,931,273	28,888,343	19,336,364
Funded Ratio	95.2%	95.0%	96.4%
Annual Covered Payroll	186,777,830	184,319,666	183,387,608
UAAL as % of Payroll	16.0%	15.7%	10.5%

Three Year Trend Information for Safety Plan of CalPERS:

	<u>June 30, 2010</u>	<u>June 30, 2009</u>	<u>June 30, 2008</u>
Actuarial Accrued Liability (AAL)	\$ 80,550,533	\$ 73,625,106	\$ 69,011,153
Actuarial Value of Assets	69,069,025	63,095,026	62,163,959
Unfunded AAL (UAAL)	11,481,508	10,530,080	6,847,194
Funded Ratio	85.7%	85.7%	90.1%
Annual Covered Payroll	21,754,150	21,879,598	21,538,000
UAAL as % of Payroll	52.8%	48.1%	31.8%

NOTE 10 RESTRICTED NET ASSETS

Restricted net assets are net assets whose use are subject to constraints that are either; (1) externally imposed by creditors (such as debt covenants), grantors, or laws or regulations of governments, or (2) imposed by law through constitutional provisions or enabling legislation. Restricted net assets at June 30, 2011 for business-type activities were restricted for debt service.

NOTE 11 FUND BALANCE

As of these financial statements, the City has adopted GASB Statement No. 54, which redefined how fund balances of the governmental funds are presented in the financial statements. Fund balances are classified as follows:

Nonspendable—Amounts that cannot be spent either because they are not in a spendable form or because they are legally or contractually required to be maintained intact. The nonspendable fund balance in the General Fund and in the Special Revenue fund are for loans receivable.

Restricted—Amounts that can be spent only for specific purposes because of the City Charter, City Code, state or federal laws, or externally imposed conditions by grantors or creditors.

Committed—Amounts that can be used only for specific purposes determined by a formal action by City Council ordinance or resolution. This includes the budget reserve account.

Assigned—Amounts that are designated by the City Manager for a specific purpose.

Unassigned—All amounts not included in other spendable classifications.

City of Weed, California
Notes to the Basic Financial Statements
June 30, 2011

NOTE 12 CONTINGENCIES

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

The City is also a party to several legal actions. Should the outcome be unfavorable to the City, it does not expect the financial effects will be material to the financial position of the City.

NOTE 13 PRIOR PERIOD ADJUSTMENTS

(A) Loans receivable

In prior years, the City has recorded a deferred revenue amount equal to the loans receivable balance in the CDBG/EDBG fund as the City believed it was misleading to report a high fund balance. In the current year under new reporting standards for fund balance, it was determined that the net loans receivable if \$3,812,737 should be reported as nonspendable fund balance. Of that amount, it was also determined that \$1,059,134 were actually made from general fund resources and therefore should be included as an asset of the general fund. The result is an increase in the fund balance of the general fund of \$1,059,134 and an increase in the fund balance of the CDBG/EDBG fund of \$2,753,603.

(B) Compensated absences

In prior years, the City has reported compensated absence liabilities in the fund financial statements. In the current year, it was determined that these should not be reported as liabilities in the governmental funds under proper accounting principles, but only in the government-wide statement of net assets. The result is a \$99,696 increase to beginning fund balance in the general fund.

(C) Fund grouping

In prior years, the City had incorrectly grouped three subfunds in the financial report, consisting mainly of a loan fund that should have been grouped with the general fund instead of the CDBG/EDBG fund. The result is a \$247,879 increase to the beginning fund balance in the general fund, a \$242,914 decrease to beginning fund balance in the CDBG/EDBG fund, a \$52 increase in beginning fund balance of other governmental funds, and a \$5,017 decrease to beginning net assets of the Water fund.

(D) Loan converted to grant

In the current year, it was discovered that a \$400,000 loan made by the City had previously been converted to a grant, however an interfund balance was still recorded between the general fund and CDBG fund. The result is a \$400,000 increase to beginning fund balance in the general fund and a \$400,000 decrease to beginning fund balance in the CDBG/EDBG fund.

City of Weed, California
Notes to the Basic Financial Statements
June 30, 2011

NOTE 13 PRIOR PERIOD ADJUSTMENTS (continued)

The effect of these prior period adjustments is shown in the financial statements as follows:

<u>Fund financial statements:</u>	<u>General Fund</u>	<u>CDBG/EDBG Fund</u>	<u>Nonmajor</u>	<u>Total</u>
Statement of Revenues, Expenditures and Changes in Fund Balance, Governmental Funds:				
Loans receivable	\$ 1,059,134	\$ 2,753,603	\$ -	\$ 3,812,737
Compensated absences	99,696	-	-	99,696
Fund grouping	247,879	(242,914)	52	5,017
Loan converted to grant	400,000	(400,000)	-	-
Total prior period adjustments, Statement of Revenues, Expenditures and Changes in Fund Balance	<u>\$ 1,806,709</u>	<u>\$ 2,110,689</u>	<u>\$ 52</u>	<u>\$ 3,917,450</u>
 <u>Government-wide financial statements:</u>				
Statement of Activities - Governmental Activities:	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>	
Loans receivable	<u>\$ 5,017</u>	<u>\$ (5,017)</u>	<u>\$ -</u>	

REQUIRED SUPPLEMENTARY INFORMATION

City of Weed
Budgetary Comparison Schedule
General Fund
For The Year Ended June 30, 2011

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Favorable (Unfavorable) Variance With Final Budget</u>
<u>REVENUES</u>				
Property taxes	\$ 671,800	\$ 671,800	\$ 651,518	\$ (20,282)
Sales and use taxes	647,208	647,208	566,859	(80,349)
Transient occupancy taxes	305,000	305,000	244,649	(60,351)
Franchise and other taxes	77,700	77,700	70,289	(7,411)
Licenses and permits	10,000	10,000	8,606	(1,394)
Fines, forfeitures and penalties	22,500	22,500	23,285	785
Intergovernmental revenues	184,300	184,300	148,759	(35,541)
Charges for services	137,100	137,100	107,767	(29,333)
Use of money and property	55,150	55,150	50,284	(4,866)
Other	81,000	81,000	37,978	(43,022)
Total revenues	<u>2,191,758</u>	<u>2,191,758</u>	<u>1,909,994</u>	<u>(281,764)</u>
<u>EXPENDITURES</u>				
Current:				
General government	419,749	441,129	287,156	153,973
Police protection	1,301,145	1,310,565	1,298,757	11,808
Fire protection	281,230	281,230	282,976	(1,746)
Streets and roads	420,074	420,074	279,589	140,485
Total expenditures	<u>2,422,198</u>	<u>2,452,998</u>	<u>2,148,478</u>	<u>304,520</u>
Excess of revenues over (under) expenditures	<u>\$ (230,440)</u>	<u>\$ (261,240)</u>	<u>\$ (238,484)</u>	<u>\$ 22,756</u>

City of Weed
Budgetary Comparison Schedule
Community/Economic Development Block Grant Fund
For The Year Ended June 30, 2011

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Favorable (Unfavorable) Variance With Final Budget</u>
<u>REVENUES</u>				
Intergovernmental	\$ 188,000	\$ 188,000	\$ 140,071	\$ (47,929)
Use of money and property	250	250	42,453	42,203
Total revenues	<u>188,250</u>	<u>188,250</u>	<u>182,524</u>	<u>(5,726)</u>
<u>EXPENDITURES</u>				
Current:				
Community and economic development	104,600	104,600	114,549	(9,949)
Bad debt expense	-	-	15,474	(15,474)
Total expenditures	<u>104,600</u>	<u>104,600</u>	<u>130,023</u>	<u>(25,423)</u>
Excess of revenues (under) expenditures	<u>\$ 83,650</u>	<u>\$ 83,650</u>	<u>\$ 52,501</u>	<u>\$ 19,697</u>

City of Weed
Budgetary Comparison Schedule
Special Revenue Fund
For The Year Ended June 30, 2011

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Favorable (Unfavorable) Variance With Final Budget</u>
<u>REVENUES</u>				
Intergovernmental	\$ 489,708	\$ 489,708	\$ 489,708	\$ -
Total revenues	<u>489,708</u>	<u>489,708</u>	<u>489,708</u>	<u>-</u>
<u>EXPENDITURES</u>				
Current:				
Streets and roads	<u>489,708</u>	<u>489,708</u>	<u>489,708</u>	<u>-</u>
Excess of revenues (under) expenditures	<u>\$ 489,708</u>	<u>\$ 489,708</u>	<u>\$ 489,708</u>	<u>\$ -</u>

SINGLE AUDIT SCHEDULES AND REPORTS

City of Weed
Schedule of Expenditures of Federal Awards
For The Year Ended June 30, 2011

<u>Program Title</u>	<u>Federal CFDA #</u>	<u>Pass Through Grantor #</u>	<u>Federal Expenditures</u>	<u>Loan Disbursements Included In Expenditures</u>
<u>Department of Housing and Urban Development</u>				
Passed through California Department of Housing and Community Development				
Community Development Block Grant/State's program	14.228	08-PTAE-5414	\$ 1,576	\$ -
Community Development Block Grant/State's program	14.228	08-PTAG-5355	29,514	-
Community Development Block Grant/State's program	14.228	07-EDEF-3756	36,531	-
Community Development Block Grant/State's program	14.228	09-EDEF-6365	56,813	19,000
Total Department of Housing and Urban Development Programs			<u>124,434</u>	<u>19,000</u>
<u>Department of Transportation</u>				
Passed through California Department of Transportation Highway Planning and Construction - ARRA				
	20.205	ESPL-5371	468,297	-
Total Department of Transportation Programs			<u>468,297</u>	<u>-</u>
<u>Department of Justice</u>				
Public Safety Partnership and Community Policing Grants				
	16.710	N/A	41,484	-
Total Department of Justice			<u>41,484</u>	<u>-</u>
Total Expenditures of Federal Awards			<u>\$ 634,215</u>	<u>\$ 19,000</u>

Notes:

The Schedule of Expenditures of Federal Awards is prepared using the modified accrual basis of accounting, which is the same basis used in preparing the basic financial statements.

City of Weed, California expended no federal non-cash assistance during the year, had no federal insurance in effect during the year, and had no outstanding federal loan guarantees during the year.

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

To the City Council
City of Weed, California

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Weed as of and for the year ended June 30, 2011, which collectively comprise the City of Weed's basic financial statements, and have issued our report thereon dated February 27, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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 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. We consider the deficiency described in the accompanying schedule of findings as Item, 2011-1 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Weed, California's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that are required to be reported under Government Auditing Standards and which is described in the accompanying schedule of findings as Item 2011-1.

City of Weed, California's responses to our findings identified in our audit are described in the accompanying schedule of findings. We did not audit City of Weed, California's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, City Council, others within the entity, Siskiyou County Auditor-Controller, and the California State Controller's Office, and is not intended to be and should not be used by anyone other than these specified parties.

Aiello, Goodrich & Teuscher
An Accountancy Corporation
Mt. Shasta, California
February 27, 2013

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

To the City Council
City of Weed, California

Compliance

We have audited City of Weed's 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 City of Weed's major federal programs for the year ended June 30, 2011. City of Weed's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of City of Weed's management. Our responsibility is to express an opinion on City of Weed's compliance based on our audit.

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 City of Weed'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. Our audit does not provide a legal determination of City of Weed's compliance with those requirements.

In our opinion, City of Weed complied, in all material respects, with the 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, 2011.

Internal Control Over Compliance

Management of City of Weed is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered City of Weed's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance 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 City of Weed's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be a material weakness.

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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2011-A to be a material weakness.

The City of Weed's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the City of Weed's response and, accordingly, we express no opinion on the response.

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

Aiello, Goodrich & Teuscher
An Accountancy Corporation
Mt. Shasta, CA
February 27, 2013

City of Weed, California
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2011

Summary of Auditors' Results

1. The auditors' report expresses an unqualified opinion on the financial statements of the City of Weed, California.
2. One material weakness relating to the audit of the financial statements is reported in the *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*.
3. One instance of noncompliance was disclosed that is material to the financial statements of the City of Weed, California.
4. One material weakness relating to the audit of the major federal awards programs is reported in the *Independent Auditors' Report On Compliance With Requirements Applicable To Each Major Program And On Internal Control Over Compliance Required By OMB Circular A-133*.
5. The Independent Auditors' Report on compliance for the major federal award programs expresses an unqualified opinion on all major programs.
6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are included in this Schedule.
7. The program tested as a major program was CFDA #20.205 – Highway Planning and Construction-ARRA.
8. The threshold used for distinguishing between Type A and B programs was \$300,000.
9. The City of Weed, California did not qualify as a low-risk auditee.

Findings - Financial Statement Audit

2011-1 Community Development Block Grant compliance and controls

Condition: The City has been unable to provide adequate documentation regarding loan program grant fund expenditures.

Criteria: The City is required to properly monitor subrecipients and maintain adequate documentation supporting the appropriate use of grant funds received.

Effect: Without proper documentation, grant funds may be disallowed.

Questioned Costs: \$37,813

Recommendation: The City should work with their subrecipient and with the state monitoring agency to ensure proper procedures in the future.

Response:

The supporting documentation was submitted by the City to the granting agency in a timely fashion and was accepted as sufficient. However, the City had not received a formal clearance letter at the time of the audit. The City expects to receive this clearance letter shortly.

City of Weed, California
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2011

Findings and Questioned Costs-Major Federal Award Programs Audit

2011-A Submission of OMB Circular A-133 audit report

Condition: The City did not obtain the required audit within the appropriate timeframe.

Criteria: OMB Circular A-133 requires the completion of a single audit within nine months after the close of the fiscal year under audit.

Effect: Late submission of single audit reports may have an effect on future funding.

Questioned Costs: None

Recommendation: The City should ensure they obtain the required audit and submit the required reports in a timely manner.

Response:

The audit of the financial statements was not performed within the 9 month time period. The City is working toward becoming current with their audits.

Summary of Prior Audit Findings

None