

CITY OF YREKA
Financial Statements
June 30, 2007

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Program and on Internal Control Over Compliance in Accordance With
OMB Circular A-133

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INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Yreka
Yreka, California

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Yreka, California, as of and for the year ended June 30, 2007 which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. My responsibility is to express an opinion of these financial statements based on my audit.

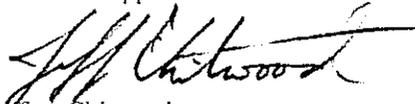
I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that I plan and perform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

In my opinion, based on my audit, the financial statements referred to above present fairly, in all material respects, the financial position of the government activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Yreka, California, as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, I have also issued a report dated March 28, 2008 on my consideration of the City's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of my audit.

The Management Discussion and Analysis (MD&A) and budgetary comparison information as listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principals generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

My audit was made for the purpose of forming an opinion on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and statistical section schedules are presented for the purposes of additional analysis and are not a required part of the basic financial statements. 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 also not a required part of the basic financial statements of City of Yreka, California. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, based on my audit, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, I express no opinion on them.



Jeffrey Chitwood
Certified Public Accountant
March 28, 2008



City of Yreka

Management's Discussion and Analysis:

As management of the City of Yreka (the City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City of Yreka for the fiscal year ended June 30, 2007. The management provides this discussion and analysis to: 1) assist the reader in focusing on significant financial issues, 2) provide an overview of the City's financial activity, and 3) identify changes in the City's financial position.

Financial Highlights:

- In the statement of net assets, total net assets for the City of Yreka exceeded its liabilities at the close of the most recent fiscal year by \$30,037,277. Of this amount, \$11,177,912 of unrestricted net assets may be used to meet the government's ongoing obligations to citizens and creditors. Unrestricted net assets can also be compared to the financial statement fund accounting ending fund balance of \$10,835,115 by deducting the government wide statement adjustments of \$340,260 for economic development loans and \$2,535 in supplies inventory. One might think of unrestricted net assets as the City's total equity or capital balance.
- The governmental activities total net assets increased by \$2,441,989 from the prior fiscal year 2005-06. The increase in net assets is primarily due to \$1 million acquisition of fire equipment and \$2.3 million of street improvement projects.
- The governmental funds ending fund balance increased by \$321,048 in 2006-07. That increase includes the general fund's transfer of \$1,000,000 to the landfill business fund. The transfer was to open escrow for the sale liability (cost of selling) of the jointly owned and operated landfill with the County of Siskiyou. The County of Siskiyou is the buyer. The sale price was a cost of \$3,500,000 to the City for a release of all environmental liability, "walk-away" transaction.
- The business type activities total net assets and the ending fund balance increased by \$2,794,412 from the prior fiscal year 2005-06, of which net income from operations accounted for 10% of the revenue or \$295,043 and the remaining 90% or \$2,496,064 was from capital grants and contributions. The City prides itself on being competitive in applying for and receiving grants, however that funding

stream is not guaranteed or sustainable. Unfortunately, the current level of income from business type activities will not sustain the utilities of water and sewer.

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

However, the City realizes it needs to value fees for services with the cost of providing those services. In 2007-08, the City is conducting special budget study sessions to evaluate fees charge for services, primarily the business services.

Over that past 10 years, the City has completed numerous master plan studies and taken inventory of its assets, with the last study completed December 2007. In these studies, engineers have identified over \$29 million of capital improvements needed within the next five years for the City's infrastructure assets of streets, water and sewer utilities. That roughly translates to about \$7,800 per household.

The City remains fiscally sound, however, now is the time for the City to take proactive steps to fund capital projects. The fee revenue received from the business-type activities is failing to keep pace with construction costs of maintaining and improving the systems as identified in the master plans and the City applied for and received a CDBG PTAA grant contract for a water and sewer rate study. That study is nearly complete and was presented to Council by on March 17, 2008 at a public hearing for their consideration.



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

2006-07 Operational Highlights:

In 2006-07, three horizon issues were identified as being key for the City's focus.

- [1] Sale or buy the City operated landfill, consider conversion to a transfer station.
 - o The City opened escrow and on July 10 consummated the sale of the landfill to the County.
 - o The landfill is operating now as a transfer station.
- [2] Funding and equipment for fire protection services were problematic and the City's fire insurance rating was under review and possible downgrade.
 - o With the support of the citizens and an extensive campaign effort by the YVFD, a 2/3 majority vote passed Measure H. Measure H is a supplemental property tax assessment dedicated to support the volunteer fire protection services and outfit the department with new equipment. In May 2007, the City entered into a lease purchase option to obtain two new fire ladder and pumper trucks.
- [3] Deficit spending in the enterprise funds is at a critical level.
 - o This continues to be a problem. The City has received a CDBG PTAA grant contract for a water and sewer rate study.

Other reflections for 2006-07 include:

- The work completion of a \$1,000,000 sewer main rehabilitation project. This project utilized grant funds from CDBG and the economic development loan revolving loan account.
- The City was awarded a \$5,000,000 Stormwater Attenuation (Prop. 40) grant administered by the State Regional Water Quality Control Board. This grant covers over 80% of the needed improvements that were identified in the City's storm drain master plan. This was a very competitive grant and the largest grant award received by the City. This project includes storm drain detention ponds, Greenhorn Park restoration and storm drain infrastructure repairs. The majority of work for this grant is to be completed in 2007-08.
- Award and completion of a \$500,000 contract for the rehabilitation of the Broadway water line.
- State Transportation Improvement Program grants totaling \$2,270,000 are in process as the City's streets (Fairlane, Oberlin, Greenhorn and various streets for cape seal overlays) are being repaired and rehabilitated.
- The downtown bike path, from Foothill to Miner street, totaling over \$650,000 was funded in large part by federal and state transportation grant funds was completed.

- The City has commenced work on the \$1,501,000 Yreka Greenway Creek trails project. This grant is complemented by the Department of Water Resources grant of \$300,000 for the acquisition of key properties along the Yreka Creek Greenway. Both grants work towards the goals identified and developed in Greenway Master Plan.



Yreka Creek Greenway Visitor Center Interpretive Display

- The City's arboretum grant project from the USDA/USFS was completed. The City matched with cash and in-kind services of over \$28,500 while the community matched with over \$35,200 of volunteer hours and donations.
- The Council approved the implementation of developer impact fees. Development impact fees provide a way to support the incremental cost of growth within the City by those developments that affect the City's infrastructure.
- Both the water and sewer treatment plants are in the process of converting from chlorine gas disinfecting to sodium hypo chloride disinfecting at the treatment facilities as mandated.
- The City is utilizing its Federal Emergency Management Agency (FEMA) award from the 2005 storm to repair the wastewater treatment facilities. Over \$766,000 in repair and mitigation work is in process.
- Installation of new heating and air-condition systems at City Hall and YCTV as specified in the 2004 Department of Housing and Community Development, Proposition 46 (Housing Bond) Workforce Housing Reward Grant Program.
- The completion of Ringe and Lewis park playground equipment and American with Disability Act access trail utilizing 2002 Resources Bond Act, (Prop. 40 Parks and Recreation) grants funds.

Overview of the Financial Statements:

This discussion and analysis is intended to serve as an introduction to the City of Yreka's

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

Government-wide Financial Statements:

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

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

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

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

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

The government-wide financial statements can be found on pages 3 through 6 this report.

Fund Financial Statements:

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

Governmental funds:

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

evaluating a City'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 major funds within governmental funds include the General Operating Fund, the Gas Tax Special Revenue Fund, Special Grants Fund, and Fire Assessment Tax Fund. All of the remaining governmental funds are combined into Other Governmental Funds.

Information is presented in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund. The governmental fund is combined into a single, aggregated presentation. The City of Yreka adopts an annual appropriated budget for each of its governmental funds. A budgetary comparison statement for the general operating fund demonstrates compliance with this budget, and is located on pages 38 through 41 of this report.

Proprietary funds.

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

Fiduciary funds:

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. The City's fiduciary fund represents an agency fund, which is custodial in nature (assets equal liabilities) and does not involve measurement of results of operation. The City accounts for this agency fund on a spending or "economic resources" measurement focus. The basic fiduciary fund financial statements can be found on page 10 through 11 of this report.

Notes to the financial statements:

The notes provide additional information that is essential to fully understand the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 12 through 36 of this report.

Other supplemental information:

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information which can be found on pages 37 through 49 of this report.

Financial Analysis of the City as a Whole:

Government-wide Financial Analysis:

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The City of Yreka's assets exceeded liabilities by \$14,331,404 for governmental activities and \$15,729,700 for business type activities, or \$30,061,104 in total, at the close of the most recent fiscal year.

City of Yreka – Changes in Net Assets

	Governmental Activities	Business- Type Activities	Total
Total Net Assets for:			
Fiscal Year 2004-05	10,578,236	12,624,838	23,203,074
Fiscal Year 2005-06	11,889,415	12,935,288	24,824,703
Fiscal Year 2006-07	14,331,404	15,729,700	30,061,104
Increase or (Decrease in Net Assets)	2,441,989	2,794,412	5,236,401

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

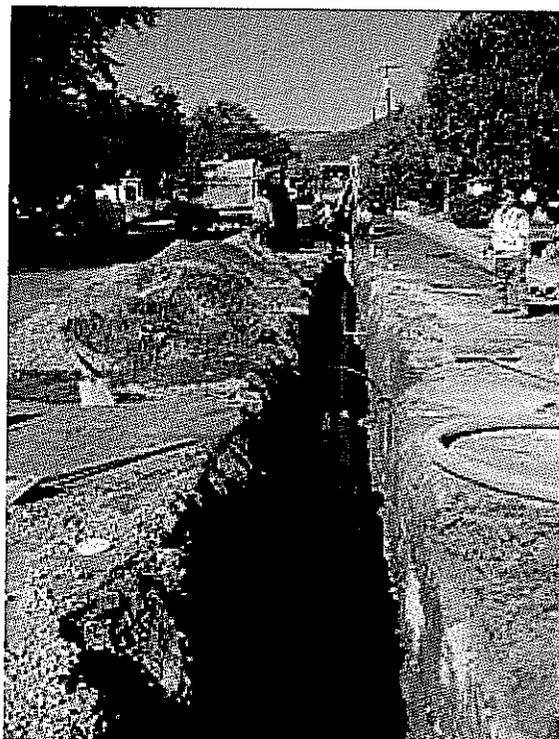
The schedule below displays a year over year comparative summary of the City's governmental activities net assets:

City of Yreka – Governmental Activities Net Assets

	Governmental Activities		Percentage Change
	2005-06	2006-07	2005-06 base
Assets:			
Current assets and other assets	5,285,122	6,739,226	27.5%
Non Current Assets	7,276,959	10,441,052	43.5%
<i>Total Assets</i>	12,562,081	17,180,278	36.8%
Liabilities:			
Current Liabilities	641,730	1,845,380	187.6%
Long-term Liabilities	30,936	1,003,494	3143.8%
<i>Total Liabilities</i>	672,666	2,848,874	323.5%
Net assets:			
Invested in capital assets, net of related debt	7,221,036	9,323,005	29.1%
Restricted	0	0	
Unrestricted	4,668,379	5,008,399	7.3%
<i>Total Net Assets</i>	11,889,415	14,331,404	20.5%

Net assets increased by 20.5% or \$2,441,989 from 2005-06. The large increase in long-term debt is due to the City's \$1 million capital lease with Sovereign Bank to purchase fire equipment and \$2.3 million in street rehabilitation and construction projects. The increase in current liabilities from 2005-06 is due receivables outstanding at the end of the year from various intergovernmental (state) agencies, primarily for road construction projects during the summer of 2007.

Unrestricted net assets increased \$340,020 from 2005-06, in part due to an increase in the ending fund balance, where revenues exceeded actual expenditures.



Waterline repair Jackson Street, photo taken September 27, 2007.

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

City of Yreka – Business Type Activities Net Assets

	Business-Type Activities		Percentage Change
	2005-06	2006-07	2005-06 base
Assets:			
Current assets and other assets	5,422,114	6,550,377	20.8%
Non Current Assets	11,776,719	13,232,441	12.4%
<i>Total Assets</i>	17,198,833	19,782,818	15.0%
Liabilities:			
Current Liabilities	642,095	740,932	15.4%
Long-term Liabilities	3,621,450	3,312,186	-8.5%
<i>Total Liabilities</i>	4,263,545	4,053,118	-4.9%
Net assets:			
Invested in capital assets, net of related debt	7,773,526	9,560,187	23.0%
Restricted	0	0	
Unrestricted	5,161,762	6,169,513	19.5%
<i>Total Net Assets</i>	12,935,288	15,729,700	21.6%

Net assets increased by 21.6% or \$2,794,412 from 2005-06. Current assets increased \$1,128,263 or 20.8% primarily due to an increase the \$1,000,000 escrow deposit for the sale liability (cost) of the City's interest in the landfill from 2005-06. Non current assets increased by \$1,455,722 or 12.4% due to capital improvement projects primarily in the sewer enterprise fund from 2005-06. Unrestricted net assets increased \$1,007,751 from 2005-06, in part due to an increase in the ending fund balance, whereas revenues exceeded actual expenditures.

Financial Analysis of the City's Funds:

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

Governmental funds:

The focus of the City of Yreka's governmental funds is to provide information on near-term cash inflows, cash outflows, and available ending balances and reserves for operations. Such information is useful in assessing the City of Yreka's financing

requirements. In particular, unrestricted and undesignated fund balances may serve as a useful measure of a government's net capital available for spending at the end of the fiscal year. As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$4,665,604. Almost 65% of this total amount, \$3,020,219, constitutes unrestricted and undesignated fund balance, which is available for spending at the City's discretion. The remainder of fund balance or \$1,645,385 is reserved to indicate that it is not available for spending. This is because it has already been committed 1) roads and streets 2) capital improvements 3) grant projects 4) insurance reserves and a variety of other designations.

The general fund is the chief operating fund of the City of Yreka. At the end of the current fiscal year, the unreserved fund balance of the general fund was \$3,020,219 however, that included \$1,860,430 of funds in the Crandell account, an account for which the City has expenditure control but retains for special capital outlay. As a measurement of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 36% of total general fund expenditures, while total fund balance represents 55% of that same amount. During the current fiscal year, the City of Yreka's general fund ending balance increased by \$321,084.

Governmental Funds revenue increased \$3,226,192 in 2006-07 from 2005-06 due to increase in grant funds, loan proceeds and Measure H, fire tax assessment.

Expenses increased \$2,519,974 in 2006-07 from 2005-06; due to fire equipment purchases, grant construction projects for streets and parks.

Proprietary funds:

The City of Yreka's proprietary funds, also referred to as business-type activities or Enterprise Funds, provide the same type of information found in the government-wide financial statements, but in more detail. Total net assets of the water, wastewater and landfill funds at the end of the year amounted to \$15,729,700, and unrestricted net assets were \$6,169,513. In the statement on Cash Flows, page 9, the net increase (decrease) in cash shows an increase of \$396,266. Note however, that the water and sewer business activities experience a negative cash flow for the fiscal year 2006-07. As in fiscal year 2005-06, this shows that revenues are not keeping pace with the required cash outlay for both operations and required capital outlay and financing.

Agency funds:

Agency funds consist of fiduciary funds that are used to account for assets held in a trustee or agent capacity for others. In 2007-08, the remaining balances in the agency funds were transferred into general fund designated and or restricted accounts as the City has control over the expenditure of the funds. Funds previously classified as agency funds were the parkland trust funds, Campbell tract funds, Shasta Belle Redemption

Funds, Senior Capital Fund and Senior Activity Program Fund, and Gifts and Donations funds, reference pages 10 through 11.

General Fund Budgetary Highlights:

Below is a table comparing the differences between the original budget and the final amended budget for revenue and expenses in the General Fund, Gas Tax, Special Grants and Fire Assessment. More line item detail is available on pages 38 through 41 of this report.

Schedule of Revenues and Expenditures – Budget to Actual			
General Fund	Original	Final	Actual
Revenue	5,710,273	5,542,904	5,779,964
Expense	5,490,513	5,090,312	4,378,828
Excess (deficiency) of revenue over (under) expenses	219,760	452,592	1,401,136
Other Financing Sources and (Uses)	(217,222)	(1,115,127)	(975,091)
Net Change in Fund Balance	2,538	(662,535)	426,045
Gas Tax	Original	Final	Actual
Revenue	175,000	175,000	165,969
Expense	796,158	454,658	381,618
Excess (deficiency) of revenue over (under) expenses	(621,158)	(279,658)	(215,649)
Other Financing Sources and (Uses)	294,000	90,110	90,103
Net Change in Fund Balance	(327,158)	(189,548)	(125,546)
Special Grants	Original	Final	Actual
Revenue	4,077,900	2,052,742	2,069,893
Expense	4,077,740	2,128,497	2,152,211
Excess (deficiency) of revenue over (under) expenses	160	(75,755)	(82,318)
Other Financing Sources and (Uses)	77,700	(33,995)	(54,520)
Net Change in Fund Balance	77,860	(109,750)	(136,838)
Fire Assessment	Original	Final	Actual
Revenue	0	1,192,000	1,194,908
Expense	0	1,092,000	1,091,969
Excess (deficiency) of revenue over (under) expenses	0	100,000	102,939
Other Financing Sources and (Uses)	0	0	0
Net Change in Fund Balance	0	100,000	102,939

General Operating Fund:

- General Fund total revenues for the adopted budget were \$5,710,273. This is a \$167,369 greater than the operating budget of \$5,542,904. The operating budget was modified for grant revenue proceeds in both intergovernmental grants and other grants and donations. Inkind revenues increased from zero dollars in the adopted

budget to \$46,590 in the operating budget. This was primarily due to the inkind match requirement for the arboretum grant.

- The operating budget revenue of \$5,542,904 was lower than actual revenue received in 2006-07. This was primarily due to higher interest earning on investments and cash and property tax revenue.
- Expenses in the adopted budget were \$5,490,513 and \$5,090,312 or a decrease of \$400,201. The decrease was primarily in the parks budget where grant projects were deferred until 2007-08 for restroom construction utilizing Prop 40 grant funds.
- The operating budget of \$5,090,312 was \$711,484 less than the actual expenditures and found in all functional areas.
- Parks, recreation and cultural development had widespread savings in both salaries and operating expense for a operating budget to actual variance of \$163,298.
- Planning and development had operating budget to actual savings were \$100,531 as a budgeting position was not filled in 2006-07, and a downtown revitalization projects was put on hold.
- General governmental activities incurred savings of \$134,516 from the operating budget to actuals again in broad areas of salary and benefits, administrative overhead cost recovery from the enterprise funds, and insurance claims and premiums.
- Operating transfers in were zero dollars in the adopted and operating budgets, however 2006-07 actuals were \$128,698. This is due primarily due to the classification to the general fund from the fiduciary fund of assets and cash that are under the City's expenditure control, though restricted and or designated for special purposes.
- Operating transfers out were \$217,222 in the adopted budget and \$1,115,127 in the operating budget. The increase is primarily due to the \$1,000,000 transfer from general fund reserves to the landfill enterprise fund to open escrow for the sale of the landfill to Siskiyou County.

Gas Tax Special Revenue Fund:

- In the Gas Tax Fund actual revenue was \$10,370 lower than the adopted and operating budgeted due to an overestimation of revenue based on historic growth trends. Probable cause is slower gasoline sales statewide, due to higher fuel costs.
- Expenditures primarily for capital projects in the Gas Tax Fund were \$796,158 in the adopted budget, \$454,658 in the operating budget and \$381,618 for actuals. Projects in the adopted budget not started or completed totaled \$127,500 for storm drain projects (non-grant funded). Projects in the adopted budget totaling \$356,000 for street rehabilitation and paving projects, were reduced in operating budget to \$142,000, for a adopted to operating budget decrease of \$214,000 due to delayed construction. Most of those projects were budgeted for completion in 2007-08.
- The operating budget expense to actual budget expense variance of \$73,040 is primarily attributable to salary savings of \$47,373 and a FEMA cost reimbursement claim paid if 2006-07 from 2005-06 for \$26,164.
- Transfers in were decreased by \$294,000 from the adopted budget of \$294,000 to the operating budget of \$90,110. The transfers in were not required due non completion of street rehabilitation and storm drain projects.

Special Grants:

In the Special Projects Fund budgetary revenue and expenditure changes included:

- Grant revenue originally budgeted but not received due to projects not started in 06-07 accounted for \$900,300 variance from the adopted budget to the operating budget. Those grants included the Safe Routes to School \$375,300, Workforce Housing Grant \$100,000, STIP Planning projects and STIP Bus acquisition \$325,000, and Economic Development loans \$100,000.
- Grant revenue adjusted from the adopted budget to the operating budget included \$1,124,858. That included a decrease in transportation projects of \$1,290,697 for projects still under construction, an increase of \$208,926 for the Storm Drain basin, floodplain and culvert grant, a \$222,137 decrease in the Roberti Z'berg Park Accessibility trail grant due to slower construction progress, and \$179,050 increase in economic development and home rehabilitation lending.
- The actual to operating budget revenue variance was primarily due to higher interest earnings and inkind revenue grant matches.
- Transfers-in were lower in the operating budget and actuals than the adopted budget by \$81,095 due to \$59,808 not transferred in from the general fund for grant matches for construction in process and \$21,286 less backfill needed for the bike and pedestrian path project.
- Transfers-out were higher than budgeted by \$30,600. This is due to the operating budget due to available revolving loan interest transferred to the sewer rehabilitation project. Actual transfers out were \$20,525 higher than the operating budget due to prior year's grant program equity due to the sewer capital projects fund.
- Expenditures for street rehabilitation, storm drain projects, pedestrian and bike paths, safe schools routes, and purchase of senior transportation buses were \$3,513,320 in the adopted budget, \$1,893,419 in the operating budget and \$1,911,557 for actuals. Many of these projects did not get started in 2006-07 as expected or were in progress, and fabrication and delivery of the buses was delayed.
- Expenditures for parks and recreation and community development projects were \$564,440 in the adopted budget, \$235,070 in the operating budget and \$240,743.66 for actuals. The primary decrease was due to slower than expected construction on the bathrooms and bridge in the Greenhorn Park Accessibility trail grant.

Fire Assessment Fund:

The variance from the original adopted budget to the operating budget reflects the passage of Measure H voter special tax on November 5, 2006. The tax was implemented in January of 2007 and equipment was purchased on a capital lease agreement in May 2007.

Capital Assets and Debt Administration

Changes in Capital Assets

	Balance June 30, 2006	Additions	Retirements	Balance June 30, 2007
Governmental Activities:				
<i>Capital assets not being depreciated;</i>				
Land	1,606,118			1,606,118
Construction in Progress	85,815	1,707,272	28,710	1,764,377
<i>Capital assets being depreciated;</i>				
Building and Structures	3,920,380	42,770		3,963,150
Machinery and Equipment	2,003,596	1,177,449		3,181,045
Streets; Paving, Drainage, Curbs, Gutters, Sidewalks	14,747,992	604,832		15,352,824
Street Lighting	3,449,600			3,449,600
Streets Other; Bridges	251,500			251,500
Governmental Activities Capital Assets	26,065,001	3,532,323	28,710	29,568,614
Less Accumulated Depreciation	(18,788,051)	(339,512)		(19,127,563)
Governmental Activities Capital Assets, net	7,276,950	3,192,811	28,710	10,441,051
Business-type Activities:				
<i>Capital assets not being depreciated;</i>				
Land	369,922			369,922
Construction in Progress	57,998	1,581,632	22,445	1,617,185
<i>Capital assets being depreciated;</i>				
Building and Structures	7,175,313			7,175,313
Machinery and Equipment	4,340,063	42,714		4,382,777
Water Delivery System	8,173,929	494,903		8,668,832
Sewer Delivery System	4,780,011			4,780,011
Total Business Activities Capital Assets	24,897,236	2,119,249	22,445	26,994,040
Less Accumulated Depreciation	(14,168,175)	(693,424)	0	(14,861,599)
Business-type Capital Assets, net	10,729,061	1,425,825	22,445	12,132,441
Total Capital Assets, net	18,006,011	4,618,636	51,155	22,573,492

The City of Yreka's investment in capital assets for its governmental and business type activities as of June 30, 2007, amounts to \$22,573,492 (net of accumulated depreciation). Non-depreciable capital assets are land, land right of ways, used primarily for streets and construction that is in progress. Depreciable assets include buildings and structures, equipment and vehicles. Public domain capital assets (infrastructure) include streets and sidewalks, curbs and gutters, drainage systems, bridges, and lighting systems.

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

Governmental Activities

- Construction in progress of \$1.7 million includes major street repair and rehabilitation projects, development of storm drain basins, floodplains and culverts, and several park and greenway restroom and trail developments projects.

- City vehicles were purchased as replacement vehicles for \$117,942 and Fire equipment was purchased on a capital lease agreement for \$996,570.
- Utilized grant funds, purchased computer software and hardware to develop a GIS Base Mapping database that geo references the layers of infrastructure of streets and utilities for \$62,935.
- The City upgraded and replaced a failing HVAC system at City Hall for \$42,770 utilizing workforce housing grant funds.
- The City completed a bike path and pedestrian walkway project from Miner and Center Street intersection on Foothill Drive to Sierra Vista for \$604,832 utilizing federal, state and local transportation funds.

Business Type Activities

- Projects still under construction as of June 30, 2007 total \$1.6 million. Those projects include Phase 3 of a CDBG grant funded sewer inflow and infiltration rehabilitation project for \$1,013,394, water and wastewater disinfection changeover projects \$203,849, 2005 Storm Damage FEMA grant for effluent disposal fields rehabilitation \$336,892, and CDBG technical planning grant for sewer expansion study \$27,496.
- The City completed work on the Broadway water line main that included replacement of a 12" water main in the historic downtown area for \$494,903.
- The City rebuilt one of the water pumps at the Fall Creek pumping plant for \$42,713.



Historic photo of downtown Yreka at the Franco American Hotel, the hotel building is still in use.
 Courtesy of the Siskiyou County Historical Society and Museum

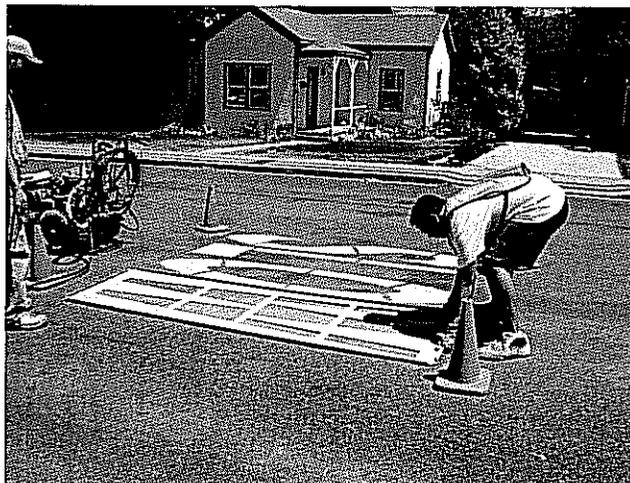
Changes in Long Term Debt:

Changes in Long Term Debt

	Balance June 30, 2006	New Issues	Principal Payments	Balance June 30, 2007
<i>Governmental Activities:</i>				
Loans Payable - Banks and Others	50,536	0	24,458	26,078
Loans Payable - Governmental Agencies	0	0	0	0
Reclassification to Current Debt	0	1,091,969	0	1,091,969
Total Governmental Activities	50,536	1,091,969	24,458	1,118,047
<i>Business-type Activities:</i>				
Loans Payable - Banks and Others	208,516		104,220	104,296
Loans Payable - Governmental Agencies	1,829,060		240,102	1,588,958
Certificates of participation - USDA Rural Development	889,000	0	10,000	879,000
Other	0	0	0	0
Total Business Activities	2,926,576	0	354,322	2,572,254
Total Outstanding Long Term Debt	2,977,112	1,091,969	378,780	3,690,301
Less Portion Classified as Current Debt				(474,621)
				<u>3,215,680</u>

At the end of the current fiscal year, the City of Yreka had total debt outstanding of \$3,690,301 and long term outstanding debt of \$3,215,680. Detail information on lenders, rates and maturities for long-term debt can be found on pages 29 through 31 of this report.

The City of Yreka's total debt decreased by \$378,780 during the current fiscal year 2006-07 due to scheduled principal repayment on borrowings. The \$1,091,969 increase represents a 10-year capital lease agreement with Sovereign Bank for fire equipment.



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

Next Year's Budgets and Rates:

Budget Highlights for 07-08

Below are highlights from the City's 2007-08 operating budget. The adopted budget was approved by the City Council on August 16, 2007.

Fund Analysis

Major Grp	Budgeted Revenue	Revenue Interfund Transfers	Budgeted Expense	Revenue Interfund Transfers	Beg. Working Capital	Increase/ (Decrease)	Ending Working Capital
General Operating Fund	5,060,825.00	165,000.00	5,221,785.04	205,000.00	2,417,301.47	(160,861.04)	2,256,340.43
General Fund - Restricted or Designated	325,800.00	130,000.00	187,337.48	63,600.00	1,137,687.46	138,462.52	1,276,149.98
Special Revenue - Restricted	368,000.00		260,805.00		204,233.05	107,195.00	311,428.05
Special Operating Grants - Restricted	1,621,652.62	75,000.00	1,629,152.61	15,000.00	160,130.81	(7,499.99)	152,630.82
Total General Fund	7,376,277.62	370,000.00	7,299,081.13	283,600.00	3,919,352.79	77,196.49	3,996,549.28
Total Streets & Roads	942,986.62	45,986.62	809,597.38	51,986.62	947,313.88	133,389.24	1,080,703.12
Special Grants - Capital Projects	8,702,231.00	69,600.00	8,473,631.00	0.00	(201,063.17)	228,600.00	27,536.83
Landfill Enterprise Fund	140,000.00		1,259,300.90		1,542,082.14	(1,119,300.90)	422,781.24
Sewer Enterprise Fund	1,557,250.00	15,000.00	1,657,711.69	65,000.00	731,281.66	(100,461.69)	630,819.97
Water Enterprise	1,569,837.52	0.00	2,169,600.64	100,000.00	3,896,148.30	(599,963.12)	3,296,185.18
Total Enterprise Funds	3,267,087.52	15,000.00	5,086,613.23	165,000.00	6,169,512.10	(1,819,725.71)	4,349,786.39
All Funds Combined	20,288,582.76	500,586.62	21,669,122.74	500,586.62	10,835,115.60	(1,380,539.98)	9,454,575.62

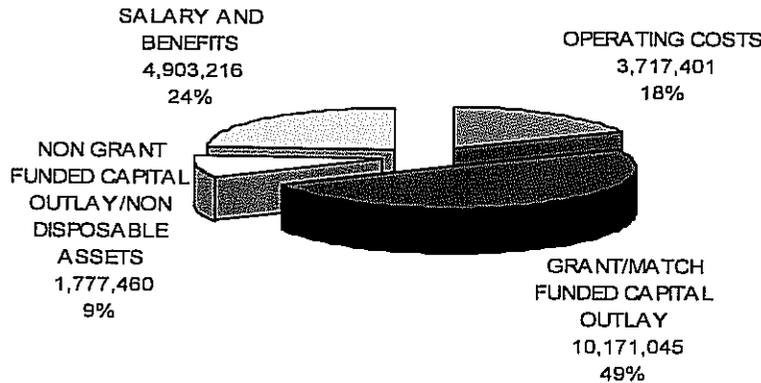
The City projects a \$1.4 million decrease in working capital during fiscal year 2007-08. Of that decrease, \$1.1 million is for the transfer of the landfill reserves to the County of Siskiyou at the close of escrow on July 10, 2007. The City entered into an agreement with the County of Siskiyou to sell its interest in the landfill to the County of Siskiyou. The landfill is an environmental liability and the selling price, or cost to the City was \$3.5 million and the transfer of the \$1.1 million in landfill closure reserves. The offer also gave a financing option to the seller, the City of being able to finance part of the \$3.5 million by paying \$1 million up front, and the City guaranteed to the County annual payments of \$175,000 over 25 years for access to the County facility by City residents. In 2006-07, the City transferred \$1 million from General Fund reserves to the Landfill Enterprise fund to open the escrow. The City is currently undertaking a Proposition 218 process to increase the landfill access fees included in the City's utility bills.

The decrease in working capital on the water utility fund of \$599,963 is due to the scheduled replacement of the Fourth Street water main, budgeted at \$500,000.

Grant Awards:

Highlights of the budget include the continued diligence of the City to leverage public dollars with grants awards. The level of capital improvements and community operating grants would not be included in this budget if it were not for the successful and continued efforts of City staff to obtain these grants. (Chart 1)

Chart 1 2007-2008 Proposed Budget Citywide Budget Expenditures



General Fund Revenue Projections:

Revenue projections were lower or at the same level of fiscal year 2006-07 to due pessimistic economic projections for property and sales tax revenue.

General Operating Fund - Fiscal Year Main Stream Revenue Comparison

	Actuals Fiscal Year 03- 04	Actuals Fiscal Year 04-05	Actuals Fiscal Year 05- 06	Actuals Fiscal Year 06-07	Projected 07-08
Property Tax	674,178	644,592	766,460	887,856	800,000
Transient Lodging	355,321	607,645	593,285	608,826	600,000
Sales Tax	1,772,464	1,682,590	1,599,734	1,607,462	1,600,000
Franchises	143,097	218,104	206,474	220,470	200,000
Business Licenses	67,128	69,994	75,190	77,491	80,000
Animal Licenses	9,336	9,324	9,223	10,431	10,000
Building Permits	41,301	179,318	175,363	94,546	100,000
Motor Vehicle License Fees (1)	329,024	585,464	512,914	524,463	525,000
Triple Flip In Lieu Sales Tax (2)		375,056	541,007	509,797	500,000
Subtotal General Fund Mainstream Revenue	3,391,850	4,372,087	4,479,650	4,541,342	4,415,000

(1) 2004-05 includes the one-time proceeds of \$109,442.14 from the sale of the VLF note receivable

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

Enterprise Fund Revenue:

Use fee revenue is not keeping up with the infrastructure costs of maintaining the City's water and sewer systems. Utilizing grant funds, the City is in the process of completing a utility rate study to determine a fee schedule, which will sustain current and future services, as well as to determine the revenues necessary to support ongoing maintenance. To date the City has been extremely diligent in pursuing grants and loans to finance water and sewer improvements.

Expenditure Control:

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

Since September 2007, the City Council and staff have been meeting monthly in special sessions to address the structural gap between City revenue sources and expenditures needed to maintain the quality of life the Yreka community has come to rely upon.

Horizon Issues:

Not reflected in the budget, but of concern, to the City are the following three issues:

[1] Evaluate fees for services, in particular landfill access fees, dog licenses, business licenses, parking and encroachment fees.

[2] Completion and implementation of the water and sewer enterprise fund rate study. Look at ways to finance infrastructure improvements to complete the needed repairs and help ensure adequate clean water supply and wastewater treatment.

[3] Consider a special assessment for parks and recreation. The assessment would be to support the maintenance of improvements to parks and recreation areas, including the Ringe pool facility. From grant projects, the City expects to add four public restrooms and miles of walking trails in Greenhorn Park and along Yreka creek in 2007-08 that requires cleaning and maintenance.

Requests for Information:

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

City of Yreka, California
Statement of Net Assets
June 30, 2007

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Current Assets:			
Cash and investments	\$ 4,011,799	\$ 4,588,856	\$ 8,600,655
Receivables (net):			
Accounts	109,707	420,568	530,275
Taxes	483,687		483,687
Intergovernmental	1,709,378	505,357	2,214,735
Interest	81,860		81,860
Loans	340,260		340,260
Due from other funds		35,596	35,596
Escrow account deposit		1,000,000	1,000,000
Supplies inventory	2,535		2,535
Total current assets	<u>6,739,226</u>	<u>6,550,377</u>	<u>13,289,603</u>
Noncurrent Assets:			
Post closure reserve-landfill		1,100,000	1,100,000
Capital assets:			
Land, buildings and equipment	27,804,237	25,376,855	53,181,092
Accumulated depreciation	(19,127,562)	(14,861,599)	(33,989,161)
Construction in progress	1,764,377	1,617,185	3,381,562
Total noncurrent assets	<u>10,441,052</u>	<u>13,232,441</u>	<u>23,673,493</u>
Total assets	<u>17,180,278</u>	<u>19,782,818</u>	<u>36,963,096</u>
LIABILITIES			
Current liabilities:			
Accounts payable	1,320,832	280,479	1,601,311
Payroll payable	141,608	43,610	185,218
Accrued vacation pay payable	232,791	26,336	259,127
Accrued interest		30,439	30,439
Due to other funds	35,596		35,596
Long-term debt--due within one year	114,553	360,068	474,621
Total current liabilities	<u>1,845,380</u>	<u>740,932</u>	<u>2,586,312</u>
Noncurrent liabilities:			
Long-term debt--due in more than one year	1,003,494	2,212,186	3,215,680
Reserved for closure/post closure-landfill		1,100,000	1,100,000
Total noncurrent liabilities	<u>1,003,494</u>	<u>3,312,186</u>	<u>4,315,680</u>
Total liabilities	<u>2,848,874</u>	<u>4,053,118</u>	<u>6,901,992</u>
NET ASSETS			
Investment in capital assets, net of related debt	9,323,005	9,560,187	18,883,192
Unrestricted	5,008,399	6,169,513	11,177,912
Total net assets	<u>\$ 14,331,404</u>	<u>\$ 15,729,700</u>	<u>\$ 30,061,104</u>

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

City of Yreka, California
Statement of Activities
For the Year Ended June 30, 2007

	Program Revenues				Net (Expenses) Revenues and Changes in Net Assets)		
	Expenses	Charges for Services	Operating		Governmental Activities	Business Type Activities	Total
			Grants and Contributions	Capital Grants and Contributions			
Functions/Programs							
Primary Government:							
Governmental activities:							
City council, administration & clerk	\$ 331,237	\$ 1,434		\$ 90,412	\$ (331,237)		\$ (331,237)
General government	204,245	107,293			(202,811)		(202,811)
Fire	261,594	4,009	\$ 190,848		(63,889)		(63,889)
Police	2,175,880	15,700		143,074	(1,981,023)		(1,981,023)
Planning and development	932,482	34,194	63,940	280,114	(773,708)		(773,708)
Parks and recreation	509,320				(131,072)		(131,072)
Public works administration	135,229				(135,229)		(135,229)
Public works mechanical maint.	142,685				(142,685)		(142,685)
Streets & sidewalks	229,400		57,848	2,310,532	2,138,980		2,138,980
Senior nutrition	309,677		230,793		(78,884)		(78,884)
Interest on long-term debt	1,030				(1,030)		(1,030)
Capital contribution to landfill	1,000,000				(1,000,000)		(1,000,000)
Total governmental activities	6,232,779	162,630	543,429	2,824,132	(2,702,588)	-	(2,702,588)
Business type activities:							
Water	1,312,786	1,411,712				\$ 98,926	98,926
Sewer	1,090,453	904,554		1,496,064		1,310,165	1,310,165
Landfill	748,173	1,058,906		1,000,000		1,310,733	1,310,733
Total business type activities	3,151,412	3,375,172	-	2,496,064	-	2,719,824	2,719,824
Total primary government	\$ 9,384,191	\$ 3,537,802	\$ 543,429	\$ 5,320,196	(2,702,588)	2,719,824	17,236
General revenues:							
Property taxes					924,531		924,531
Sales taxes					2,117,259		2,117,259
Transient lodging taxes					608,826		608,826
Franchise taxes					220,470		220,470
Fuel taxes					149,630		149,630
Intergovernmental revenue					158,278		158,278
Licenses and permits					317,028		317,028
Fines and forfeitures					119,247		119,247
Unrestricted investment earnings					460,924	71,283	532,207
Other					68,384		68,384
Total general revenues					5,144,577	71,283	5,215,860
Change in net assets					2,441,989	2,791,107	5,233,096
Net assets - beginning of year					11,889,415	12,938,593	24,828,008
Net assets - end of year					\$ 14,331,404	\$ 15,729,700	\$ 30,061,104

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

City of Yreka, California
 Balance Sheet
 Governmental Funds
 June 30, 2007

	Major Funds					TOTAL Governmental Funds
	General	Fire Department Assessment	Gas Tax	Special Grants	Other Governmental Funds	
ASSETS						
Cash and investments	\$2,810,283	\$ 90,194	\$337,280	\$ -	\$ 774,834	\$ 4,012,591
Receivables:						
Accounts	106,117				3,590	109,707
Taxes	345,942	137,745				483,687
Intergovernmental & Grants	64,911		3,690	1,544,425	96,352	1,709,378
Interest	81,860					81,860
Loans, net				340,260		340,260
Due from other funds	590,530					590,530
TOTAL ASSETS	<u>\$3,999,643</u>	<u>\$ 227,939</u>	<u>\$340,970</u>	<u>\$1,884,685</u>	<u>\$ 874,776</u>	<u>\$ 7,328,013</u>
LIABILITIES and FUND BALANCES						
LIABILITIES:						
Accounts payable	\$ 128,893	\$ 125,000	\$ 97,147	\$ 956,763	\$ 13,029	\$ 1,320,832
Payroll payable	124,321		10,351		6,936	141,608
Accrued vacation	225,496				7,295	232,791
Due to other funds				626,031	887	626,918
Deferred revenue - loans				340,260		340,260
TOTAL LIABILITIES	<u>478,710</u>	<u>125,000</u>	<u>107,498</u>	<u>1,923,054</u>	<u>28,147</u>	<u>2,662,409</u>
FUND BALANCES:						
Unreserved:						
Designated for:						
Capital improvements					101,294	101,294
Fire protection		102,939				102,939
Future building improvements	167,012					167,012
Future equipment purchases	75,865					75,865
Grant projects	61,293			(38,369)	(2,535)	20,389
Police	5,179					5,179
Road maintenance			233,472		713,842	947,314
Sidewalk maintenance					34,028	34,028
Self insurance	133,520					133,520
Assessment District	57,845					57,845
Undesignated reported in:						
General fund	3,020,219					3,020,219
TOTAL FUND BALANCES	<u>3,520,933</u>	<u>102,939</u>	<u>233,472</u>	<u>(38,369)</u>	<u>846,629</u>	<u>4,665,604</u>
TOTAL LIABILITIES and FUND BALANCES	<u>\$3,999,643</u>	<u>\$ 227,939</u>	<u>\$340,970</u>	<u>\$1,884,685</u>	<u>\$ 874,776</u>	<u>\$ 7,328,013</u>

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

City of Yreka, California

Reconciliation of the Governmental Funds Balance Sheet Total Fund Balances to the Statement of Net Assets

Governmental Funds

June 30, 2007

Total governmental fund Balances (page 3)	\$ 4,665,604
Capital assets (net of accumulated depreciation) used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	10,441,052
In the statement of activities, supplies left over at year end are not expensed, whereas in the governmental funds supplies are expensed when purchased.	2,535
Long-term liabilities are not due and payable in the current period and, therefore are not reported in the governmental funds.	
Notes payable	(1,118,047)
Deferred Revenue - loans	<u>340,260</u>
Net assets of governmental activities (page 1)	<u>\$ 14,331,404</u>

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

City of Yreka, California
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2007

	Major Funds				Other Governmental Funds	Total Governmental Funds
	General	Fire Department Assessment	Gas Tax	Special Grants		
REVENUES						
Property taxes	\$ 924,531	\$ 101,710				\$ 1,026,241
Sales taxes	2,117,259					2,117,259
Transient lodging taxes	608,826					608,826
Franchise fees	220,470					220,470
Fuel taxes			\$ 149,630			149,630
Licenses and permits	215,734				\$ 101,294	317,028
Charges for services	142,211					142,211
Fines and forfeitures	39,451				79,796	119,247
Intergovernmental	135,265				255,867	391,132
Fire dept. reimbursements	5,583					5,583
Unrestricted investment earnings	404,321	1,229	16,339		39,035	460,924
Grants and donations	896,465			\$2,019,440	45,229	2,961,134
Other	19,200			48,005		67,205
Loan proceeds		1,091,969				1,091,969
In-kind	50,648			2,448	56,550	109,646
Total revenues	5,779,964	1,194,908	165,969	2,069,893	577,771	9,788,505
EXPENDITURES						
City council, administrator & clerk	331,234					331,234
General government	220,124					220,124
Fire	253,809					253,809
Police	2,024,158			35,239		2,059,397
Planning and development	457,348			638,402		1,095,750
Parks, culture and recreation	572,148			143,135		715,283
Public works administration	167,393					167,393
Public works mechanical maintenance	142,685					142,685
Streets and sidewalks	155,718		381,618	1,333,251	83,358	1,953,945
Capital outlays	28,723	1,091,969				1,120,692
Senior nutrition					310,515	310,515
Senior transportation				2,184		2,184
Debt service:						
Principal	24,458					24,458
Interest	1,030					1,030
Total expenditures	4,378,828	1,091,969	381,618	2,152,211	393,873	8,398,499
Excess (deficiency) of revenues over (under) expenditures	1,401,136	102,939	(215,649)	(82,318)	183,898	1,390,006
OTHER FINANCING SOURCES AND (USES)						
Operating transfers in	128,698		90,103	136,187	78,884	433,872
Operating transfers out	(1,103,789)			(190,707)	(208,298)	(1,502,794)
Total other financing sources and (uses)	(975,091)	-	90,103	(54,520)	(129,414)	(1,068,922)
Net change in fund balances	426,045	102,939	(125,546)	(136,838)	54,484	321,084
Fund balances - beginning of year	3,094,888	-	359,018	98,469	792,145	4,344,520
Fund balances - end of year	\$ 3,520,933	\$ 102,939	\$ 233,472	\$ (38,369)	\$ 846,629	\$ 4,665,604

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

City of Yreka, California

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds
to the Statement of Activities

Governmental Funds

For the Year Ended June 30, 2007

Net change in fund balances - total governmental funds (page 5)		\$ 321,084
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives. This is the amount by which capital outlay exceeded depreciation expense for the current period.		
Expenditures for capital assets	\$3,503,613	
Less current year depreciation	<u>(339,512)</u>	3,164,101
Issuance of new debt (notes payable) is a revenue in the governmental funds, but the new debt increases long-term liabilities in the statement of net assets. New loan		(1,091,969)
Repayment of loan principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. Principal payments		24,458
Governmental funds report EDBG & CDBG loans as expenditures when the loan is made and report the principal and interest payments as revenue when received. However, in the statement of activities, the loan is recorded as an asset which is reduced by the amount of principal payment that is received during the year. The statement of activities report the interest revenue when it is earned.		<u>24,315</u>
Change in net assets of governmental activities (page 2)		<u>\$ 2,441,989</u>

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

CITY OF YREKA, CALIFORNIA

Statement on Net Assets

Enterprise Funds

June 30, 2007

ASSETS	Water	Sewer	Sanitary Landfill	Total
Current:				
Cash and Investments	\$ 3,835,490	\$ 319,673	\$ 433,693	\$ 4,588,856
Accounts Receivable	176,716	89,761	154,091	420,568
Capital Grants Receivable		505,357		505,357
Deposit in Escrow Account			1,000,000	1,000,000
Due From Special Grants Fund		35,596		35,596
Total Current Assets	<u>4,012,206</u>	<u>950,387</u>	<u>1,587,784</u>	<u>6,550,377</u>
Noncurrent:				
Post Closure Reserve			1,100,000	1,100,000
Land	55,472	197,700	116,750	369,922
Depreciable Capital Assets, Net	2,749,698	7,114,307	281,329	10,145,334
Construction in Progress	26,978	1,590,207		1,617,185
Total Noncurrent Assets	<u>2,832,148</u>	<u>8,902,214</u>	<u>1,498,079</u>	<u>13,232,441</u>
Total Assets	<u>6,844,354</u>	<u>9,852,601</u>	<u>3,085,863</u>	<u>19,782,818</u>
 LIABILITIES				
Current:				
Accounts Payable	79,047	168,416	33,016	280,479
Payroll Payable	20,775	13,005	9,830	43,610
Compensated Absences	16,236	7,245	2,855	26,336
Accrued Interest Payable		30,439		30,439
Current Portion of Long-Term Debt	193,810	61,962	104,296	360,068
Total Current Liabilities	<u>309,868</u>	<u>281,067</u>	<u>149,997</u>	<u>740,932</u>
Noncurrent:				
Long-Term Debt, Net of Current Reserved for Closure/Post Closure	399,716	1,812,470		2,212,186
Total Noncurrent Liabilities	<u>399,716</u>	<u>1,812,470</u>	<u>1,100,000</u>	<u>3,312,186</u>
Total Liabilities	<u>709,584</u>	<u>2,093,537</u>	<u>1,249,997</u>	<u>4,053,118</u>
 NET ASSETS				
Invested in Capital Assets, Net of Related Debt Unrestricted	2,238,622	7,027,782	293,783	9,560,187
	3,896,148	731,282	1,542,083	6,169,513
Total Net Assets	<u>\$ 6,134,770</u>	<u>\$ 7,759,064</u>	<u>\$ 1,835,866</u>	<u>\$ 15,729,700</u>

See accompanying notes to the financial statement

CITY OF YREKA, CALIFORNIA
Statement of Revenue, Expenses and
Changes in Fund Net Assets
Enterprise Funds
For the Year Ended June 30, 2007

	<u>Water</u>	<u>Sewer</u>	<u>Sanitary Landfill</u>	<u>Total</u>
Operating Revenues:				
User Fees and Charges	\$ 1,411,712	\$ 904,554	\$ 1,058,906	\$ 3,375,172
Operating Expenses:				
Cost of Power and Water	191,692	87,094		278,786
Maintenance, Operations and Administration	874,928	562,706	600,175	2,037,809
Closure/Post Closure Costs			52,342	52,342
Depreciation	231,900	372,743	88,781	693,424
Total Operating Expenses	<u>1,298,520</u>	<u>1,022,543</u>	<u>741,298</u>	<u>3,062,361</u>
Operating Income (Loss)	<u>113,192</u>	<u>(117,989)</u>	<u>317,608</u>	<u>312,811</u>
Non-Operating Revenues (Expenses)				
Interest Income	71,283			71,283
Interest Expense	(14,266)	(67,910)	(6,875)	(89,051)
Total Non-Operating Revenues (Expenses)	<u>57,017</u>	<u>(67,910)</u>	<u>(6,875)</u>	<u>(17,768)</u>
Net Income (Loss) Before Capital Grants and Capital Contributions	<u>170,209</u>	<u>(185,899)</u>	<u>310,733</u>	<u>295,043</u>
Capital Contributions		190,707	1,000,000	1,190,707
Capital Grants		1,305,357		1,305,357
Total Capital Grants	<u>-</u>	<u>1,496,064</u>	<u>1,000,000</u>	<u>2,496,064</u>
Change in Net Assets	<u>170,209</u>	<u>1,310,165</u>	<u>1,310,733</u>	<u>2,791,107</u>
Total Net Assets - Beginning of Year	<u>5,964,561</u>	<u>6,448,899</u>	<u>525,133</u>	<u>12,938,593</u>
TOTAL NET ASSETS - END OF YEAR	<u>\$ 6,134,770</u>	<u>\$ 7,759,064</u>	<u>\$ 1,835,866</u>	<u>\$ 15,729,700</u>

See accompanying notes to the financial statement

CITY OF YREKA, CALIFORNIA
Statement on Cash Flows
Enterprise Funds
For the Year Ended June 30, 2007

	Water	Sewer	Sanitary Landfill	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from Customers	\$ 1,375,948	\$ 896,053	\$ 1,118,814	\$ 3,390,815
Payments to Suppliers for Goods and Services	(654,754)	(243,338)	(393,246)	(1,291,338)
Payments for Employee Services and Benefits	(441,044)	(279,776)	(210,999)	(931,819)
Payments for Post Closure Reserve			(52,342)	(52,342)
Net Cash Provided (Used) by Operating Activities	<u>280,150</u>	<u>372,939</u>	<u>462,227</u>	<u>1,115,316</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Advances from Other Funds	(2,153)	153,899	1,000,781	1,152,527
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(2,153)</u>	<u>153,899</u>	<u>1,000,781</u>	<u>1,152,527</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Equipment Purchases	(42,714)			(42,714)
Deposit to Escrow Account			(1,000,000)	(1,000,000)
Plant and System Improvements	(499,436)	(1,554,654)		(2,054,090)
Principal Payments on Debts	(189,908)	(60,194)	(100,915)	(351,017)
Interest Payments on Debts	(14,266)	(66,430)	(6,875)	(87,571)
Capital Grants		800,000		800,000
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(746,324)</u>	<u>(881,278)</u>	<u>(1,107,790)</u>	<u>(2,735,392)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest on Investments	71,283			71,283
Net Cash Provided (Used) by Investing Activities	<u>71,283</u>	<u>-</u>	<u>-</u>	<u>71,283</u>
NET INCREASE (DECREASE) IN CASH	(397,044)	(354,440)	355,218	(396,266)
Cash and Cash Equivalents - Beginning	4,232,534	674,113	78,475	4,985,122
CASH AND CASH EQUIVALENTS - ENDING	<u>\$ 3,835,490</u>	<u>\$ 319,673</u>	<u>\$ 433,693</u>	<u>\$ 4,588,856</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
Operating Income	\$ 113,192	\$ (117,989)	\$ 317,608	\$ 312,811
Adjustments:				
Depreciation	231,900	372,743	88,781	693,424
(Increase) Decrease in Assets:				
Accounts Receivable	(35,764)	(8,501)	59,908	15,643
Increase (Decrease) in Liabilities:				
Accounts Payable	(26,739)	124,150	(3,046)	94,365
Compensated Absences	209	1,172	(1,623)	(242)
Payroll Payable	(2,648)	1,364	599	(685)
Net Cash Provided (Used) by Operating Activities	<u>\$ 280,150</u>	<u>\$ 372,939</u>	<u>\$ 462,227</u>	<u>\$ 1,115,316</u>

See accompanying notes to the financial statement

CITY OF YREKA, CALIFORNIA
Statement of Fiduciary Net Assets
June 30, 2007

	Private-Purpose Trust Funds						TOTALS
	Parklands Trust	Campbell Tract Redemption Fund	Shasta Belle Redemption Fund	Senior Fund	Gift Donations	Senior Activity	
Assets	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total assets	-	-	-	-	-	-	-
Liabilities	-	-	-	-	-	-	-
Net Assets	-	-	-	-	-	-	-
Total net assets	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

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

CITY OF YREKA, CALIFORNIA
Statement of Changes in Fiduciary Net Assets
For the Year Ended June 30, 2007

	Private-Purpose Trust Funds						TOTALS
	Parklands Trust	Campbell Tract Redemption Fund	Shasta Belle Redemption Fund	Senior Fund	Gift Donations	Senior Activity	
Additions							
Donations and grants	-	-	-	-	-	-	-
Total Additions							
Deductions							
Transfer to general fund	\$ 14,743	\$ 54,256	\$ 3,592	\$ 40,860	\$ 3,549	\$ 4,788	\$ 121,788
Total Deductions	14,743	54,256	3,592	40,860	3,549	4,788	121,788
Change in net assets	(14,743)	(54,256)	(3,592)	(40,860)	(3,549)	(4,788)	(121,788)
Net assets - beginning of year	14,743	54,256	3,592	40,860	3,549	4,788	121,788
Net assets - end of year	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

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

CITY OF YREKA, CALIFORNIA

Notes to the Financial Statements

June 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City have been prepared in conformity with accounting principals generally accepted in the United States of America (GAAP) as applicable to state and local governments. The following is a summary of the significant accounting policies used by the City of Yreka, California.

A. **Reporting Entity**

The City of Yreka, California is legally incorporated under California municipal law, and is governed by a five member City Council. The City provides public safety (police and fire), streets and roads, water and sewer services, economic development, community development, parks and recreation and general administrative services.

In evaluating how to define the City, for financial reporting purposes, management has considered all potential component units in the reporting entity by applying the criteria set forth in generally accepted accounting principals. 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 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. **Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. The effect of interfund activity has been removed from these statements where practicable. Government activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely significantly on fees and charges for support. The statement of activities demonstrates the degree to which the direct expenses of a given function or identifiable activity are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (a) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or identifiable activity. Taxes and other items not properly included among program revenues are reported instead as general revenue.

CITY OF YREKA, CALIFORNIA

Notes to the Financial Statements

June 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Government-wide and Fund Financial Statements (continued)

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. 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 and fiduciary fund financial statements. Revenue is recognized when earned and expenses are recognized when a liability is incurred, regardless of the timing of related cash flows. Property taxes 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. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current time period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, relating to compensated absences, and claims and judgments are recognized only when payment is due.

Property taxes, state-shared revenue, licenses, 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. All other revenue items are considered to be available only when cash is received by the City.

The City of Yreka, California reports the following major governmental funds:

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

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

CITY OF YREKA, CALIFORNIA

Notes to the Financial Statements

June 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)

Special Grants Fund – This fund is used to account for various federal and state grants which must be spent for police training, economic and community development and, road improvements.

The City of Yreka, California reports the following major proprietary funds:

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

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

Sanitary Landfill Fund – This fund is used to account for the operation of a sanitary landfill. User charges to customers account for substantially all of the operating revenue of this fund.

Additionally, the City reports the following fund types:

Fiduciary Fund – The City's fiduciary funds represent agency funds. Agency funds do not have a measurement focus, although they do have a basis of accounting. Accrual basis of accounting is used to record the financial transactions. Agency funds are custodial in nature (assets and liabilities) and do not involve measurement of results of operations.

Private sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989, for the business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this rule are interfund transfers between funds that if omitted would distort the financial statements.

CITY OF YREKA, CALIFORNIA

Notes to the Financial Statements

June 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)

Proprietary funds distinguishing operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering foods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the proprietary funds relates to charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sale and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

D. Cash and Investments

The City follows the practice of pooling cash resources, consisting of cash and investments, from all funds for the purpose of increasing income through investment activities. Interest earned on pooled cash resources is allocated among funds based on the individual funds computed average interest rate of all investments.

During fiscal year 2001-2002, the City adopted GASB Statement 31, "Accounting and Financial Reporting for Certain Investments and For Investment Pools." Under GASB 31 investments are generally stated at fair value, rather than amortized cost, and increase or decrease in fair value of investments is included as a component of income.

E. Supplies Inventory

Supplies inventory as listed on the Statement of Net Assets is comprised of food preparation supplies for the Senior Nutrition Program. The ending inventory is stated at cost.

CITY OF YREKA, CALIFORNIA

Notes to the Financial Statements

June 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Taxes Receivable

Property Taxes – The County of Siskiyou assesses, bills and collects property taxes for the City. The County property tax is levied each November 1 on the assessed valuation of property located in the County as of the Preceding lien date. Taxes are receivable in two equal installments which become delinquent the first working day after December 10 and April 10. City property tax revenues are recognized when levied to the extent that they result in current receivables.

Sales Tax – The State of California collects the City’s portion (1%) of sales taxes collected from retail sales within the City. Sales tax receivable represents sales tax which is attributable to retail sales made before the end of the fiscal year but not yet remitted to the City.

G. 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 column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$50,000 and estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings and building improvements	50 years
Land improvements	20 to 30 years
Equipment	7 years
Infrastructure	15 to 50 years
Waste and sewer mains	50 years
Vehicles	3 to 7 years

H. Accrued Vacation Pay

It is the City’s policy to permit employees to accumulate up to two weeks of earned but unused vacation pay benefits. Vacation pay and other earned but unpaid wages have been accrued in the government-wide and proprietary fund financial statements.

CITY OF YREKA, CALIFORNIA

Notes to the Financial Statements

June 30, 2007

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

I. Long-term Debt

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 assets. The face amount of debt issued is reported as other financing sources on the statement of revenues and expenditures while the amount outstanding is reported on the statement of net assets. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

J. Fund Equity

Fund Balances – In the fund financial statements, governmental funds report reservations of fund balances for amounts that are not available for appropriation or are legally restricted by outside parties for a specific purpose. Designations of fund balances represent tentative management plans that are subject to change.

Net Assets – In the government-wide financial statements, net assets are classified in the following categories:

Invested in capital assets, net of related debt – This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that attributed to the acquisition, construction, or improvement of the assets.

Restricted net assets – This amount is restricted by external creditors, grantors, contributors, or laws or regulation of other governments.

Unrestricted net assets – This amount is all net assets that do not meet the definition of “invested in capital assets, net of related debt” or “restricted net assets.”

K. Budgetary Data

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

CITY OF YREKA, CALIFORNIA

Notes to the Financial Statements

June 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

L. Use of Estimates

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

M. Statement of Cash Flows

For purposes of the statement of cash flows, the proprietary fund type considers all U.S. Treasury Bonds and highly liquid investments with a maturity of three months or less to be cash equivalents.

CITY OF YREKA, CALIFORNIA

Notes to the Financial Statements

June 30, 2007

2. CASH AND INVESTMENTS

The following is a summary of pooled cash and investments at June 30, 2007:

	<u>Cash and Investments (carrying value)</u>	<u>Fair Value of Investments</u>
Petty cash	\$ 650	
Cash in bank - checking	349,183	
Cash in Smith Barney account	102,150	
Cash in State Treasurer's Local Agency Investment Fund	<u>8,290,750</u>	<u>\$ 8,290,750</u>
 Total Cash	 <u>8,742,733</u>	
 U.S. Government and federal Bonds in Smith Barney account	 <u>957,922</u>	 <u>957,922</u>
 Total Investments	 <u>957,922</u>	 <u>\$ 9,248,672</u>
 Total Cash and Investments Per Financial Statement	 <u>\$ 9,700,655</u>	

Financial statement cash and investment balances are comprised of the following:

Governmental activities - Cash and invest	\$ 4,011,799
Business type activities - Cash and invest.	4,588,856
Landfill postclosure reserve	1,100,000
Fiduciary funds - Cash and invest.	<u>-</u>
 Total Cash and Investments Per Financial Statement	 <u>\$ 9,700,655</u>

The City maintains a cash and investment pool that includes cash balances and authorized investment of all funds, which the City Treasurer invests to enhance interest earnings. The pooled interest earned is allocated to the funds based on average month-end and investment balances in these funds.

CITY OF YREKA, CALIFORNIA

Notes to the Financial Statements

June 30, 2007

2. Cash and Investments

A. Cash Deposits

The carrying amounts of the City's cash deposits were \$9,707,733 as of June 30, 2007. Bank balances before reconciling items were \$9,881,338 at that date. The total amount of which was collateralized or insured with securities held by the pledging financial institutions in the City's name is discussed below.

The California Government Code requires California banks and savings and loan associations to secure the City's cash deposits by pledging securities as collateral. This Code states that collateral pledged in this manner shall have the effect of perfecting a security interest in such collateral superior to those of a general creditor. Thus, collateral for cash deposits is considered to be held in the City's name.

The market value of pledge securities must equal at least 110% of the City's cash Deposits. California law also allows institutions to secure City deposits by pledging first trust deed mortgage notes that have a value of 150% to the City's total cash deposits. The City may waive collateral requirement for cash deposits which are fully insured up to \$100,000 by the Federal Deposit Insurance Corporation.

The City follows the practice of pooling cash and investments of all funds, except for funds required to be held in separate accounts due to grant or bond agreements. Interest income earned on pooled cash and investments is allocated on an accounting period basis to the various funds based on the various funds period-end cash and investment balances. Interest income from cash and investments with fiscal agents is credited directly to the related fund.

B. Investments

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

- Securities of the U.S. Government or its agencies.
- Certificates of Deposit (or Timed Deposits) placed with commercial banks and/or savings and loan companies.
- California Local Agency Investment Fund.
- Investment-grade obligations of state, local government or public authorities.
- Passbook savings account and demand deposits.

CITY OF YREKA, CALIFORNIA

Notes to the Financial Statements

June 30, 2007

2. CASH AND INVESTMENTS (continued)

B. Investments (continued)

The City has compiled with the provisions of GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investments Pools. No current adjustments have been made to the accompanying financial statements for the City's investment in LAIF because the fair value adjustment was immaterial.

The City's investments with Local Agency Investment Fund (LAIF) on June 30, 2007 include a portion of the pool funds invested in Structured Notes and Asset-Backed Securities. These investments include the following:

- Structured Notes – debt securities (other than asset-backed securities) whose cash flow characteristics (coupon rate, redemption amount, or stated maturity) depend upon one or more indices and/or that have embedded forwards or options.
- Asset-Backed Securities – the bulk of which are mortgage-backed securities, entitle their purchasers to receive a share of the cash flows from a pool of assets such as principal and interest repayments from a pool of mortgages (such as CMO's) or credit card receivables.

LAIF is overseen by the Local Agency Investment Advisory Board, which consists of five members, in accordance with State statute.

As of June 30, 2007, the City had \$8,290,750 invested in LAIF. LAIF had 3.466% of the pool investment funds in Structured Notes and Asset-Backed Securities on June 30, 2007

CITY OF YREKA, CALIFORNIA

Notes to the Financial Statements

June 30, 2007

2. CASH AND INVESTMENTS (continued)

C. Credit Risk

Governmental Accounting Standards Board Statement No. 3 requires that deposits and investments be classified by credit risk.

Classifications of deposits and investments by credit risk are as follows:

Deposits:

Category 1 – Insured or collateralized with securities held by the city or its agent in the City’s name.

Category 2 – Collateralized with securities held by the pledging financial institution’s trust department or agent in the City’s name.

Category 3 – Deposits which are uninsured or uncollateralized.

Investments:

Investments made by the city are summarized below. The investments that are represented by specific identifiable investment securities are classified as to credit risk within the following three categories:

Category 1 – Insured or registered, with securities held by the City or its agent in the City’s name.

Category 2 - Uninsured and unregistered, with securities held by the counter party trust department or agent in the City’s Name.

Category 3 - Uninsured and unregistered, with securities held by the counter party, or by its trust department or agent but not in the City’s name.

Investments Not Required to be Categorized - Investments in the California Local Agency Investment Fund (LAIF) are not categorized because GASB No. 3 does not require categorization of investment pools managed by another government.

CITY OF YREKA, CALIFORNIA
Notes to the Financial Statements
June 30, 2007

2. **CASH AND INVESTMENTS (continued)**

C. Credit Risk (continued)

	<u>Category</u>			Not Required to be Categorized	Carrying Value
	<u>1</u>	<u>2</u>	<u>3</u>		
Demand deposits:					
Cash deposit	<u>\$ 451,333</u>				<u>\$ 451,333</u>
Investments:					
U.S. Government and Federal Agency Bonds (in Smith Barney account)	\$ 957,922				\$ 957,922
Local agency investment fund				\$ 8,290,750	8,290,750
Total Investments	<u>\$ 957,922</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,290,750</u>	<u>\$ 9,248,672</u>

D. Summary on Investments to Maturity

Investments grouped by maturity date at June 30, 2007 are shown below:

<u>Maturity</u>	<u>Fair Value</u>
Current to one year	\$ 8,290,750
August 25, 2008	199,562
November 12, 2008	342,519
February 24, 2009	297,000
September 17, 2009	<u>118,841</u>
Total Investments	<u>\$ 9,248,672</u>

The preceding schedule represents the scheduled maturity dates of the investments. All of the investments are subject to being called. Therefore, actual maturity dates may differ.

CITY OF YREKA
Notes to the Financial Statements
June 30, 2007

3. LOANS RECEIVABLE

The City had the following loan receivable as of June 30, 2007:

Economic development loan program	<u>\$ 340,260</u>
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The City administers a economic development loan program using Community Development Act funds. Businesses meeting the programs requirements are eligible to receive low interest loans, secured by deeds of trust, for the creation or expansion of their business.

At June 30, 2007 the City had outstanding loans of \$340,260 with no allowance for uncollectible accounts. During the year ended June 30, 2007 the City received \$38,353 in repayments from the program participants and loaned \$166,908 to program participants.

In the governmental fund financial statements, these loans are reported as expenditures when disbursed and as revenues when repaid. Loans receivable are offset by deferred revenue as they are not expected to be repaid immediately.

4. INTERFUND ASSETS AND LIABILITIES

The following is a summary of interfund assets and liabilities as of June 30, 2007:

<u>Fund</u>	<u>Due From Asset</u>	<u>Due To Liability</u>
General Fund	\$ 590,530	
Other Governmental Funds		\$ 626,126
Business-type Activities:		
Sewer Fund	<u>35,596</u>	
Totals	<u>\$ 626,126</u>	<u>\$ 626,126</u>

The interfund assets and liabilities will be closed out in the next fiscal year with interfund transfers.

5. INTERFUND TRANSFERS IN/(OUT)

Interfund transfers for the year ended June 30, 2007 were as follows:

<u>Transfers In</u>	<u>Transfers In</u>	<u>Transfers In</u>	<u>Transfers In</u>
<u>General Fund</u>	<u>Gas Tax Fund</u>	<u>Special Grants Fund</u>	<u>Other Governmental Funds</u>
Transfers (out)			
General Fund		\$ 24,905	\$ 78,884
Other Governmental Funds	\$ 6,913	\$ 90,103	111,282
Fiduciary Funds	121,785		
Totals	<u>\$ 128,698</u>	<u>\$ 90,103</u>	<u>\$ 136,187</u>

CITY OF YREKA
Notes to the Financial Statements
June 30, 2007

5. INTERFUND TRANSFERS IN/(OUT) -- (continued)

	Transfers In	Transfers In
Transfers (out)	Sewer Fund	Landfill Fund
General Fund		\$ 1,000,000
Other Governmental Funds	\$ 190,707	
Totals	\$ 190,707	\$ 1,000,000

The general fund, gas tax fund, special grants fund, other governmental funds, and sewer transfers resulted from the normal course of the City's operation.

The Fiduciary Funds transfer to the General Fund was made due to the fact that the City has controlling authority over the funds.

The transfer to the Landfill was made to provide funding for the transfer of landfill operations to Siskiyou County.

CITY OF YREKA, CALIFORNIA
Notes to the Financial Statements
June 30, 2007

6. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2007 consisted of the following:

	Primary Government			Balance June 30, 2007
	Balance July 1, 2006	Additions	Retirements	
Governmental Activities:				
Capital assets, not being depreciated:				
Land and land improvements	\$ 1,606,118			\$ 1,606,118
Construction in progress	85,815	\$ 1,707,272	\$ 28,710	1,764,377
Total capital assets not being depreciated	<u>1,691,933</u>	<u>1,707,272</u>	<u>28,710</u>	<u>3,370,495</u>
Capital assets, being depreciated:				
Buildings and structures	3,920,380	42,770		3,963,150
Machinery and equipment	2,003,596	1,177,449		3,181,045
Infrastructure:				
Bridges	251,500			251,500
Signs and lights	3,449,600			3,449,600
Drainage system	732,450			732,450
Sidewalks	633,716			633,716
Street pavement system	13,381,826	604,832		13,986,658
Total capital assets being depreciated	<u>24,373,068</u>	<u>1,825,051</u>	-	<u>26,198,119</u>
Accumulated depreciation	<u>(18,788,050)</u>	<u>(339,512)</u>	-	<u>(19,127,562)</u>
Total capital assets being depreciated, net	<u>5,585,018</u>	<u>1,485,539</u>	-	<u>7,070,557</u>
Governmental activities capital assets, net	<u><u>\$ 7,276,951</u></u>	<u><u>\$ 3,192,811</u></u>	<u><u>\$ 28,710</u></u>	<u><u>\$ 10,441,052</u></u>

Depreciation Expense by Function:

City council, administration & clerk	\$ -
General government	26,883
Fire	13,171
Police	21,084
Planning and Development	5,015
Parks and recreation	73,113
Public works administration	-
Public works mechanical maintenance	-
Streets & sidewalks	200,246
Senior nutrition	-
Total	<u><u>\$ 339,512</u></u>

CITY OF YREKA, CALIFORNIA

Notes to the Financial Statements

June 30, 2007

6. CAPITAL ASSETS (continued)

Capital assets activity for the year ended June 30, 2007 consisted of the following: (continued)

In accordance with GASB Statement No. 34, the City has reported all capital assets including infrastructure in the Government-wide Statement of Net Assets. All Capital assets including other infrastructure systems were reported using the Basic Approach whereby accumulated depreciation and depreciation expense have been recorded.

Capital asset activity for individual enterprise funds is as follows:

	Balance July 1, 2006	Additions	Retirements	Balance June 30, 2007
Water system				
Capital assets, not being depreciated:				
Land	\$ 55,472			\$ 55,472
Construction in progress	22,445	\$ 26,978	\$ 22,445	26,978
Total capital assets, not being depreciated	77,917	26,978	22,445	82,450
Capital assets, being depreciated:				
Buildings and structures	1,372,833			1,372,833
Machinery and equipment	2,067,925	42,714		2,110,639
Water system	8,173,929	494,903		8,668,832
Total capital assets being depreciated	11,614,687	537,617	-	12,152,304
Less accumulated depreciation:				
Buildings and structures	(883,276)	(31,869)		(915,145)
Machinery and equipment	(1,713,231)	(34,452)		(1,747,683)
Water system	(6,574,199)	(165,579)		(6,739,778)
Total accumulated depreciation	(9,170,706)	(231,900)	-	(9,402,606)
Total capital assets being depreciated, net	2,443,981	305,717		2,749,698
Water system capital assets, net	\$2,521,898	\$ 332,695	\$ 22,445	\$ 2,832,148
	Balance July 1, 2006	Additions	Retirements	Balance June 30, 2007
Sewer system				
Capital assets, not being depreciated:				
Land	\$ 197,700			\$ 197,700
Construction in progress	35,553	\$1,554,654		1,590,207
Total capital assets, not being depreciated	233,253	1,554,654	-	1,787,907
Capital assets, being depreciated:				
Buildings and structures	5,621,194			5,621,194
Machinery and equipment	1,408,848			1,408,848
Sewer system	4,780,011			4,780,011
Total capital assets being depreciated	11,810,053	-	-	11,810,053
Less accumulated depreciation:				
Buildings and structures	(1,211,224)	(270,418)		(1,481,642)
Machinery and equipment	(1,012,346)	(9,538)		(1,021,884)
Sewer system	(2,099,433)	(92,787)		(2,192,220)
Total accumulated depreciation	(4,323,003)	(372,743)	-	(4,695,746)
Total capital assets being depreciated, net	7,487,050	(372,743)	-	7,114,307
Sewer system capital assets, net	\$7,720,303	\$1,181,911	\$ -	\$ 8,902,214

CITY OF YREKA, CALIFORNIA

Notes to the Financial Statements

June 30, 2007

6. CAPITAL ASSETS (continued)

Capital asset activity for individual enterprise funds is as follows (continued):

	<u>Balance</u> <u>July 1, 2006</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2007</u>
<u>Sanitary landfill</u>				
Capital assets, not being depreciated:				
Land	<u>\$ 116,750</u>			<u>\$ 116,750</u>
Capital assets, being depreciated:				
Machinery and equipment	<u>1,044,576</u>			<u>1,044,576</u>
Total capital assets being depreciated	<u>1,044,576</u>	<u>-</u>	<u>-</u>	<u>1,044,576</u>
Less accumulated depreciation:				
Machinery and equipment	<u>(674,466)</u>	<u>\$ (88,781)</u>		<u>(763,247)</u>
Total accumulated depreciation	<u>(674,466)</u>	<u>(88,781)</u>	<u>-</u>	<u>(763,247)</u>
 Total capital assets being depreciated, net	 <u>370,110</u>	 <u>(88,781)</u>		 <u>281,329</u>
 Sanitary landfill capital assets, net	 <u>\$ 486,860</u>	 <u>\$ (88,781)</u>	 <u>\$ -</u>	 <u>\$ 398,079</u>

CITY OF YREKA, CALIFORNIA

Notes to the Financial Statements

June 30, 2007

7. LONG-TERM DEBT

The following is a summary of changes in general long-term obligations for the year ended June 30, 2007.

	Balance June 30, 2006	New Issues	Principal Payments	Balance June 30, 2007
LaFrance Fire Truck	\$ 50,536		\$ 24,458	\$ 26,078
Fire Equipment		\$ 1,091,969		1,091,969
Totals	\$ 50,536	\$ 1,091,969	\$ 24,458	\$ 1,118,047

The following is a summary of changes in Enterprise Fund long-term obligations for the year ended June 30, 2007.

	Balance June 30, 2006	New Issues	Principal Payments	Balance June 30, 2007
WATER FUND				
Water System	\$ 648,039		\$ 156,059	\$ 491,980
Deferred Interest	135,395		33,849	101,546
SEWER FUND				
Plant Upgrade	1,045,626		50,194	995,432
Eastside Sewer Extension	889,000		10,000	879,000
SANITARY LANDFILL				
627G Caterpillar Scraper	174,208		87,072	87,136
F1 Freightliner Water Truck	34,308		17,148	17,160
Totals	\$ 2,926,576	\$ -	\$ 354,322	\$ 2,572,254

CITY OF YREKA, CALIFORNIA

Notes to the Financial Statements

June 30, 2007

7. **LONG-TERM DEBT (continued)**

Long-term debt at June 30, 2007 consists of the following:

	Business Type Activities	Primary Government
Note payable to California Dept. of Water Resources, unsecured, bearing interest at 2.5%. Principal payment due in annual installments ranging from 2.1% and accelerating to 4.95% in the 30th year (2010).	\$ 491,980	
Deferred interest payable to California Dept. of Water Resources, per applicable provisions of the above note, accumulated for initial 10 years of note, with no interest. Payments due in annual installments of \$33,849.	101,546	
Note payable to Sun Trust Leasing Corp., secured with equipment, which bears interest at 3.35%, Interest and principal payments due annually thru 2007.	104,296	\$ 26,078
Note payable to California State Water Resources Control Board, bearing interest at 2.6%. Principal and interest payment due annually thru 2022.	995,432	
Certificates of participation., unsecured. Issued August 7, 2002, bearing interest at 4.5%, Interest and principal payments due September 1 annually thru 2022. <i>2012</i>	879,000	
Capital lease with Sovereign Bank, secured with fire pumper truck and arial trucks, bearing interest at 4.5%, interest and principal payments due monthly thru 2017.		1,091,969
	2,572,254	1,118,047
Less: portion classified as current	(360,068)	(114,553)
Long-term obligations	\$ 2,212,186	\$ 1,003,494

CITY OF YREKA, CALIFORNIA

Notes to the Financial Statements

June 30, 2007

7. **LONG-TERM DEBT(continued)**

The aggregate maturities and interest payments on long-term debt over the succeeding years are summarized below:

Year ended June 30	<u>Business Type Activities</u>		<u>Primary Government</u>	
	Principal	Interest	Principal	Interest
2008	\$ 360,068	\$ 80,982	\$ 114,553	\$ 47,375
2009	261,096	71,670	92,540	43,264
2010	267,555	65,693	96,791	39,013
2011	67,042	59,557	101,238	34,566
2012	69,473	57,564	105,889	29,915
2013	70,941	55,511	110,753	25,051
2014	73,448	53,396	115,841	19,963
2015	75,993	51,198	121,163	14,641
2016	77,579	48,938	126,729	9,075
2017	80,206	46,613	132,550	3,253
2018	82,876	44,201		
2019	85,588	41,700		
2020	87,346	39,133		
2021	90,149	37,498		
2022	92,998	33,770		
2023	95,896	30,950		
2024	22,000	28,035		
2025	23,000	27,023		
2026	24,000	25,965		
2027	25,000	24,863		
2028	26,000	23,715		
2029	27,000	22,523		
2030	28,000	21,285		
2031	30,000	19,980		
2032	31,000	18,608		
2033	33,000	17,168		
2034	34,000	15,660		
2035	35,000	14,108		
2036	37,000	12,488		
2037	39,000	10,778		
2038	40,000	9,000		
2039	42,000	7,155		
2040	44,000	5,220		
2041	46,000	3,195		
2042	48,000	1,080		
	<u>\$ 2,572,254</u>	<u>\$ 1,126,223</u>	<u>\$ 1,118,047</u>	<u>\$ 266,116</u>

CITY OF YREKA, CALIFORNIA

Notes to the Financial Statements

June 30, 2007

8. 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. During the fiscal year ended June 30, 2007, the City contributed \$189,648 general liability coverage.

The Small Cities Organized Risk Effort covers workers' compensation claims up to the statutory limit. The City has no deductible for these claims. During the fiscal year ended June 30, 2007, the City contributed \$236,903 for current year coverage.

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

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

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

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

The following represents summary audited financial information of S.C.O.R.E. general liability plan for the fiscal year ended June 30, 2006:

Total assets	\$10,063,116
Total liabilities	\$ 4,801,604
Net assets	\$ 5,261,512
Total revenues	\$ 4,212,492
Total expenses	\$ 4,298,376
Refund to members/dividends	\$ -
Net decrease in fund equity	(\$ 85,884)

CITY OF YREKA, CALIFORNIA

Notes to the Financial Statements

June 30, 2007

8. RISK MANAGEMENT (continued)

Audited financial information for the risk pool may be obtained from S.C.O.R.E. at:

S.C.O.R.E.
C/O Alliant Insurance Services, Inc.
1792 Tribute Road, Suite 450
Sacramento, CA 95815

9. PENSION PLAN

A. Plan Description: The City of Yreka contributes to the California Public Employees Retirement System (PERS), an agent multiple-employer public employee defined benefit pension 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 state statute and city ordinance. Copies of PERS' annual financial report may be obtained from their Executive Office – 400 Q Street – Sacramento, CA 95811.

Funding Policy: Participants are required to contribute 7% (9% for safety employees) of their annual covered salary. The City makes the contributions required of City employees on their behalf and for their account. The City is required to contribute at an actuarially determined rate. The contribution requirements of plan members and the City are established and may be amended by PERS.

Annual Pension Cost: For fiscal year 2006/2007, the City of Yreka's annual pension cost was \$401,228 and the City of Yreka actually contributed \$401,228. The required contribution for fiscal year 2006/2007 was determined as part of the June 30, 2006 actuarial valuation using the entry age normal actuarial cost method 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% for miscellaneous members (from 3.25% to 11.15% for safety members), and (C) 3.25% payroll growth. Both (a) and (b) include an inflation component of 3.0%. The city paid \$1,521,739 during the fiscal year 2004/2005 in order to prepay a projected unfunded pension liability.

The actuarial value of City of Yreka's plan assets was determined using a technique that smoothes the effect of short-term volatility in the market value of investments over a two to five year period depending on the size of investment gains and/or losses. City of Yreka's unfunded actuarial accrued excess assets in being amortized as a level percentage of projected payroll on a closed basis.

CITY OF YREKA, CALIFORNIA

Notes to the Financial Statements

June 30, 2007

9. PENSION PLAN (continued)

Supplementary Information

Three Year Trend Information for Miscellaneous Plan of California PERS:
Funded Status of Plan

Valuation Date	Entry Age Normal Accrued Liability	Actuarial Value of Assets	Unfunded Liability/ (Excess Assets)	Funded Status	Annual Covered Payroll	UL As a % of Payroll
06-30-2004	\$2,746,095,668	\$2,460,944,656	\$285,151,012	89.60%	\$743,691,970	38.3%
06-30-2005	\$2,891,460,651	\$2,588,713,000	\$302,747,651	89.50%	\$755,046,679	40.1%
06-30-2006	\$2,754,396,608	\$2,492,226,176	\$262,170,432	90.50%	\$699,897,835	37.5%

Three Year Trend Information for Safety Plan of California PERS:
Funded Status of Plan

Valuation Date	Entry Age Normal Accrued Liability	Actuarial Value of Assets	Unfunded Liability/ (Excess Assets)	Funded Status	Annual Covered Payroll	UAAL As a % of Payroll
06-30-2004	\$ 996,203,370	\$ 885,549,650	\$110,653,720	88.9%	\$149,407,703	74.1%
06-30-2005	\$ 742,247,338	\$ 646,358,708	\$ 95,888,630	87.1%	\$115,062,820	83.3%
06-30-2006	\$ 534,135,011	\$ 460,948,462	\$ 73,186,549	86.3%	\$ 84,179,637	86.9%

10. EMPLOYEE DENTAL PLAN

Self Insured Dental Plan – The city provides dental insurance coverage for city employees through a self insurance plan. The plan is managed by a contract administrator. The cost of the plan for the year ended June 30, 2007, was \$38,765.

11. NET ASSETS

As of June 30, 2007, investment in capital assets, net of related debt consisted of the following:

	Primary Government	Business-type Activities
Capital assets, net	\$ 10,441,052	\$ 12,132,441
Long-term debt	(1,118,047)	(2,572,254)
Investment in capital assets, net of related debt	\$ 9,323,005	\$ 9,560,187

CITY OF YREKA, CALIFORNIA

Notes to the Financial Statements

June 30, 2007

12. **SOLID WASTE LANDFILL CLOSURE/POST CLOSURE CARE COSTS**

The City has established a restricted trust account to cover the costs associated with the eventual closure of the solid waste landfill operated by the City. This restricted trust account was established per the requirements of the California Integrated Waste Management Board. The trust fund balance is increased each year based on the estimated liability incurred to date and the landfill capacity used to date.

Landfill/Post closure care costs include the costs to construct a final cover and to monitor the landfill site after closure.

Information relating to the closure post closure care costs:

Liability for the closure/post closure care as of June 30, 2007	\$1,100,000
Trust account balance as of June 30, 2007	\$1,100,000
Estimated total current cost remaining to be recognized As of February 6, 2006	\$8,587,345
Percentage of landfill capacity used as of February 6, 2006	26%
Estimated remaining landfill life as of February 6, 2006	85years
Increase in trust account balance and expenditure for the year ended June 30, 2007	\$ 52,342

There is the potential that these estimates will change due to changes in inflation/deflation, technology, or applicable laws and regulations.

13. **JOINT OWNERSHIP OF THE LANDFILL WITH SISKIYOU COUNTY**

The City jointly owns a sanitary landfill facility with the county of Siskiyou. The day to day operation of the facility is handled by the City and is accounted for in an enterprise fund.

As of the date of the auditor's report, the City of Yreka and Siskiyou County had entered into an agreement whereby the County will take over operation and ownership of the landfill.

CITY OF YREKA, CALIFORNIA

Notes to the Financial Statements

June 30, 2007

14. COMMITMENTS, CONTINGENT LIABILITIES AND LITIGATION

- A. The City participates in a number of Federal and State assisted grant programs. These programs are subject to financial and compliance audits by the grantors or their representatives. Audits of certain grant programs, including those for the year ended June 30, 2007 have not yet been conducted.

Accordingly, the City's compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time. Management believes that such disallowances, if any, would not have a material effect on the financial statement.

- B. Certain general obligation bonds which are issued exclusively as general obligations debt for the benefit of a governmental enterprise, but which, as a matter of discretionary financial policy, are actually serviced by earnings of an enterprise fund, are presented as an obligation of the enterprise fund rather than in general long-term debt. The City would be responsible for the debt only in the event that funds were not available in the enterprise fund. If this occurred, an interfund receivable would be created and remain until the enterprise fund was able to repay the City.

- C. The City is subject to various disputes, legal proceedings and labor relation claims which arise in the normal course of its operations. The City management is of the opinion that the ultimate disposition of the various claims and legal proceedings will not have a material effect, if any, on the financial condition of the City.

15. SUBSEQUENT EVENT

As of the date of the auditor's report, the City of Yreka and County of Siskiyou, California had entered into an agreement where ownership and operation of the sanitary landfill will be turned over to the County of Siskiyou. This transaction will have a material effect to the financial statements of the City of Yreka.

Supplementary Information

City of Yreka, California
 Required Supplementary Information
 Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
 General Fund
 For the Year Ended June 30, 2007

	Budget Amounts		Actual Amounts	Positive (Negative) Variance with Final Budget
	Original	Final		
REVENUES				
Property taxes	\$ 768,000	\$ 768,000	\$ 924,531	\$ 156,531
Sales taxes	2,250,000	2,250,000	2,117,259	(132,741)
Transient lodging taxes	625,000	625,000	608,826	(16,174)
Franchise fees	200,000	200,000	220,470	20,470
Licenses and permits	259,500	259,500	215,734	(43,766)
Charges for services	184,300	184,300	142,211	(42,089)
Fines and forfeitures	13,500	13,500	39,451	25,951
Intergovernmental	338,810	131,840	135,265	3,425
Fire dept. reimbursements			5,583	5,583
Unrestricted investment earnings	210,000	210,000	404,321	194,321
Grants and donations	842,963	835,974	896,465	60,491
Other	18,200	18,200	19,200	1,000
In-kind		46,590	50,648	4,058
Total revenues	<u>5,710,273</u>	<u>5,542,904</u>	<u>5,779,964</u>	<u>237,060</u>
EXPENDITURES				
City council, administrator & clerk	347,551	347,551	331,234	16,317
General government	443,340	354,640	220,124	134,516
Fire	291,989	291,989	253,809	38,180
Police	2,126,534	2,104,534	2,024,158	80,376
Planning and development	557,879	557,879	457,348	100,531
Parks, culture and recreation	1,014,947	735,446	572,148	163,298
Public works administration	205,412	205,412	167,393	38,019
Public works mechanical maintenance	199,452	199,452	142,685	56,767
Streets and sidewalks	239,284	239,284	155,718	83,566
Capital outlays	38,000	28,000	28,723	(723)
Debt service:				
Principal	24,458	24,458	24,458	-
Interest	1,667	1,667	1,030	637
Total expenditures	<u>5,490,513</u>	<u>5,090,312</u>	<u>4,378,828</u>	<u>711,484</u>
Excess (deficiency) of revenues over (under) expenditures	<u>219,760</u>	<u>452,592</u>	<u>1,401,136</u>	<u>948,544</u>
OTHER FINANCING SOURCES AND (USES)				
Operating transfers in			128,698	128,698
Operating transfers out	(217,222)	(1,115,127)	(1,103,789)	11,338
Total other financing sources and (uses)	<u>(217,222)</u>	<u>(1,115,127)</u>	<u>(975,091)</u>	<u>11,338</u>
Net change in fund balances	2,538	(662,535)	426,045	959,882
Fund balances - beginning of year	3,094,888	3,094,888	3,094,888	-
Fund balances - end of year	<u>\$ 3,097,426</u>	<u>\$ 2,432,353</u>	<u>\$ 3,520,933</u>	<u>\$ 959,882</u>

The notes to the financial statements are an integral part of this statement.

City of Yreka, California
 Required Supplementary Information
 Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
 Fire Department Assessment
 For the Year Ended June 30, 2007

	Budget Amounts		Actual Amounts	Positive (Negative) Variance with Final Budget
	Original	Final		
REVENUES				
Property taxes		\$ 100,000	\$ 101,710	\$ 1,710
Unrestricted investment earnings		-	1,229	1,229
Loan proceeds	-	1,092,000	1,091,969	(31)
Total revenues	-	1,192,000	1,194,908	2,908
EXPENDITURES				
Capital outlays		1,092,000	1,091,969	31
Total expenditures	-	1,092,000	1,091,969	31
Excess (deficiency) of revenues over (under) expenditures	-	100,000	102,939	2,939
OTHER FINANCING SOURCES AND (USES)				
Operating transfers out	-	-	-	-
Total other financing sources and (uses)	-	-	-	-
Net change in fund balances	-	100,000	102,939	2,939
Fund balances - beginning of year	-	-	-	-
Fund balances - end of year	\$ -	\$ 100,000	\$ 102,939	\$ 2,939

The notes to the financial statements are an integral part of this statement.

City of Yreka, California

Required Supplementary Information

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual

Gas Tax

For the Year Ended June 30, 2007

	Budget Amounts		Actual Amounts	Positive (Negative) Variance with Final Budget
	Original	Final		
REVENUES				
Fuel taxes	\$ 160,000	\$ 160,000	\$ 149,630	\$ (10,370)
Unrestricted investment earnings	15,000	15,000	16,339	1,339
Total revenues	<u>175,000</u>	<u>175,000</u>	<u>165,969</u>	<u>(9,031)</u>
EXPENDITURES				
Streets and sidewalks	796,158	454,658	381,618	73,040
Total expenditures	<u>796,158</u>	<u>454,658</u>	<u>381,618</u>	<u>73,040</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(621,158)</u>	<u>(279,658)</u>	<u>(215,649)</u>	<u>64,009</u>
OTHER FINANCING SOURCES AND (USES)				
Operating transfers in	294,000	90,110	90,103	(7)
Total other financing sources and (uses)	<u>294,000</u>	<u>90,110</u>	<u>90,103</u>	<u>(7)</u>
Net change in fund balances	(327,158)	(189,548)	(125,546)	64,002
Fund balances - beginning of year	359,018	359,018	359,018	-
Fund balances - end of year	<u>\$ 31,860</u>	<u>\$ 169,470</u>	<u>\$ 233,472</u>	<u>\$ 64,002</u>

The notes to the financial statements are an integral part of this statement.

City of Yreka, California

Required Supplementary Information

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual

Special Grants

For the Year Ended June 30, 2007

	Budget Amounts		Actual Amounts	Positive (Negative) Variance with Final Budget
	Original	Final		
REVENUES				
Grants and donations	\$ 4,071,900	\$ 2,014,442	\$ 2,019,440	\$ 4,998
Other	6,000	38,300	48,005	9,705
In-kind	-	-	2,448	2,448
Total revenues	<u>4,077,900</u>	<u>2,052,742</u>	<u>2,069,893</u>	<u>17,151</u>
EXPENDITURES				
Police	30,000	30,000	35,239	(5,239)
Planning and development	554,440	637,962	638,402	(440)
Parks, culture and recreation	523,000	143,238	143,135	103
Streets and sidewalks	2,720,300	1,315,097	1,333,251	(18,154)
Senior transportation	250,000	2,200	2,184	16
Total expenditures	<u>4,077,740</u>	<u>2,128,497</u>	<u>2,152,211</u>	<u>(23,714)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>160</u>	<u>(75,755)</u>	<u>(82,318)</u>	<u>(6,563)</u>
OTHER FINANCING SOURCES AND (USES)				
Operating transfers in	217,700	136,605	136,187	(418)
Operating transfers out	(140,000)	(170,600)	(190,707)	(20,107)
Total other financing sources and (uses)	<u>77,700</u>	<u>(33,995)</u>	<u>(54,520)</u>	<u>(20,525)</u>
Net change in fund balances	77,860	(109,750)	(136,838)	(27,088)
Fund balances - beginning of year	98,469	98,469	98,469	-
Fund balances - end of year	<u>\$ 176,329</u>	<u>\$ (11,281)</u>	<u>\$ (38,369)</u>	<u>\$ (27,088)</u>

The notes to the financial statements are an integral part of this statement.

City of Yreka, California

Notes to Required Supplementary Information
June 30, 2007

Budgets and Budgetary Accounting

As required by the laws of the State of California, the City prepares and legally adopts a final balanced operating budget that may include appropriations of undesignated reserves. At least one public hearing is conducted to obtain comments on the proposed final budget and to review all appropriations and the sources of financing.

Budgets for the general and special revenue funds are adopted on a basis consistent with accounting principles generally accepted in the United States, utilizing the modified accrual basis of accounting and are presented accordingly in the financial statements. Budgets for the proprietary funds are adopted under accounting principles generally accepted in the United States; however, budgets for the proprietary funds, though not considered legally adopted budgets, are used for management and control purposes.

At the fund level, actual expenditures cannot exceed budgeted appropriations. In order to accommodate operational changes that may result during the course of a budget year, the City Council may authorize supplemental appropriations during the year by budget modification resolution. Management can modify line items of a budget, with the limitation that the overall departmental budget may not be exceeded without Council approval.

The budgetary data presented in the accompanying financial statements includes all revisions approved by the City Council.

CITY OF YREKA, CALIFORNIA
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2007

<u>Federal Grantor/Pass-through Grantor</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number (if known)</u>	<u>Federal Expenditures</u>
U.S. Department of Health and Human Services. Passed Through California Dept. of Aging			
Pass Through Program From PSAII Local Area Agency on Aging FF-0102-02		4001	
Title III Congregate Meals (C1)	93.045		\$ 35,156
Title III Home Delivered Meals (C2)	93.045		10,839
Title III Supportive Services (III-B)	93.044		19,747
U.S. Department of Agriculture	10.570		14,037
U.S. Department of Housing and Urban Development Passed Through California Department of Housing & Community Development			
Community Development Block Grant Base Mapping Project	14.227		19,075
Economic Development Block Grant			
Economic Development Block Grant 02EDBG895	14.228		16,201
Economic Development Block Grant 05EDBG1968	14.228		42,517
Economic Development Block Grant 05STBG1422	14.228		1,016,682
Economic Development Block Grant PTAA 1479	14.227		25,425
National Highway Traffic Safety Administration passed thru California Department of Transportation			
Transportation Equity Act			
TE Bike/Pedestrian Path	20.600		813
Downtown Bike/Pedestrian Path	20.600		466,995
Federal Emergency Management Agency(FEMA) passed thru Governor's Office of Emergency Services			
Disaster Grants - Presidentially Declared Disasters	97.036	093-86944	570,932
United States Department of Agriculture			
National Forest Dependent Rural Community	10.670		23,336
Total Expenditures of Federal Awards			<u>\$ 2,261,755</u>

See accompanying notes to the schedule of expenditures of federal awards.

CITY OF YREKA, CALIFORNIA

Notes to Schedule of Expenditures of Federal Awards For the Year Ended June 30, 2007

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Yreka, California and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

CITY OF YREKA, CALIFORNIA
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2007

SUMMARY OF AUDIT RESULTS

1. The auditors report expresses an unqualified opinion on the general purpose financial statements of the City of Yreka, California.
2. There were no reportable conditions disclosed during the audit of the general purpose financial statements
3. No instances of noncompliance material to the general purpose financial statements of the City of Yreka, California were disclosed during the audit.
4. The auditors report on compliance for the major federal award program for City of Yreka expresses an unqualified opinion.
5. The programs tested as major programs were the Economic Development Block Grant, Transportation Equity Act and FEMA.
6. The Economic Development Block Grant, Transportation Equity Act and FEMA were considered to be a Type A programs. The dollar threshold for distinguishing between Type A and B programs was \$300,000.
7. Title III Congregate Meals (C1), Title III Home Delivered Meals (C2), Title III Supportive Services (III-B), U.S. Department of Agriculture, Community Development Block Grant, National Forest Dependent Rural Community were considered to be Type B programs.
8. City of Yreka, California was determined to be a low-risk auditee.

FINDINGS - FINANCIAL STATEMENT AUDIT

I noted no findings during the financial statement audit.

FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS

ECONOMIC DEVELOPMENT BLOCK GRANT
TRANSPORTATION EQUITY ACT
FEMA

I noted no findings during the audit of the Major Federal Award Programs.

QUESTIONED COSTS

None.

CITY OF YREKA, CALIFORNIA
Schedule of Prior Year Findings and Questioned Costs
For the year ended June 30, 2007

FINDINGS

None

QUESTIONED COSTS

None

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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 Yreka
Yreka, California

I have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of City of Yreka, California as and for the year ended June 30, 2007, which collectively comprise the City of Yreka's basic financial statements and have issued my report thereon dated March 28, 2008.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

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

Compliance and Other Matters

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

I noted certain matters that I reported to management of City of Yreka, California, in a separate letter dated March 28, 2008.

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



Jeffrey Chitwood
Certified Public Accountant
March 28, 2008



JEFFREY CHITWOOD CERTIFIED PUBLIC ACCOUNTANT

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REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133

To the City Council
City of Yreka, California

Compliance

I have audited the compliance of City of Yreka, California, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2007. City of Yreka California major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of City of Yreka, California management. My responsibility is to express an opinion on City of Yreka's compliance based on my audit.

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

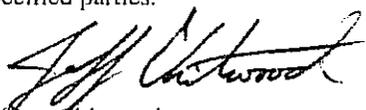
In my opinion, City of Yreka, California, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

Internal Control Over Compliance

The management of City of Yreka, California, is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing my audit, I considered City of Yreka, California's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

My consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over compliance and its operation that I consider to be material weaknesses.

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



Jeffrey Chitwood
Certified Public Accountant
March 28, 2008

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MANAGEMENT LETTER

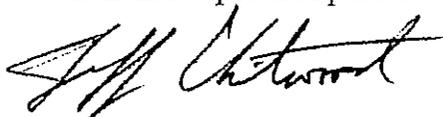
To the City Council
City of Yreka
Yreka, California

In planning and performing my audit of the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Yreka as of and for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, I considered the City's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Governmental Unit's internal control. Accordingly, I do not express an opinion on the effectiveness of the Governmental Units internal control.

However, during my audit I became aware of the following matters. The following summarizes my comments and suggestions regarding these matters. This letter does not affect my report dated March 28, 2008, in the financial statements of the City of Yreka.

1. The City appears to have outgrown its computerized accounting system. The City's accounting staff must prepare detailed excel spreadsheets in order to track grant revenues and expenditures. City staff also must prepare excel spreadsheets to calculate various interfund allocations like payroll and general overhead. An accounting system that is designed to track and record transactions for grants and interfund allocations should eliminate the need for accounting staff to prepare spreadsheets on a separate program.
2. The City of Yreka Volunteer Fire Department maintains its own bank account of which is used to pay fire department bills. When the Fire Department bills are paid, a request for reimbursement is submitted to the City's accounting department. This creates the inefficient and problematic situation where the Fire Department's funds are maintained in two locations and expenditures are being recorded twice under two sets of accounting records. I recommend that Fire Department funds be placed under the control of the City's accounting staff and that one set of accounting records be maintained by them.

This communication is intended solely for the information and use of management, City Council, and others within the organization and is not intended to be and should not be used by anyone other than those specified parties.



Jeffrey Chitwood
Certified Public Accountant
March 28, 2008