

CITY OF YREKA, CALIFORNIA

FINANCIAL STATEMENTS

**FOR THE YEAR ENDED
JUNE 30, 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, 2008. 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 \$31,066,874. Of this amount, \$8,961,894 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 of governmental funds ending fund balance of \$4,454,421, and add in the proprietary funds unrestricted net assets of \$4,507,473 for a total of \$8,961,894. One might think of unrestricted net assets as the City's total equity or capital balance.
- The governmental activities total net assets of \$16,906,976 increased by \$2,648,384 from the restated prior fiscal year 2006-07 total of \$14,258,592. The increase in net assets is primarily due to \$3 million of infrastructure improvements.
- The governmental funds ending fund balance increased by \$1,583,280 in 2007-08. That increase includes a landfill enterprise fund transfer-in of \$1,000,000 to the general fund. The transfer to the general fund was to repay the 2006-07 transfer from the general fund to the landfill enterprise fund 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 was 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 sale transaction settled July 7, 2008.
- The business type activities total net assets and the ending fund balance of \$14,159,898 decreased by \$1,569,802 from the prior fiscal year 2006-07 of

\$15,729,700. The closure of the landfill enterprise fund, due to the sale of the landfill to the County of Siskiyou accounted for \$1,835,866 of the decrease.

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.

In 2007-08, the City conducted special budget study sessions to evaluate fees charge for services, primarily the business services. Over the 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.

Next, the City Council realized it needed outreach to the community to educate the residents of the City's problems and engage them in being part of the solution. As part of the public outreach, the City of Yreka started publishing in March 2008 the Yreka City newsletter to outline issues, interests and inform the citizens of Yreka. The newsletter is included with the residents' monthly utility bills. Concurrent with that project, the City began work on its first website. The City's website, strives to be informative, easy to use and navigate, and with the City Manager blog geared to generate dialogue and discussion with residents on community issues, www.ci.yreka.ca.us.

In 2007-08 the City Council acted on the following revenue measures:

- Implementation of water and wastewater rate study funded from a housing and community development technical planning and assistance grant. The study outlined capital improvements needed and funding levels requirement to maintain the system. The Council moved to adopt the rate study and implement the recommended rate increases, which phase-in over the next five years.
- The City Council raised the landfill access fee by \$2.00 per unit per month to cover the debt servicing to the County of Siskiyou for the City's access to the County's transfer station facility

The City Council recognizes that there is work remaining and in 2008-09 has embarked on additional revenue measures for animal control and is focused on the City's economic development. The City is fiscally sound, and is working to remain fiscally responsible and serve its residents.



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

2007-08 Operational Highlights:

In 2007-08, three horizon issues were identified as being key for the City's focus.

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

- The City Council has adopted new rates and fees for water and wastewater services, landfill/transfer station access fees and animal control.

[2] Completion and implementation of the water and sewer enterprise fund rate study. In addition, consider taking to the voters an infrastructure improvement bond to complete the needed repairs and help ensure adequate clean water supply and wastewater treatment.

- The study was completed, and in October 2008 the new fees were implemented. With Council approval, Public Works has prepared loan and grant applications totaling over \$10 million to the State Water Resource Control Board Revolving Loan Account and USDA Rural Development Assistance programs.

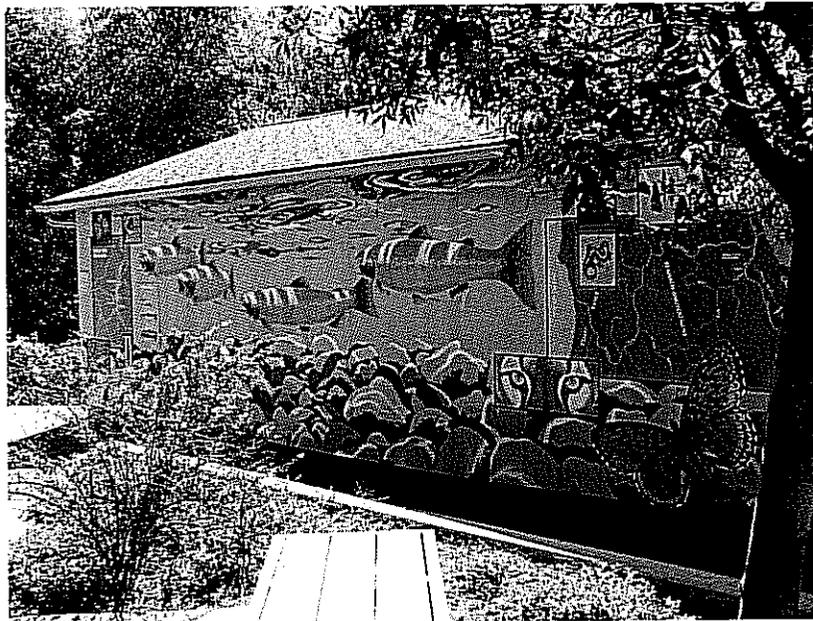
[3] Consider a special assessment for parks and recreation. The assessment would to support the maintenance of improvements to parks and recreation areas, including the Ringe pool facility. From grant projects, the City expects to add four public restrooms and miles of walking trails in Greenhorn Park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

- Construction on park and greenbelt improvements continue through grant funded resources. Ways to fund the maintenance of these improvements and structures are being explored. The City has kicked off several targeted community

collaborations with the operations of the community swimming pool, and community theatre and center.

Other reflections and achievements for 2007-08 include:

- The completion of a \$1,048,946 of wastewater collection main rehabilitation project. This project utilized grant funds from a Community Development Block Grant and the Economic Development revolving loan account.
- The City was awarded and completed \$1.24 million of work on 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 2008-09 and 2009-10.
- State Transportation Improvement Program grants totaling \$2,397,002 were completed repairing and rehabilitating the City's streets (Fairlane, Oberlin, Greenhorn and various streets for cape seal overlays).
- 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.

- Both the wastewater and water treatment plants have completed and are nearing completion, respectively, to convert from chlorine gas disinfecting to sodium hypo chloride disinfecting at each treatment facilities as mandated.
- The City is utilizing its Federal Emergency Management Agency (FEMA) award from the 2005 Winter Storm to repair the wastewater treatment facilities. Over \$710,617 in repair work has been completed, and mitigation work remains in process.
- 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.
- Four park restrooms were built utilizing state grant funds of Roberti Z'Berg Harris Prop. 40 and California Housing and Community Development Workforce Housing awards. Two restrooms are located in Greenhorn park. The third restroom is located in Miner Street park, and the fourth restroom is located in the downtown Liberty Arts center. The downtown arts center was another community and city collaboration which restored an historic building in downtown Yreka to house an non profit art gallery and public restrooms.

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 sanitary landfill operations.

The government-wide financial statements can be found on pages 2 through 3 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.

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, Special Revenue Fund, Special Grant Fund, and Streets and Roads Fund.

The major governmental funds are presented in [a] the governmental fund balance sheet, and [b] the governmental fund statement of revenues, expenditures, and changes in fund balances for the governmental funds. The governmental fund is also 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 governmental funds demonstrates compliance with the budget, and is located on pages 27 through 30 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 sanitary 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 sanitary 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. A 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 no longer has any fiduciary funds.

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 10 through 26 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 27 through 37 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 \$16,906,976 for governmental activities and \$14,159,898 for business type activities, or \$31,066,874 in total, at the close of 2007-08.

City of Yreka – Changes in Net Assets

Total Net Assets for:	Governmental Activities	Business- Type Activities	Total
Fiscal Year 2005-06	11,889,415	12,935,288	24,824,703
Fiscal Year 2006-07, as restated	14,258,592	15,729,700	29,988,292
Fiscal Year 2007-08	16,906,976	14,159,898	31,066,874
Increase or (Decrease in Net Assets)	2,648,384	(1,569,802)	1,078,582

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		% Change
			2006-07
	2006-07	2007-08	base
Assets:			
Current assets and other assets	4,892,454	6,483,675	32.5%
Restricted assets	1,846,772	1,904,102	3.1%
Non Current Assets	10,441,052	13,851,498	32.7%
<i>Total Assets</i>	17,180,278	22,239,275	29.4%
Liabilities:			
Current Liabilities	1,845,380	2,153,850	16.7%
Long-term Liabilities	1,003,494	3,178,449	216.7%
<i>Total Liabilities</i>	2,848,874	5,332,299	87.2%
Net assets:			
Invested in capital assets, net of related debt	9,323,005	10,530,558	13.0%
Restricted	1,860,403	1,921,997	3.3%
Unrestricted	3,147,996	4,454,421	41.5%
<i>Total Net Assets</i>	14,331,404	16,906,976	18.0%

Net assets increased by 18.0% or \$2,575,572 from 2006-07. The large increase in long-term debt is due to the City's \$2.5 million debt for the sale of the City's landfill to Siskiyou County. The 32.5% increase in current assets from 2006-07 is due an increase of \$1,591,221 in cash and investments and the 32.7% increase in non-current assets is due to the numerous capital projects in process and completed.

Unrestricted net assets increased 41.5% or \$1,306,425 from 2006-07, in part due to an increase in the ending fund balance, due to \$1,000,000 transfer in from the landfill enterprise fund to the general fund, and expenditure control, 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
	2006-07	2007-08	2006-07 base
Assets:			
Current assets and other assets	6,500,069	4,642,264	-28.6%
Restricted assets	50,308	49,183	-2.2%
Non Current Assets	13,232,441	11,815,428	-10.7%
<i>Total Assets</i>	19,782,818	16,506,875	-16.6%
Liabilities:			
Current Liabilities	740,932	395,888	-46.6%
Long-term Liabilities	3,312,186	1,951,089	-41.1%
<i>Total Liabilities</i>	4,053,118	2,346,977	-42.1%
Net assets:			
Invested in capital assets, net of related debt	9,560,187	9,603,242	0.5%
Restricted	50,308	49,183	-2.2%
Unrestricted	6,119,205	4,507,473	-26.3%
<i>Total Net Assets</i>	15,729,700	14,159,898	-10.0%

Current assets decreased \$1,857,805 or 28.6%, and non current assets decreased by \$1,417,013 or 10.7% primarily due to closure of the landfill enterprise fund in 2007-08. Current liabilities decreased 46.6% due to a decrease in accounts payable in the sewer fund. Long-term liabilities decreased 41.1% due to the closure of the sanitary landfill fund, and subsequent release of the post-closure reserve of \$1.1 million. Overall, unrestricted net assets decreased by 10.0% or \$1,569,802 from 2006-07, primarily due to the closure of the sanitary landfill enterprise fund.

Comparison of Government Wide General Revenues:

General revenues:	2006-07			2007-08		
	Governmental activities	Business-type activities	Total	Governmental activities	Business-type activities	Total
Taxes:						
Property	924,531	0	924,531	944,784	0	944,784
Sales and use	2,117,259	0	2,117,259	2,306,552	0	2,306,552
Other	1,573,479	0	1,573,479	1,370,059	0	1,370,059
Investment earnings	460,924	71,283	532,207	276,066	178,317	454,383
Other	68,384	0	68,384	225,486	(3,453,488)	(3,228,002)
Transfers	(1,000,000)	1,000,000	0	(1,555,126)	1,555,126	0
Total general revenues and transfers	4,144,577	1,071,283	5,215,860	3,567,821	(1,720,045)	1,847,776

General revenues decreased in 2007-08 by \$3,368,084, primarily due to the \$3,453,488 loss on the sale of the landfill. The transfers reflect \$2,500,000 note receivable to Siskiyou County from the sanitary landfill enterprise fund to the special revenue, less the transfer in from the sanitary landfill fund to the general operating fund. That transfer offsets the prior year transfer from the general fund to the sanitary landfill fund to open escrow with Siskiyou Title for the sale of the landfill.

Comparison of Government Wide Program Revenues:

<i>City of Yreka - Program Revenue</i>	2006-07	2007-08	Change from 2006-07 to 2007-08 Increase/(decrease)
Governmental activities:			
General government	\$1,434	\$559,019	\$557,585
Planning and development	158,774	175,723	16,949
Parks and recreation	378,248	1,020,691	642,443
Public works administration	0	0	0
Public works maintenance	0	0	0
Police protection	194,857	142,525	(52,332)
Fire protection	197,705	254,085	56,380
Senior nutrition and transportation	230,793	331,097	100,304
Streets and sidewalks	2,368,380	3,237,896	869,516
Public transportation	0	62,310	62,310
Total governmental activities	3,530,191	5,783,346	2,253,155
Business-type activities:			
Sewer	2,400,618	1,423,858	(976,760)
Water	1,411,712	1,455,117	43,405
Sanitary Landfill	1,058,906	72,782	(986,124)
Total business-type activities	4,871,236	2,951,757	(1,919,479)
Total primary government	\$8,401,427	\$8,735,103	\$333,676

Governmental activities program revenue increased \$2,253,155 in 2007-08 primarily due to one-time capital grants for parks and recreation, streets and road repair, and storm drainage system improvements.

Business activities program revenue decreased \$1,919,479 in 2007-08, due to \$986,124 arising from the sale of the City owned landfill and closure of the sanitary landfill enterprise fund. Capital grants and contribution in 2006-07 were \$970,000 higher in 2006-07 due to 05-STBG-1422 CDBG block grant for sewer main inflow and infiltration repair.

Comparison of Government Wide Program Expenses:

<i>City of Yreka – Program Expenses</i>	2006-07	2007-08	Change from 2006-07 to 2007-08 Increase/(decrease)
Governmental activities:			
General government	\$535,482	\$908,457	\$372,975
Planning and development	356,360	618,852	262,492
Parks and recreation	509,320	995,232	485,912
Public works administration	135,229	183,902	48,673
Public works maintenance	142,685	208,891	66,206
Police protection	2,175,880	2,137,588	(38,292)
Fire protection	262,624	389,501	126,877
Senior nutrition and transportation	309,677	372,456	62,779
Streets and sidewalks	805,522	820,042	14,520
Public transportation	0	67,862	67,862
Total governmental activities	5,232,779	6,702,783	1,470,004
Business-type activities:			
Sewer	1,090,453	1,332,463	242,010
Water	1,312,786	1,368,686	55,900
Sanitary Landfill	748,173	100,365	(647,808)
Total business-type activities	3,151,412	2,801,514	(349,898)
Total primary government	\$8,384,191	\$9,504,297	\$1,120,106

Function expenses for governmental activities increased \$1,120,106 in 2007-08 from 2006-07. The primary increase was due to capital outlay in parks and recreation, \$485,912, and fire protection \$126,877. Planning and development expenses increased for operating grants for economic development. General governmental activities increased \$372,975, of which \$175,000 is special revenue debt servicing relating to the sale of the landfill.

Functional expenses for business-type activities decreased \$349,898. Of that decrease \$647,808 was due to closure of the landfill enterprise fund and \$242,010 increase in the sewer enterprise fund for capital outlay, continue work on the 2005 Winter Storm damage repairs at the wastewater treatment plant.

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 \$6,376,418. Over 30% of this total amount, or \$1,915,165, constitutes unrestricted and undesignated fund balance, which is available for spending at the City's discretion. Of the \$4,461,253 fund balance remainder, \$2,271,530 is reserved and \$2,189,723 is unreserved but designated to indicate that it is not available for spending. This is because it has already been committed to 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 \$2,496,984 or 47% of the \$5,303,378 ending fund balance. The General Fund balance reserved for capital outlays is \$1,921,997 that represents funds in the Crandell account. The Crandell account is an account for which the City has expenditure control but is restricted by a will, to expend only for special capital outlays. 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 51% of total general fund expenditures, while total fund balance represents 108% of that same amount.

Governmental Funds revenue increased \$1,117,788 in 2007-08 from 2006-07 due to increase in grant funds, loan proceeds and Measure H, fire tax assessment.

Expenses increased \$1,869,388 in 2007-08 from 2006-07; due to infrastructure and capital outlays pursuant to the grant projects for infrastructure projects on the City's streets and roads, storm drainage, and parks and greenways.

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 sanitary landfill funds at the end of the year amounted to \$14,159,898, and unrestricted net assets were \$4,507,473. In the statement on Cash Flows, page 9, the net increase (decrease) in cash shows a decrease of \$573,893. Of note however, is the closure of the landfill enterprise fund that represented \$433,693 or 75% of the decrease. And the wastewater enterprise fund shows a \$267,780 decrease in available cash. Offsetting that decrease is \$530,447 of intergovernmental accounts receivable from repairs and improvements at the wastewater treatment plant. As in 2006-07, fiscal year 2007-08 shows that revenues are not keeping pace with the required cash outlay for both operations and required capital outlay and financing, however implementation of the new rates on October 2008, will turn this position around.

Agency funds:

Agency funds consist of fiduciary funds that are used to account for assets held in a trustee or agent capacity for others. The City has no agency funds.

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, Special Grant Fund, Streets and Roads Fund. More line item detail is available on pages 27 through 30 of this report.

Schedule of Revenues and Expenditures – Budget to Actual

General Fund	Original	Operating or Final	Actual
Revenue	5,166,625	5,752,296	5,757,700
Expense	4,965,434	4,889,521	4,870,993
Excess (deficiency) of revenue over (under) expenses	201,191	862,775	886,707
Other Financing Sources and (Uses)	(223,600)	861,709	861,709
Net Change in Fund Balance	(22,409)	1,724,484	1,748,416
Special Grant Fund	Original	Operating or Final	Actual
Revenue	10,179,284	4,242,069	4,297,357
Expense	10,087,769	4,540,275	4,545,682
Excess (deficiency) of revenue over (under) expenses	91,515	(298,206)	(248,325)
Other Financing Sources and (Uses)	129,600	249,113	257,863
Net Change in Fund Balance	221,115	(49,093)	9,538
Special Revenue Fund	Original	Operating or Final	Actual
Revenue	458,000	2,887,628	2,886,675
Expense	435,805	317,326	367,855
Excess (deficiency) of revenue over (under) expenses	22,195	2,570,302	2,518,820
Other Financing Sources and (Uses)	85,000	(2,645,205)	(2,645,205)
Net Change in Fund Balance	107,195	(74,903)	(126,385)
Streets and Roads Fund	Original	Operating or Final	Actual
Revenue	897,000	403,966	464,561
Expense	757,590	419,263	483,357
Excess (deficiency) of revenue over (under) expenses	139,410	(15,297)	(18,796)
Other Financing Sources and (Uses)	(6,000)	(29,493)	(29,493)
Net Change in Fund Balance	133,410	(44,790)	(48,289)

General Operating Fund:

- General Fund total revenues for the adopted budget were \$5,166,625. This is a \$585,671 less than the operating budget of \$5,752,296. The operating budget was

modified for property and sales tax revenue and one-time insurance dividend from Small Cities Organized Risk insurance group.

- The operating budget revenue of \$5,752,296 was slightly lower than actual revenue received of \$5,757,700.
- Expenses in the adopted budget were \$4,965,434. Expenses in the operating budget were \$4,889,521 or a decrease of \$75,913. Actual expenses were \$4,870,993, or \$18,528 less than the operating budget.
- Operating budget transfers in increased \$1,000,000 for the transfer-in of funds from the landfill enterprise fund. These funds were to repay the general fund for a borrowing on \$1,000,000 in 2006-07 to open escrow for the sale of the City's landfill.
- The excess of revenue and other sources over (under) expenditures and other uses forecasted a \$22,409 shortfall in the adopted budget. Both the operating and final budget had an excess of revenue of \$1,724,484 in the operating budget and \$1,748,416 in actuals. The budget revision was due to the sanitary landfill enterprise fund transfer-in of \$1,000,000, and an increase in sales and property tax revenue along with a one-time insurance premium refund.

Special Grant Fund:

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

- Grant revenue originally budgeted was \$10,179,284 and \$4,242,069 for the operating budget. Actual revenue was \$4,297,357. The \$5,937,215 decrease from the adopted to operating budget was due to delays in starting and completing most of the capital outlay grants and lending programs. All of these grants are reimbursement grants, whereas revenue is reimbursed to the City for based on its capital outlay or approved lending in the case of housing rehabilitation and business loan programs.
- Expenditures for street rehabilitation, storm drain projects, pedestrian and bike paths, construction of a transportation bus barn, and safe schools routes were \$6,875,400 in the adopted budget, \$2,918,170 in the operating budget and \$2,916,770 for actuals. Many of these projects did not get started in 2007-08 as expected or were in progress.
- Expenditures for parks and recreation and community development projects were \$1,552,705 in the adopted budget, \$1,071,364 in the operating budget and \$1,072,467 for actuals. The primary decrease was due to slower than expected construction on the bathrooms and bridge in the Greenhorn Park Accessibility trail grant.
- Expenditure for community development housing and business loans was \$1,334,339 in the adopted budget and \$184,399 in the operating budget. Actuals expenses were \$188,174. The decrease was due to delays in state contracts and funding that resulted in a slower than expected start on lending.
- Actual transfers in were higher than original budgeted by \$113,263. This is primarily due a transfer-in of \$84,921 from the sewer enterprise fund. The sewer inflow and infiltration CDBG grant's construction costs were lower than budgeted, and that resulted in the City having excess economic development revolving loan funds applied towards that open grant. As allowed, the excess funds were re-deposited back to the revolving loan program.

Special Revenue Fund:

The primary variance between the adopted budget and the operating budget is the \$2,500,000 borrowing to finance the sale of the landfill. The sale of the landfill cost the City \$3,500,000 to “walk-away” from any further environmental liability, closure and monitoring related costs. The unfavorable budget variance for equipment for the fire protection and fire capital outlay was due to a closing adjustment between expense and deferred revenue. This entry was made, due to an audit prior period adjustment that reclassified the \$125,000 of deferred revenue into equity. (Reference prior period audit adjustments on page 26, overstatement of deferred revenue.)

Streets and Roads Fund:

- Intergovernmental Revenue in the adopted budget was higher than the operating budget and actual amounts for the \$400,000 allocation of Proposition 1B revenue. The revenue though, received in 2007-08 was deferred as the construction project had not commenced.
- Expenditures primarily for capital projects in the Gas Tax Fund were \$250,100 in the adopted budget, \$10,100 in the operating budget and \$10,100 for actuals. Projects in the adopted budget not started or completed totaled \$240,000 for road paving and storm drain projects.

Capital Assets and Debt Administration

Changes in Capital Assets

	Balance June 30, 2007	Additions & Transfers	Retirements & Transfers	Balance June 30, 2008
Governmental Activities:				
<i>Capital assets not being depreciated:</i>				
Land	1,606,117	96,197		1,702,314
Construction in Progress	1,906,026	2,020,640	(1,460,421)	2,466,245
<i>Capital assets being depreciated:</i>				
Building and Structures	3,963,149			3,963,149
Machinery and Equipment	3,181,045	577,782		3,758,827
Infrastructure	19,053,925	2,499,478		21,553,403
Less Accumulated Depreciation	(19,127,562)	(464,878)		(19,592,440)
Governmental Activities Capital Assets, net	10,582,700	4,729,219	(1,460,421)	13,851,498
Business-type Activities:				
<i>Capital assets not being depreciated:</i>				
Land	369,922		(116,750)	253,172
Construction in Progress	1,617,186	462,300	(1,253,315)	826,171
<i>Capital assets being depreciated:</i>				
Utility Plant	13,448,842	1,118,241		14,567,083
Building and Structures	6,994,027			6,994,027
Machinery and Equipment	4,564,064	255,512	(1,044,576)	3,775,000
Less Accumulated Depreciation	(14,861,600)	(548,753)	810,328	(14,600,025)
Business-type Capital Assets, net	12,132,441	1,287,300	(1,604,313)	11,815,428
Total Capital Assets, net	22,715,141	6,016,519	(3,064,734)	25,666,926

The City of Yreka's investment in capital assets for its governmental and business type activities as of June 30, 2008 amounts to \$25,666,926 (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 for infrastructure that include streets and sidewalks, curbs and gutters, drainage systems, bridges, and lighting systems.

As mentioned above, over the 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. To that end, the City focused its efforts, in 2007-08, to deal with ways to fund infrastructure improvements. Capital grants however remain the primary source of funding for capital outlay to the City's aging infrastructure. Although the water, wastewater systems are safe and reliable, these infrastructure assets are old and in need of replacement pipes, booster pumps, tank cleaning and resurfacing, filters, and other identified system upgrades. Street and roads, in are serious need of rehabilitation but at present there is not an adequate revenue stream for repairs, other than competitive grants.

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

Governmental Activities

- Construction in progress totalled \$2,466,245 million for major street repair and rehabilitation projects \$93,988, development of storm drain basins, floodplains and culverts \$1,608,600, several park and greenway restroom and trail developments projects \$762,804 and transit project \$853.
- Yreka Volunteer Fire Department purchased new survivor air packs \$63,015, of which \$38,015 was funded from special revenue of the fire tax property assessments, and the remaining balance from the general operating fund.
- City vehicle was purchased as replacement vehicle for \$23,747 for the police department. The City also purchased from the Landfill Enterprise fund at fair market value, a 2001 Freightliner water truck for \$45,000.
- The City received four State Transportation Improvement Program grants for roadway rehabilitation. These capital improvement projects, completed fall of 2007, totaled \$2,397,002. The City also utilized special revenue form the traffic congestion and gas tax funds to rehabilitate Allen Street for \$102,478.
- The City received a State Transportation Improvement Program grant award of \$250,000 to purchase buses for the senior program that provides transportation services to the City's senior citizens. Three new buses were purchased for \$244,313 and were put into service during 2007-08.
- The City completed several multi-year grant projects, USDA grant for an arboretum in Greenhorn Park \$92,998, State Park and Recreation Grants, Prop. 40 to install playground equipment at Ringe Park, \$57,940 and Lewis Park \$50,770.

- The City acquired several parcels along Yreka Creek for \$96,197 using money from the State River Parkways and State Department of Water Resources Urban Streams grants.

Business Type Activities

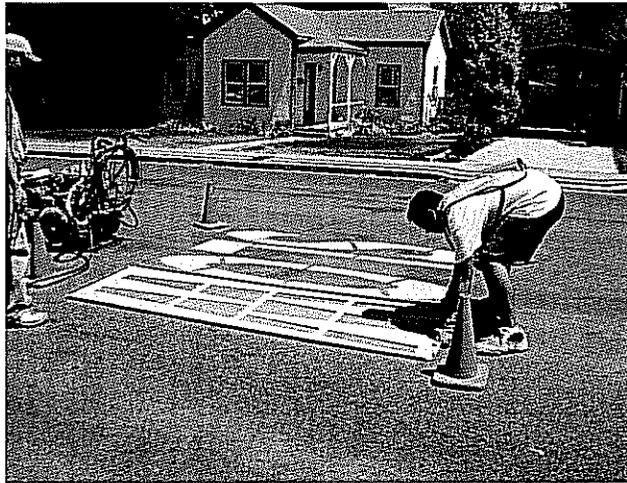
- Completion of a CDBG grant funded sewer inflow and infiltration rehabilitation project for \$1,056,652.
- Completion of the wastewater disinfection changeover project of \$229,633, and finalized a CDBG planning grant, a wastewater treatment plant expansion study, for \$61,589.
- Projects under construction as of June 30, 2008 total \$826,171. Those projects include water treatment plant disinfection changeover project to sodium hypochlorite of \$115,554, and 2005 Storm Damage FEMA grant for effluent disposal field rehabilitation \$710,617.
- A field service truck was acquired for \$25,879.

Changes in Long Term Debt:

Changes in Long Term Debt				
	Balance June 30, 2007	New Issues	Principal Payments	Balance June 30, 2008
Governmental Activities:				
Loans Payable - Banks and Others	1,117,246	0	121,306	995,940
Loans Payable - Governmental Agencies	0	2,500,000	175,000	2,325,000
Total Governmental Activities	1,117,246	2,500,000	296,306	3,320,940
Business-type Activities:				
Loans Payable - Banks and Others	104,296		104,296	0
Loans Payable - Governmental Agencies	1,588,958		244,772	1,344,186
Certificates of participation - USDA Rural Development	879,000	0	11,000	868,000
Other	0	0	0	0
Total Business Activities	2,572,254	0	360,068	2,212,186
Total Outstanding Long Term Debt	3,689,500	2,500,000	656,374	5,533,126
Less Portion Classified as Current Debt				(403,588)
Long Term Outstanding Debt				5,129,538

At the end of the current fiscal year, the City of Yreka had total debt outstanding of \$5,533,126 and long term outstanding debt of \$5,129,538. Detail information on lenders, rates and maturities for long-term debt can be found on pages 21 through 23 of this report.

The City of Yreka's total debt decreased by \$656,374 during the current fiscal year 2007-08 due to scheduled principal repayment on borrowings. The \$2,500,000 increase represents a twenty year access agreement with the County of Siskiyou for access to the County transfer station, in association with the sale of the City's landfill facility.



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

Next Year's Budgets and Rates:

Budget Highlights for 08-09

Below are highlights from the City's 2008-09 operating budget. The adopted budget was approved by the City Council on August 21, 2008.

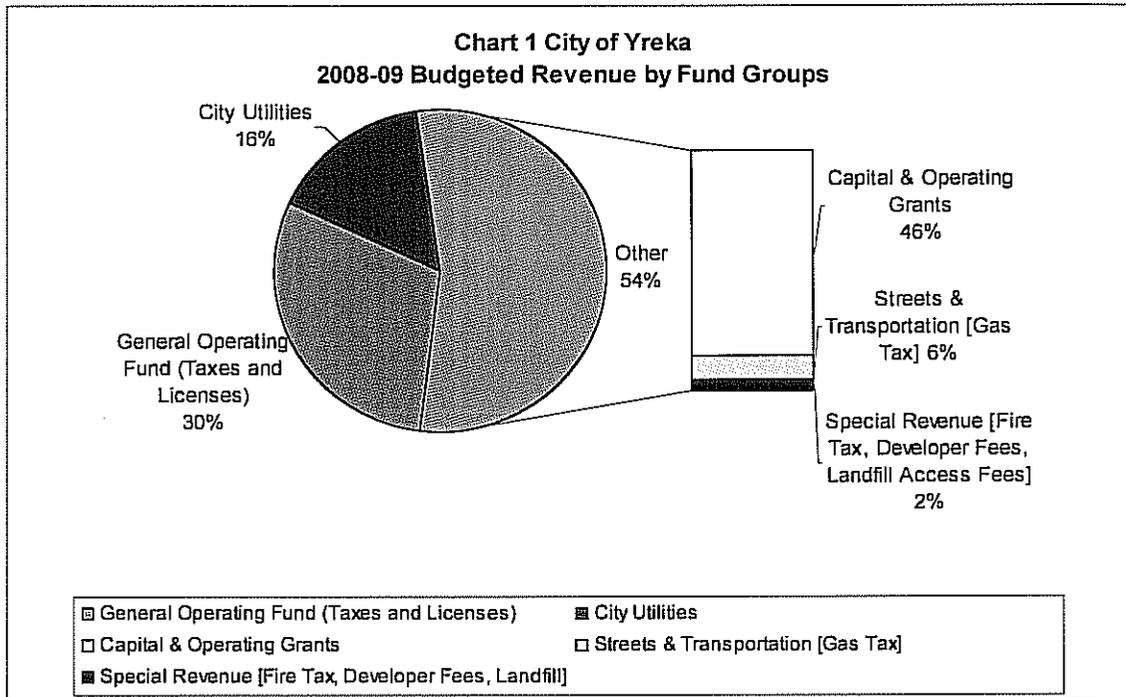
	Budgeted Revenue ⁽¹⁾	Revenue Interfund Transfers	Budget Expense	Expense Interfund Transfers
Total General Fund	5,374,339.42	258,789.42	5,399,603.26	211,793.93
Total Special Rev. Fund	443,000.00	-	344,770.86	-
Total Streets and Roads	1,439,350.27	551,748.27	1,914,018.34	583,270.00
Special Grant Fund	9,192,802.37	219,526.24	8,806,167.37	-
Total Governmental Activity Fund	16,449,492.06	1,030,063.93	16,464,559.83	795,063.93
Sewer Enterprise Fund	1,177,230.00	-	1,831,061.22	110,000.00
Water Enterprise	1,803,500.00	-	2,569,283.73	125,000.00
Total Enterprise Funds	2,980,730.00	-	4,400,344.95	235,000.00
All Funds Combined	19,430,222.06	1,030,063.93	20,864,904.78	1,030,063.93

(1) 2008-09 Budgeted Revenue adjusted for revenue deferrals from 2007-08.

The City projects a \$1.4 million decrease in working capital during fiscal year 2008-09, primarily in the enterprise funds. This is due to needed improvements to the water and sewer treatment and distribution systems.

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)



General Fund Revenue Projections:

Revenue projections for 2008-09 were near or at the same level of fiscal year 2007-08. A decrease was projected in sales tax revenue, primarily due pessimistic economic projections.

General Operating Fund - Fiscal Year Main Stream Revenue Comparison

	Actuals Fiscal Year 04-05	Actuals Fiscal Year 05-06	Actuals Fiscal Year 06-07	Actuals Fiscal Year 07-08	Projected 08-09
Property Tax	644,592	766,460	887,856	915,035	925,000
Transient Lodging	607,645	593,285	608,826	592,729	607,000
Sales Tax	1,682,590	1,599,734	1,607,462	1,709,256	1,625,000
Franchises	218,104	206,474	220,470	234,541	225,000
Business Licenses	69,994	75,190	77,491	80,060	80,000
Animal Licenses	9,324	9,223	10,431	10,842	20,000
Building Permits	179,318	175,363	94,546	77,343	90,000
Motor Vehicle License Fees (1)	585,464	512,914	524,463	542,789	540,000
Triple Flip In Lieu Sales Tax (2)	375,056	541,007	509,797	597,296	550,000
Subtotal General Fund Mainstream Revenue	4,372,087	4,479,650	4,541,342	4,759,891	4,662,000

(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:

The City adopted in June 2008 a phased in five-year water and wastewater rate increase. A targeted educational campaign and community outreach programs helped to ensure, the

rate increases would not be denied through the Proposition 218 protest vote procedure. These rates increase went into effect October 1, 2008. With City Council approval, Public Works submitted in the fall of 2008, loan and grant applications to the State Revolving Loan Fund and USDA Rural Development program seeking over \$10 million of water treatment infrastructure improvements. These improvements will be financed from the recently implemented rate increases.

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.

The City Council and staff continue to meeting periodically 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 for 2008-09:

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

[1] The State of California's continued budget crisis has caused delays in adopting annual budgets, and has not found any long term solutions to its fiscal problems. The impact to cities, has been deferred and shifted revenue streams, and some revenue cuts. As of January 31, 2009, the City is carrying \$1.9 million of grant construction receivables, of which \$1.5 million are from the State of California. As of December 17, 2009 these receivable were placed on a deferral status. Over \$400,000 of federal accounts receivables relates to the 2005 Winter Storm FEMA construction grant at the wastewater treatment plant.

[2] The Council continues to deliberate on funding sources for infrastructure, particularly roads, drainage, and maintenance of improved and expanded parks and greenways.

[3] Other priorities for the City Council lie in the areas of economic development for the City. A special committee, known as Yreka Development Committee has been established with Council authority to evaluate opportunities for growth and development.

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.

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**INDEPENDENT AUDITORS' REPORT**

To the City Council
City of Yreka, California

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the City of Yreka, California, as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of Yreka, California management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the City of Yreka, California, as of June 30, 2008, 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*, we have also issued our report dated January 31, 2009 on our consideration of City of Yreka, California's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal controls 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 our audit.

Management's discussion and analysis on pages II through XXII, and the budgetary comparison information on pages 27 and 28, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We 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, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying schedule of expenditures of federal awards on page 30, 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 schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Aiello, Goodrich & Teuscher

Aiello, Goodrich & Teuscher
An Accountancy Corporation
Mt. Shasta, California
January 31, 2009

BASIC FINANCIAL STATEMENTS

City of Yreka
Statement of Net Assets
June 30, 2008

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets:			
Cash and investments	\$ 4,375,626	\$ 3,965,780	\$ 8,341,406
Receivables (net of allowances for bad debts, where applicable):			
Trade accounts	-	267,765	267,765
Loans	349,533	-	349,533
Intergovernmental	1,246,660	414,704	1,661,364
Accounts	33,382	-	33,382
Taxes	443,863	75	443,938
Interest	25,700	-	25,700
Prepaid expenses	606	-	606
Inventory	2,245	-	2,245
Internal balances	6,060	(6,060)	-
Total current assets	<u>6,483,675</u>	<u>4,642,264</u>	<u>11,125,939</u>
Restricted assets:			
Cash and investments	<u>1,904,102</u>	<u>49,183</u>	<u>1,953,285</u>
Capital assets:			
Non-depreciable	4,168,559	1,079,343	5,247,902
Depreciable, net	<u>9,682,939</u>	<u>10,736,085</u>	<u>20,419,024</u>
Total capital assets	<u>13,851,498</u>	<u>11,815,428</u>	<u>25,666,926</u>
Total assets	<u>22,239,275</u>	<u>16,506,875</u>	<u>38,746,150</u>
LIABILITIES			
Accounts payable	522,471	65,907	588,378
Payroll payable	209,569	68,884	278,453
Accrued vacation	258,444	-	258,444
Deferred revenue	1,020,875	-	1,020,875
Current portion of long-term debt	142,491	261,097	403,588
Total current liabilities	<u>2,153,850</u>	<u>395,888</u>	<u>2,549,738</u>
Long-term liabilities:			
Long-term debt, net of current portion	<u>3,178,449</u>	<u>1,951,089</u>	<u>5,129,538</u>
Total liabilities	<u>5,332,299</u>	<u>2,346,977</u>	<u>7,679,276</u>
NET ASSETS			
Invested in capital assets, net of related debt	10,530,558	9,603,242	20,133,800
Restricted for capital projects and debt service (expendable)	1,921,997	49,183	1,971,180
Unrestricted	<u>4,454,421</u>	<u>4,507,473</u>	<u>8,961,894</u>
Total net assets	<u>\$ 16,906,976</u>	<u>\$ 14,159,898</u>	<u>\$31,066,874</u>

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

City of Yreka
Statement of Activities
Year Ended June 30, 2008

	Program Revenues			Net (Expense) Revenues and Changes in Net Assets		
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental activities:						
General government	\$ 908,457	\$ -	\$ -	\$ (349,438)	\$ -	\$ (349,438)
Planning and development	618,852	76,492	-	(443,129)	-	(443,129)
Parks and recreation	995,232	74,964	896,250	25,459	-	25,459
Public works administration	183,902	-	-	(183,902)	-	(183,902)
Public works maintenance	208,891	-	-	(208,891)	-	(208,891)
Police protection	2,137,588	130,678	-	(1,995,063)	-	(1,995,063)
Fire protection	389,501	50,405	-	(135,416)	-	(135,416)
Senior nutrition and transportation	372,456	331,097	-	(41,359)	-	(41,359)
Streets and sidewalks	820,042	396,255	2,773,646	2,417,854	-	2,417,854
Public transportation	67,862	62,310	-	(5,552)	-	(5,552)
Total governmental activities	<u>6,702,783</u>	<u>1,122,201</u>	<u>3,669,896</u>	<u>(919,437)</u>	<u>-</u>	<u>(919,437)</u>
Business-type activities:						
Sewer	1,332,463	439,794	-	-	91,395	91,395
Water	1,368,686	16,627	-	-	86,431	86,431
Sanitary Landfill	100,365	72,782	-	-	(27,583)	(27,583)
Total business-type activities	<u>2,801,514</u>	<u>456,421</u>	<u>-</u>	<u>-</u>	<u>150,243</u>	<u>150,243</u>
Total primary government	<u>\$9,504,297</u>	<u>\$1,578,622</u>	<u>\$3,669,896</u>	<u>(919,437)</u>	<u>150,243</u>	<u>(769,194)</u>
General revenues:						
Taxes:						
Property				944,784	-	944,784
Sales and use				2,306,552	-	2,306,552
Other				1,370,059	-	1,370,059
Investment earnings				276,066	178,317	454,383
Other				225,486	(3,453,488)	(3,228,002)
Transfers				(1,555,126)	1,555,126	-
Total general revenues and transfers				<u>3,567,821</u>	<u>(1,720,045)</u>	<u>1,847,776</u>
Change in net assets				<u>2,648,384</u>	<u>(1,569,802)</u>	<u>1,078,582</u>
Net assets, beginning as previously reported				<u>14,331,404</u>	<u>15,729,700</u>	<u>30,061,104</u>
Prior period adjustment				<u>(72,812)</u>	<u>-</u>	<u>(72,812)</u>
Net assets, as restated				<u>14,258,592</u>	<u>15,729,700</u>	<u>29,988,292</u>
Net assets, ending				<u>\$ 16,906,976</u>	<u>\$14,159,898</u>	<u>\$31,066,874</u>

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

City of Yreka
Balance Sheet
and

Reconciliation of Total Governmental Fund Balance to the Statement of Net Assets - Governmental Activities
Governmental Funds
June 30, 2008

	General Fund	Special Grant Fund	Special Revenue Fund	Streets and Roads Fund	Total Governmental Funds
ASSETS					
Cash and investments	\$ 4,934,449	\$ -	\$ 183,285	\$ 1,161,994	\$ 6,279,728
Receivables (net of allowance for doubtful accounts, where applicable):					
Loans	-	349,533	-	-	349,533
Intergovernmental	42,743	1,008,602	-	195,315	1,246,660
Accounts	5,235	175	27,972	-	33,382
Taxes	443,863	-	-	-	443,863
Interest	13,407	2,148	2,932	7,213	25,700
Prepaid expenses	606	-	-	-	606
Inventory	-	2,245	-	-	2,245
Due from other funds	370,018	8,750	-	-	378,768
Total assets	<u>\$ 5,810,321</u>	<u>\$ 1,371,453</u>	<u>\$ 214,189</u>	<u>\$ 1,364,522</u>	<u>\$ 8,760,485</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 68,032	\$ 395,324	\$ 11,333	\$ 47,782	\$ 522,471
Payroll payable	183,267	8,577	9	17,716	209,569
Accrued vacation	254,894	3,550	-	-	258,444
Deferred revenue	750	620,125	-	400,000	1,020,875
Due to other funds	-	372,708	-	-	372,708
Total liabilities	<u>506,943</u>	<u>1,400,284</u>	<u>11,342</u>	<u>465,498</u>	<u>2,384,067</u>
Fund balances:					
Reserved for:					
Noncurrent loans receivables	-	349,533	-	-	349,533
Capital outlays	1,921,997	-	-	-	1,921,997
Total	<u>1,921,997</u>	<u>349,533</u>	<u>-</u>	<u>-</u>	<u>2,271,530</u>
Unreserved:					
Designated for:					
Streets and sidewalks	-	-	-	899,024	899,024
Capital Improvement	211,699	-	162,126	-	373,825
Fire protection	-	-	244,176	-	244,176
Grant projects	81,199	-	-	-	81,199
Other	591,499	-	-	-	591,499
Total	<u>884,397</u>	<u>-</u>	<u>406,302</u>	<u>899,024</u>	<u>2,189,723</u>
Undesignated	2,496,984	(378,364)	(203,455)	-	1,915,165
Total fund balance	<u>5,303,378</u>	<u>(28,831)</u>	<u>202,847</u>	<u>899,024</u>	<u>6,376,418</u>
Total liabilities and fund balance	<u>\$ 5,810,321</u>	<u>\$ 1,371,453</u>	<u>\$ 214,189</u>	<u>\$ 1,364,522</u>	<u>\$ 8,760,485</u>
Total governmental fund balance, as above					\$ 6,376,418
Amounts reported for governmental activities in the statement of net assets are different because:					
Capital assets used in governmental activities are not financial resources and therefore not reported in the funds					13,851,498
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds					(3,320,940)
Net assets of governmental activities					<u>\$ 16,906,976</u>

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

City of Yreka
Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Funds
For The Year Ended June 30, 2008

	General Fund	Special Grant Fund	Special Revenue Fund	Streets and Roads Fund	Total Governmental Funds
REVENUES					
Property taxes	\$ 944,787	\$ -	\$ -	\$ -	\$ 944,787
Sales and use taxes	2,306,552	-	-	-	2,306,552
Transient occupancy taxes	592,729	-	-	-	592,729
Assessment	-	-	203,680	-	203,680
Franchise and fees	234,541	-	-	-	234,541
Licenses and permits	204,388	-	55,098	-	259,486
Intergovernmental revenues	683,022	3,964,753	-	357,230	5,005,005
Charges for services	96,266	-	112,856	-	209,122
Indirect cost allocation	241,775	-	-	-	241,775
Fines, forfeitures and penalties	9,191	-	-	67,995	77,186
Use of money and property	153,705	67,984	15,041	39,336	276,066
Grants and donations	64,162	111,025	-	-	175,187
In-kind	1,096	153,595	-	-	154,691
Other	225,486	-	-	-	225,486
Total revenues	<u>5,757,700</u>	<u>4,297,357</u>	<u>386,675</u>	<u>464,561</u>	<u>10,906,293</u>
EXPENDITURES					
Current:					
City council, administrator, and clerk	341,387	-	-	-	341,387
General government	530,385	-	902	-	531,287
Planning and development	413,076	188,174	-	-	601,250
Parks and recreation	560,364	356,319	-	-	916,683
Public works administration	140,353	43,549	-	-	183,902
Public works maintenance	208,891	-	-	-	208,891
Police protection	2,116,239	-	-	-	2,116,239
Fire protection	257,449	-	11,612	-	269,061
Senior nutrition and transportation	-	368,269	-	-	368,269
Streets and sidewalks	175,235	-	-	411,331	586,566
Public transportation	-	5,552	-	62,310	67,862
Capital outlay	102,126	3,583,819	38,015	9,716	3,733,676
Debt service:					
Principal	25,277	-	271,029	-	296,306
Interest	211	-	46,297	-	46,508
Total expenditures	<u>4,870,993</u>	<u>4,545,682</u>	<u>367,855</u>	<u>483,357</u>	<u>10,267,887</u>
Excess of revenues over (under) expenditures	<u>886,707</u>	<u>(248,325)</u>	<u>18,820</u>	<u>(18,796)</u>	<u>638,406</u>
OTHER FINANCING SOURCES (USES)					
Proceeds from long-term debt	-	-	2,500,000	-	2,500,000
Operating transfers in	1,000,000	257,863	-	-	1,257,863
Operating transfers out	(138,291)	-	(2,645,205)	(29,493)	(2,812,989)
Total other financing sources (uses)	<u>861,709</u>	<u>257,863</u>	<u>(145,205)</u>	<u>(29,493)</u>	<u>944,874</u>
Excess of revenues and other sources over (under) expenditures and other uses	<u>1,748,416</u>	<u>9,538</u>	<u>(126,385)</u>	<u>(48,289)</u>	<u>1,583,280</u>
FUND BALANCE					
Beginning of year, as previously reported	3,554,962	(38,369)	204,232	947,313	4,668,138
Prior period adjustment	-	-	125,000	-	125,000
Beginning of year as restated	<u>3,554,962</u>	<u>(38,369)</u>	<u>329,232</u>	<u>947,313</u>	<u>4,793,138</u>
End of the year	<u>\$ 5,303,378</u>	<u>\$ (28,831)</u>	<u>\$ 202,847</u>	<u>\$ 899,024</u>	<u>\$ 6,376,418</u>

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

City of Yreka
Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balance to the Statement of Activities
Governmental Funds
For The Year Ended June 30, 2008

Change in fund balance, governmental funds \$1,583,280

Amounts reported for governmental activities in the statement of activities
is different because:

Governmental funds report capital outlays as expenditures. However, in the
Statement of Activities, the cost of those assets is allocated over their
estimated useful lives and reported as depreciation expense. This
is the amount by which capital outlay (\$3,733,676) exceeds
depreciation expense (\$464,878) in the current period. 3,268,798

Government funds report repayment of long-term debt as an expenditure,
but the repayment reduces long-term liabilities in the Statement of Net
Assets and does not affect the Statement of Activities. 296,306

The transfer of the landfill to Siskiyou County generated proceeds of \$2,500,000
on the Statement of Revenues, Expenditures and Changes in Fund Balance,
but is an increase in long-term liabilities in the Statement of Net Assets. (2,500,000)

Change in net assets of governmental activities \$2,648,384

City of Yreka
Statement of Net Assets
Proprietary Funds
June 30, 2008

	Enterprise			Total
	Sewer Fund	Water Fund	Sanitary Landfill Fund	
ASSETS				
Current assets:				
Cash and investments	\$ 2,710	\$3,963,070	\$ -	\$ 3,965,780
Receivables (net of allowances for bad debts, where applicable):				
Trade accounts	91,485	176,280	-	267,765
Intergovernmental	414,704	-	-	414,704
Due from other funds	-	2,690	-	2,690
Prepaid expense	-	75	-	75
Total current assets	<u>508,899</u>	<u>4,142,115</u>	<u>-</u>	<u>4,651,014</u>
Restricted assets:				
Cash and investments	<u>49,183</u>	<u>-</u>	<u>-</u>	<u>49,183</u>
Capital assets:				
Non-depreciable	908,317	171,026	-	1,079,343
Depreciable, net	<u>8,201,480</u>	<u>2,534,605</u>	<u>-</u>	<u>10,736,085</u>
Total capital assets, net	<u>9,109,797</u>	<u>2,705,631</u>	<u>-</u>	<u>11,815,428</u>
Total assets	<u>9,667,879</u>	<u>6,847,746</u>	<u>-</u>	<u>16,515,625</u>
LIABILITIES				
Current liabilities:				
Accounts payable	53,332	12,575	-	65,907
Payroll payable	28,245	40,639	-	68,884
Due to other funds	4,375	4,375	-	8,750
Current portion of long-term debt	<u>63,288</u>	<u>197,809</u>	<u>-</u>	<u>261,097</u>
Total current liabilities	<u>149,240</u>	<u>255,398</u>	<u>-</u>	<u>404,638</u>
Long-term liabilities:				
Long-term debt, net of current portion	<u>1,749,182</u>	<u>201,907</u>	<u>-</u>	<u>1,951,089</u>
Total liabilities	<u>1,898,422</u>	<u>457,305</u>	<u>-</u>	<u>2,355,727</u>
NET ASSETS				
Invested in capital assets, net of related debt	7,297,327	2,305,915	-	9,603,242
Restricted, for debt service, expendable	49,183	-	-	49,183
Unrestricted	<u>422,947</u>	<u>4,084,526</u>	<u>-</u>	<u>4,507,473</u>
Total net assets	<u>\$7,769,457</u>	<u>\$6,390,441</u>	<u>\$ -</u>	<u>\$14,159,898</u>

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

City of Yreka
Statement of Revenues, Expenses and Changes in Retained Earnings
Proprietary Funds
For The Year Ended June 30, 2008

	Enterprise			Total
	Sewer Fund	Water Fund	Sanitary Landfill Fund	
<u>OPERATING REVENUES</u>				
User fees and charges	\$ 984,064	\$1,435,143	\$ 72,782	\$ 2,491,989
Other	-	3,347	-	3,347
Total operating revenues	<u>984,064</u>	<u>1,438,490</u>	<u>72,782</u>	<u>2,495,336</u>
<u>OPERATING EXPENSES</u>				
Cost of power and water	100,320	194,415	-	294,735
Maintenance, operations and administration	908,207	922,973	49,790	1,880,970
Depreciation and amortization	260,702	240,970	47,081	548,753
Total operating expenses	<u>1,269,229</u>	<u>1,358,358</u>	<u>96,871</u>	<u>2,724,458</u>
Operating income (loss)	<u>(285,165)</u>	<u>80,132</u>	<u>(24,089)</u>	<u>(229,122)</u>
<u>OTHER REVENUES (EXPENSES)</u>				
Intergovernmental revenues	439,794	16,627	-	456,421
Loss on asset disposals	-	-	(3,453,488)	(3,453,488)
Interest earned	8,294	170,023	-	178,317
Interest expense	(63,234)	(10,328)	(3,494)	(77,056)
Total other revenues (expenses)	<u>384,854</u>	<u>176,322</u>	<u>(3,456,982)</u>	<u>(2,895,806)</u>
<u>OTHER FINANCING SOURCES (USES)</u>				
Operating transfers in	-	3,592	2,645,205	2,648,797
Operating transfers out	(89,296)	(4,375)	(1,000,000)	(1,093,671)
Total other financing sources (uses)	<u>(89,296)</u>	<u>(783)</u>	<u>1,645,205</u>	<u>1,555,126</u>
Change in net assets	10,393	255,671	(1,835,866)	(1,569,802)
<u>NET ASSETS</u>				
Beginning of year	<u>7,759,064</u>	<u>6,134,770</u>	<u>1,835,866</u>	<u>15,729,700</u>
End of the year	<u>\$7,769,457</u>	<u>\$6,390,441</u>	<u>\$ -</u>	<u>\$14,159,898</u>

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

City of Yreka
Statement of Cash Flows
Proprietary Funds
For The Year Ended June 30, 2008

	Enterprise			Total
	Sewer Fund	Water Fund	Sanitary Landfill Fund	
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ 982,340	\$1,438,926	\$ 226,873	\$ 2,648,139
Payments to suppliers	(903,777)	(884,648)	(78,736)	(1,867,161)
Payments to employees	(211,839)	(295,659)	(16,755)	(524,253)
Net cash provided (used) by operating activities	<u>(133,276)</u>	<u>258,619</u>	<u>131,382</u>	<u>256,725</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES				
Intergovernmental revenues	530,447	16,627	-	547,074
Interfund transfers and payments	(49,325)	902	(854,795)	(903,218)
Net cash provided (used) by non-capital financing activities	<u>481,122</u>	<u>17,529</u>	<u>(854,795)</u>	<u>(356,144)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from sale of fixed assets	-	-	397,510	397,510
Purchase of fixed assets	(468,285)	(114,453)	-	(582,738)
Principal payments on debt	(61,962)	(193,810)	(104,296)	(360,068)
Interest payments on debt	(93,673)	(10,328)	(3,494)	(107,495)
Net cash provided (used) by investing activities	<u>(623,920)</u>	<u>(318,591)</u>	<u>289,720</u>	<u>(652,791)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest income received	8,294	170,023	-	178,317
Net increase (decrease) in cash	(267,780)	127,580	(433,693)	(573,893)
CASH				
Beginning of the year	319,673	3,835,490	433,693	4,588,856
End of the year	<u>\$ 51,893</u>	<u>\$3,963,070</u>	<u>\$ -</u>	<u>\$ 4,014,963</u>
Comprised of:				
Unrestricted	\$ 2,710	\$3,963,070	\$ -	\$ 3,965,780
Restricted	49,183	-	-	49,183
Total	<u>\$ 51,893</u>	<u>\$3,963,070</u>	<u>\$ -</u>	<u>\$ 4,014,963</u>
Reconciliation of operating income (loss) to cash provided (used) by operating activities:				
Operating income (loss)	\$ (285,165)	\$ 80,132	\$ (24,089)	\$ (229,122)
Adjustments to reconcile operating income (loss) to cash provided (used) by operating activities:				
Depreciation and amortization	260,702	240,970	47,081	548,753
(Increase) decrease in trade accounts receivable	(1,724)	436	154,091	152,803
(Increase) in prepaid expenses	-	(75)	-	(75)
(Decrease) in accounts payable	(115,084)	(66,472)	(33,016)	(214,572)
Increase (decrease) in payroll payable	7,995	3,628	(12,685)	(1,062)
Net cash provided (used) by operating activities	<u>\$ (133,276)</u>	<u>\$ 258,619</u>	<u>\$ 131,382</u>	<u>\$ 256,725</u>

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Yreka, California (hereafter "the City") operates under a City Manager – City Council form of government and provides the following services: public safety, streets and roads, water and sewer, culture and recreation, public improvements, planning and zoning, and general administrative services.

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

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

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

B. Basis of Presentation

Government-wide Financial Statements:

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

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

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

Fund Financial Statements:

Fund financial statements of the City are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into three major

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

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

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

The funds of the City are described below:

Major Governmental Funds:

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.

Special Revenues Fund – This fund is used to account for revenues and expenditures of the fire assessments, landfill assessments and development fees.

Special Grants Fund – This fund is used to account for various federal and state grants which must be spent for infrastructure capital outlays, such as streets and parks, and economic and community development.

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

Major Proprietary Funds:

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

The Water Fund – This fund is used to account for the treatment and 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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Measurement Focus and Basis of Accounting

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

Measurement Focus:

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

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

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

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

Fiduciary (agency) funds are not involved in the measurement of results of operations; therefore, measurement focus is not applicable to them.

Basis of Accounting:

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

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

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

D. Assets, Liabilities, Net Assets or Fund Equity

Cash and Cash Equivalents:

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments:

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

Receivables:

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

Property Taxes:

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

Inventory:

Inventory is comprised of food and supplies for the Senior Nutrition Program. The ending inventory is stated at the lower of cost or market using the first-in, first-out basis.

Interfund Receivables and Payables:

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

Restricted Assets:

Certain resources received by a bequest are classified as restricted assets on the balance sheet because their use is limited by the trust document for capital outlays, or by loan agreements for debt service.

Capital Assets:

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

In the government-wide financial statements, property, plant, equipment and infrastructure assets with a cost, as defined below, of \$50,000 or more are accounted for as capital assets. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available, except donated capital assets are recorded at their estimated fair market value at the date of donation. Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Buildings and building improvements	50 years
Land improvements	20 to 30 years
Equipment	3 to 20 years
Infrastructure	15 to 50 years
Water and sewer mains	50 years
Vehicles	5 to 10 years

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

Compensated Absences:

Vacation pay and compensated time off is vested to the employees as it accrues and is payable upon separation of service. Sick leave does not vest to the employees and is paid only when sick leave is taken. Therefore, only vacation pay and compensated time off have been accrued in the accompanying financial statements.

Deferred Revenue

Deferred revenue represents monies received that has not yet been expended by the City and is not earned (as revenue) until it is properly expended.

Equity Classifications:

In the government-wide financial statements, equity is classified as net assets and displayed as follows:

Invested in capital assets, net of related debt, which consist of capital assets net of accumulated depreciation and reduced by any outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction or improvement of those assets.

Restricted net assets, which consists of net assets with constraints placed on the use either by external groups such as creditors, grantors, contributors, or laws or regulations of other governments, or by law through constitutional provisions or enabling legislation.

Unrestricted net assets, which consists of all other net assets that do not meet the definition of restricted or invested in capital assets, net of related debt.

In the fund financial statements, governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further split between designated and undesignated. Proprietary fund equity is classified the same as in the government-wide financial statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Revenues, Expenditures and Expenses

Operating Revenues and Expenses:

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

Expenditures/Expenses:

In the government-wide financial statements, expenses are classified by function for both governmental and business-type activities.

In the fund financial statements, expenditures are classified by character (current, debt service or capital outlay) for governmental funds, and by operating or nonoperating classifications for proprietary funds.

In the fund financial statements, governmental funds report expenditures of financial resources. Proprietary funds report expenses relating to use of economic resources.

F. Estimates

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

G. Budgets

The 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.

The budget is adopted by the City Counsel 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 Counsel 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.

NOTE 2 CASH AND INVESTMENTS

As of June 30, 2008, cash and investments were reported in the accompanying financial statements as follows:

Governmental activities	\$ 6,279,728
Business-type activities	<u>4,014,963</u>
Total cash and investments	<u>\$10,294,691</u>

NOTE 2 CASH AND INVESTMENTS (continued)

In the governmental activities statement of net assets, \$1,904,102 of cash is reserved for capital outlays per the trust document that governs the bequest of these funds to the City. In the business-type activities statement of net assets, \$49,183 of cash is reserved for debt service per the bond agreement.

The City of Yreka maintains a cash and investment pool that is available for use for all funds. Each fund type's position in the pool is reported on the combined balance sheet as cash and investments. The City has adopted an investment policy, which authorizes it to invest in various investments.

Deposits:

At June 30, 2008, the carrying amount of the City's deposits was \$520,844 and the bank balance was \$867,194. The difference represents outstanding checks.

The California Government Code requires California banks and savings and loan associations to secure a City's deposits by pledging government securities with a value of 110% of a City's deposits. California law also allows financial institutions to secure a City's deposits by pledging first trust deed mortgage notes having a value of 150% of a City's total deposits. The City Treasurer may waive the collateral requirement for deposits that are fully insured up to \$100,000 by the FDIC. The collateral for deposits in federal and state chartered banks is held in safekeeping by an authorized Agent of Depository recognized by the State of California Department of Banking. The collateral for deposits with savings and loan associations is generally held in safekeeping by the Federal Home Loan Bank in San Francisco, California as an Agent of Depository. These securities are physically held in an undivided pool for all California public agency depositors. Under Government Code Section 53655, the placement of securities by a bank or savings and loan association with an "Agent of Depository" has the effect of perfecting the security interest in the name of the local governmental agency. Accordingly, all collateral held by California Agents of Depository are considered to be held for, and in the name of, the local governmental agency.

Investments:

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

- U.S. Treasury Obligations (bills, notes, and bonds)
- U.S. Government Agency Securities and Instrumentality's of Government Sponsored Corporations
- Banker's Acceptances
- Commercial paper
- Repurchase Agreements
- Time Deposits and Certificates of deposit
- Negotiable Certificates of deposit
- Local Agency Investment Fund (State Pool)

Investments Authorized by Debt Agreements:

The above investments do not address investment of debt proceeds held by a bond trustee. Investments of debt proceeds held by a bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code of the City's investment policy.

NOTE 2 CASH AND INVESTMENTS (continued)

Investments in State Investment Pool:

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code Section 16429 under the oversight of the Treasurer of the State of California. LAIF is overseen by the Local Agency Investment Advisory Board, which consists of five members, in accordance with State statute. The State Treasurer's Office audits the fund annually. The fair value of the position in the investment pool is the same as the value of the pool shares.

GASB Statement No. 31:

The City adopted GASBE Statement No. 31, Accounting and Financial Reporting for certain investments and for External Investment Pools, as of July 1, 1997. GASB Statement No. 31 establishes fair value standards for investments in participating interest earning investment contracts, external investment pools, equity securities, option contracts, shock warrants and stock rights that have readily determinable fair values. Accordingly, the City reports its investments at the fair value in the balance sheet. All investment income, including changes in the fair value of investments, is recognized as revenue in the operating statement.

Credit Risk:

The City's investment policy limits investments in medium term notes (MTN's) to those rated "A" or higher by Standard and Poor's (S&P) or by Moody's. As of June 30, 2008, the City had no medium term notes. At June 30, 2008, the City's Federal Agency investments were rated AAA by S&P.

All securities were investment grade and were legal under State and City law. Investments in U.S. government securities are not considered to have credit risk and, therefore, their credit quality is not disclosed.

As of June 30, 2008, the City's investments in external investment pools, other than LAIF, were with Citi Smith Barney.

Custodial Credit Risk:

The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party.

As of June 30, 2008, none of the City's deposits or investments were exposed to custodial credit risk.

Concentration of Credit Risk:

The City's investment policy states the City operates its investment pool with many state and self-imposed constraints. It does not buy stocks and it does not speculate. Assets shall be diversified to eliminate the risk of loss resulting from over concentration of assets in a specific maturity, a specific issuer, or a specific class of securities.

The City will diversify its investments by security type, institutions and maturity/call dates. The City's investment policy states that no more than 50% of the City's total investment portfolio shall be invested in a single security type or with a single financial institution. The only exception to these maturity limits shall be the investment of U.S. Treasury securities and authorized pools. Unless matched to a specific cash flow, the City shall not directly invest in securities maturing more than five years from the date of purchase.

City Yreka, California
Notes To Basic Financial Statements
June 30, 2008

NOTE 2 CASH AND INVESTMENTS (continued)

As of June 30, 2008, in accordance with GASB 40 requirements, the City is exposed to concentration of credit risk whenever they have invested more than 5% of their total investments in any one issuer. As of June 30, 2008, the City has not invested more than 5% of its portfolio in any one issuer. Investments guaranteed by the U.S. government and investments in mutual funds and external investment pools are excluded from this requirement.

Interest Rate Risk:

The City's investment policy does not limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The City has elected to use the segmented time distribution method of disclosure for its interest rate risk.

	6 Months or Less	6 Months to 1 Year	1 to 3 Years	More than 5 Years	Total	Fair Value
Local Agency Investment Fund	\$ 8,687,214	\$ -	\$ -	\$ -	\$ 8,687,214	\$ 8,687,214
Federal Home Loan Bank	-	-	300,000	200,000	500,000	500,000
Bank Certificates of Deposit	286,000	209,017	93,000	-	588,017	588,017
Total	<u>\$ 8,973,214</u>	<u>\$ 209,017</u>	<u>\$ 393,000</u>	<u>\$ 200,000</u>	\$ 9,775,231	<u>\$ 9,775,231</u>
Bank demand deposits					<u>519,460</u>	
Total cash and investments					<u>\$ 10,294,691</u>	

Federal Home Loan Bank investments are subject to being called, and therefore, actual maturity dates may differ.

NOTE 3 LOANS RECEIVABLE

The City had the following loan receivable as of June 30, 2008:

Economic development loan program: \$ 349,533, with no allowance for uncollectible accounts.

City Yreka, California
Notes To Basic Financial Statements
June 30, 2008

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

The following is a summary of the interfund receivables and payables at June 30, 2008:

Due from other funds	Due to other funds			Total
	Special Grant Fund	Sewer Fund	Water Fund	
General Fund	\$ 370,018	\$ -	\$ -	\$ 370,018
Special Grant Fund	-	4,375	4,375	8,750
Water Fund	2,690	-	-	2,690
	<u>\$ 372,708</u>	<u>\$ 4,375</u>	<u>\$ 4,375</u>	<u>\$ 381,458</u>

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

The following is a summary of operating transfers in/out:

Governmental Funds:		Transfers In	Transfers Out
General Fund:			
	From Sanitary Landfill Fund for amounts used for escrow deposit.	\$ 1,000,000	\$ -
	General Funds share of expenses incurred by Water Fund (\$3,592), and expenses incurred by the Special Grants Funds (\$134,699).	-	138,291
Special Grants Fund:			
	For the General Fund's portion of expenses (\$134,699), Streets and Road Fund portion of expenses (\$29,493), Sewer Fund's portion of expenses (\$89,296) and Water Fund's portion of expenses (\$4,375).	257,863	-
Special Revenue Fund:			
	To transfer liabilities of Sanitary Landfill Fund.	-	2,645,205
Streets and Roads Fund:			
	To transfer this fund's share of expenditures incurred by the Special Grants Fund.	-	29,493
		<u>\$ 1,257,863</u>	<u>\$ 2,812,989</u>
Proprietary Funds:			
Sewer Fund:			
	To transfer Sewer Fund's share of expenses incurred by the Special Grants Fund.	\$ -	\$ 89,296
Water Fund:			
	Reimbursement from General Fund for its share of costs.	3,592	-
	To transfer Water Fund's share of expenses incurred by the Special Grants Fund.	-	4,375
Sanitary Landfill Fund:			
	Transfer liabilities associated with sale of landfill to county.	2,645,205	-
	To General Fund for amounts used for escrow deposit.	-	1,000,000
		<u>\$ 2,648,797</u>	<u>\$ 1,093,671</u>

City Yreka, California
Notes To Basic Financial Statements
June 30, 2008

NOTE 5 CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2008 was as follows:

	June 30, 2007	Additions and Transfers	Retirements and Transfers	June 30, 2008
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 1,606,117	\$ 96,197	\$ -	\$ 1,702,314
Construction in progress	1,906,026	2,020,640	(1,460,421)	2,466,245
Total capital assets, not being depreciated:	<u>3,512,143</u>	<u>2,116,837</u>	<u>(1,460,421)</u>	<u>4,168,559</u>
Capital assets, being depreciated:				
Buildings	3,963,149	-	-	3,963,149
Machinery and equipment	3,181,045	577,782	-	3,758,827
Infrastructure	19,053,925	2,499,478	-	21,553,403
Total capital assets, being depreciated	<u>26,198,119</u>	<u>3,077,260</u>	<u>-</u>	<u>29,275,379</u>
Less accumulated depreciation for:				
Buildings	2,376,634	91,302	-	2,467,936
Machinery and equipment	1,820,052	172,163	-	1,992,215
Infrastructure	14,930,876	201,413	-	15,132,289
Total accumulated depreciation	<u>19,127,562</u>	<u>464,878</u>	<u>-</u>	<u>19,592,440</u>
Total capital assets, being depreciated, net	<u>7,070,557</u>	<u>2,612,382</u>	<u>-</u>	<u>9,682,939</u>
Subtotal, governmental activities	<u>10,582,700</u>	<u>4,729,219</u>	<u>(1,460,421)</u>	<u>13,851,498</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land	369,922	-	(116,750)	253,172
Construction in progress	1,617,186	462,300	(1,253,315)	826,171
Total capital assets, not being depreciated	<u>1,987,108</u>	<u>462,300</u>	<u>(1,370,065)</u>	<u>1,079,343</u>
Capital assets, being depreciated:				
Utility plant	13,448,842	1,118,241	-	14,567,083
Buildings	6,994,027	-	-	6,994,027
Machinery and equipment	4,564,064	255,512	(1,044,576)	3,775,000
Total capital assets, being depreciated	<u>25,006,933</u>	<u>1,373,753</u>	<u>(1,044,576)</u>	<u>25,336,110</u>
Less accumulated depreciation for:				
Utility plant	8,931,998	263,315	-	9,195,313
Buildings	2,300,462	190,246	-	2,490,708
Machinery and equipment	3,629,140	95,192	(810,328)	2,914,004
Total accumulated depreciation	<u>14,861,600</u>	<u>548,753</u>	<u>(810,328)</u>	<u>14,600,025</u>
Total capital assets, being depreciated, net	<u>10,145,333</u>	<u>825,000</u>	<u>(234,248)</u>	<u>10,736,085</u>
Subtotal, business-type activities	<u>12,132,441</u>	<u>1,287,300</u>	<u>(1,604,313)</u>	<u>11,815,428</u>
Total, government-wide	<u>\$ 22,715,141</u>	<u>\$ 6,016,519</u>	<u>\$ (3,064,734)</u>	<u>\$ 25,666,926</u>

City Yreka, California
Notes To Basic Financial Statements
June 30, 2008

NOTE 5 CAPITAL ASSETS (continued)

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
General government	\$ 35,784
Planning and development	17,602
Parks and recreation	78,548
Police protection	21,349
Fire protection	73,932
Senior nutrition and transportation	4,187
Streets and sidewalks	<u>233,476</u>
 Total depreciation expense – governmental activities	 <u>\$464,878</u>

NOTE 6 LONG TERM DEBT

The following is a summary of governmental activities long-term liabilities activity during the year ended June 30, 2008:

	June 30, 2007	Additions	Reductions	June 30, 2008	Current Portion
Bonds and notes payable:					
LaFrance Fire Truck	\$ 25,277	\$ -	\$ 25,277	\$ -	\$ -
Landfill Sale	-	2,500,000	175,000	2,325,000	49,604
Fire Equipment	1,091,969	-	96,029	995,940	92,887
Total governmental activities long-term liabilities	<u>\$1,117,246</u>	<u>\$2,500,000</u>	<u>\$ 296,306</u>	<u>\$3,320,940</u>	<u>\$142,491</u>

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

Interest rate	Landfill Sale		Fire Equipment		Total	
	5.39%		4.50%			
	Principal	Interest	Principal	Interest	Principal	Interest
Year Ended June 30, ;						
2009	49,604	125,396	92,887	42,917	142,491	168,313
2010	52,280	122,720	97,154	38,650	149,434	161,370
2011	55,099	119,901	101,617	34,187	156,716	154,088
2012	58,071	116,929	106,286	29,518	164,357	146,447
2013	61,203	113,797	111,168	24,636	172,371	138,433
2014-2018	359,236	515,764	486,828	45,071	846,064	560,835
2019-2023	467,141	407,859	-	-	467,141	407,859
2024-2028	607,452	267,548	-	-	607,452	267,548
2029-2033	614,914	85,086	-	-	614,914	85,086
Total	<u>\$ 2,325,000</u>	<u>\$ 1,875,000</u>	<u>\$ 995,940</u>	<u>\$ 214,979</u>	<u>\$ 3,320,940</u>	<u>\$ 2,089,979</u>

City Yreka, California
Notes To Basic Financial Statements
June 30, 2008

NOTE 6 LONG TERM DEBT (continued)

The following is a summary of business-type activities long-term liabilities activity during the year ended June 30, 2008:

	<u>June 30, 2007</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2008</u>	<u>Current Portion</u>
Bonds and notes payable:					
Certificates of Participation	\$ 879,000	\$ -	\$ 11,000	\$ 868,000	\$ 11,000
State Water Resources	995,432	-	50,962	944,470	52,288
Total sewer fund	<u>1,874,432</u>	<u>-</u>	<u>61,962</u>	<u>1,812,470</u>	<u>63,288</u>
Dept of Water Resources	491,980	-	159,961	332,019	163,960
Dept of Water Resources	101,546	-	33,849	67,697	33,849
Total water fund	<u>593,526</u>	<u>-</u>	<u>193,810</u>	<u>399,716</u>	<u>197,809</u>
Caperpillar Scrapper	87,136	-	87,136	-	-
Water Truck	17,160	-	17,160	-	-
Total sanitary landfill fund	<u>104,296</u>	<u>-</u>	<u>104,296</u>	<u>-</u>	<u>-</u>
Total business-type activities long term liabilities	<u>\$ 2,572,254</u>	<u>\$ -</u>	<u>\$ 360,068</u>	<u>\$ 2,212,186</u>	<u>\$ 261,097</u>

Payments on the bonds and notes payable that pertain to the City's business-type activities are made by the Water and Sewer Funds.

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

Interest rate	<u>USDA Cert of Part</u>		<u>State Water Resources</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
Year Ended June 30, ;				
2009	11,000	38,813	52,288	24,556
2010	12,000	38,295	53,647	23,197
2011	12,000	37,755	55,042	21,802
2012	13,000	37,193	56,473	20,371
2013	13,000	36,607	57,941	18,903
2014-2018	77,000	173,227	313,102	71,117
2019-2023	96,000	153,810	355,977	28,240
2024-2028	120,000	129,603	-	-
2029-2033	149,000	99,563	-	-
2033-2038	185,000	62,032	-	-
2039-2043	180,000	16,650	-	-
Total	<u>\$ 868,000</u>	<u>\$ 823,548</u>	<u>\$ 944,470</u>	<u>\$ 208,186</u>

City Yreka, California
Notes To Basic Financial Statements
June 30, 2008

NOTE 6 LONG TERM DEBT (continued)

Interest rate Year Ended June 30, ;	Dept of Water Resources		Dept of Water Resources	
	2.50%		2.50%	
	Principal	Interest	Principal	Interest
2009	\$ 163,960	\$ 6,256	\$ 33,849	\$ -
2010	168,059	2,118	33,848	-
2011	-	-	-	-
2012	-	-	-	-
2013	-	-	-	-
2014-2018	-	-	-	-
2019-2023	-	-	-	-
2024-2028	-	-	-	-
2029-2033	-	-	-	-
Total	\$ 332,019	\$ 8,374	\$ 67,697	\$ -

Year Ended June 30, ;	Total	
	Principal	Interest
2009	\$ 261,097	\$ 69,625
2010	267,554	63,610
2011	67,042	59,557
2012	69,473	57,564
2013	70,941	55,510
2014-2018	390,102	244,344
2019-2023	451,977	182,050
2024-2028	120,000	129,603
2029-2033	149,000	99,563
2034-2038	185,000	62,032
2039-2043	180,000	16,650
Total	\$ 2,212,186	\$ 1,040,108

NOTE 7 PENSION PLAN

Plan Description – The City's defined benefit pension plan, City of Yreka Pension Plan ("the Plan") provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Plan is part of the Public Agency portion of the California Public Retirement System (CalPERS), a cost-sharing multiple-employer plan administered by CalPERS, which acts as a common investment and administrative agent for participating public employers within the State of California. A menu of benefit provisions as well as other requirements are established by State Statutes within the Public Employees' Retirement Law. The City selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through local resolutions. CalPERS issues a separate comprehensive annual financial report. Copies of the CalPERS annual financial report may be obtained from the CalPERS Fiscal Services Division, PO Box 942703, Sacramento, CA 94229-2703 (1.888.CALPERS).

City Yreka, California
Notes To Basic Financial Statements
June 30, 2008

Funding Policy – Active plan members of the Plan are required to contribute 9.00% (safety) or 7.00% (miscellaneous) of their annual covered salary. The City has elected to pay the employees' contribution. The City is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rate for the year ended June 30, 2008 was 11.628% (safety) and 7.677% (miscellaneous). The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS.

Annual Pension Cost – For the year ended June 30, 2008 the City's annual pension cost was \$258,726, which is also the amount the City contributed. The required contribution for the year ended June 30, 2008 was determined as part of the June 30, 2005 actuarial valuation using the entry age normal actuarial cost method with the contributions determined as a percentage of pay. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses); (b) projected salary increases that vary by duration of service ranging from 3.25% to 14.45%, and: (c) 3.25% cost-of-living adjustment. Both (a) and (b) include an inflation component of 3.00%. The actuarial value of the Plan's assets was determined using a technique that smoothes the effect of short-term volatility in the market value of investments over a fifteen year smoothed market method. The Plan's unfunded actuarial accrued liability (or excess assets) is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2005 was 30 years.

Three Year Trend Information:

	June 30, 2008	June 30, 2007	June 30, 2006
Annual Pension Cost (APC)	\$ 455,080	\$ 421,580	\$ 399,620
Percentage APC contributed	100%	100%	100%
Net Pension Obligation	\$ -	\$ -	\$ -

During the year ended June 30, 2003, CalPERS grouped all small employers (defined as those with less than 100 members in the Plan) into a risk pool. Therefore, information for the years ended June 30, 2007 and 2006 (the latest available) are for the pool as a whole. The following represents public safety employees:

<u>Schedule of funding progress:</u>	<u>June 30, 2007</u>	<u>June 30, 2006</u>	<u>June 30, 2005</u>
Actuarial value of assets	\$ 403,484,775	\$ 460,948,462	\$ 646,358,708
Actuarial accrued liability (AAL) – entry age	\$ 462,354,459	\$ 534,135,011	\$ 742,247,338
Unfunded (overfunded) AAL (UAAL)	\$ 58,869,684	\$ 73,186,549	\$ 95,888,630
Funded ratio	87.3%	86.3%	87.1%
Covered payroll	\$ 72,308,836	\$ 84,179,637	\$ 115,062,820
UAAL as a percentage of covered payroll	81.4%	86.9%	83.3%

City Yreka, California
Notes To Basic Financial Statements
June 30, 2008

The following represents miscellaneous employees:

<u>Schedule of funding progress:</u>	<u>June 30, 2007</u>	<u>June 30, 2006</u>	<u>June 30, 2005</u>
Actuarial value of assets	\$ 2,391,434,447	\$ 2,492,226,176	\$ 2,588,713,000
Actuarial accrued liability (AAL) – entry age	\$ 2,611,746,790	\$ 2,754,396,608	\$ 2,891,460,651
Unfunded (overfunded) AAL (UAAL)	\$ 220,312,343	\$ 262,170,432	\$ 302,747,651
Funded ratio	91.6%	90.5%	89.5%
Covered payroll	\$ 665,522,859	\$ 699,897,835	\$ 755,046,679
UAAL as a percentage of covered payroll	33.1%	37.5%	40.1%

NOTE 8 DEFICIT FUND BALANCE

At June 30, 2008 the Special Grant Fund had a deficit fund balance of \$28,831. The City expects the deficit to be cleared in future years with the revenues of normal operations, transfers in from other funds and/or a reduction in services.

NOTE 9 RESTRICTED NET ASSETS

Restricted net assets are net assets whose use are subject to constraints that are either; (1) externally imposed by creditors (such as debt covenants), grantors, or laws or regulations of governments, or (2) imposed by law through constitutional provisions or enabling legislation. Restricted net assets at June 30, 2008 for governmental activities were restricted for capital outlays, and for business-type activities / proprietary funds were restricted for debt service.

NOTE 10 RESERVED AND DESIGNATED FUND BALANCES

Fund balances, which are not available for appropriation or are not considered expendable available financial resources are reserved. Unreserved fund balances that have been earmarked for specified purposes are considered designated.

Reserved fund balances consist of amounts reserved for noncurrent loan receivables and capital outlays.

Unreserved, designated fund balances are designated for fund purpose.

NOTE 11 OVEREXPENDITURE OF BUDGET

The Special Grant Fund over expended its budget by \$5,407 and the Special Revenue Fund over expended its budget by \$51,482.

NOTE 12 SUBSEQUENT EVENTS

Subsequent to year end, the City incurred costs on several grants that are funded by the State of California. Due to the State's cash flow and budget problems, it has suspended paying amounts to grantees (such as the City) until further notice. As of January 31, 2009, the City has approximately \$1.9 million in receivables that are awaiting payment by the State.

NOTE 13 PRIOR PERIOD ADJUSTMENTS

The Net Assets for Governmental Activities as of June 30, 2007, has been adjusted for the following:

- Understatement of capital assets	\$ 141,648
- Overstatement of long-term debt	(801)
- Overstatement of deferred revenue-loans	<u>(213,569)</u>
Total prior period adjustments	<u>\$ (72,812)</u>

These adjustments had no effect on the Statement of Activities, for the year ended June 30, 2007.

NOTE 14 RISK MANAGEMENT

The City participates in the following public entity risk pools:

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

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

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.

NOTE 15 CONTINGENCIES

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

The City is involved in litigation arising from the ordinary course of its operations. The City believes that its ultimate liability, if any, in connection with these matters, will not have a material effect on the City's financial condition or results of operations.

NOTE 16 LANDFILL

During the year ended June 30, 2008, the City transferred all of the assets and liabilities of the landfill (Sanitary Landfill Fund) to the County of Siskiyou in exchange for an agreement to pay the County \$2,500,000 over the next 25 years (see Note 6, Long Term Debt). A special revenue fund has been created to account for the collection of assessments collected from property owners, and the payment of the debt to the County.

REQUIRED SUPPLEMENTARY INFORMATION

City of Yreka
 Budgetary Comparison Schedule
 General Fund
 For The Year Ended June 30, 2008

	Original Budget	Final Budget	Actual Amounts	Favorable (Unfavorable) Variance With Final Budget
REVENUES				
Property taxes	\$ 835,000	\$ 943,302	\$ 944,787	\$ 1,485
Sales and use taxes	2,100,000	2,306,552	2,306,552	-
Transient occupancy taxes	600,000	592,729	592,729	-
Franchise and other licenses	200,000	234,541	234,541	-
Licenses and permits	215,000	204,032	204,388	356
Intergovernmental revenues	675,825	682,595	683,022	427
Charges for services	151,600	97,008	96,266	(742)
Indirect cost allocation	165,000	241,775	241,775	-
Fines, forfeitures and penalties	13,000	9,174	9,191	17
Use of money and property	195,400	154,245	153,705	(540)
Grants and donations	3,000	60,492	64,162	3,670
In-kind	-	-	1,096	1,096
Other	12,800	225,851	225,486	(365)
Total revenues	<u>5,166,625</u>	<u>5,752,296</u>	<u>5,757,700</u>	<u>5,404</u>
EXPENDITURES				
Current:				
City council, administrator, and clerk	356,203	339,022	341,387	(2,365)
General government	661,788	540,585	530,385	10,200
Planning and development	453,401	423,714	413,076	10,638
Parks and recreation	521,431	571,984	560,364	11,620
Public works administration	136,546	141,471	140,353	1,118
Public works maintenance	173,846	211,970	208,891	3,079
Police protection	2,180,428	2,125,282	2,116,239	9,043
Fire protection	229,025	245,436	257,449	(12,013)
Streets and sidewalks	172,639	170,183	175,235	(5,052)
Capital outlay	54,000	93,747	102,126	(8,379)
Debt service:				
Principal	25,277	25,277	25,277	-
Interest	850	850	211	639
Total expenditures	<u>4,965,434</u>	<u>4,889,521</u>	<u>4,870,993</u>	<u>18,528</u>
Excess of revenues over (under) expenditures	<u>201,191</u>	<u>862,775</u>	<u>886,707</u>	<u>23,932</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers in	-	1,000,000	1,000,000	-
Operating transfers out	(223,600)	(138,291)	(138,291)	-
Total other financing sources (uses)	<u>(223,600)</u>	<u>861,709</u>	<u>861,709</u>	<u>-</u>
Excess of revenues and other sources over (under) expenditures and other uses	<u>\$ (22,409)</u>	<u>\$1,724,484</u>	<u>\$1,748,416</u>	<u>\$ 23,932</u>

City of Yreka
 Budgetary Comparison Schedule
 Special Grant Fund
 For The Year Ended June 30, 2008

	Original Budget	Final Budget	Actual Amounts	Favorable (Unfavorable) Variance With Final Budget
REVENUES				
Intergovernmental revenues	\$10,043,300	\$3,906,969	\$3,964,753	\$ 57,784
Use of money and property	7,500	67,893	67,984	91
Grants and donations	71,649	114,369	111,025	(3,344)
In-kind	56,835	152,838	153,595	757
Total revenues	<u>10,179,284</u>	<u>4,242,069</u>	<u>4,297,357</u>	<u>55,288</u>
EXPENDITURES				
Current:				
Planning and development	1,334,339	184,399	188,174	(3,775)
Parks and recreation	382,164	339,921	356,319	(16,398)
Public works	35,000	43,750	43,549	201
Senior nutrition and transportation	325,325	366,342	368,269	(1,927)
Public transportation	-	-	5,552	(5,552)
Capital outlay	8,010,941	3,605,863	3,583,819	22,044
Total expenditures	<u>10,087,769</u>	<u>4,540,275</u>	<u>4,545,682</u>	<u>(5,407)</u>
Excess of revenues over (under) expenditures	<u>91,515</u>	<u>(298,206)</u>	<u>(248,325)</u>	<u>60,695</u>
OTHER FINANCING (USES)				
Operating transfers in	144,600	249,113	257,863	8,750
Operating transfers out	(15,000)	-	-	-
Total other financing sources (uses)	<u>129,600</u>	<u>249,113</u>	<u>257,863</u>	<u>8,750</u>
Excess of revenues over (under) expenditures and other uses	<u>\$ 221,115</u>	<u>\$ (49,093)</u>	<u>\$ 9,538</u>	<u>\$ 69,445</u>

City of Yreka
 Budgetary Comparison Schedule
 Special Revenue Fund
 For The Year Ended June 30, 2008

	Original Budget	Final Budget	Actual Amounts	Favorable (Unfavorable) Variance With Final Budget
<u>REVENUES</u>				
Assessment	\$ 200,000	\$ 203,680	\$ 203,680	\$ -
Licenses and permits	168,000	56,051	55,098	(953)
Charges for service	90,000	112,856	112,856	-
Use of money and property	-	15,041	15,041	-
Other	-	2,500,000	2,500,000	-
Total revenues	458,000	2,887,628	2,886,675	(953)
<u>EXPENDITURES</u>				
Current:				
General government	-	-	902	(902)
Fire protection	-	-	11,612	(11,612)
Capital outlay	125,000	-	38,015	(38,015)
Debt service:				
Principal	263,476	266,234	271,029	(4,795)
Interest	47,329	51,092	46,297	4,795
Total expenditures	435,805	317,326	367,855	(50,529)
Excess of revenues over (under) expenditures	22,195	2,570,302	2,518,820	(51,482)
<u>OTHER FINANCING (USES)</u>				
Operating transfers in	85,000	-	-	-
Operating transfers out	-	(2,645,205)	(2,645,205)	-
Total other financing sources (uses)	85,000	(2,645,205)	(2,645,205)	-
Excess of revenues over (under) expenditures and other uses	\$ 107,195	\$ (74,903)	\$ (126,385)	\$ (51,482)

City of Yreka
 Budgetary Comparison Schedule
 Streets and Roads Fund
 For The Year Ended June 30, 2008

	Original Budget	Final Budget	Actual Amounts	Favorable (Unfavorable) Variance With Final Budget
REVENUES				
Intergovernmental revenues	\$ 797,000	\$ 296,971	\$ 357,230	\$ 60,259
Fines and foreitures	62,000	68,995	67,995	(1,000)
Use of money and property	38,000	38,000	39,336	1,336
Total revenues	897,000	403,966	464,561	60,595
EXPENDITURES				
Current:				
Streets and sidewalks	507,490	409,163	411,331	2,168
Public transportation	-	-	62,310	62,310
Capital outlay	250,100	10,100	9,716	(384)
Total expenditures	757,590	419,263	483,357	64,094
Excess of revenues over (under) expenditures	139,410	(15,297)	(18,796)	(3,499)
OTHER FINANCING (USES)				
Operating transfers in	45,986	-	-	-
Operating transfers out	(51,986)	(29,493)	(29,493)	-
Total other financing sources (uses)	(6,000)	(29,493)	(29,493)	-
Excess of revenues over (under) expenditures and other uses	\$ 133,410	\$ (44,790)	\$ (48,289)	\$ (3,499)

SINGLE AUDIT REPORTS AND SCHEDULES

City of Yreka
 Schedule of Expenditures of Federal Awards
 For The Year Ended June 30, 2008

Program Title	Federal CFDA #	Pass Through Grantor #	Grant Award Amount	Federal Expenditures	Loan Disbursements Included In Expenditures
Major Programs					
Department of Homeland Security					
Disaster Grants - Public Assistance	97.036	093-86944	\$ 511,348	\$ 420,163	\$ -
Non Major Program					
U.S. Department of Housing and Urban Development, passed through California Department of Housing and Community Development					
Community Development Block Grant/State's Programs	14.228	05-STBG-1422	1,500,000	94,689	56,984
Community Development Block Grant/State's Programs	14.228	05-EDBG-1968	300,000	14,006	-
Community Development Block Grant/State's Programs	14.228	06-EDBG-2703	500,000	5,425	-
Community Development Block Grant/Technical Assistance Program	14.227	04-PTAA-1479	35,000	34,093	-
Community Development Block Grant/Technical Assistance Program	14.227	07-PTAA-3673	70,000	-	-
Community Development Block Grant/Technical Assistance Program	14.227	06-EDBG-2611	45,526	45,526	-
Community Development Block Grant/Technical Assistance Program	14.227	06-STBG-2612	35,000	35,000	-
Community Development Block Grant/Technical Assistance Program	14.227	07-PTAE-3136	70,000	-	-
Total HUD Programs			2,555,526	228,739	56,984
U.S Department of Agriculture					
Senior Nutrition	10.570	-	12,500	12,500	-
U.S. Department of Health and Human Services					
Senior Nutrition	93.044	-	20,752	20,752	-
Senior Nutrition	93.045	-	51,640	51,640	-
Total Department of Health and Humam Services			72,392	72,392	-
Total			\$ 3,151,766	\$ 733,794	\$ 56,984

Notes:

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



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

To the City Council
City of Yreka, California

We have audited the financial statements of the governmental activities, business-type activities and each major of the City of Yreka as of and for the year ended June 30, 2008, which collectively comprise the City of Yreka's basic financial statements, and have issued our report thereon dated January 31, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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 of Yreka'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 of Yreka's financial statements that is more than inconsequential will not be prevented or detected by the City of Yreka's internal control. We consider all of the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting.

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 of Yreka's internal control.

Our 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 the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that all of the significant deficiencies described above are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Yreka's financial statements are free of material misstatements, we performed tests of it's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an

instance of noncompliance or other matters that is required to be reported under Government Auditing Standards, and is described in the accompanying schedule of findings and questioned costs as item 2008-1.

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

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

Aiello, Goodrich & Teuscher

Aiello, Goodrich & Teuscher
An Accountancy Corporation
Mt. Shasta, California
January 31, 2009



**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

We have audited the compliance of the City of Yreka 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, 2008. The City of Yreka's major programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Yreka's management. Our responsibility is to express an opinion on the City of Yreka's compliance based on our audit.

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

In our opinion, the City of Yreka complied, in all material respects, with requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

The management of the City of Yreka 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 our audit, we considered the City of Yreka's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Yreka's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance

with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity'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 of Yreka's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

Aiello, Goodrich & Teuscher
Aiello, Goodrich & Teuscher
An Accountancy Corporation
Mt. Shasta, California
January 31, 2009

City of Yreka, California
Schedule Of Findings And Questioned Costs
For The Year Ended June 30, 2008

Summary of Auditors' Results

1. The auditors' report expresses an unqualified opinion on the financial statements on the City of Yreka, California.
2. Two significant deficiencies (Items 2008-1 and 2008-2) relating to the audit of the financial statements are reported in the *Independent Auditors' 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*. Those deficiencies are reported as material weaknesses.
3. One instance of noncompliance (Item 2008-2) material to the financial statements of City of Yreka, California was disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal awards programs is reported in the *Report On Compliance With Requirements Applicable to Each Major Program And On Internal Control Over Compliance Required By OMB Circular A-133*.
5. The auditors' report on compliance for the major federal award programs for the City of Yreka, California expressed an unqualified opinion.
6. There were no audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this schedule.
7. The programs tested as a major programs was:
-Department of Homeland Security, CFDA # 97.036

The threshold used to distinguishing between Type A and B programs was \$300,000.
8. City of Yreka, California qualified as a low risk auditee.

Findings-Financial Statement Audit

2008-1- Subrecipient Monitoring

Condition and Criteria: A subrecipient was not monitored in accordance with the "Compliance Supplement" of OMB Circular A-133.

Effect: Violations of grant agreements may be occurring which could cause questioned costs.

Cause: Procedures are not in place to determine which subrecipients should be monitored.

Auditors' Recommendation: City officials should implement policies and procedures for subrecipient monitoring.

Auditee Response: Yreka City staff meets regularly with subrecipients on program activities. However, there are areas where the City can improve its subrecipient monitoring compliance. Specifically, at award of the contract and monitoring during the contract award period. The Finance Director will:

1. Annually review subrecipient audit reports and prepare a summary report to the City Manager and City Council of subrecipient performance, including but not limited to
 - (a) audit findings with corrective actions,
 - (b) a statement of overall fiscal health, and
 - (c) subrecipient's history of program history of compliance with federal grant awards.

2. City staff will make site visits to the subrecipients facility, request more detail on subrecipient performance activity monitoring reports by activity, and continue to maintain City staffs' regular contact with the subrecipient(s).

These improvements will further oversee that agreed upon procedures for engagement are adhered to and to re-enforce the City's expectations of the client for federal program compliance both specific to the grant award and OMB Circular 133-A.

2008-2- Review of budget to actual results by the City Council.

Condition and Criteria: City Council does not review or approve periodic financial management reports, such as budget-to-actual revenues and expenditures.

Effect: Expenditures occur that may be in excess of the legally adopted budget.

Cause: City Council has no procedures in place to monitor compliance with the legally adopted budget.

Auditors' Recommendation: City Council should periodically review and approve budget-to-actual revenues and expenditure reports.

Auditee Response: This finding has been corrected since July 2008. The monthly management reports (that includes the budget to actual performance, cumulative year-to-date summary) is now included as a regular monthly agenda item for approval by the Yreka City Council.

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

None.

SUMMARY OF PRIOR AUDIT FINDINGS

None.