

CITY OF YREKA
Financial Statements
June 30, 2006

Table of Contents

Independent Auditor's Report	I
Management Discussion and Analysis	II
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets	1
Statement of Activities	2
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	3
Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets - Governmental Activities	4
Statement of Revenues, Expenditures and Changes in Fund Balances	5
Reconciliation of the Statement of Revenues, Expenditures and Changes In Fund Balances of Governmental Funds to the Government-Wide Statement of Activities - Governmental Activities	6
Proprietary Funds:	
Statement of Net Assets	7
Statement of Revenues, Expenses and Changes in Net Assets	8
Statement of Cash Flows	9
Fiduciary Funds:	
Statement of Fiduciary Assets and Liabilities - Agency Funds	10
Statement of Changes in Fiduciary Net Assets - Agency Funds	11
Notes to the Financial Statements	12
Required Supplementary Information:	
Budgetary Comparison Schedule:	
General Fund	36
Local Transportation Fund	37
Special Grants Fund	38
Note to the Required Supplementary Information	39
Schedule of Expenditures of Federal Awards	40
Notes to Schedule of Expenditures of Federal Awards	41
Schedule of Findings and Questioned Costs	42
Schedule of Prior Year Findings and Questioned Costs	43
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	44

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INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Yreka
Yreka, California

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Yreka, California, as of and for the year ended June 30, 2006 which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. My responsibility is to express an opinion of these financial statements based on my audit.

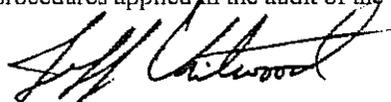
I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that I plan and perform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

In my opinion, based on my audit, the financial statements referred to above present fairly, in all material respects, the financial position of the government activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Yreka, California, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, I have also issued a report dated July 12, 2007 on my consideration of the City's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of my audit.

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

My audit was made for the purpose of forming an opinion on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and statistical section schedules are presented for the purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and non-Profit Organizations, and is also not a required part of the basic financial statements of City of Yreka, California. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, based on my audit, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, I express no opinion on them.



Jeffrey Chitwood
Certified Public Accountant
July 12, 2007

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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, 2006. 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:

- The assets for the City of Yreka exceeded its liabilities at the close of the most recent fiscal year by \$24,824,703 (net assets). Of this amount, \$9,830,141 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The governmental activities funds total net assets increased by \$1,311,179 from the prior fiscal year 2004-05. The ending fund balance increased by \$685,488 in 2005-06.
- The business type activities total net assets and the ending fund balance increased by \$310,450 from the prior fiscal year 2004-05 not including a \$16,761 prior year audit adjustment to amortized capital assets.

The City has taken fiscal measures to reduce expenses, evaluate vacancies in staffing, and has worked with the bargaining units to establish a rate cap on the employer's share of health benefits costs.

The City realizes it needs to focus its efforts to increase services rates in its business-type activities to keep pace with the increasing cost of operations. Though the City has indexed its cost of utilities to the Engineering News Construction Cost Index, the baseline rate is so low that the 1.5% rate increase in 2005-06 amounted to a \$0.50 monthly increase to the water and sewer residential household bill.

The City continues to remain fiscally sound but will dip into its reserves next year to fund capital projects, as the cost of business-type activities is failing to keep pace with construction costs of maintaining and improving the systems as identified in the master plans.

Operational Highlights:

In late December of 2005, the rainstorms and subsequent flood damage affected the whole County and the City. A tremendous amount of effort and overtime from the public works crew led to the immediate cleanup, assessment, and work to repair the damage to

roads and parks. At the landfill, the public works crews labored long days and weekends to mitigate leachate outbreaks. Meanwhile preliminary damage estimate for repairs at the Waste Water Treatment Plant's effluent disposal area is \$650,000. Public works is continuing to work closely with FEMA to recover allowable costs for the damage and repair to these City facilities.

The City experienced a delay in the receipt of grant contracts from the State after the issuance of award letters. Until signed contracts are received, the City lacks the authorization to move forward on those projects. Most notably is the CDBG Sewer Rehabilitation \$1 million project. Also delayed was the Workforce Housing Grant for 2005-06 for \$213,177 and the Department of Water Resources Urban Streams Project Grant for \$300,000. Therefore many of the dollars budgeted in 2005-06 are brought forward to 2006-07 for the continuation of those projects.

In 2005-06, the City experienced a high level of turnover in staffing. The unprecedented turnover ratio required management's effort to recruit and train the new personnel, while staffing shortages during the year affected the entire organization.

Successes to celebrate in 2005-06 include

- Settlement agreements were signed with all but one of the City's bargaining units. These three-year contracts include excellent Cost of Living Adjustments (COLA). The City also worked with the employee organizations to cap medical insurance at the end of the Year 3.
- The award of a bid for park maintenance services to a local business.
- Work on the Arboretum is to begin with the settlement of a lease with the Trailriders and Sheriff's posse to allow the use of that area for the arboretum.
- The acquisition of the old Blacks building at 320 West Miner and the City established a Downtown Revitalization Committee.
- The City received a \$300,000 Department of Water Resources grant for appraisal and negotiations to purchase key properties for the Yreka Greenway project. The grant funding will enable the City to accomplish a significant amount of flood-damage prevention projects.
- A bid was awarded and work has commenced on the CDBG PTA for GIS Base mapping.
- The Building Dept. continues to issue record number of construction permits and performance of inspections.
- Water Master plan has been completed identifying critical future needs.
- Storm Drain Master Plan has been completed along with an application for a \$5 million grant to upgrade the system.
- The City acquired the Yreka Community Portable Stage in partnership with community sponsors and a Ford Foundation Grant.
- Motor starters, that are expected to reduce utility costs at the Fall Creek pump station, were installed.
- The Greenhorn Park reclamation plan has been completed with active grants for implementation.

- Nearing completion is the construction of affordable housing units off Foothill Drive that resulted in a one-time spike in building permit fee revenue.
- Yreka Municipal code converted to electronic format and made available online.

Overview of the Financial Statements:

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

Government-wide Financial Statements:

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

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

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

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

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

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

Fund Financial Statements:

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

Governmental funds:

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. The major funds within governmental funds include the General Operating Fund, the Local Transportation Fund and the Special Grants fund. All of the remaining governmental funds are combined into Other Governmental Funds. Information is presented in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund. The governmental fund is combined into a single, aggregated presentation. The City of Yreka adopts an annual appropriated budget for each of its governmental funds. A budgetary comparison statement for the general operating fund demonstrates compliance with this budget, and is located on pages 36 through 38 of this report.

Proprietary funds.

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

Fiduciary funds:

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

Notes to the financial statements:

The notes provide additional information that is essential to fully understand the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 12 through 35 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 36 through 41 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 \$11,889,415 for governmental activities and \$12,935,288 for business type activities, or \$24,824,703 total, at the close of the most recent fiscal year.

City of Yreka – Changes in Net Assets

	Governmental	Business-	
	Activities	Type	Total
Total Net Assets for:		Activities	
Fiscal Year 2004-05	10,578,236	12,624,838	23,203,074
Fiscal Year 2005-06	11,889,415	12,935,288	24,824,703
Increase or (Decrease in Net Assets)	1,311,179	310,450	1,621,629

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

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

City of Yreka – Governmental Activities Net Assets

	Governmental Activities		Percentage
	2004-05	2005-06	Change 2004-05 base
Assets:			
Current assets and other assets	6,119,646	5,285,122	-13.6%
Non Current Assets	6,732,266	7,276,959	8.1%
<i>Total Assets</i>	12,851,912	12,562,081	-2.3%
Liabilities:			
Current Liabilities	2,223,140	641,730	-71.1%
Long-term Liabilities	50,536	30,936	-38.8%
<i>Total Liabilities</i>	2,273,676	672,666	-70.4%
Net assets:			
Invested in capital assets, net of related debt	6,604,304	7,221,036	9.3%
Restricted	-	-	
Unrestricted	3,973,932	4,668,379	17.5%
<i>Total Net Assets</i>	10,578,236	11,889,415	12.4%

Net assets increased by 12.4% or \$1,311,179. The 71.2% decrease in currently liabilities reflects the prior year's \$1,521,739 payable to City's pension plan with CalPERS for unfunded pension liability. The 38.8% decrease in long-term liabilities reflects repayment on five-year notes for vehicles and equipment.

Unrestricted net assets increased \$694,447, in part due to an increase in the ending fund balance, whereas revenues exceeded actual expenditures.

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
	2004-05	2005-06	Change 2004-05 base
Assets:			
Current assets and other assets	5,188,526	5,422,114	4.5%
Non Current Assets	11,895,580	11,776,719	-1.0%
<i>Total Assets</i>	17,084,106	17,198,833	0.7%
Liabilities:			
Current Liabilities	684,517	642,095	-6.2%
Long-term Liabilities	3,774,751	3,621,450	-4.1%
<i>Total Liabilities</i>	4,459,268	4,263,545	-4.4%
Net assets:			
Invested in capital assets, net of related debt	7,744,842	7,773,526	0.4%
Restricted	-	-	
Unrestricted	4,879,996	5,161,762	5.8%
<i>Total Net Assets</i>	12,624,838	12,935,288	2.5%

Net assets increased by 2.6% or \$310,450. Current assets increased 4.5% primarily due to an increase in cash on hand of \$195,772 from 2004-05. The 4.1% decrease in long-term liabilities reflects the reclassification of \$352,784 in long-term liabilities to current liabilities, which was offset by a \$218,000 increase to the landfill closure liability account.

Unrestricted net assets increased \$281,766, in part due to an increase in the ending fund balance, whereas revenues exceeded actual expenditures.

Financial Analysis of the City's Funds:

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

Governmental funds:

The focus of the City of Yreka's governmental funds is to provide information on near-term cash inflows, cash outflows, and available ending balances and reserves for operations. Such information is useful in assessing the City of Yreka's financing requirements. In particular, unrestricted and undesignated fund balances may serve as a useful measure of a government's net capital available for spending at the end of the fiscal year. As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$4,346,220. Over half of this total amount, \$2,314,090, constitutes unrestricted and undesignated fund balance, which is available for spending at the City's discretion. The remainder of fund balance or \$2,032,130 is reserved to indicate that it is not available for spending. This is because it has already been committed 1) roads and streets 2) capital improvements 3) grant projects 4) insurance reserves and a variety of other designations.

The general fund is the chief operating fund of the City of Yreka. At the end of the current fiscal year, the unreserved fund balance of the general fund was \$2,314,090 however, that included \$1,732,467 of funds in the Crandell account, an account for which the City has expenditure control but retains for special capital outlay. As a measurement of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 39% of total general fund expenditures, while total fund balance represents 74% of that same amount. During the current fiscal year, the City of Yreka's general fund increased by \$685,488.

Governmental Funds revenue increased \$334,631 in 2005-06 from 2004-05 due to slight revenue increases across all revenue categories.

Expenses increased \$773,552 in 2005-06 from 2004-05; however that increase was offset by the 2004-05 one time payment of \$1,521,739 to City's pension plan with CalPERS for unfunded pension liability, resulting in a net year-over-year expenditure decrease of \$748,187 in 2005-06 from 2004-05.

Proprietary funds:

The City of Yreka's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Unrestricted net assets of the water, wastewater and landfill funds at the end of the year amounted to \$12,935,288. In the financial statement page 9, the decrease in cash from operations and capital and related financing activities resulted in an \$85,522 increase in cash that includes the one time sale of equipment for \$125,000, normalizing for that cash would have decreased \$39,478. Fiscal year 2005-06, as in fiscal year 2004-05, show that revenues are not keeping pace with the required cash outlay for both operations and required capital outlay and financing.

Agency funds:

Agency funds consist of fiduciary funds that are used to account for assets held in a trustee or agent capacity for others. Fund classified as agency funds in this financial report are parkland trust funds, Campbell tract funds, Shasta Belle Redemption Funds, Senior Capital Fund and Senior Activity Program Fund, and Gifts and Donations funds.

The primary activity in these funds for 2005-06 consisted of a one-time donation of \$10,000 to the YMCA for youth recreational programs. Total net assets at the end of the year for all of the agency funds were \$121,788.

General Fund Budgetary Highlights:

Differences between the original budget and the final amended budget for revenue in the General Fund, Local Transportation, and Special Grants fund were zero. The expenditure appropriations increased \$209,721 for the General Fund and increased \$1,000 in the special projects fund. The changes can be seen in the table below and in more detail on pages 36 through 38 of this report.

Schedule of Revenues and Expenditures – Budget to Actual

		Original	Final	Actual
General Fund	Revenue	5,602,523	5,602,523	5,396,379
	Expense	5,300,290	5,510,011	4,648,304
	Excess (deficiency) of revenue over (under) expenses	302,233	92,512	748,075
	Other Financing Sources and (Uses)	(121,437)	(177,376)	(80,935)
	Net Change in Fund Balance	180,796	(84,864)	667,140
		Original	Final	Actual
Local Transportation	Revenue	12,000	12,000	56,563
	Expense	31,000	31,000	6,468
	Excess (deficiency) of revenue over (under) expenses	(19,000)	(19,000)	50,095
	Other Financing Sources and (Uses)	(43,000)	(43,000)	-
	Net Change in Fund Balance	(62,000)	(62,000)	50,095
		Original	Final	Actual
Special Grants	Revenue	1,009,400	1,009,400	625,252
	Expense	1,137,400	1,138,400	675,867
	Excess (deficiency) of revenue over (under) expenses	(128,000)	(129,000)	(50,615)
	Other Financing Sources and (Uses)	145,500	145,500	-
	Net Change in Fund Balance	17,500	16,500	(50,615)

In the General Operating Fund budgetary revenue and expenditure changes include:

- Intergovernmental grant revenue was \$338,810 less than budgeted as several project had not commenced; Ringe and Lewis park playground equipment, Miner Street and Downtown modular restrooms.
- Interest earning for the City investment with LAIF was \$126,872 higher than expected due to higher cash balances and higher rates.
- Other grant revenue was less than expected by \$140,585 as projects for Community Theatre building and parking improvements were on hold.
- Property tax revenue was \$103,018 higher than budgeted and \$121,869 higher than 2004-05.
- General Fund operating expense variance to budget was \$861,707 less than the revised budget. Expenses were \$245,705 less due to incompleteness of intergovernmental grant projects described above and incompleteness of grant projects for the Community Center building and parking facilities \$136,440. Interfund transfers were \$101,770 less than budget primarily as projects in the Special Capital grants fund were not completed.
- Of the \$209,721 appropriations increase between the original and final budget, \$200,000 represented the investment in the property at 320W Miner Street, known as the Black's building.

In the Local Transportation Fund revenue

Actual revenue was \$44,563 higher than budgeted due to an increase in pass through funds from the County of Siskiyou for the Local Transportation Agency and higher than expected interest revenue. The City budgets the Local Transportation Agency funds based on County projections.

Actual expenses were \$24,603 lower than budgeted primarily due to lower expenses charged to this fund for street maintenance supplies.

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

A construction delay on the YMCA Teen Center meant that budgeted revenue of \$341,000 and expense of \$426,200, varied from actual revenue of \$311,118 and expense of \$458,608 for fiscal year 2005-06. Revenues of \$75,600 were received in 2005-06 after the modified accrual accounting adjustment period.

The Safe Routes to School grant was held back due to the State's fiscal crisis and the application remains pending. Revenue was budgeted for \$307,000, city match for \$42,000 and project expense for \$350,000 in 2005-06. No actual revenue was received and the expenses incurred in 2004-05 were \$234.72.

Another project that was on hold was the funding of the Downtown Pedestrian Bike path. That grant utilizes both federal and state grant funds. Both budgeted revenue of \$302,000 and budgeted expense \$302,000 came in far below budget and were \$0 and \$28,710 respectively.

Operating transfers in for \$145,500 were not made as budgeted as none of the grant construction projects had not closed out during 2005-06.

Capital Assets and Debt Administration

Changes in Capital Assets

	Changes in Capital assets			Balance June 30, 2006
	Balance June 30, 2005	Additions	Retirements	
Governmental Activities:				
<i>Capital assets not being depreciated;</i>				
Land	1,597,618	8,500		1,606,118
Construction in Progress		85,815		85,815
<i>Capital assets being depreciated;</i>				
Building and Structures	3,261,167	659,213		3,920,380
Machinery and Equipment	1,850,764	152,832		2,003,596
Streets; Paving, Drainage, Curbs, Gutters, Sidewalks	14,747,992			14,747,992
Street Lighting	3,449,600			3,449,600
Streets Other; Bridges	251,500			251,500
Governmental Activities Capital Assets	25,158,641	906,360	-	26,065,001
Less Accumulated Depreciation	(18,426,375)	(361,676)		(18,788,051)
Governmental Activities Capital Assets, net	6,732,266	544,684	-	7,276,950
Business-type Activities:				
<i>Capital assets not being depreciated;</i>				
Land	359,912	10,010		369,922
Construction in Progress		57,998		57,998
<i>Capital assets being depreciated;</i>				
Building and Structures	6,994,027	181,286		7,175,313
Machinery and Equipment	4,560,019		219,956	4,340,063
Water Delivery System	8,109,242	64,687		8,173,929
Sewer Delivery System	4,693,749	86,262		4,780,011
Total Business Activities Capital Assets	24,716,949	400,243	219,956	24,897,236
Less Accumulated Depreciation	(13,667,664)	(696,027)	(195,516)	(14,168,175)
Business-type Capital Assets, net	11,049,285	(295,784)	24,440	10,729,061
Total Capital Assets, net	17,781,551	248,900	24,440	18,006,011

The City of Yreka's investment in capital assets for its governmental and business type activities as of June 30, 2006, amounts to \$18,006,011 (net of accumulated depreciation). Non-depreciable capital assets are land, land right of ways, used primarily for streets and construction that is in progress. Depreciable assets include buildings and structures,

equipment and vehicles. Public domain capital assets (infrastructure) include streets and sidewalks, curbs and gutters, drainage systems, bridges, and lighting systems.

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

Governmental Activities

- Utilized grant funds, the construction and completion of the YMCA Teen Center \$458,608.
- City vehicles were purchased as replacement vehicles for the Fire Chief's emergency response truck \$26,900; YPD patrol car \$22,490 and a city fleet car \$22,024.
- Utilized grant funds, community contributions and a City match for the acquisition of the portable stage \$81,417.
- The City acquired a property at 320 W. Miner, formerly known as Black's appliances for \$200,605.
- The City acquired land as part of its match for the Yreka Creek Greenway grant project \$8,500.
- The construction in progress includes work on the grant funded TEA Downtown Bike Path Project \$28,710; the grant funded Ringe and Lewis Park playground equipment \$29,049 and \$28,056 respectively.

Business Type Activities

- The City installed motor starters at the Fall Creek Intake building \$157,739.
- The City utilized grant funding and the City's match to develop a water master plan, \$64,686.61.
- The City acquired property pursuant to the Fall Creek project for \$10,010.
- The City accepted a dedication of sewer lines from a private party at the South Interstate 5 for \$86,262.
- City sold the Brown Bear tractor from the sewer treatment plant to the City of Redding, original book value was \$219,956 and net book value \$24,440. Sale proceeds were \$125,000.
- City replaced a fleet truck for the water supply and treatment department for \$23,548.

Changes in Long Term Debt:

Changes in Long Term Debt

	Balance June 30, 2005	New Issues	Principal Payments	Balance June 30, 2006
<i>Governmental Activities:</i>				
Loans Payable - Banks and Others	127,962	-	77,426	50,536
Loans Payable - Governmental Agencies	-	-	-	-
Reclassification to Current Debt	-	-	-	-
Total Governmental Activities	127,962	-	77,426	50,536
<i>Business-type Activities:</i>				
Loans Payable - Banks and Others	410,526		202,010	208,516
Loans Payable - Governmental Agencies	2,011,554	49,515	232,009	1,829,060
Certificates of participation - USDA Rural Development	899,000	-	10,000	889,000
Other	-	-	-	-
Total Business Activities	3,321,080	49,515	444,019	2,926,576
Total Outstanding Long Term Debt	3,449,042	49,515	521,445	2,977,112
Less Portion Classified as Current Debt				(377,771)
				<u>2,599,341</u>

At the end of the current fiscal year, the City of Yreka had total debt outstanding of \$2,977,112 and long term outstanding debt of \$2,599,341. Detail information on lenders, rates and maturities for long-term debt can be found on pages 28 through 30 of this report.

The City of Yreka's total debt decreased by \$521,445 during the current fiscal year due to scheduled principal repayment on borrowings. The \$49,515 increase represented a final draw on the note payable to the California State Water Resources Control Board.

Next Year's Budgets and Rates:

Budget Highlights for 06-07

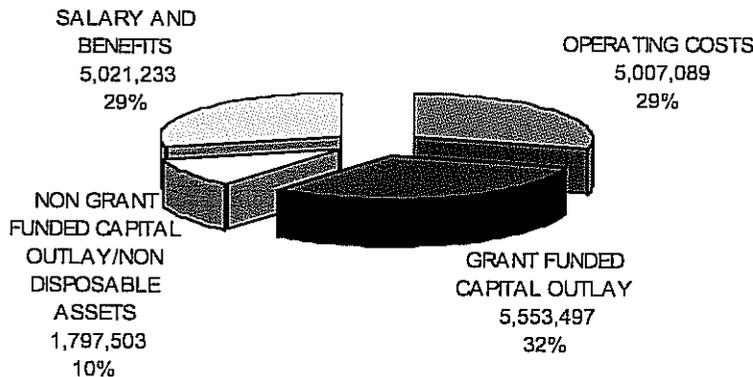
Below are highlights from the City's 2006-07 adopted budget that was approved by the City Council on June 1, 2006.

<i>Major Fund Groups</i>	Budgeted Revenue	Revenue Interfund Transfers	Budgeted Expense	Expense Interfund Transfers	Excess of Rev over Exp.- Surplus/ (Deficit)
General Operating Fund	5,818,037.00	245,000.00	5,951,965.20	239,908.00	(133,928.20)
General Fund - Restricted or Designated	201,708.00	62,972.00	63,242.00	42,286.00	138,466.00
Special Operating Grants - Restricted	445,653.00	92,222.00	486,093.00	140,000.00	(40,440.00)
Total General Fund	6,465,398.00	400,194.00	6,501,300.20	422,194.00	(35,902.20)
Total Streets and Roads	757,048.00	395,500.00	1,399,514.00	486,200.00	(642,466.00)
Special Grants - Capital Projects	4,184,600.00	277,700.00	4,066,300.00	-	118,300.00
Landfill Enterprise Fund	1,468,000.00	218,000.00	1,140,541.00	298,000.00	327,459.00
Sewer Enterprise Fund	2,454,500.00	140,000.00	2,621,117.00	65,000.00	(166,617.00)
Water Enterprise	1,415,700.00	-	1,650,450.00	100,000.00	(234,750.00)
Total Enterprise Funds	5,338,200.00	358,000.00	5,472,108.00	463,000.00	(73,908.00)
All Funds Combined	16,745,246.00	1,371,394.00	17,379,222.20	1,371,394.00	(633,976.20)

Grant Awards:

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

Chart 1 2006-2007 Total Budget Expenditures



General Fund Revenue Projections:

Revenue highlights include strong income from the building department. The elimination City's property tax offset to payoff the State bonds (Statewide Prop A) and optimistic projections for Sales Tax and Transit Occupancy Tax (TOT) revenue increased general fund tax revenue by \$230,000 over 2005-2006 projections.

General Operating Fund - Fiscal Year Main Stream Revenue Comparison	Actuals Fiscal Year 03-04	Actuals Fiscal Year 04-05	Operating Budget 05-06	Proposed Budget 06-07
Property Tax	674,178	644,592	650,000	725,000
Transient Lodging	355,321	607,645	600,000	625,000
Sales Tax	1,772,464	1,682,590	1,700,000	1,800,000
Franchises	143,097	218,104	215,000	200,000
Business Licenses	67,128	69,994	70,000	80,000
Animal Licenses	9,336	9,324	9,500	9,500
Building Permits	41,301	179,318	125,000	150,000
Motor Vehicle License Fees	329,024	⁽¹⁾ 579,291	450,000	450,000
Triple Flip In Lieu Sales Tax	N/A	⁽²⁾ 375,056	440,000	450,000
SubTotal General Fund Mainstream Revenue	3,391,850	4,365,914	4,259,500	4,489,500

(1) Includes one-time proceeds of \$109,442.14 from the sale of the VLF note receivable.

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

Enterprise Fund Revenue:

Use fee revenue is not keeping up with the infrastructure costs of maintaining the City's water and sewer systems. A proposed Rate Study will assist in determining a fee schedule to sustain current and future services, as well as to determine the revenues necessary to support ongoing maintenance. To date the City has been extremely diligent in pursuing grants and loans to finance water and sewer improvements.

Expenditure Control:

Staff 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 Fire, Police and Public Works departments.

The City negotiated a three-year contract with four of five bargaining units. The City is completed negotiations with YCEA in 2006-07, however no settlement or COLA assumptions were included in the projected budget for 2006-07. The City is continuing to explore cafeteria plans, and has capped, in the settled contracts, the employer cost of medical benefits in the final year of the agreement. This is in response to the increased pressure of rising costs for defined benefit plans and medical insurance, which negatively affect the City's ability to increase salaries.

Horizon Issues:

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

[1] The City is exploring conversion of the Landfill to a transfer station, similar to the Black Butte Landfill in operation in south Siskiyou County. The City, in cooperation with co-owners, the County of Siskiyou, would need to invest several million dollars of capital outlay for such a conversion.

[2] The enterprise funds, particularly sewer services, are not keeping pace with the annual maintenance costs and debt servicing. In the coming year an independent evaluation will assess the cost of services and associated fee revenue.

[3] Fire protection services continue to be problematic, as the City cannot afford the capital outlay to acquire the equipment to maintain current ISO required standards. The City is continuing to look at the feasibility of a general assessment tax or the creation of a special fire assessment district for Fire Protection Services.

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.

	Primary Government		Total
	Governmental Activities	Business-type Activities	
ASSETS			
Current Assets:			
Cash and investments	\$ 4,054,905	\$ 4,985,122	\$ 9,040,027
Receivables (net):			
Accounts	373,572	436,211	809,783
Taxes	287,583		287,583
Intergovernmental	172,149		172,149
Interest	69,689		69,689
Loans	322,159		322,159
Due from other funds	3,365	781	4,146
Supplies inventory	1,700		1,700
Total current assets	<u>5,285,122</u>	<u>5,422,114</u>	<u>10,707,236</u>
Noncurrent Assets:			
Post closure reserve-landfill		1,047,658	1,047,658
Capital assets:			
Land, buildings and equipment	25,979,195	24,839,238	50,818,433
Accumulated depreciation	(18,788,051)	(14,168,175)	(32,956,226)
Construction in progress	85,815	57,998	143,813
Total noncurrent assets	<u>7,276,959</u>	<u>11,776,719</u>	<u>19,053,678</u>
Total assets	<u>12,562,081</u>	<u>17,198,833</u>	<u>29,760,914</u>
LIABILITIES			
Current liabilities:			
Accounts payable	276,775	186,114	462,889
Payroll payable	133,563	44,295	177,858
Accrued vacation pay payable	205,624	26,578	232,202
Accrued interest		28,959	28,959
Due to other funds	781	3,365	4,146
Long-term debt--due within one year	24,987	352,784	377,771
Total current liabilities	<u>641,730</u>	<u>642,095</u>	<u>1,283,825</u>
Noncurrent liabilities:			
Long-term debt--due in more than one year	30,936	2,573,792	2,604,728
Reserved for closure/post closure-landfill		1,047,658	1,047,658
Total noncurrent liabilities	<u>30,936</u>	<u>3,621,450</u>	<u>3,652,386</u>
Total liabilities	<u>672,666</u>	<u>4,263,545</u>	<u>4,936,211</u>
NET ASSETS			
Investment in capital assets, net of related debt	7,221,036	7,773,526	14,994,562
Unrestricted	4,668,379	5,161,762	9,830,141
Total net assets	<u>\$ 11,889,415</u>	<u>\$ 12,935,288</u>	<u>\$ 24,824,703</u>

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

City of Yreka, California
Statement of Activities
For the Year Ended June 30, 2006

	Program Revenues				Net (Expenses Revenues and Changes in Net Assets)		
	Expenses	Charges for Services	Operating		Governmental Activities	Business Type Activities	Total
			Grants and Contributions	Capital Grants and Contributions			
Functions/Programs							
Primary Government:							
Governmental activities:							
City council, administration & clerk	\$ 312,295				\$ (312,295)		\$ (312,295)
General government	224,668		\$ 1,821		(222,847)		(222,847)
Fire	240,228	\$ 1,029			(239,199)		(239,199)
Police	2,025,872	3,421	\$ 140,434		(1,882,017)		(1,882,017)
Planning and development	560,640	250,240		188,349	(122,051)		(122,051)
Parks and recreation	558,014	67,558		\$ 363,736	(126,720)		(126,720)
Public works administration	207,017				(207,017)		(207,017)
Public works mechanical maint.	169,679				(169,679)		(169,679)
Streets & sidewalks	668,726		513,191		(155,535)		(155,535)
Senior nutrition	294,422		218,903		(75,519)		(75,519)
Interest on long-term debt	3,484				(3,484)		(3,484)
Total governmental activities	<u>5,265,045</u>	<u>322,248</u>	<u>872,528</u>	<u>553,906</u>	<u>(3,516,363)</u>		<u>(3,516,363)</u>
Business type activities:							
Water	1,287,053	1,322,625			\$ 35,572		35,572
Sewer	1,180,017	965,054		129,384	(85,579)		(85,579)
Landfill	995,815	1,210,651			214,836		214,836
Total business type activities	<u>3,462,885</u>	<u>3,498,330</u>		<u>129,384</u>	<u>164,829</u>		<u>164,829</u>
Total primary government	<u>\$ 8,727,930</u>	<u>\$ 3,820,578</u>	<u>\$ 872,528</u>	<u>\$ 683,290</u>	<u>(3,516,363)</u>	<u>164,829</u>	<u>(3,351,534)</u>
General revenues:							
Property taxes					796,018		796,018
Sales taxes					2,140,741		2,140,741
Transient lodging taxes					592,385		592,385
Franchise taxes					206,474		206,474
Fuel taxes					149,816		149,816
Intergovernmental revenue					66,301		66,301
Licenses and permits					250,068		250,068
Fines and forfeitures					80,397		80,397
Unrestricted investment earnings					283,779	45,061	328,840
Other					247,652	100,560	348,212
Total general revenues					<u>4,813,631</u>	<u>145,621</u>	<u>4,959,252</u>
Change in net assets					1,297,268	310,450	1,607,718
Net assets - beginning of year					10,592,147	12,624,838	23,216,985
Net assets - end of year					<u>\$ 11,889,415</u>	<u>\$ 12,935,288</u>	<u>\$ 24,824,703</u>

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

City of Yreka, California
Balance Sheet
Governmental Funds
June 30, 2006

	Major Funds			Other Governmental Funds	Total Governmental Funds
	General	Local Transportation	Special Grants		
ASSETS					
Cash and investments	\$2,854,539	\$ 643,669	\$ 81,435	\$ 475,262	\$ 4,054,905
Receivables:					
Accounts	373,368			204	373,572
Taxes	287,583				287,583
Intergovernmental	58,530	39,665	40,076	33,878	172,149
Interest	69,689				69,689
Loans, net			322,159		322,159
Due from other funds	3,620		778		4,398
TOTAL ASSETS	<u>\$3,647,329</u>	<u>\$ 683,334</u>	<u>\$ 444,448</u>	<u>\$ 509,344</u>	<u>\$ 5,284,455</u>
LIABILITIES and FUND BALANCES					
LIABILITIES:					
Accounts payable	\$ 231,103		\$ 23,820	\$ 21,852	\$ 276,775
Payroll payable	116,340			17,223	133,563
Accrued vacation	203,439			2,185	205,624
Due to other funds	1,559			255	1,814
Deferred revenue - loans			322,159		322,159
TOTAL LIABILITIES	<u>552,441</u>	<u>-</u>	<u>345,979</u>	<u>41,515</u>	<u>939,935</u>
FUND BALANCES:					
Unreserved:					
Designated for:					
Future building improvements	167,021				167,021
Future equipment purchases	75,865				75,865
Grant projects	81,198		98,469	(1,700)	177,967
Police				5,071	5,071
Road maintenance		\$ 683,334		431,780	1,115,114
Sidewalk maintenance				32,678	32,678
Self insurance	456,714				456,714
Undesignated reported in:					
General fund	2,314,090				2,314,090
TOTAL FUND BALANCES	<u>3,094,888</u>	<u>683,334</u>	<u>98,469</u>	<u>467,829</u>	<u>4,344,520</u>
TOTAL LIABILITIES and FUND BALANCES	<u>\$3,647,329</u>	<u>\$ 683,334</u>	<u>\$ 444,448</u>	<u>\$ 509,344</u>	<u>\$ 5,284,455</u>

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

City of Yreka, California

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

Governmental Funds

June 30, 2006

Total governmental fund Balances (page 3)	\$ 4,344,520
Capital assets (net of accumulated depreciation) used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	7,276,959
In the statement of activities, supplies left over at year end are not expensed, whereas in the governmental funds supplies are expensed when purchased.	1,700
Long-term liabilities are not due and payable in the current period and, therefore are not reported in the governmental funds.	
Notes payable	(55,923)
Deferred Revenue - loans	<u>322,159</u>
Net assets of governmental activities (page 1)	<u>\$ 11,889,415</u>

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

City of Yreka, California
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2006

	Major Funds			Other Governmental Funds	Total Governmental Funds
	General	Local Transportation	Special Grants		
REVENUES					
Property taxes	\$ 796,018				\$ 796,018
Sales taxes	2,140,741				2,140,741
Transient lodging taxes	592,385				592,385
Franchise fees	206,474				206,474
Fuel taxes				\$ 149,816	149,816
Licenses and permits	250,068				250,068
Charges for services	173,660				173,660
Fines and forfeitures	13,842			66,555	80,397
Intergovernmental		\$ 31,960		165,905	197,865
Fire dept. reimbursements	1,029				1,029
Unrestricted investment earnings	268,872	24,603		14,504	307,979
Grants and donations	704,128		\$ 478,224	20,531	1,202,883
Other	247,902		147,028		394,930
In-kind	1,260			66,808	68,068
Total revenues	5,396,379	56,563	625,252	484,119	6,562,313
EXPENDITURES					
City council, administrator & clerk	312,295				312,295
General government	196,503				196,503
Fire	212,013				212,013
Police	1,967,679		25,738	5,418	1,998,835
Planning and development	424,686		161,321		586,007
Parks, culture and recreation	527,495		484,272		1,011,767
Public works administration	207,017				207,017
Public works mechanical maintenance	169,679				169,679
Streets and sidewalks	193,468	6,468	4,536	246,346	450,818
Capital outlays	361,946				361,946
Senior nutrition				296,122	296,122
Debt service:					
Principal	72,039				72,039
Interest	3,484				3,484
Total expenditures	4,648,304	6,468	675,867	547,886	5,878,525
Excess (deficiency) of revenues over (under) expenditures	748,075	50,095	(50,615)	(63,767)	683,788
OTHER FINANCING SOURCES AND (USES)					
Operating transfers in				80,935	80,935
Operating transfers out	(80,935)				(80,935)
Total other financing sources and (uses)	(80,935)	-	-	80,935	-
Net change in fund balances	667,140	50,095	(50,615)	17,168	683,788
Fund balances - beginning of year	2,427,748	633,239	149,084	450,661	3,660,732
Fund balances - end of year	\$ 3,094,888	\$ 683,334	\$ 98,469	\$ 467,829	\$ 4,344,520

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

City of Yreka, California

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

Governmental Funds

For the Year Ended June 30, 2006

Net change in fund balances - total governmental funds (page 5) \$ 683,788

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

Governmental funds report capital outlays as expenditures.

However, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives. This is the amount by which capital outlay exceeded depreciation expense for the current period.

Expenditures for capital assets	\$ 906,360	
Less current year depreciation	<u>(361,676)</u>	544,684

Repayment of loan principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. Principal payments

77,426

Governmental funds report EDBG & CDBG loans as expenditures when the loan is made and report the principal and interest payments as revenue when received. However, in the statement of activities, the loan is recorded as an asset which is reduced by the amount of principal payment that is received during the year. The statement of activities report the interest revenue when it is earned.

(8,630)

Change in net assets of governmental activities (page 2)

\$ 1,297,268

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

CITY OF YREKA, CALIFORNIA
Statement on Net Assets
Enterprise Funds
June 30, 2006

ASSETS	Water	Sewer	Sanitary Landfill	Total
Current:				
Cash and Investments	\$ 4,232,534	\$ 674,113	\$ 78,475	\$ 4,985,122
Accounts Receivable	140,952	81,260	213,999	436,211
Due From General Fund			781	781
Total Current Assets	<u>4,373,486</u>	<u>755,373</u>	<u>293,255</u>	<u>5,422,114</u>
Noncurrent:				
Post Closure Reserve			1,047,658	1,047,658
Land	55,472	197,700	116,750	369,922
Depreciable Capital Assets, Net	2,443,981	7,487,050	370,110	10,301,141
Construction in Progress	22,445	35,553		57,998
Total Noncurrent Assets	<u>2,521,898</u>	<u>7,720,303</u>	<u>1,534,518</u>	<u>11,776,719</u>
Total Assets	<u>6,895,384</u>	<u>8,475,676</u>	<u>1,827,773</u>	<u>17,198,833</u>
LIABILITIES				
Current:				
Accounts Payable	105,786	44,266	36,062	186,114
Payroll Payable	23,423	11,641	9,231	44,295
Compensated Absences	16,027	6,073	4,478	26,578
Accrued Interest Payable		28,959		28,959
Due to General Fund	2,153	1,212		3,365
Current Portion of Long-Term Debt	189,492	60,194	103,098	352,784
Total Current Liabilities	<u>336,881</u>	<u>152,345</u>	<u>152,869</u>	<u>642,095</u>
Noncurrent:				
Long-Term Debt, Net of Current Reserved for Closure/Post Closure	593,942	1,874,432	105,418	2,573,792
			1,047,658	1,047,658
Total Noncurrent Liabilities	<u>593,942</u>	<u>1,874,432</u>	<u>1,153,076</u>	<u>3,621,450</u>
Total Liabilities	<u>930,823</u>	<u>2,026,777</u>	<u>1,305,945</u>	<u>4,263,545</u>
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	1,738,464	5,756,718	278,344	7,773,526
Unrestricted	4,226,097	692,181	243,484	5,161,762
Total Net Assets	<u>\$ 5,964,561</u>	<u>\$ 6,448,899</u>	<u>\$ 521,828</u>	<u>\$ 12,935,288</u>

See accompanying notes to the financial statement

CITY OF YREKA, CALIFORNIA
Statement of Revenue, Expenses and
Changes in Fund Net Assets
Enterprise Funds
For the Year Ended June 30, 2006

	<u>Water</u>	<u>Sewer</u>	<u>Sanitary Landfill</u>	<u>Total</u>
Operating Revenues:				
User Fees and Charges	\$ 1,322,625	\$ 969,780	\$ 1,210,651	\$ 3,503,056
Operating Expenses:				
Cost of Power and Water	183,661	86,627		270,288
Maintenance, Operations and Administration	875,185	633,837	669,710	2,178,732
Closure/Post Closure Costs			218,000	218,000
Depreciation	210,108	391,265	94,654	696,027
Total Operating Expenses	<u>1,268,954</u>	<u>1,111,729</u>	<u>982,364</u>	<u>3,363,047</u>
Operating Income (Loss)	<u>53,671</u>	<u>(141,949)</u>	<u>228,287</u>	<u>140,009</u>
Non-Operating Revenues (Expenses)				
Interest Income	169,969			169,969
Gains/Losses on Sales of Equipment		100,560		100,560
Gains/Losses on Investments	(124,908)			(124,908)
Interest Expense	(18,099)	(73,014)	(13,451)	(104,564)
Total Non-Operating Revenues (Expenses)	<u>26,962</u>	<u>27,546</u>	<u>(13,451)</u>	<u>41,057</u>
Net Income (Loss) Before Capital Grants	<u>80,633</u>	<u>(114,403)</u>	<u>214,836</u>	<u>181,066</u>
Capital Grants		129,384		129,384
Total Capital Grants	<u>-</u>	<u>129,384</u>	<u>-</u>	<u>129,384</u>
Change in Net Assets	<u>80,633</u>	<u>14,981</u>	<u>214,836</u>	<u>310,450</u>
Total Net Assets - Beginning of Year	<u>5,883,928</u>	<u>6,433,918</u>	<u>306,992</u>	<u>12,624,838</u>
TOTAL NET ASSETS - END OF YEAR	<u>\$ 5,964,561</u>	<u>\$ 6,448,899</u>	<u>\$ 521,828</u>	<u>\$ 12,935,288</u>

See accompanying notes to the financial statement

CITY OF YREKA, CALIFORNIA

Statement on Cash Flows

Enterprise Funds

For the Year Ended June 30, 2006

	Water	Sewer	Sanitary Landfill	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from Customers	\$ 1,319,659	\$ 946,582	\$ 1,180,434	\$ 3,446,675
Payments to Suppliers for Goods and Services	(394,866)	(459,468)	(364,548)	(1,218,882)
Payments for Employee Services and Benefits	(610,141)	(224,583)	(343,584)	(1,178,308)
Payments for Post Closure Reserve			(218,000)	(218,000)
Net Cash Provided (Used) by Operating Activities	<u>314,652</u>	<u>262,531</u>	<u>254,302</u>	<u>831,485</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Advances from Other Funds	16,903	1,212	(61,547)	(43,432)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>16,903</u>	<u>1,212</u>	<u>(61,547)</u>	<u>(43,432)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Equipment Purchases	(181,286)			(181,286)
Disposal of Equipment		125,000		
Plant and System Improvements	(97,142)	(121,815)		(218,957)
New Debt Issued		49,515		49,515
Principal Payments on Debts	(189,139)	(154,051)	(100,829)	(444,019)
Interest Payments on Debts	(18,099)	(70,025)	(13,451)	(101,575)
Capital Grants		148,730		148,730
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(485,666)</u>	<u>(22,646)</u>	<u>(114,280)</u>	<u>(747,592)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest on Investments	169,969			169,969
Decrease in Investment Fair Value	(124,908)			(124,908)
Net Cash Provided (Used) by Investing Activities	<u>45,061</u>	<u>-</u>	<u>-</u>	<u>45,061</u>
NET INCREASE (DECREASE) IN CASH	<u>(109,050)</u>	<u>241,097</u>	<u>78,475</u>	<u>85,522</u>
Cash and Cash Equivalents - Beginning	4,341,584	433,016	-	4,774,600
CASH AND CASH EQUIVALENTS - ENDING	<u>\$ 4,232,534</u>	<u>\$ 674,113</u>	<u>\$ 78,475</u>	<u>\$ 4,985,122</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
Operating Income	\$ 53,671	\$ (141,949)	\$ 228,287	\$ 140,009
Adjustments:				
Depreciation	210,108	391,265	94,654	696,027
(Increase) Decrease in Assets:				
Accounts Receivable	(2,966)	(23,198)	(30,217)	(56,381)
Increase (Decrease) in Liabilities:				
Accounts Payable	63,725	30,189	(37,054)	56,860
Compensated Absences	(13,426)	2,929	(515)	(11,012)
Payroll Payable	3,540	3,295	(853)	5,982
Net Cash Provided (Used) by Operating Activities	<u>\$ 314,652</u>	<u>\$ 262,531</u>	<u>\$ 254,302</u>	<u>\$ 831,485</u>

See accompanying notes to the financial statement

CITY OF YREKA, CALIFORNIA
Statement of Fiduciary Net Assets
June 30, 2006

	Private-Purpose Trust Funds						TOTALS
	Parklands Trust	Campbell Tract Redemption Fund	Shasta Belle Redemption Fund	Senior Fund	Gift Donations	Senior Activity	
Assets							
Cash	\$ 14,743	\$ 53,021	\$ 3,592	\$ 40,860	\$ 3,549	\$ 4,788	\$ 120,553
Accounts receivable		1,235					1,235
Total assets	14,743	54,256	3,592	40,860	3,549	4,788	121,788
Liabilities	-	-	-	-	-	-	-
Net Assets							
Held in trust for beneficiaries	14,743			40,860	3,549	4,788	63,940
Held in trust for assessment district		54,256	3,592				57,848
Total net assets	\$ 14,743	\$ 54,256	\$ 3,592	\$ 40,860	\$ 3,549	\$ 4,788	\$ 121,788

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

CITY OF YREKA, CALIFORNIA

Statement of Changes in Fiduciary Net Assets
For the Year Ended June 30, 2006

	Private-Purpose Trust Funds						TOTALS
	Parklands Trust	Campbell Tract Redemption Fund	Shasta Belle Redemption Fund	Senior Fund	Gift Donations	Senior Activity	
Additions							
Donations and grants	\$ 100					\$ 1,443	\$ 1,543
Total Additions	100	-	-	-	-	1,443	1,543
Deductions							
Senior activities				\$ 1,794		1,149	2,943
YMCA youth programs					\$ 10,000		10,000
Total Deductions	-	-	-	1,794	10,000	1,149	12,943
Change in net assets	100			(1,794)	(10,000)	294	(11,400)
Net assets - beginning of year	14,643	\$ 54,256	\$ 3,592	\$ 42,654	\$ 13,549	4,494	133,188
Net assets - end of year	\$ 14,743	\$ 54,256	\$ 3,592	\$ 40,860	\$ 3,549	\$ 4,788	\$ 121,788

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

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

A. Reporting Entity

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

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

B. Government-wide and Fund Financial Statements

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recognized when earned and expenses are recognized when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current time period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, relating to compensated absences, and claims and judgments are recognized only when payment is due.

Property taxes, state-shared revenue, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be available only when cash is received by the City.

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

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

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

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

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

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

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

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

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

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

Additionally, the City reports the following fund types:

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

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

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

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

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

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

D. **Cash and Investments**

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

During fiscal year 2001-2002, the City adopted GASB Statement 31, "Accounting and Financial Reporting for Certain Investments and For Investment Pools."

Under GASB 31 investments are generally stated at fair value, rather than amortized cost, and increase or decrease in fair value of investments is included as a component of income.

E. **Taxes Receivable**

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

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

CITY OF YREKA, CALIFORNIA

Notes to the Financial Statements

June 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$50,000 and estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

G. Accrued Vacation Pay

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

H. Long-term Debt

In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. The face amount of debt issued is reported as other financing sources on the statement of revenues and expenditures while the amount outstanding is reported on the statement of net assets. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

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

I. Fund Equity

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

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

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

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

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

J. Budgetary Data

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

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.

CITY OF YREKA, CALIFORNIA
Notes to the Financial Statements
June 30, 2006

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

K. Use of Estimates

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

L. Statement of Cash Flows

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

CITY OF YREKA, CALIFORNIA

Notes to the Financial Statements

June 30, 2006

2. CASH AND INVESTMENTS

The following is a summary of pooled cash and investments at June 30, 2006:

	<u>Cash and Investments (carrying value)</u>	<u>Fair Value of Investments</u>
Petty cash	\$ 650	
Cash in bank - checking	1,452,143	
Cash in State Treasurer's Local Agency Investment Fund	<u>7,714,625</u>	<u>\$ 7,714,625</u>
 Total Cash	 <u>9,167,418</u>	
 U.S. Government and federal Bonds in Smith Barney account	 <u>1,040,820</u>	 <u>1,040,820</u>
 Total Investments	 <u>1,040,820</u>	 <u>\$ 8,755,445</u>
 Total Cash and Investments Per Financial Statement	 <u>\$ 10,208,238</u>	

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

Governmental activities - Cash and invest	\$ 4,054,905	
Business type activities - Cash and invest.	4,985,122	
Landfill postclosure reserve	1,047,658	
Fiduciary funds - Cash and invest.	<u>120,553</u>	
 Total Cash and Investments Per Financial Statement	 <u>\$ 10,208,238</u>	

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

2. **Cash and Investments**

A. **Cash Deposits**

The carrying amounts of the City's cash deposits were \$9,166,769 as of June 30, 2006. Bank balances before reconciling items were \$9,188,983 at that date. The total amount of which was collateralized or insured with securities held by the pledging financial institutions in the City's name is discussed below.

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

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

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

B. **Investments**

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

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

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

B. Investments (continued)

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

The City's investments with Local Agency Investment Fund (LAIF) on June 30, 2006 include a portion of the pool funds invested in Structured Notes and Asset-Backed Securities. These investments include the following:

- Structured Notes – debt securities (other than asset-backed securities) whose cash flow characteristics (coupon rate, redemption amount, or stated maturity) depend upon one or more indices and/or that have embedded forwards or options.

- Asset-Backed Securities – the bulk of which are mortgage-backed securities, entitle their purchasers to receive a share of the cash flows from a pool of assets such as principal and interest repayments from a pool of mortgages (such as CMO's) or credit card receivables.

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

As of June 30, 2006, the City had \$7,714,625 invested in LAIF. LAIF had 2.567% of the pool investment funds in Structured Notes and Asset-Backed Securities on June 30, 2006

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

C. Credit Risk

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

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

Deposits:

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

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

Category 3 – Deposits which are uninsured or uncollateralized.

Investments:

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

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

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

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

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

CITY OF YREKA, CALIFORNIA
Notes to the Financial Statements
June 30, 2006

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

C. Credit Risk (continued)

	Category			Not Required to be Categorized	Carrying Value
	1	2	3		
Demand deposits:					
Cash deposit	\$ 1,452,143				\$ 1,452,143
Investments:					
U.S. Government and Federal Agency Bonds (in Smith Barney account)	\$ 1,040,820				\$ 1,040,820
Local agency investment fund				\$ 7,714,625	7,714,625
Total Investments	\$ 1,040,820	\$ -	\$ -	\$ 7,714,625	\$ 8,755,445

D. Summary on Investments to Maturity

Investments grouped by maturity date at June 30, 2006 are shown below:

Maturity	Fair Value
Current to one year	\$ 7,714,625
December 28, 2007	98,990
August 25, 2008	196,188
November 12, 2008	337,024
February 24, 2009	291,843
September 17, 2009	116,775
Total Investments	\$ 8,755,445

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

CITY OF YREKA
Notes to the Financial Statements
June 30, 2006

3. LOANS RECEIVABLE

The City had the following loan receivable as of June 30, 2006:

Economic development loan program	<u>\$ 322,159</u>
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The City administers a economic development loan program using Community Development Act funds. Businesses meeting the programs requirements are eligible to receive low interest loans, secured by deeds of trust, for the creation or expansion of their business.

At June 30, 2006 the City had outstanding loans of \$322,159 with no allowance for uncollectible accounts. During the year ended June 30, 2006 the City received \$37,542 in repayments from the program participants and loaned \$124,594 to program participants.

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

4. INTERFUND ASSETS AND LIABILITIES

The following is a summary of interfund assets and liabilities as of June 30, 2006:

<u>Fund</u>	<u>Due From Asset</u>	<u>Due To Liability</u>
General Fund	\$ 3,620	\$ 1,559
Other Governmental Funds	778	255
Business-type Activities:		
Water Fund		2,153
Sewer Fund		1,212
Landfill Fund	781	
	<u> </u>	<u> </u>
Totals	<u>\$ 5,179</u>	<u>\$ 5,179</u>

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

5. INTERFUND TRANSFERS IN/(OUT)

Interfund transfers for the year ended June 30, 2006 were as follows:

<u>Transfers (out)</u>	<u>Transfers In</u>
	<u>Other Governmental Funds</u>
General Fund	\$ 80,935
Totals	<u>\$ 80,935</u>

The above transfers resulted from the normal course of the City's operation.

CITY OF YREKA, CALIFORNIA

Notes to the Financial Statements

June 30, 2006

6. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2006 consisted of the following:

	Primary Government			Balance June 30, 2006
	Balance July 1, 2005	Additions	Retirements	
Governmental Activities:				
Capital assets, not being depreciated:				
Land and land improvements	\$ 1,597,618	\$ 8,500		\$ 1,606,118
Construction in progress		85,815		85,815
Total capital assets not being depreciated	<u>1,597,618</u>	<u>94,315</u>	<u>-</u>	<u>1,691,933</u>
Capital assets, being depreciated:				
Buildings and structures	3,261,167	659,213		3,920,380
Machinery and equipment	1,850,764	152,832		2,003,596
Infrastructure:				
Bridges	251,500			251,500
Signs and lights	3,449,600			3,449,600
Drainage system	732,450			732,450
Sidewalks	633,716			633,716
Street pavement system	13,381,826			13,381,826
Total capital assets being depreciated	<u>23,561,023</u>	<u>812,045</u>	<u>-</u>	<u>24,373,068</u>
Accumulated depreciation	<u>(18,426,375)</u>	<u>(361,676)</u>	<u>-</u>	<u>(18,788,051)</u>
Total capital assets being depreciated, net	<u>5,134,648</u>	<u>450,369</u>	<u>-</u>	<u>5,585,017</u>
Governmental activities capital assets, net	<u>\$ 6,732,266</u>	<u>\$ 544,684</u>	<u>\$ -</u>	<u>\$ 7,276,950</u>

Depreciation Expense by Function:

City council, administration & clerk	\$ -
General government	23,213
Fire	28,215
Police	27,037
Planning and Development	3,343
Parks and recreation	61,960
Public works administration	-
Public works mechanical maintenance	-
Streets & sidewalks	217,908
Senior nutrition	-
Total	<u>\$ 361,676</u>

CITY OF YREKA, CALIFORNIA

Notes to the Financial Statements

June 30, 2006

6. CAPITAL ASSETS (continued)

Capital assets activity for the year ended June 30, 2006 consisted of the following: (continued)

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

Capital asset activity for individual enterprise funds is as follows:

	Balance July 1, 2005	Additions	Retirements	Balance June 30, 2006
Water system				
Capital assets, not being depreciated:				
Land	\$ 45,462	\$ 10,010		\$ 55,472
Construction in progress		22,445		22,445
Total capital assets, not being depreciated	45,462	32,455	-	77,917
Capital assets, being depreciated:				
Buildings and structures	1,372,833			1,372,833
Machinery and equipment	1,886,639	\$ 181,286		2,067,925
Water system	8,109,242	64,687		8,173,929
Total capital assets being depreciated	11,368,714	245,973	-	11,614,687
Less accumulated depreciation:				
Buildings and structures	(851,407)	(31,869)		(883,276)
Machinery and equipment	(1,682,685)	(30,546)		(1,713,231)
Water system	(6,426,506)	(147,693)		(6,574,199)
Total accumulated depreciation	(8,960,598)	(210,108)	-	(9,170,706)
Total capital assets being depreciated, net	2,408,116	35,865		2,443,981
Water system capital assets, net	\$2,453,578	\$ 68,320	\$ -	\$ 2,521,898
	Balance July 1, 2005	Additions	Retirements	Balance June 30, 2006
Sewer system				
Capital assets, not being depreciated:				
Land	\$ 197,700			\$ 197,700
Construction in progress		\$ 35,553		35,553
Total capital assets, not being depreciated	197,700	35,553	-	233,253
Capital assets, being depreciated:				
Buildings and structures	5,621,194			5,621,194
Machinery and equipment	1,628,804		\$ 219,956	1,408,848
Sewer system	4,693,749	\$ 86,262		4,780,011
Total capital assets being depreciated	11,943,747	86,262	219,956	11,810,053
Less accumulated depreciation:				
Buildings and structures	(1,037,133)	(174,091)		(1,211,224)
Machinery and equipment	(1,083,475)	(124,387)	(195,516)	(1,012,346)
Sewer system	(2,006,646)	(92,787)		(2,099,433)
Total accumulated depreciation	(4,127,254)	(391,265)	(195,516)	(4,323,003)
Total capital assets being depreciated, net	7,816,493	(305,003)	(24,440)	7,487,050
Sewer system capital assets, net	\$8,014,193	\$ (269,450)	\$ (24,440)	\$ 7,720,303

CITY OF YREKA, CALIFORNIA

Notes to the Financial Statements

June 30, 2006

6. CAPITAL ASSETS (continued)

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

	Balance <u>July 1, 2005</u>	<u>Additions</u>	<u>Retirements</u>	Balance <u>June 30, 2006</u>
<u>Sanitary landfill</u>				
Capital assets, not being depreciated:				
Land	\$ 116,750	_____	_____	\$ 116,750
Capital assets, being depreciated:				
Machinery and equipment	1,044,576	_____	_____	1,044,576
Total capital assets being depreciated	<u>1,044,576</u>	<u>-</u>	<u>-</u>	<u>1,044,576</u>
Less accumulated depreciation:				
Machinery and equipment	(579,812)	\$ (94,654)	_____	(674,466)
Total accumulated depreciation	<u>(579,812)</u>	<u>(94,654)</u>	<u>-</u>	<u>(674,466)</u>
Total capital assets being depreciated, net	<u>464,764</u>	<u>(94,654)</u>	_____	<u>370,110</u>
Sanitary landfill capital assets, net	<u>\$ 581,514</u>	<u>\$ (94,654)</u>	<u>\$ -</u>	<u>\$ 486,860</u>

CITY OF YREKA, CALIFORNIA

Notes to the Financial Statements

June 30, 2006

7. LONG-TERM DEBT

The following is a summary of changes in general long-term obligations for the year ended June 30, 2006.

	<u>Balance</u> <u>June 30, 2005</u>	<u>New</u> <u>Issues</u>	<u>Principal</u> <u>Payments</u>	<u>Balance</u> <u>June 30, 2006</u>
LaFrance Fire Truck	\$ 74,973		\$ 24,437	\$ 50,536
Street Sweeper	18,018		18,018	-
Ford Pickup F150	7,090		7,090	-
FL70 Freightliner	16,288		16,288	-
Ford Pickup F150	3,974		3,974	-
Fire Dept. Rescue Truck	7,619		7,619	-
Totals	\$ 127,962	\$ -	\$ 77,426	\$ 50,536

The following is a summary of changes in Enterprise Fund long-term obligations for the year ended June 30, 2006.

	<u>Balance</u> <u>June 30, 2005</u>	<u>New</u> <u>Issues</u>	<u>Principal</u> <u>Payments</u>	<u>Balance</u> <u>June 30, 2006</u>
WATER FUND				
Water System	\$ 800,056		\$ 152,017	\$ 648,039
Deferred Interest	169,244		33,849	135,395
Ford Pickup	3,273		3,273	-
SEWER FUND				
Brown Bear Tractor	97,908		97,908	-
Plant Upgrade	1,042,254	\$ 49,515	46,143	1,045,626
Eastside Sewer Extension	899,000		10,000	889,000
SANITARY LANDFILL				
627G Caterpillar Scraper	258,448		84,240	174,208
F1 Freightliner Water Truck	50,897		16,589	34,308
Totals	\$ 3,321,080	\$ 49,515	\$ 444,019	\$ 2,926,576

CITY OF YREKA, CALIFORNIA

Notes to the Financial Statements

June 30, 2006

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

Long-term debt at June 30, 2006 consists of the following:

	<u>Business Type</u> <u>Activities</u>	<u>Primary</u> <u>Government</u>
Note payable to California Dept. of Water Resources, unsecured, bearing interest at 2.5%. Principal payment due in annual installments ranging from 2.1% and accelerating to 4.95% in the 30th year (2010).	\$ 648,039	
Deferred interest payable to California Dept. of Water Resources, per applicable provisions of the above note, accumulated for initial 10 years of note, with no interest. Payments due in annual installments of \$33,849.	135,395	
Note payable to Sun Trust Leasing Corp., secured with equipment, which bears interest at 3.35%, Interest and principal payments due annually thru 2007.	174,208	\$ 50,536
Note payable to Sun Trust Leasing Corp., secured with equipment which bears interest at 3.35%, Interest and principal payments due annually thru 2005.	34,308	
Note payable to California State Water Resources Control Board, bearing interest at 2.6%. Principal and interest payment due annually thru 2022.	1,045,626	
Certificates of participation., unsecured. Issued August 7, 2002, bearing interest at 4.5%, Interest and principal payments due September 1 annually thru 2022.	<u>889,000</u>	
	2,926,576	50,536
Less: portion classified as current	<u>(352,784)</u>	<u>(24,987)</u>
Long-term obligations	<u>\$ 2,573,792</u>	<u>\$ 25,549</u>

CITY OF YREKA, CALIFORNIA

Notes to the Financial Statements

June 30, 2006

7. LONG-TERM DEBT(continued)

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

<u>Year ended</u> <u>June 30</u>	<u>Business Type</u> <u>Activities</u>	<u>Primary</u> <u>Government</u>
2007	\$ 352,784	\$ 24,987
2008	360,763	25,549
2009	260,659	
2010	268,835	
2011	67,042	
2012	69,473	
2013	70,941	
2014	73,448	
2015	75,993	
2016	77,579	
2017	80,206	
2018	82,876	
2019	85,588	
2020	87,346	
2021	90,149	
2022	92,998	
2023	95,896	
2024	22,000	
2025	23,000	
2026	24,000	
2027	25,000	
2028	26,000	
2029	27,000	
2030	28,000	
2031	30,000	
2032	31,000	
2033	33,000	
2034	34,000	
2035	35,000	
2036	37,000	
2037	39,000	
2038	40,000	
2039	42,000	
2040	44,000	
2041	46,000	
2042	48,000	
	<u>\$ 2,926,576</u>	<u>\$ 50,536</u>

CITY OF YREKA, CALIFORNIA
Notes to the Financial Statements
June 30, 2006

8. RISK MANAGEMENT

The City participates in the following public entity risk pools:

The Small Cities Organized Risk Effort (S.C.O.R.E.) covers general liability claims in an amount up to \$500,000. The City has a deductible or uninsured liability of up to \$25,000 per claim. Once the City's deductible is met S.C.O.R.E. becomes responsible for payment of all claims up to the limit. During the fiscal year ended June 30, 2005, the City contributed \$225,144 general liability coverage.

The Small Cities Organized Risk Effort covers workers' compensation claims up to the statutory limit. The City has no deductible for these claims. During the fiscal year ended June 30, 2005, the City contributed \$417,021 for current year coverage.

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

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

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

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

The following represents summary audited financial information of S.C.O.R.E. general liability plan for the fiscal year ended June 30, 2005:

Total assets	\$10,769,270
Total liabilities	\$ 5,349,667
Net assets	\$ 5,419,603
Total revenues	\$ 5,023,843
Total expenses	\$ 4,323,468
Refund to members/dividends	\$ 1,996,372
Net increase in fund equity	\$ 700,375

8. RISK MANAGEMENT (continued)

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

S.C.O.R.E.
C/O Dover Alliant Rigel Services, Inc.
2933 Gold Pan Court, Suite E
Rancho Cordova, CA 95670

9. PENSION PLAN

A. Plan Description: The City of Yreka contributes to the California Public Employees Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and city ordinance. Copies of PERS' annual financial report may be obtained from their Executive Office – 400 Q Street – Sacramento, CA 95811.

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

Annual Pension Cost: For fiscal year 2004/2005, the City of Yreka's annual pension cost was \$344,398 and the City of Yreka actually contributed \$344,398. The required contribution for fiscal year 2004/2005 was determined as part of the June 30, 2005 actuarial valuation using the entry age normal actuarial cost method assumptions included (a) 7.75% investment rate of return (net of administrative expenses); (b) projected salary increases that vary by duration of service ranging from 3.25% to 14.45% for miscellaneous members (from 4.25% to 14.45% for safety members), and (C) 3.25% payroll growth. Both (a) and (b) include an inflation component of 3.5%. The city paid \$1,500,000 during the fiscal year 2004/2005 in order to prepay a projected unfunded pension liability.

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

CITY OF YREKA, CALIFORNIA

Notes to the Financial Statements

June 30, 2006

9. PENSION PLAN (continued)

Supplementary Information

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

Valuation Date	Entry Age Normal Accrued Liability	Actuarial Value of Assets	Unfunded Liability/ (Excess Assets)	Funded Status	Annual Covered Payroll	UL As a % of Payroll
06-30-2003	\$2,596,966,545	\$2,372,879,034	\$224,087,511	91.40%	\$725,020,458	30.9%
06-30-2004	\$2,746,095,668	\$2,460,944,656	\$285,151,012	89.60%	\$743,691,970	38.3%
06-30-2005	\$2,891,460,651	\$2,588,713,000	\$302,747,651	89.50%	\$755,046,679	40.1%

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

Valuation Date	Entry Age Normal Accrued Liability	Actuarial Value of Assets	Unfunded Liability/ (Excess Assets)	Funded Status	Annual Covered Payroll	UAAL As a % of Payroll
06-30-2003	\$1,218,082,935	\$1,083,690,137	\$134,392,798	89.0%	\$184,098,257	73.0%
06-30-2004	\$ 996,203,370	\$ 885,549,650	\$110,653,720	88.9%	\$149,407,703	74.1%
06-30-2005	\$ 742,247,338	\$ 646,358,708	\$ 95,888,630	87.1%	\$115,062,820	83.3%

10. EMPLOYEE DENTAL PLAN

Self Insured Dental Plan – The city provides dental insurance coverage for city employees through a self insurance plan. The plan is managed by a contract administrator. The cost of the plan for the year ended June 30, 2006, was \$37,441.

11. NET ASSETS

As of June 30, 2006, investment in capital assets, net of related debt consisted of the following:

	Primary Government	Business-type Activities
Capital assets, net	\$ 7,276,959	\$ 10,726,061
Long-term debt	(55,923)	(2,952,535)
Investment in capital assets, net of related debt	\$ 7,221,036	\$ 7,773,526

CITY OF YREKA, CALIFORNIA

Notes to the Financial Statements

June 30, 2006

12. SOLID WASTE LANDFILL CLOSURE/POST CLOSURE CARE COSTS

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

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

Information relating to the closure post closure care costs:

Liability for the closure/post closure care as of June 30, 2006	\$1,047,658
Trust account balance as of June 30, 2006	\$1,047,658
Estimated total current cost remaining to be recognized As of February 6, 2006	\$8,587,345
Percentage of landfill capacity used as of February 6, 2006	26%
Estimated remaining landfill life as of February 6, 2006	85years
Increase in trust account balance and expenditure for the year ended June 30, 2006	\$218,000

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

13. JOINT OWNERSHIP OF THE LANDFILL WITH SISKIYOU COUNTY

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

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

CITY OF YREKA, CALIFORNIA

Notes to the Financial Statements

June 30, 2006

14. COMMITMENTS, CONTIGENT LIABILITIES AND LITIGATION

- A. The City participates in a number of Federal and State assisted grant programs. These programs are subject to financial and compliance audits by the grantors or their representatives. Audits of certain grant programs, including those for the year ended June 30, 2006 have not yet been conducted.

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

- B. Certain general obligation bonds which are issued exclusively as general obligations debt for the benefit of a governmental enterprise, but which, as a matter of discretionary financial policy, are actually serviced by earnings of an enterprise fund, are presented as an obligation of the enterprise fund rather than in general long-term debt. The City would be responsible for the debt only in the event that funds were not available in the enterprise fund. If this occurred, an interfund receivable would be created and remain until the enterprise fund was able to repay the City.
- C. The City is subject to various disputes, legal proceedings and labor relation claims which arise in the normal course of its operations. The City management is of the opinion that the ultimate disposition of the various claims and legal proceedings will not have a material effect, if any, on the financial condition of the City.

15. SUBSEQUENT EVENT

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

Supplementary Information

City of Yreka, California
 Required Supplementary Information
 Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
 General Fund
 For the Year Ended June 30, 2006

	Budget Amounts		Actual Amounts	Positive (Negative) Variance with Final Budget
	Original	Final		
REVENUES				
Property taxes	\$ 693,000	\$ 693,000	\$ 796,018	\$ 103,018
Sales taxes	2,140,000	2,140,000	2,140,741	741
Transient lodging taxes	600,000	600,000	592,385	(7,615)
Franchise fees	215,000	215,000	206,474	(8,526)
Licenses and permits	220,200	220,200	250,068	29,868
Charges for services	164,800	164,800	173,660	8,860
Fines and forfeitures	13,000	13,000	13,842	842
Intergovernmental	338,810	338,810		(338,810)
Fire dept. reimbursements	1,000	1,000	1,029	29
Unrestricted investment earnings	142,000	142,000	268,872	126,872
Grants and donations	844,713	844,713	704,128	(140,585)
Other	230,000	230,000	247,902	17,902
In-kind			1,260	1,260
Total revenues	<u>5,602,523</u>	<u>5,602,523</u>	<u>5,396,379</u>	<u>(206,144)</u>
EXPENDITURES				
City council, administrator & clerk	328,305	329,131	312,295	16,836
General government	202,122	201,611	196,503	5,108
Fire	210,088	224,607	212,013	12,594
Police	2,013,180	2,070,229	1,967,679	102,550
Planning and development	414,712	417,224	424,686	(7,462)
Parks, culture and recreation	1,009,101	1,020,312	527,495	492,817
Public works administration	224,433	252,584	207,017	45,567
Public works mechanical maintenance	369,834	200,432	169,679	30,753
Streets and sidewalks	172,040	227,406	193,468	33,938
Capital outlays	280,950	490,950	361,946	129,004
Debt service:				
Principal	72,040	72,040	72,039	1
Interest	3,485	3,485	3,484	1
Total expenditures	<u>5,300,290</u>	<u>5,510,011</u>	<u>4,648,304</u>	<u>861,707</u>
Excess (deficiency) of revenues over (under) expenditures	<u>302,233</u>	<u>92,512</u>	<u>748,075</u>	<u>655,563</u>
OTHER FINANCING SOURCES AND (USES)				
Operating transfers out	(121,437)	(177,376)	(80,935)	96,441
Total other financing sources and (uses)	<u>(121,437)</u>	<u>(177,376)</u>	<u>(80,935)</u>	<u>96,441</u>
Net change in fund balances	180,796	(84,864)	667,140	752,004
Fund balances - beginning of year	<u>2,427,748</u>	<u>2,427,748</u>	<u>2,427,748</u>	-
Fund balances - end of year	<u>\$ 2,608,544</u>	<u>\$ 2,342,884</u>	<u>\$ 3,094,888</u>	<u>\$ 752,004</u>

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

City of Yreka, California
 Required Supplementary Information
 Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
 Local Transportation
 For the Year Ended June 30, 2006

	Budget Amounts		Actual Amounts	Positive (Negative) Variance with Final Budget
	Original	Final		
REVENUES				
Intergovernmental			\$ 31,960	\$ 31,960
Unrestricted investment earnings	\$ 12,000	\$ 12,000	24,603	12,603
Total revenues	12,000	12,000	56,563	44,563
EXPENDITURES				
Streets and sidewalks	31,000	31,000	6,468	24,532
Total expenditures	31,000	31,000	6,468	24,532
Excess (deficiency) of revenues over (under) expenditures	(19,000)	(19,000)	50,095	69,095
OTHER FINANCING SOURCES AND (USES)				
Operating transfers out	(43,000)	(43,000)		43,000
Total other financing sources and (uses)	(43,000)	(43,000)	-	43,000
Net change in fund balances	(62,000)	(62,000)	50,095	112,095
Fund balances - beginning of year	633,239	633,239	633,239	-
Fund balances - end of year	\$ 571,239	\$ 571,239	\$ 683,334	\$ 112,095

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

City of Yreka, California
 Required Supplementary Information
 Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
 Special Grants
 For the Year Ended June 30, 2006

	Budget Amounts		Actual Amounts	Positive (Negative) Variance with Final Budget
	Original	Final		
REVENUES				
Unrestricted investment earnings	\$ 19,200	\$ 19,200		\$ (19,200)
Grants and donations	990,200	990,200	\$ 478,224	(511,976)
Other	16,801	16,801	147,028	130,227
Total revenues	<u>1,009,400</u>	<u>1,009,400</u>	<u>625,252</u>	<u>(400,949)</u>
EXPENDITURES				
Police	15,000	15,000	25,738	(10,738)
Planning and development	321,200	321,200	161,321	159,879
Parks, culture and recreation	426,200	426,200	484,272	(58,072)
Streets and sidewalks	375,000	376,000	4,536	371,464
Total expenditures	<u>1,137,400</u>	<u>1,138,400</u>	<u>675,867</u>	<u>462,533</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(128,000)</u>	<u>(129,000)</u>	<u>(50,615)</u>	<u>61,584</u>
OTHER FINANCING SOURCES AND (USES)				
Operating transfers in	145,500	145,500		(145,500)
Total other financing sources and (uses)	<u>145,500</u>	<u>145,500</u>	<u>-</u>	<u>(145,500)</u>
Net change in fund balances	17,500	16,500	(50,615)	(83,916)
Fund balances - beginning of year	149,084	149,084	149,084	-
Fund balances - end of year	<u>\$ 166,584</u>	<u>\$ 165,584</u>	<u>\$ 98,469</u>	<u>\$ (67,115)</u>

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

City of Yreka, California

Notes to Required Supplementary Information
June 30, 2006

Budgets and Budgetary Accounting

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

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

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

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

CITY OF YREKA, CALIFORNIA
 Schedule of Expenditures of Federal Awards
 For the Year Ended June 30, 2006

<u>Federal Grantor/Pass-through Grantor</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Federal Expenditures</u>
U.S. Department of Health and Human Services. Passed Through California Dept. of Aging			
Pass Through Program From PSAII Local Area Agency on Aging FF-0102-02		4001	
Title III Congregate Meals (C1)	93.045		\$ 20,775
Title III Home Delivered Meals (C2)	93.045		27,079
Title III Supportive Services (III-B)	93.044		15,729
U.S. Department of Agriculture	10.570		14,919
U.S. Department of Housing and Urban Development Passed Through California Department of Housing & Community Development			
Community Development Block Grant Base Mapping Project	14.227		35,000
Economic Development Block Grant Economic Development Block Grant 02EDBG895	14.228		131,873
United States Department of Transportation Safety Belt Performance	20.600		3,000
United States Department of the Interior Greenhorn Public Use Plan	10.670		<u>23,050</u>
Total Expenditures of Federal Awards			<u>\$ 271,425</u>

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

CITY OF YREKA, CALIFORNIA

Notes to Schedule of Expenditures of Federal Awards For the Year Ended June 30, 2006

Note 1 - Basis of Presentation

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

CITY OF YREKA, CALIFORNIA
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2006

SUMMARY OF AUDIT RESULTS

1. The auditors report expresses a qualified opinion on the general purpose financial statements of the City of Yreka, California.
2. There were no reportable conditions disclosed during the audit of the general purpose financial statements
3. No instances of noncompliance material to the general purpose financial statements of the City of Yreka, California were disclosed during the audit.
4. There were no major federal grant programs during the current year end.
5. There were no Type A programs during the current year end. The dollar threshold for distinguishing between Type A and B programs was \$300,000.
6. Title III Congregate Meals (C1), Title III Home Delivered Meals (C2), and Title III Supportive Services (III-B), U.S. Department of Agriculture, Economic Development Block Grant 895, Safety Belt Performance and, Greenhorn Public Use Plan were considered to be Type B programs.
7. City of Yreka, California was determined to be a low-risk auditee.

FINDINGS - FINANCIAL STATEMENT AUDIT

I noted no findings during the financial statement audit.

FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS

There were no major federal award programs during the current year end.

QUESTIONED COSTS

None.

CITY OF YREKA, CALIFORNIA
Schedule of Prior Year Findings and Questioned Costs
For the year ended June 30, 2006

FINDINGS

None

QUESTIONED COSTS

None

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Fax: (530) 841-1568

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

To the City Council
City of Yreka
Yreka, California

I have audited the financial statements of the City of Yreka as and for the year ended June 30, 2006 and have issued my report thereon dated July 12, 2007.

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

Internal Control Over Financial Reporting

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

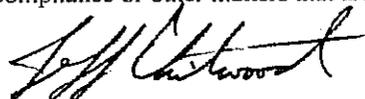
A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control.

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

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

Compliance and Other Matters

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



Jeffrey Chitwood
Certified Public Accountant
July 12, 2007