

CITY OF ANGELS

**INDEPENDENT AUDITORS' REPORT
AND**

FINANCIAL STATEMENTS

JUNE 30, 2007

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BRYANT L. JOLLEY

CERTIFIED PUBLIC ACCOUNTANT

BRYANT L. JOLLEY C.P.A.

DARRYL SMITH C.P.A.

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and City Council
of the City of Angels
Angels Camp, California

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Angels, California (City), as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As discussed in Note 1 to the financial statements, the City has not recorded capital assets in the governmental activities and, accordingly, has not recorded depreciation expense on those assets. Accounting principles generally accepted in the United States of America require that those capital assets be capitalized and depreciated, which would increase the assets, net assets, and expenses of the governmental activities. These amounts are not reasonably determinable.

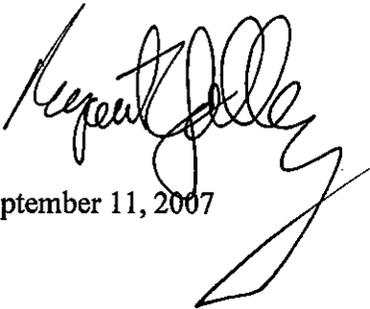
In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements of the governmental activities do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the governmental activities of the City of Angels as of June 30, 2007, and the respective changes in financial position for the fiscal year ended.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 11, 2007 on our consideration of the City of Angels's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The City has not presented the Management Discussion and Analysis that accounting principles generally accepted in the United States have determined is necessary to supplement, although not required to be part of, the financial statements. The Budgetary Comparison Information on page 30, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Angels's basic financial statements. The supplemental information listed in the Table of Contents is presented for 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 not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.



September 11, 2007

CITY OF ANGELS

STATEMENT OF NET ASSETS JUNE 30, 2007

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
ASSETS			
Cash and investments - unrestricted	\$ 3,788,048	\$ 6,098,152	\$ 9,886,200
Cash and investments - restricted	-	297,177	297,177
Accounts receivable, net	518,864	751,789	1,270,653
Taxes receivable	504,609	-	504,609
Interest receivable	52,366	-	52,366
Notes receivable	476,483	-	476,483
Deferred charges - Bond issuance costs, net	-	89,918	89,918
Capital assets, net of allowance for depreciation	-	17,791,166	17,791,166
Total assets	<u>5,340,370</u>	<u>25,028,202</u>	<u>30,368,572</u>
LIABILITIES			
Accounts payable and accrued expense	80,154	355,607	435,761
Accrued payroll	25,641	15,992	41,633
Accrued interest	7,229	89,656	96,885
Deferred revenue	32,000	-	32,000
Deposits payable	98,330	12,310	110,640
Compensated absences	85,779	54,567	140,346
Long-term liabilities			
Due within one year	52,366	337,740	390,106
Due in more than one year	431,941	7,849,739	8,281,680
Total liabilities	<u>813,440</u>	<u>8,715,611</u>	<u>9,529,051</u>
NET ASSETS			
Invested in capital assets, net of related debt	-	9,603,687	9,603,687
Reserved for notes receivable	476,483	-	476,483
Reserved for debt service	-	297,177	297,177
Unreserved:			
Designated for specific projects and programs	1,666,426	-	1,666,426
Undesignated	2,384,021	6,411,727	8,795,748
Total net assets/(deficit)	<u>\$ 4,526,930</u>	<u>\$ 16,312,591</u>	<u>\$ 20,839,521</u>

CITY OF ANGELS

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS YEAR ENDED JUNE 30, 2007

Functions/Programs	Program Revenue			Net Revenue/(Expense) and Changes in Net Assets			
	Expense	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary Government							
Governmental activities							
General government	\$ 341,899	\$ 17,290	\$ -	\$ -	\$ (324,609)	\$ -	\$ (324,609)
Public works	735,328	23,214	124,580	-	(587,534)	-	(587,534)
Community development	724,987	326,197	821,570	-	422,780	-	422,780
Public safety	1,681,595	74,865	193,876	-	(1,412,854)	-	(1,412,854)
Parks and recreation	140,577	25,252	-	9,538	(105,787)	-	(105,787)
Capital outlay	764,607	-	-	-	(764,607)	-	(764,607)
Debt Service							
Interest and fiscal charges	34,372	-	-	-	(34,372)	-	(34,372)
Total governmental activities	4,423,365	466,818	1,140,026	9,538	(2,806,983)	-	(2,806,983)
Business-type activities							
Water	1,204,602	1,776,976	-	-	-	572,374	572,374
Sewer	2,230,678	2,538,783	-	9,804	-	317,909	317,909
Total business-type activities	3,435,280	4,315,759	-	9,804	-	890,283	890,283
Total primary government	\$ 7,858,645	\$ 4,782,577	\$ 1,140,026	\$ 19,342	(2,806,983)	890,283	(1,916,700)
General Revenue							
Property taxes					1,078,819	-	1,078,819
Special assessments and other taxes					172,481	-	172,481
Sales taxes					582,448	-	582,448
Franchise and other taxes					872,718	-	872,718
Motor vehicle license-in-lieu					22,874	-	22,874
Other					52,167	-	52,167
Rents					3,630	-	3,630
Interest income					183,313	265,844	449,157
Total general revenue and transfers					2,968,450	265,844	3,234,294
Change in Net Assets					161,467	1,156,127	1,317,594
Net Assets							
Beginning of year					4,365,463	15,156,464	19,521,927
End of year					\$ 4,526,930	\$ 16,312,591	\$ 20,839,521

See accompanying notes.

CITY OF ANGELS

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2007

	General Fund	CDBG	CDBG Housing	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and investments	\$ 2,483,859	\$ (39,650)	\$ (218,592)	\$ 1,562,431	\$ 3,788,048
Accounts receivable, net	111,453	57,472	315,303	34,636	518,864
Taxes receivable	412,091	-	-	92,518	504,609
Due from other funds	53,530	-	-	-	53,530
Interest receivable	37,704	-	3,080	11,582	52,366
Notes receivable	-	-	476,483	-	476,483
Total assets	\$ 3,098,637	\$ 17,822	\$ 576,274	\$ 1,701,167	\$ 5,393,900
LIABILITIES AND FUND BALANCE					
Liabilities					
Accounts payable and accrued expense	\$ 25,221	\$ 17,822	\$ 4,037	\$ 33,074	\$ 80,154
Accrued payroll	20,901	-	-	4,740	25,641
Deferred revenue	-	-	-	32,000	32,000
Compensated absences	78,628	-	-	7,151	85,779
Due to other funds	-	-	-	53,530	53,530
Deposits payable	98,330	-	-	-	98,330
Total liabilities	223,080	17,822	4,037	130,495	375,434
Fund Balance					
Reserved for notes receivable	-	-	476,483	-	476,483
Unreserved:					
Designated for specific projects and programs	-	-	95,754	1,570,672	1,666,426
Undesignated	2,875,557	-	-	-	2,875,557
Total fund balance	2,875,557	-	572,237	1,570,672	5,018,466
Total liabilities and fund balance	\$ 3,098,637	\$ 17,822	\$ 576,274	\$ 1,701,167	\$ 5,393,900

See accompanying notes.

CITY OF ANGELS

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE TO NET ASSETS
OF GOVERNMENTAL ACTIVITIES**

JUNE 30, 2007

Total governmental fund balance \$ 5,018,466

Amounts reported for governmental activities in the Statement
of Net Assets are different because:

Governmental long-term liabilities are not due and payable in the current
period and, therefore, are not reported in the funds (484,307)

Interest on long-term debt is reported as an expenditure of the Governmental
Funds when paid because it requires the use of current financial
resources. However, accrued interest must be recorded when incurred (7,229)

Net assets of governmental activities \$ 4,526,930

CITY OF ANGELS

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS YEAR ENDED JUNE 30, 2007

	General Fund	CDBG	CDBG Housing	Other Governmental Funds	Total Governmental Funds
Revenue					
Taxes	\$ 2,224,835	\$ -	\$ -	\$ 481,631	\$ 2,706,466
Licenses, permits and impact fees	217,811	-	-	97,925	315,736
Intergovernmental	117,250	356,656	464,914	233,618	1,172,438
Charges for services	107,568	-	-	20,502	128,070
Fines and forfeits	23,012	-	-	-	23,012
Rental	3,630	-	-	-	3,630
Interest	131,236	-	8,529	43,548	183,313
Other	52,167	-	-	-	52,167
Total revenue	2,877,509	356,656	473,443	877,224	4,584,832
Expenditures					
Current					
General government	341,899	-	-	-	341,899
Public works	78,403	-	-	656,925	735,328
Community development	510,044	56,287	46,068	112,588	724,987
Public safety	1,359,077	107,699	-	214,818	1,681,594
Parks and recreation	140,577	-	-	-	140,577
Capital outlay	54,874	445,391	-	264,342	764,607
Debt Service					
Principal	42,710	-	-	13,278	55,988
Interest and fiscal charges	31,733	-	-	699	32,432
Total expenditures	2,559,317	609,377	46,068	1,262,650	4,477,412
Revenue over/(under) expenditures	318,192	(252,721)	427,375	(385,426)	107,420
Other Financing Sources/(Uses)					
Transfers in	-	252,721	-	-	252,721
Transfers out	-	-	(225,536)	(27,185)	(252,721)
	-	252,721	(225,536)	(27,185)	-
Change in Fund Balance	318,192	-	201,839	(412,611)	107,420
Fund Balance					
Beginning of year	2,557,365	-	370,398	1,983,283	4,911,046
End of year	2,875,557	\$ -	572,237	\$ 1,570,672	\$ 5,018,466

See accompanying notes.

CITY OF ANGELS

RECONCILIATION OF STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS YEAR ENDED JUNE 30, 2007

Net change in fund balance - total governmental funds \$ 107,420

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

Repayment of long-term debt is an expenditure in governmental funds,
but the repayment reduces long-term liabilities in the statement of
net assets 55,988

In the Statement of Activities interest is accrued on long-term debt,
whereas, in governmental funds interest expenditure is reported
when due (1,941)

Change in net assets of governmental activities \$ 161,467

CITY OF ANGELS

STATEMENT OF NET ASSETS - PROPRIETARY FUNDS

JUNE 30, 2007

	<u>Business-Type Activities - Enterprise Funds</u>		
	<u>Water</u>	<u>Sewer</u>	<u>Total Proprietary Funds</u>
ASSETS			
Current assets			
Cash and investments - unrestricted	\$ 5,242,203	\$ 855,949	\$ 6,098,152
Cash and investments - restricted for bonds	-	297,177	297,177
Accounts receivable, net	477,867	273,922	751,789
Total current assets	<u>5,720,070</u>	<u>1,427,048</u>	<u>7,147,118</u>
Non-current assets			
Deferred issuance costs	-	89,918	89,918
Property, plant and equipment, net of allowance for depreciation	2,246,555	15,544,611	17,791,166
Total assets	<u>7,966,625</u>	<u>17,061,577</u>	<u>25,028,202</u>
LIABILITIES			
Current liabilities			
Accounts payable and accrued expenses	258,238	97,369	355,607
Accrued payroll	8,075	7,917	15,992
Accrued interest	-	89,656	89,656
Deposits payable	12,310	-	12,310
Current portion of long-term debt	78,604	259,136	337,740
Total current liabilities	<u>357,227</u>	<u>454,078</u>	<u>811,305</u>
Non-current liabilities			
Long-term debt	1,135,880	6,713,859	7,849,739
Compensated absences	27,417	27,150	54,567
Total noncurrent liabilities	<u>1,163,297</u>	<u>6,741,009</u>	<u>7,904,306</u>
Total liabilities	<u>1,520,524</u>	<u>7,195,087</u>	<u>8,715,611</u>
NET ASSETS			
Invested in capital assets, net of related debt	1,032,071	8,571,616	9,603,687
Restricted for debt service	-	297,177	297,177
Unrestricted/(deficit)	5,414,030	997,697	6,411,727
Total net assets/(deficit)	<u>\$ 6,446,101</u>	<u>\$ 9,866,490</u>	<u>\$ 16,312,591</u>

CITY OF ANGELS

**STATEMENT OF REVENUE, EXPENSE, AND CHANGES IN FUND NET ASSETS –
 PROPRIETARY FUNDS
 YEAR ENDED JUNE 30, 2007**

	<u>Business-Type Activities - Enterprise Funds</u>		
	<u>Water</u>	<u>Sewer</u>	<u>Total Proprietary Funds</u>
Operating Revenue			
Charges for services	\$ 1,569,843	\$ 2,329,783	\$ 3,899,626
Connection fees	207,133	209,000	416,133
Total operating revenue	<u>1,776,976</u>	<u>2,538,783</u>	<u>4,315,759</u>
Operating Expense			
Contractual services and utilities	193,243	476,848	670,091
Personnel	625,422	745,928	1,371,350
Supplies and materials	239,553	267,784	507,337
Depreciation and amortization	146,384	444,897	591,281
Total operating expense	<u>1,204,602</u>	<u>1,935,457</u>	<u>3,140,059</u>
Operating income/(loss)	<u>572,374</u>	<u>603,326</u>	<u>1,175,700</u>
Nonoperating Revenue/(Expense)			
Grant revenue	-	9,804	9,804
Interest income	190,892	74,952	265,844
Interest expense	-	(295,221)	(295,221)
Total nonoperating revenue/(expense)	<u>190,892</u>	<u>(210,465)</u>	<u>(19,573)</u>
Net income/(loss) before transfers	763,266	392,861	1,156,127
Operating Transfers In/(Out)	-	-	-
Change in Net Assets	<u>763,266</u>	<u>392,861</u>	<u>1,156,127</u>
Net Assets			
Beginning of year	5,682,835	9,473,629	15,156,464
End of year	<u>\$ 6,446,101</u>	<u>\$ 9,866,490</u>	<u>\$ 16,312,591</u>

CITY OF ANGELS

STATEMENT OF CASH FLOW - PROPRIETARY FUNDS YEAR ENDED JUNE 30, 2007

	Business-Type Activities - Enterprise Funds		
	Water	Sewer	Total
Operating Activities			
Receipts from customers and users	\$ 1,497,423	\$ 2,491,329	\$ 3,988,752
Payments for contractual services and utilities	(75,112)	(282,014)	(357,126)
Payments to employees	(624,441)	(741,086)	(1,365,527)
Payment to suppliers	(121,422)	(391,014)	(512,436)
Net cash provided by (used in) operating activities	<u>676,448</u>	<u>1,077,215</u>	<u>1,753,663</u>
Capital and Related Financing Activities			
Grant revenue received	-	9,804	9,804
Purchase of property, plant and equipment	(14,862)	(14,705)	(29,567)
Principal paid on long-term debt	(78,604)	(254,136)	(332,740)
Interest paid on long-term debt	-	(295,221)	(295,221)
Net cash used in capital and related financing activities	<u>(93,466)</u>	<u>(554,258)</u>	<u>(647,724)</u>
Investing Activities			
Interest received	<u>190,892</u>	<u>74,952</u>	<u>265,844</u>
Net cash provided by investing activities	<u>190,892</u>	<u>74,952</u>	<u>265,844</u>
Net Increase (Decrease) in Cash	773,874	597,909	1,371,783
Cash			
Beginning of year	<u>4,468,329</u>	<u>555,217</u>	<u>5,023,546</u>
End of year	<u>\$ 5,242,203</u>	<u>\$ 1,153,126</u>	<u>\$ 6,395,329</u>
Cash Flows from Operating Activities			
Operating income (loss)	\$ 572,374	\$ 603,326	\$ 1,175,700
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	146,384	444,897	591,281
(Increase) Decrease in Accounts Receivable	(280,023)	(47,454)	(327,477)
Increase (Decrease) in Accounts Payable and Accrued Liabilities	<u>237,713</u>	<u>76,446</u>	<u>314,159</u>
Net Cash Provided by Operating Activities	<u>\$ 676,448</u>	<u>\$ 1,077,215</u>	<u>\$ 1,753,663</u>

CITY OF ANGELS

STATEMENT OF FIDUCIARY NET ASSETS – AGENCY FUNDS YEAR ENDED JUNE 30, 2007

	Greenhorn Creek Assessment District	School Construction Fee	Totals
ASSETS			
Cash and investments	\$ 853,544	\$ 17,585	\$ 871,129
Restricted cash and investments with fiscal agents	480,602	-	480,602
Accounts receivable	-	-	-
Total assets	<u>1,334,146</u>	<u>17,585</u>	<u>1,351,731</u>
LIABILITIES			
Accounts payable	-	17,585	17,585
Due to bondholders	<u>1,334,146</u>	-	<u>1,334,146</u>
Total liabilities	<u>1,334,146</u>	<u>17,585</u>	<u>1,351,731</u>
NET ASSETS	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

CITY OF ANGELS

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2007

Note 1 – Summary of Significant Accounting Policies

The financial statements of the City of Angels (City) have been prepared in conformity with Accounting Principles Generally Accepted in the United States of America (GAAP) as applicable to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

These financial statements present the government and its component units, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities are, in substance, part of the government's operations and data from these units are combined with data of the primary government. Each blended component unit has a June 30 fiscal year end. There are no discretely presented component units included in these financial statements. The following sections further describe the significant accounting policies of the City.

Reporting Entity

The City was incorporated as a general law city in 1912. The City operates under a Council-Manager form of government. The City's major operations include public safety; highways and streets; water and sewer; parks and recreation; building inspection; public improvements; planning and zoning, and general administrative services.

Included in this report is the City of Angels Redevelopment Agency (Agency). The Agency was established to administer the City's redevelopment activities and projects. Members of the City Council automatically sit as the Agency's Board, the City Manager is appointed as Executive Director with the City staff providing all support services. Currently the Agency/City legislative meetings are held concurrently. The annual financial statements for the Agency for the fiscal year ended June 30, 2007 can be obtained through the City's Finance Department.

Basis of Presentation – Fund Accounting

Government-Wide Financial Statements - The Government-Wide Financial Statements (the Statement of Net Assets and the Statement of Activities and Changes in Net Assets) report information of all of the nonfiduciary activities of the primary government and its component units. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the governmental and business-type activities of the City. Governmental activities, which normally are supported by taxes and inter-governmental revenues, are reported separately from business-type activities, which rely significantly on fees charged to external parties.

The Statement of Activities and Changes in Net Assets presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and are clearly identifiable to a particular function. Program revenues include 1) charges paid by the recipients of goods or services offered by the programs and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

CITY OF ANGELS

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2007

Note 1 – Summary of Significant Accounting Policies (Continued)

The Statement of Activities and Changes in Net Assets presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and are clearly identifiable to a particular function. Program revenues include 1) charges paid by the recipients of goods or services offered by the programs and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net assets. When both restricted and unrestricted resources are available for use, generally, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

Governmental Fund Financial Statements - The Governmental Fund Financial Statements provide information about the City's funds, including fiduciary funds and the blended component unit. Separate statements for each fund category - governmental, proprietary and fiduciary - are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental funds are separately aggregated and reported as non-major funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

The City reports the following major governmental funds:

General Fund – The General Fund is the general operating fund of the City. It is used for all financial resources except those required legally, or by sound financial management to be accounted for in another fund. Generally, the General Fund is used to account for those traditional governmental services of the City, such as police and fire protection, planning and general administrative services.

CDBG Fund – The CDBG Fund accounts for the receipt and expenditure of grant funds for community development purposes.

CDBG Housing Fund - The CDBG Housing Fund accounts for the receipt and expenditure of grant funds for home loans.

The City reports the following additional fund types:

Agency Funds - The Agency Funds account for assets held by the City as an agent for various local governments or other entities.

CITY OF ANGELS

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2007

Note 1 – Summary of Significant Accounting Policies (Continued)

Basis of Accounting

The Government-Wide and Proprietary Fund Financial Statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property and sales taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenues from sales tax are recognized when the underlying transactions take place. Revenues from grants, entitlements and donations are recognized in the fiscal year in which all eligible requirements have been satisfied.

Governmental Funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Property and sales taxes, interest, certain state and federal grants and charges for services are accrued when their receipt occurs within sixty days after the end of the accounting period so as to be both measurable and available. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, claims and judgments are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and capital leases are reported as other financing sources.

For its government-wide activities and Enterprise Funds, the City has elected under GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting, to apply all applicable GASB pronouncements as well as any applicable pronouncements of the Financial Accounting Standards Board, the Accounting Principles or any Accounting Research Bulletins issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units.

Proprietary Funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a Proprietary Fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as non-operating.

Financial Statement Amounts

Cash and Cash Equivalents - Cash and cash equivalents represent the City's cash bank accounts including, but not limited to, certificates of deposit, money market funds and cash management pools for reporting purposes in the Statement of Cash Flows. Additionally, investments with maturities of three months or less when purchased are included as cash equivalents in the Statement of Cash Flows.

The City maintains a cash and investment pool that is available for use by all funds. Interest earnings as a result of this pooling are distributed to the appropriate funds based on month end cash balances in each fund.

CITY OF ANGELS

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2007

Note 1 – Summary of Significant Accounting Policies (Continued)

Investments of the pool include only those investments authorized by the California Government Code such as, United States Treasury securities, agencies guaranteed by the United States Government, registered state warrants, and other investments. Investments primarily consist of deposits in the State of California Local Agency Investment Fund. Investments are stated at cost or amortized cost.

Accounts Receivable – Billed, but unpaid, services provided to individuals or non-governmental entities are recorded as accounts receivable. The Proprietary Funds include a year end accrual for services through the end of the fiscal year which have not yet been billed. Accounts receivable are reported without an allowance for uncollectibles as management considers all accounts to be collectible.

Calaveras County is responsible for the assessment, collection and apportionment of property taxes for all taxing jurisdictions. Property taxes are levied in equal installments on November 1 and February 1. They become delinquent on December 10 and April 10, respectively. The lien date is January 1 of each year. Property taxes are accounted for in the General Fund. Property tax revenues are recognized when they become measurable and available to finance current liabilities. The City considers property taxes as available if they are collected within 60 days after year end. Property tax on the unsecured roll are due on the January 1 lien date and become delinquent if unpaid on August 31. However, unsecured property taxes are not susceptible to year end accrual.

The City is permitted by Article XIII A of the State of California Constitution (known as Proposition 13) to levy a maximum tax of \$1.00 per \$100 of full cash value.

Interfund Receivables/Payables - Items classified as interfund receivable/payable represent short-term lending/borrowing transactions between funds. This classification also includes the current portion of an advance to or from another fund.

Advances To/From Other Funds - This classification represents non-current portions of any long-term lending/borrowing transactions between funds. This amount will be equally offset by a reserve of fund balance which indicates that it does not represent available financial resources and therefore, is not available for appropriation. The current portion of any interfund long-term loan (advance) is included as an interfund receivable/payable.

Capital Assets - Capital outlays are recorded as expenditures of the General, Special Revenue, and Capital Projects Funds.

Capital assets, which include property, plant, and equipment, are reported in the business-type activities column in the Government-Wide Financial Statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of one year. 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.

CITY OF ANGELS

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2007

Note 1 – Summary of Significant Accounting Policies (Continued)

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Betterments and major improvements which significantly increase values, change capacities or extend useful lives are capitalized. Upon sale or retirement of fixed assets, the cost and related accumulated depreciation are removed from the respective accounts and any resulting gain or loss is included in the results of operations.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities are included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the business-type activities are depreciated using the straight line method over the following estimated useful lives:

	<u>Years</u>
Buildings	30 - 60
Improvements	10 - 50
Equipment	10

The City does not maintain a complete record of the historical costs of capital assets for the governmental activities. Due to the lack of records, no opinion has been given on the capital assets, accumulated depreciation, or depreciation expense related to the governmental activities in the government-wide statements.

Compensated Absences - It is the City's policy to permit all employees to accumulate earned but unused vacation, sick pay and compensatory time benefits. Those employees on shift work schedules may also accumulate hours for holiday time benefits.

Vested or accumulated vacation, holiday and sick leave along with any compensation time that is expected to be paid with expendable available financial resources is reported as an expenditure in the fund financial statements of the Governmental Fund that will pay for it. Amounts not expected to be liquidated with expendable available financial resources are reported in the Government-Wide Financial Statements.

Vested leave of Proprietary Funds are recorded as an expense and liability as the benefits accrue.

Long-Term Obligations - In the Government-Wide Financial Statements and in 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. Debt principal payments of both government and business-type activities are reported as decreases in the balance of the liability on the Statement of Net Assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

CITY OF ANGELS

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2007

Note 1 – Summary of Significant Accounting Policies (Continued)

In the fund financial statements, however, debt principal payments of Governmental Funds are recognized as expenditures when paid. Governmental Fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Non-Current Governmental Assets/Liabilities - GASB Statement No. 34 eliminates the presentation of account groups, but provides for these records to be maintained and incorporates the information into the Governmental Activities column in the Government-Wide Statement of Net Assets.

Net Assets/Fund Equity - The government-wide and business-type activities financial statements utilize a net assets presentation. Net assets are categorized as invested capital assets (net of related debt), restricted and unrestricted.

- Invested In Capital Assets, Net of Related Debt - This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.
- Restricted Net Assets - This category presents external restrictions on net assets imposed by creditors, grantors, contributors, laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.
- Unrestricted Net Assets - This category represents net assets of the City not restricted for any project or other purpose.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

CITY OF ANGELS

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2007

Note 2 – Stewardship, Compliance and Accountability

California law authorizes the City to invest in obligations of the United States Treasury, agencies and instrumentalities, certificates of deposit or time deposits in banks and savings and loan associations which are insured by the Federal Deposit Insurance Corporation.

In accordance with applicable sections of the California Government Code and the City of Angels Municipal Code, the City prepares and legally adopts an annual balanced budget on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the General Fund, specific Special Revenue Funds, and specific Capital Projects Funds. Budget plans are adopted for Proprietary Funds. A proposed budget is presented to the City Council during May of each year for review. The Council holds public hearings and may add to, subtract from, or change appropriations within the revenues and reserves estimated as available. Expenditures may not legally exceed budgeted appropriations at the fund level. Supplementary appropriations which alter the total expenditures of any fund, or expenditures in excess of total budgeted fund appropriations, must be approved by the City Council.

All annual appropriations lapse at fiscal year end to the extent they have not been expended or encumbered.

Note 3 – Cash and Investments

The City pools all of its cash and investments except those funds required to be held by outside fiscal agents under the provisions of bond indentures. Interest income earned on pooled cash is allocated to the various funds on average cash balances. Interest income from cash investments held with fiscal agents is credited directly to the related funds.

Cash and investments as of June 30, 2007 are classified in the accompanying financial statements as follows:

Statement of Net Assets:	
Cash and Investments	\$ 9,886,200
Cash and Investments with fiscal agent	297,177
Fiduciary Funds:	
Cash and Investments	871,129
Restricted Cash and Investments with fiscal agent	480,602
Total Cash and Investments	<u>\$ 11,535,108</u>

Cash and investments as of June 30, 2007 consist of the following:

Cash on hand	\$ 625
Deposits with Financial Institutions	2,208,221
Investments	9,326,262
Total Cash and Investments	<u>\$ 11,535,108</u>

CITY OF ANGELS

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2007

Note 3 – Cash and Investments (Continued)

Investments Authorized by the California Government Code and the City's Investment Policy

The table below identifies the investment types that are authorized for the City by the California Government Code (or the City's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the City's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk. The City's investment policy does not contain any specific provisions intended to limit the City's exposure to interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustee that are governed by the provisions of debt agreements of the City, rather than the general provisions of the California Government Code or the City's investment policy.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment In One Issuer
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptances	180 days	40%	30%
Commercial Paper	270 days	15%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Medium-Term Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None

CITY OF ANGELS

**NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007**

Note 3 – Cash and Investments (Continued)

Investments Authorized by Debt Agreements

Investments of debt proceeds held by bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the City’s investment policy. The table below identifies the investment types that are authorized for investments held by the bond trustee. The table also identifies certain provisions of these debt agreements that address interest rate risk, credit risk, and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment In One Issuer
U.S. Treasury Obligations	None	None	None
U.S. Agency Securities	None	None	None
Banker's Acceptances	180 days	None	None
Commercial Paper	270 days	None	None
Money Market Mutual Funds	N/A	None	None
Investment Contracts	None	None	None
Certificates of Deposits	1 year	None	None
Repurchase Agreements	30 days	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Municipal Bonds	None	None	None

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. As of June 30, 2007 the City had the following investments.

Investment Type		Maturity Date
Local Agency Investment Fund	\$ 8,548,483	N/A
Held by Bond Trustee:		
Mutual Fund	<u>777,779</u>	N/A
Total	<u>\$ 9,326,262</u>	

CITY OF ANGELS

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2007

Note 3 – Cash and Investments (Continued)

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the City's investment policy, or debt agreements, and the actual rating as of year end for each investment type.

Investment Type		Minimum Legal Rating	Rating as of Year End Not Rated
Local Agency Investment Fund	\$ 8,548,483	N/A	\$ 8,548,483
Held by Bond Trustee:			
Mutual Fund	<u>777,779</u>	N/A	<u>777,779</u>
Total	<u>\$ 9,326,262</u>		<u>\$ 9,326,262</u>

Concentration of Credit Risk

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

Custodial Credit Risk

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

CITY OF ANGELS

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2007

Note 3 – Cash and Investments (Continued)

\$834,325 of the City's deposits with financial institutions in excess of federal depository insurance limits were held in uncollateralized accounts.

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

Investment in State Investment Pool

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

Note 4 – Notes Receivable

Notes receivable in the amount of \$476,483 consist of mortgage loans for housing and property rehabilitation and construction.

CITY OF ANGELS

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2007

Note 5 – Capital Assets

Capital asset activity for the year ended June 30, 2007, was as follows:

	Balance July 1, 2006	Additions	Restatement	Balance June 30, 2007
<u>Business-Type Activities</u>				
Capital assets, not being depreciated				
Land	\$ 116,515	\$ -	\$ -	\$ 116,515
Construction in progress	-	-	-	-
Total capital assets, not being depreciated	<u>116,515</u>	<u>-</u>	<u>-</u>	<u>116,515</u>
Capital assets, being depreciated				
Buildings	19,773,047	-	(318,064)	19,454,983
Improvements other than buildings	1,376,606	23,200	-	1,399,806
Infrastructure	672,827	-	-	672,827
Machinery and equipment	541,284	6,368	-	547,652
Total capital assets, being depreciated	<u>22,363,764</u>	<u>29,568</u>	<u>(318,064)</u>	<u>22,075,268</u>
Less: accumulated depreciation	<u>(3,809,335)</u>	<u>(591,282)</u>	<u>-</u>	<u>(4,400,617)</u>
Total capital assets, being depreciated, net	<u>18,554,429</u>	<u>(561,714)</u>	<u>(318,064)</u>	<u>17,674,651</u>
Business-type activities capital assets, net	<u>\$ 18,670,944</u>	<u>\$ (561,714)</u>	<u>\$ (318,064)</u>	<u>\$ 17,791,166</u>

CITY OF ANGELS

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2007

Note 6 – Long-Term Debt

The City generally incurs long-term debt to finance projects or purchase assets which will have useful lives equal to or greater than the related debt.

In governmental fund types, debt discounts and issuance costs are recognized in the current period. Debt discounts and issuance costs incurred in proprietary funds are deferred and amortized over the term of the debt using the bonds-outstanding method, which approximates the effective interest method. The City's debt transactions are summarized below and discussed in detail thereafter:

	<u>Balance</u> <u>July 1, 2006</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2007</u>	<u>Current</u> <u>Portion</u>
<u>Governmental Activity Long Term Debt</u>					
Notes Payable					
Fire truck	\$ 20,118	\$ -	\$ (13,278)	\$ 6,840	\$ 6,840
Calaveras School District	-	-	-	-	-
Lease Payable					
Hydrox property	<u>520,177</u>	<u>-</u>	<u>(42,710)</u>	<u>477,467</u>	<u>45,526</u>
Total Governmental Activity Debt	<u>\$ 540,295</u>	<u>\$ -</u>	<u>\$ (55,988)</u>	<u>\$ 484,307</u>	<u>\$ 52,366</u>
<u>Business-Type Activity Long Term Debt</u>					
Bond Payable					
2001A Water and Wastewater					
Revenue Bonds	\$ 2,300,000	\$ -	\$ (195,000)	\$ 2,105,000	\$ 200,000
Loans Payable					
State of California Department of					
Water Resources	1,265,957	-	(74,468)	1,191,489	74,468
U.S. Department of Agriculture					
Rural Development	4,900,000	-	(55,000)	4,845,000	55,000
Lease Payable					
Hydrox property	<u>54,262</u>	<u>-</u>	<u>(8,272)</u>	<u>45,990</u>	<u>8,272</u>
Total Business-Type Activity Debt	<u>\$ 8,520,219</u>	<u>\$ -</u>	<u>\$ (332,740)</u>	<u>\$ 8,187,479</u>	<u>\$ 337,740</u>
<u>Compensated Absences</u>					
Government Activities	<u>\$ 75,637</u>	<u>\$ 10,142</u>	<u>\$ -</u>	<u>\$ 85,779</u>	
Business-Type Activities	<u>\$ 50,119</u>	<u>\$ 4,448</u>	<u>\$ -</u>	<u>\$ 54,567</u>	

CITY OF ANGELS

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2007

Note 6 – Long-Term Debt (Continued)

Long-term debt payable at June 30, 2007 was comprised of the following individual issues:

Notes Payable

Fire Truck – On January 25, 1999, the City entered into an agreement to purchase a Fire Truck for \$101,000. The City will make monthly payments of \$1,165 each with accrued interest at 4.96% per annum. The principal amount due at June 30, 2007 is \$6,840.

Lease Payable

Hydrox Property – In April 2001, the City entered into an agreement to purchase a Hydrox property for \$874,716. The City will make 15 annual payments of \$82,715 each with accrued interest at 5.5242% per annum. The principal amount due at June 30, 2007 is \$523,457.

Bond Payable

2001A Water and Wastewater Revenue Bonds - The City issued Wastewater Plant Improvement Revenue bonds which consisted of \$3,185,000 in bonds bearing interest at 2.6% to 4.4%. The interest is payable each October 1 and April 1. The Bonds mature annually at various amounts through October 1, 2015. The Bonds outstanding at June 30, 2007 were \$2,105,000.

Loans Payable

State of California Department of Water Resources – The State of California Department of Water Resources granted a loan to the Water Fund of the City for construction of water facilities in the amount of \$1,685,595. Of this amount, \$1,489,361 was drawn down from the State. The note calls for semiannual payments of \$37,234 including interest at 0% until July 2023. The balance at June 30, 2007 is \$1,191,489.

The United States Department of Agriculture Rural Development – The United States Department of Agriculture Rural Development granted a loan of \$5,000,000 bearing interest at 4.25% to the Sewer Fund for construction of wastewater facilities. The notes mature annually at various amounts through April 1, 2044. The balance at June 30, 2007 is \$4,845,000.

CITY OF ANGELS

**NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007**

Note 6 – Long-Term Debt (Continued)

The annual requirement to amortize the principal and interest on all long-term debt at June 30, 2007 were as follows:

Years ending June 30,	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 52,366	\$ 29,016	\$ 337,740	\$ 286,438
2009	48,498	25,945	352,740	276,717
2010	51,634	22,809	357,740	266,304
2011	54,944	19,499	372,740	255,391
2012	58,436	16,007	377,740	243,755
2013-2017	218,429	25,086	1,776,970	1,025,060
2018-2022	-	-	832,340	847,451
2023-2027	-	-	649,469	740,562
2028-2032	-	-	705,000	607,750
2033-2037	-	-	870,000	444,550
2038-2042	-	-	1,065,000	243,525
2043-2044	-	-	490,000	31,450
	<u>\$ 484,307</u>	<u>\$ 138,362</u>	<u>\$ 8,187,479</u>	<u>\$ 5,268,953</u>

Note 7 – Special Assessment Districts (AD) Bonds

The City acts as an agent on behalf of the Greenhorn Assessment District. The City is not liable for the debt repayment but is merely acting as the property owner’s agent in handling the debt service transactions by collecting assessments and forwarding them to the bondholders. The debt was refinanced in 2006 through the issuance of \$9,200,000 in new debt. Interest is payable semi-annually at rates ranging from 3.375% to 5% with principle payments through 2018. The bond transactions are accounted for in an Agency Fund. The current outstanding principal is \$8,640,000.

Note 8 – Fund Balance

Fund Balance and Retained Earnings Deficits - The following is a summary of deficit fund balances and retained earnings as of June 30, 2007:

Capital projects fund	
Redevelopment Agency	\$ (53,530)
	<u>\$ (53,530)</u>

CITY OF ANGELS

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2007

Note 9 – Defined Benefit Pension Plan

Plan Description

The City of Angels contributes to the California Public Employees Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement, 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 P Street, Sacramento, CA 95814.

Funding Policy

Participants are required to contribute 8% 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 current rate is 15.980% for non-safety employees, 6.718% for firefighters, and 34.016% for police, of annual covered payroll. The contribution requirements of plan members and the City are established and may be amended by PERS.

Annual Pension Costs

For 2007, the City's annual pension cost of \$576,681 for PERS was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2004, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.75% investment rate of return (net administrative expenses), (b) projected annual salary increases that vary by duration of service, and (c) 3.25% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 3.00%. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a three-year period (smoothed market value). PERS unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2004 was 14 years.

THREE-YEAR TREND INFORMATION FOR PERS

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/2005	\$ 247,607	100%	\$ -
6/30/2006	568,975	100%	-
6/30/2007	576,681	100%	-

A new State law authorized the creation of risk pools by PERS and required mandatory participation of employers to help reduce large fluctuations in their contribution rates. The City of Angels is now required to participate in the risk pool. Under this pooling method, assets and liabilities of the participant employers are aggregated. As such, individual employer's retirement data is no longer available.

CITY OF ANGELS

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2007

Note 10 – Joint Venture – Utica Power Authority

The City of Angels entered into a joint exercise of powers agreement with Union Public Utility District (UPUD) for the purpose of purchasing and operating the Utica/Angels Hydro Electric Projects. Each of the member entities shall be responsible for paying one-half (1/2) of all UPA Project costs and liabilities, including annual operation, maintenance and replacement costs of the Project, and all costs of maintaining the Projects in compliance with requirements of the FERC or other regulatory authority. The agreement establishes a separate and distinct entity, the Utica Power Authority (UPA). The UPA is not a component unit of the City.

Note 11 – Risk Management/Joint Venture

The City participates with other public entities in a joint venture under a joint powers agreement which establishes the Central San Joaquin Valley Risk Management Authority (CSJVRMA). The relationship between the City and CSJVRMA is such that CSJVRMA is not a component unit of the City for financial reporting purposes.

The City is covered for the first \$1,000,000 of each general liability claim and \$500,000 of each worker's compensation claim through the CSJVRMA. The City has the right to receive dividends and the obligation to pay assessments based on a formula which among other expenses, charges the City's account for liability losses under \$50,000 and workers' compensation losses under \$50,000. The CSJVRMA purchases excess reinsurance from \$1,000,000 to \$15,000,000. The CSJVRMA participates in an excess pool which provides workers' compensation coverage from \$500,000 to \$1,500,000 and purchases excess reinsurance above \$1,500,000 to the statutory limit.

The CSJVRMA is a consortium of 55 cities in San Joaquin Valley, California. It was established under the provisions of California Government Code Section 6500, et. seq. The CSJVRMA is governed by a Board of Directors, which meets three to four times each year, consisting of one member appointed by each member city. The day-to-day business is handled by a management group employed by the CSJVRMA. The financial statements of CSJVRMA can be obtained at 1831 K Street, Sacramento, CA 95814.

Note 12 – Litigation

The City is a defendant in eminent domain and other personal injury lawsuits of a nature common to many similar jurisdictions. The City management believes that the potential claims against the City, not covered by insurance, resulting from such litigation would not materially affect the financial statements of the City.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF ANGELS

BUDGETARY COMPARISON SCHEDULE

GENERAL FUND

YEAR ENDED JUNE 30, 2007

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		Positive/ (Negative)
Revenue				
Taxes	\$ 2,215,500	\$ 2,215,500	\$ 2,224,835	\$ 9,335
Licenses, permits and impact fees	250,380	250,380	217,811	(32,569)
Intergovernmental	83,077	83,077	117,250	34,173
Charges for services	74,304	74,304	107,568	33,264
Fines and forfeits	27,200	27,200	23,012	(4,188)
Interest and rents	83,560	83,560	134,866	51,306
Other	300	300	52,167	51,867
Total revenue	<u>2,734,321</u>	<u>2,734,321</u>	<u>2,877,509</u>	<u>143,188</u>
Expenditures				
Current				
General government	522,476	522,476	341,899	180,577
Public works	112,769	112,769	78,403	34,366
Community development	539,141	539,141	510,044	29,097
Public safety	1,421,358	1,421,358	1,359,077	62,281
Parks and recreation	169,334	169,334	140,577	28,757
Capital outlay	56,690	56,690	54,874	1,816
Debt Service				
Principal	42,710	42,710	42,710	-
Interest and fiscal charges	31,733	31,733	31,733	-
Total expenditures	<u>2,896,211</u>	<u>2,896,211</u>	<u>2,559,317</u>	<u>336,894</u>
Revenue over (under) expenditures	(161,890)	(161,890)	318,192	480,082
Other Financing Sources				
Transfers in (out) - net	-	-	-	-
Net Change in Fund Balance	<u>\$ (161,890)</u>	<u>\$ (161,890)</u>	318,192	<u>\$ 480,082</u>
Fund Balance				
Beginning of year			<u>2,557,365</u>	
End of year			<u>\$ 2,875,557</u>	

CITY OF ANGELS

BUDGETARY COMPARISON SCHEDULE

CDBG FUND

YEAR ENDED JUNE 30, 2007

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive/ (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenue				
Intergovernmental	\$ 342,000	\$ 342,000	\$ 356,656	\$ 14,656
Interest	-	-	-	-
Total revenue	<u>342,000</u>	<u>342,000</u>	<u>356,656</u>	<u>14,656</u>
Expenditures				
Current				
Community development	64,000	64,000	56,287	7,713
Public safety	106,456	106,456	107,699	(1,243)
Capital outlay	-	-	445,391	(445,391)
Total expenditures	<u>170,456</u>	<u>170,456</u>	<u>609,377</u>	<u>(438,921)</u>
Revenue over (under)expenditures	171,544	171,544	(252,721)	(424,265)
Other Financing Sources				
Transfers in (out) - net	-	-	252,721	252,721
Net Change in Fund Balance	<u>\$ 171,544</u>	<u>\$ 171,544</u>	-	<u>\$ (171,544)</u>
Fund Balance				
Beginning of year			-	
End of year			<u>\$ -</u>	

CITY OF ANGELS

**BUDGETARY COMPARISON SCHEDULE
CDBG HOUSING FUND
YEAR ENDED JUNE 30, 2007**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive/ (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenue				
Intergovernmental	\$ 8,460	\$ 8,460	\$ 464,914	\$ 456,454
Interest	-	-	8,529	8,529
Total revenue	<u>8,460</u>	<u>8,460</u>	<u>473,443</u>	<u>464,983</u>
Expenditures				
Current				
Community development	-	-	46,068	(46,068)
Capital outlay	-	-	-	-
Total expenditures	<u>-</u>	<u>-</u>	<u>46,068</u>	<u>(46,068)</u>
Revenue over (under) expenditures	8,460	8,460	427,375	418,915
Other Financing Sources				
Transfers in (out) - net	-	-	(225,536)	(225,536)
Net Change in Fund Balance	<u>\$ 8,460</u>	<u>\$ 8,460</u>	201,839	<u>\$ 193,379</u>
Fund Balance				
Beginning of year			<u>370,398</u>	
End of year			<u>\$ 572,237</u>	

SUPPLEMENTAL ONLY INFORMATION

CITY OF ANGELS

**COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2007**

	Special Revenue Funds						
	Local Transportation	Gas Tax	Museum Improvement	CDBG-Reuse	Utica Power Authority	Light and Landscape District	Public Safety
ASSETS							
Cash and investments	\$ 2,286	\$ 238,348	\$ 304	\$ 220,399	\$ 103,366	\$ 518,985	\$ 274,209
Accounts receivable, net	-	8,228	-	-	1,904	-	-
Taxes receivable	-	-	-	-	-	6,634	-
Interest receivable	-	2,308	-	2,132	-	5,021	10
Notes receivable	-	-	-	-	-	-	-
Total assets	\$ 2,286	\$ 248,884	\$ 304	\$ 222,531	\$ 105,270	\$ 530,640	\$ 274,219
LIABILITIES AND FUND BALANCE							
Liabilities							
Accounts payable and accrued expense	\$ 188	\$ -	\$ 304	\$ -	\$ -	\$ 151	\$ 3,524
Accrued payroll	441	1,462	-	-	-	-	-
Deferred revenue	-	-	-	-	-	-	-
Compensated absences	1,657	5,494	-	-	-	-	-
Due to other funds	-	-	-	-	-	-	-
Total liabilities	2,286	6,956	304	-	-	151	3,524
Fund Balance							
Reserved for notes receivable	-	-	-	-	-	-	-
Unreserved, designated for specific projects and programs	-	241,928	-	222,531	105,270	530,489	270,695
Total fund balance	-	241,928	-	222,531	105,270	530,489	270,695
Total liabilities and fund balance	\$ 2,286	\$ 248,884	\$ 304	\$ 222,531	\$ 105,270	\$ 530,640	\$ 274,219

CITY OF ANGELS

**COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS (CONTINUED)
JUNE 30, 2007**

	Special Revenue Funds			Capital Projects Funds				Total
	Emergency Service	TOI Roads	TOI Tourism	Redevelopment Agency	Park Bonds Grant Fund	Traffic Impact Fees	Fire Impact Fees	
ASSETS								
Cash and investments	\$ (21,234)	\$ 134,975	\$ 349	\$ -	\$ 7,496	\$ 81,992	\$ 956	\$ 1,562,431
Accounts receivable, net	-	-	-	-	24,504	-	-	34,636
Taxes receivable	28,628	28,628	28,628	-	-	-	-	92,518
Interest receivable	-	1,306	3	-	-	793	9	11,582
Notes receivable	-	-	-	-	-	-	-	-
Total assets	\$ 7,394	\$ 164,909	\$ 28,980	\$ -	\$ 32,000	\$ 82,785	\$ 965	\$ 1,701,167
LIABILITIES AND FUND BALANCE								
Liabilities								
Accounts payable and accrued expense	\$ 279	\$ -	\$ 28,628	\$ -	\$ -	\$ -	\$ -	\$ 33,074
Accrued payroll	2,837	-	-	-	-	-	-	4,740
Deferred revenue	-	-	-	-	32,000	-	-	32,000
Compensated absences	-	-	-	-	-	-	-	7,151
Due to other funds	-	-	-	53,530	-	-	-	53,530
Total liabilities	\$ 3,116	\$ -	\$ 28,628	\$ 53,530	\$ 32,000	\$ -	\$ -	\$ 130,495
Fund Balance								
Reserved for notes receivable	-	-	-	-	-	-	-	-
Unreserved, designated for specific projects and programs	4,278	164,909	352	(53,530)	-	82,785	965	1,570,672
Total fund balance	4,278	164,909	352	(53,530)	-	82,785	965	1,570,672
Total liabilities and fund balance	\$ 7,394	\$ 164,909	\$ 28,980	\$ -	\$ 32,000	\$ 82,785	\$ 965	\$ 1,701,167

CITY OF ANGELS

**COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE
NON-MAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2007**

	Special Revenue Funds						
	Local Transportation	Gas Tax	Museum Improvement	CDBG-Reuse	Utica Power Authority	Light and Landscape District	Public Safety
Revenue							
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 172,481	\$ -
Licenses, permits and impact fees	-	-	-	-	-	-	-
Intergovernmental	20,118	104,462	-	-	-	-	99,500
Charges for services	-	-	-	-	20,502	-	-
Interest	479	9,620	2,700	6,064	814	17,882	28
Other	-	-	-	-	-	-	-
Total revenue	20,597	114,082	2,700	6,064	21,316	190,363	99,528
Expenditures							
Public works	49,288	109,158	-	-	-	199,856	-
Community development	-	-	-	-	-	-	-
Public safety	-	-	-	-	-	-	84,354
Capital outlay	-	-	264,342	-	-	-	-
Debt service	-	-	-	-	-	-	-
Principal	-	-	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-	-	-
Total expenditures	49,288	109,158	264,342	-	-	199,856	84,354
Revenue over (under) expenditures	(28,691)	4,924	(261,642)	6,064	21,316	(9,493)	15,174
Other financing sources/(uses)							
Operating transfers in/(out) - net	-	-	(27,185)	-	-	-	-
	-	-	(27,185)	-	-	-	-
Change in Fund Balance	(28,691)	4,924	(288,827)	6,064	21,316	(9,493)	15,174
Fund Balance							
Beginning of year	28,691	237,004	288,827	216,467	83,954	539,982	255,521
End of year	\$ -	\$ 241,928	\$ -	\$ 222,531	\$ 105,270	\$ 530,489	\$ 270,695

CITY OF ANGELS

**COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE
NON-MAJOR GOVERNMENTAL FUNDS (CONTINUED)**

YEAR ENDED JUNE 30, 2007

	Special Revenue Funds				Capital Projects Fund				Total Non-major Governmental Funds
	TOT Emergency Service	TOT Roads	TOT Tourism	Redevelopment Agency	Park Bonds Grant Fund	Traffic Impact Fees	Fire Impact Fees		
Revenue									
Taxes	\$ 103,050	\$ 103,050	\$ 103,050	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 481,631
Licenses, permits and impact fees	-	-	-	-	-	89,112	8,813	-	97,925
Intergovernmental	-	-	-	-	9,538	-	-	-	233,618
Charges for services	-	-	-	-	-	-	-	-	20,502
Interest	32	4,253	8	-	-	1,590	78	-	43,548
Other	-	-	-	-	-	-	-	-	-
Total revenue	103,082	107,303	103,058	-	9,538	90,702	8,891	-	877,224
Expenditures									
Public works	-	14,123	-	-	-	284,500	-	-	656,925
Community development	-	-	103,050	-	9,538	-	-	-	112,588
Public safety	129,593	-	-	-	-	-	871	-	214,818
Capital outlay	-	-	-	-	-	-	-	-	264,342
Debt service	-	-	-	-	-	-	-	-	-
Principal	-	-	-	-	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-	-	13,278	-	13,278
Total expenditures	129,593	14,123	103,050	-	9,538	284,500	14,848	699	1,262,650
Revenue over (under) expenditures	(26,511)	93,180	8	-	-	(193,798)	(5,957)	-	(385,426)
Other financing sources/(uses)									
Operating transfers in/(out) - net	-	-	-	-	-	-	-	-	(27,185)
Change in Fund Balance	(26,511)	93,180	8	-	-	(193,798)	(5,957)	-	(412,611)
Fund Balance									
Beginning of year	30,789	71,729	344	(53,530)	-	276,583	6,922	-	1,983,283
End of year	\$ 4,278	\$ 164,909	\$ 352	\$ (53,530)	\$ -	\$ 82,785	\$ 965	\$ -	\$ 1,570,672

BRYANT L. JOLLEY

CERTIFIED PUBLIC ACCOUNTANT

BRYANT L. JOLLEY C.P.A.

DARRYL SMITH C.P.A.

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

To the Honorable Mayor and City Council
City of Angels, California

We have audited the financial statements of the City of Angels (City), California as of and for the year ended June 30, 2007, and have issued our report thereon dated September 11, 2007. The report was qualified due to the City not recording capital assets in governmental activities, and accordingly, not recording depreciation expense on those assets. Accounting principles generally accepted in the United States of America require that those capital assets be capitalized and depreciated, which would increase the assets, net assets, and expenses of the governmental activities. These amounts are not reasonably determinable. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

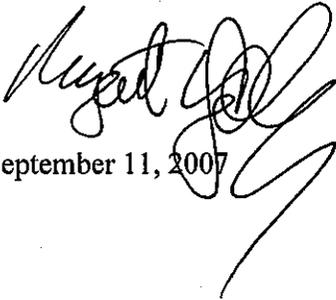
In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2005-18.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition described above is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Angel's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance that are required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings and questioned costs as item 2005-18.

This report is intended for the information of the City Council, management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in black ink, appearing to read "Nigel J. [unclear]", is written over the date. The signature is stylized and cursive.

September 11, 2007

BRYANT L. JOLLEY

CERTIFIED PUBLIC ACCOUNTANT

BRYANT L. JOLLEY C.P.A.

DARRYL SMITH C.P.A.

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

To the Honorable Mayor and City Council
City of Angels, California

We have audited the compliance of the City of Angels (City) with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. The City's major federal programs are identified in the Schedule of Expenditures of Federal Financial Assistance. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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

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

Internal Control over Compliance

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

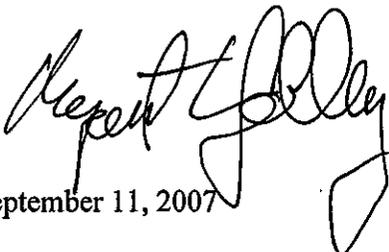
We noted certain matters involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2005-18.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition described above is not a material weakness.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the City as of June 30, 2007, and for the year then ended, and have issued our report thereon dated September 11, 2007. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended for the information of the City Council, management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.


September 11, 2007

CITY OF ANGELS

**SCHEDULE OF EXPENDITURES OF FEDERAL FINANCIAL ASSISTANCE
YEAR ENDED JUNE 30, 2007**

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Agency or Pass-through Number	Federal Expenditures
U.S. Department of Housing and Community Development Pass-through from the State of California HOME Program	14.239	05-HOME-1688	\$ 464,860
U.S. Department of Housing and Urban Development Pass-through from the State of California Block Grants	14.228	05-STBG-1223	300,369
Block Grant	14.228		514,364
Block Grant	14.228	05-PTAA-1704	<u>7,725</u>
<i>Total Federal Expenditures</i>			<u>\$ 1,287,318</u>

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL FINANCIAL ASSISTANCE

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of expenditures of federal financial assistance is a summary of the cash activity of the City's federal award programs and does not present transactions that would be included in financial statements of the City presented on the accrual basis of accounting, as contemplated by generally accepted accounting principles.

CITY OF ANGELS

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007**

A. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:

Qualified

Internal control over financial reporting:

- Material weaknesses identified? Yes No
- Reportable conditions identified that are not considered to be material weaknesses? Yes None reported
- Non-compliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

- Material weaknesses identified? Yes No
- Reportable conditions identified that are not considered to be material weaknesses? Yes None reported

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

Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?

Yes No

Identification of Major Programs

CFDA Number

Name of Federal Program or Cluster

14.228

Block Grants

Dollar threshold used to distinguish between Type A and Type B programs:

\$300,000

Auditee qualified as low-risk auditee?

Yes No

CITY OF ANGELS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED) YEAR ENDED JUNE 30, 2007

Section B - Findings – Financial Statements Audit

2005 – 18 Finding – Capital Assets

The City does not have a schedule of capital assets for governmental activities. The City is also not maintaining depreciation schedules.

Effect:

We can not determine the total amount of capital assets that the City owns. Without a list of capital assets, items could easily disappear and go unaccounted for.

Recommendation:

We recommend that the City make a comprehensive list of all capital assets that the City owns. The City should also set up depreciation schedules so that fixed assets are properly depreciated to date.

Response:

The City is in the process of updating this list.

Section C - Findings and Questioned Costs – Major Federal Award Programs Audit

None noted.

CITY OF ANGELS

STATUS OF PRIOR YEAR'S FINDINGS YEAR ENDED JUNE 30, 2007

Section B – Findings – Financial Statements Audit

Finding 2005-18

Status: Not Implemented

CITY OF ANGELS REDEVELOPMENT AGENCY

INDEPENDENT AUDITOR'S REPORTS

AND

FINANCIAL STATEMENTS

JUNE 30, 2007

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
City of Angels Redevelopment Agency
Angels Camp, California

We have audited the accompanying component unit financial statements of the governmental activities of each major fund for the City of Angels Redevelopment Agency (Agency), a component unit of the City of City of Angels, California, as of and for the year ended June 30, 2007, which collectively comprise the Agency's basic financial statements as listed in the foregoing table of contents. The component unit financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on the component unit financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of each major fund of the Agency at June 30, 2007, and the respective changes in financial position, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Agency has not presented the Management Discussion and Analysis that accounting principles generally accepted in the United States have determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 11, 2007 on our consideration of the Agency's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal 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 read in conjunction with this report in considering the results of our audit.

The accompanying financial statements have been prepared assuming that the Agency will continue as a going concern. As discussed in Note 3 to the financial statements, the Agency has net deficiency in net assets of \$53,530 at June 30, 2007, that raises substantial doubt about its ability to continue as a going concern. Management's plan in regard to these matters are also described in Note 3. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.



September 11, 2007

CITY OF ANGELS REDEVELOPMENT AGENCY

STATEMENT OF NET ASSETS

JUNE 30, 2007

	<u>Governmental Activities</u>
Assets	
Cash and investments	\$ -
Total assets	<u>-</u>
Liabilities	
Long-term debt	
Due in more than one year	<u>53,530</u>
Total liabilities	<u>53,530</u>
Net Assets	
Unrestricted (deficit)	<u>(53,530)</u>
Total net assets (deficit)	<u>\$ (53,530)</u>

CITY OF ANGELS REDEVELOPMENT AGENCY

**STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2007**

	<u>Net Revenue/(Expenses) and Changes in Net Assets</u>			
	<u>Primary Government</u>			
	<u>Expenses</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Total</u>
FUNCTIONS/PROGRAMS				
Primary government:				
Governmental activities:				
Interest on long-term debt	\$ -	\$ -	\$ -	\$ -
Total governmental activities	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>-</u>
GENERAL REVENUE				
Transfer from City of Angels			-	-
Total general revenue			<u>-</u>	<u>-</u>
CHANGE IN NET ASSETS				
			-	-
NET ASSETS (DEFICIT)				
Beginning of year			<u>(53,530)</u>	<u>(53,530)</u>
End of year			<u>\$ (53,530)</u>	<u>\$ (53,530)</u>

CITY OF ANGELS REDEVELOPMENT AGENCY

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2007**

	<u>Total Governmental Funds</u>
ASSETS	
Cash and investments	\$ -
Total assets	<u>\$ -</u>
LIABILITIES AND FUND BALANCE	
Liabilities	
Accounts payable	-
Total liabilities	<u>-</u>
Fund Balance	
Unreserved and undesignated	-
Total fund balance	<u>-</u>
Total liabilities and fund balance	<u>\$ -</u>

CITY OF ANGELS REDEVELOPMENT AGENCY

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE TO NET ASSETS OF GOVERNMENTAL ACTIVITIES JUNE 30, 2007

Total governmental fund balances \$ -

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

The liabilities below are not due and payable in the current period
and, therefore, are not reported in the Governmental Fund
Balance Sheet:

Advances from City of Angels (53,530)

Net assets of governmental activities \$ (53,530)

CITY OF ANGELS REDEVELOPMENT AGENCY

NOTES TO COMPONENT UNIT FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2007

Note 1 – Summary of Significant Accounting Policies

Organization and Purpose – The City of Angels Redevelopment Agency (Agency) was formed under the provisions of the Community Redevelopment Law (California Health and Safety Code).

The Agency is an integral part of the City of Angels. Accordingly, the accompanying basic financial statements are included as a component of the basic financial statements of the City.

The financial statements of the City of Angels Redevelopment Agency have been prepared in conformity with accounting principles generally accepted in the United States of America, as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA), as applied to governmental units. The GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Agency's accounting policies are described below.

Government-wide Statements - The Statement of Net Assets and the Statement of Activities include the financial activities of the overall Agency government. Eliminations have been made to minimize the double counting of internal activities.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the Agency's activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include a) charges paid by the recipients of goods or services offered by the programs and b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements – The fund financial statements provide information about the Agency's funds. Separate statements for each governmental fund are presented. The emphasis of fund financial statements is on major individual funds, each of which is displayed in a separate column. The Agency considers all its funds to be major funds.

Major Funds – GASB Statement No. 34 defines major funds and requires that the Agency's major governmental type funds to be identified and presented separately in the fund financial statements. Major funds are defined as funds that have assets, liabilities, revenues, or expenditures equal to ten percent of their fund-type total and five percent of the grand total. The Agency has determined that all its funds are major funds.

The Agency reported the following major governmental fund in the accompanying financial statements:

Redevelopment Agency Fund – This fund accounts for redevelopment activity.

CITY OF ANGELS REDEVELOPMENT AGENCY

NOTES TO COMPONENT UNIT FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2007

Note 1 – Summary of Significant Accounting Policies (Continued)

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. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

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 they are both measurable and available. Revenue is considered to be collectible when it is collectible within the current period or soon enough thereafter to pay liabilities for the current period. For this purpose, the Agency considers property taxes and other revenue to be available in the period for which levied if it is collected within 60 days after the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Non-exchange transactions, in which the Agency gives or receives value without directly receiving or giving equal value in exchange, include property taxes, grants, entitlements, and donations. On the accrual basis of accounting, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Under the terms of grant agreements, the Agency provides funds for certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. The Agency's policy is to first apply cost-reimbursement grant resources to such programs, followed by general revenues.

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

Net Assets

Government-wide Financial Statements

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”.

Fund Financial Statements

Fund Equity – Reservations of fund balances of governmental funds are created to either report legal covenants, including State laws that require a portion of the fund equity to be segregated or identify the portion of the fund equity not available for future expenditures.

CITY OF ANGELS REDEVELOPMENT AGENCY

NOTES TO COMPONENT UNIT FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2007

Note 2– Long-Term Debt

Changes in long-term debt for the year ended June 30, 2007 were as follows:

	<u>Balance July 1, 2006</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2007</u>	<u>Current Portion</u>
Advances from the City of Angels	\$ 53,530	\$ -	\$ -	\$ 53,530	\$ -
	<u>\$ 53,530</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 53,530</u>	<u>\$ -</u>

Advance Payable – The City of Angels advanced \$53,530 to the Agency with a 0 % interest rate and no payment due date.

Note 3 – Going Concern

The Agency has a deficit net asset balance as of June 30, 2007, which raises doubt about its ability to continue as a going concern. The deficit has occurred due to the Agency incurring start up costs in excess of revenues. Once the redevelopment agency is active, the Agency will be able to reverse the deficit.

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENTAL AUDITING STANDARDS*

Board of Directors
City of Angels Redevelopment Agency
City of Angels, California

We have audited the accompanying component unit financial statements of the City of Angels Redevelopment Agency, a component unit of the City of City of Angels, California as of June 30, 2007 and for the year then ended, and have issued our report thereon dated September 11, 2007. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States.

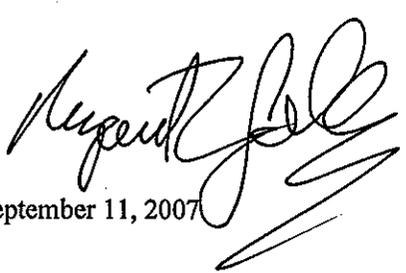
Compliance

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Such provisions include those provisions of laws and regulations identified in the *Guidelines for Compliance Audits of California Redevelopment Agencies*, issued by the State Controller. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Governmental Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Agency's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the Board of Directors, management, and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.


September 11, 2007