

CITY OF IONE
FINANCIAL STATEMENTS
JUNE 30, 2009

CITY OF IONE

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Larry Bain, CPA,
An Accounting Corporation
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INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Ione
Ione, California

We were engaged to audit 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 Ione, California, as of and for the fiscal year ended June 30, 2009 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.


As discussed in Note 2 to the financial statements, the City did not prepare bank reconciliations for cash and investments at June 30, 2009. As discussed in Note 3 to the financial statements the City did not maintain capital asset schedules for current year capital additions, current year depreciation expense and for accumulated depreciation on those assets for governmental-type and business-type capital assets. As discussed in Note 4 to the financial statements the city did not maintain schedules to support the activity and amounts reported in the general ledger for compensated absences. Furthermore the City did not perform year end procedures or maintain summary schedules to support governmental accounts receivable, business type accounts receivable, deferred revenue, and deposits from others liability accounts. The City's records do not permit the application of other auditing procedures to the above accounts. The City also relied on the auditor to make material adjusting entries for accounts payable, capital leases, operating transfers in and out, advances to and from other funds, due to and due from other funds, interest receivable and fund equity.

The effect of the departures, from accounting principles generally accepted in the United States of America, identified above are not reasonably determinable.

Since the City did not have the supporting documentation to support cash and investments, capital assets, compensated absences, accounts receivable, deferred revenue and deposit liabilities as noted above and because we were not able to apply other auditing procedures to satisfy ourselves as to the scope limitations, the scope of our work was not sufficient to enable us to express an opinion, and we do not express, an opinion on these financial statements or related supplementary schedules.

In accordance with Government Auditing Standards, we have also issued our report dated May 13, 2010 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. 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 of 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 Management Discussion and Analysis (MD&A) and the required supplementary information other than MD&A, as listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. 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.



Larry Bain, CPA,
An Accounting Corporation
May 13, 2010

City of Ione
Required Supplementary Information
Management's Discussion and Analysis
June 30, 2009

This section of the City of Ione's annual financial report presents an analysis of the City's financial performance during the fiscal year ended June 30, 2009. This information is presented in conjunction with the audited basic financial statements, which follows this section.

FINANCIAL HIGHLIGHTS FOR FISCAL YEAR 2008-09

- The City's net assets were \$43,657,358 at June 30, 2009. Net assets decreased \$2,749,155 or 6%. Of the total net assets, \$2,730,929 is unrestricted and may be used to meet ongoing obligations to citizens and creditors.
- Total cash and investments decreased \$2,648,938 or 43% to \$3,571,024. Of total cash, \$2,053,026 is restricted for specific activities.
- As of June 30, 2009, the City's governmental funds reported combined fund balance of \$2,450,598. Of which, \$1,906,871 is available to meet the City's current and future needs (unreserved fund balance). In comparison, Fiscal Year 2007-08 had a combined fund balance of \$4,612,007. Six major funds make up the governmental funds. They are: General Fund, Gas Tax, Police and Fire Impact Fees and two Housing Grant funds.
- The General Fund fund balance decreased \$391,951 or 20% to \$1,579,167 as of June 30, 2009. All of the fund balance is unrestricted and may be used to meet ongoing obligations to citizens and creditors.
- The General Fund cash balance decreased \$660,853 or 37% to \$1,125,282. Projects funded by the gas tax fund included \$31,079.96 for the completion of the East Main Street reconstruction, \$3,831.39 for slurry seal and \$12,610.15 for tree removal, trimming, for double axle vehicle clearance and storm damage.
- Police vehicle expenditures totaled \$14,784.83. The new fire station was completed in March, 2009 and the total expenditures for the capital project in 08/09 were \$1,480,263.21, with an additional capital outlay of \$3,546.65 for machinery and equipment.
- The City's proprietary funds (sewer) net assets decreased \$40,284 or 1% to \$8,810,227. Cash increased \$73,605, or 9% to \$792,708. The sewer fund accounted for the cash increase. For the past three years the City has been making improvements as well as planning improvements to its sewer plant.
- The City's long-term liabilities, not including compensated absences, consists of the long term capital lease for the new fire station. The principal amount was \$560,000, with a balance of \$547,462 as of 6/30/09.

• **OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components, government – wide financial statements, fund financial statements and notes to the basic financial statements. This report also includes additional required supplementary information in addition to the basic financial statements.

City of Ione
Required Supplementary Information
Management's Discussion and Analysis (Continued)
June 30, 2009

REQUIRED FINANCIAL STATEMENTS

Government – Wide Financial Statements are designed to provide readers with a broad overview of City finances, in a manner similar to a private-sector business.

The *Statement of Net Assets* includes information on the City's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to City creditors (liabilities). Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *Statement of Activities* presents information showing how net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of these government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other function that are intended to recover all or A portion of their costs through user fees and charges (business type activities). The governmental activities of the City include general government, public safety, community development, public works, streets and roads, parks and recreation. The business-type activities are sewer.

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

Governmental funds – are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as of balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the City's near-term requirements. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures and changed in fund balances provide a reconciliation to facilitate comparison between governmental funds and governmental activities.

Proprietary funds – The City charges customers for the services it provides. These services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the City's enterprise funds (a component of proprietary funds) are identical to the business type activities that are reported in the government-wide statements, but provide more detail and additional information, such as cash flows, for proprietary funds. The City of Ione maintains three individual enterprise funds. The City uses enterprise funds to account for its sewer enterprises. The funds provide the same type of information as the government-wide financial statements, but in more detail. The proprietary fund financial statements provide separate information for the sewer, which is considered a major fund of the City.

City of Ione
Required Supplementary Information
Management's Discussion and Analysis (Continued)
June 30, 2009

Fiduciary funds – are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs.

The City of Ione maintains four fiduciary or agency funds. They are: community facilities district (CFD 2005-1 and 2005-2), regional traffic mitigation, developer deposits and fire.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found immediately following the basic financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report presents certain required supplementary information concerning the City's budgetary comparative information for its major governmental funds. Also the funding progress of the City's pension is presented as required supplementary information.

City of Ione
Required Supplementary Information
Management's Discussion and Analysis (Continued)
June 30, 2009

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Assets

The City's Condensed Statement of Net Assets is presented as follows.

	June 30, 2009			June 30, 2008		
	Governmental Activities	Business-type Activities	Total	Governmental Activities	Business-type Activities	Total
Current and other Assets	\$ 4,807,071	\$ 883,033	\$ 5,690,104	\$ 7,114,625	\$ 1,079,587	\$ 8,194,212
Capital Assets	32,897,366	7,801,415	40,698,781	32,897,366	7,801,416	40,698,782
Total Assets	\$ 37,704,437	\$ 8,684,448	\$ 46,388,885	\$ 40,011,991	\$ 8,881,003	\$ 48,892,994
Liabilities						
Current/non current	\$ 2,612,506	\$ 119,021	\$ 2,731,527	\$ 2,455,989	\$ 30,492	\$ 2,486,481
Total Liabilities	\$ 2,612,506	\$ 119,021	\$ 2,731,527	\$ 2,455,989	\$ 30,492	\$ 2,486,481
Net Asset:						
Invested in capital assets, net	\$ 32,897,366.00	\$ 7,801,415.00	\$ 40,698,781.00	\$ 32,897,366.00	\$ 7,801,416.00	\$ 40,698,782.00
Net assets restricted		227,648	227,648	-	95,340	95,340
Unrestricted net assets	1,949,765	781,164	2,730,929	4,658,636	953,755	5,612,391
Total Net Assets	\$ 34,847,131	\$ 8,810,227	\$ 43,657,358	\$ 37,556,002	\$ 8,850,511	\$ 46,406,513

The City's near-term financing situation, as measured by the current ratio (current assets divided by current liabilities), decreased. The ratio decreased over the two year period from 2.86 to 1.99 %. Values greater than 1.00 are considered good.

The City's overall financial position, as measured by net assets is \$43,657,358. The major component of net assets is invested in capital assets. Unrestricted net assets are \$2,730,929 and represent the amount available for future operations. Unrestricted net assets decreased and governmental/ business-type activities accounted for the majority of the decrease.

City of Ione
Required Supplementary Information
Management's Discussion and Analysis (Continued)
June 30, 2009

Statement of Activities

The City's Condensed Statement of Activities is presented as follows.

	June 30, 2009			June 30, 2008		
	Governmental Activities	Business-type Activities	Total	Governmental Activities	Business-type Activities	Total
Charges for services	\$ 256,649	\$ 1,088,745	\$ 1,345,394	\$ 299,817	\$ 1,021,218	\$ 1,321,035
Capital grants and contribution	363,791	242,860	606,651	767,557	8,020	775,577
Operating grants	498,066	-	498,066	1,109,901	-	1,109,901
General Revenue:						
Property taxes and assessment	645,842		645,842	699,744		699,744
Sales and use tax	291,719		291,719	165,814		165,814
Other taxes	967,258		967,258	904,452		904,452
Interest income	85,060	23,597	108,657	245,640	44,726	290,366
Total Revenue	3,108,385	1,355,202	4,463,587	4,192,925	1,073,964	5,266,889
Expenses:						
Governmental activities:						
General government	1,602,232	-	1,602,232	735,606	-	735,606
Public safety	2,685,208	-	2,685,208	1,479,048	-	1,479,048
Community development	378,745	-	378,745	761,567	-	761,567
Public Works	290,970	-	290,970	252,321	-	252,321
Streets and roads	454,622	-	454,622	253,788	-	253,788
Parks and recreation	405,479	-	405,479	450,605	-	450,605
Business-type activities:						
Wastewater	-	1,395,486	1,395,486	-	1,870,788	1,870,788
Total Expense	5,817,256	1,395,486	7,212,742	3,932,935	1,870,788	5,803,723
Change in net assets	(2,708,871)	(40,284)	(2,749,155)	259,990	(796,824)	(536,834)
Net Assets:						
Beginning	37,556,002	8,850,511	46,406,513	37,224,928	9,655,599	46,880,527
Prior period adjustment	-	-	-	71,084	(8,265)	62,819
Ending	\$34,847,131	\$ 8,810,227	\$ 43,657,358	\$ 37,556,002	\$ 8,850,510	\$ 46,406,512

The statement of activities, identify the various revenue and expense items which affect the change in net assets. Total revenues decreased \$803,302 or 15% to \$4,463,587 while total expenses increased \$1,409,019 or 81% to \$7,212,742. The net assets decreased. The decrease to revenues was due to the decline in charges for services, a decline in interest income, operating grants and property, other taxes offset by an increase to sales and use tax. Expenses exceeded revenues by \$2,708,871. General government, public safety, streets and roads accounted for the decrease. Included in the \$1,395,486 sewer expenses are \$83,024 for maintenance of the collection system and \$125,960.55 professional services. For the past three years, the City has been making improvements as well as planning improvements to its sewer plant to meet projected growth as well as comply with SWRCB requirements.

For more information please see the financial statements and the notes to the financial statements.

City of Ione
Required Supplementary Information
Management's Discussion and Analysis (Continued)
June 30, 2009

FUNDS FINANCIAL ANALYSIS

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

Governmental funds. The general government functions are contained in the general, special revenue and capital project funds. The focus of the City's governmental funds is to provide information on near-term inflow, outflows and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

For more information please see pages 13 and 15 of the audit report.

Proprietary funds. The proprietary funds (sewer) provide the same type of information found in the government-wide financial statements, but in more detail.

The combined funds near-term financing situation, as measured by the current ratio (current assets divided by current liabilities), increased. The ratio increased over the two year period from 4.19 to 8.22 or 13%. Values greater than 1.00 are considered good. The major component of net assets is unrestricted. Unrestricted net assets represent the amount available for future operations. Unrestricted net assets decreased \$172,591.

For more information please see pages 17 through 19 of the audit report.

Budgetary Highlights

General fund revenues for the 2008-09 fiscal year were budgeted at \$1,863,204. The actual revenues were \$2,114,029 which is a favorable variance of \$250,825 or 26%. The majority of the variance was due to an increase of \$143,466 in taxes, \$93,939 in Intergovernmental and \$29,246 in charges for current services. Conversely, licenses and permits and use of money and property were less than budget by \$422,807 and \$7,389 respectively.

General fund expenditures were budgeted at \$2,344,716. The actual amount expended was \$2,505,980 or \$161,264 over budget. The lesser amount of budgeted expenditures was due to the city council, finance/treasure, planning, building, and mechanic, special projects departments and parks and recreation. Conversely, administration, city clerk, legal, engineering and police department are over budget.

For more information please see pages 37 and 38 of the audit report.

City of Ione
Required Supplementary Information
Management's Discussion and Analysis (Continued)
June 30, 2009

CAPITAL ASSETS

The City completed the required GASB 34 study in fiscal year ending June 30, 2008. The City has prepared a listing of historical cost for general and enterprise fund infrastructure and fixed assets and a depreciation schedule for infrastructure and fixed assets in accordance with governmental accounting standards board statement (GASB) 34. Following is a summary of capital assets and accumulated depreciation:

	Governmental Activities		Business-type Activities		Total Government	
	6/30/2009	6/30/2008	6/30/2009	6/30/2008	6/30/2009	6/30/2008
Land	\$ 29,696,609	\$ 29,696,609	\$ 3,873,444	\$ 3,873,444	\$ 33,570,053	\$ 33,570,053
Construction in progress	-	623,144	-	-	-	623,144
Structures	1,575,360	1,575,360	1,460,111	1,460,111	3,035,471	3,035,471
Site improvements	814,633	814,632	446,396	446,396	1,261,029	1,261,028
Vehicles and equipment	1,609,645	1,543,646	380,124	446,125	1,989,769	1,989,771
Infrastructure	4,341,304	628,088	731,293	3,838,893	5,072,597	4,466,981
Accumulated depreciation	(3,632,934)	(1,984,113)	(1,131,574)	(2,263,553)	(4,764,508)	(4,247,666)
Total Capital Assets, Net	\$ 34,404,617	\$ 32,897,366	\$ 5,759,794	\$ 7,801,416	\$ 40,164,411	\$ 40,698,782

As of June 30, 2009 the City's investment in capital assets totaled \$40,164,411 net of accumulated depreciation.

The investment in capital assets includes police and fire vehicles and equipment, land, site improvements, buildings and sewer assets.

LONG-TERM DEBT

As of June 30, 2009, the City had \$617,318 in outstanding debt as reported in the statement of net assets. On August 28, 2008 the City entered into a capital lease in the principal amount of \$560,000 to partially finance the construction of the new Fire Station No. 2. The \$3,979 principal and interest portion of the lease payment is due monthly and commenced on September 28, 2008 with the final payment due August 28, 2028. The lease carries a nominal annual interest rate of 5.897%. The remaining outstanding debt represents the compensated absences.

City of Ione
Required Supplementary Information
Management's Discussion and Analysis (Continued)
June 30, 2009

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The City Council adopted the City's 2008-09 Final Budget on July 15, 2008. During the past three fiscal years, the City has been making improvements as well as planning improvements to its sewer plant to meet projected growth as well as comply with SWRCB requirements. Planning for the sewer plant expansion is an ongoing project.

The nation, state and local community continues to experience a housing slowdown, credit market problems, big 3 auto maker's problems and the general economy continues to struggle. The State continues to tap into the City's resources and the City continues to project and budget with a conservative approach.

ADDITIONAL FINANCIAL INFORMATION

This financial report is designed to provide the City's customers, investors and other interested parties with an overview of the City's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wishes to request additional financial information, please contact the Finance Manager at the City of Ione, #1 Main Street, Ione, California 95640.

CITY OF IONE

Statement of Net Assets June 30, 2009 (With comparative totals as of June 30, 2008)

	Governmental Activities	Business-type Activities	Totals	
			2009	2008
Assets				
Cash and investments	\$ 725,290	\$ 792,708	\$ 1,517,998	\$ 2,695,080
Accounts receivables	397,506	112,271	509,777	638,261
Grants	100,000		100,000	-
Taxes receivable	-		-	1,864
Interest receivable	3,773	8,290	12,063	50,835
Restricted cash and investments	2,083,262	(30,236)	2,053,026	3,524,882
Total current assets	3,309,831	883,033	4,192,864	6,910,922
Non Current Assets				
Internal balances	(244,800)	244,800	-	-
Loans receivable	1,497,240		1,497,240	1,283,290
Capital assets				
Land	29,696,609	3,873,444	33,570,053	33,570,053
Construction in progress	623,144		623,144	623,144
Structures	1,575,360	1,460,111	3,035,471	3,035,471
Site improvements	814,632	446,396	1,261,028	1,261,028
Vehicles and equipment	1,543,646	446,125	1,989,771	1,989,771
Infrastructure	628,088	3,838,892	4,466,980	4,466,981
Accumulated depreciation	(1,984,113)	(2,263,553)	(4,247,666)	(4,247,666)
Total capital assets, net	32,897,366	7,801,415	40,698,781	40,698,782
Total Assets	\$ 37,459,637	\$ 8,929,248	\$ 46,388,885	\$ 48,892,994
Liabilities				
Current liabilities:				
Accounts payable	\$ 298,429	\$ 107,106	\$ 405,535	\$ 790,649
Deposits from others	254,359	366	254,725	261,389
Deferred revenue	1,453,949		1,453,949	1,353,949
Due to agency fund	-		-	10,497
Noncurrent liabilities:				
Due within one year	31,434		31,434	34,939
Due in more than one year	574,335	11,549	585,884	35,058
Total Liabilities	2,612,506	119,021	2,731,527	2,486,481
Net Assets				
Invested in capital assets net of related debt	32,897,366	7,801,415	40,698,781	40,698,782
Restricted for capital replacement		227,648	227,648	95,340
Unrestricted	1,949,765	781,164	2,730,929	5,612,391
Total Net Assets	\$ 34,847,131	\$ 8,810,227	\$ 43,657,358	\$ 46,406,513

The accompanying notes are an integral part of these financial statements

CITY OF IONE

**Statement of Activities
For the Fiscal Year Ended June 30, 2009
(With comparative totals for the fiscal year ended June 30, 2008)**

Functions/programs	Expenses	Program Revenues			Governmental Activities	Net (Expense) Revenue and Changes in Net Assets		Totals
		Charges for Services	Capital Grants and Contributions	Operating Grants		Business-type Activities	2009	2008
Governmental Activities								
General government	\$ 1,602,232	\$ 113,045	\$ 34,226	\$ 13	\$ (1,454,948)	\$ -	\$ (1,454,948)	\$ (642,499)
Public safety	2,685,208	100,133	5,605	52,906	(2,526,564)		(2,526,564)	(1,196,658)
Community development	378,745			220,200	(158,545)		(158,545)	69,386
Public works	290,970	38,476	30,376	5,000	(217,118)		(217,118)	(200,459)
Streets and roads	454,622		191,944	219,947	(42,731)		(42,731)	391,834
Parks and recreation	405,479	4,995	101,640		(298,844)		(298,844)	(177,264)
Total Governmental Activities	5,817,256	256,649	363,791	498,066	(4,698,750)		(4,698,750)	(1,755,660)
Business-type Activities								
Wastewater	1,395,486	1,088,745	242,860			(63,881)	(63,881)	(63,881)
Total Business-type Activities	1,395,486	1,088,745	242,860			(63,881)	(63,881)	(63,881)
Total Government	\$ 7,212,742	\$ 1,345,394	\$ 606,651	\$ 498,066	(4,698,750)	(63,881)	(4,762,631)	(1,819,541)
General Revenues								
Taxes:								
Property taxes					645,842		645,842	699,744
Sales and use tax					291,719		291,719	165,814
Transient occupancy tax					4,191		4,191	4,616
Franchise tax					85,358		85,358	82,247
Motor vehicle in lieu tax					857,635		857,635	798,895
Other taxes					20,074		20,074	18,694
Investment income					85,060	23,597	108,657	290,366
Total general revenues					1,989,879	23,597	2,013,476	2,060,376
Change in net assets					(2,708,871)	(40,284)	(2,749,155)	240,835
Net assets - beginning (restated)					37,556,002	8,850,511	46,406,513	46,406,512
Prior Period Adjustment								62,819
Net assets - ending					\$ 34,847,131	\$ 8,810,227	\$ 43,657,358	\$ 46,710,166

The accompanying notes are an integral part of these financial statements

CITY OF IONE

**Balance Sheet
Governmental Funds
June 30, 2009
(With comparative totals as of June 30, 2008)**

	General	Gas Tax	06-Home CDBG	05-STBG	Governmental Impact Fees	Fire Services Impact Fees	Other Nonmajor Funds	<u>Total Governmental</u>	
Assets								2009	2008
Cash and investments	\$ 1,125,282	\$ -	\$ 412	\$ -	\$ -	\$ -	\$ (400,403)	\$ 725,290	\$ 1,975,977
Receivables									
Accounts	196,287	49,635	-		2,416	381	148,787	397,506	529,088
Grants							100,000	100,000	-
Taxes									1,864
Interest	1,667	409	78		48		1,571	3,773	44,324
Due from other funds									309,412
Restricted cash and investments		457,542		(245)	(54,650)	234,679	1,445,936	2,083,262	3,524,882
Advances to other funds	693,141				25,000		839,804	1,557,945	43,000
Loans receivable			570,435	383,077			543,728	1,497,240	1,283,290
Total Assets	\$ 2,016,377	\$ 507,586	\$ 570,925	\$ 382,832	\$ (27,186)	\$ 235,060	\$ 2,679,423	\$ 6,365,018	\$ 7,711,837
Liabilities and Fund Balances									
Liabilities									
Accounts payable	\$ 226,744	\$ 18,381	\$ -	\$ -	\$ 29,880	\$ 1,048	\$ 22,376	\$ 298,429	\$ 785,447
Due to other funds	-							-	319,908
Deposits from others	(104,993)					359,352		254,359	247,889
Deferred revenue	70,659	49,635	456,485	383,077			599,030	1,558,886	1,458,886
Total Current Liabilities	192,410	68,016	456,485	383,077	29,880	360,400	621,406	2,111,675	2,812,030
Long-term Liabilities									
Advances from other funds	244,800				598,000	959,945		1,802,745	287,800
Total Liabilities	437,210	68,016	456,485	383,077	627,880	1,320,345	621,406	3,914,420	3,099,830
Fund Balances									
Reserved for loans receivable							543,728	543,728	443,728
Unreserved, reported in									
General fund	1,579,167							1,579,167	1,971,148
Special revenue funds		439,570	114,440	(245)			121,738	675,504	1,072,129
Capital projects funds					(655,066)	(1,085,285)	1,392,551	(347,800)	1,125,032
Total Fund Balances	1,579,167	439,570	114,440	(245)	(655,066)	(1,085,285)	2,058,017	2,450,598	4,612,007
Total Liabilities and Fund Balances	\$ 2,016,377	\$ 507,586	\$ 570,925	\$ 382,832	\$ (27,186)	\$ 235,060	\$ 2,679,423	\$ 6,365,018	\$ 7,711,837

The accompanying notes are an integral part of these financial statements

CITY OF IONE
Reconciliation of the Statement of the Balance Sheet
To the Statement of Net Assets
As of June 30, 2009
(With comparative totals as of June 30, 2008)

	<u>2009</u>	<u>2008</u>
Fund Balances of Governmental Funds	\$ 2,450,598	\$ 4,612,007
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets, net of accumulated depreciation, are not current financial resources and are not included in the governmental funds.	32,897,366	32,897,366
Some liabilities, including long-term debt, compensated absences and deferred revenue are not due and payable in the current period and therefore are not reported in the funds.	<u>(500,833)</u>	<u>46,629</u>
Net assets of governmental activities	\$ <u>34,847,131</u>	\$ <u>37,556,002</u>

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

CITY OF IONE

**Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2009
(With comparative totals for the fiscal year ended June 30, 2008)**

	General	Gas Tax	06-Home CDBG	05-STBG	Governmental Impact Fees	Fire Services Impact Fees	Other Nonmajor Funds	Total Governmental	
								2009	2008
Revenues									
Taxes	\$ 946,866	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 946,866	\$ 871,834
Special assessment/impact fees					34,226	2,879	259,235	296,340	242,186
Licenses and permits	110,253							110,253	111,142
Use of money and property	104,434	8,817	394		480	1,726	51,917	167,768	312,621
Intergovernmental	874,172	219,947	120,200				278,309	1,492,629	2,373,104
Fines, forfeitures and penalties	5,519						11,232	16,751	35,698
Charges for current services	44,045							44,045	10,120
Other	28,740						4,995	33,734	36,127
Total Revenues	2,114,029	228,764	120,594		34,706	4,605	605,688	3,108,386	3,993,032
Expenditures									
Current:									
General government	948,067				650,137		68,684	1,606,888	832,686
Public ways and facilities/ transportation	276,458	177,743					14,512	468,713	477,811
Public safety	1,040,092					23,130	254,844	1,318,066	1,252,170
Community development	227,583		4,750				373,612	605,945	1,012,941
Capital Outlay	9,800	31,080				1,339,880	345,643	1,726,403	1,051,484
Debt service									
Principal	1,251					12,538		13,789	46,300
Interest	2,729					27,262		29,991	-
Total Expenditures	2,505,980	208,823	4,750		650,137	1,402,810	1,057,295	5,829,795	4,673,392
Excess (Deficit) of Revenues over Expenditures	(391,951)	19,941	115,844		(615,431)	(1,398,205)	(451,607)	(2,721,409)	(680,360)
Other Financing Sources (Uses)									
Proceeds of capital lease						560,000		560,000	-
Operating transfers in					25,000			25,000	1,094,777
Operating transfers out					(25,000)			(25,000)	(1,094,777)
Total Other Financing Sources (Uses)						560,000		560,000	-
Excess (Deficit) of Revenues and Other Financing Sources over Expenditures and Other Financing Uses	(391,951)	19,941	115,844		(615,431)	(838,205)	(451,607)	(2,161,409)	(680,360)
Fund Balances, July 1, 2008	1,971,118	419,629	(1,404)	(245)	(39,635)	(247,080)	2,509,624	4,612,007	5,221,283
Prior period adjustments								-	71,084
Fund Balances, June 30, 2009	\$ 1,579,167	\$ 439,570	\$ 114,440	\$ (245)	\$ (655,066)	\$ (1,085,285)	\$ 2,058,017	\$ 2,450,598	\$ 4,612,007

The accompanying notes are an integral part of these financial statements

CITY OF IONE

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

For the Fiscal Year Ended June 30, 2009

(With comparative totals for the fiscal year ended June 30, 2008)

	<u>2009</u>	<u>2008</u>
Net Change in Fund Balances - Total Governmental Funds	\$ (2,161,409)	\$ (680,360)
<p>Amounts reported for governmental activities in the Statement of Activities differs from the amounts reported in the Statement of Revenues, Expenditures and Changes in Fund Balances because:</p>		
<p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the costs of those assets is allocated over their estimated useful lives as depreciation expense or are allocated to the appropriate functional expense when the cost is below the capitalization threshold. This activity is reconciled as follows:</p>		
Cost of assets capitalized	-	1,051,484
Capital contributions	-	182,303
Depreciation expense	-	(324,254)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	-	17,585
Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.	12,538	40,693
Proceeds of capital leases are other financing sources in the governmental funds, but the proceeds increase long-term liabilities in the Statement of Net Assets	(560,000)	
Changes in compensated absences reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported in governmental funds.	<u>-</u>	<u>(27,461)</u>
Change in net assets of governmental activities	<u>\$ (2,708,871)</u>	<u>\$ 259,990</u>

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

CITY OF IONE

Statement of Net Assets Proprietary Funds June 30, 2009 (With comparative totals as of June 30, 2008)

	Sewer O & M	Sewer Capital	Nonmajor Sewer Tertiary Plant	Totals	
				2009	2008
Current assets:					
Cash and investments	\$ 797,988	\$ -	\$ (5,280)	\$ 792,708	\$ 719,103
Receivables					
Accounts	51,151	61,120		112,271	109,173
Interest	8,290	-		8,290	6,511
Due from other funds				-	237,189
Restricted cash and investments		(30,236)		(30,236)	
Total current assets	857,429	30,884	(5,280)	883,033	1,071,976
Non Current Assets					
Advances to other funds		244,800		244,800	244,800
Capital assets					
Land	3,873,444			3,873,444	3,873,444
Construction in progress					
Structures	1,460,111			1,460,111	1,460,111
Site improvements	446,396			446,396	446,396
Vehicles and equipment	446,125			446,125	446,125
Infrastructure	3,838,892			3,838,892	3,838,893
Accumulated depreciation	(2,263,553)			(2,263,553)	(2,263,553)
Total capital assets	7,801,415			7,801,415	7,801,416
Total Assets	\$ 8,658,844	275,684	\$ (5,280)	\$ 8,929,248	\$ 9,118,192
Liabilities					
Current liabilities:					
Accounts payable	\$ 48,824	\$ 48,036	\$ 10,246	\$ 107,106	\$ 5,302
Customer deposits	366			366	13,500
Due to other fund					\$ 237,189
Total current liabilities	49,190	48,036	10,246	107,472	255,991
Noncurrent liabilities:					
Compensated absences	11,549			11,549	11,690
Total noncurrent liabilities	11,549			11,549	11,690
Total Liabilities	60,739	48,036	10,246	119,021	267,681
Net assets:					
Invested in capital assets net of related debt	7,801,415			7,801,415	7,801,416
Restricted for capital replacement		227,648		227,648	95,340
Unreserved	796,690		(15,526)	781,164	953,755
Total Net Assets (Accumulated Deficit)	\$ 8,598,105	\$ 227,648	\$ (15,526)	\$ 8,810,227	\$ 8,850,511

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

CITY OF IONE

**Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Funds
For the Fiscal Year Ended June 30, 2009
(With comparative totals for the fiscal year ended June 30, 2008)**

	Sewer O & M	Sewer Capital	Nonmajor Sewer Tertiary Plant	Totals	
				2009	2008
Operating Revenues					
Charges for services	\$ 871,338	\$ -	\$ 201,719	\$ 1,073,057	\$ 1,007,495
Connection fees		242,860		242,860	8,020
Other	15,688			15,688	13,723
Total Operating Revenues	887,026	242,860	201,719	1,331,605	1,029,238
Operating Expenses					
Salaries and benefits	249,264			249,264	268,386
Services and supplies	414,651	560,094	171,477	1,146,222	1,394,306
Depreciation expense	-			-	208,096
Total Operating Expenses	663,915	560,094	171,477	1,395,486	1,870,788
Operating Income	223,111	(317,234)	30,242	(63,881)	(841,550)
Non-Operating Revenues (Expenses)					
Interest income	23,138	445	14	23,597	44,726
Total Non-Operating Revenues (Expenses)	23,138	445	14	23,597	44,726
Income (Loss) Before Transfers	246,249	(316,789)	30,256	(40,284)	(796,824)
Operating Transfers					
Operating transfers in		449,097		449,097	63,270
Operating transfers out	(449,097)			(449,097)	(63,270)
Net Operating Transfers	(449,097)	449,097		-	-
Net Income (Loss)	(202,848)	132,308	30,256	(40,284)	(796,824)
Net Assets, July 1, 2008	8,800,953	95,340	(45,782)	8,850,511	9,655,599
Prior Period Adjustments				-	(8,265)
Net Assets (Accumulated Deficit), June 30, 2009	\$ 8,598,105	\$ 227,648	\$ (15,526)	\$ 8,810,227	\$ 8,850,510

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

CITY OF IONE

Statement of Cash Flows Proprietary Funds For the Fiscal Year Ended June 30, 2009 (With comparative totals for the fiscal year ended June 30, 2008)

	Sewer O & M	Sewer Capital	Nonmajor Sewer Tertiary Plant	Totals	
				2009	2008
Cash Flows from Operating Activities					
Cash received from customers	\$ 878,434	\$ 235,220	\$ 201,719	\$ 1,315,373	\$ 1,023,413
Cash payments to suppliers	(359,330)	(523,603)	(161,485)	(1,044,418)	(1,485,701)
Cash payments to employees	(249,405)			(249,405)	(262,770)
Other cash received	237,189			237,189	237,189
Other cash paid		(191,661)	(45,528)	(237,189)	(237,189)
Net Cash Provided By (Used For) Operating Activities	506,888	(480,044)	(5,294)	21,551	(725,058)
Cash Flows from Capital and Related Financing Activities					
Operating transfer in (out)	(449,097)	449,097		-	-
Purchase of fixed assets				-	(63,270)
Net Cash Used For Capital and Related Financing Activities	(449,097)	449,097		-	(63,270)
Cash Flows from Investing Activities:					
Interest income	21,094	710	13	21,817	56,021
Net Cash Provided By Investing Activities	21,094	710	13	21,817	56,021
Net Increase (Decrease) in Cash and Cash Equivalents	78,885	(30,236)	(5,280)	43,369	(732,305)
Cash and Cash Equivalents, July 1, 2008	719,103			719,103	1,451,408
Cash and Cash Equivalents, June 30, 2009	\$ 797,988	\$ (30,236)	\$ (5,280)	\$ 762,472	\$ 719,103
Reconciliation of Cash and Cash Equivalents:					
Cash and investments	\$ 797,988	\$ -	\$ (5,280)	\$ 792,708	\$ 719,103
Restricted cash and investments		(30,236)		(30,236)	-
Total Cash and Cash Equivalents	\$ 797,988	\$ (30,236)	\$ (5,280)	\$ 762,472	\$ 719,103
Reconciliation of Operating Income to Net Cash Provided by (Used For) Operating Activities					
Operating income (loss)	\$ 223,111	\$ (317,234)	\$ 30,242	\$ (63,881)	\$ (841,550)
Adjustments to operating income:					
Depreciation expense				-	208,096
(Increase) decrease in accounts receivable	4,542	(7,640)		(3,098)	1,641
Increase in due from other funds	237,189			237,189	(237,189)
Increase (decrease) in accounts payable	55,321	36,491	9,992	101,804	(83,130)
Increase (decrease) in customer deposits	(13,134)			(13,134)	(7,466)
Increase in due to other funds		(191,661)	(45,528)	(237,189)	237,189
Increase in deferred revenue				-	-
Prior period adjustment				-	(8,265)
Increase (decrease) in compensated absences	(141)			(141)	5,616
Net Cash Provided By (Used For) Operating Activities	\$ 506,888	\$ (480,044)	\$ (5,294)	\$ 21,549	\$ (725,058)

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

CITY OF IONE

Statement of Fiduciary Assets and Liabilities - Agency Funds
June 30, 2009
(With comparative totals as of June 30, 2008)

	Agency Funds				Totals	
	Community	Regional Traffic	Fire Dept	Developer	2009	2008
	Facilities Districts	Mitigation	Agency Fund	Deposits		
<u>Assets</u>						
Cash and investments	\$ 2,251,279	\$ 3,061	\$ 5,079	\$ (90,878)	\$ 2,168,541	\$ 2,465,944
Due from others		606		549,051	549,657	552,846
Due from other government				-	-	10,497
Total Assets	<u>\$ 2,251,279</u>	<u>\$ 3,667</u>	<u>\$ 5,079</u>	<u>\$ 458,173</u>	<u>\$ 2,718,198</u>	<u>\$ 3,029,286</u>
<u>Liabilities</u>						
Deposits held for others	\$ 2,251,279	\$ 3,667	\$ 5,079	\$ 458,173	\$ 2,718,198	\$ 3,029,286
Total Liabilities	<u>\$ 2,251,279</u>	<u>\$ 3,667</u>	<u>\$ 5,079</u>	<u>\$ 458,173</u>	<u>\$ 2,718,198</u>	<u>\$ 3,029,286</u>

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

City of Ione
Notes to Financial Statements
June 30, 2009

Note 1: Summary of Significant Accounting Policies

The City of Ione, California (the City) was incorporated in 1953, as a municipal corporation operating under the general laws of the State of California. The City operates under a Council-Manager form of government and provides the following services: general government, public works, public safety, parks and recreation, low income housing support and general administrative support.

The following is a summary of the more significant policies:

A. Reporting Entity

The City has defined its reporting entity in accordance with U.S. generally accepted accounting principles, which provides guidance for determining which governmental activities, organizations and functions should be included in the reporting entity. In evaluating how to define the City for financial reporting purposes, management has considered all potential component units. The primary criterion for including a potential component unit within the reporting entity is the governing body's financial accountability. A primary governmental entity is financially accountable if it appoints a voting majority of a component unit's governing body and it is able to impose its will on the component unit, or if there is a potential for the component unit to provide specific financial benefits to, or impose specific financial burdens on, the primary government. A primary government may also be financially accountable if a component unit is fiscally dependent on the primary governmental entity regardless of whether the component unit has a separately elected governing board, a governing board appointed by a higher level of government, or a jointly appointed board. All such component units have been "blended" with the City's other fund types and account groups. All of the blended component units have June 30 year-ends.

Based upon the aforementioned oversight criteria, the following are the component units:

The Local Transportation Commission is a blended component unit and its activities are shown as a major special revenue fund (TDA) in the City's basic financial statements.

The Wildflower Community Facilities District is a blended component unit and its activities are shown as a non major special revenue fund.

B. Basis of Accounting

The government-wide, proprietary and agency fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned or, for property tax revenues, in the period for which levied. Expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Revenue from sales tax is 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. Revenues are recognized when both measurable and available. Measurable means the amount of the transaction can be determined and available means collectible in the current period or soon enough thereafter to be used to pay liabilities of the current period. Resources not available to finance expenditures and commitments of the current period are recognized as deferred revenue or as a reservation of fund balance. The City considers property taxes available if they are collected within sixty-days after year-end. Expenditures are recorded when the related fund liability is incurred. Principal and interest on general long-term debt, as well as compensated absences and claims and judgments are recorded only when payment is due.

City of Ione
Notes to Financial Statements
June 30, 2009

Note 1: Summary of Significant Accounting Policies (Continued)

B. Basis of Accounting (Continued)

General capital acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and capital leases are reported as other financial sources.

When applicable, the City reports deferred revenue on its combined balance sheet. Deferred revenue arises when a potential revenue source does not meet both the measurable and available criteria for recognition in the current period. Deferred revenues also arise when resources are received by the City before it has legal claim to them, as when grant monies are received prior to the occurrences of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the City has legal claim to the resources, deferred revenue is removed from the combined balance sheet and revenue is recognized.

C. Basis of Presentation

Government-Wide Financial Statements

The statement of net assets and statement of activities display information about the primary government (the City) and its blended component units. These statements include the financial activities of the overall government, except for fiduciary activities. These statements distinguish between the governmental and business-type activities of the City. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees charged to external parties.

The statement of activities demonstrates the degree to which the program expenses of a given function are offset by program revenues. Program expenses include direct expenses, which are clearly identifiable with a specific function. Program revenues include 1) charges paid by the recipient 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 instead as general revenues.

When both restricted and unrestricted net assets are available, unrestricted resources are used only after the restricted resources are depleted.

Fund Financial Statements

The fund financial statements provide information about the City's funds, including fiduciary funds and blended component units. 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 separate columns. All remaining governmental and enterprise funds are separately aggregated and reported as nonmajor 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. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

The City reports the following major governmental funds:

General Fund - This fund accounts for all the financial resources not required to be accounted for in another fund. This fund consists primarily of general government type activities.

City of Ione
Notes to Financial Statements
June 30, 2009

Note 1: Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation (Continued)

Gas Tax Fund – This fund accounts for revenues and expenditures of street related projects funded by the highway users tax apportionment from the State of California.

Police Services Impact Fee – This fee is for the maintenance of police facilities, equipment, and vehicles. The fee is also for the cost of future new facilities and equipment necessary to accommodate future anticipated growth and development.

Fire Services Impact Fee – This fee is for the maintenance of fire facilities and vehicles. The fee is also for the cost of future new facilities and equipment necessary to accommodate future anticipated growth and development.

06-Home CDBG – This fund accounts for loans made to qualifying recipients through the CDBG Grant funding program for purchasing local homes.

05-STBG – This fund accounts for loans made to qualifying recipients through the STBG Grant funding program for purchasing local homes.

The City reports the following major enterprise funds.

Sewer Fund O & M and Capital Funds – account for the operation of the City's sewer utilities. Activities of these funds include administration, operation and maintenance of the water and sewer systems and billing and collection activities. These Funds also accumulate resources for future expansion. All costs are financed through charges made to utility customers with rates reviewed regularly and adjusted if necessary to ensure the integrity of the Funds.

The City also reports the following Fiduciary Fund type:

Agency Fund – is used to account for assets held by the City in an agency capacity for other governments, developers or landowners.

D. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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.

E. Cash Equivalents

For the purpose of the statement of cash flows, the City considers cash and cash equivalents as short term, highly liquid investments that are both readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in value because of changes in interest rates.

Restricted cash and unrestricted pooled cash and investments held by the City are considered cash equivalents for purposes of the combined statement of cash flow's because the City's cash management pool and funds invested by the City possess the characteristics of demand deposit accounts.

City of Ione
Notes to Financial Statements
June 30, 2009

Note 1: Summary of Significant Accounting Policies (Continued)

F. Fixed Assets

Capital assets, recorded at historical cost or estimated historical cost if actual historical cost is not available, are reported in governmental activities column of the government-wide financial statements. Business type capital assets are recorded in the proprietary fund statement of net assets and the business-type activities column of the government-wide financial statements. Contributed fixed assets are valued at their estimated fair market value. Capital assets include land, buildings and site improvements, equipment and vehicles, and infrastructure. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000.

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. Major outlays for capital assets and improvements are capitalized as projects are constructed. Depreciation is recorded in the government-wide financial statements on the straight-line basis over the useful life of the assets as follows:

<u>Assets</u>	<u>Useful Life</u>
Buildings	20-30 years
Building improvements	10-15 years
Site improvements	15-20 years
Equipment and machinery	3-20 years
Infrastructure	7-50 years

G. Balance Sheet Classifications

Certain resources are classified as restricted assets as their use is restricted for specific purposes by bond agreements, lease agreements, trust agreements, grant agreements, City Charter provisions, or other requirements. Governmental fund types' restricted assets are for grant and bond agreements. Proprietary fund types' restricted assets are for renewal and replacement of equipment.

H. Property Tax

Amador County is responsible for assessing, collecting and distributing property taxes in accordance with enabling legislation. Revenue received is based on an allocation factor calculated by the County under the provisions of Proposition 13 plus a percentage of the increase in market value in specific areas. The City's property tax is levied each July 1 on the assessed values as of the prior January 1 for all real and personal property located in the City. Property sold after the assessment date (January 1) is reassessed and the amount of property tax levied is prorated.

Secured property taxes are due in two equal installments; the first is due November 1 and delinquent with penalties after December 10; the second is due February 1 and delinquent with penalties after April 10. Unsecured property tax is levied on July 1 and due on July 31 and becomes delinquent on August 31.

Based on a policy by the County called the Teeter Plan, 100% of the allocated secured taxes are transmitted by the County to the City, eliminating the need for an allowance for uncollectible taxes. The County, in return, receives all penalties and interest on the related delinquent taxes.

City of Ione
Notes to Financial Statements
June 30, 2009

Note 1: Summary of Significant Accounting Policies (Continued)

I. Proprietary Fund Accounting

The City has elected, under Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, not to apply all applicable GASB pronouncements as well as any applicable pronouncements of the Financial Accounting Standards Board, the Accounting Principles Board, or any Accounting Research Bulletins issued on or before November 30, 1989.

J. Fund Equity

The unreserved fund balances for governmental funds represent the amount available for budgeting future operations. Unreserved retained earnings for proprietary funds represent the net assets available for future operations.

Reservations of fund balances of governmental funds are established to either (1) satisfy legal covenants that require a portion of fund balance to be segregated or (2) identify the portion of the fund balance that is not appropriable for future expenditures.

Restricted net assets for proprietary funds represent the net assets that have been legally identified for specific purposes.

K. Compensated Absences

City employees are granted vacation in varying amounts based on classification and length of service. Upon termination or retirement, the City is to pay 100% of the vacation time accrued. Upon retirement, the retiring employee shall have the option of being paid for accrued sick time or applying accrued sick time toward time in service for retirement purposes.

Governmental Funds – Governmental Funds record expenditures for compensated absences as they are taken by employees. A year-end accrual for compensated absences has not been made in the Governmental Funds as of June 30, 2009, because the City does not believe any of the available year-end resources will be required to fund the year-end compensated absences liability.

Proprietary Funds – Proprietary funds accrue a liability for unused compensated absences earned through year-end. An expense is recognized for the increase in liability from the prior year.

L. Intergovernmental Revenues

Federal and state governments reimburse the City for costs incurred on certain fixed asset construction projects under capital grant agreements. Amounts claimed under such grants are credited to intergovernmental revenues if the project is being administered by a Capital Projects Fund or to contributed capital if administered by a Proprietary Fund. Additionally, the City receives reimbursement from federal and state governments for other programs, such as housing and rehabilitation. These reimbursements are recorded in the fund administering the program as intergovernmental revenues with the related program costs included in expenditures.

The respective grant agreements generally require the City to maintain accounting records and substantiating evidence to determine if all costs incurred and claimed are proper and that the City is in compliance with other terms of the grant agreements. These records are subject to audit by the appropriate government agency. Any amounts disallowed will reduce future claims or be directly recovered from the City.

City of Ione
Notes to Financial Statements
June 30, 2009

Note 2: Cash and Investments

Cash and investments are classified in the financial statements as follows:

Cash and investments	\$1,517,998
Restricted cash and investments	<u>2,053,026</u>
Cash and investments, Statement of net assets	3,571,024
Cash and investments, Statement of fiduciary net assets	<u>2,168,541</u>
Total cash and investments	<u>\$5,739,565</u>

Cash and investments at June 30, 2009, consisted of the following:

Cash and investments were not reconciled to the underlying documentation as required by accounting principles general accepted in the United States of America. At June 30, 2009 we are unable to provide a recap of the reconciled balances for each cash and investment account type.

A. Investments Authorized by the California Government Code and the Entity's Investment Policy

The table below identifies the **investment types** that are authorized for the City of Ione (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**. This table does not address investments of debt proceeds held by bond trustees 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 investment policy.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Percentage of Portfolio</u>	<u>Investment in One Issuer</u>
Investment pools authorized under CA			
Statutes governed by Government Code	N/A	None	\$40 million
U.S. Treasury Obligations	5 years	None	None
Bank Savings Accounts	N/A	25%	None
Federal Agencies	5 years	75%	None
Commercial Paper	180 days	20%	None
Negotiable Certificates of Deposit	180 days	20%	None
Re-Purchase Agreements	180 days	20%	None
Corporate Debt	5 years	25%	None

B. 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 and investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates.

Information about the sensitivity of the fair values of the City's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the City's investment by maturity:

City of Ione
Notes to Financial Statements
June 30, 2009

Note 2: Cash and Investments (Continued)

B. Disclosures Relating to Interest Rate Risk (Continued)

Investment type	Totals	Remaining Maturity (in Months)			
		12 Months or Less	13-24 Months	25-36 Months	37-48 Months
State Investment Pool*	\$ 2,871,942	\$ 2,871,942	\$ -	\$ -	\$ -
Held by Trustee:					
Money Market Funds*	1,930,348	1,930,348			
Totals	<u>\$ 4,802,290</u>	<u>\$ 4,802,290</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

* Not subject to categorization

C. Concentrations of Credit Risk

The investment policy of the City contains limitations on the amount that can be invested in any one issuer. There are no investments to one issuer exceeding those limits.

D. 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 deposit or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment of 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 deposits or investments, other than the following provision for deposits; The California Government Code requires that a financial institution secured 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 government unit). The fair 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 the City's deposits by pledging first deed mortgage notes having a value of 150% of the secured public deposits.

At June 30, 2009, the City's deposits balance was \$1,091,872 and the carrying amount was \$936,875. The difference between the bank balance and the carrying amount was not determinable because the City did not have a bank reconciliation that agreed to the carrying amount. Of the bank balance, \$250,000 was covered by the Federal Depository Insurance and \$841,872 was covered by collateral held in the pledging bank's trust department in the City's name.

E. Investment in State Investment Pool

LAIF is included in the State's Pooled Money Investment Account. The total amount invested by all public agencies in the State's Pooled Money Investment Account approximates \$50.74 billion. Of the \$50.74 billion managed by the State Treasurer, 100.00% is invested in non-derivative financial products and 14.71% is invested in structured notes and asset-backed securities. The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by state statute.

Investments are accounted for in accordance with the provisions of GASB Statement No. 31, which requires governmental entities to report certain investments at fair value in the balance sheet and recognize the corresponding change in fair value of investments in the year in which the change occurred. The City reports its investments at fair value based on quoted market information obtained from fiscal agents or other sources if the change is material to the financial statements.

City of Ione
Notes to Financial Statements
June 30, 2009

Note 3: Capital Assets

The City did not maintain the capital asset schedules for governmental-type and business-type capital additions during the fiscal year ended June 30, 2009. Furthermore the City did not provide for the annual depreciation expense and increases in accumulated depreciation on those capital assets for fiscal year ended June 30, 2009. Accounting principles generally accepted in the United States of America require capital additions to be carried at cost and that depreciation expense be recognized annually and accumulated depreciation be recognized for those assets.

	Balance 7/1/2008	Additions	Reductions	Adjustments	Balance 6/30/2009
Governmental Activities					
Capital assets, not being depreciated:					
Land	\$ 29,696,609	\$ -	\$ -	\$ -	\$ 29,696,609
Construction in progress	623,144				623,144
Capital assets, being depreciated:					
Buildings and improvements	1,575,360				1,575,360
Site improvements	814,632				814,632
Equipment and vehicles	1,543,646				1,543,646
Infrastructure	628,088				628,088
Total capital assets, being depreciated	4,561,726				4,561,726
Less accumulated depreciation for:					
Buildings and improvements	(678,048)				(678,048)
Site improvements	(199,642)				(199,642)
Equipment and vehicles	(1,084,200)				(1,084,200)
Infrastructure	(22,223)				(22,223)
Total accumulated depreciation	(1,984,113)				(1,984,113)
Total capital assets, being depreciated net	2,577,613				2,577,613
Governmental activities capital assets, net	\$ 32,897,366	\$ -	\$ -	\$ -	\$ 32,897,366
Business-Type Activities					
Capital assets, not being depreciated:					
Land	\$ 3,873,444	\$ -	\$ -	\$ -	\$ 3,873,444
Constuction in progress					
Capital assets, being depreciated:					
Buildings and improvements	1,460,111				1,460,111
Site improvements	446,396				446,396
Equipment and vehicles	446,125				446,125
Infrastructure	3,838,893				3,838,893
Total capital assets, being depreciated	6,191,525				6,191,525
Less accumulated depreciation for:					
Buildings and improvements	(510,970)				(510,970)
Site improvements	(286,980)				(286,980)
Equipment and vehicles	(262,741)				(262,741)
Infrastructure	(1,202,862)				(1,202,862)
Total accumulated depreciation	(2,263,553)				(2,263,553)
Total capital assets, being depreciated net	3,927,972				3,927,972
Business-type activities capital assets, net	\$ 7,801,416	\$ -	\$ -	\$ -	\$ 7,801,416

City of Ione
Notes to Financial Statements
June 30, 2009

Note 4: Long-term Liabilities

A summary of the changes in the City's governmental activities long-term liabilities reported in the government-wide financial statements for the year ended June 30, 2009:

	Balance 6/30/2008	Additions	Adjustments/ Reductions	Balance 6/30/2009	Due w/in One Year
Capital Lease	\$ -	\$ 560,000	\$ (12,538)	\$ 547,462	\$ -
Compensated Absences	58,307			58,307	
Total	<u>\$ 58,307</u>	<u>\$ 560,000</u>	<u>\$ (12,538)</u>	<u>\$ 605,769</u>	<u>\$ -</u>

Governmental Activities:

Capital Lease

On August 28, 2008 the City entered into a capital lease in the principal amount of \$560,000 to partially finance the construction of a new Firehouse. The lease is payable in monthly instalments of \$3,979 and commenced on September 28, 2008. The term of the capital lease is 20 years, and the final payment is due August 28, 2028. The lease carries a nominal annual interest rate of 5.897%. The City shall have the option to purchase all of the equipment by paying to the lessor all rent payments then due (including accrued interest, if any) plus the termination value as stipulated in the lease agreement.

Fiscal Year Ending June 30	Amount
2010	\$ 47,760
2011	47,760
2012	47,760
2013	47,760
2014	47,760
2015-2019	238,799
2020-2024	238,799
2025-2029	<u>199,000</u>
Total Minimum Lease Payments	915,398
Less: Amount Representing Interest	(367,936)
Present Value of Net Minimum Lease Payments	<u>\$ 547,462</u>

City of Ione
Notes to Financial Statements
June 30, 2009

Note 4: Long-term Liabilities (Continued)

Compensated Absences:

The City did not track increases and decreases to compensated absences balances such that governmental activities and business-type activities balances could be segregated for the fiscal year ended June 30, 2009. Furthermore the City did not maintain documentation to support the amounts reported for compensated absences. Accounting principles generally accepted in the United States of America require governments to record compensated absence liabilities in accordance with Governmental Accounting Standards Board Statement no. 16

Business-Type Activities:

A summary of changes in the City's business-type activities long-term liabilities for the year ended June 30, 2009:

	Balance 7/1/2008	Additions	Adjustments/ Reductions	Balance 6/30/2009	Due w/in One Year
Compensated Absences	\$ 11,690	\$ -	\$ (141)	\$ 11,549	\$ -
Total	\$ 11,690	\$ -	\$ (141)	\$ 11,549	\$ -

Note 5: Defined Benefit Pension Plan

CalPERS

A. Plan Description

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

B. Funding Policy

Active plan members in the City's defined pension plan are required to contribute 8% of miscellaneous employee and 9% of safety employee annual covered salaries. The City pays 4.5% of the safety member contribution and all of the miscellaneous member contribution as an employee benefit. The City is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS' Board of Administration. The required employer contribution rate for fiscal 2008/09 was 13.106% for miscellaneous members and 36.59% for safety members. The contribution requirements of the plan members are established by state statute and the employer contribution rate is established and may be amended by CalPERS.

C. Annual Pension Cost

For fiscal year 2008/2009, the City's annual pension cost was \$292,851 and the City actually contributed \$292,851. The City contributes both the employee and employer portion. The required contribution for fiscal year 2008/09 was determined as part of the June 30, 2006, actuarial valuation using entry age actuarial cost method with the contributions determined as a percent of pay. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses); (b) projected salary increases that vary by duration of service ranging from 3.25% to 14.45% for miscellaneous members (from 3.25% to 14.45% for safety members), and (c) .25% salary adjustment. Both (a) and (b) include an inflation component of 3.0%. The

City of Ione
Notes to Financial Statements
June 30, 2009

Note 5: Defined Benefit Pension Plan (Continued)

C. Annual Pension Cost (Continued)

actuarial value of the plan's assets was determined using a technique that smoothes the effect of short-term volatility in the market value of investments over a three year period (smoothed market value). The plan's unfunded actuarial accrued liability (or excess assets) is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2006 was 16 years for miscellaneous members and 14 years for safety members as of the valuation date.

<u>Three – Year Trend Information for the City</u>			
<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
06/30/07	\$ 156,188	100%	\$ -
06/30/08	\$ 260,094	100%	\$ -
06/30/09	\$ 292,851	100%	\$ -

Note 6: Post Retirement Healthcare Benefits

The City provides health insurance benefits for all of its employees. Retirees, as qualified under the Public Employees' Retirement System (PERS), will be eligible for health insurance as set forth by the PERS health program. This allows for payment of premiums to the same contribution limit as the City pays for in service employees. Also included is eligibility for retiree's eligible spouse and family as determined by PERS guidelines.

Retirement eligibility for City employees to be eligible for these benefits is 5 years vested full – time service and separating from the City into a retirement status within the PERS Retirement System.

The City's contribution for each eligible employee or annuitant is currently 45% of \$1,100. The City's contribution increases 5% annually until reaching 100% of the contribution in 2020.

Benefit costs are currently recorded on a pay-as-you-go basis. For the most recent fiscal year, the City expended \$3,561, including administrative fees, for post-employment health insurance benefits. One retiree was covered.

Note 7: Special Assessment Districts

During the 1989-90 fiscal year, the City of Ione created two Community Facilities Districts. The City Council and management are responsible for the administration of the Community Facilities Districts formed under the provisions of Mello-Roos. The City is not obligated to repay the special assessment debt to the debt holders.

On August 16, 2006 the 1989-1 and 1989-2 Community Facilities District special assessment debt, with no governmental commitment was redeemed resulting in a repayment and defeasance. The total amount repaid and defeased was \$13,365,000 principal along with \$3,703,335 of interest that was in default and on August 16, 2006 was cured. Furthermore \$18,475,000 Community Facilities District special assessment debt with no governmental commitment was issued and additional Community Facility Districts were established to pay for the limited liability debt. Reserve funds totalling \$671,250 were established and \$1,786,710 was paid out for cost of issuance, underwriter's discount, release of set aside funds and private placement fees.

The amount of the special assessment debt with no governmental commitment at June 30, 2009, is:

Community Facilities District 2005-1	\$ 2,220,000
Community Facilities District 2005-21A1	3,845,000
Community Facilities District 2005-21A2	1,545,000
Community Facilities District 2005-21A3	9,015,000
Total	<u>\$ 16,625,000</u>

City of Ione
Notes to Financial Statements
June 30, 2009

Note 8: Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City joined together with other cities in the State to form Small Cities Organized Risk Effort (SCORE), a public entity risk pool currently operating as a common risk management and insurance program for member cities. The City pays an annual premium to SCORE for its insurance coverage. The Agreement for Formation of the SCORE provides that SCORE will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of self insured levels. A Board of Directors governs the SCORE, consisting of one member appointed by each member City. A management group employed by the SCORE handles the day-to-day business. At the termination of the joint power agreement and after all claims been settled, any excess or deficit will be divided among the cities in accordance with its governing documents. Financial statements of SCORE are available at the City.

Note 9: Lease Income

On July 30th, 1990 the City entered into an agreement with Portlock International to lease the City owned property for the operation of a public golf course. The term of the lease is fifty five years commencing in June 1994. The rent is due as follows: years 6 to 10 is 1%, years 11 to 15 is 2% , years 16 to 20 is 3% and years 21 to 55 is 4% of gross revenue from the operation of the golf course, clubhouse, pro shop, driving range and other golf course facilities. The rent is due before the 20th day following each December 31st. Under this agreement the City received \$44,316 in the 2006-2007 fiscal year, \$45,952 in the 2007-2008 fiscal year and \$46,281 in the 2008-2009 fiscal year. The agreement also states that lessee will pay the City the greater of \$50,000 or 1% of the sales price, if the lessee assigns its leasehold interest to a third party.

Note 10: Interfund Transactions

Operating transfers are transactions to allocate resources from one fund to another fund not contingent on the incurrence of specific expenditures in the receiving fund. Interfund transfers are generally recorded as operating transfers in and operating transfers out in the same accounting period.

Receivables and Payables:

Balances representing lending/borrowing transactions between funds outstanding at the fiscal year end are reported as either "due from/due to other funds" (amounts due within one year), "advances to/from other funds" (non-current portions of interfund lending/borrowing transactions), or "loans to/from other funds" (long-term lending/borrowing transactions evidenced by loan agreements). Advances and loans to other funds are offset by a fund balance reserve in applicable governmental funds to indicate they are not available for appropriation and are not expendable available financial resources.

City of Ione
Notes to Financial Statements
June 30, 2009

Note 10: Interfund Transactions (Continued)

Interfund transactions for the fiscal year ended June 30, 2009 are summarized as follows:

Fund Type	Advances To Other Funds	Advances From Other Funds	Due To Other Funds	Due From Other Funds	Operating Transfers In	Operating Transfers Out
General	\$ 693,141	\$ 244,800	\$ -	\$ -	\$ -	\$ -
Enterprise	244,800	-	-	-	449,097	449,097
Special Revenue	-	-	-	-	-	-
Capital Projects	864,804	1,557,945	-	-	25,000	25,000
Agency	-	-	-	-	-	-
Total	<u>\$ 1,802,745</u>	<u>\$ 1,802,745</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,158,047</u>	<u>\$ 1,158,047</u>

Note 11: Stewardship, Compliance and Accountability

A. Excess of Expenditures Over Appropriations

Expenditures exceeded budgets in the following major funds:

Major Fund	Excess Expenditures
General Fund	
City Manager	\$ 8,472
City Clerk	\$ 18,317
Legal	\$ 189,132
Insurance	\$ 76,922
Engineering	\$ 4,610
Corporate Yard Vehicle	\$ 1,423
Police	\$ 107,585
Debt Service	\$ 3,980
Capital Outlay	\$ 9,800
Capital Project-Fire Impact Fees	
Public Safety	\$ 23,130
Capital Outlay	\$ 96,880
Debt Service	\$ 39,800

The general fund advanced \$278,341 to the fire impact fee fund which was not an authorized budget item. The general fund also advanced the governmental impact fee fund \$375,000 where the authorized advance was \$336,000.

B. Deficit Fund Balances

Three major funds have deficit fund balances at June 30, 2009. The fire building fund has a deficit fund balance of \$1,085,285, the governmental impact fee fund had a deficit fund balance of \$655,066 and the 05-STBG fund had deficit fund balances of \$245. Non-major capital project funds had five funds with deficit fund balances and non-major special revenue funds had six funds with a deficit fund balance at June 30, 2009. The deficit balances are expected to be eliminated upon receipt of funding from impact fees, granting authorities or through matching funds/subsidies from the General fund of the City.

City of Ione
Notes to Financial Statements
June 30, 2009

Note 12: Deferred Compensation Plan

City employees may defer a portion of their compensation under a City sponsored deferred compensation plan created in accordance with the Internal Revenue Service Code Section 457. Under this plan participants are not taxed on the deferred portion of their compensation until distributed; distributions are defined under the plan. The contribution is made by the participant and the City does not match any portion of the contribution. The plan trustee is the California Public Retirement System.

The laws governing deferred compensation plans, requires plan assets to be held in trust for the exclusive benefit of plan participants and their beneficiaries. Since the assets held under this plan are not the City's property and are not subject to claims by general creditors of the City, they have been excluded from these financial statements.

Note 13: Revenue Limitations Imposed by California Proposition 218

Proposition 218, which was approved by the voters in November 1996, regulates the City's ability to impose, increase, and extend taxes and assessments. Any new increase or extended taxes and assessments subject to the provisions of Proposition 218, requires voter approval before they can be implemented. Additionally, Proposition 218 provides that these taxes and assessments are subject to voter initiative and may be rescinded in the future years by the voters.

Note 14: Gann Limit

Proceeds subject to the limit for 2008-2009	\$ 2,128,598
Amount of limit for 2008-2009	<u>2,497,302</u>
Amount (under)/over limit	<u><u>\$ (368,704)</u></u>
Per Capita Percentage Change	4.29%
Population Change*	1.32%

* Net of exclusions for correctional institution.

City of Ione
Notes to Financial Statements
June 30, 2009

Note 15: Commitments and Contingencies

Grants

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

Contingent Liabilities

On January 30, 2009 the City received a Notice of Violation ("NOV") from the Central Valley Regional Water Quality Control Board (the Board) regarding delinquent monitoring reports for the reporting periods January 2006 to November 2008. The NOV indicated that the violations were subject to a penalty of \$2,563,000, but the Board staff may not recommend a penalty if the violations are cured by February 25, 2009. The City proceeded to provide the reports required by the NOV by the February 25, 2009 deadline. The Board has not responded since the violation was cured, so it is unknown whether the Board will assess penalties for this violation. The City attorney was unable to determine if an unfavorable outcome, of this matter, is probable or remote nor could they estimate a dollar amount or range of potential loss, therefore a liability has not been recorded for this contingent liability in these financial statements.

The City received \$119,168 sales tax distributions with remittance dated June 17, 2009 for the period February 14, 2009 to May 13, 2009. For the same period in 2008 the City received \$5,897. City staff could not provide an explanation for the 1,921% increase in sales tax proceeds. If the State determines an error was made in allocating the 2009 sales tax, then the City could be liable for repayment.

Lawsuits

Various claims have been filed against the City. In the opinion of the City's management and legal counsel, the claims will not have a material impact on the basic financial statements.

CITY OF IONE
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
For the Fiscal Year Ended June 30, 2009

	Original Budget	Final Proposed Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Taxes				
Property tax	\$ 627,900	\$ 627,900	\$ 638,245	\$ 10,345
Sales (including in lieu of property tax)	158,000	158,000	286,948	128,948
Transient occupancy	2,500	2,500	4,191	1,691
Sales tax - public safety	5,000	5,000	4,771	(229)
Real property transfer	10,000	10,000	12,711	2,711
Total Taxes	<u>803,400</u>	<u>803,400</u>	<u>946,866</u>	<u>143,466</u>
Licenses and Permits				
Franchise fee	80,000	80,000	85,358	5,358
Business license	6,540	6,540	7,363	823
Building permits and inspections	45,620	45,620	16,897	(28,723)
Burn permits	400	400	435	35
Encroachment permit	500	500	200	(300)
Total Licenses and Permits	<u>133,060</u>	<u>133,060</u>	<u>110,253</u>	<u>(28,988)</u>
Intergovernmental				
Motor vehicle in lieu (state)	767,733	767,733	857,635	89,902
HOPTR	4,500	4,500	7,597	3,097
Peace officers training	3,000	3,000	1,740	(1,260)
County aid agreement-fire			2,200	2,200
Grants	5,000	5,000	5,000	
Total Intergovernmental	<u>780,233</u>	<u>780,233</u>	<u>874,172</u>	<u>93,939</u>
Fines, Forfeitures and Penalties				
Parking citations and other fines	7,900	7,900	5,519	(2,381)
Total Fines, Forfeitures and Penalties	<u>7,900</u>	<u>7,900</u>	<u>5,519</u>	<u>(2,381)</u>
Charges for Current Services				
Plan checking	14,799	14,799	7,019	(7,780)
Fire department services	300	300	37,026	36,726
Total Charges for Current Services	<u>14,799</u>	<u>14,799</u>	<u>44,045</u>	<u>28,946</u>
Use of Money and Property				
Interest and investment income	46,723	46,723	34,361	(12,362)
Rent	65,100	65,100	70,073	4,973
Total Use of Money and Property	<u>111,823</u>	<u>111,823</u>	<u>104,434</u>	<u>(7,389)</u>
Other				
Insurance refunds and dividends			1,140	1,140
Miscellaneous - all others	11,989	11,989	27,600	15,611
Total Other	<u>11,989</u>	<u>11,989</u>	<u>28,740</u>	<u>16,751</u>
Total Revenues	<u>\$ 1,863,204</u>	<u>\$ 1,863,204</u>	<u>\$ 2,114,029</u>	<u>\$ 250,825</u>

CITY OF IONE
Required Supplementary Information
Budgetary Comparison Schedule (Continued)
General Fund
For the Fiscal Year Ended June 30, 2009

	Original Budget	Final Proposed Budget	Actual	Variance Favorable (Unfavorable)
Total Revenues (Continued)	\$ 1,863,204	\$ 1,863,204	\$ 2,114,029	\$ 250,825
Expenditures				
General Government				
City Council	35,939	35,939	26,754	9,185
City Manager	286,879	286,879	295,351	(8,472)
City Clerk	29,336	29,336	47,653	(18,317)
Finance	372,518	372,518	274,514	98,004
City Treasurer	2,992	2,992	2,741	251
Legal	35,000	35,000	224,132	(189,132)
Insurance			76,922	(76,922)
Total General Government	762,664	762,664	948,067	(185,403)
Public Ways and Facilities/Transportation				
Planning	81,515	81,515	75,652	5,863
Building inspection	130,226	130,226	116,383	13,843
Engineering	28,000	28,000	32,610	(4,610)
Building maintenance	28,876	28,876	21,046	7,830
Corporate yard-vehicle	26,454	26,454	27,877	(1,423)
Special projects	25,000	25,000	2,890	22,110
Total Public Ways and Facilities/Transportation	320,071	320,071	276,458	43,613
Public Safety				
Police	835,195	835,195	942,780	(107,585)
Fire	130,199	130,199	97,312	32,887
Total Public Safety	965,394	965,394	1,040,092	(74,698)
Community Development				
Parks and recreation	296,587	296,587	227,583	69,004
Total Community Development	296,587	296,587	227,583	69,004
Debt service				
Principal			1,251	(1,251)
Interest			2,729	(2,729)
Capital Outlay			9,800	(9,800)
Total Expenditures	2,344,716	2,344,716	2,505,980	(158,535)
Excess (Deficit) of Revenues Over Expenditures	(481,512)	(481,512)	(391,951)	89,561
Other Financing Sources (Uses)				
Operating transfers in				
Operating transfers out	(379,364)	(379,364)		379,364
Total Other Financing Sources (Uses)	(379,364)	(379,364)		379,364
Excess (Deficit) of Revenues and Other Financing Sources over Expenditures and Other Financing Uses	\$ (860,876)	\$ (860,876)	(391,951)	\$ 468,925
Fund Balance, July 1, 2008			1,971,118	
Fund Balance, June 30, 2009			\$ 1,579,167	

CITY OF IONE
Required Supplementary Information
Budgetary Comparison Schedule
Special Revenue Fund - Gas Tax
For the Fiscal Year Ended June 30, 2009

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
REVENUES				
Gas Tax				
Use of money	\$ 9,895	\$ 9,895	\$ 8,817	\$ (1,078)
Intergovernmental	171,658	171,658	219,947	48,289
Other			-	-
Total Revenues	<u>181,553</u>	<u>181,553</u>	<u>228,764</u>	<u>47,211</u>
EXPENDITURES				
Public ways and facilities/transportation	230,142	230,142	177,743	52,399
Capital outlay	<u>775,000</u>	<u>775,000</u>	<u>31,080</u>	<u>743,920</u>
Total Expenditures	<u>1,005,142</u>	<u>1,005,142</u>	<u>208,823</u>	<u>796,319</u>
Excess (Deficit) of Revenues over Expenditures	<u>(823,589)</u>	<u>(823,589)</u>	<u>19,941</u>	<u>843,530</u>
Other Financing Sources (Uses)				
Operating transfers in	<u>400,000</u>	<u>400,000</u>		<u>(400,000)</u>
Total Other Financing Sources (Uses)	<u>400,000</u>	<u>400,000</u>		<u>(400,000)</u>
Excess (Deficit) of Revenues and Other Financing Sources over Expenditures and Other Financing Uses	<u>\$ (423,589)</u>	<u>\$ (423,589)</u>	<u>19,941</u>	<u>\$ 443,530</u>
Fund Balances, July 1, 2008			<u>419,629</u>	
Fund Balances, June 30, 2009			<u>\$ 439,570</u>	

CITY OF IONE
Required Supplementary Information

Budgetary Comparison Schedule
Special Revenue Fund - 06-Home CDBG
For the Fiscal Year Ended June 30, 2009

	Original Budget	Final Proposed Budget	Actual	Variance Favorable (Unfavorable)
REVENUES				
Use of money and property			\$ 394	\$ 394
Intergovernmental			120,200	120,200
Total Revenues			120,594	120,594
EXPENDITURES				
Community development			4,750	(4,750)
Total Expenditures			4,750	(4,750)
Excess (Deficit) of Revenues over Expenditures	\$ -	\$ -	115,844	\$ 115,844
Fund Balances, July 1, 2008			(1,404)	
Fund Balances, June 30, 2009			\$ 114,440	

CITY OF IONE
Required Supplementary Information

Budgetary Comparison Schedule
Capital Project Fund - Government Impact Fees
For the Fiscal Year Ended June 30, 2009

	Original Budget	Final Proposed Budget	Actual	Variance Favorable (Unfavorable)
REVENUES				
Use of money	\$ 486	\$ 486	\$ 480	\$ (6)
Impact fees	13,860	13,860	34,226	20,366
Total Revenues	14,346	14,346	34,706	20,360
EXPENDITURES				
General government	516,000	516,000	650,137	(134,137)
Total Expenditures	516,000	516,000	650,137	(134,137)
Excess (Deficit) of Revenues over Expenditures	(501,654)	(501,654)	(615,431)	(113,777)
Other Financing Sources (Uses)				
Operating transfers in	516,000	516,000	25,000	(491,000)
Operating transfers out	(6,000)	(6,000)	(25,000)	(19,000)
Total Other Financing Sources (Uses)	510,000	510,000		(510,000)
Excess (Deficit) of Revenues and Other Financing Sources over Expenditures and Other Financing Uses	\$ 8,346	\$ 8,346	(615,431)	\$ (623,777)
Fund Balances, July 1, 2008			(39,635)	
Fund Balances, June 30, 2009			\$ (655,066)	

CITY OF IONE
Required Supplementary Information

Budgetary Comparison Schedule
Capital Project Fund - Fire Impact Fees
For the Fiscal Year Ended June 30, 2009

	Original Budget	Final Proposed Budget	Actual	Variance Favorable (Unfavorable)
REVENUES				
Use of money	\$ 876	\$ 876	\$ 1,726	\$ 850
Impact fees	<u>27,510</u>	<u>27,510</u>	<u>2,879</u>	<u>(24,631)</u>
Total Revenues	<u>28,386</u>	<u>28,386</u>	<u>4,605</u>	<u>(23,781)</u>
EXPENDITURES				
Public safety			23,130	(23,130)
Capital outlay	1,243,000	1,243,000	1,339,880	(96,880)
Principal expense			12,538	(12,538)
Interest expense			<u>27,262</u>	<u>(27,262)</u>
Total Expenditures	<u>1,243,000</u>	<u>1,243,000</u>	<u>1,402,810</u>	<u>(159,810)</u>
Excess (Deficit) of Revenues over Expenditures	<u>(1,214,614)</u>	<u>(1,214,614)</u>	<u>(1,398,205)</u>	<u>(183,591)</u>
Other Financing Sources (Uses)				
Proceeds of capital lease			560,000	560,000
Operating transfers in	<u>622,804</u>	<u>622,804</u>		<u>(622,804)</u>
Total Other Financing Sources (Uses)	<u>622,804</u>	<u>622,804</u>	<u>560,000</u>	<u>(62,804)</u>
Excess (Deficit) of Revenues and Other Financing Sources over Expenditures and Other Financing Uses	<u>\$ (591,810)</u>	<u>\$ (591,810)</u>	<u>(838,205)</u>	<u>\$ (246,395)</u>
Fund Balances, July 1, 2008			<u>(247,080)</u>	
Fund Balances, June 30, 2009			<u>\$ (1,085,285)</u>	

City of Ione
Note to Required Supplementary Information
June 30, 2009

Budgets and Budgetary Accounting

As required by the laws of the State of California, the City prepares and legally adopts a balanced operating budget. Public hearings were conducted on the proposed budget to review all appropriations and the sources of financing. Because the final budget must be balanced, any shortfall in revenue requires an equal reduction in financing requirements.

Budgets for the general, special revenue, debt service and capital project funds are adopted on the modified accrual basis of accounting. The budgets for the general and special revenue funds are the only legally adopted budgets. Budgets for the debt service, capital project funds and proprietary funds are used for management and control purposes only.

At the fund level, actual expenditures cannot exceed budgeted appropriations. In order to accommodate operational changes that may result during the course of a budget year, management can modify in line items of a budget, with the limitation that increases or decreases to overall fund budgets; budget modification between funds; transfers between general fund departments; and transfers that affect capital projects cannot be made without Council approval.

CITY OF IONE

Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2009

	Special Revenue Funds	Capital Projects Funds	Total
<u>Assets</u>			
Cash and investments	\$ (194,681)	\$ (205,722)	\$ (400,403)
Receivables			
Accounts	81,521	67,266	148,787
Grants	100,000		100,000
Interest	748	823	1,571
Restricted cash and investments	695,582	750,354	1,445,936
Advance to other funds		839,804	839,804
Loans receivable	543,728		543,728
Total Assets	<u>\$ 1,226,898</u>	<u>\$ 1,452,525</u>	<u>\$ 2,679,423</u>
<u>Liabilities and Fund Balances</u>			
Liabilities			
Accounts payable	\$ 17,704	\$ 4,672	\$ 22,376
Deferred revenue	543,728	55,302	599,030
Total Liabilities	<u>561,432</u>	<u>59,974</u>	<u>621,406</u>
Fund Balances			
Unreserved - undesignated	<u>665,466</u>	<u>1,392,551</u>	<u>2,058,017</u>
Total Fund Balance	<u>665,466</u>	<u>1,392,551</u>	<u>2,058,017</u>
Total Liabilities and Fund Balances	<u>\$ 1,226,898</u>	<u>\$ 1,452,525</u>	<u>\$ 2,679,423</u>

CITY OF IONE

**Combining Statement of Revenues, Expenditures and
Changes in Fund Balances
Nonmajor Governmental Funds
For the Fiscal Year Ended June 30, 2009**

	Special Revenue Funds	Capital Project Funds	Total
Revenues			
Special assessment/impact fees	\$ 59,692	\$ 199,543	\$ 259,235
Use of money and property	15,037	36,880	51,917
Intergovernmental	151,166	127,143	278,309
Fines, forfeitures and penalties	11,232		11,232
Other	4,995		4,995
Total Revenues	<u>242,122</u>	<u>363,566</u>	<u>605,688</u>
Expenditures			
Current:			
General government	31,565	37,119	68,684
Public ways and facilities/ transportation	14,512		14,512
Public safety	254,844		254,844
Community development	373,612		373,612
Debt service		-	-
Capital outlay		<u>345,643</u>	<u>345,643</u>
Total Expenditures	<u>674,533</u>	<u>382,762</u>	<u>1,057,295</u>
Excess (Deficit) of Revenues Over Expenditures	<u>(432,411)</u>	<u>(19,196)</u>	<u>(451,607)</u>
Fund Balances, July 1, 2008	1,097,877	1,411,747	2,509,624
Fund Balances, June 30, 2009	<u>\$ 665,466</u>	<u>\$ 1,392,551</u>	<u>\$ 2,058,017</u>

CITY OF IONE

Combining Balance Sheet
Nonmajor Special Revenue Funds
June 30, 2009

	TDA	Traffic Safety	Ione Dist 1 COIC	SLESF AB3229	Asset Seizure Fund	Rehab Housing	Click it or Ticket Grant	Self Help Housing	97-Home Grant
<u>Assets</u>									
Cash and investments	\$ -	\$ 17,070	\$ -	\$ (34,730)	\$ 4,283	\$ -	\$ (3,685)	\$ -	\$ -
Receivables									
Accounts								3,200	
Grants									
Interest	113	15	73		4			261	
Restricted cash and investments	130,800		79,838			806		290,486	(5,554)
Loans receivable						43,479		-	174,495
Total Assets	<u>\$ 130,913</u>	<u>\$ 17,085</u>	<u>\$ 79,911</u>	<u>\$ (34,730)</u>	<u>\$ 4,287</u>	<u>\$ 44,285</u>	<u>\$ (3,685)</u>	<u>\$ 293,947</u>	<u>\$ 168,941</u>
<u>Liabilities and Fund Balances</u>									
Liabilities									
Accounts payable	\$ -	\$ -	\$ (1,579)	\$ 4,080	\$ -	\$ -	\$ 150	\$ 437	\$ -
Deferred revenue						43,479			174,495
Total Liabilities			(1,579)	4,080		43,479	150	437	174,495
Fund Balances									
Unreserved - undesignated	130,913	17,085	81,490	(38,810)	4,287	806	(3,835)	293,510	(5,554)
Total Fund Balance	<u>130,913</u>	<u>17,085</u>	<u>81,490</u>	<u>(38,810)</u>	<u>4,287</u>	<u>806</u>	<u>(3,835)</u>	<u>293,510</u>	<u>(5,554)</u>
Total Liabilities and Fund Balances	<u>\$ 130,913</u>	<u>\$ 17,085</u>	<u>\$ 79,911</u>	<u>\$ (34,730)</u>	<u>\$ 4,287</u>	<u>\$ 44,285</u>	<u>\$ (3,685)</u>	<u>\$ 293,947</u>	<u>\$ 168,941</u>

01-Home-518	03-STBG 1826 Grant	Pool Grant	Low Income Housing	Pool Fund	RDA Fund	Wildflower Assessment	ARSA	Conservation Fire Break Assessment	2008 Housing Grant	Totals
\$ -	\$ -	\$ (30,313)	\$ -	\$ (38,192)	\$ -	\$ -	\$ (9,114)	\$ -	\$ (100,000)	\$ (194,681)
				114			78,207			81,321
3	74		75			27	62	41	100,000	100,000
(548)	37,622		84,673			30,994		46,465	-	748
143,565	82,189								100,000	543,728
<u>\$ 143,020</u>	<u>\$ 119,885</u>	<u>\$ (30,313)</u>	<u>\$ 84,748</u>	<u>\$ (38,078)</u>	<u>\$ -</u>	<u>\$ 31,021</u>	<u>\$ 69,155</u>	<u>\$ 46,506</u>	<u>\$ 100,000</u>	<u>\$ 1,226,898</u>
\$ -	\$ -	\$ -	\$ -	\$ (404)	\$ -	\$ 15,020	\$ -	\$ -	\$ -	\$ 17,704
143,565	82,189								100,000	543,728
143,565	82,189			(404)		15,020			100,000	561,432
(545)	37,696	(30,313)	84,748	(37,674)		16,001	69,155	46,506		665,466
(545)	37,696	(30,313)	84,748	(37,674)		16,001	69,155	46,506		665,466
<u>\$ 143,020</u>	<u>\$ 119,885</u>	<u>(30,313)</u>	<u>\$ 84,748</u>	<u>(38,078)</u>	<u>\$ -</u>	<u>\$ 31,021</u>	<u>\$ 69,155</u>	<u>\$ 46,506</u>	<u>\$ 100,000</u>	<u>\$ 1,226,898</u>

CITY OF IONE

**Combining Statement of Revenues, Expenditures and
Changes in Fund Balances
Nonmajor Special Revenue Funds
For the Fiscal Year Ended June 30, 2009**

	TDA	Traffic Safety	Ione Dist 1 COIC	SLESF AB3229	Asset Seizure Fund	Rehab Housing	Click it or Ticket Grant	Self Help Housing	97-Home Grant
Revenues									
Special assessment/impact fees	\$ -	\$ -	\$ 15,223	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Use of money and property	1,999	180	1,186	489	19			4,480	1,070
Intergovernmental				51,166					
Fines, forfeitures and penalties		10,920							
Other									
Total Revenues	1,999	11,100	16,409	51,655	19	-	-	4,480	1,070
Expenditures									
Current:									
General government									
Public ways and facilities/ transportation			14,512						
Public safety				88,773			1		
Community development						111,778		437	103,339
Total Expenditures			14,512	88,773		111,778	1	437	103,339
Excess (Deficit) of Revenues Over Expenditures	1,999	11,100	1,897	(37,118)	19	(111,778)	(1)	4,043	(102,269)
Fund Balances, July 1, 2008	128,914	5,985	79,593	(1,692)	4,268	112,584	(3,834)	289,467	96,715
Fund Balances, June 30, 2009	\$130,913	\$ 17,085	\$ 81,490	\$ (38,810)	\$ 4,287	\$ 806	\$ (3,835)	\$ 293,510	\$ (5,554)

01-Home-518	03-STBG 1826 Grant	Pool Grant	Low Income Housing	Pool Fund	RDA Fund	Wildflower Assessment	ARSA	Conservation Fire Break Assessment	2008 Housing Grant	Totals
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 44,469	\$ -	\$ -	\$ -	\$ 59,692
246	1,686		1,303			1,664		715		15,037
							312		100,000	151,166
				4,995						11,232
										4,995
246	1,686	-	1,303	4,995		46,133	312	715	100,000	242,122
	385			31,134			46			31,565
						166,070				14,512
11,806	46,252								100,000	254,844
										373,612
11,806	46,637			31,134		166,070	46		100,000	674,533
(11,560)	(44,951)		1,303	(26,139)		(119,937)	266	715		(432,411)
11,015	82,647	(30,313)	83,445	(11,535)		135,938	68,889	45,791		1,097,877
\$ (545)	\$ 37,696	\$ (30,313)	\$ 84,748	\$ (37,674)	\$ -	\$ 16,001	\$ 69,155	\$ 46,506	\$ -	\$ 665,466

CITY OF IONE

**Combining Balance Sheet
Nonmajor Capital Projects Funds
June 30, 2009**

	Parks & Rec Fund	Police Services Impact Fees	Ballfield Grant	Arena Fund	Local Drainage Fund	Traffic Mitigation	Safe Routes to School	Park and Ride Grant	Tire Grant	Totals
<u>Assets</u>										
Cash and investments	\$ -	\$ -	\$ (23,886)	\$ (22,379)	\$ 104,058	\$ -	\$ (144,188)	\$ (19,483)	\$ (99,844)	\$ (205,722)
Accounts receivables	22,951	370		1,972		801	41,172			67,266
Interest receivable	(551)	790			113	471				823
Restricted cash and investments	133,021	89,994				527,339				750,354
Advance to other funds	21,000	796,804			22,000					839,804
Total Assets	\$ 176,421	\$ 887,958	\$ (23,886)	\$ (20,407)	\$ 126,171	\$ 528,611	\$ (103,016)	\$ (19,483)	\$ (99,844)	\$ 1,452,525
<u>Liabilities and Fund Balances</u>										
Liabilities										
Accounts payable	\$ -	\$ -	\$ -	\$ 742	\$ -	\$ -	\$ 1,445	\$ 2,485	\$ -	\$ 4,672
Deferred revenue							55,302			55,302
Total Liabilities				742			56,747	2,485		59,974
Fund Balances										
Unreserved - designated	176,421	887,958	(23,886)	(21,149)	126,171	528,611	(159,763)	(21,968)	(99,844)	1,392,551
Total Liabilities and Fund Balances	\$ 176,421	\$ 887,958	(23,886)	\$ (20,407)	\$ 126,171	\$ 528,611	(103,016)	\$ (19,483)	\$ (99,844)	\$ 1,452,525

CITY OF IONE

Combining Statement of Revenues, Expenditures and
Changes in Fund Balances
Nonmajor Capital Projects Funds
For the Fiscal Year Ended June 30, 2009

	Parks & Rec Fund	Police Services Impact Fees	Ballfield Grant	Arena Fund	Local Drainage Fund	Traffic Mitigation	Safe Routes to School	Park and Ride Grant	Tire Grant	Totals
Revenues										
Impact fees	\$ 101,640	\$ 2,726	\$ -	\$ -	\$ -	\$ 95,177	\$ -	\$ -	\$ -	\$ 199,543
Use of money and property	1,865	14,256		13,097	569	7,093				36,880
Intergovernmental							96,767	30,376		127,143
Total Revenues	103,505	16,982		13,097	569	102,270	96,767	30,376		363,566
Expenditures										
Current:										
General government	10,361			26,758						37,119
Debt service										
Capital outlay							201,228	44,571	99,844	345,643
Total Expenditures	10,361			26,758			201,228	44,571	99,844	382,762
Excess (Deficit) of Revenues Over Expenditures	93,144	16,982		(13,661)	569	102,270	(104,461)	(14,195)	(99,844)	(19,196)
Fund Balances, July 1, 2008	83,277	870,976	(23,886)	(7,488)	125,602	426,341	(55,302)	(7,773)		1,411,747
Fund Balances, June 30, 2009	\$ 176,421	\$ 887,958	\$ (23,886)	\$ (21,149)	\$ 126,171	\$ 528,611	\$ (159,763)	\$ (21,968)	\$ (99,844)	\$ 1,392,551

Larry Bain, CPA,
An Accounting Corporation
2148 Frascati Drive
El Dorado Hills, CA 95762

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

To the City Council
City of Ione
Ione, California

We have audited the Financial Statements of the City of Ione as of and for the fiscal year ended June 30, 2009, and have issued our report thereon dated May 13, 2010. In our audit report we disclaimed an opinion because of a lack of documentation to support cash and investment balances, accounts receivable, capital assets, deposit liability accounts, deferred revenue and compensated absences.

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

Internal Control over Financial Reporting

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

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the prior year deficiencies identified as 07-8, 07-15, 07-18, 07-19, 07-21, 07-22, 07-29, 08-2 and 08-8 to be deficiencies in the current year and we consider the current year deficiencies identified as 09-1, 09-2, 09-3, 09-4, 09-5, 09-6, 09-7, 09-8, 09-9, 09-10, 09-11, 09-12 and 09-13, following this letter, to be significant deficiencies in internal control.

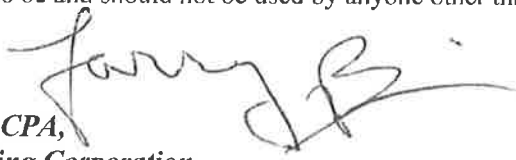
A material weakness is a significant deficiency, or a combination of significant deficiencies, that result in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. However, we believe the significant deficiencies described above constitute material weaknesses. We also noted other matters not deemed significant deficiencies and material weaknesses following this report.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Ione's financial statements are free of material misstatement, we performed test of its compliance with certain provisions of laws, regulations, contracts and grants, non-compliance 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 indicated one instance of non compliance identified as finding 07-6 that is required to be reported under *Government Auditing Standards*. We also noted the status of prior year compliance findings.

The City of Ione's written response to the significant deficiencies identified in our audit and any follow up for subsequent year corrections has not been subjected to the audit procedures applied in the audit of the financial statements and accordingly, we do not express an opinion on it.

This communication is intended solely for the information and use of the Audit Committee and management and is not intended to be and should not be used by anyone other than these specified parties.



Larry Bain, CPA,
An Accounting Corporation
May 13, 2010

City of Ione
Follow Up On Prior Audit Findings
Year Ended June 30, 2007

PRIOR YEAR COMPLIANCE FINDINGS

Prior Year Finding 07-6: During our testing of community development block grants we noted the City was posting grant payoffs as an increase to cash and a reduction to accounts receivables. We noted the City was not maintaining grant summary schedules showing the activity for each loan and the City was not reconciling summary schedules to the general ledger. Furthermore we noted instances where grant activity was posted to incorrect general ledger funds. We also noted that no City employee appeared to be responsible for administering the grant programs in accordance with the grant agreement requirements. The significant deficiencies noted above increase the risk that material misstatements could be made to the financial statements without being detected.

Prior Year Status: During the 2007-2008 fiscal year audit we noted the City received a performance finding from the Department of Housing and Community Development, regarding the 05-STBG-1381 grant, for not filing Program Income reports for fiscal years 2005-2007, Financial Accomplishment Reports for fiscal year 2006 and Grantee Performance Report for fiscal year 2006. The finding indicated that the City would be ineligible to apply for 2007/2008 CDBG grants unless the reports were submitted prior to the submittal of applications. As of June 30, 2008 the City assigned the finance director administration responsibility and compliance oversight for grant projects. The required reports were subsequently submitted and on March 98, 2008 the City received notice that all reports had been received and the City was reinstated as eligible to participate in the State CDBG program.

Current Year Status: During the current year audit we did not observe and the City did not disclose to us any reporting violations from the Department of Housing and Community Development for the City's grant programs.

We noted the City was not maintaining grant summary schedules showing the activity for each loan and the City was not reconciling summary schedules to the general ledger. We also noted that no City employee appeared to be responsible for administering the grant programs in accordance with the grant agreement requirements. We noted for the 08 Home Loan program the City made a \$100,000 loan, but did not record an accounts receivable for the reimbursement that had not been received by June 30, 2009. The City also did not record the \$100,000 loan receivable and deferred revenue to recognize the lending activity. The significant deficiencies noted above increase the risk that material misstatements could be made to the financial statements without being detected. This is a condition that has an effect on our opinion of the fair presentation of the financial statements.

Management Response: Partially agree. The City has filed all reports as required with the Department of Housing and Community Development. Previously, the Finance Director was responsible for administering the grant programs within the grant agreement requirements and now the Finance Manger with City Manager providing oversight. Also, staff has organized the grant files more efficiently and is working on using the financial system to reflect the grant activity and balance it against the physical (paper) file.

PRIOR YEAR INTERNAL CONTROL FINDINGS

Prior Year Finding 07-8: During our testing of the general fund deposits liability accounts we noted the City collects deposits from developers and citizens of Ione to be spent on the behalf of developers and for the Capital Facility District Mello-Roos assessment revenue and limited obligation debt payments. The City is using the general fund deposit liability accounts to record this activity. Furthermore the City could not reconcile the individual or organization deposit liabilities to a subsidiary ledger at June 30, 2007. The risk of material misstatement to the financial statements resulting from this significant deficiency is high.

Prior Year Status: The City agrees. The deposit reconciliation will be a major undertaking requiring substantial resources to complete the reconciliation. The City created an agency fund (fund 14) in FY 2006-2007 and has set up an agency fund (fund 12) for developer deposits.

City of Ione
Follow Up On Prior Audit Findings
Year Ended June 30, 2007

Current Year Status: No change in the current year. This is a condition that has an effect on our opinion of the fair presentation of the financial statements.

Management Response: Partially Agree. The City has been working on reconciliation of the payments made by JTS Communities (Castle Oaks) and Ryland (Wildflower) with significant progress made. The City has set up and continues to use Fund 14 and Fund 12. Staff agrees more work needs to be done.

Prior Year Finding 07-15: During our testing of accounts receivables/deposit liability accounts we noted Tower Investments was billed \$69,788.16 on November 30, 2005 for legal fees related to the CFD formation. When the City received the money cash was offset by deposits liability account as opposed to accounts receivable. This miscoding resulted in an overstatement of accounts receivables and an overstatement of deposit liabilities in the amount of \$69,788.16.

2007/08 Status: As of June 30, 2008 the City had established a developer deposit fund. The deposit liability accounts and the accounts receivable accounts were not reconciled to the general ledger as of June 30, 2008. The City is in the process of moving developer receivables and deposits activity to fund 12.

Current Year Status: No change in the current fiscal year. This is a condition that has an effect on our opinion of the fair presentation of the financial statements.

Management Response: Agrees. Staff will be working to resolve this issue as soon as possible. There is no known information indicating any prior research on this issue.

Prior Year Finding 07-18: During our testing of cash we note the City had not performed bank reconciliation since October 2005. After performing the bank reconciliation we noted \$1,036,610 of banking activity that had not been recorded in the general ledger. The adjustments included a \$920,220 transfer from the bank account to the CFD trustee related to the defaulted bond activity, a \$75,000 collection received for a land purchase, but a stop payment was made on the check and several smaller transactions.

Because of the reduction to cash of over \$1,000,000 in the general fund interest revenue was over allocated to the general fund from October 2005 to the date of the audit. The risk of material misstatement to the financial statements as a result of fraud and untimely reconciliations of cash is high.

2007/08 Status: During the 2007-2008 fiscal year the auditor was providing technical assistance with preparing the bank reconciliations. During our reconciliation we noted the City posted an \$87,699 reduction to cash as of June 30, 2008 for PERS retirement electronic transfers that were made in July 2008. We proposed a reclassification for this activity as an increase to accrued payroll and an increase to cash at June 30, 2008. We noted the City made an error in double posting a \$63,583 payment in the housing acquisition fund. We proposed an audit entry reversing the double posting. Furthermore we noted the City back posted, to June 30, 2008, \$161,996 in checks that were written in the 2008-2009 fiscal year. This resulted in a \$161,996 understatement to cash and accounts payables at June 30, 2008. Because this activity affected multiple funds, no proposed audit entry was made to correct the \$161,996 error. We qualified our opinion on the financial statements.

Current Year Status: During the current year the City appears to have reconciled the monthly activity to the bank statement, but was not reconciling the reconciled bank balance to the general ledger. The amount of pooled cash reported in the general ledger cannot be relied on and the risk of material misstatement is high. This is a condition that has an effect on our opinion of the fair presentation of the financial statements.

Management Response: City partially agrees. This is an on-going issue over the past year and significant progress has been made to resolve these issues. There have been new processes established in FY 2009-10 that should resolve this issue during future audits.

City of Ione
Follow Up On Prior Audit Findings
Year Ended June 30, 2007

Prior Year Finding 07-19: During our testing of the Howard Park debt, we noted that the final balloon payment of \$244,800 will be applied against a credit from prior year sewer annexation fees incurred by the seller of Howard Park. To date we did not observe the \$244,800 paid to the sewer capital fund from the City.

2007/08 Status: Pending as of June 30, 2008. The City is exploring the use of fund 8 to pay the balloon payment for sewer connections as well as other options.

Current Year Status: No change during the 2008/2009 fiscal year.

Management Response: Due to changes in the Finance Division, the staff is trying to locate any research done on this issue to resolve. Staff will provide a report to the City Council on all outstanding loans and payments due to other funds with a plan to pay these off in the future.

Prior Year Finding 07-21: During our testing of Amador Regional Sanitation Agency (ARSA) expenditures we noted a \$14,560 capital lease payment for a parking lot purchase paid for from the ARSA fund. We also noted over \$300,000 in legal expenditures, resulting from the Portlock lawsuit, coded to this fund.

2007/08 Status: The City agrees. The City is reviewing the source of money in the ARSA fund to determine if the funds are restricted to use on the tertiary plant or if they can be used for the Portlock legal costs or non wastewater disposal activities.

Current Year Status: No change during the 2008/2009 fiscal year.

Management Response: Due to changes in the Finance Division, staff is trying to locate any research done on this issue to resolve. Staff will provide a report to the City Council on all outstanding loans and payments due to other funds with a plan to pay these off in the future.

Prior Year Finding 07-22: During our audit we noted the City received \$61,120 in sewer connection fees from a developer. The developer had previously deposited connection fees with the City to be used against future connection fees. Furthermore the City coded these fees to the general fund when they should have been coded to the sewer capital fund. We also noted a lack of communication between City management and the building department regarding the developer agreements and how the agreements would affect charging the developers.

2007/08 Status: Staff was in the process of reviewing.

Current Year Status: No change.

Management Response: Partially agree. Due to changes in the Finance Division, the current staff is trying to locate any research done on this issue to resolve. Also internal procedures have been in place since 2008 regarding the necessary communication between City management, Building Division, Planning Division, and Finance Division regarding any development agreements or changes to fee structure.

Prior Year Finding 07-29: During our testing of the Community Facility District (CFD) bonds, we noted the City refunded the 1989-1 and 1989-2 bonds and created new community facility districts to pay for the new limited liability debt. The City did not designate an employee to reconcile the fiscal agent statements for the activity. This lack of monitoring could result in material misstatements to the financial statements.

2007/08 Status: During the 2007-2008 fiscal year we noted the City was not performing reconciliations of the CFD fiscal agent accounts.

Current Year Status: No change.

City of Ione
Follow Up On Prior Audit Findings
Year Ended June 30, 2007

Management Response: Partially agree. Due to changes in the Finance Division, the current staff is trying to locate any research done on this issue to resolve. Staff will establish a procedure for reconciliation of the CFD fiscal agent accounts. Also, the employee has been and continues to be the Finance Director/Finance Manager to reconcile the fiscal agent statements for activity.

Other Significant Deficiencies, Not Deemed to be Material Weaknesses

Prior Year Finding 07-41: During our testing of grant activity we noted the house, used to obtain a self help housing grant recorded in fund 8, had been sold. As a result the loan was terminated at the date of sale, June 11, 2003 and the remaining \$3,200 was owed to the City. The City had not collected the amount due as of June 30, 2007.

Current Year Follow Up: During the current year we noted the \$3,200 was still recorded in the general ledger in fund 8. The City should pursue collection or consider writing off the loan as uncollectable.

Management Response: Partially agree. Due to changes in the Finance Division, the current staff is trying to locate any research done on this issue to resolve. Staff will need to research the particular file and determine exactly what occurred and whether the \$3,200 is owed or not, then determine how to collect it.

Prior Year Finding 07-42: During our testing of receipts we noted building permit #2091 paid with receipt #35845 on 1/26/07 did not indicate a \$3,284 charge for sewer connection.

Current Year Follow Up: The City follow-up billed and the City will review this year. We did not observe amount received during the 2008-2009 fiscal year.

Management Response: Agrees. Staff has researched this issue and determined that there were four building permits that did not have the sewer connection fees paid at time of building permit. Staff did contact the developer in FY 2008/09 regarding this issue and continues to work on collecting the funds. There is an issue of collecting after the properties have been sold. Staff will work with the City Attorney to determine what action if any can be taken.

City of Ione
Follow Up On Prior Audit Findings
Year Ended June 30, 2008

INTERNAL CONTROL FINDINGS

Deemed to be Significant Deficiencies and Material Weaknesses

Prior Year Finding 08-2: During our testing of housing grant projects we noted the City recorded a journal entry to record a loan payoff of \$50,800 in fund 41. We did not observe supporting documentation attached to a journal entry to support the payoff. Per review we also noted the property was transferred from the grantee to her son in June 2003, but based on our audit we did not see evidence that the loan was repaid to the City and therefore the loan receivable should not have been removed from the general ledger. It appears that the loan should have been paid back with the property transfer in 2003.

Recommendation: We recommend the City review if this loan should be paid to the City and then the City should take steps to collect the loan from the grantee. We also recommend the City verify that funds have been received by the City prior to writing off loan receivables. The City should have controls in place for an independent management employee to approve journal entries prior to entering the journal entry into the general ledger and to verify that all supporting documentation is attached to support the journal entry.

Current Year Follow Up: The above item was not resolved during the current year.

Management Response: Staff agrees. Staff has determined that the loan was not paid off and will need to reverse the journal entry to reflect. Also, staff is currently trying to locate the original Note to resolve this issue. Staff has verified that there was a transfer from a father to son without the loan being paid off. Also, staff has not located any documentation to approve the transfer without repayment. Staff will be working with the City Attorney and Connerly and Associates to recover these funds.

Prior Year Finding 08-8: During our audit we noted the City did not have a written financial and accounting policy that included internal control procedures. We have noted this finding in prior audits.

Recommendation: The City should establish financial and accounting policies that demonstrate how transactions are processed from beginning to end. The policy should include the processes for internal controls that are designed to provide reasonable assurance that objectives related to effectiveness and efficiency of operations, reliability of financial reporting and compliance with applicable laws and regulations are met.

Management Response: Staff partially agrees. Staff has developed draft financial and accounting policies that need to be finalized and ensure they reflect the current procedures for all activities.

**City of Ione
Audit Findings
Year Ended June 30, 2009**

INTERNAL CONTROL FINDINGS

Deemed to be Significant Deficiencies and Material Weaknesses

Finding 09-1: During our testing of operating transfers, we noted the City used operating transfers in and operating transfers out to transfer cash into the fire impact and general impact funds when the intent was to loan the cash. Operating transfers close to fund equity at fiscal year end and the balances do not roll over from one year to another. The City should have recorded an asset as advances to in the lending fund and a liability advances from in the receiving fund. We proposed audit journal entries to true up this activity. We also noted the City did not assign an interest rate to the advances as is required by generally accepted accounting principles. The receiving fund should pay the lending fund interest annually based on a predetermined interest rate.

Recommendation: We recommend the City record interfund lending as an asset in the lending fund and a liability in the receiving fund. We also recommend the City approve an interest rate to be applied to long-term interfund loans.

Management Response: Staff agrees. Staff is developing the documentation to note all interfund transfers/loans, the transfer/loan amount, repayment schedule, and interest rate as previously discussed with the City Council.

Finding 09-2: During our audit, we noted the City did not budget, in the 2008/2009 fiscal year, for the general fund to loan the fire impact fee fund \$278,341 for the completion of the new fire house. We also noted the budget for the general fund loan to the general impact fee fund was \$336,000, but \$375,000 was transferred.

Recommendation: We recommend the City review the budget to verify that expenditures and transfers have not exceeded the authorized budget. We recommend City staff make recommendations to the City Council for amending the budgets when actual activity exceeds appropriations and we also recommend the City update the budget module in the accounting system to reflect any amendments approved by City Council.

Management Response: Staff agrees. There was no final budget adopted by the City Council for FY 2008-09, but these loans were reflected in the adopted budget for FY 2009-10.

Finding 09-3: During our audit we noted the City posted March sewer billings of \$71,887.67 into the general ledger accounts receivable account three times. This overstated accounts receivable and sewer revenue by \$143,775.34. We proposed a journal entry to correct the error. We also noted the sewer aged receivable balance was not run as of June 30, 2009 and therefore we were not able to audit sewer receivable balances. The balance in the general ledger at June 30, 2009 was \$178,407 compared with the prior year balance of \$41,641. City staff did not review the sewer accounts receivable balance for reasonableness and reconcile to the underlying support. The City sewer billing/receivable system does not have the ability to go back and run past reports after posting new activity. This is a condition that has an effect on our opinion of the fair presentation of the financial statements.

Finding 09-4: During our audit we noted that no year end accruals were made for governmental fund accounts receivables. We also noted the beginning governmental fund accounts receivable balances were not adjusted in many of the funds. City staff did not appear to have performed year end procedures to search for and accrue accounts receivables and adjust the general ledger to the underlying support. This is a condition that has an effect on our opinion of the fair presentation of the financial statements.

Recommendation: We recommend the City perform year end accruals for accounts receivable. We also recommend the City adjust the general ledger to agree to the underlying supporting documentation for accounts receivable.

**City of Ione
Audit Findings
Year Ended June 30, 2009**

Management Response: Staff agrees. Staff will spend more time reviewing the all accounts and reconciling monthly to resolve this issue as well as completing the year end accruals.

Finding 09-5: During our audit we noted the City did not maintain controls over the general fixed assets of the City, the fixed assets of the enterprise fund and the depreciation expense and accumulated depreciation for those fixed assets. The City is paying an outside service provider to maintain the schedules for fixed assets, however the City did not provide the information for current year activity and therefore no schedules were provided with accurate year end figures. We also noted the City miscoded expenditures related to the master plan to service and supply expenses accounts as opposed to capital outlay accounts. This is a condition that has an effect on our opinion of the fair presentation of the financial statements.

Recommendation: We recommend the City provide the outside service provider with the information needed to update the fixed asset schedules for the governmental and business type capital assets, depreciation expense and accumulated depreciation. The City should then record the assets and accumulated depreciation activity into the business-type general ledger accounts and offset the difference to net assets and make this a prior period adjustment for the 2009/2010 fiscal year financial statements in the proprietary fund financial statement. The City should provide the auditor with the information for the governmental-type fixed assets, depreciation expense and accumulated depreciation for inclusion in the June 30, 2010 government-wide financial statements with the offset recorded to net assets as a prior period adjustment. The City should also review expenditures for major projects performed in the 2008/2009 fiscal year, such as the master plan, and verify that they are recorded in capital asset schedules.

Management Response: Staff partially agrees. This has been resolved and the Fixed Assets are up to date for FY 2008-09 as well as FY 2009-10 as of May 6, 2010.

Finding 09-6: During our audit we noted the City received \$560,000 proceeds from a capital lease for the construction of the new fire house. The proceeds were recorded as a liability in the general ledger liability account advances from other funds. We also noted the \$12,538 principal and \$27,262 interest payments on this debt were recorded to asset account advance to other funds in the general fund as opposed to an expense in the fire impact fee fund. Principal and interest expense were also not included with the City's 2008/2009 budget. Audit adjustments were proposed to reclassify the proceeds from advance from other funds to other financing sources-proceeds of capital lease and to record principal and interest to expense accounts in the fire impact fee fund as opposed to advance to other funds in the general fund. The effect of the miscodings also put advances to and advances from other funds out of balance. City staff did not reconcile these accounts to agree that they were in balance.

Recommendation: City staff should agree that interfund activity is in balance. The City should also classify proceeds of debt to the proper account. The City should record principal and interest expense to expense accounts and not to asset accounts. The City should also budget the principal and interest expense as part of the City's annual operating budget.

Management Response: Staff agrees. Staff will record the loan principal and interest expense correctly and add it to the annual operating budget.

Finding 09-7: During our audit we noted the City coded all accounts payables to the general fund and then allocated each funds share through due to due from interfund accounts. This treatment overstates accounts payable in the general fund, understates accounts payable in funds that would have an accounts payable accrual and overstates interfund activity. We proposed a journal entry to correct the miscodings. We also discovered \$23,877 unrecorded accounts payable during our search for unrecorded accounts payables. These are conditions that have an effect on our opinion of the fair presentation of the financial statements.

**City of Ione
Audit Findings
Year Ended June 30, 2009**

Recommendation: We recommend the City record accounts payable directly to each individual fund and not as a short term loan from the general fund to the funds subject to accrual. We recommend the City improve cutoff procedures for identifying items paid after fiscal year end that should be accrued as accounts payable.

Management Response: Staff agrees. The Import did not post correctly and this has now been corrected.

Finding 09-8: During our audit we noted the City accrued a \$10,280 receivable and recognized the revenue in the general fund. When the funds were received the City reversed the receivable and recognized the cash in the Safe Routes to School special revenue fund. The effect of this treatment was overstating receivables and revenue in the general fund and understating receivables and revenue in the special revenue fund. The special revenue fund also had an ending accounts receivable credit balance, which is not a normal balance. It does not appear the receivable balances or the deferred revenue balances were reviewed by City staff. This is a condition that has an effect on our opinion of the fair presentation of the financial statements.

Recommendation: The City should pay attention to detail in posting receivables/revenue and should review accounts receivable and deferred revenue balances for reasonableness prior to the audit.

Management Response: Staff agrees. This will be corrected and staff will review that all posting are done correctly in the future.

Finding09-9: During our audit we noted the City did not accrue the \$12,897 LAIF interest receivable at June 30, 2009. Furthermore the City did not post \$51,607 LAIF interest received on July 15, 2008. The effect of not posting the June 30, 2009 interest receivable was to understate interest receivable and interest revenue by \$12,897. The effect of not posting the July 15, 2008 interest revenue was to understate cash and interest revenue by \$51,607. This is a condition that has an effect on our opinion of the fair presentation of the financial statements.

Management Response: Staff partially agrees. LAIF interest was posted 6/30/2009 but not paid into LAIF until 7/15/2009 for FY 6/30/2009. This posting is same as done in FY 6/30/2008, so staff will verify if posted correctly with the auditor and ensure this action is done correctly in the future.

Finding 09-10: During our audit we noted that after the payroll clerk was released it was discovered that many of her computer programs and files were deleted, including the compensated absence schedules. As a result we were unable to test the compensated absence activity for the fiscal year and to verify the accuracy of the ending balances reported by the City. This is a condition that has an effect on our opinion of the fair presentation of the financial statements.

Recommendation: We recommend the City safeguard assets when terminating employees. We also recommend the City review program and file backup procedures to ensure data is secure and retrievable. We recommend the City prepare a schedule of compensated absence activity from the June 30, 2008 audited schedule to current and make prior period adjustments in the 2009/2010 fiscal year to true up the amounts reported in the financial statement.

Management Response: Staff partially agrees. Staff does not agree that the safeguards were not in place and the data deleted was available in hardcopy. Staff has audited and continues to audit the compensated absences and does not agree that a separate document needs to be maintained. The current payroll system maintains compensated absences, accruals are verified, and compensated absences are verified against payroll when completed.

City of Ione
Audit Findings
Year Ended June 30, 2009

Finding 09-11: During our testing of accounts payables we discovered \$147,946 in prior year accounts payable that had not been reversed in the current year. We also noted \$15,558 in prior year accounts payable that was reversed to fund equity in the current year as opposed to accounts payable. The effect of these items was to overstate accounts payable \$163,504, overstate expenses \$147,946, and to understate fund equity \$15,558 at June 30, 2009. We proposed journal entries to correct these misstatements. This is a condition that has an effect on our opinion of the fair presentation of the financial statements.

Management Response: Staff agrees. The Import of data did not function correctly and this has been resolved.

Finding 09-12: During our testing of accrued payroll we noted that no cutoff procedures were performed for accrued payroll. City staff did not review the general ledger account balances for accrued payroll and reconcile to the underlying support. We also noted the accrued payroll balance for all funds was \$238,529. There was also \$56,146 in debit balances recorded to accrued payroll accounts, which are not normal balances for this type of account. This is a condition that has an effect on our opinion of the fair presentation of the financial statements.

Recommendation: We recommend the City implement cutoff procedures to reconcile the accrued payroll accounts from the underlying support to the general ledger.

Management Response: Staff partially agrees. There are procedures in place to implement cut off and reconcile the accrued payroll accounts. However, it was not done for FY 2008-09.

Finding 09-13: During the current year audit we were originally provided with a trial balance with a new chart of accounts. Based on our analysis we observed several problems with the new chart of accounts and the City opted to revert to the old chart of accounts/general ledger. After setting up the working trial balance and after we began testing account balances we noted material errors with accounts payable and payroll. Based on City staff review it was determined that several journal entries had not been posted to the old general ledger. We were provided with journal entries to post the accounts payable and payroll activity. City staff did not review account balances for accuracy and reconcile to underlying supporting documentation for all account balances. Furthermore the transition to the new accounting chart of accounts was not properly planned and monitored to ensure accuracy in financial reporting in accordance with U.S. generally accepted accounting principles.

Recommendation: We recommend the City perform internal checks of account balances and activity prior to having the audit performed. We recommend, in the future, delaying the audit until the City has a chance to perform year end procedures and to close the books. We also recommend implementing controls to monitor the new trial balance/chart of accounts conversion for accurate financial reporting in accordance with U.S. generally accepted accounting principles.

Management Response: Staff agrees. Staff is working to complete the year-end procedures and ensure that this work is done prior to any future audits. This has been a reoccurring issue over the past few years and staff will resolve it this fiscal year.

**City of Ione
Audit Findings
Year Ended June 30, 2009**

INTERNAL CONTROL FINDINGS

Not Deemed to be Significant Deficiencies and Material Weaknesses

Finding 09-14: During our testing of payroll we noted three instances where the employee withholdings authorized by the employee on the W-4 did not agree to the amount being used to calculate pay.

Recommendation: We recommend the City review all W-4's and agree to the number of withholding in the pay register.

Management Response: Staff is unable to verify based on no specific employee named. However, staff has requested updated federal and state withholding forms from all employees and verified the correct withholdings are in the payroll system.

Finding 09-15: During our testing of material disbursements we noted the total payments made to Wallace, Kuhl & Associates were \$11,729 over the contract/budgeted amount for monitoring offsite wells. We did not observe a change order authorizing the Company to exceed the original contracted amount.

Recommendation: We recommend City Council review and authorize change orders for contracts exceeding the original budget.

Management Response: Staff partially agrees. Staff has verification that Wallace Kuhl and Associates had two change orders for this particular contract and Change Order #1 was approved by the City Council for \$5,800 but Change Order #2 was not approved by City Council for \$5,700. Staff has requested some additional information from Wallace Kuhl and Associates before taking to the City Council for final resolution. Information has been provided to the Auditor on this issue.

