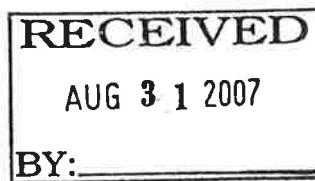


CITY OF IONE
FINANCIAL STATEMENTS
JUNE 30, 2006



CITY OF IONE

Table of Contents

Independent Auditor's Report	1
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets	3
Statement of Activities	4
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	5
Reconciliation of the Governmental Funds Balance Sheet to the	
Government-Wide Statement of Net Assets – Governmental Activities	6
Statement of Revenues, Expenditures and Changes in Fund Balances	7
Reconciliation of the Statement of Revenues, Expenditures and Changes	
In Fund Balances of Governmental Funds to the Government-Wide	
Statement of Activities – Governmental Activities	8
Proprietary Funds:	
Statement of Net Assets	9
Statement of Revenues, Expenses and Changes in Net Assets	10
Statement of Cash Flows	11
Fiduciary Funds:	
Statement of Fiduciary Assets and Liabilities – Agency Fund	12
Notes to the Financial Statements	13
Required Supplementary Information:	
Schedule of Funding Progress – Defined Benefit Pension Plan	26
Budgetary Comparison Schedule:	
General Fund	27
Gas Tax Fund	29
ARSA Fund	30
Police Capital Project Fund	31
Fire Capital Project Fund	32
Note to the Required Supplementary Information	33
Combining and Individual Fund Statements and Schedules:	
Nonmajor Governmental Funds:	
Combining Balance Sheet	34
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	35
Nonmajor Special Revenue Funds	
Combining Balance Sheet	36
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	38
Nonmajor Capital Projects Funds	
Combining Balance Sheet	40
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	41
Report on Compliance and On Internal Control over Financial Reporting	
Based On an Audit of Financial Statements Performed in Accordance	
With Government Auditing Standards	42
Schedule of Findings	43

*The Accounting Office of:
Larry Bain, CPA
3905 Jennings Ct.
W. Sacramento, CA 95691*

INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Ione
Ione, California

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

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

Management has not recorded certain infrastructure assets in governmental activities or business-type activities and, accordingly has not recorded depreciation expense on those assets. Accounting principles generally accepted in the United States of America require that those general infrastructure assets and business-type fixed assets be capitalized and depreciated, which would increase the assets, net assets and expense of the governmental activities and business-type activities. The amount by which this departure would affect the assets, net assets and expenses of the governmental activities and business-type activities is not reasonably determinable.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the governmental activities and business-type activities of the City of Ione, California, as of June 30, 2006, or the changes in financial position and where applicable, cash flows thereof for the year then ended

Because the City did not maintain a summary schedule of the amounts recorded in the accounts receivable asset accounts and the deposits from others liability accounts, we were unable to satisfy ourselves as to the amount recorded in these accounts. Those financial activities are recorded in the governmental funds of the City. The amount of assets represented by this scope limitation was \$594,006, which represents 8.03 % of governmental fund assets. The amount of liabilities represented by this scope limitation was \$215,968, which represents 10.87% of the governmental fund liabilities. The effect on revenues, expenses and fund equity is unknown, because we were unable to audit the beginning balances due to this scope limitation.

In addition, in our opinion, except for the effects of such adjustments, if any, as might have been necessary had we been able to audit the accounts receivables and deposits liability accounts, or had we been able to satisfy ourselves as to those financial activities by other auditing procedures, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund and the aggregate remaining fund information of the City of Ione as of June 30, 2006, and the respective changes in financial position, of those activities and funds for the fiscal year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued a report dated July 11, 2007 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. 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 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.

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

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.

Our audit was made for the purpose of forming an opinion on the financial statements that collectively comprise the City's basic financial statements. The combining and individual fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements and schedules have been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, based on our audit, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Larry Bain". The signature is fluid and cursive, with the first name "Larry" and last name "Bain" clearly distinguishable.

Larry Bain, CPA

July 11, 2007

CITY OF IONE

Statement of Net Assets June 30, 2006

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and investments	\$ 1,986,257	\$ 1,069,567	\$ 3,055,824
Restricted cash and investments	4,077,693	1,680,716	5,758,409
Accounts receivables	594,006	57,920	651,926
Taxes receivable	24,724		24,724
Interest receivable	63,748	24,196	87,944
Loans receivable	571,433		571,433
Advances to other funds		244,800	244,800
Total Assets	\$ 7,317,861	\$ 3,077,199	\$ 10,395,060
Liabilities			
Current liabilities:			
Accounts payable	\$ 154,117	\$ 293,018	\$ 447,135
Deposits from others	215,968	22,175	238,143
Deferred revenue	1,486,383	25,762	1,512,145
Advances from other fund	244,800		244,800
Noncurrent liabilities:			
Due within one year	48,181		48,181
Due in more than one year	64,150	6,586	70,736
Total Liabilities	2,213,599	347,541	2,561,140
Net Assets			
Restricted for capital replacement		1,712,530	1,712,530
Unrestricted	5,104,262	1,017,128	6,121,390
Total Net Assets	\$ 5,104,262	\$ 2,729,658	\$ 7,833,920

The accompanying notes are an integral part of these financial statements

CITY OF IONE

**Statement of Activities
For the Fiscal Year Ended June 30, 2006**

Functions/programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		Total
		Charges for Services	Capital Grants and Contributions	Operating Grants	Governmental Activities	Business-type Activities	
Governmental Activities:							
General government	\$ 691,359	\$ 169,124	\$ 7,890	\$ 5,222	\$ (509,123)	\$ -	\$ (509,123)
Public safety	1,046,679	116,093	636,704	106,838	(187,044)		(187,044)
Community development	162,544			186,267	23,723		
Public works	177,379	462,568			285,189		285,189
Streets and roads	272,607		126,593	212,504	66,490		
Parks and recreation	560,981	7,254	428,222		(125,505)		(125,505)
Interest on long-term debt					-		-
Total Governmental Activities	2,911,549	755,039	1,199,409	510,831	(446,270)		(446,270)
Business-type Activities:							
Wastewater	1,176,921	884,340	671,440			378,859	378,859
Total Business-type Activities	1,176,921	884,340	671,440	-		378,859	378,859
Total Government	\$ 4,088,469	\$ 1,639,379	\$ 1,870,849	\$ 510,831	(446,270)	378,859	(67,411)
General Revenues:							
Taxes:							
Property taxes					506,083		506,083
Sales and use tax					418,517		418,517
Transient occupancy tax					1,561		1,561
Franchise tax					80,262		80,262
Motor vehicle in lieu tax					490,164		490,164
Other taxes					28,631		28,631
Investment income					188,265	83,365	271,630
Total general revenues					1,713,483	83,365	1,796,847
Change in net assets					1,267,213	462,224	1,729,437
Net assets - beginning					4,010,403	2,978,985	6,989,388
Prior Period Adjustment					(173,354)	(711,553)	(884,907)
Net assets - ending					\$ 5,104,262	\$ 2,729,656	\$ 7,833,918

The accompanying notes are an integral part of these financial statements

CITY OF IONE

**Balance Sheet
Governmental Funds
June 30, 2006**

	General	Gas Tax	ARSA	Police Bldg Fund	Fire Bldg Fund	Other Nonmajor Funds	Total Governmental Funds
<u>Assets</u>							
Cash and investments	\$ 1,793,119	\$ -	\$ 9,366	\$ -	\$ -	\$ 183,772	\$ 1,986,257
Restricted cash and investments		718,567		860,368	852,262	1,646,496	4,077,693
Receivables							
Accounts	247,259	79,803	68,652			198,292	594,006
Taxes	24,724						24,724
Interest	35,013	6,344		2,255	5,403	14,733	63,748
Due from other funds	76,510						76,510
Loans receivable						571,433	571,433
Total Assets	<u>\$ 2,176,625</u>	<u>\$ 804,714</u>	<u>\$ 78,018</u>	<u>\$ 862,623</u>	<u>\$ 857,665</u>	<u>\$ 2,614,726</u>	<u>\$ 7,394,371</u>
<u>Liabilities and Fund Balances</u>							
Liabilities							
Accounts payable	\$ 104,335	\$ 2,854	\$ 9,129	\$ 192	\$ 464	\$ 37,144	\$ 154,118
Due to other funds						76,510	76,510
Deposits from others	215,968				-		215,968
Compensated absences	14,835						14,835
Deferred revenue	44,770	30,114		348,558	359,352	742,504	1,525,298
Total Current Liabilities	<u>379,908</u>	<u>32,968</u>	<u>9,129</u>	<u>348,750</u>	<u>359,816</u>	<u>856,158</u>	<u>1,986,729</u>
Long-term Liabilities							
Advances from other funds	<u>244,800</u>						244,800
Total Liabilities	<u>624,708</u>	<u>32,968</u>	<u>9,129</u>	<u>348,750</u>	<u>359,816</u>	<u>856,158</u>	<u>2,231,529</u>
Fund Balances							
Reserved for loan receivable							
Unreserved, reported in							
General fund	1,551,917						1,551,917
Special revenue funds		771,746	68,889			1,208,689	2,049,324
Capital projects funds				513,873	497,849	549,879	1,561,601
Total Fund Balances	<u>1,551,917</u>	<u>771,746</u>	<u>68,889</u>	<u>513,873</u>	<u>497,849</u>	<u>1,758,568</u>	<u>5,162,842</u>
Total Liabilities and Fund Balances	<u>\$ 2,176,625</u>	<u>\$ 804,714</u>	<u>\$ 78,018</u>	<u>\$ 862,623</u>	<u>\$ 857,665</u>	<u>\$ 2,614,726</u>	<u>\$ 7,394,371</u>

The accompanying notes are an integral part of these financial statements

CITY OF IONE
Reconciliation of the Statement of Net Assets
of Governmental Funds to the Balance Sheet
As of June 30, 2006

Fund Balances of Governmental Funds	\$ 5,162,842
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Some liabilities, including long-term debt, compensated absences and accrued interest are not due and payable in the current period and therefore are not reported in the funds.	<u>(58,580)</u>
Net assets of governmental activities	\$ <u><u>5,104,262</u></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, 2006**

	General	Gas Tax	ARSA	Police Bldg Fund	Fire Bldg Funds	Other Nonmajor Funds	Total Governmental Funds
Revenues							
Taxes	\$ 939,227	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 939,227
Special assessment/impact fees				318,139	318,565	328,553	965,257
Licenses and permits	339,784						339,784
Use of money and property	160,512	21,428	3,929	7,633	14,744	121,604	329,850
Intergovernmental	509,061	212,504				495,324	1,216,888
Fines, forfeitures and penalties	11,030					24,037	35,068
Charges for current services	191,581						191,581
Other	89,650		2,796			29,748	122,194
Total Revenues	2,240,845	233,932	6,725	325,772	333,309	999,265	4,139,849
Expenditures							
Current:							
General government	307,639					72,008	379,647
Public ways and facilities/ transportation	157,362	144,167	380,542			20,017	702,088
Public safety	816,132			552	525	148,878	966,087
Community development	221,310					162,544	383,854
Capital Outlay					90,763	410,013	500,776
Debt service							
Principal	13,000					20,347	33,347
Interest	1,560						1,560
Total Expenditures	1,517,003	144,167	380,542	552	91,288	833,807	2,967,359
Excess (Deficit) of Revenues over Expenditures	723,842	89,765	(373,817)	325,220	242,021	165,458	1,172,489
Other Financing Sources (Uses)							
Operating transfers in						445,155	445,155
Operating transfers out	(424,808)					(20,347)	(445,155)
Total Other Financing Sources (Uses)	(424,808)					424,808	-
Excess (Deficit) of Revenues and Other Financing Sources over Expenditures and Other Financing Uses	299,034	89,765	(373,817)	325,220	242,021	590,266	1,172,489
Fund Balances, July 1, 2005	1,521,986	681,481	442,706	188,653	255,828	1,338,200	4,428,854
Prior period adjustments	(269,103)	500				(169,898)	(438,501)
Fund Balances, June 30, 2006	\$ 1,551,917	\$ 771,746	\$ 68,889	\$ 513,873	\$ 497,849	\$ 1,758,568	\$ 5,162,842

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, 2006**

Net Change in Fund Balances - Total Governmental Funds	\$ 1,172,489
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:	
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	38,916
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.	33,347
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>22,461</u>
Change in net assets of governmental activities	<u><u>\$ 1,267,213</u></u>

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

CITY OF IONE

Statement of Net Assets Proprietary Funds June 30, 2006

	Sewer O & M	Sewer Capital	Sewer Tertiary Plant	Totals
Current assets:				
Cash and investments	\$ 970,867	\$ -	\$ 98,700	\$ 1,069,567
Restricted cash and investments		1,680,716		1,680,716
Receivables				
Accounts	32,158		25,762	57,920
Interest	8,549	14,497	1,150	24,196
Total current assets	1,011,574	1,695,213	125,612	2,832,399
Advances to other funds		244,800		244,800
Total Assets	<u>\$ 1,011,574</u>	<u>\$ 1,940,013</u>	<u>\$ 125,612</u>	<u>\$ 3,077,199</u>
Liabilities				
Current liabilities:				
Accounts payable	\$ 53,484	\$ 227,483	\$ 12,052	\$ 293,019
Deferred revenue			25,762	25,762
Total current liabilities	<u>53,484</u>	<u>227,483</u>	<u>37,814</u>	<u>318,781</u>
Noncurrent liabilities:				
Customer deposits	22,175			22,175
Compensated absences	6,586			6,586
Total noncurrent liabilities	<u>28,761</u>			<u>28,761</u>
Total Liabilities	<u>82,245</u>	<u>227,483</u>	<u>37,814</u>	<u>347,542</u>
Net assets:				
Restricted for capital replacement		1,712,530		1,712,530
Unreserved	929,329		87,798	1,017,127
Total Net Assets	<u>\$ 929,329</u>	<u>\$ 1,712,530</u>	<u>\$ 87,798</u>	<u>\$ 2,729,657</u>

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, 2006**

	Sewer O & M	Sewer Capital	Nonmajor Sewer Tertiary Plant	Totals
Operating Revenues				
Charges for services	\$ 797,846	\$ -	\$ 76,667	\$ 874,513
Connection fees		671,440		671,440
Other	244		9,583	9,827
Total Operating Revenues	798,090	671,440	86,250	1,555,780
Operating Expenses				
Salaries and benefits	205,645		10,265	215,910
Services and supplies	379,940	181,554	169,209	730,703
Capital expense		230,308		230,308
Total Operating Expenses	585,585	411,862	179,474	1,176,921
Operating Income	212,505	259,578	(93,223)	378,859
Non-Operating Revenues (Expenses)				
Interest income	27,260	51,406	4,699	83,365
Total Non-Operating Revenues (Expenses)	27,260	51,406	4,699	83,365
Net Income (Loss)	239,765	310,984	(88,524)	462,225
Net Assets, July 1, 2005	1,646,167	1,156,746	176,072	2,978,985
Prior Period Adjustments	(956,603)	244,800	250	(711,553)
Net Assets, June 30, 2006	\$ 929,329	\$ 1,712,530	\$ 87,798	\$ 2,729,657

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, 2006**

	Sewer O & M	Sewer Capital	Nonmajor Sewer Tertiary Plant	Totals
Cash Flows from Operating Activities				
Cash received from customers	\$ 792,587	\$ 671,440	\$ 86,250	\$ 1,550,277
Cash payments to suppliers	(370,170)	(280,632)	(175,236)	(826,038)
Cash payments to employees	(203,065)		(10,265)	(213,330)
Net Cash Provided By (Used For) Operating Activities	219,352	390,808	(99,251)	510,909
Cash Flows from Investing Activities:				
Interest income	21,707	45,228	7,024	73,959
Net Cash Provided By Investing Activities	21,707	45,228	7,024	73,959
Net Increase (Decrease) in Cash and Cash Equivalents	241,059	436,036	(92,227)	584,868
Cash and Cash Equivalents, July 1, 2005	729,808	1,244,680	190,927	2,165,415
Cash and Cash Equivalents, June 30, 2006	<u>\$ 970,867</u>	<u>\$ 1,680,716</u>	<u>\$ 98,700</u>	<u>\$ 2,750,283</u>
Reconciliation of Cash and Cash Equivalents:				
Cash and investments	\$ 970,867	\$ -	\$ 98,700	\$ 1,069,567
Restricted cash and investments		1,680,716		1,680,716
Total Cash and Cash Equivalents	<u>\$ 970,867</u>	<u>\$ 1,680,716</u>	<u>\$ 98,700</u>	<u>\$ 2,750,283</u>
Reconciliation of Operating Income to Net Cash Provided by (Used For) Operating Activities	\$ 212,505	\$ 259,578	\$ (93,223)	\$ 378,860
Adjustments to operating income:				
(Increase) decrease in accounts receivable	(21,478)		(25,762)	(47,240)
Increase (decrease) in accounts payable	9,770	131,230	(6,027)	134,973
Increase (decrease) in customer deposits	15,975			15,975
Increase in deferred revenue			25,762	25,762
Increase (decrease) in compensated absences	2,580			2,580
Net Cash Provided By (Used For) Operating Activities	<u>\$ 219,352</u>	<u>\$ 390,808</u>	<u>\$ (99,250)</u>	<u>\$ 510,910</u>

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

CITY OF IONE

**Statement of Fiduciary Assets and Liabilities - Agency Funds
June 30, 2006**

	Agency Funds		Totals
	Community Facilities Districts	Regional Traffic Mitigation	
<u>Assets</u>			
Cash and investments	\$ 366,237	\$ 195,759	\$ 561,996
Receivables		405	405
Total Assets	<u>\$ 366,237</u>	<u>\$ 196,164</u>	<u>\$ 562,401</u>
<u>Liabilities</u>			
Deposits held for others	<u>\$ 366,237</u>	<u>\$ 196,164</u>	<u>\$ 562,401</u>
Total Liabilities ,	<u>\$ 366,237</u>	<u>\$ 196,164</u>	<u>\$ 562,401</u>

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

City of Ione
Notes to Financial Statements
June 30, 2006

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-City Administrator 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 accounting policies of the City of Ione, California conform to accounting principles generally accepted in the United States of America, as applicable to governmental units. 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. Implementation of Governmental Accounting Standards Board Statements

In June 1999 and in June 2001 the Governmental Accounting Standards Board (GASB) unanimously approved GASB No. 34, Basic Financial Statements – and Management Discussion and Analysis – for State and Local Governments and Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments – Omnibus, respectively. These statements provide for the most significant change in financial reporting in over twenty years and are scheduled for a phased implementation (based on the size of the government) starting with fiscal year ending 2002. Certain of the significant changes in the Statement include the following:

Beginning in the fiscal year ended June 30, 2006, the financial statements include:

- Basic financial statements which include the Government-wide financial statements, statement of net assets and statement of activities.
- Required Supplementary Information, as listed in the table of contents, for the funding progress of the City's retirement plan and budgetary comparison schedules.

City of Ione
Notes to Financial Statements
June 30, 2006

Note 1: Summary of Significant Accounting Policies (Continued)

C. 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. 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.

D. 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, restricted resources are used only after the unrestricted resources are depleted.

City of Ione
Notes to Financial Statements
June 30, 2006

Note 1: Summary of Significant Accounting Policies (Continued)

D. Basis of Presentation (Continued)

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.

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 Building Fund – This fund accounts for building impact fees collected from developer building permits to finance a new police building.

Fire Building Fund – This fund accounts for building impact fees collected from developer building permits to finance a new fire building and fire apparatus.

ARSA Fund – This fund accounts for various activities directed by the City Council. Funds were originally made available through a long term agreement between the Amador Regional Sanitation Authority (ARSA) and the City of Ione related to the disposal of wastewater.

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.

City of Ione
Notes to Financial Statements
June 30, 2006

Note 1: Summary of Significant Accounting Policies (Continued)

E. 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.

F. 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.

G. Fixed Assets

The City has not maintained a complete record of historical costs of capital assets for governmental or business-type activities. Due to the lack of records we have omitted the fixed assets from the financial statements and have given no opinion for capital assets, accumulated depreciation or depreciation expense related to the government-wide financial statements and proprietary fund financial statements.

H. 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.

I. 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, 2006

Note 1: Summary of Significant Accounting Policies (Continued)

J. 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.

K. 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.

L. 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 and none of the accrued sick leave.

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, 2006, 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.

M. 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, 2006

Note 2: Cash and Investments

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

Cash and investments	\$3,055,824
Restricted cash and investments	<u>5,758,409</u>
Cash and investments, Statement of net assets	8,814,233
Cash and investments, Statement of fiduciary net assets	<u>561,996</u>
Total cash and investments	<u>\$9,376,229</u>

Cash and investments at June 30, 2006, consisted of the following:

General checking	\$ 59,281
General savings	834,514
Cash on hand	400
Investments	<u>8,482,034</u>
Total cash and investments	<u>\$9,376,229</u>

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, 2006

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*	\$ 8,480,831	\$ 8,480,831	\$ -	\$ -	\$ -
Held by Trustee:					
Money Market Funds*	1,203	1,203			
Totals	<u>\$ 8,482,034</u>	<u>\$ 8,482,034</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, 2006, the City's deposits balance was \$522,970 and the carrying amount was \$893,795. The difference between the bank balance and the carrying amount was due to normal outstanding checks and deposits in transit. Of the bank balance, \$100,000 was covered by the Federal Depository Insurance and \$422,970 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 \$60.5 billion. Of the \$60.5 billion managed by the State Treasurer, 99.976% is invested in non-derivative financial products and 2.406% 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, 2006

Note 3: Long-term Debt

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, 2006:

	Balance 7/1/2005	Additions	Adjustments/ Reductions	Balance 6/30/2006	Due w/in One Year
Capital Leases Payable	\$ 26,000	\$ -	\$ (13,000)	\$ 13,000	\$ 13,000
Note Payable	346,534		(285,494)	61,040	20,347
Compensated Absences	45,917	33,710	(41,336)	38,291	14,835
Total	<u>\$ 418,451</u>	<u>\$ 33,710</u>	<u>\$ (339,830)</u>	<u>\$ 112,331</u>	<u>\$ 48,182</u>

Governmental Activities:

Capital Leases Payable

On January 21, 2003 the City obtained financing from the Lois Vimini Trust to lease/purchase a land at 15 Sacramento Street, Ione, CA for use as a parking lot. The lease calls for annual payments of \$13,000, including interest, beginning February 15, 2003 and maturing February 15, 2007. The City shall have the option to purchase the land by paying to the lessor all rent payments then due (including accrued interest, if any) as stipulated in the lease agreement. Interest rates on the capital lease are imputed at 6%.

The following is a schedule of future minimum lease payments under the capital lease, as of June 30, 2006:

Fiscal Year Ending June 30	Amount
<u>2007</u>	<u>\$ 13,000</u>

Note Payable

On August 15, 1994 the City entered into an agreement to purchase 88.69 acres of land known as Howard Park. The loan is payable in 15 annual installments of \$20,347 and one balloon payment of \$244,800 due at the date which is fifteen years from the close of escrow. The terms of the agreement stipulate that the interest of 7.5% per year will be deferred and waived if all annual installments are paid on time. Furthermore paragraph 1d. of the agreement states that the seller sewer fee annexation charges of \$244,800 recorded November 9, 1990 in the official record of Amador County shall become a credit on the single balloon payment and in return the seller annexation charge payment will be waived.

The following is a schedule of note payments as of June 30, 2006:

Fiscal Year Ending June 30	Amount
<u>2007</u>	<u>\$ 20,347</u>
2008	20,347
2009	20,347
2010	20,346
Total	* <u>\$ 81,387</u>

* Assumes accrued interest waived and \$244,800 sewer annexation credit against final balloon payment.

City of Ione
Notes to Financial Statements
June 30, 2006

Note 3: Long-term Debt (Continued)

A summary of changes in the City's business-type activities long-term liabilities for the year ended June 30, 2006:

	Balance 7/1/2005	Additions	Adjustments/ Reductions	Balance 6/30/2006	Due w/in One Year
Compensated Absences	\$ 4,006	\$ 9,689	\$ (7,110)	\$ 6,585	\$ -
Total	<u>\$ 4,006</u>	<u>\$ 9,689</u>	<u>\$ (7,110)</u>	<u>\$ 6,585</u>	<u>\$ -</u>

Note 4: 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 7% of miscellaneous employee and 9% of safety employee annual covered salaries. The City makes the required employee 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 2005/06 was 11.645% for miscellaneous members and 33.737% 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 2005/06, the City's annual pension cost was \$152,126 and the City actually contributed \$152,126. The City contributes both the employee and employer portion. The required contribution for fiscal year 2005/06 was determined as part of the June 30, 2003, 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 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 15 years for miscellaneous members and 15 years for safety members as of the valuation date.

City of Ione
Notes to Financial Statements
June 30, 2006

Note 4: Defined Benefit Pension Plan (Continued)

Three – Year Trend Information for the City

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
06/30/04	\$ 91,048	100%	\$ -
06/30/05	\$ 90,812	100%	\$ -
06/30/06	\$ 152,126	100%	\$ -

Note 5: 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 employee or annuitant shall be the amount necessary to pay the full cost of the individual's enrollment in the least expensive plan, up to and including family plan, offered by PERS.

Benefit costs are recorded on a pay-as-you-go basis. For the most recent fiscal year, the City expended \$2,023, including administrative fees, for post-employment health insurance benefits. One retiree was covered.

Note 6: 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. As of June 30, 2006 the special assessment debt payments were in default and the reserve requirements were not met.

The amount of the special assessment debt with no governmental commitment at June 30, 2006, is:

Community Facilities District 1989-1	\$ 3,928,224
Community Facilities District 1989-2	4,343,406
Past due principal and interest 1989-1	1,773,753
Past due principal and interest 1989-2	2,930,084
Total	<u>\$ 12,975,467</u>

Note 7: 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.

City of Ione
Notes to Financial Statements
June 30, 2006

Note 8: 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 20 is 1.5% , years 21 to 25 is 2% and years 26 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. 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 9: 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.

Interfund transactions for the fiscal year ended June 30, 2006 are summarized as follows:

	Advances To Other	Advances From Other	Due To Other	Due From Other	Operating Transfers	Operating Transfers
Fund Type	Funds	Funds	Funds	Funds	In	Out
General	\$ -	\$ 244,800	\$ -	\$ 76,510	\$ -	\$ 424,808
Special Revenue	-	-	12,249	-	56,658	20,347
Capital Projects	-	-	64,261	-	388,497	-
Enterprise	244,800	-	-	-	-	-
Total	\$ 244,800	\$ 244,800	\$ 76,510	\$ 76,510	\$ 445,155	\$ 445,155

Note 10: Stewardship, Compliance and Accountability

A. Excess of Expenditures Over Appropriations

Major Fund	Excess Expenditures
General Fund	
Finance	\$ 3,560
City Attorney	\$ 4,250
Special Projects	\$ 1,140
Police Department	\$ 127,437
Fire Department	\$ 18,006
Parks and Recreation	\$ 5,175
Debt Service	\$ 14,560
Operating Transfers Out	\$ 414,808
ARSA Fund	\$ 265,392

City of Ione
Notes to Financial Statements
June 30, 2006

Note 10: Stewardship, Compliance and Accountability (Continued)

B. Deficit Fund Balances

Non-major capital project funds have three funds with deficit fund balances and non-major special revenue funds have two funds with deficit fund balances. The deficit balances are expected to be eliminated upon receipt of funding from granting authorities or through matching funds/subsidies from the General fund of the City.

Note 11: 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 12: Prior Period Adjustments

Adjustments were made to the fund financial statements for activity related to prior years

General Fund

- Increase fund equity \$4,000 for an insurance claim liability recorded in the 2001-2002 fiscal year.
- Decrease fund equity \$14,400 for accounts payables related to the 2004-2005 fiscal year.
- Reduce fund equity \$13,903 to adjust investments to fair market value at June 30, 2005 per GASB 31.
- Reduce fund equity \$244,800 for prior year sewer annexation fees financed with general government debt.

Gas Tax

- Increase fund equity \$500 for an insurance claim liability recorded in the 2001-2002 fiscal year.

97 Home Grant

- Decrease fund equity \$64,135 for prior year deferred revenue that was recognized as revenue.

01 Home Grant

- Decrease fund equity \$132,858 to establish deferred revenue balance at June 30, 2005.
- Decrease fund equity \$4,510 to reverse a cash in escrow account established at June 30, 2004 and was transferred in the 2004-2005 fiscal year.

2002 Bond Act

- Decrease fund equity \$111,764 to recognize deferred revenue at June 30, 2005.

Sewer O&M Fund

- Increase fund equity \$250 for an insurance claim liability recorded in the 2001-2002 fiscal year.
- Decrease fund equity \$956,853 to eliminate fixed assets-net, from prior year, because of a lack of historical documentation.

Sewer Capital Project

- Increase fund equity \$244,800 for prior year sewer annexation fees financed with general government debt.

Sewer Tertiary

- Increase fund equity \$250 for an insurance claim liability recorded in the 2001-2002 fiscal year.

City of Ione
Notes to Financial Statements
June 30, 2006

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: 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.

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.

Long-term debt

Under the provisions of the note payable for the purchase of Howard Park, the City will be contingently liable for the accrued interest on the note payable, should the City miss any of the scheduled annual payments. The amount of the contingent liability at June 30, 2006 was approximately \$565,228 at a 7.5% nominal annual rate. The City has not accrued a liability in the basic financial statements because they anticipate making all the annual payments on time.

The City is also contingently liable for the final \$244,800 balloon payment on the Howard Park note payable. The City anticipates using a credit against prior year Sewer Annexation fees, owed by the Howard Park trustees to the City, to offset the final balloon payment as stipulated in the long-term debt agreement.

Note 15: Subsequent Event

On August 16, 2006 the 1989-1 and 1989-2 Community Facilities District special assessment debt, with no governmental commitment was refunded. The total amount refunded was \$8,271,629. Also \$4,064,837 of limited liability debt principal and interest in default on August 16, 2006 was cured. Furthermore \$4,038,766 additional 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 fee.

City of Ione
Required Supplementary Information
Schedule of Funding Progress
June 30, 2006

Schedule of Funding Progress

The tables below show a three year analysis of the actuarial value of assets as a percentage of the actuarial accrued liability and the unfunded actuarial accrued liability as a percentage of the annual covered payroll as of June 30:

Miscellaneous Members

Valuation Date	Accrued Liability	Actuarial Value of Assets	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	UUAL as a % of Payroll
6/30/2002	\$ 928,455	\$ 1,023,543	\$ (95,088)	110.2%	\$ 340,016	-28.0%
6/30/2003	\$ 1,114,834	\$ 1,057,857	\$ 56,977	94.9%	\$ 344,513	16.5%
6/30/2004	\$ 1,164,649	\$ 1,094,873	\$ 69,776	94.0%	\$ 258,099	27.0%

Safety Members

Valuation Date	Accrued Liability	Actuarial Value of Assets	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	UAAL as a % of Payroll
6/30/2002	\$ 1,339,326	\$ 889,649	\$ 449,677	66.4%	\$ 277,733	161.9%
6/30/2003	\$ 1,513,699	\$ 925,783	\$ 587,916	61.2%	\$ 291,947	201.4%
6/30/2004	\$ 1,581,705	\$ 984,302	\$ 597,403	62.2%	\$ 318,764	187.4%

CITY OF IONE
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
For the Fiscal Year Ended June 30, 2006

	Original Budget	Final Proposed Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Taxes				
Property tax	\$ 350,000	\$ 350,000	\$ 499,247	\$ 149,247
Sales	124,500	124,500	415,873	291,373
Transient occupancy	10,000	10,000	1,561	(8,439)
Sales tax - public safety	3,500	3,500	2,644	(856)
Real property transfer	40,000	40,000	19,903	(20,097)
Total Taxes	<u>528,000</u>	<u>528,000</u>	<u>939,227</u>	<u>411,227</u>
Licenses and Permits				
Franchise tax	75,000	75,000	80,262	5,262
Business license	6,000	6,000	8,729	2,729
Building permits	207,900	207,900	249,834	41,934
Burn permits	300	300	360	60
Encroachment permit	1,000	1,000	600	(400)
Total Licenses and Permits	<u>290,200</u>	<u>290,200</u>	<u>339,784</u>	<u>41,594</u>
Intergovernmental				
Motor vehicle in lieu (state)	490,000	490,000	490,164	164
HOPTR	4,000	4,000	6,837	2,837
Peace officers training	2,000	2,000	6,838	4,838
Grants			5,222	5,222
Total Intergovernmental	<u>496,000</u>	<u>496,000</u>	<u>509,061</u>	<u>13,061</u>
Fines, Forfeitures and Penalties				
Parking citations and other fines	4,000	4,000	11,030	7,030
Total Fines, Forfeitures and Penalties	<u>4,000</u>	<u>4,000</u>	<u>11,030</u>	<u>7,030</u>
Charges for Current Services				
Plan checking	136,000	136,000	191,581	55,581
Total Charges for Current Services	<u>136,000</u>	<u>136,000</u>	<u>191,581</u>	<u>55,581</u>
Use of Money and Property				
Interest and investment income			89,620	89,620
Sale of real property	130,000	130,000		(130,000)
Rent	37,800	37,800	70,891	33,091
Total Use of Money and Property	<u>167,800</u>	<u>167,800</u>	<u>160,512</u>	<u>(7,288)</u>
Other				
Insurance refunds and dividends	1,500	1,500	47,332	45,832
Miscellaneous - all others	6,600	6,600	42,318	35,718
Total Other	<u>8,100</u>	<u>8,100</u>	<u>89,650</u>	<u>81,550</u>
Total Revenues	<u>\$ 1,630,100</u>	<u>\$ 1,630,100</u>	<u>\$ 2,240,845</u>	<u>\$ 610,745</u>

CITY OF IONE

Required Supplementary Information
Budgetary Comparison Schedule (Continued)
General Fund
For the Fiscal Year Ended June 30, 2006

	Original Budget	Final Proposed Budget	Actual	Variance Favorable (Unfavorable)
Total Revenues (Continued)	<u>\$ 1,630,100</u>	<u>\$ 1,630,100</u>	<u>\$ 2,240,845</u>	<u>\$ 610,745</u>
Expenditures				
General Government				
City council	36,300	36,300	29,880	6,420
Administration	146,668	146,668	141,214	5,454
City Clerk	12,925	12,925	8,803	4,122
Finance	87,532	87,532	91,092	(3,560)
City treasurer	2,500	2,500	2,400	100
City Attorney	30,000	30,000	34,250	(4,250)
Total General Government	<u>315,925</u>	<u>315,925</u>	<u>307,639</u>	<u>8,286</u>
Public Ways and Facilities/Transportation				
Planning	52,620	52,620	33,650	18,970
Building inspection	111,392	111,392	77,881	33,511
Engineering	25,200	25,200	16,920	8,280
Building maintenance	32,100	32,100	27,771	4,329
Special projects			1,140	(1,140)
Total Public Ways and Facilities/Transportation	<u>221,312</u>	<u>221,312</u>	<u>157,362</u>	<u>63,950</u>
Public Safety				
Police	591,189	591,189	718,626	(127,437)
Fire	79,500	79,500	97,506	(18,006)
Total Public Safety	<u>670,689</u>	<u>670,689</u>	<u>816,132</u>	<u>(145,442)</u>
Community Development				
Parks and recreation	216,135	216,135	221,310	(5,175)
Total Community Development	<u>216,135</u>	<u>216,135</u>	<u>221,310</u>	<u>(5,175)</u>
Debt Service				
Principal			13,000	(13,000)
Interest			1,560	(1,560)
Total Debt Service			<u>14,560</u>	<u>(14,560)</u>
Total Expenditures	<u>1,424,061</u>	<u>1,424,061</u>	<u>1,517,002</u>	<u>(79,941)</u>
Excess (Deficit) of Revenues Over Expenditures	<u>206,039</u>	<u>206,039</u>	<u>723,843</u>	<u>517,804</u>
Other Financing Sources (Uses)				
Operating transfers in				
Operating transfers out	(10,000)	(10,000)	(424,808)	(414,808)
Total Other Financing Sources (Uses)	<u>(10,000)</u>	<u>(10,000)</u>	<u>(424,808)</u>	<u>(414,808)</u>
Excess (Deficit) of Revenues and Other Financing Sources over Expenditures and Other Financing Uses	<u>\$ 196,039</u>	<u>\$ 196,039</u>	<u>299,035</u>	<u>\$ 102,996</u>
Fund Balance, July 1, 2005			1,521,986	
Prior period adjustment			(269,103)	
Fund Balance, June 30, 2006			<u>\$ 1,551,918</u>	

CITY OF IONE
Required Supplementary Information

Budgetary Comparison Schedule
Special Revenue Fund - Gas Tax
For the Fiscal Year Ended June 30, 2006

	Original Budget	Final Proposed Budget	Actual	Variance Favorable (Unfavorable)
REVENUES				
Gas Tax				
Use of money	\$ -	\$ -	\$ 21,428	\$ 21,428
Intergovernmental	145,000	145,000	212,504	67,504
Total Revenues	145,000	145,000	233,932	88,932
EXPENDITURES				
Public ways and facilities/transportation	231,792	231,792	144,167	87,625
Total Expenditures	231,792	231,792	144,167	87,625
Excess (Deficit) of Revenues over Expenditures	<u>\$ (86,792)</u>	<u>\$ (86,792)</u>	89,765	<u>\$ 176,557</u>
Fund Balances, July 1, 2005			681,481	
Prior period adjustment			<u>500</u>	
Fund Balances, June 30, 2006			<u>\$ 771,746</u>	

CITY OF IONE
Required Supplementary Information

Budgetary Comparison Schedule
Capital Project Fund - ARSA
For the Fiscal Year Ended June 30, 2006

	Original Budget	Final Proposed Budget	Actual	Variance Favorable (Unfavorable)
REVENUES				
ARSA				
Use of money	\$ -	\$ -	\$ 3,929	\$ 3,929
Other	-	-	2,796	2,796
Total Revenues	-	-	6,725	6,725
EXPENDITURES				
Public ways and facilities/transportation	115,150	115,150	380,542	(265,392)
Total Expenditures	115,150	115,150	380,542	(265,392)
Excess (Deficit) of Revenues over Expenditures	\$ (115,150)	\$ (115,150)	(373,817)	\$ (258,667)
Fund Balances, July 1, 2005			442,706	
Fund Balances, June 30, 2006			\$ 68,889	

CITY OF IONE
Required Supplementary Information

Budgetary Comparison Schedule
Capital Project Fund - Police
For the Fiscal Year Ended June 30, 2006

	Original Budget	Final Proposed Budget	Actual	Variance Favorable (Unfavorable)
REVENUES				
Police Building and Improvement				
Special assessment/impact fees	\$ 504,350	\$ 504,350	\$ 318,139	\$ (186,211)
Use of money			7,633	7,633
Total Revenues	504,350	504,350	325,772	(178,578)
EXPENDITURES				
Public safety	504,650	504,650	552	504,098
Total Expenditures	504,650	504,650	552	504,098
Excess (Deficit) of Revenues over Expenditures	<u>\$ (300)</u>	<u>\$ (300)</u>	325,220	<u>\$ 325,520</u>
Fund Balances, July 1, 2005			188,653	
Fund Balances, June 30, 2006			<u>\$ 513,873</u>	

CITY OF IONE
Required Supplementary Information

Budgetary Comparison Schedule
Capital Project Fund - Fire
For the Fiscal Year Ended June 30, 2006

	Original Budget	Final Proposed Budget	Actual	Variance Favorable (Unfavorable)
REVENUES				
Fire Building and Improvement				
Special assessment/impact fees	\$ 504,350	\$ 504,350	\$ 318,565	\$ (185,785)
Use of money			14,744	14,744
Total Revenues	<u>504,350</u>	<u>504,350</u>	<u>333,309</u>	<u>(171,041)</u>
EXPENDITURES				
Public safety	150	150	525	(375)
Capital outlay	<u>504,000</u>	<u>504,000</u>	<u>90,763</u>	<u>413,237</u>
Total Expenditures	<u>504,150</u>	<u>504,150</u>	<u>91,288</u>	<u>412,862</u>
Excess (Deficit) of Revenues over Expenditures	<u>\$ 200</u>	<u>\$ 200</u>	242,021	<u>\$ 241,821</u>
Fund Balances, July 1, 2005			<u>255,828</u>	
Fund Balances, June 30, 2006			<u>\$ 497,849</u>	

City of Ione
Note to Required Supplementary Information
June 30, 2006

Budgets and Budgetary Accounting

As required by the laws of the State of California, the City prepares and legally adopts a 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. These financial statements include the proposed budget from the July 5, 2005 budget workshop, however the City was unable to provide the final adopted budget.

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, 2006

	Special Revenue Funds	Capital Projects Funds	Total
<u>Assets</u>			
Cash and investments	\$ 49,856	\$ 133,916	\$ 183,772
Restricted cash and investments	1,190,318	456,178	1,646,496
Receivables			
Accounts	104,752	93,540	198,292
Interest	10,249	4,484	14,733
Loans receivable	571,433		571,433
	<u>571,433</u>	<u></u>	<u>571,433</u>
Total Assets	<u>\$ 1,926,608</u>	<u>\$ 688,118</u>	<u>\$ 2,614,726</u>
<u>Liabilities and Fund Balances</u>			
Liabilities			
Accounts payable	\$ 33,452	\$ 3,692	\$ 37,144
Due to other funds	12,249	64,261	76,510
Deferred revenue	672,218	70,286	742,504
	<u>672,218</u>	<u>70,286</u>	<u>742,504</u>
Total Liabilities	<u>717,919</u>	<u>138,239</u>	<u>856,158</u>
Fund Balances			
Unreserved - undesignated	<u>1,208,689</u>	<u>549,879</u>	<u>1,758,568</u>
Total Fund Balance	<u>1,208,689</u>	<u>549,879</u>	<u>1,758,568</u>
Total Liabilities and Fund Balances	<u>\$ 1,926,608</u>	<u>\$ 688,118</u>	<u>\$ 2,614,726</u>

CITY OF IONE

**Combining Statement of Revenues, Expenditures and
Changes in Fund Balances
Nonmajor Governmental Funds
For the Fiscal Year Ended June 30, 2006**

	Special Revenue Funds	Capital Project Funds	Total
Revenues			
Special assessment/impact fees	\$ 116,400	\$ 212,153	\$ 328,553
Use of money and property	102,001	19,602	121,604
Intergovernmental	194,773	300,551	495,324
Fines, forfeitures and penalties	24,037		24,037
Other	<u>29,748</u>		<u>29,748</u>
Total Revenues	<u>466,959</u>	<u>532,306</u>	<u>999,265</u>
Expenditures			
Current:			
General government	49,831	22,178	72,009
Public ways and facilities/ transportation	20,017		20,017
Public safety	148,878		148,878
Community development	162,544		162,544
Debt service		20,347	20,347
Capital outlay	<u>140,811</u>	<u>269,202</u>	<u>410,013</u>
Total Expenditures	<u>522,081</u>	<u>311,727</u>	<u>833,808</u>
Excess (Deficit) of Revenues Over Expenditures	<u>(55,121)</u>	<u>220,579</u>	<u>165,457</u>
Other Financing Sources (Uses)			
Operating transfers in	56,658	388,497	445,155
Operating transfers out	<u>(20,347)</u>		<u>(20,347)</u>
Total Other Financing Sources (Uses)	<u>36,311</u>	<u>388,497</u>	<u>424,808</u>
Excess (Deficit) of Revenues and Other Financing Sources over Expenditures and Other Financing Uses	<u>(18,810)</u>	<u>609,075</u>	<u>590,266</u>
Fund Balances, July 1, 2005	1,285,633	52,567	1,338,200
Prior period adjustment	<u>(58,134)</u>	<u>(111,764)</u>	<u>(169,898)</u>
Fund Balances, June 30, 2006	<u>\$ 1,208,689</u>	<u>\$ 549,879</u>	<u>\$ 1,758,568</u>

CITY OF IONE

Combining Balance Sheet
Nonmajor Special Revenue Funds
June 30, 2006

<u>Assets</u>	<u>TDA</u>	<u>Traffic Safety</u>	<u>Ione Dist 1 COIC</u>	<u>SLESF AB3229</u>	<u>Asset Seizure Fund</u>	<u>Rehab Housing</u>	<u>Bid CDBG Fund</u>	<u>Downtown Study CDBG 285</u>	<u>Self Help Housing</u>
Cash and investments	\$ -	\$ 43,218	\$ -	\$ 9	\$ 4,020	\$ -	\$ -	\$ -	\$ -
Restricted cash and investments	458,403		71,271			67,023	12,098		335,779
Receivables									
Accounts	81,933	19,186	26						3,200
Interest	3,987	377	465	5	41	234	105		3,097
Loans receivable						142,410			9,600
Total Assets	\$ 544,323	\$ 62,781	\$ 71,762	\$ 14	\$ 4,061	\$ 209,667	\$ 12,203	\$ -	\$ 351,676
<u>Liabilities and Fund Balances</u>									
Liabilities									
Accounts payable	\$ -	\$ -	\$ 10,520	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Due to other funds								3,170	
Deferred revenue	81,933	18,852				142,410			9,600
Total Liabilities	81,933	18,852	10,520			142,410		3,170	9,600
Fund Balances									
Unreserved - undesignated	462,390	43,929	61,242	14	4,061	67,257	12,203	(3,170)	342,076
Total Fund Balance	462,390	43,929	61,242	14	4,061	67,257	12,203	(3,170)	342,076
Total Liabilities and Fund Balances	\$ 544,323	\$ 62,781	\$ 71,762	\$ 14	\$ 4,061	\$ 209,667	\$ 12,203	\$ -	\$ 351,676

97-Home Grant	01-Home-518	03-STBG 1826 Grant	Grant Bid Fund	Low Income Housing	OES Fund	Pool Fund	RDA Fund	Wildflower Assessment	Totals
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,609	\$ -	\$ 49,856
86,306	19,320	352	23,000	75,366				41,400	1,190,318
	407								104,752
1,105	168	3		662					10,249
137,640	132,858	148,925							571,433
<u>\$ 225,051</u>	<u>\$ 152,753</u>	<u>\$ 149,280</u>	<u>\$ 23,000</u>	<u>\$ 76,028</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,609</u>	<u>\$ 41,400</u>	<u>\$ 1,926,608</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,244	\$ -	\$ 21,688	\$ 33,452
						6,470	2,609		12,249
137,640	132,858	148,925							672,218
137,640	132,858	148,925				7,714	2,609	21,688	717,919
87,411	19,895	355	23,000	76,028		(7,714)		19,712	1,208,689
87,411	19,895	355	23,000	76,028		(7,714)		19,712	1,208,689
<u>\$ 225,051</u>	<u>\$ 152,753</u>	<u>\$ 149,280</u>	<u>\$ 23,000</u>	<u>\$ 76,028</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,609</u>	<u>\$ 41,400</u>	<u>\$ 1,926,608</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, 2006**

	TDA	Traffic Safety	Ione Dist 1 COIC	SLESF AB3229	Asset Seizure Fund	Rehab Housing	Bid CDBG Fund	Downtown Study CDBG 285	Self Help Housing
Revenues									
Special assessment/impact fees	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Use of money and property		1,277	1,733	541	191	40,927	369		
Intergovernmental	14,844			100,000					10,854
Fines, forfeitures and penalties		2,912			21,125				
Other		1,090	21,403						
Total Revenues	14,844	5,279	23,137	100,541	21,316	40,927	369		10,854
Expenditures									
Current:									
General government									
Public ways and facilities/ transportation			20,017						
Public safety		706		121,425	4,979				
Community development									
Capital outlay	128,440				12,370				
Total Expenditures	128,440	706	20,017	121,425	17,349				
Excess (Deficit) of Revenues Over Expenditures	(113,596)	4,573	3,120	(20,884)	3,967	40,927	369		10,854
Other Financing Sources (Uses)									
Operating transfers in				20,886					
Operating transfers out									(20,347)
Total Other Financing Sources (Uses)				20,886					(20,347)
Excess (Deficit) of Revenues and Other Financing Sources over Expenditures and Other Financing Uses	(113,596)	4,573	3,120	2	3,967	40,927	369		(9,493)
Fund Balances, July 1, 2005	575,986	39,356	58,122	12	94	26,330	11,834	(3,170)	351,569
Prior period adjustment									
Fund Balances, June 30, 2006	\$ 462,390	\$ 43,929	\$ 61,242	\$ 14	\$ 4,061	\$ 67,257	\$ 12,203	(3,170)	\$ 342,076

97-Home Grant	01-Home-518	03-STBG 1826 Grant	Grant Bid Fund	Low Income Housing	OES Fund	Pool Fund	RDA Fund	Wildflower Assessment	Totals
\$ - 54,715	\$ - 589	\$ - 631 19,075	\$ - 50,000	\$ 75,000 1,028	\$ -	\$ -	\$ -	\$ 41,400	\$ 116,400 102,001 194,773 24,037 29,748
						7,254			29,748
54,715	589	19,706	50,000	76,028		7,254		41,400	466,959
			27,000			22,831			49,831
		162,544			80			21,688	20,017 148,878 162,544 140,811
		162,544	27,000		80	22,831		21,688	522,081
54,715	589	(142,838)	23,000	76,028	(80)	(15,577)		19,712	(55,120)
					80	17,206	18,486		56,658 (20,347)
					80	17,206	18,486		36,311
54,715	589	(142,838)	23,000	76,028		1,629	18,486	19,712	(18,810)
96,831	156,674	(176)				(9,343)	(18,486)		1,285,633
(64,135)	(137,368)	143,369							(58,134)
\$ 87,411	\$ 19,895	\$ 355	\$ 23,000	\$ 76,028	\$ -	(7,714)	\$ -	\$ 19,712	\$ 1,208,689

CITY OF IONE

Combining Balance Sheet Nonmajor Capital Projects Funds June 30, 2006

	Governmental					Local	
	Parks Fund	Impact Fees	Ballfield Grant	Arena Fund	Drainage Fund	Skate Park Grant Fund	Traffic Mitigation
<u>Assets</u>							Totals
Cash and investments	\$ -	\$ -	\$ -	\$ -	\$ 133,916	\$ -	\$ 133,916
Restricted cash and investments	83,156	7,594				365,427	456,178
Accounts receivables	21,046		23,886	2,208		46,400	93,540
Interest receivable	493	21			1,165		4,484
Total Assets	\$ 104,695	\$ 7,615	\$ 23,886	\$ 2,208	\$ 135,081	\$ 46,400	\$ 688,118
<u>Liabilities and Fund Balances</u>							
<u>Liabilities</u>							
Accounts payable	\$ 2,271	\$ 1,226	\$ -	\$ 193	\$ -	\$ -	\$ 3,691
Deferred revenue			23,886			46,400	70,286
Due to other funds			23,886	17,375		23,000	64,261
Total Liabilities	2,271	1,226	47,772	17,568		69,400	138,237
<u>Fund Balances</u>							
Unreserved - designated	24,754	(1,501)	(23,886)	(15,359)	135,081	(23,000)	337,728
Total Liabilities and Fund Balances	\$ 27,025	\$ (275)	\$ 23,886	\$ 2,208	\$ 135,081	\$ 46,400	\$ 475,965

CITY OF IONE

Combining Statement of Revenues, Expenditures and Changes in Fund Balances Nonmajor Capital Projects Funds For the Fiscal Year Ended June 30, 2006

	Parks Fund	Impact Fees	Ballfield Grant	Arena Fund	Drainage Fund	Skate Park Fund	Local Traffic Mitigation	Totals
Revenues								
Special assessment/impact fees	\$ 77,670	\$ 7,890					\$ 126,593	\$ 212,153
Use of money and property	1,893	36		4,198	4,081		9,394	19,602
Intergovernmental			138,152			162,400		300,551
Total Revenues	1,893	36	138,152	4,198	4,081	162,400	9,394	320,153
Expenditures								
Current:								
General government	4,571	1,538		16,069				22,178
Public safety								
Debt service	20,347							20,347
Capital outlay	8,532		11,730			248,940		269,202
Total Expenditures	33,449	1,538	11,730	16,069		248,940		311,726
Excess (Deficit) of Revenues Over Expenditures	(31,557)	(1,501)	126,422	(11,871)	4,081	(86,540)	9,394	8,427
Other Financing Sources (Uses)								
Operating transfers in	20,347			265,285		102,865		388,497
Operating transfers out								
Total Other Financing Sources (Uses)	20,347			265,285		102,865		388,497
Excess (Deficit) of Revenues and Other Financing Sources over Expenditures and Other Financing Uses	(11,210)	(1,501)	126,422	253,414	4,081	16,325	9,394	396,924
Fund Balances, July 1, 2005	35,964		(38,544)	(268,773)	131,000	(39,325)	232,245	52,567
Prior period adjustment			(111,764)					(111,764)
Fund Balances, June 30, 2006	\$ 24,754	\$ (1,501)	\$ (23,886)	\$ (15,359)	\$ 135,081	\$ (23,000)	\$ 241,639	\$ 337,728

*The Accounting Office of:
Larry Bain, CPA
3905 Jennings Ct.
W. Sacramento, CA 95691*

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

We have audited the Financial Statements of the City of Ione as of and for the fiscal year ended June 30, 2006, and have issued our report thereon dated July 11, 2007. In our audit report we issued an adverse opinion on the government-wide financial statements because of a lack of historical documentation to support fixed assets and we issued a qualified opinion on the fund financial statements because of a lack of documentation to support the accounts receivables and deposit liability accounts.

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.

Compliance

As part of obtaining reasonable assurance about whether the City of Ione's financial statements are free of material misstatement, we performed tests 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 disclosed seven instances of non-compliance that are required to be reported under *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City of Ione's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We noted twenty-two matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

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

This report is intended solely for the information and use of the audit committee, management, the Amador County Auditor Controller's Office and the Controller's Office of the State of California.

Larry Bain, CPA
July 11, 2007

City of Ione
Schedule of Findings
Fiscal Year Ended June 30, 2006

COMPLIANCE FINDINGS

Deemed to be Reportable Conditions

Deposits From Others

Finding 06-1: During our testing of the 2000 Park Bond Act grant we noted the City had \$26,450 available that was not programmed towards a project. The City has until March 2008 to program the funds towards a project and June 2008 to receive final payment for 2000 Park Bond Act grant reimbursement.

Recommendation: We recommend the City submit a request to program \$23,885.59 of the 2000 Park Bond Act funds towards the cost overrun in the Howard Park Ball fields project and the remaining \$2,564.41 to the Skate Park project. We recommend the City immediately submit the necessary paperwork to avoid losing the grant funds.

City Response: The City will submit the necessary paperwork to apply for the remaining grant funds.

Finding 06-2: During our testing of the 2002 Resources Bond Act grant we noted the City was awarded \$232,000 in grant funding for the Skate Park Project, spent \$311,543 on the project as of June 30, 2006 and received a grant reimbursement from the 2002 Resources Bond Act grant of \$185,600. The City also received donations from outside sources and the City contributed general fund money for the project totaling \$102,865. There appears to be an additional \$46,400 of grant fund reimbursements available at June 30, 2006.

Recommendation: We recommend the City review the grant activity for the Skate Park and determine if an additional \$46,400 is available for the Skate Park grant. If it is determined the City is eligible to receive these funds, we recommend the City submit the required paperwork for the reimbursement.

City Response: The City will submit the paperwork to apply for reimbursement of the remaining funds.

Finding 06-3: During our testing of the 2002 Resources Bond Act grant, we noted the City received an advance payment of \$50,000 in the 2005-2006 fiscal year for the Howard Park Swimming Pool. The City made one payment of \$27,000 to the grant writer out of this advance. The grant agreement requires the City to spend the advance on the project within six months of receiving the advance. Any unspent funds remaining must be returned to the State along accrued interest.

Recommendation: We recommend the City calculate the amount of interest that accrued on the advance using the LAIF interest rate. We recommend returning the unspent funds along with accrued interest to the State. Furthermore we recommend reviewing the grant agreement to confirm that the amount paid to the grant writer is authorized under the grant agreement. We also recommend the City review the project for feasibility and if it is determined the project is not feasible the City should attempt to reprogram the funds.

City Response: The City will return any unspent grant funds plus accrued interest and will make a determination of the feasibility of building and operating a swimming pool at Howard Park. If not feasible the City will explore reprogramming the funds to another allowable use.

City of Ione
Schedule of Findings
Fiscal Year Ended June 30, 2006

COMPLIANCE FINDINGS (Continued)

Finding 06-4: During our testing of the capital project grant projects we noted that no employee of the City appears to be responsible for administrating the grant projects. The grant project files were also found to be disorganized.

Recommendation: We recommend the City assign an employee to administrate the grant projects. We recommend the employee organize the files to ensure compliance with administrating the grant projects in accordance with the requirements of the grant agreement.

City Response: The City will review its practices for applying for grants and will assign an employee the responsibility for administration and compliance with grants.

Finding 06-5: During our review of the Memorandum of Understanding (MOU) between the City of Ione and the Police Officers Association and the Service Employees International Union Local 4988 we observed a copy of the MOU's, however they were not signed.

Recommendation: We recommend the City and representatives of each union sign the MOU's to validate the agreements.

City Response: The City agrees and will maintain copies of executed(signed) copies of Memorandum of Understandings with all bargaining units.

Finding 06-6: During our testing of grants we noted the City was using the CDBG reuse funds from fund #8 to pay the Howard Park loan. We did not observe authorization in the grant file for this activity.

Recommendation: We recommend the City obtain documentation from the State of California to support reusing the CDBG funds for the payment of the Howard Park loan.

City Response: In checking with former Mayor Bobbi Potts, the City did get approval from CDBG to reuse monies from fund # 8 to pay the Howard Park loan. The City is currently trying to locate a copy of the approval letter. If unable to locate, the City will submit another request to CBDG for approval.

Finding 06-7: 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 the administrating the grant programs in accordance with the grant agreement requirements.

Recommendation: We recommend the City record payoffs as an increase to cash and program revenue and then offset accounts receivables to deferred revenue for the payoff amount. Furthermore we recommend maintaining grant summary schedules and reconciling the summary totals to the general ledger. Reconciling the summary schedules for each grant program to the general ledger will reduce the risk of recording grant activity in the wrong fund. We also recommend assigning grant administration duties to a City employee who will be responsible for administrating the grant programs in accordance with the grant agreements, preparing the summary schedules of activity and reconciling grant activity to the general ledger.

City Response: The City will review its practices for applying for grants and will assign an employee the responsibility for administration and compliance with grants.

City of Ione
Schedule of Findings
Fiscal Year Ended June 30, 2006

INTERNAL CONTROL FINDINGS

Deemed to be Reportable Conditions

Finding 06-8: During our testing of fixed assets we noted the City has not maintained a listing of historical cost for general and enterprise fund infrastructure and fixed assets, or a depreciation schedule for infrastructure and fixed assets in accordance with governmental accounting standards board statement (GASB) 34. Furthermore we did not observe a fixed assets policy that was in compliance with GASB 34.

Recommendation: We recommend the City either create a listing of infrastructure/fixed assets and depreciation schedules or hire an appraisal firm to create the required listings and depreciation schedules in accordance with GASB 34. Furthermore we recommend the City adopt a fixed asset capitalization/depreciation policy in accordance with GASB 34.

City Response: The City agrees. The City will develop a listing of fixed assets. The FY 2007-2008 budget includes monies to hire an appraisal firm to assist with the development of the asset listing. The City does have a capitalization policy – currently set at \$5,000 (see budget resolution 1573). The policy will need to be modified to deal with capitalization of infrastructure.

Finding 06-9: 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, 2006.

Recommendation: We recommend the City reconcile the activity of the deposit liability accounts and identify which individuals and organizations had deposits with the City at June 30, 2006. We recommend the City maintain a subsidiary ledger for each depositor and reconcile the total of subsidiary ledgers to the general ledger control accounts. We also recommend the City establish agency funds to account for material deposits from developers and also for the activity of the Community Facility Mello-Roos Districts.

City Response: 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 currently is in the process of setting up an agency fund (fund 12) for developer deposits.

Finding 06-10: During our testing of the deposit liability accounts we noted the City established a deposit liability account in the general fund to account for one a time special tax, paid by the developer, and expenditures related to the Community Facilities District No. 2006-1 for public safety services. The expenditures were netted against the deposits and there was no allocation between police and fire activities. We also noted the voters approved the assessments to begin in the 2005-2006 fiscal year, however the City did not assess the properties in the 2005-2006 fiscal year.

Recommendation: We recommend the City establish a separate special revenue fund to account for the activities of Community Facilities District 2006-1. Furthermore we recommend establishing accounts within the fund to differentiate between police and fire activities. We also recommend the City review with their attorney the process to retroactively assess the properties for the 2005-2006 assessment.

City Response: The City agrees. No houses have been built on CFD 2006-1. The developer has agreed to pay the assessment on undeveloped land. The assessment has been placed upon the tax rolls for FY 2007-2008. The developer will be billed for the prior year assessment. The City has retained a firm to do the annual assessment and place the assessment on the tax rolls. The City is tracking the assessments in fund 23. The accounting structure is set up to track revenues for police and fire separately.

City of Ione
Schedule of Findings
Fiscal Year Ended June 30, 2006

Finding 06-11: During our analytical review we noted the City allocated 2005-2006 proceeds from the 1989-1 and 1989-2 Community Facility Districts (CFD) assessments to property tax revenue in the general fund. We noted on the May 31, 2006 receipt the City misallocated \$356,533 of Community Facility District assessments to the secured property tax account in the general fund. We did not observe the \$356,533 transferred to the trustee to be used for the 1989-1 and 1989-2 bonded debt payments which is was collected for. Furthermore \$4,920 of delinquent sewer charges and \$10,617 of Ione Maintenance District funds were also misallocated to general fund property tax revenues.

Recommendation: We recommend more attention to detail when allocating property tax and direct assessments. We also recommend the City work with the CFD trustee to determine if the \$356,533 collected from the Community Facilities District assessments was used to pay the bonded debt.

City Response: The City agrees. The City is currently researching to determine whether the monies were used to pay bonded debt. If not the City will work with Bond Counsel and the Bond Trustees to take whatever actions are necessary to correct the issue.

Finding 06-12: During our testing of the CFD activity we noted \$1,349,615.83 was collected from a developer in January 2006 as part of the work out agreement for the 1989-1 and 1989-2 defaulted bonds. The \$1,349,615.83 was recorded by the City in a revenue account when received and when the funds were transferred to the trustee the City recorded the expense against the same revenue account.

Recommendation: We recommend establishing an agency fund to account for the CFD activity. The accounting treatment would be an increase in cash and an increase in a liability account, such as due to bond owners, when funds are received and then reducing cash, offset by the liability account when funds are transferred to the trustee. We do not recommend offsetting revenues with expenses in a revenue account.

City Response: The City agrees that expenditures should not be paid from a revenue account.

Finding 06-13: During our testing of the deposit liability accounts we noted a recap dated July 19, 2006 of the Tower Investment deposits created by the prior finance director. In this recap there was reference to a \$34,993.4 "check in desk." This amount appears to have been the difference between deposits made by the investment company and amounts owed to the City. We did not observe a receipt by the City for this amount and when the Investment Company was contacted they did not have documentation to substantiate a payment of this amount to the City. We also noted Tower Investment was reimbursed through escrow for payments made by them to the City, upon the new CFD formation.

Recommendation: We recommend the City reconcile the amount paid on behalf of Tower Investments and the amount refunded to the City. We recommend the City reconcile the amount refunded to Tower Investments through escrow and agree this amounts to payments made by the City, on Tower Investments behalf, or to other source documents. We recommend collecting any amounts still owing to the City.

City Response: The City agrees. The City will verify the accuracy of the previous analysis and if owed will take steps to collect any monies owed.

City of Ione
Schedule of Findings
Fiscal Year Ended June 30, 2006

Finding 06-14: During our testing of accrued payroll we noted the City double posted the January 31, 2006 payroll resulting in an overstatement of liability accounts and an overstatement of the expense accounts by \$57,366.7.

Recommendation: We recommend periodically reviewing balance sheet accounts for unusual balances and making corrections in a timely manner when errors are found.

City Response: The City agrees. The City is in the process of implementing an in house payroll system. Once fully implemented, the system will automatically make all entries into the general ledger system thus reducing the risk of double posting entries. Using the payroll module will free up staff time to review entries being made into the system.

Finding 06-15: During our testing of accounts receivables we noted \$25,340 was received August 1, 2006 and accrued into the general fund. The revenue was from State traffic relief funds and should have been posted to the gas tax fund.

Recommendation: We recommend more attention to detail in posting revenue.

City Response: The City agrees.

Finding 06-16: 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.

Recommendation: We recommend more attention to detail when posting receipts into the general ledger. Furthermore we recommend the City maintain a summary listing of accounts receivable and deposit liability activity and reconcile this listing to the general ledger control account. Also, as noted in a separate finding, the City should account for on behalf developer activity in agency funds.

City Response: The City agrees. The City is in the process of moving developer activities to fund 12.

Finding 06-17: During our testing of accounts receivables we noted there was not a summary listing of who had a balance due to the City. Furthermore we did not see evidence that the accounts receivables are being reviewed to determine that receivables have been collected.

Recommendation: We recommend developing an accounts receivables subsidiary ledger/summary listing and periodically reviewing this listing to determine if additional collection efforts are needed.

City Response: The City agrees. The City has started using Fundware's accounts receivable module which maintains the details of outstanding accounts receivable. Staff is now periodically reviewing the outstanding listing and sending statements to the parties when the invoice has not been paid.

City of Ione
Schedule of Findings
Fiscal Year Ended June 30, 2006

Finding 06-18: During our testing of accounts receivables we noted expenses were debited to the accounts receivables account when the cash was paid out and then accounts receivables was credited when the reimbursement was received by the City. The activity was never recorded in a revenue or expense account.

Recommendation: We recommend recording revenues and expenditures in the proper accounts or establishing agency funds to account for activity paid for and received on behalf of others.

City Response: The City has taken steps to establish an agency fund (fund 12) to report activities related to developer deposits. Non agency type activities will be recorded either as revenues or as expenditures and will not be offset within the same account.

Finding 06-19: During our testing of cash we note the City had not performed a 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.

Recommendation: We recommend reconciling the bank and investment accounts to the general ledger on a monthly basis. We also recommend reallocating interest revenue based on the adjusted general ledger cash balances.

City Response: The City agrees. Bank reconciliations are very important. It will take some time to do reconciliations on a regular basis. Two functions which will help with the process are bringing payroll in house and using a bank that has the ability to provide banking information on line electronically. The City had an application in with its current bank for more than a year for electronic access to its bank information. Staff has repeatedly requested progress information from the bank on its request – to no avail. The City will issue a RFP for banking services.

Finding 06-20: 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.

Recommendation: We recommend the City pay the sewer capital fund \$244,800 from the prior year sewer annexation fees that are being applied against the final balloon payment of the loan.

City Response: The City is exploring the use of fund 8 to pay the balloon payment for sewer connections once the previous prior approval from CBDG is resolved – see the response to finding 06-6.

Finding 06-21: During our testing of sewer accounts receivables we noted the aged trial balance did not agree to the general ledger.

Recommendation: We recommend reconciling the sewer aged trial balance to the sewer receivable general ledger account.

City Response: The City agrees.

City of Ione
Schedule of Findings
Fiscal Year Ended June 30, 2006

Finding 06-22: 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.

Recommendation: We recommend the City review the source of money in the ARSA fund to determine if the funds are restricted to use on the tertiary plant and if they can be used for the Portlock legal costs or non wastewater disposal activities.

City Response: The City agrees.

Finding 06-23: 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.

Recommendation: We recommend the City schedule all developer fees paid in advance and reconcile these payments to the developer agreements and fund allocation. We then recommend the City schedule how many permits have been issued and how much of the prepaid fees should be offset against the building permits. If the prepaid fees have been used and additional fees are owed we recommend billing the developer for additional fees due. We recommend the City management communicate with the building department regarding the developer agreements and how the building department should charge fees in accordance with the developer agreements. The building department should also maintain a calendar of activity for all the lots within the developments and have a schedule showing what fees should be charged at each different stage of development.

City Response: The City agrees. Staff has reviewed permits issued and fees collected to determine which fees may have not been collected. The building department will be kept informed about developer agreements.

Finding 06-24: During our testing of deposits we noted the City received a \$348,558 check from a developer for prepaid impact fees. The check was received at the City in April 2006, but not deposited until December 2006. The City lost over \$10,000 interest revenue had the funds been deposited in LAIF. We also noted the City had a practice of holding business license fees, collect prior to fiscal year end, until the beginning of the new fiscal year.

Recommendation: We recommend making deposits as they are collected by the City. The City should not hold checks or cash in the safe. If the collections are unearned at the time of collection the City should record these collections as deferred revenue in the general ledger if they are material, otherwise record the collections as revenue.

City Response: The City agrees.

Finding 06-25: During our analytical review procedures, we noted \$44,500 in workers compensation insurance reimbursement was coded to burn permits.

Recommendation: We recommend better attention to detail when posting revenue.

City Response: The City agrees.

City of Ione
Schedule of Findings
Fiscal Year Ended June 30, 2006

Finding 06-26: During our audit we noted the City spent \$87,989 from the fire department capital projects fund 20. Fund 20 appears to be restricted to construction of a second fire station, two additional pumpers and one combination engine. The expenditures noted above did not appear to fit into these categories.

Recommendation: We recommend the City review these expenditures and determine if they were authorized under the terms of the fund restrictions.

City Response: The City will review those expenditures.

Finding 06-27: During our testing of building permits we noted permits 1969 and 1990, which were issued after the August 21, 2005 approved rate increase, were charged under the old fee schedule. Furthermore for permit 1969 we noted two park impact fee charges of \$3,284, but no police impact fee of \$1,263 and no sewer impact fee of \$7,640. Also no sewer impact fees were charged for permits 1993 or 1995. We also noted a miscoding of permits 1990, 1993, 1995 and 1996. The impact fees for these permits were coded to the general fund rather than to the impact fee funds.

Recommendation: We recommend the City review each building permit issued after August 21, 2005 to determine if the correct fees were charged and that the revenues were deposited to the correct funds. Furthermore we recommend creating internal controls, whereby a second employee of the City will review the building permits to determine that the fees have been charged in accordance with the authorized rates. This review should be done prior to issuance of the building permit.

City Response: The City will re evaluate its process for calculating the fees on building permits as well as the process for verifying the accuracy of the calculation.

Finding 06-28: During our testing of sick leave we noted employees of the City who appear to intentionally record vacation time off instead of sick time off in order to increase the amount of the annual accrued sick leave payout. We also noted inconsistencies between time off recorded on the time off request forms and time sheets compared to the actual time off recorded on the payroll register.

Recommendation: We recommend the City require employees to record time off to reflect the actual activity. We also recommend reconciling the authorized time off request forms to the timesheets and then reconciling the time off recorded on the timesheets to the payroll register.

City Response: The City agrees. The new payroll system will be a useful tool in reconciling leave usage. The process will be further improved by negotiating a change in payroll pay dates allowing for time to verify leave usage before processing in payroll.

Finding 06-29: During our testing of material disbursements we noted several instances where the incorrect account or incorrect fund was used. We noted one instance where the signed payment voucher was missing and one instance where the payment voucher was unsigned, one vendor payment that was six months past due and one invoice that could not be located in the file.

Recommendation: The incorrect accounts were either payments coded to the deposits liability accounts in the general fund or payments that were grossed up in the accounts receivable account. These problems can be corrected with using agency funds for developer deposits and the Community Facility Districts and not grossing up activity in accounts receivables. The other isolated instances can be corrected with greater attention to detail.

City Response: The City agrees.

City of Ione
Schedule of Findings
Fiscal Year Ended June 30, 2006

Other Reportable Conditions, Not Deemed to be Material Weaknesses

Finding 06-30: During our audit we noted the City was not withholding payroll taxes from Council member stipends and Council appointed treasurer and secretary stipends.

Recommendation: The “IRS Employer’s Tax Guide” indicates that payments to most elected and appointed officials shall have income tax, social security and medicare withheld.

City Response: The City agrees and will move the payment of accounts payable to the payroll system at the start of the calendar year.

Finding 06-31: During our testing of receipt 6757 on August 1, 2005, we noted one instance where a house was occupied prior to the final inspection and then was back billed for three months of sewer charges.

Recommendation: The incident appeared to be isolated however we recommend the City review the ordinance for when a house can legally be occupied.

City Response: The City agrees and will review the municipal code to determine whether a house can be legally occupied before the inspection.

Finding 06-32: During our testing of receipts we noted receipt 34264 collected on September 1, 2005 was written for \$100.00 and then a manual correction was made changing the amount collected in the manual ledger to \$190.00. The original receipt was not corrected and there was no explanation for the change and no supervisor or other City employee authorizing the change.

Recommendation: We recommend putting a brief explanation for changes made to receipts and having a second city employee initial the change as authorized.

City Response: The City agrees. The City will revise its process for modifying receipts if it should become necessary to modify a receipt?

Finding 06-33: During our testing of receipts we noted the deposit made on March 30, 2006 was off by the ledger collections by \$29.90.

Recommendation: We recommend the City reconcile the ledger collections to the bank deposits and explain any differences.

City Response: The City agrees.

Finding 06-34: During our testing of pool receipts we noted that collections at the pool are not supported by a cash register tape or other receipt register.

Recommendation: We recommend the City consider using a cash register or other type of receipt register for pool collections. The register would then be reconciled to the collections.

City Response: The City does not agree or disagree. The City modified its administration of the pool and pool receipts are dropped off daily in a sealed bank deposit bag. The sealed bags are opened by City staff, counted, and deposited. It may not be practical to use a cash register at the pool which is located at the Ione Junior High School.

City of Ione
Schedule of Findings
Fiscal Year Ended June 30, 2006

Finding 06-35: During our testing of receipts we noted the City was not requiring the motels to use a standard TOT tax form. Furthermore we noted in our analytical review that the TOT tax for the fiscal year 2005-2006 was \$1,561 compared to \$8,520 in the 2004-2005 fiscal year.

Recommendation: We recommend the City create a standardized form for the TOT tax return. We also recommend the City conduct a TOT audit of the Motels to confirm that the required taxes are being paid to the City.

City Response: The City agrees. The City will revise the TOT reporting form. The City will also schedule a review of hotels to verify the accuracy of TOT collected and submitted to the City.

Finding 06-36: During our testing of sewer fees we noted the charges for Jose's Place were \$693.12 a month. Based on 43 units the charges should have been \$1,790.80 per month.

Recommendation: We recommend the accounting department review and change the amount charged in accordance with the fee schedule.

City Response: The City agrees. The billing was modified and Jose's place is currently being billed and is paying \$1,790.80 per month.

Finding 06-37: During our receipts testing we noted building permit 1904 appears to have been over charged \$1,200. The building department did not have an explanation for the charges.

Recommendation: We recommend the City review this building permit and determine if a refund is due.

City Response: The City will review the building permit to determine if it has been overcharged and whether a refund is due.

Finding 06-38: During our testing of disbursements we noted many items that were paid past the due date and the City incurred late fees. Furthermore we noted checks 39218-39257 were listed in the check summary as unused, however the City staff was unable to locate the missing series of checks. We did confirm that none of these checks cleared the bank.

Recommendation: We recommend paying bills on time to avoid late charges. Furthermore we recommend tighter control over check stock to substantiate unused checks.

City Response: The City agrees. The City will modify its accounts payable process to allow for more timely processing of payments.

Finding 06-39: During our testing of payroll we noted City staff is entering payroll into excel, then an outside accountant is re-entering payroll into quickbooks and providing staff with payroll report. Staff is then reentering payroll into excel and finally posting to the general ledger.

Recommendation: This duplication of effort could be avoided by the City utilizing the accounting software payroll module. Once the module was set up staff would enter payroll once and then payroll would automatically post to the general ledger.

City Response: The City agrees. The City is in the process of converting to the integrated payroll system.

City of Ione
Schedule of Findings
Fiscal Year Ended June 30, 2006

Finding 06-40: During our testing of payroll we found payroll checks 10861-10867 and 10781-10792 at the outside payroll accountants office files dated Jan-Mar 2006. Some of the checks were accidentally printed on, some were unsigned and made out to employees and others were blank. We did not observe any of these checks properly voided.

Recommendation: We recommend the outside accountant return all check stock to the City after processing payroll. This would include any checks that were voided due to error.

City Response: The City agrees. The outside accountant controls all payroll check stock. The City will recover the stock and maintain control.

Finding 06-41: During our testing of payroll we tested forty transactions and noted seven instances where there was no time sheet to support the payment. We noted seventeen instances where the supervisor did not sign the time sheet. We noted eleven instances where the employee did not sign the time sheet. We noted six instances where the rate paid was different than the rate in the personnel file. We noted four instances where the move to the next pay step was not documented in the payroll file. We noted two instances where the federal tax was incorrect. We noted seven instances where the employment application was not retained in the employee file. We found ten instances where no W-4 could be located to support an employees status and deductions. We noted thirteen instances where no I-9 could be located to support the employee U.S. citizenship status.

Recommendation: We recommend requiring all employees to submit timesheets that are signed by both the employee and supervisor. We recommend agreeing the pay rate authorized to the actual pay and also document the pay rate authorized in the employee file. We recommend doing audit checks on withholding to confirm that the payroll system is calculating deduction properly. We recommend obtaining/retaining employment applications in the employee file. We recommend updating all W-4's and verifying that each employee has a signed w-4. We recommend obtaining/retaining I-9's for all employees hired after 1986. The I-9's should be kept in a separate file from the employee file.

City Response: The City agrees. The process for processing employee time sheets and maintaining employee records is under review and will be modified to improve accuracy and maintenance of employee files.