

CITY OF IONE
FINANCIAL STATEMENTS
JUNE 30, 2010

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

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 fiscal year ended June 30, 2010 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.

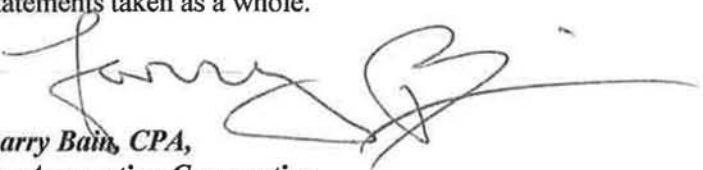
Because the City did not maintain a summary schedule that agreed to the general ledger for \$245,880 recorded in accrued payroll, \$568,076 recorded in due from developer trust fund accounts, and \$692,085 recorded in the deposits from others liability accounts, we were unable to satisfy ourselves as to the amounts recorded in these accounts.

In our opinion, except for the effects of such adjustments, if any, had we been able to audit the accrued payroll, developer receivables and deposit 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 financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Ione, as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated June 3, 2011 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion of the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The Management Discussion and Analysis (MD&A) and the required supplementary information other than MD&A, as listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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 accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the basic financial statements of the City of Ione, California. The combining and individual fund financial statements and schedules and the schedule of expenditures of federal awards, 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.



Larry Bain, CPA,
An Accounting Corporation
June 3, 2011

City of Ione
Required Supplementary Information
Management's Discussion and Analysis
June 30, 2010

This section of the City of Ione's annual financial report presents an analysis of the City's financial performance during the fiscal year ended June 30, 2010. This information is presented in conjunction with the audited basic financial statements, which follows this section.

FINANCIAL HIGHLIGHTS FOR FISCAL YEAR 2009-10

- The City's net assets were \$45,876,853 at June 30, 2010. Net assets increased \$2,219,495 or 5%. Of the total net assets, \$2,312,828 is unrestricted and may be used to meet ongoing obligations to citizens and creditors.
- Total cash and investments decreased \$823,431 or 23% to \$2,747,593. Of total cash, \$952,698 is restricted for specific activities.
- As of June 30, 2010, the City's governmental funds reported combined fund balance of \$1,615,353. In comparison, Fiscal Year 2008-09 had a combined fund balance of \$2,450,598. Six major funds make up the governmental funds. They are: General Fund, Gas Tax, General, Police and Fire Impact Fees, and the Housing Grant fund.
- The General Fund fund balance decreased \$525,485 or 33% to \$1,053,683 as of June 30, 2010. All of the fund balance is unrestricted and may be used to meet ongoing obligations to citizens and creditors.
- The General Fund cash balance decreased \$372,158 or 33% to \$753,124.
- Projects funded by the gas tax fund include storm drains and street repairs.
- Capital asset additions, including construction in progress from prior years, included \$224,489 for Safe Routes to Schools project and \$262,545 for Park and Ride Project both funded by grants, \$669,862 for citywide master plan, \$15,517 for Howard Park master plan and CEQA wetlands delineation, and \$25,115 for police department remodel and cabinets.
- The City's proprietary funds (sewer) net assets increased \$873,500 or 10% to \$9,683,727. Cash decreased \$312,103, or 41% to \$450,369. The sewer capital fund accounted for the cash decrease. For the past four years the City has been making improvements as well as planning improvements to its sewer plant.
- The City's long-term liabilities, not including compensated absences, consists of the long term capital lease for the new fire station. The original principal amount was \$560,000, with a balance of \$531,581 as of 6/30/10.

• **OVERVIEW OF THE FINANCIAL STATEMENTS**

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

City of Ione
Required Supplementary Information
Management's Discussion and Analysis (Continued)
June 30, 2010

REQUIRED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

City of Ione
Required Supplementary Information
Management's Discussion and Analysis (Continued)
June 30, 2010

of information as the government-wide financial statements, but in more detail. The proprietary fund financial statements provide separate information for the sewer, which is considered a major fund of the City.

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

The City of Ione maintains three fiduciary or agency funds. They are: community facilities districts, regional traffic mitigation and developer deposits.

Notes to the Financial Statements

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

Other Information

In addition to the basic financial statements and accompanying notes, this report presents certain required supplementary information concerning the City's budgetary comparative information for its major governmental funds.

City of Ione
Required Supplementary Information
Management's Discussion and Analysis (Continued)
June 30, 2010

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Assets

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

	June 30, 2010			June 30, 2009		
	Governmental Activities	Business-type Activities	Total	Governmental Activities	Business-type Activities	Total
Current and other Assets	\$ 4,691,969	\$ 1,099,547	\$ 5,791,516	\$ 4,562,271	\$ 1,127,833	\$ 5,690,104
Capital Assets	35,076,846	8,691,850	43,768,696	32,897,366	7,801,415	40,698,781
Total Assets	\$ 39,768,815	\$ 9,791,397	\$ 49,560,212	\$ 37,459,637	\$ 8,929,248	\$ 46,388,885
Liabilities						
Current/non current	\$ 3,575,690	\$ 107,669	\$ 3,683,359	\$ 2,612,506	\$ 119,021	\$ 2,731,527
Total Liabilities	\$ 3,575,690	\$ 107,669	\$ 3,683,359	\$ 2,612,506	\$ 119,021	\$ 2,731,527
Net Asset:						
Invested in capital assets, net	\$ 35,076,846	\$ 8,691,850	\$ 43,768,696	\$ 32,897,366	\$ 7,801,415	\$ 40,698,781
Net assets restricted	-	(204,671)	(204,671)	-	227,648	227,648
Unrestricted net assets	1,116,279	1,196,549	2,312,828	1,949,765	781,164	2,730,929
Total Net Assets	\$ 36,193,125	\$ 9,683,728	\$ 45,876,853	\$ 34,847,131	\$ 8,810,227	\$ 43,657,358

The City's near-term financing situation, as measured by the current ratio (current assets divided by current liabilities), decreased. The ratio decreased over the two year period from 1.99% to 1.92 %. Values greater than 1.00 are considered good.

The City's overall financial position, as measured by net assets is \$45,876,853. The major component of net assets is invested in capital assets. Unrestricted net assets are \$2,312,828 and represent the amount available for future operations. Unrestricted net assets decreased and governmental/ business-type activities accounted for the majority of the decrease.

City of Ione
Required Supplementary Information
Management's Discussion and Analysis (Continued)
June 30, 2010

Statement of Activities

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

	June 30, 2010			June 30, 2009		
	Governmental Activities	Business-type Activities	Total	Governmental Activities	Business-type Activities	Total
Charges for services	\$ 159,674	\$ 986,072	\$ 1,145,746	\$ 256,649	\$ 1,088,745	\$ 1,345,394
Capital grants and contribution	408,598	45,840	454,438	363,791	242,860	606,651
Operating grants	977,740	-	977,740	498,066		498,066
General Revenue:						
Property taxes and assessment	545,675		545,675	645,842		645,842
Sales and use tax	229,327		229,327	291,719		291,719
Other taxes	821,977		821,977	967,258		967,258
Interest income	17,778	48,582	66,360	85,060	23,597	108,657
Total Revenue	3,160,769	1,080,494	4,241,263	3,108,385	1,355,202	4,463,587
Expenses:						
Governmental activities:						
General government	974,780	-	974,780	1,602,232	-	1,602,232
Public safety	1,371,148	-	1,371,148	2,685,208	-	2,685,208
Community development	423,610	-	423,610	378,745	-	378,745
Public Works	290,485	-	290,485	290,970	-	290,970
Streets and roads	234,279	-	234,279	454,622	-	454,622
Parks and recreation	381,715	-	381,715	405,479	-	405,479
Interest on debt	31,879					
Business-type activities:						
Wastewater	-	1,108,449	1,108,449	-	1,395,486	1,395,486
Total Expense	3,707,896	1,108,449	4,816,345	5,817,256	1,395,486	7,212,742
Change in net assets	(547,127)	(27,955)	(575,082)	(2,708,871)	(40,284)	(2,749,155)
Net Assets:						
Beginning	34,847,131	8,810,227	43,657,358	37,556,002	8,850,511	46,406,513
Prior period adjustment	1,893,121	901,456	2,794,577	-	-	-
Ending	\$36,193,125	\$ 9,683,728	\$ 45,876,853	\$ 34,847,131	\$ 8,810,227	\$ 43,657,358

The statement of activities, identify the various revenue and expense items which affect the change in net assets. Total revenues decreased \$222,324 or 5% to \$4,241,263 while total expenses decreased \$2,396,397 or 33% to \$4,816,345. The net assets increased \$2,370,153 or 5% to \$45,876,853. The decrease to revenues for governmental activities was due to the decline in charges for services, a decline in interest income, and property, sales and other taxes offset by an increase to capital grants and contributions and operating grants. Expenses for governmental activities exceeded revenues by \$547,127. Community development activities contributed to the decrease in change in net assets even though all other governmental activities decreased expenses. Included in the \$1,108,449 sewer expenses are \$25,428 for maintenance of the collection system and buildings and equipment, and \$569,412 professional services. For the

City of Ione
Required Supplementary Information
Management's Discussion and Analysis (Continued)
June 30, 2010

past four years, the City has been making improvements as well as planning improvements to its sewer plant to meet projected growth as well as comply with SWRCB requirements.

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

FUNDS FINANCIAL ANALYSIS

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

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

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

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

The combined funds near-term financing situation, as measured by the current ratio (current assets divided by current liabilities), increased. The ratio increased over the two year period from 8.22 to 8.93 or 8.6%. Values greater than 1.00 are considered good. The major component of net assets is unrestricted. Unrestricted net assets represent the amount available for future operations. Unrestricted net assets increased \$415,385.

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

Budgetary Highlights

General fund revenues for the 2009-10 fiscal year were budgeted at \$1,794,348. The actual revenues were \$2,230,035 which is a favorable variance of \$435,687 or 24%. The majority of the variance was due to an increase of \$215,191 in taxes due mainly to Sales Tax-Fire Measure M in the amount of \$209,824, \$13,923 in licenses and permits, \$119,955 in Intergovernmental, \$11,245 in fines, forfeitures and penalties, \$26,273 in charges for current services, and \$21,614 for use of money. There were no revenue categories that were under budget.

General fund expenditures were budgeted at \$2,427,194. The actual amount expended was \$2,603,823 or \$181,628 over budget. The lesser amount of budgeted expenditures was due to the city council, city manager, finance, building, engineering, mechanic, and public safety departments. Conversely, city clerk, legal, OPEB retire health, insurance and general services, planning, parks and recreation are over budget. For more information please see pages 38 and 39 of the audit report.

City of Ione
Required Supplementary Information
Management's Discussion and Analysis (Continued)
June 30, 2010

CAPITAL ASSETS

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

	Governmental Activities		Business-type Activities		Total Government	
	6/30/2010	6/30/2009	6/30/2010	6/30/2009	6/30/2010	6/30/2009
Land	\$ 29,696,609	\$ 29,696,609	\$ 3,873,444	\$ 3,873,444	\$ 33,570,053	\$ 33,570,053
Construction in progress	15,370	623,144	1,212,666	-	1,228,036	623,144
Structures	3,074,786	1,575,360	1,460,112	1,460,111	4,534,898	3,035,471
Site improvements	929,993	814,632	446,396	446,396	1,376,389	1,261,028
Vehicles and equipment	1,607,160	1,543,646	489,206	446,125	2,096,366	1,989,771
Infrastructure	2,313,407	628,088	3,924,917	3,838,892	6,238,324	4,466,980
Accumulated depreciation	(2,560,479)	(1,984,113)	(2,714,891)	(2,263,553)	(5,275,370)	(4,247,666)
Total Capital Assets, Net	\$ 35,076,846	\$ 32,897,366	\$ 8,691,850	\$ 7,801,415	\$ 43,768,696	\$ 40,698,781

As of June 30, 2010 the City's investment in capital assets totaled \$43,768,696 net of accumulated depreciation.

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

LONG-TERM DEBT

On August 28, 2008 the City entered into a capital lease in the principal amount of \$560,000 to partially finance the construction of the new Fire Station No. 2. The \$3,979 principal and interest portion of the lease payment is due monthly and commenced on September 28, 2008 with the final payment due August 28, 2028. The lease carries a nominal annual interest rate of 5.897%.

City of Ione
Required Supplementary Information
Management's Discussion and Analysis (Continued)
June 30, 2010

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The City Council adopted the City's 2009-10 Final Budget on October 6, 2009. During the past four fiscal years, the City has been making improvements as well as planning improvements to its sewer plant to meet projected growth as well as comply with SWRCB requirements. Planning for the sewer plant expansion is an ongoing project.

The nation, state and local community continues to experience a housing slowdown, high unemployment, credit market problems, and the general economy continues to struggle.

ADDITIONAL FINANCIAL INFORMATION

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

CITY OF IONE

Statement of Net Assets June 30, 2010 (With comparative totals as of June 30, 2009)

	Governmental Activities	Business-type Activities	Totals	
			2010	2009
Assets				
Cash and investments	\$ 818,817	\$ 976,078	\$ 1,794,895	\$ 1,517,998
Accounts receivables	264,328	404,378	668,706	509,777
Grants	128,010		128,010	100,000
Taxes receivable	56,709		56,709	-
Prop 1A	121,612		121,612	-
Interest receivable	2,955		2,955	12,063
Restricted cash and investments	1,478,407	(525,709)	952,698	2,053,026
Total current assets	<u>2,870,838</u>	<u>854,747</u>	<u>3,725,585</u>	<u>4,192,864</u>
Non Current Assets				
Internal balances	(244,800)	244,800	-	-
Loans receivable	2,065,931		2,065,931	1,497,240
Capital assets				
Land	29,696,609	3,873,444	33,570,053	33,570,053
Construction in progress	15,370	1,212,666	1,228,036	623,144
Structures	3,074,786	1,460,112	4,534,898	3,035,471
Site improvements	929,993	446,396	1,376,389	1,261,028
Vehicles and equipment	1,607,160	489,206	2,096,366	1,989,771
Infrastructure	2,313,407	3,924,917	6,238,324	4,466,980
Accumulated depreciation	<u>(2,560,479)</u>	<u>(2,714,891)</u>	<u>(5,275,370)</u>	<u>(4,247,666)</u>
Total capital assets, net	<u>35,076,846</u>	<u>8,691,850</u>	<u>43,768,696</u>	<u>40,698,781</u>
Total Assets	<u>\$ 39,768,815</u>	<u>\$ 9,791,397</u>	<u>\$ 49,560,212</u>	<u>\$ 46,388,885</u>
Liabilities				
Current liabilities:				
Accounts payable	\$ 155,658	\$ 57,822	\$ 213,481	\$ 405,535
Accrued payroll	210,004	35,876	245,880	-
Deposits from others	265,947	2,068	268,015	254,725
OPEB-retiree health	150,658		150,658	
Deferred revenue	2,136,776		2,136,776	1,453,949
Noncurrent liabilities:				
Due within one year	17,142		17,142	31,434
Due in more than one year	<u>639,505</u>	<u>11,903</u>	<u>651,408</u>	<u>585,884</u>
Total Liabilities	<u>3,575,690</u>	<u>107,669</u>	<u>3,683,359</u>	<u>2,731,527</u>
Net Assets				
Invested in capital assets net of related debt	35,076,846	8,691,850	43,768,696	40,698,781
Restricted for capital replacement		(204,671)	(204,671)	227,648
Unrestricted	<u>1,116,279</u>	<u>1,196,549</u>	<u>2,312,828</u>	<u>2,730,929</u>
Total Net Assets	<u>\$ 36,193,125</u>	<u>\$ 9,683,728</u>	<u>\$ 45,876,853</u>	<u>\$ 43,657,358</u>

The accompanying notes are an integral part of these financial statements

CITY OF IONE

**Statement of Activities
For the Fiscal Year Ended June 30, 2010
(With comparative totals for the fiscal year ended June 30, 2009)**

Functions/programs	Expenses	Program Revenues			Governmental Activities	Business-type Activities	Net (Expense) Revenue and Changes in Net Assets	
		Charges for Services	Capital Grants and Contributions	Operating Grants			Totals	
							2010	2009
Governmental Activities:								
General government	\$ 974,780	\$ 45,563	\$ 6,820	\$ -	\$ (922,397)	\$ -	\$ (922,397)	\$ (1,454,948)
Public safety	1,371,148	23,625	46,764	388,902	(911,857)		(911,857)	(2,526,564)
Community development	423,610			397,518	(26,092)		(26,092)	(158,545)
Public works	290,485	77,930			(212,555)		(212,555)	(217,118)
Streets and roads	234,279		254,227	191,320	211,268		211,268	(42,731)
Parks and recreation	381,715	12,556	100,787		(268,372)		(268,372)	(298,844)
Interest on debt	31,879				(31,879)		(31,879)	-
Total Governmental Activities	3,707,896	159,674	408,598	977,740	(2,161,884)		(2,161,884)	(4,698,750)
Business-type Activities:								
Wastewater	1,108,449	986,072	45,840			(76,537)	(76,537)	(63,881)
Total Business-type Activities	1,108,449	986,072	45,840			(76,537)	(76,537)	(63,881)
Total Government	\$ 4,816,345	\$ 1,145,746	\$ 454,438	\$ 977,740	(2,161,884)	(76,537)	(2,238,421)	(4,762,631)
General Revenues:								
Taxes:								
Property taxes					545,675		545,675	645,842
Sales and use tax					229,327		229,327	291,719
Transient occupancy tax					2,803		2,803	4,191
Franchise tax					85,766		85,766	85,358
Motor vehicle in lieu tax					720,365		720,365	857,635
Other taxes					13,043		13,043	20,074
Investment income					17,778	48,582	66,360	108,657
Total general revenues					1,614,757	48,582	1,663,339	2,013,476
Change in net assets					(547,127)	(27,955)	(575,082)	(2,749,155)
Net assets - beginning					34,847,131	8,810,227	43,657,358	46,406,513
Prior Period Adjustment					1,893,121	901,456	2,794,577	-
Net assets - ending					\$ 36,193,125	\$ 9,683,728	\$ 45,876,853	\$ 43,657,358

The accompanying notes are an integral part of these financial statements

CITY OF IONE

Balance Sheet
Governmental Funds

June 30, 2010

(With comparative totals as of June 30, 2009)

	General	Gas Tax	CDBG/HOME Program Loans	Governmental Impact Fees	Police Services Impact Fees	Fire Services Impact Fees	Other Nonmajor Funds	Total Governmental	
								2010	2009
<u>Assets</u>									
Cash and investments	\$ 753,124	\$ -	\$ 268,104	\$ -	\$ -	\$ -	\$ (202,411)	\$ 818,817	\$ 725,290
Receivables									
Accounts	105,689	22,367		2,416	370	381	133,105	264,328	397,506
Grants			128,010					128,010	100,000
Taxes	56,709							56,709	-
Prop 1A	121,612							121,612	-
Interest	2,955							2,955	3,773
Restricted cash and investments		512,214		(102,388)	66,189	185,870	816,523	1,478,407	2,083,262
Advances to other funds	693,141			25,000	796,804		43,000	1,557,945	1,557,945
Loans receivable			2,065,931					2,065,931	1,497,240
Total Assets	\$ 1,733,230	\$ 534,581	\$ 2,462,045	\$ (74,972)	\$ 863,363	\$ 186,251	\$ 790,216	\$ 6,494,714	\$ 6,365,018
<u>Liabilities and Fund Balances</u>									
<u>Liabilities</u>									
Accounts payable	\$ 119,336	\$ 6,948	\$ 14,520	\$ -	\$ 520	\$ -	\$ 14,334	\$ 155,658	\$ 298,429
Accrued payroll	180,839	12,081					17,084	210,004	-
Deposits from others	(93,404)					359,351		265,947	254,359
OPEB-retiree health	150,658							150,658	-
Deferred revenue	77,318	49,635	2,065,931				101,464	2,294,348	1,558,886
Total Current Liabilities	434,747	68,664	2,080,451		520	359,351	132,882	3,076,615	2,111,675
<u>Long-term Liabilities</u>									
Advances from other funds	244,800			598,000		959,945		1,802,745	1,802,745
Total Liabilities	679,547	68,664	2,080,451	598,000	520	1,319,296	132,882	4,879,360	3,914,420
<u>Fund Balances</u>									
Reserved for loans receivable			381,594					381,594	543,728
Reserved for advances	693,141			25,000	796,804		43,000	1,557,945	
Unreserved, reported in									
General fund	360,542							360,542	1,579,167
Special revenue funds		465,917					33,616	499,533	675,504
Capital projects funds				(697,972)	66,039	(1,133,045)	580,718	(1,184,260)	(347,800)
Total Fund Balances	1,053,683	465,917	381,594	(672,972)	862,843	(1,133,045)	657,334	1,615,354	2,450,598
Total Liabilities and Fund Balances	\$ 1,733,230	\$ 534,581	\$ 2,462,045	\$ (74,972)	\$ 863,363	\$ 186,251	\$ 790,216	\$ 6,494,714	\$ 6,365,018

The accompanying notes are an integral part of these financial statements

CITY OF IONE
Reconciliation of the Balance Sheet
To the Statement of Net Assets
As of June 30, 2010
(With comparative totals as of June 30, 2009)

	<u>2010</u>	<u>2009</u>
Fund Balances of Governmental Funds	\$ 1,615,354	\$ 2,450,598
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets, net of accumulated depreciation, are not current financial resources and are not included in the governmental funds.	35,076,846	32,897,366
Some liabilities, including long-term debt, compensated absences, OPEB and deferred revenue are not due and payable in the current period and therefore are not reported in the funds.	<u>(499,075)</u>	<u>(500,833)</u>
Net assets of governmental activities	\$ <u>36,193,125</u>	\$ <u>34,847,131</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, 2010
(With comparative totals for the fiscal year ended June 30, 2009)**

	General	Gas Tax	CDBG/HOME Program Loans	Governmental Impact Fees	Police Services Impact Fees	Fire Services Impact Fees	Other Nonmajor Funds	Total Governmental	
								2010	2009
Revenues									
Taxes	\$ 1,066,692	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,066,692	\$ 946,866
Special assessment/impact fees				1,819			41,420	43,239	296,340
Licenses and permits	116,324							116,324	110,253
Use of money and property	103,313							103,313	167,768
Intergovernmental	879,954	203,383	395,573				300,466	1,779,376	1,492,629
Fines, forfeitures and penalties	11,845							11,845	16,751
Charges for current services	49,266							49,266	44,045
Other	2,641		1,945					4,586	33,734
Total Revenues	2,230,035	203,383	397,518	1,819			341,886	3,174,641	3,108,386
Expenditures									
Current:									
General government	955,631							955,631	1,666,888
Public ways and facilities/ transportation	251,590	157,837					23,072	432,499	468,713
Public safety	1,065,030						120,602	1,185,632	1,318,066
Community development	289,458		423,610				4,638	717,706	605,945
Capital Outlay	42,114			19,725	25,115		246,739	333,693	1,726,403
Debt service									
Principal	-					15,868		15,868	13,789
Interest	-					31,892		31,892	29,991
Total Expenditures	2,603,823	157,837	423,610	19,725	25,115	47,760	395,051	3,672,921	5,829,795
Excess (Deficit) of Revenues over Expenditures	(373,788)	45,546	(26,092)	(17,906)	(25,115)	(47,760)	(53,165)	(498,280)	(2,721,409)
Other Financing Sources (Uses)									
Proceeds of capital lease								-	560,
Operating transfers in	222,153		524,856				162,011	909,020	25,6
Operating transfers out	(160,667)						(748,353)	(909,020)	(25,000)
Total Other Financing Sources (Uses)	61,486		524,856				(586,342)	-	560,000
Excess (Deficit) of Revenues and Other Financing Sources over Expenditures and Other Financing Uses	(312,302)	45,546	498,764	(17,906)	(25,115)	(47,760)	(639,507)	(498,280)	(2,161,409)
Fund Balances, July 1, 2009	1,579,167	439,570		(655,066)	887,958	(1,085,285)	1,284,254	2,450,598	4,612,007
Prior period adjustments	(213,182)	(19,199)	(117,170)				12,587	(336,964)	-
Fund Balances, June 30, 2010	\$ 1,053,683	\$ 465,917	\$ 381,594	\$ (672,972)	\$ 862,843	\$ (1,133,045)	\$ 657,334	\$ 1,615,354	\$ 2,450,598

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, 2010
(With comparative totals for the fiscal year ended June 30, 2009)**

	<u>2010</u>	<u>2009</u>
Net Change in Fund Balances - Total Governmental Funds	\$ (498,280)	\$ (2,161,409)
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:		
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities. The costs of those assets is allocated over their estimated useful lives as depreciation expense or are allocated to the appropriate functional expense when the cost is below the capitalization threshold. This activity is reconciled as follows:		
Cost of assets capitalized	333,693	-
Capital contributions	-	-
Depreciation expense	(317,791)	-
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	(13,871)	-
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.	15,881	12,538
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>(66,759)</u>	<u>-</u>
Change in net assets of governmental activities	<u>\$ (547,127)</u>	<u>\$ (2,708,871)</u>

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

CITY OF IONE

Statement of Net Assets

Proprietary Funds

June 30, 2010

(With comparative totals as of June 30, 2009)

	Sewer O & M	Sewer Capital	Nonmajor Sewer Tertiary Plant	Totals	
				2010	2009
Current assets:					
Cash and investments	\$ 1,088,020	\$ -	\$ (111,941)	\$ 976,078	\$ 792,708
Receivables					
Accounts	75,926	91,680	236,772	404,378	112,271
Interest				-	8,290
Due from other funds				-	-
Restricted cash and investments		(525,709)		(525,709)	(30,236)
Total current assets	<u>1,163,946</u>	<u>(434,029)</u>	<u>124,831</u>	<u>854,748</u>	<u>883,033</u>
Non Current Assets					
Advances to other funds		244,800		244,800	244,800
Capital assets					
Land	3,873,444			3,873,444	3,873,444
Construction in progress	1,212,666			1,212,666	-
Structures	1,460,112			1,460,112	1,460,111
Site improvements	446,396			446,396	446,396
Vehicles and equipment	489,206			489,206	446,125
Infrastructure	3,924,917			3,924,917	3,838,892
Accumulated depreciation	(2,714,891)			(2,714,891)	(2,263,553)
Total capital assets	<u>8,691,850</u>			<u>8,691,850</u>	<u>7,801,415</u>
Total Assets	<u>\$ 9,855,796</u>	<u>(189,229)</u>	<u>\$ 124,831</u>	<u>\$ 9,791,398</u>	<u>\$ 8,929,248</u>
Liabilities					
Current liabilities:					
Accounts payable	\$ 24,318	\$ 15,442	\$ 18,064	\$ 57,824	\$ 107,106
Accrued payroll	35,876			35,876	-
Customer deposits	2,068			2,068	366
Deferred revenue				-	-
Total current liabilities	<u>62,262</u>	<u>15,442</u>	<u>18,064</u>	<u>95,768</u>	<u>107,472</u>
Noncurrent liabilities:					
Compensated absences	11,903			11,903	11,549
Total noncurrent liabilities	<u>11,903</u>			<u>11,903</u>	<u>11,549</u>
Total Liabilities	<u>74,165</u>	<u>15,442</u>	<u>18,064</u>	<u>107,671</u>	<u>119,021</u>
Net assets:					
Invested in capital assets net of related debt	8,691,850			8,691,850	7,801,415
Restricted for capital replacement		(204,671)		(204,671)	227,648
Unreserved	1,089,782		106,767	1,196,549	781,164
Total Net Assets (Accumulated Deficit)	<u>\$ 9,781,631</u>	<u>\$ (204,671)</u>	<u>\$ 106,767</u>	<u>\$ 9,683,727</u>	<u>\$ 8,810,227</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, 2010
(With comparative totals for the fiscal year ended June 30, 2009)**

	Sewer O & M	Sewer Capital	Nonmajor Sewer Tertiary Plant	Totals	
				2010	2009
Operating Revenues					
Charges for services	\$ 859,811	\$ -	\$ 132,033	\$ 991,844	\$ 1,073,057
Connection fees		45,840		45,840	242,860
Other	(5,772)			(5,772)	15,688
Total Operating Revenues	854,039	45,840	132,033	1,031,912	1,331,605
Operating Expenses					
Salaries and benefits	178,210			178,210	249,264
Services and supplies	405,811	55,631	239,630	701,072	1,146,222
Depreciation expense	229,167			229,167	-
Total Operating Expenses	813,188	55,631	239,630	1,108,449	1,395,486
Operating Income	40,851	(9,791)	(107,597)	(76,537)	(63,881)
Non-Operating Revenues (Expenses)					
Interest income	48,582			48,582	23,597
Total Non-Operating Revenues (Expenses)	48,582	-	-	48,582	23,597
Income (Loss) Before Transfers	89,433	(9,791)	(107,597)	(27,955)	(40,284)
Operating Transfers					
Operating transfers in	422,528			422,528	449,097
Operating transfers out		(422,528)		(422,528)	(449,097)
Net Operating Transfers	422,528	(422,528)			
Net Income (Loss)	511,961	(432,319)	(107,597)	(27,955)	(40,284)
Net Assets, July 1, 2009	8,598,105	227,648	(15,526)	8,810,227	8,850,511
Prior Period Adjustments	671,567		229,890	901,456	-
Net Assets (Accumulated Deficit), June 30, 2010	<u>\$ 9,781,632</u>	<u>\$ (204,671)</u>	<u>\$ 106,767</u>	<u>\$ 9,683,728</u>	<u>\$ 8,810,227</u>

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, 2010
(With comparative totals for the fiscal year ended June 30, 2009)

	Sewer O & M	Sewer Capital	Nonmajor Sewer Tertiary Plant	Totals	
				2010	2009
Cash Flows from Operating Activities					
Cash received from customers	\$ 830,966	\$ 15,280	\$ 128,000	\$ 974,246	\$ 1,315,373
Cash payments to suppliers	(423,002)	(88,225)	(234,661)	(745,888)	(1,044,418)
Cash payments to employees	(174,803)			(174,803)	(249,405)
Other cash received				-	237,189
Other cash paid				-	(237,189)
Net Cash Provided By (Used For) Operating Activities	233,161	(72,945)	(106,661)	53,555	21,551
Cash Flows from Capital and Related Financing Activities					
Purchase of fixed assets		(422,528)		(422,528)	-
Net Cash Used For Capital and Related Financing Activities		(422,528)		(422,528)	-
Cash Flows from Investing Activities:					
Interest income	56,871			56,871	21,817
Net Cash Provided By Investing Activities	56,871			56,871	21,817
Net Increase (Decrease) in Cash and Cash Equivalents	290,032	(495,473)	(106,661)	(312,102)	43,369
Cash and Cash Equivalents, July 1, 2009	797,988	(30,236)	(5,280)	762,472	719,103
Cash and Cash Equivalents, June 30, 2010	<u>\$ 1,088,020</u>	<u>\$ (525,709)</u>	<u>\$ (111,941)</u>	<u>\$ 450,370</u>	<u>\$ 762,472</u>
Reconciliation of Cash and Cash Equivalents:					
Cash and investments	\$ 1,088,020	\$ -	\$ (111,941)	\$ 976,078	\$ 792,708
Restricted cash and investments		(525,709)		(525,709)	(30,236)
Total Cash and Cash Equivalents	<u>\$ 1,088,020</u>	<u>\$ (525,709)</u>	<u>\$ (111,941)</u>	<u>\$ 450,370</u>	<u>\$ 762,472</u>
Reconciliation of Operating Income to Net Cash Provided by (Used For) Operating Activities					
Operating income (loss)	\$ 40,851	\$ (9,791)	\$ (107,597)	\$ (76,536)	(63,881)
Adjustments to operating income:					
Depreciation expense	229,167			229,167	-
(Increase) decrease in accounts receivable	(24,775)	(30,560)	(4,033)	(59,368)	(3,098)
Increase (decrease) in due from other funds					237,189
Increase (decrease) in accounts payable	(11,246)	(32,594)	4,969	(38,870)	134,628
Increase in accrued payroll	3,054			3,054	(32,822)
Increase (decrease) in customer deposits	1,702			1,702	(13,134)
Increase in due to other funds				-	(237,189)
Prior period adjustment	(5,946)			(5,946)	-
Increase (decrease) in compensated absences	354			354	(141)
Net Cash Provided By (Used For) Operating Activities	<u>\$ 233,161</u>	<u>\$ (72,945)</u>	<u>\$ (106,661)</u>	<u>\$ 53,555</u>	<u>\$ 21,551</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, 2010
(With comparative totals as of June 30, 2009)

	Agency Funds			Totals	
	<u>Community Facilities Districts</u>	<u>Regional Traffic Mitigation</u>	<u>Developer Deposits</u>	<u>2010</u>	<u>2009</u>
<u>Assets</u>					
Cash and investments	\$ 1,778,305	\$ 59	\$ (144,005)	\$ 1,634,359	\$ 2,168,541
Due from others		548	568,076	568,624	549,657
Due from other government	137,501			137,501	-
Total Assets	<u>\$ 1,915,806</u>	<u>\$ 607</u>	<u>\$ 424,070</u>	<u>\$ 2,340,484</u>	<u>\$ 2,718,198</u>
<u>Liabilities</u>					
Deposits held for others	<u>\$ 1,915,806</u>	<u>\$ 607</u>	<u>\$ 424,070</u>	<u>\$ 2,340,484</u>	<u>\$ 2,718,198</u>
Total Liabilities	<u>\$ 1,915,806</u>	<u>\$ 607</u>	<u>\$ 424,070</u>	<u>\$ 2,340,484</u>	<u>\$ 2,718,198</u>

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

City of Ione
Notes to Financial Statements
June 30, 2010

Note 1: Summary of Significant Accounting Policies

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

The following is a summary of the more significant policies:

A. Reporting Entity

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

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

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

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

B. Basis of Accounting

The government-wide, proprietary and agency fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned or, for property tax revenues, in the period for which levied. Expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Revenue from sales tax is recognized when the underlying transactions take place. Revenues from grants, entitlements and donations are recognized in the fiscal year in which all eligible requirements have been satisfied.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when both measurable and available. Measurable means the amount of the transaction can be determined and available means collectible in the current period or soon enough thereafter to be used to pay liabilities of the current period. Resources not available to finance expenditures and commitments of the current period are recognized as deferred revenue or as a reservation of fund balance. The City considers property taxes available if they are collected within sixty-days after year-end. Expenditures are recorded when the related fund liability is incurred. Principal and interest on general long-term debt, as well as compensated absences and claims and judgments are recorded only when payment is due.

City of Ione
Notes to Financial Statements
June 30, 2010

Note 1: Summary of Significant Accounting Policies (Continued)

B. Basis of Accounting (Continued)

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

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

C. Basis of Presentation

Government-Wide Financial Statements

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

The statement of activities demonstrates the degree to which the program expenses of a given function are offset by program revenues. Program expenses include direct expenses, which are clearly identifiable with a specific function. Program revenues include 1) charges paid by the recipient of goods or services offered by the programs and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented instead as general revenues.

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

Fund Financial Statements

The fund financial statements provide information about the City's funds, including fiduciary funds and blended component units. Separate statements for each fund category – governmental, proprietary and fiduciary – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in separate columns. All remaining governmental and enterprise funds are separately aggregated and reported as nonmajor funds.

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

The City reports the following major governmental funds:

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

City of Ione
Notes to Financial Statements
June 30, 2010

Note 1: Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation (Continued)

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

CDBG/HOME Program Loans – This fund accounts for loans made to qualifying recipients through the CDBG grant funding program, the HOME grant funding program and the STBG grant funding program, for purchasing and/or rehabilitating local homes.

Governmental Impact Fee – This fee is collected for the future City administration facility and for the general plan services fee.

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

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

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 and developers with rates reviewed regularly and adjusted if necessary to ensure the integrity of the Funds.

The City also reports the following Fiduciary Fund type:

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

D. Use of Estimates

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

E. Cash Equivalents

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

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

City of Ione
Notes to Financial Statements
June 30, 2010

Note 1: Summary of Significant Accounting Policies (Continued)

F. Fixed Assets

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

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Depreciation is recorded in the government-wide financial statements on the straight-line basis over the useful life of the assets as follows:

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

G. Balance Sheet Classifications

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

H. Property Tax

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

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

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

City of Ione
Notes to Financial Statements
June 30, 2010

Note 1: Summary of Significant Accounting Policies (Continued)

I. Proprietary Fund Accounting

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

J. Fund Equity

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

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

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

K. Compensated Absences

City employees are granted vacation in varying amounts based on classification and length of service. Upon termination or retirement, the City is to pay 100% of the vacation time accrued. If hired before November 1, 2008 employees can be paid sick leave in excess of 24 days accruals or can have unlimited sick leave accrued and be paid 50% unused sick leave at time of separation up to 120 days, or as provided by the PERS sick leave credit option.

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, 2010, because the City does not believe any of the available year-end resources will be required to fund the year-end compensated absences liability.

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

L. Intergovernmental Revenues

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

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

City of Ione
Notes to Financial Statements
June 30, 2010

Note 2: Cash and Investments

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

Cash and investments	\$1,794,895
Restricted cash and investments	<u>952,698</u>
Cash and investments, Statement of net assets	2,747,593
Cash and investments, Statement of fiduciary net assets	<u>1,634,359</u>
Total cash and investments	<u>\$4,381,952</u>

Cash and investments at June 30, 2010, consisted of the following:

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:

		<u>Remaining Maturity (in Months)</u>			
<u>Investment type</u>	<u>Totals</u>	<u>12 Months or Less</u>	<u>13-24 Months</u>	<u>25-36 Months</u>	<u>37-48 Months</u>
State Investment Pool*	\$ 2,129,082	\$ 2,129,082	\$ -	\$ -	\$ -
Held by Trustee:					
Money Market Funds*	1,266,025	1,266,025			
Totals	<u>\$ 3,395,107</u>	<u>\$ 3,395,107</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

* Not subject to categorization

City of Ione
Notes to Financial Statements
June 30, 2010

Note 2: Cash and Investments (Continued)

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, 2010, the City's deposits balance was \$1,049,731 and the carrying amount was \$986,447. The difference between the bank balance and the carrying amount was due to normal outstanding checks and deposits in transit. Of the bank balance, \$500,000 was covered by the Federal Depository Insurance and \$549,731 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 \$69.39 billion. Of the \$69.39 billion managed by the State Treasurer, 100.00% is invested in non-derivative financial products and 5.42% 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.

Note 3: Prop 1A State Borrowing

Under the provisions of Proposition 1A and as part of the 2009-10 budget package passed by the California state legislature on July 28, 2009, the State of California borrowed 8% of the amount of property tax revenue, including those property taxes associated with the in-lieu motor vehicle license fee, the triple flip in lieu sales tax, and supplemental property tax, apportioned to cities, counties and special districts (excluding redevelopment agencies). The state is required to repay this borrowing plus interest by June 30, 2013. After repayment of this initial borrowing, the California legislature may consider only one additional borrowing within a ten-year period. The amount of this borrowing pertaining to the City of Ione was \$121,612. This borrowing by the State of California was recognized as a receivable in the accompanying financial statements. In these financial statements, the tax revenues were recognized in the fiscal year for which they were levied (fiscal year 2009-10).

City of Ione
Notes to Financial Statements
June 30, 2010

Note 4: Capital Assets

Capital asset activity for the year ended June 30, 2010 was as follows:

	Balance 7/1/2009	Additions	Reductions	Adjustments	Balance 6/30/2010
Governmental Activities					
Capital assets, not being depreciated:					
Land	\$ 29,696,609	\$ -	\$ -	\$ -	\$ 29,696,609
Construction in progress	623,144	281,834	1,172,413	282,805	15,370
Capital assets, being depreciated:					
Buildings and improvements	1,575,360	9,745		1,489,681	3,074,786
Site improvements	814,632	15,517		99,844	929,993
Equipment and vehicles	1,543,646	42,114	5,500	26,900	1,607,160
Infrastructure	628,088	1,156,896		528,423	2,313,407
Total capital assets, being depreciated	4,561,726	1,224,272	5,500	2,144,848	7,925,346
Less accumulated depreciation for:					
Buildings and improvements	(678,048)	(80,399)		(43,158)	(801,605)
Site improvements	(199,642)	(45,706)		(37,386)	(282,734)
Equipment and vehicles	(1,084,200)	(107,997)	5,500	(126,265)	(1,312,962)
Infrastructure	(22,223)	(83,688)		(57,267)	(163,178)
Total accumulated depreciation	(1,984,113)	(317,790)	5,500	(264,076)	(2,560,479)
Total capital assets, being depreciated net	2,577,613	906,482	11,000	1,880,772	5,364,867
Governmental activities capital assets, net	\$ 32,897,366	\$1,188,316	\$ 11,000	\$ 1,880,772	\$ 35,076,846
Business-Type Activities					
Capital assets, not being depreciated:					
Land	\$ 3,873,444	\$ -	\$ -	\$ -	\$ 3,873,444
Constuction in progress		422,528		790,138	1,212,666
Capital assets, being depreciated:					
Buildings and improvements	1,460,112				1,460,112
Site improvements	446,396				446,396
Equipment and vehicles	446,125			43,081	489,206
Infrastructure	3,838,893			86,024	3,924,917
Total capital assets, being depreciated	6,191,526			129,105	6,320,631
Less accumulated depreciation for:					
Buildings and improvements	(510,970)	(36,512)		(36,512)	(583,994)
Site improvements	(286,980)	(22,586)		(22,585)	(332,151)
Equipment and vehicles	(262,741)	(47,416)		(43,108)	(353,265)
Infrastructure	(1,202,862)	(122,654)		(119,965)	(1,445,481)
Total accumulated depreciation	(2,263,553)	(229,168)		(222,170)	(2,714,891)
Total capital assets, being depreciated net	3,927,973	(229,168)		(93,065)	3,605,740
Business-type activities capital assets, net	\$ 7,801,417	\$ 193,360	\$ -	\$ 697,073	\$ 8,691,850

City of Ione
Notes to Financial Statements
June 30, 2010

Note 4: Capital Assets (Continued)

Depreciation expense was charged to functions/programs of the City as follows:

Governmental activities:	
General government	\$ 11,873
Public safety	136,028
Public works	10,699
Streets and roads	75,391
Parks	83,800
Total	<u>\$ 317,791</u>

Note 5: Long-term Liabilities

A summary of the changes in the City's governmental activities long-term liabilities reported in the government-wide financial statements for the year ended June 30, 2010:

	Balance 7/1/2009	Additions	Adjustments/ Reductions	Balance 6/30/2010	Due w/in One Year
Capital Lease	\$ 547,462	\$ -	\$ (15,881)	\$ 531,581	\$ 17,142
Compensated Absences	58,307	66,758		125,065	
Total	<u>\$ 605,769</u>	<u>\$ 66,758</u>	<u>\$ (15,881)</u>	<u>\$ 656,646</u>	<u>\$ 17,142</u>

Governmental Activities:

Capital Lease

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

Fiscal Year Ending June 30	Amount
2011	\$ 47,760
2012	47,760
2013	47,760
2014	47,760
2015	47,760
2016-2020	238,799
2021-2025	238,799
2026-2029	151,240
Total Minimum Lease Payments	867,638
Less: Amount Representing Interest	(336,057)
Present Value of Net Minimum Lease Payments	<u>\$ 531,581</u>

City of Ione
Notes to Financial Statements
June 30, 2010

Note 5: Long-term Liabilities (Continued)

Business-Type Activities:

A summary of changes in the City's business-type activities long-term liabilities for the year ended June 30, 2010:

	Balance 7/1/2009	Additions	Adjustments/ Reductions	Balance 6/30/2010	Due w/in One Year
Compensated Absences	\$ 11,549	\$ 354	\$ -	\$ 11,903	\$ -
Total	\$ 11,549	\$ 354	\$ -	\$ 11,903	\$ -

Note 6: Defined Benefit Pension Plan

CalPERS

A. Plan Description

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

B. Funding Policy

Active plan members in the City's defined pension plan are required to contribute 8% of miscellaneous employee and 9% of safety employee annual covered salaries. The City pays 4.5% of the safety member contribution and all of the miscellaneous member contribution as an employee benefit. The City is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS' Board of Administration. The required employer contribution rate for fiscal 2009/10 was 13.588% for miscellaneous members and 59.312% 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 2009/2010, the City's annual pension cost was \$370,230 and the City actually contributed \$370,230. As a benefit to employees, the City contributes ½ of the employee portion for safety employees and all of employee portion for miscellaneous employees. The required contribution for fiscal year 2009/2010 was determined as part of the June 30, 2008, 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

City of Ione
Notes to Financial Statements
June 30, 2010

Note 6: Defined Benefit Pension Plan (Continued)

C. Annual Pension Cost (Continued)

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, 2008 was 14 years for miscellaneous members and 14 years for safety members as of the valuation date.

<u>Three – Year Trend Information for the City</u>			
<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
06/30/08	\$ 260,094	100%	\$ -
06/30/09	\$ 292,851	100%	\$ -
06/30/10	\$ 370,230	100%	\$ -

Note 7: Post Retirement Health Benefits

The City Council passed a resolution to establish health benefit vesting requirements for future retirees under public employees' medical and hospital care act, whereas an employee who is with the City of Ione for 5 years or longer and who has met other vesting requirements as defined by Government Code 20079, shall receive up to a maximum 100% of the health benefit for the employee premium plus up to 100% of the additional premium required for enrolment of family members in selected plans. The total City expense for postretirement health benefits in the 2009/2010 fiscal year was \$3,393. As of June 30, 2010, one retired employee is receiving postretirement health benefits.

Plan Description. City of Iones Post-Retirement Healthcare Plan is a multiple employer defined benefit healthcare plan administered by CalPERS. CalPERS provides medical insurance benefits only to eligible retirees and their eligible dependents. The City approved post retirement health insurance benefits for all of its employees based on employees under the Public Employees' Medical and Hospital Care Act (PEMHCA). Employees are entitled to receive medical only lifetime benefits with required service of five years. The minimum age for receiving benefits is 50 and the City cap is the currently \$1,100. The plan also provides coverage for eligible dependents. For employees who are eligible to participate in the plan the City will contribute the health benefit cost for the retiree and eligible spouse up to 45% of \$1,100 increasing 5% annually until it reaches 100%. A retiree with less than the required years of service with the City will receive no benefit, unless they have previous employment qualifying them for CalPERS retirement, in which case they are eligible to receive the CalPERS minimum at the time of retirement. The CalPERS minimum is set by law. The retiree is on the same medical plan as the City's active employees, however monthly rates for coverage of covered active and retired employees are computed separately.

Funding Policy. The contribution requirement of plan members is established by the City Council. As of June 30, 2010 the City Council did not establish a funding policy. The 2009-2010 fiscal year actuarial determined contribution was calculated on amortized funding over a 30 year period using entry age normal cost. For the fiscal year ending June 30, 2010 the City contributed \$0 towards the unfunded actuarial accrued liability (UAAL). The City did not choose a trustee for the plan as of June 30, 2010. The City made the net contribution for fiscal year end June 30, 2010 directly to health insurance providers totaling \$3,393. Plan members receiving benefits contributed \$3,673 of the total premiums.

Annual OPEB Cost and Net OPEB Obligation. The City's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial

City of Ione
Notes to Financial Statements
June 30, 2010

Note 7: Post Retirement Health Care Benefits (Continued)

liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation to the Healthcare Plan:

Payment of Unfunded Actuarial Accrued Liability (UAAL)	\$ -
Net employer contributions made to CERBT	-
Interest on net OPEB obligation -	* 11,850
Unreimbursed retiree premium payments made to plan provider	(3,393)
Increase/(decrease) in net OPEB obligation (asset)	8,457
Net OPEB obligation—beginning of year	142,201
Net OPEB obligation (asset)—end of year	\$ 150,658

* Interest accrued because the District did not make the required contribution by yearend. The actuarial assumption was that funding would be made at the beginning of the fiscal year and earn interest at the rate of 5% per fiscal year, which will be used to pay future benefits.

Three year disclosure of the City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation is not necessary as fiscal year 2009-2010 is the City's year of implementation for GASB Statement 45.

Funded Status and Funding Progress. As of November 1, 2008, the most recent actuarial valuation date, the actuarial accrued liability (AAL) and the unfunded actuarial accrued liability (UAAL) for benefits was \$778,867. As of June 30, 2010, the City's annual required contribution was not funded and is shown as a liability in the City's balance sheet along with the unfunded normal cost. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress will be presented in the future when multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits is available.

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. In the November 1, 2008, actuarial valuation, the entry age normal cost asset valuation method is used. The actuarial assumptions include an investment/discount rate of 5% based on long-term historical returns for surplus funds invested pursuant to California Government Code Sections 53601 et seq. The valuation assumes that 100% of all eligible retirees will actually participate in the retiree medical benefit. The annual healthcare premiums will increase an average of 4% per year.

City of Ione
Notes to Financial Statements
June 30, 2010

Note 8: Special Assessment Districts

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

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

The amount of the special assessment debt with no governmental commitment at June 30, 2010, is:

Community Facilities District 2005-1	\$ 1,970,000
Community Facilities District 2005-2IA1	3,825,000
Community Facilities District 2005-2IA2	1,300,000
Community Facilities District 2005-2IA3	8,000,000
Total	<u>\$ 15,095,000</u>

Note 9: Risk Management

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

Note 10: Lease Income

On July 30th, 1990 the City entered into an agreement with Portlock International to lease the City owned property for the operation of a public golf course. The term of the lease is fifty five years commencing in June 1994. The rent is due as follows: years 6 to 10 is 1%, years 11 to 15 is 2% , years 16 to 20 is 3% and years 21 to 55 is 4% of gross revenue from the operation of the golf course, clubhouse, pro shop, driving range and other golf course facilities. The rent is due before the 20th day following each December 31st. Under this agreement the City received \$45,952 in the 2007-2008 fiscal year, \$46,281 in the 2008-2009 fiscal year and \$44,817 in the 2009-2010 fiscal year. The agreement also states that lessee will pay the City the greater of \$50,000 or 1% of the sales price, if the lessee assigns its leasehold interest to a third party.

City of Ione
Notes to Financial Statements
June 30, 2010

Note 11: 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, 2010 are summarized as follows:

Fund Type	Advances To Other Funds	Advances From Other Funds	Due To Other Funds	Due From Other Funds	Operating Transfers In	Operating Transfers Out
General	\$ 693,141	\$ 244,800	\$ -	\$ -	\$ 222,153	\$ 160,667
Enterprise	244,800	-	-	-	422,528	422,528
Special Revenue	-	-	-	-	641,832	748,353
Capital Projects	864,804	1,557,945	-	-	45,035	-
Agency	-	-	-	-	-	-
Total	<u>\$ 1,802,745</u>	<u>\$ 1,802,745</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,331,548</u>	<u>\$ 1,331,548</u>

Note 12: Stewardship, Compliance and Accountability

A. Excess of Expenditures Over Appropriations

The City did not include the final amended budget in their financial reporting system, therefore we were unable to determine the accounts with excess expenditures over appropriations.

B. Deficit Fund Balances

Three major funds have deficit fund balances at June 30, 2010. The fire building fund has a deficit fund balance of \$1,133,045, the governmental impact fee fund had a deficit fund balance of \$672,972 and the Sewer Capital fund had a deficit net assets of \$204,671. Non-major special revenue funds had two funds with deficit fund balances and non-major capital project funds had two funds with a deficit fund balance at June 30, 2010. The deficit balances are expected to be eliminated upon receipt of funding from impact fees, granting authorities or through matching funds/subsidies from the General fund of the City.

City of Ione
Notes to Financial Statements
June 30, 2010

Note 12: Stewardship, Compliance and Accountability (Continued)

C. Restatement of Net Assets and Fund Balance

Adjustments resulting from errors or a change to comply with provisions of previously issued or retroactively applied accounting standards are treated as prior period adjustments. Accordingly the City reports these changes as a restatement to beginning net assets in the government-wide statement of activities and proprietary fund statement of revenue, expenses and changes in net assets and as a restatement to beginning fund balance in the statement of revenues expenditures and changes in fund balance. During the current fiscal year prior period adjustments were required to correct misstatements of capital assets, accounts receivable, accounts payable, and deferred revenue.

The impact of the restatements to the previously reported government-wide financial statement net assets is presented below:

	Governmental Activities	Business-Type Activities
Net Assets Reported as of June 30, 2009	\$ 34,847,131	\$ 8,810,227
Adjustments for:		
Prior year capital assets additions and depreciation	2,163,578	697,073
Correct accounts receivable	(130,305)	(3,461)
Correct loans receivable	(117,170)	
Correct reimbursement receivable		166,585
Correct Portlock receivable		66,154
Correct accounts payable	(22,982)	(24,895)
Total adustment	<u>1,893,121</u>	<u>901,456</u>
Net Assets, July 1, 2009 as restated	<u>\$ 36,740,252</u>	<u>\$ 9,711,683</u>

The impact of restatements on governmental fund, fund balance as previously stated is as follows:

	General Fund	Gas Tax Fund	CDBG/HOME Fund	Other Governmental Funds
Fund Balance, June 30, 2009	\$ 1,579,167	\$ 439,570	\$ -	\$ 1,284,254
Adjustments for:				
Correct accounts receivable	(140,923)	(6,495)		17,114
Correct loans receivable			(117,170)	
Correct accounts payable	(22,612)	(640)		270
Deferred revenue	(49,647)	(12,064)		(4,797)
Total adustment	<u>(213,182)</u>	<u>(19,199)</u>	<u>(117,170)</u>	<u>12,587</u>
Fund Balance, July 1, 2009 as restated	<u>\$ 1,365,985</u>	<u>\$ 420,371</u>	<u>\$ (117,170)</u>	<u>\$ 1,296,841</u>

City of Ione
Notes to Financial Statements
June 30, 2010

Note 13: 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 14: 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 15: Gann Limit

Proceeds subject to the limit for 2009-2010	\$ 2,046,423
Amount of limit for 2009-2010	<u>2,516,956</u>
Amount (under)/over limit	<u>\$ (470,533)</u>
Per Capita Percentage Change	0.62%
Population Change*	0.17%

* Net of exclusions for correctional institution.

City of Ione
Notes to Financial Statements
June 30, 2010

Note 16: Commitments and Contingencies

Grants

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

Contingent Liabilities

On January 30, 2009 the City received a Notice of Violation ("NOV") from the Central Valley Regional Water Quality Control Board (the Board) regarding delinquent monitoring reports. The NOV indicated that the violations were subject to a penalty of \$2,563,000, but the Board staff may not recommend a penalty if the violations are cured by February 25, 2009. The City proceeded to provide the reports required by the NOV by the February 25, 2009 deadline. The Board has not pursued any penalties against the City related to this NOV. The City has implemented new policies to avoid future similar violations.

Lawsuits

Various claims have been filed against the City. In the opinion of the City's management and legal counsel, the likelihood of an unfavourable outcome and the dollar range of potential loss was not determinable.

Note 17: Subsequent Event

Subsequent to fiscal year end the City Council approved Resolution No. 1770 to join Northern California Cities Self Insurance Fund (NCCSIF) at a significant savings to the City. The City had previously notified its current insurance provider SCORE that the City would be withdrawing from SCORE effective June 30, 2010. The coverage with NCCSIF is expected to be the same coverage currently held with SCORE.

On April 8, 2011 the Central Valley Regional Water Quality Control Board (the Board) issued a Cease and Desist Order (the "Order") requiring the City to take certain actions to address violations of waste discharge requirements related to operations of the City's wastewater treatment facilities. The Order does not impose any fines or penalties. The Order requires the City to take actions to correct violations in accordance with a specified timeframe. If the City fails to meet the requirements of the Order, the Board has the authority to impose fines and penalties.

CITY OF IONE
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
For the Fiscal Year Ended June 30, 2010

	Original Budget	Final Original Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Taxes				
Property tax	\$ 527,000	\$ 527,000	\$ 537,902	\$ 10,902
Sales (including in lieu of property tax)	235,000	235,000	229,327	(5,673)
Transient occupancy	2,500	2,500	2,803	303
Sales tax - public safety	4,500	4,500	4,028	(472)
Sales Tax-Fire Measure M	75,000	75,000	284,824	209,824
Real property transfer	7,500	7,500	7,808	308
Total Taxes	851,500	851,500	1,066,692	215,191
Licenses and Permits				
Franchise fee	80,000	80,000	85,766	5,766
Business license	5,000	5,000	5,235	235
Building permits and inspections	11,200	11,200	24,763	13,563
Burn permits	150	150	410	260
Encroachment permit	50	50	150	100
Total Licenses and Permits	96,400	96,400	116,324	13,923
Intergovernmental				
Motor vehicle in lieu (state)	750,000	750,000	720,365	(29,635)
HOPTR	4,000	4,000	7,773	3,773
Peace officers training	1,000	1,000		(1,000)
AB 3229 SLESF			100,050	100,050
Grants	5,000	5,000	51,766	46,766
Total Intergovernmental	760,000	760,000	879,954	119,955
Fines, Forfeitures and Penalties				
Parking citations and other fines	600	600	11,845	11,245
Total Fines, Forfeitures and Penalties	600	600	11,845	11,245
Charges for Current Services				
Planning fees	1,500	1,500	25,509	24,009
Parks and recreation			12,556	
Police department services	2,000	2,000	8,937	
Fire department services			2,264	2,264
Total Charges for Current Services	3,500	3,500	49,266	26,273
Use of Money and Property				
Interest and investment income	5,000	5,000	17,777	12,777
Rent	76,698	76,698	85,536	8,838
Total Use of Money and Property	81,698	81,698	103,313	21,615
Other				
Insurance refunds and dividends			234	234
Miscellaneous - all others	650	650	2,407	1,757
Total Other	650	650	2,641	1,991
Total Revenues	\$ 1,794,348	\$ 1,794,348	\$ 2,230,035	\$ 435,687

CITY OF IONE
Required Supplementary Information
Budgetary Comparison Schedule (Continued)
General Fund
For the Fiscal Year Ended June 30, 2010

	Original Budget	Final Original Budget	Actual	Variance Favorable (Unfavorable)
Total Revenues (Continued)	\$ 1,794,348	\$ 1,794,348	\$ 2,230,035	\$ 435,687
Expenditures				
General Government				
City Council	22,918	22,918	18,909	4,009
City Manager	173,752	173,752	149,640	24,112
City Clerk	85,667	85,667	121,586	(35,919)
Finance	191,520	191,520	151,154	40,366
City Treasurer	2,584	2,584	2,584	0
Legal	100,000	100,000	116,627	(16,627)
OPEB retiree health			150,658	(150,658)
Insurance and general services	236,459	236,459	244,473	(8,014)
Total General Government	812,900	812,900	955,631	(142,731)
Public Ways and Facilities/Transportation				
Planning	55,206	55,206	126,769	(71,563)
Building inspection	93,218	93,218	91,489	1,729
Engineering	15,000	15,000	7,301	7,699
Corporate yard-vehicle	27,447	27,447	26,031	1,416
Total Public Ways and Facilities/Transportation	190,871	190,871	251,590	(60,718)
Public Safety				
Police	1,043,855	1,043,855	993,255	50,600
Fire	136,025	136,025	71,775	64,250
Total Public Safety	1,179,880	1,179,880	1,065,030	114,851
Community Development				
Parks and recreation	206,543	206,543	289,458	(82,915)
Total Community Development	206,543	206,543	289,458	(82,915)
Debt service				
Principal	5,000	5,000		5,000
Interest	5,000	5,000		5,000
Capital Outlay	27,000	27,000	42,114	(15,114)
Total Expenditures	2,427,194	2,427,194	2,603,823	(181,628)
Excess (Deficit) of Revenues Over Expenditures	(632,846)	(632,846)	(373,788)	259,058
Other Financing Sources (Uses)				
Operating transfers in	489,136	489,136	222,153	(266,983)
Operating transfers out			(160,667)	(160,667)
Total Other Financing Sources (Uses)	489,136	489,136	61,486	(427,650)
Excess (Deficit) of Revenues and Other Financing Sources over Expenditures and Other Financing Uses	\$ (143,710)	\$ (143,710)	(312,302)	\$ (168,592)
Fund Balance, July 1, 2009			1,579,167	
Prior Period Adjustment			(213,182)	
Fund Balance, June 30, 2010			\$ 1,053,683	

CITY OF IONE
Required Supplementary Information
Budgetary Comparison Schedule
Special Revenue Fund - Gas Tax
For the Fiscal Year Ended June 30, 2010

	Original Budget	Final Original Budget	Actual	Variance Favorable (Unfavorable)
REVENUES				
Gas Tax				
Use of money	\$ 2,000	\$ 2,000	\$ -	\$ (2,000)
Intergovernmental	156,488	156,488	203,383	46,895
Other			-	-
Total Revenues	<u>158,488</u>	<u>158,488</u>	<u>203,383</u>	<u>44,895</u>
EXPENDITURES				
Public ways and facilities/transportation	210,866	210,866	157,837	53,029
Capital outlay	<u>45,000</u>	<u>45,000</u>		<u>45,000</u>
Total Expenditures	<u>255,866</u>	<u>255,866</u>	<u>157,837</u>	<u>98,029</u>
Excess (Deficit) of Revenues over Expenditures	<u>(97,378)</u>	<u>(97,378)</u>	<u>45,546</u>	<u>142,924</u>
Other Financing Sources (Uses)				
Operating transfers in	<u>(200,000)</u>	<u>(200,000)</u>		<u>200,000</u>
Total Other Financing Sources (Uses)	<u>(200,000)</u>	<u>(200,000)</u>		<u>200,000</u>
Excess (Deficit) of Revenues and Other Financing Sources over Expenditures and Other Financing Uses	<u>\$ (297,378)</u>	<u>\$ (297,378)</u>	<u>45,546</u>	<u>\$ 342,924</u>
 Fund Balances, July 1, 2009			439,570	
Prior Period Adjustment			<u>(19,199)</u>	
Fund Balances, June 30, 2010			<u>\$ 465,917</u>	

CITY OF IONE
Required Supplementary Information
Budgetary Comparison Schedule
Special Revenue Fund -CDBG/HOME
For the Fiscal Year Ended June 30, 2010

	<u>Original Budget</u>	<u>Final Proposed Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUES				
Intergovernmental	\$ 112,750	\$ 112,750	\$ 395,573	\$ 282,823
Other			1,945	1,945
Total Revenues	<u>112,750</u>	<u>112,750</u>	<u>397,518</u>	<u>284,768</u>
EXPENDITURES				
Community development	<u>42,387</u>	<u>42,387</u>	<u>423,610</u>	<u>(381,223)</u>
Total Expenditures	<u>42,387</u>	<u>42,387</u>	<u>423,610</u>	<u>(381,223)</u>
Excess (Deficit) of Revenues over Expenditures	<u>70,363</u>	<u>70,363</u>	<u>(26,092)</u>	<u>(96,455)</u>
Other Financing Sources (Uses)				
Operating transfers in/(out)	<u>(120,000)</u>	<u>(120,000)</u>	<u>524,856</u>	<u>644,856</u>
Change in net assets	<u>\$ (49,637)</u>	<u>\$ (49,637)</u>	<u>498,764</u>	<u>\$ 548,401</u>
Fund Balances, July 1, 2009			-	
Prior Period Adjustment			<u>(117,170)</u>	
Fund Balances, June 30, 2010			<u>\$ 381,594</u>	

CITY OF IONE
Required Supplementary Information
Budgetary Comparison Schedule
Capital Project Fund - Governmental Impact Fees
For the Fiscal Year Ended June 30, 2010

	Original Budget	Final Proposed Budget	Actual	Variance Favorable (Unfavorable)
REVENUES				
Use of money	\$ -	\$ -	\$ -	\$ -
Impact fees			1,819	1,819
Total Revenues	-	-	1,819	1,819
EXPENDITURES				
Capital outlay	48,517	48,517	19,725	28,792
Total Expenditures	48,517	48,517	19,725	28,792
Excess (Deficit) of Revenues over Expenditures	(48,517)	(48,517)	(17,906)	30,611
Other Financing Sources (Uses)				
Operating transfers in	100,000	100,000		(100,000)
Operating transfers out				
Total Other Financing Sources (Uses)	100,000	100,000		(100,000)
Excess (Deficit) of Revenues and Other Financing Sources over Expenditures and Other Financing Uses	\$ 51,483	\$ 51,483	(17,906)	\$ (69,389)
Fund Balances, July 1, 2009			(655,066)	
Fund Balances, June 30, 2010			\$ (672,972)	

CITY OF IONE
Required Supplementary Information
Budgetary Comparison Schedule
Capital Project Fund - Police Impact Fees
For the Fiscal Year Ended June 30, 2010

	Original Budget	Final Proposed Budget	Actual	Variance Favorable (Unfavorable)
REVENUES				
Use of money	\$ -	\$ -	\$ -	\$ -
Impact fees				-
Total Revenues				
EXPENDITURES				
Public safety				
Capital outlay	60,000	60,000	25,115	34,885
Total Expenditures	60,000	60,000	25,115	34,885
Excess (Deficit) of Revenues over Expenditures	<u>\$ (60,000)</u>	<u>\$ (60,000)</u>	<u>(25,115)</u>	<u>\$ 34,885</u>
Fund Balances, July 1, 2009			<u>887,958</u>	
Fund Balances, June 30, 2010			<u>\$ 862,843</u>	

CITY OF IONE
Required Supplementary Information
Budgetary Comparison Schedule
Capital Project Fund - Fire Impact Fees
For the Fiscal Year Ended June 30, 2010

	Original Budget	Final Proposed Budget	Actual	Variance Favorable (Unfavorable)
REVENUES				
Use of money	\$ -	\$ -	\$ -	\$ -
Impact fees				-
Total Revenues				-
EXPENDITURES				
Principal expense			15,868	(15,868)
Interest expense			31,892	(31,892)
Total Expenditures			47,760	(47,760)
Excess (Deficit) of Revenues over Expenditures	\$ -	\$ -	(47,760)	\$ (47,760)
Fund Balances, July 1, 2009			(1,085,285)	
Fund Balances, June 30, 2010			<u>\$ (1,133,045)</u>	

City of Ione
Note to Required Supplementary Information
June 30, 2010

Budgets and Budgetary Accounting

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

Budgets for the general, special revenue 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 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, 2010

	Special Revenue Funds	Capital Projects Funds	Total
<u>Assets</u>			
Cash and investments	\$ 7,819	\$ (210,230)	\$ (202,411)
Receivables			
Accounts	3,389	129,716	133,105
Restricted cash and investments	54,623	761,899	816,523
Advance to other funds		43,000	43,000
Total Assets	<u>\$ 65,831</u>	<u>\$ 724,385</u>	<u>\$ 790,216</u>
<u>Liabilities and Fund Balances</u>			
Liabilities			
Accounts payable	\$ 15,131	\$ (797)	\$ 14,334
Accrued payroll	17,084		17,084
Deferred revenue		101,464	101,464
Total Liabilities	<u>32,215</u>	<u>100,667</u>	<u>132,882</u>
Fund Balances			
Reserved for advances		43,000	43,000
Unreserved - undesignated	33,616	580,718	614,334
Total Fund Balance	<u>33,616</u>	<u>623,718</u>	<u>657,334</u>
Total Liabilities and Fund Balances	<u>\$ 65,831</u>	<u>\$ 724,385</u>	<u>\$ 790,216</u>

CITY OF IONE

**Combining Statement of Revenues, Expenditures and
Changes in Fund Balances
Nonmajor Governmental Funds
For the Fiscal Year Ended June 30, 2010**

	Special Revenue Funds	Capital Project Funds	Total
Revenues			
Special assessment/impact fees	\$ 33,034	\$ 8,386	\$ 41,420
Intergovernmental		300,466	300,466
	<u>33,034</u>	<u>308,852</u>	<u>341,886</u>
Total Revenues	<u>33,034</u>	<u>308,852</u>	<u>341,886</u>
Expenditures			
Current:			
Public ways and facilities/ transportation	23,072		23,072
Public safety	120,602		120,602
Community development		4,638	4,638
Capital outlay		246,739	246,739
	<u>143,674</u>	<u>251,377</u>	<u>395,051</u>
Total Expenditures	<u>143,674</u>	<u>251,377</u>	<u>395,051</u>
Excess (Deficit) of Revenues Over Expenditures	<u>(110,640)</u>	<u>57,475</u>	<u>(53,165)</u>
Other Financing Sources (Uses)			
Operating transfers in	116,976	45,035	162,011
Operating transfers out	(748,353)		(748,353)
	<u>(631,377)</u>	<u>45,035</u>	<u>(586,342)</u>
Total Other Financing Sources (Uses)	<u>(631,377)</u>	<u>45,035</u>	<u>(586,342)</u>
Excess (Deficit) of Revenues and Other Financing Sources over Expenditures and Other Financing Uses	<u>(742,017)</u>	<u>102,510</u>	<u>(639,507)</u>
Fund Balances, July 1, 2009	779,661	504,593	1,284,254
Prior period adjustment	<u>(4,028)</u>	<u>16,615</u>	<u>12,587</u>
Fund Balances, June 30, 2010	<u><u>\$ 33,616</u></u>	<u><u>\$ 623,718</u></u>	<u><u>\$ 657,334</u></u>

CITY OF IONE

Combining Balance Sheet
Nonmajor Special Revenue Funds
June 30, 2010

	TDA	Traffic Safety	Ione Dist 1 COIC	SLESF AB3229	Asset Seizure Fund	Rehab Housing	Click it or Ticket Grant	Self Help Housing	97-Home Grant	01-Home-518
<u>Assets</u>										
Cash and investments	\$ -	\$ -	\$ -	\$ -	\$ 7,819	\$ -	\$ -	\$ -	\$ -	\$ -
Accounts			3,389							
Restricted cash and investments			82,202							
Total Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 85,591</u>	<u>\$ -</u>	<u>\$ 7,819</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<u>Liabilities and Fund Balances</u>										
<u>Liabilities</u>										
Accounts payable	\$ -	\$ -	\$ 1,732	\$ -	\$ 8,308	\$ -	\$ -	\$ -	\$ -	\$ -
Accrued payroll										
Total Liabilities			1,732		8,308					
<u>Fund Balances</u>										
Unreserved - undesignated			83,859		(489)					
Total Fund Balance			83,859		(489)					
Total Liabilities and Fund Balance:	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 85,591</u>	<u>\$ -</u>	<u>\$ 7,819</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

03-STBG 1826 Grant	06-Home CDBG	05-STBG	Pool Grant	Low Income Housing	Pool Fund	Wildflower Assessment	ARSA	Conservation Fire Break Assessment	2008 Housing Grant	Totals
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7,819
						(74,085)		46,506		3,389
										54,623
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (74,085)</u>	<u>\$ -</u>	<u>\$ 46,506</u>	<u>\$ -</u>	<u>\$ 65,831</u>
\$ -	\$ -	\$ -	\$ -	\$ -		\$ 5,091	\$ -	\$ -	\$ -	\$ 15,131
						17,084				17,084
						22,175				32,215
						(96,260)		46,506		33,616
						(96,260)		46,506		33,616
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (74,085)</u>	<u>\$ -</u>	<u>\$ 46,506</u>	<u>\$ -</u>	<u>\$ 65,831</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, 2010**

	TDA	Traffic Safety	Ione Dist 1 COIC	SLESF AB3229	Asset Seizure Fund	Rehab Housing	Click it or Ticket Grant	Self Help Housing	97-Home Grant	01-Home-518
Revenues										
Special assessment/impact fees	\$ -	\$ -	\$ 27,657	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Revenues			27,657							
Expenditures										
Current:										
Public ways and facilities/ transportation			23,072							
Public safety				4,776						
Total Expenditures			23,072	4,776						
Excess (Deficit) of Revenues Over Expenditures			4,585	(4,776)						
Other Financing Sources (Uses)										
Operating transfers in				38,810			3,835		5,554	545
Operating transfers out	(130,913)	(17,085)				(806)		(293,510)		
Total Other Financing Sources (Uses)	(130,913)	(17,085)		38,810		(806)	3,835	(293,510)	5,554	545
Excess (Deficit) of Revenues and Other Financing Sources over Expenditures and Other Financing Uses	(130,913)	(17,085)	4,585	38,810	(4,776)	(806)	3,835	(293,510)	5,554	545
Fund Balances, July 1, 2009	130,913	17,085	81,490	(38,810)	4,287	806	(3,835)	293,510	(5,554)	(545)
Prior period adjustment			(2,216)							
Fund Balances, June 30, 2010	\$ -	\$ -	\$ 83,859	\$ -	\$ (489)	\$ -	\$ -	\$ -	\$ -	\$ -

03-STBG 1826 Grant	06-Home CDBG	05-STBG	Pool Grant	Low Income Housing	Pool Fund	Wildflower Assessment	ARSA	Conservation Fire Break Assessment	2008 Housing Grant	Totals
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,377	\$ -	\$ -	\$ -	\$ 33,034
						5,377				33,034
						115,826				23,072
						115,826				120,602
						115,826				143,674
						(110,449)				(110,640)
(37,696)	(114,440)	245	30,313	(84,748)	37,674		(69,155)			116,976
										(748,353)
(37,696)	(114,440)	245	30,313	(84,748)	37,674	-	(69,155)	-	-	(631,377)
(37,696)	(114,440)	245	30,313	(84,748)	37,674	(110,449)	(69,155)	-	-	(742,017)
37,696	114,440	(245)	(30,313)	84,748	(37,674)	16,001	69,155	46,506		779,661
						(1,812)				(4,028)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (96,260)	\$ -	\$ 46,506	\$ -	\$ 33,616

CITY OF IONE

**Combining Balance Sheet
Nonmajor Capital Projects Funds
June 30, 2010**

52

	Parks & Rec Fund	Ballfield Grant	Arena Fund	Drainage Fund	Local Traffic Mitigation	Safe Routes to School	Park and Ride Grant	Tire Grant	Totals
<u>Assets</u>									
Cash and investments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (66,211)	\$ (144,019)	\$ -	\$ (210,230)
Accounts receivables	22,950				801	59,803	46,162		129,716
Interest receivable	-								-
Restricted cash and investments	122,475			104,171	535,253				761,899
Advance to other funds	21,000			22,000					43,000
Total Assets	\$ 166,425	\$ -	\$ -	\$ 126,171	\$ 536,054	\$ (6,408)	\$ (97,857)	\$ -	\$ 724,385
<u>Liabilities and Fund Balances</u>									
Current Liabilities									
Accounts payable	\$ (797)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (797)
Deferred revenue						55,302	46,162		101,464
Total Liabilities	(797)					55,302	46,162		100,667
Fund Balances									
Reserved for advances	21,000			22,000					43,000
Unreserved - designated	146,222			104,171	536,054	(61,710)	(144,019)		580,718
Total Fund Balances	167,222			126,171	536,054	(61,710)	(144,019)		623,718
Total Liabilities and Fund Balances	\$ 166,425	\$ -	\$ -	\$ 126,171	\$ 536,054	\$ (6,408)	\$ (97,857)	\$ -	\$ 724,385

CITY OF IONE

**Combining Statement of Revenues, Expenditures and
Changes in Fund Balances
Nonmajor Capital Projects Funds
For the Fiscal Year Ended June 30, 2010**

	Parks & Rec Impact Fund	Ballfield Grant	Arena Fund	Drainage Fund	Local Traffic Mitigation	Safe Routes to School	Park and Ride Grant	Tire Grant	Totals
Revenues									
Impact fees	\$ 943	\$ -	\$ -	\$ -	\$ 7,443	\$ -	\$ -	\$ -	\$ 8,386
Use of money and property									-
Intergovernmental						107,184	93,438	99,844	300,466
Total Revenues	943				7,443	107,184	93,438	99,844	308,852
Expenditures									
Current:									
Community Development	4,638								4,638
Capital outlay	5,504					23,261	217,974	-	246,739
Total Expenditures	10,142					23,261	217,974		251,377
Excess (Deficit) of Revenues Over Expenditures	(9,199)				7,443	83,923	(124,536)	99,844	57,475
Other Financing Sources (Uses)									
Operating transfers in		23,886	21,149						45,035
Operating transfers out									-
Total Other Financing Sources (Uses)		23,886	21,149					-	45,035
Excess (Deficit) of Revenues and Other Financing Sources over Expenditures and Other Financing Uses	(9,199)	23,886	21,149	-	7,443	83,923	(124,536)	99,844	102,510
Fund Balances, July 1, 2009	176,421	(23,886)	(21,149)	126,171	528,611	(159,763)	(21,968)	(99,844)	504,593
Prior Period Adjustments						14,130	2,485		16,615
Fund Balances, June 30, 2010	<u>\$ 167,222</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 126,171</u>	<u>\$ 536,054</u>	<u>\$ (61,710)</u>	<u>\$ (144,019)</u>	<u>\$ -</u>	<u>\$ 623,718</u>

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

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

To the City Council
City of Ione
Ione, California

We have audited the Financial Statements of the City of Ione as of and for the fiscal year ended June 30, 2010, and have issued our report thereon dated June 3, 2011. In our audit report we issued a qualified opinion.

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

Internal Control over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control such that there is reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We identified deficiencies in internal control over financial reporting presented as FS 10-1 through FS 10-23 and FS 10-28 through FS 10-35, in the schedule of findings following this report that we consider to be material weaknesses. We also identified certain deficiencies in internal control over financial reporting, that we consider to be significant deficiencies in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

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

This communication is intended solely for the information and use of the Audit Committee and management, federal awarding agencies and pass-through entities and is not intended to be an should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read 'Larry Bain', with a stylized flourish extending to the right.

Larry Bain, CPA,
An Accounting Corporation

June 3, 2011

LARRY BAIN, CPA,
An Accounting Corporation
2148 Frascati Dr.
El Dorado Hills, CA 95762

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM, INTERNAL CONTROL OVER COMPLIANCE
AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL
AWARDS IN ACCORDANCE WITH OMB CIRCULAR A-133**

June 3, 2011

To the City Council
City of Ione, California

Compliance

We have audited the compliance of the City of Ione (City) with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2010. The City's major programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2010. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items SA 10-1, SA 10-2, SA 10-3 and SA 10-4.

Internal Control over Compliance

The management of the City of Ione is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

Our consideration of the internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the City's internal control that might be significant deficiencies or material weaknesses as defined below.

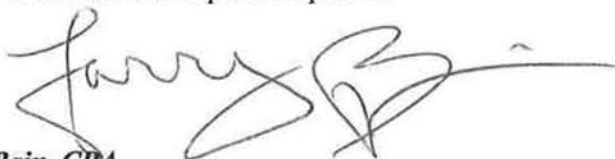
A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect non-compliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that non-compliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We noted one deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as SA 10-1 to be a significant deficiency.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that result in more than a remote likelihood that a material non-compliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Ione as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 3, 2011. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Ione's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

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



Larry Bain, CPA,
An Accounting Corporation
June 3, 2011

CITY OF IONE
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2010

Description and Program Title	Federal CFDA Number	Pass-through Grant Number	Grant ID No.	Federal Expenditures
<u>U.S. Department of Housing and Urban Development</u>				
Passed through State Department of Housing & Community Development:				
Home Investment Partnership Program	14.239	--	06-HOME 2370	\$ 4,750
Home Investment Partnership Program	14.239	--	08-HOME 4711 *	389,303
Total U.S. Department of Housing and Urban Development				<u>\$ 394,053</u>
<u>U.S. Department of Transportation</u>				
Passed through State Department of Transportation:				
Safe Routes to School	20.205	--	SR2SL5311(003)	\$ 23,261
Congestion Mitigation and Air Quality	20.205	--	CML-5311(004)	217,945
Total U.S. Department of Transportation				<u>\$ 241,206</u>
Total Federal Awards Excluding Loans				<u>\$ 635,259</u>
<u>Beginning Federal Loan Balances With a Continuing Compliance Requirement</u>				
<u>U.S. Department of Housing and Urban Development</u>				
Passed through State Department of Housing & Community Development:				
Community Development Block Grants/State's Program	14.228	--	-- *	\$ 667,075
Home Investment Partnerships Program	14.239	--	-- *	951,858
Total U.S. Department of Housing and Urban Development				<u>\$ 1,618,933</u>
Total Expenditures of Federal Awards Including Loans				<u>\$ 2,254,192</u>

* Major Program

CITY OF IONE
Notes to the Schedule of Expenditures of Federal Awards
Year Ended June 30, 2010

A. General

The accompanying schedule of expenditures of federal awards (the Schedule) presents the activity of all federal award programs of the City of Ione, California (City). The Schedule includes federal awards received directly from federal agencies as well as federal awards passed through other agencies. The City's reporting entity is defined in Note 1 to the City's basic financial statements. Because the Schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position of the City.

B. Basis of Accounting

The accompanying schedule of federal awards is presented using the modified-accrual basis of accounting which is described in Note 1B to the City's basic financial statements.

C. Relationship to Basic Financial Statements and Federal Financial Reports

Information reported in the accompanying schedule for expenditures of federal awards agrees with the amounts reported in both the basic financial statements and related federal financial reports for the major federal programs. Revenues from federal award programs are reported as intergovernmental revenues in the basic financial statements.

City of Ione
Schedule of Findings and Questioned Costs
Year Ended June 30, 2010

SECTION 1 – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditor’s report issued:

qualified

Internal control over financial reporting:

Material weaknesses identified

☒ Yes ☐ No

Significant deficiencies identified not
considered to be material weaknesses

☒ Yes ☐ No

Non-compliance material to financial statements noted

☐ Yes ☒ No

Federal Awards

Internal control over major programs:

Material weaknesses identified

☐ Yes ☒ No

Significant deficiencies identified not
considered to be material weaknesses

☒ Yes ☐ No

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

unqualified

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

☐ Yes ☒ No

Identification of major programs:

CFDA Number

Name of Federal Program or Cluster

Housing and Community Development

14.238

Community Development Block Grant

14.239

Home Investment Partnership Program

Dollar threshold used to distinguish
Between Type A and Type B programs

\$300,000

Auditee qualifies as low-risk auditee:

☐ Yes ☒ No

City of Ione
Schedule of Findings and Questioned Costs
Year Ended June 30, 2010

SECTION II – FINANCIAL STATEMENT FINDINGS

FS 10-1: Grant reconciliations
FS 10-2: Deposits liability
FS 10-3: Deposits liability/accounts receivable
FS 10-4: Bank reconciliations
FS 10-5: Howard Park balloon payment
FS 10-6: ARSA fund
FS 10-7: Sewer connection fees
FS 10-8: CFD Bonds
FS 10-9: Loan payoff
FS 10-10: Financial and accounting policy
FS 10-11: Operating transfers
FS 10-12: Budget
FS 10-13: Sewer revenue
FS 10-14: Accounts receivable
FS 10-15: Capital assets
FS 10-16: Capital lease
FS 10-17: Accounts payable
FS 10-18: Accounts receivable
FS 10-19: Interest receivable
FS 10-20: Compensated absences
FS 10-21: Accounts payable
FS 10-22: Accrued payroll
FS 10-23: Chart of accounts conversion
FS 10-24: Grants receivable
FS 10-25: Sewer connection charges
FS 10-26: Payroll
FS 10-27: Material disbursements
FS 10-28: Fund closeouts
FS 10-29: Cash accounts
FS 10-30: GASB 45
FS 10-31: SAS 112/115
FS 10-32: Contract rates
FS 10-33: Accounts receivable
FS 10-34: Sewer billing
FS 10-35: Budget

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

SA 10-1: Debarment
SA 10-2: Procurement
SA 10-3: Reporting
SA 10-4: Program income

City of Ione
Schedule of Findings and Questioned Costs
Year Ended June 30, 2010

PRIOR YEAR INTERNAL CONTROL FINDINGS

Deemed to be Significant Deficiencies and Material Weaknesses

FS 10-1 (Prior Year Finding 07-6): We noted the City was not maintaining grant summary schedules showing the activity for each loan and the City was not reconciling summary schedules to the general ledger. We also noted that no City employee appeared to be responsible for administering the grant programs in accordance with the grant agreement requirements. We noted for the 08 Home Loan program the City made a \$100,000 loan, but did not record an accounts receivable for the reimbursement that had not been received by June 30, 2010. The City also did not record the \$100,000 loan receivable and deferred revenue to recognize the lending activity. The significant deficiencies noted above increase the risk that material misstatements could be made to the financial statements without being detected.

Current Year Status: The City hired a new finance manager who is responsible for administering the grant programs. While the grant summary schedules were not maintained during the 2009/2010 fiscal year, the new finance manager prepared the grant summary schedules reconciling the activity for each loan. We also noted the CDBG and HOME grant funds were transferred and closed during the fiscal year and merged into one fund. This accounting treatment loses the individual identity for each grant program. The \$100,000 loan receivable and deferred revenue, noted in the prior year finding, were recorded for the 08 Home Loan Program.

Management Response: Partially agree. Finance manager is currently maintaining grant summary schedules for all CDBG and HOME grant funds. The individual CDBG and HOME grants funds were transferred and closed to one fund (fund 7111) during FY 09-10. The financial system is now set up to include a project code which identifies each individual CDBG and HOME grant funds that will allow individual identity for each grant program. The project codes will also be assigned to all balance sheet accounts within the fund which will identify program cash and receivables in order to reconcile with grant summaries.

FS 10-2 (Prior Year Finding 07-8): During our testing of the general fund deposits liability accounts we noted the City collects deposits from developers and citizens of Ione to be spent on the behalf of developers and for the Capital Facility District Mello-Roos assessment revenue and limited obligation debt payments. The City is using the general fund deposit liability accounts to record this activity. Furthermore the City could not reconcile the individual or organization deposit liabilities to a subsidiary ledger at June 30, 2007. The risk of material misstatement to the financial statements resulting from this significant deficiency is high.

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

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

Management Response: The City is working on reconciliation of the deposits liability accounts for current and prior years as time permits due to current workload. However finance manager will make it a priority to be completed before FY 10-11 is closed.

FS 10-3 (Prior Year Finding 07-15): During our testing of accounts receivables/deposit liability accounts we noted Tower Investments was billed \$69,788.16 on November 30, 2005 for legal fees related to the CFD formation. When the City received the money cash was offset by deposits liability account as opposed to accounts receivable. This miscoding resulted in an overstatement of accounts receivables and an overstatement of deposit liabilities in the amount of \$69,788.16.

City of Ione
Schedule of Findings and Questioned Costs
Year Ended June 30, 2010

Current Year Status: The City has established an agency fund for the developer deposits. The City is in process of reconciling all developer deposits and developer receivables to the underlying supporting documentation. The City is also in process of reconciling the developer deposits and developer receivables to all deposit and receivable accounts recorded in various funds in the general ledger. This is a condition that has an effect on our opinion of the fair presentation of the financial statements.

Management Response: Agrees. Staff will be working to resolve this issue as soon as possible. There is no known information indicating any prior research on this issue. Finance manager will include reconciliation of developer projects fund (fund 9711) a priority before FY 10-11 is closed.

FS 10-4 (Prior Year Finding 07-18): During our testing of cash we note the City had not performed bank reconciliation since October 2005. After performing the bank reconciliation we noted \$1,036,610 of banking activity that had not been recorded in the general ledger. The adjustments included a \$920,220 transfer from the bank account to the CFD trustee related to the defaulted bond activity, a \$75,000 collection received for a land purchase, but a stop payment was made on the check and several smaller transactions.

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

Current Year Status: Subsequent to fiscal year end the City hired a new finance director who has taken control of agreeing the reconciled bank statement activity to the general ledger. The City should continue to reconcile the bank statements soon after each month to reduce the risk that material misstatements in the general ledger or material fraud could be occurring without being detected in a timely manner.

Management Response: Agree. City has a system in place to reconcile bank statements to general ledger.

FS 10-5 (Prior Year Finding 07-19): During our testing of the Howard Park debt, we noted that the final balloon payment of \$244,800 will be applied against a credit from prior year sewer annexation fees incurred by the seller of Howard Park. To date we did not observe the \$244,800 paid to the sewer capital fund from the City.

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

Current Year Status: No change during the 2009/2010 fiscal year.

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

FS 10-6 (Prior Year Finding 07-21): During our testing of Amador Regional Sanitation Agency (ARSA) expenditures we noted a \$14,560 capital lease payment for a parking lot purchase paid for from the ARSA fund. We also noted over \$300,000 in legal expenditures, resulting from the Portlock lawsuit, coded to this fund.

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

Current Year Status: The ARSA fund was closed to the general fund during the chart of accounts conversion. \$69,155 in remaining ARSA fund cash was transferred to the general fund during the conversion. We did not observe City Council approval to close the ARSA fund and transfer the remaining cash to the general fund.

City of Ione
Schedule of Findings and Questioned Costs
Year Ended June 30, 2010

Management Response: Due to changes in the Finance Division and workload, the staff is trying to locate any research done on this issue to resolve. Staff will provide a report to the City Council and ask for direction.

FS 10-7 (Prior Year Finding 07-22): During our audit we noted the City received \$61,120 in sewer connection fees from a developer. The developer had previously deposited connection fees with the City to be used against future connection fees. Furthermore the City coded these fees to the general fund when they should have been coded to the sewer capital fund. We also noted a lack of communication between City management and the building department regarding the developer agreements and how the agreements would affect charging the developers.

Current Year Status: The City hired a new finance manager who performed a reconciliation of general fund receivables during the current fiscal year. A journal entry was prepared to agree the reconciled receivable balance to the general ledger..

Management Response: Finance manager will continue to reconcile receivables before each fiscal year close.

FS 10-8 (Prior Year Finding 07-29): During our testing of the Community Facility District (CFD) bonds, we noted the City refunded the 1989-1 and 1989-2 bonds and created new community facility districts to pay for the new limited liability debt. The City did not designate an employee to reconcile the fiscal agent statements for the activity. This lack of monitoring could result in material misstatements to the financial statements.

Current Year Status: No change during the 2009/2010 fiscal year. Starting in the 2010/2011 fiscal year the City hired a new finance manager who will be responsible for reconciling and monitoring the CFD activity.

Management Response: Finance manager is monitoring the fiscal agent statements activity.

FS 10-9 (Prior Year Finding 08-2): During our testing of housing grant projects we noted the City recorded a journal entry to record a loan payoff of \$50,800 in fund 41. We did not observe supporting documentation attached to a journal entry to support the payoff. Per review we also noted the property was transferred from the grantee to her son in June 2003, but based on our audit we did not see evidence that the loan was repaid to the City and therefore the loan receivable should not have been removed from the general ledger. It appears that the loan should have been paid back with the property transfer in 2003.

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

Current Year Follow Up: The City reversed the journal entry which showed the loan was paid off. The City did not resolve the issue of whether the loan should have been paid off when the property was transferred in 2003.

Management Response: Staff agrees. Staff has determined that the loan was not paid off and reversed the journal entry to reflect a loan receivable. Staff is currently trying to locate the original Note to resolve this issue. Staff has verified that there was a transfer from a father to son without the loan being paid off, and documentation has not been located that approves the transfer without repayment. Staff take a report to City Council for direction on this action as there is the ability to transfer loans if approved by the City.

City of Ione
Schedule of Findings and Questioned Costs
Year Ended June 30, 2010

FS 10-10 (Prior Year Finding 08-8): During our audit we noted the City did not have a written financial and accounting policy that included internal control procedures. We have noted this finding in prior audits.

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

Current Year Status: The financial and accounting policy is in draft form and needs to be finalized.

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

FS 10-11 (Prior Year Finding 09-1): During our testing of operating transfers, we noted the City used operating transfers in and operating transfers out to transfer cash into the fire impact and general impact funds when the intent was to loan the cash. Operating transfers close to fund equity at fiscal year end and the balances do not roll over from one year to another. The City should have recorded an asset as advances to in the lending fund and a liability advances from in the receiving fund. We proposed audit journal entries to true up this activity. We also noted the City did not assign an interest rate to the advances as is required by generally accepted accounting principles. The receiving fund should pay the lending fund interest annually based on a predetermined interest rate.

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

Current Year Status: During the prior year audit entries were made to establish advances to and advances from other funds. No new interfund loans were noted during the current year audit. We also did not observe a policy for allocating interest on the advances and no interest was charged during the 2009/2010 fiscal year.

Management Response: Staff will draft policy establishing interest rates for allocating interest on advances and bring to City Council for approval.

FS 10-12 (Prior Year Finding 09-2): During our audit, we noted the City did not budget, in the 2008/2009 fiscal year, for the general fund to loan the fire impact fee fund \$278,341 for the completion of the new fire house. We also noted the budget for the general fund loan to the general impact fee fund was \$336,000, but \$375,000 was transferred.

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

Current Year Follow Up: During the current year audit we did not observe interfund lending that would require budgeted transfers.

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

City of Ione
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FS 10-13 (Prior Year Finding 09-3): During our audit we noted the City posted March sewer billings of \$71,887.67 into the general ledger accounts receivable account three times. This overstated accounts receivable and sewer revenue by \$143,775.34. We proposed a journal entry to correct the error. We also noted the sewer aged receivable balance was not run as of June 30, 2010 and therefore we were not able to audit sewer receivable balances. The balance in the general ledger at June 30, 2010 was \$178,407 compared with the prior year balance of \$41,641. City staff did not review the sewer accounts receivable balance for reasonableness and reconcile to the underlying support. The City sewer billing/receivable system does not have the ability to go back and run past reports after posting new activity. This is a condition that has an effect on our opinion of the fair presentation of the financial statements.

Recommendation: We recommend the City implement internal controls to review sewer revenue postings and verify that sewer revenue is fairly stated in the financial statements shortly after the billing period so that material errors will be discovered and corrected in a timely manner.

Current Year Follow Up: During the current year audit we noted the problem still exists. The new finance manager for the City discovered errors in sewer billing postings that caused material misstatement. These errors were corrected by the new finance manager, however the errors were not discovered in a timely manner by the internal controls that were in place during the 2009/2010 fiscal year.

Management Response: Partially agree. Sewer billing revenue overstatements were discovered during year-end reconciliation of sewer revenue. Sewer billing postings are being reviewed in a more timely manner, depending on workflow, to prevent potential misstatements.

FS 10-14 (Finding 09-4): During our audit we noted that no year end accruals were made for governmental fund accounts receivables. We also noted the beginning governmental fund accounts receivable balances were not adjusted in many of the funds. City staff did not appear to have performed year end procedures to search for and accrue accounts receivables and adjust the general ledger to the underlying support. This is a condition that has an effect on our opinion of the fair presentation of the financial statements.

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

Current Year Follow Up: During the current year audit we noted the new finance manager performed year end procedures for accounts receivables at June 30, 2009 and prepared a prior period adjustment to correct that balance. The new finance manager then performed year end procedures to accrue accounts receivables at June 30, 2010,

Management Response: Staff will continue to perform year end procedures to accrue accounts receivable.

FS 10-15 (Prior Year Finding 09-5): During our audit we noted the City did not maintain controls over the general fixed assets of the City, the fixed assets of the enterprise fund and the depreciation expense and accumulated depreciation for those fixed assets. The City is paying an outside service provider to maintain the schedules for fixed assets, however the City did not provide the information for current year activity and therefore no schedules were provided with accurate year end figures. We also noted the City miscoded expenditures related to the master plan to service and supply expenses accounts as opposed to capital outlay accounts. This is a condition that has an effect on our opinion of the fair presentation of the financial statements.

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

Current Year Follow Up: No change. While the City did assign an employee to maintain the fixed asset schedule the audit revealed the schedule was materially misstated. Furthermore the fixed asset schedule that the City pays an annual fee for does not breakout governmental and business type fixed assets, depreciation expense and accumulated depreciation. We will provide the City with the auditor schedule that lists all assets owned by the City by governmental and business type assets.

Management Response: Partially agree. Some of the items added by the auditor to the fixed asset schedule were not included on the City's schedule because the projects had activity in FY 2010-11 and would be closed in FY 2010-11. The auditor provided the City with his fixed asset schedule and the finance manager feels this schedule can be utilized to track future fixed assets and depreciation. Upon City Council approval, this will allow the City to eliminate the outside service provider which will save the City at a minimum \$1,000 annually.

FS 10-16 (Prior Year Finding 09-6): During our audit we noted the City received \$560,000 proceeds from a capital lease for the construction of the new fire house. The proceeds were recorded as a liability in the general ledger liability account advances from other funds. We also noted the \$12,538 principal and \$27,262 interest payments on this debt were recorded to asset account advance to other funds in the general fund as opposed to an expense in the fire impact fee fund. Principal and interest expense were also not included with the City's 2008/2009 budget. Audit adjustments were proposed to reclassify the proceeds from advance from other funds to other financing sources-proceeds of capital lease and to record principal and interest to expense accounts in the fire impact fee fund as opposed to advance to other funds in the general fund. The effect of the miscodings also put advances to and advances from other funds out of balance. City staff did not reconcile these accounts to agree that they were in balance.

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

Current Year Follow Up: During the current year audit we noted that no additional proceeds of debt were received in the 2009/2010 fiscal year. We noted that principal and interest expense were miscoded to various accounts. The new finance manager provided us with the journal entry to correct the principal and interest misstatements.

Management Response: Staff agrees. Staff is currently recording the loan principal and interest expense correctly and will add to the annual operating budget.

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FS 10-17 (Prior Year Finding 09-7): During our audit we noted the City coded all accounts payables to the general fund and then allocated each funds share through due to due from interfund accounts. This treatment overstates accounts payable in the general fund, understates accounts payable in funds that would have an accounts payable accrual and overstates interfund activity. We proposed a journal entry to correct the miscodings. We also discovered \$23,877 unrecorded accounts payable during our search for unrecorded accounts payables. These are conditions that have an effect on our opinion of the fair presentation of the financial statements.

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

Current Year Follow Up: Condition not present in the current year audit.

Management Response: Agree. City includes recommended process as part of year end close.

FS 10-18 (Prior Year Finding 09-8): During our audit we noted the City accrued a \$10,280 receivable and recognized the revenue in the general fund. When the funds were received the City reversed the receivable and recognized the cash in the Safe Routes to School special revenue fund. The effect of this treatment was overstating receivables and revenue in the general fund and understating receivables and revenue in the special revenue fund. The special revenue fund also had an ending accounts receivable credit balance, which is not a normal balance. It does not appear the receivable balances or the deferred revenue balances were reviewed by City staff. This is a condition that has an effect on our opinion of the fair presentation of the financial statements.

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

Current Year Follow Up: The new finance manager reconciled accounts receivables to the underlying documentation. We did note the Safe Routes to School fund had a deficit fund balance of \$6,408 at June 30, 2010. This deficit will need to be eliminated with additional billings for the project or by transfers from the general fund.

Management Response: Staff will prepare report to City Council to recommend transfer from the general fund to eliminate deficit fund balance.

FS 10-19 (Prior Year Finding 09-9): During our audit we noted the City did not accrue the \$12,897 LAIF interest receivable at June 30, 2009. Furthermore the City did not post \$51,607 LAIF interest received on July 15, 2008. The effect of not posting the June 30, 2009 interest receivable was to understate interest receivable and interest revenue by \$12,897. The effect of not posting the July 15, 2008 interest revenue was to understate cash and interest revenue by \$51,607. This is a condition that has an effect on our opinion of the fair presentation of the financial statements.

Current Year Follow Up: Not noted during the current year audit. The new finance manager reconciled laif receivable to the underlying documentation.

Management Response: Agreed. Finance manager is posting LAIF interest as it is received.

FS 10-20 (Prior Year Finding 09-10): During our audit we noted that after the payroll clerk was released it was discovered that many of her computer programs and files were deleted, including the compensated absence schedules. As a result we were unable to test the compensated absence activity for the fiscal year and to verify the accuracy of the ending balances reported by the City. This is a condition that has an effect on our opinion of the fair presentation of the financial statements.

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

Current Year Follow Up: The new finance manager is in the process of reconciling the compensated absence activity from the employee schedule to the underlying documentation. We provided technical assistance in preparing the summary schedule for all employees. We noted several errors in recording sick, vacation and compensated time off accruals, none of which are material to the financial statements.

Management Response: Finance manager is still in the process of reconciling prior year (FY 08/09) compensated absence accruals as workload permits. Current activity for compensated absence accruals is now being monitored each pay period.

FS 10-21: (Prior Year Finding 09-11): During our testing of accounts payables we discovered \$147,946 in prior year accounts payable that had not been reversed in the current year. We also noted \$15,558 in prior year accounts payable that was reversed to fund equity in the current year as opposed to accounts payable. The effect of these items was to overstate accounts payable \$163,504, overstate expenses \$147,946, and to understate fund equity \$15,558 at June 30, 2009. We proposed journal entries to correct these misstatements. This is a condition that has an effect on our opinion of the fair presentation of the financial statements.

Current Year Follow Up: Not noted during the current year audit.

Management Response: Required process for accounts payable accruals is being implemented.

FS 10-22 (Prior Year Finding 09-12): During our testing of accrued payroll we noted that no cutoff procedures were performed for accrued payroll. City staff did not review the general ledger account balances for accrued payroll and reconcile to the underlying support. We also noted the accrued payroll balance for all funds was \$238,529. There was also \$56,146 in debit balances recorded to accrued payroll accounts, which are not normal balances for this type of account. This is a condition that has an effect on our opinion of the fair presentation of the financial statements.

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

Current Year Follow Up: Problem still exists. The new finance manager prepared the accrued payroll schedules for June 30, 2010, however the accrued payroll amount was unknown as of June 30, 2009 and a prior period adjustment was not recorded. Accrued payroll accounts appear to be materially misstated as of June 30, 2010.

Management Response: Agree. Workload did not allow enough time to reconcile prior year, June 30, 2009, payroll accruals. As stated above, the schedule for payroll accruals as of June 30, 2010 has been completed and accruals will be determined at the end of fiscal year 2010-11. As discussed with auditor, a prior period adjustment for the variance will be made to true up accrued payroll at year end.

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FS 10-23 (Prior Year Finding 09-13): During the current year audit we were originally provided with a trial balance with a new chart of accounts. Based on our analysis we observed several problems with the new chart of accounts and the City opted to revert to the old chart of accounts/general ledger. After setting up the working trial balance and after we began testing account balances we noted material errors with accounts payable and payroll. Based on City staff review it was determined that several journal entries had not been posted to the old general ledger. We were provided with journal entries to post the accounts payable and payroll activity. City staff did not review account balances for accuracy and reconcile to underlying supporting documentation for all account balances. Furthermore the transition to the new accounting chart of accounts was not properly planned and monitored to ensure accuracy in financial reporting in accordance with U.S. generally accepted accounting principles.

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

Current year Follow Up: During the current fiscal year audit several audit entries were prepared to present the new chart of accounts in accordance with generally accepted accounting principles. These included eliminating general fixed assets and general long term debt from the general fund.

Management Response: The City will continue to perform internal checks and account reconciliations prior to audit for accurate financial reporting in accordance with U.S. generally accepted accounting principles.

Prior Year Significant Deficiencies, Not Deemed to be Material Weaknesses

FS 10-24 (Prior Year Finding 07-41): During our testing of grant activity we noted the house, used to obtain a self help housing grant recorded in fund 8, had been sold. As a result the loan was terminated at the date of sale, June 11, 2003 and the remaining \$3,200 was owed to the City. The City had not collected the amount due as of June 30, 2007.

Current Year Follow Up: During the current year we noted the \$3,200 receivable was eliminated during the chart of accounts conversion. The self help fund also was merged into one fund with all CDBG/HOME grant funds of the City. We did not observe City Council approval to write off this receivable.

Management Response: Staff will bring this issue before City Council for approval to write off receivable due to the lapse in time.

FS 10-25 (Prior Year Finding 07-42): During our testing of receipts we noted building permit #2091 paid with receipt #35845 on 1/26/07 did not indicate a \$3,284 charge for sewer connection.

Current Year Follow Up: During the City review additional building permits were discovered where sewer connections were not charged. The City follow-up billed and the City will review this year. We did not observe amounts received during the 2009/2010 fiscal year for the prior sewer connection fees.

Management Response: Staff has investigated this issue and determined that the City did not collect on four sewer connection fees for one developer. Staff will prepare a report to the City Council regarding direction on collection of these fees.

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FS 10-26 (Prior Year Finding 09-14): During our testing of payroll we noted three instances where the employee withholdings authorized by the employee on the W-4 did not agree to the amount being used to calculate pay.

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

Current Year Follow Up: We did not observe problems with W-4's in the current fiscal year and noted the new finance manager has spot checked w-4's with the information provided to paychex.

Management Response: Finance manager will review all prior years W-4's to insure that they agree with the information provided to Paychex.

FS 10-27 (Prior Year Finding 09-15): During our testing of material disbursements we noted the total payments made to Wallace, Kuhl & Associates were \$11,729 over the contract/budgeted amount for monitoring offsite wells. We did not observe a change order authorizing the Company to exceed the original contracted amount.

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

Current Year Follow Up: Resolved in the current fiscal year.

Management Response: Agree.

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CURRENT YEAR INTERNAL CONTROL FINDINGS

Deemed to be Significant Deficiencies and Material Weaknesses

FS 10-28: During the current year audit we noted the City converted the chart of accounts and closed many special revenue funds into the general fund. Included were the SLESF/AB3229 and the local transportation commission/TDA funds. These funds are required to be separate from the general fund and have separate balance sheets and income statements. Furthermore we did not observe City Council approval to closeout funds during the conversion. The net effect of closing the two funds noted above into the general fund was an increase in general fund cash of \$92,103.

We also noted that during the chart of accounts conversion the City merged all CDBG, HOME and self help funds into one fund. By doing this each program loses the ability to track its individual cash balance.

Recommendation: We recommend the City review the funds that were closed during the conversion and determine if any of these funds are legally required to be accounted for in another fund type. We also recommend considering separating the CDBG, HOME and self help funds back to individual special revenue funds.

Management Response: Partially agree. Staff agrees that the SLESF/AB3229 and the local transportation commission/TDA funds should have their own funds according to regulations and will prepare a report to City Council to move funds to individual funds. In addition, staff will also recommend to set up a separate fund for Measure M proceeds. Staff feels that individual cash balances for CDBG, HOME and self help funds can be maintained by using a project number assigned to each program as discussed in finding FS 10-1 above. The finance manager has assigned project numbers to all programs and is reconciling back to fiscal year 08-09 to determine individual cash balances to be brought forward.

FS 10-29: During our audit we noted the new chart of accounts records cash balances in due to/due from accounts. This accounting treatment makes reconciling cash burdensome and also makes accounting for actual due to/due from other fund activity nearly impossible.

Recommendation: We recommend the City consult with the fund accounting software provider to determine how to close the due to/due from accounts into pooled cash accounts and account for cash in pooled cash accounts as opposed to due to/due from accounts.

Management Response: Agrees. Finance manager will work with the fund accounting software provider, Blackbaud, to set up financial system to close the due to/due from accounts into pooled cash to account for cash in individual fund cash accounts.

FS 10-30: During our review of GASB 45 for other post employment benefits (OPEB), we noted the City did not adopt a funding policy for the annual required contribution (ARC). A \$150,658 audit entry was proposed to record a liability for the current year unfunded ARC.

Recommendation: We recommend the City adopt a policy for funding, or not funding the ARC for the GASB 45 OPEB. If the City chooses to fund the ARC then the City should also determine who the trustee will be for the OPEB assets. If the ARC is not funded we recommend the City calculate and record the liability in the financial statements.

Management Response: Partially agreed. City Council previously directed staff not to fund ARC. However, staff will take a report to City Council and get formal direction, then implement the appropriate action.

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FS 10-31: Currently the City relies on the external auditor to ensure its financial statements are in accordance with generally accepted accounting principles. Prior to issuance of statement of auditing standard 112 and 115 the city was able to rely on the external auditors to assist with the financial statements and related notes without being subject to control deficiencies. The new standards say that external auditors cannot be part of the City's internal controls, including preparation of the financial statements, and are prohibited from auditing their own work as doing so impairs their independence.

The risk of misstatement in the financial statements increases when management is not able to apply GAAP in recording the financial transactions or preparing its financial statements, including the related notes. Also, by relying on the external auditors to ensure its financial statements are in accordance with GAAP, the City is considering the external auditors a part of its internal controls over the preparation of the financial statements.

During our audit we also detected the following material misstatements as a result of our audit procedures and proposed audit entries to correct the misstatements for GAAP presentation:

		2	
LAND			1,536,346.34
CITY HALL IMPROVEMENTS			368,913.33
EQUIPMENT & VEHICLES			997,568.20
AMT TO BE PROVIDED FOR RET LTD			365,183.08
457 DEFERRED COMP EMPLOYEES	37,339.00		
CLAIMS PAYABLE	9,004.00		
NOTES PAYABLE	305,840.00		
CAP LEASE PAYABLES	13,000.01		
FUND BALANCE - UNRESERVED	2,902,827.94		

Reverse GFAAG and GLTDAG that should not be recorded
in the general fund

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15a

A/P & ACCRUED LIABILITIES		228,880.38
Pooled Cash	8,707.35	
Pooled Cash	34,864.02	
Pooled Cash	48,034.58	
Pooled Cash	13,094.84	
Pooled Cash	1,445.39	
Pooled Cash	437.34	
Pooled Cash	635.50	
Pooled Cash	1,048.90	
Pooled Cash	29,880.11	
Pooled Cash	3,058.56	
Pooled Cash	402.25	
Pooled Cash	8,201.25	
ACCOUNTS PAYABLE	79,070.29	
ACCOUNTS PAYABLE	8,707.35	
Pooled Cash		8,707.35
ACCOUNTS PAYABLE	34,864.02	
Pooled Cash		34,864.02
ACCOUNTS PAYABLE	48,034.58	
Pooled Cash		48,034.58
ACCOUNTS PAYABLE	13,094.84	
Pooled Cash		13,094.84
ACCOUNTS PAYABLE	1,445.39	
Pooled Cash		1,445.39
ACCOUNTS PAYABLE	437.34	
Pooled Cash		437.34
ACCOUNTS PAYABLE	635.50	
Pooled Cash		635.50
ACCOUNTS PAYABLE	1,048.90	
Pooled Cash		1,048.90
ACCOUNTS PAYABLE	29,880.11	
Pooled Cash		29,880.11
ACCOUNTS PAYABLE	3,058.56	
Pooled Cash		3,058.56
ACCOUNTS PAYABLE	402.25	
Pooled Cash		402.25
ACCOUNTS PAYABLE	8,201.25	
Pooled Cash		8,201.25

To reverse a/p and pooled cash portion of PY a/p posted to general fund by the client.
09/10 client reversed twice and (dr) and corrected once (cr). This entry trues up activity.
PY audit had already adjusted for the prior year error. (No addl entry should have been made
other than reversing a/p and expense) Trace reports 15438T, 15698T and 15699T

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15b

Accounts Payable	34,864.02	
Pooled Cash		34,864.02
Accounts Payable		34,864.02
Pooled Cash	34,864.02	
Pooled Cash	2,485.24	
Fund Balance		2,485.24
Fund Balance	2,485.24	
Accounts Payable		2,485.24
Reverse client JE 0610-11 and reclassfrom 5112-1991 to PPA for accruing py ap to the wrong fund		

15C

A/P & ACCRUED LIABILITIES		48,296.93
A/P & ACCRUED LIABILITIES		1,144.47
A/P & ACCRUED LIABILITIES		2,811.18
A/P & ACCRUED LIABILITIES		5,092.34
ACCOUNTS PAYABLE	48,296.93	
ACCOUNTS PAYABLE	1,144.47	
ACCOUNTS PAYABLE	2,811.18	
ACCOUNTS PAYABLE	5,092.34	
Reclass Accrued PERS from account 2110 to 2100		

15d

A/P	29,046.08	
Salary and Wage		2,737.13
Salary and Wage		3,665.53
Salary and Wage		787.89
Salary and Wage		13,312.21
Salary and Wage		1,100.00
Salary and Wage		1,680.05
Salary and Wage		5,267.98
Salary and Wage		495.29
Accounts Payable	1,117.58	
Accounts Payable	2,413.09	
Accounts Payable	1,724.75	
Salary and Wage		1,117.58
Salary and Wage		2,413.09
Salary and Wage		1,724.75
Reverse accrued payroll coded to accounts payables (Client entry JE0610-9)		

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15e

ACCOUNTS PAYABLE		22,855.74
ACCOUNTS PAYABLE	154.66	
ACCOUNTS PAYABLE	8.33	
ACCOUNTS PAYABLE		149.78
ACCOUNTS PAYABLE	230.14	
Fund equity	22,701.08	
Fund equity		8.33
Fund equity	149.78	
Fund equity		230.14
ACCOUNTS PAYABLE		639.81
Fund equity	639.81	
ACCOUNTS PAYABLE		19,560.53
Fund equity	19,560.53	
ACCOUNTS PAYABLE		2,849.15
Fund equity	2,849.15	
ACCOUNTS PAYABLE		2,216.13
Fund equity	2,216.13	
ACCOUNTS PAYABLE		34.75
Fund equity	34.75	
PPA to true up unsupported accounts payables remaining from prior years.		

17a

Capital Lease	560,000.00	
Fund Balance		560,000.00
Reclassify proceeds of debt that was miscoded to liability account.		
PY should have coded to other fin sources. (FS are ok. No PPA)		

19

Sales Tax Revenue	7,700.00	
Accounts Receivable		7,700.00
Reverse July 10 sales tax advance recorded as a/r at 6/30/10		

20

Revenue	5,127.53	
Revenue	271.26	
Revenue	513.00	
Revenue	224.00	
Revenue	337.13	
Deferred Revenue		6,472.92
Revenue	46,161.91	
Deferred Revenue		46,161.91
Reclass client entry 0610-15 to reflect 6/30/10 deferred revenue		

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		21b	
Revenue			326.29
Revenue			246.95
Revenue			689.81
Revenue			44,816.86
Revenue			3,065.06
Revenue			501.88
Fund Balance	49,646.85		
Revenue			2,633.99
Revenue			4,233.06
Revenue			2,000.00
Revenue			3,196.52
Fund Balance	12,063.57		
Revenue			2,398.27
Revenue			2,398.27
Fund Balance	4,796.54		

Adjust client entry 0610-5 to reflect deferred rev from 6-30-09 that should be recognized as rev in 09/10

		21c	
Accounts Receivable			1,955.00
Fund Balance	1,955.00		
Accounts Receivable			22,021.80
Fund Balance	22,021.80		
Accounts Receivable	14,130.00		
Fund Balance			14,130.00
Accounts Receivable			3,220.00
	3,220.00		

PPA to correct prior year a/r balances and agree to audit

		22	
Revenue	55,487.42		
Fund Balance			55,487.42

Reclass client entry 0610-21 to reflect PPA for 6-30-08 portlock tertiary a/r not recorded in the prior year. (\$30K was paid 9-24-10. Remainder is being negotiated)

		23a	
Pooled Cash	107,424.66		
Accounts Receivable			118,440.14
Revenue	11,015.48		
Revenue	1,533.25		
Pooled Cash			1,533.25
Revenue	30,560.00		
Pooled Cash			30,560.00
Revenue	70,187.41		
Pooled Cash			70,187.41
Revenue	5,144.00		
Pooled Cash			5,144.00
Revenue	8,529.74		
(Recorded to a/r GF 5/21/10)			8,529.74

To reverse client a/r entered into general fund during the FY and then recorded in other funds with JE06-21

City of Ione
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		23b	
			30,560.00
	30,560.00		
	30,560.00		
			30,560.00
Reclassify receivable coded to 3111-1210, should have been fund 3121-1210 (JE 06-21)			
Revenue was correctly posted to 3121.			
		24	
Compensated absence			159.41
Salary Expense	159.41		
To true up comp abs in sewer fund at 6/30/10			
		27	
Accounts receivable			54,164.85
Sewer Revenue	54,164.85		
To true up a/r for sewer and true up sewer revenue.			
		28	
Planning Expense	796.25		
Capital Outlay			796.25
Planning Expense	6,300.00		
Capital Outlay			6,300.00
Reclass HP Ceqa activity to proper accounts (PMC pymts for wetlands delineation)			
		29	
Land			446,396.00
Infrastructure	3,838,892.00		
Buildings & Improvements	55,086.43		3,838,892.00
Buildings & Improvements			55,086.43
Improvement other than Bldg	446,396.00		
Equip and Veh	8,183.41		
Equip and Veh			8,183.41
Acc Dep	2,710,342.77		
Dep Expense			2,710,343.00
To agree sewer capital assets to 6/30/08 and 09 audit			
		30	
Construction in Progress	790,138.27		
Equip and Veh	43,081.00		
Infrastructure	86,024.83		
Acc Dep			222,170.74
Net Assets			697,073.36
PPA to add sewer assets purchased in prior years and PY Acc Dep			

City of Ione
Schedule of Findings and Questioned Costs
Year Ended June 30, 2010

		31
Construction in Progress	422,528.14	
Op transfer in		422,528.14
Operating transfer out	422,528.14	
Service and Supply Expense		116,463.01
Service and Supply Expense		294,799.38
Service and Supply Expense		11,265.75
Reclassify 09/10 sewer capital assets from capital fund expense accounts to operating fund capital asset accounts		
		32
Depreciation Expense	229,167.11	
Accumulated Depreciation		229,167.11
To record sewer dep expense for 09/10		
		33
Cash with fiscal agent		664,323.05
Deposits held for others	664,323.05	
To agree cash with fiscal agent to US bank confirm		
		34
Prop 1A Receivable	121,612.00	
Property tax revenue		121,612.00
To record receivable & rev for portion of Prop 1A taken in 09/10. To be repaid in 12/13 FY		
		35
GASB 45 OPEB expense	150,658.00	
OPEB Liability		150,658.00
Recognize unfunded ARC for GASB 45 OPEB In 09/10		
		36
Property transfer tax	35,406.00	
Property tax		35,406.00
Reclassify to proper account		

Recommendation: In July 2010 the City hired a new finance manager who is familiar with financial statement preparation. We recommend the City continue to provide training for its accounting staff that would enable them to become more familiar with the general disclosure requirements. This training should include, but is not limited to, the use of a disclosure checklist, which provides guidance to the financial statement's content and whether a necessary disclosure has been overlooked. The City may find that the costs outweigh the benefits to adhere to this standard. No action will result in a significant deficiency in the City's internal controls over the preparation of the financial statements.

City of Ione
Schedule of Findings and Questioned Costs
Year Ended June 30, 2010

Management Response: Agreed. It is necessary for financial staff to continue financial statement preparation training regularly to stay in compliance with ongoing changes to financial statement reporting. Financial staff plans to prepare the fiscal year 2010-11 financial statement as recommended.

FS 10-32: During our testing of material disbursements we noted the rate paid to the contract City Planner was \$75 per hour for all general non reimbursable charges. The contract indicates the rate should be \$65 per hour and we did not observe an authorized change to the contract rate.

Recommendation: We recommend the City review the contract for the City Planner and determine what rate should have been in effect for general non reimbursable charges. The City could recalculate what the charges should have been during the period the higher rate was used and request a reimbursement from the vendor.

Management Response: Staff agrees that the contract failed to reflect the charge for Senior Planner in contract amendments. Staff is working with the vendor for FY 09/10, the difference is \$5,753. The Vendor has revised rates on current unpaid invoices.

FS 10-33: During our testing of accounts receivables we noted the City was recording all accounts receivable in the general fund when billed. If the receivable was for another fund then pooled cash was reduced in the general fund, revenue was increased in the receiving fund and pooled cash was increased in the receiving fund. The net effect of this treatment was an overstatement of accounts receivable in the general fund, an understatement of pooled cash in the general fund, and an understatement of accounts receivable and overstatement of pooled cash in the receiving fund.

Recommendation: We recommend the City record accounts receivable and revenue directly to the correct fund when billed. When the receivable is collected the City should also record the cash and reduce the receivable directly to the correct fund.

Management Response: Agreed. Financial staff will regularly review all accounts receivable and revenue accounts to verify postings to correct funds.

FS 10-34: During our testing of sewer revenue we noted that during the 2009/2010 fiscal year, when the City processes sewer bills on the first of each month, the accounting system was set up to increase accounts receivable and increase revenue in the sewer fund at the time of billing. When payments are received cash is recognized in the general fund and then is allocated to the sewer fund. This accounting treatment increases the risk that material errors could occur, by not posting directly to the receiving fund. We were informed that material errors had occurred during the 2009/2010 fiscal year as a result of how receipts were processed. These errors were corrected by the new finance manager prior to providing the working trial balance to the auditor. The errors however were not detected by normal internal controls of the City.

Recommendation: We recommend the City record receipts directly to the receiving fund. We recommend the City design internal controls to detect and correct misstatements in the financial statements within a timely period after the end of each month.

Management Response: Staff will work with the financial system vendor to set up financial system to automatically post sewer accounts receivable and revenue correctly. Finance manager will design internal controls to detect and correct misstatements in the financial statements as recommended.

City of Ione
Schedule of Findings and Questioned Costs
Year Ended June 30, 2010

FS 10-35: During our review of the budget we noted the budget in the financial reporting system did not agree to the original budget plus all amendments to the budget approved by City Council. The amount used in the budget to actual statement for required supplementary information includes only the original budget and the final budget could be materially misstated by not including all budget amendments. Furthermore we noted in many instances the budget amendments approved by the City Council were vague on which specific budget accounts were to be increased or decreased.

Recommendation: We recommend the City update the budget module each time there is an approved budget amendment. We also recommend that the budget amendments specifically identify each budget line item that will be increased or decreased.

Management Response: Financial staff will update the budget module as budget adjustments are approved by City Council, and insure that budget amendments identify each budget line item to be increased or decreased as recommended.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

<i>Finding No.</i>	<i>SA-10-1</i>
<i>Federal Grantor:</i>	<i>U.S. Department of Housing and Urban Development</i>
<i>Pass-Through Entity:</i>	<i>California Department of Housing and Community Development</i>
<i>Program:</i>	<i>HOME Investment Partnerships Program (CFDA 14.239)</i>
<i>Compliance Requirement:</i>	<i>Debarment</i>

Criteria

Debarment is an action by a federal agency to prohibit certain individuals and organizations from receiving federal funds through procurement transactions and applicable non-procurement transactions. (Examples given for applicable non-procurement transactions are: grants, cooperative agreements, scholarships, fellowships, contracts of assistance, loans, loan guarantees, subsidies, insurances, payments for specified uses, and donation agreements.)

Non-Federal entities, such as the City, cannot use federal funds to contract with or make subawards under procurement transactions and applicable non-procurement transactions to parties that are suspended or debarred or whose principals are suspended or debarred. (OMB Compliance Supplement, Part 3, section I.) Any federally-funded procurement transaction for goods or services which is expected to equal or exceed \$25,000 requires verification that the entity is not suspended or debarred. A debarment check is also required for all non-procurement transactions (i.e., subawards to subrecipients), irrespective of the award amount. The most common and efficient way to check debarment is to use the EPLS.gov website. Obtaining a self-certification that a person or entity is not suspended or debarred is no longer sufficient for compliance with this requirement.

Condition

We inquired whether or not the City was aware of the debarment requirements and whether or not they checked for debarment when the federal funds paid to a vendor were greater than \$25,000 either individually or in the aggregate. We learned that debarment is not checked and that the City does not have procedures in place to check for debarment.

City of Ione
Schedule of Findings and Questioned Costs
Year Ended June 30, 2010

Questioned Costs

We do not question any costs as the City did not appear to have entered into a transaction with a debarred individual or entity.

Effect of Condition

The federal government can disqualify any transaction and reject the claim for federal funds when the underlying transaction is with a suspended or debarred individual or entity.

Perspective

We do not believe any further information assists in gaining a proper perspective.

Recommendation

We recommend that the City implement a procedure which requires that for any federally-funded transaction expected to exceed \$25,000 or for any amount on a nonprocurement transaction, such as a subaward to a subrecipient, the City perform a suspension and debarment check. We suggest that the City perform this check by searching the list of suspended and debarred parties available online at <http://www.epls.gov>.

Corrective Action Plan

The City did a debarment check during the audit and found that the current administrative contractor is not on the debarment list. The City will implement a procedure for future federally-funded transactions expected to exceed \$25,000 or any amount on a nonprocurement transaction will be checked against debarment list prior to receiving services or supplies.

<i>Finding No.</i>	<i>SA-10-2</i>
<i>Federal Grantor:</i>	<i>U.S. Department of Housing and Urban Development</i>
<i>Pass-Through Entity:</i>	<i>California Department of Housing and Community Development</i>
<i>Program:</i>	<i>HOME Investment Partnership Program (CFDA 14.239)</i>
<i>Compliance Requirement:</i>	<i>Procurement</i>

Criteria: California Department of Housing and Community Development HOME Contract Management Manual contains specific requirements for contracts with an administrative subcontractor. See California Department of Housing and Community Development HOME Contract Management Manual, Chapter I – HOME Basics, page I-5-7. Required minimum contract provisions between a HOME grantee and its administrative subcontractor include:

- 1) Identifying the roles and responsibilities of each party;
- 2) A full description of the project or program being funded, explaining the eligible use of funds;
- 3) Allowable uses of funds, including tasks to be performed, a schedule for completing tasks, and a budget in sufficient detail to effectively monitor performance;
- 4) Whether program income, unexpended funds, or other assets are retained by a State Recipient, how they will be recorded, an identification of the local HOME account for holding these assets, and how and under what circumstances they can be expended. (They must be expended on HOME-eligible activities prior to drawing down any new funds);
- 5) A requirement that the subcontractor will comply with applicable federal administrative requirements, as described in 24 CFR 92.505 including OMB Circular A-87 and applicable provisions of 24 CFR Part 85 for governmental entities, or OMB Circular A-122 and applicable provisions of 24 CFR Part 84 for non-profit entities;

City of Ione
Schedule of Findings and Questioned Costs
Year Ended June 30, 2010

- 6) A description of all requirements applicable to the type of program or project(s) funded, (such as affordability requirements, property standards, rents, homeowner or renter eligibility requirements, and recapture or resale provisions), including all requirements found in Subpart F of Part 92 of Title 24 of the Code of Federal Regulations.
- 7) Other requirements that must be met, including nondiscrimination and equal opportunity; affirmative marketing and minority outreach; environmental review; displacement, relocation and acquisition; labor standards; and lead-based paint;
- 8) A requirement that HOME funds cannot be requested until funds are needed for repayment of eligible HOME costs. The amount of each request must be limited to the amount needed, and funds requested may not be retained longer than 15 days from disbursement from the U.S. Treasury, as indicated by the wire date on the remittance advice that is attached to the State Warrant, (not 15 days from receipt of the HOME funds);
- 9) A project timetable with performance standards;
- 10) The consequences of non-performance;
- 11) Criteria for the successful completion of the program or project;
- 12) A description of the project or program close-out requirements;
- 13) A requirement that certain records must be maintained in accordance with the five-year recordkeeping requirements described in Section J in this manual, an identification of where the records will be maintained, a requirement that certain information and reports must be submitted, and their due dates;
- 14) A means for enforcing the provisions of the written agreement between all parties;
- 15) An identification of all fees, costs or charges an administrative subcontractor receives or may receive as compensation for loan origination, loan processing or loan servicing, including any pass through of loan processing cost, and prohibition of the administrative subcontractor charging participants any such fee as a condition of program participation;
- 16) A certification regarding lobbying, as contained in the Standard Agreement; and
- 17) A Nondebarment Certification must be included in all bid requests and contracts entered into by the HOME contractor, and other contractors, and subcontractors on projects using HOME funds.

Condition

In reviewing the City's contract with its administrative subcontractor, we noted that several of the required contract provisions described under "Criteria" had not been included in the contract.

Questioned Costs

We do not question any costs. Though several of the required contract provisions described above were not contained in the contract, the administrative subcontractor complied with the HOME compliance requirements.

Effect of Condition

The required administrative subcontractor provisions exist to aid the HOME grantee in ensuring the administrative subcontractor's compliance with all applicable State and federal laws, rules, regulations, contractual conditions, and requirements of the HOME Program. Without these provisions in the contract to use as guidance, an administrative subcontractor is more likely to be noncompliant with these requirements.

Perspective

We do not believe any further information assists in gaining a proper perspective.

Recommendation

We recommend that the City review the contract with its administrative subcontractor against the required minimum contract provisions set forth in the California Department of Housing and Community Development HOME Contract Management Manual, Chapter I – HOME Basics, page I-5-7, then request that the administrative subcontractor execute an amendment to their contract with the City to include the omitted contract provisions.

City of Ione
Schedule of Findings and Questioned Costs
Year Ended June 30, 2010

Corrective Action Plan

The original administrative contractor's contract reviewed during the audit has now expired. The City will review the newly approved contract with the contractor against the required minimum contract provisions set forth above and ask to modify the contract.

<i>Finding No.</i>	<i>SA-10-3</i>
<i>Federal Grantor:</i>	<i>U.S. Department of Housing and Urban Development</i>
<i>Pass-Through Entity:</i>	<i>California Department of Housing and Community Development</i>
<i>Program:</i>	<i>Community Development Block Grant/State's Program (CFDA 14.228)</i>
<i>Compliance Requirement:</i>	<i>Reporting</i>

Criteria

Quarterly completion of the Financial and Accomplishment Report ("FAR") is required for all CDBG grants. This report is required to be submitted during the duration of the grant and must be submitted within one month following the end of each quarter during the term of the Standard Agreement governing the grant. See California Department of Housing and Community Development CDBG Grant Management Manual, Chapter 10 Reporting, page 10-2.

Program Income Reports are due one month after the end of the quarter for the first three quarters of the year. An Annual Program Income Report is due one month after the end of the year. These reports summarize all the program revenue, expenditures of funds received as program income, and program income balances for the period covered by the report. See California Department of Housing and Community Development CDBG Grant Management Manual, Chapter 14 Program Income and Revolving Loan Account, pages 14-10 through 14-21.

Condition

The City had one small, open Planning and Technical Assistance PTA grant under the HOME program. The Standard Agreement for this grant was signed May 5, 2010. The City did not prepare a FAR for this grant for the last quarter of the fiscal year ended June 30, 2010.

As well, at the time of the audit we noted that the City had not prepared the Quarterly Program Income Report for the third quarter nor the Annual Program Income Report for the fiscal year ended June 30, 2010.

Questioned Costs

No costs are questioned because the matter does not involve improper expenditure of program funds.

Effect of Condition

The California Department of Housing and Community Development CDBG Grant Management Manuals states at Chapter 10, Reporting, page 10-1:

Failure to accurately complete and submit required reports may result in the placement of the grantee on a "hold-out" list, which will preclude the jurisdiction from applying for future CDBG grants and negatively impact the jurisdiction's rating on the area of performance when competing in response to a Notification of Funds Available (NOFA).

City of Ione
Schedule of Findings and Questioned Costs
Year Ended June 30, 2010

Perspective

We do not believe any further information assists in gaining a proper perspective.

Recommendation

We recommend that the City review the Reporting requirements for the CDBG program at hcd.ca.gov/fa/cdbg/manual/chapter10.html and at hcd.ca.gov/fa/cdbg/manual/chapter14.html, review its current policies and procedures regarding the filing of CDBG reports and implement internal controls which will promote filing of the required CDBG reports with the California Department of Housing and Community Development on a timely basis.

Corrective Action Plan

The City will review the reporting requirement for the CDBG program and implement internal controls to promote filing required reports on a timely basis.

<i>Finding No.</i>	<i>SA-10-4</i>
<i>Federal Grantor:</i>	<i>U.S. Department of Housing and Urban Development</i>
<i>Pass-Through Entity:</i>	<i>California Department of Housing and Community Development</i>
<i>Program:</i>	<i>HOME Investment Partnerships Program (CFDA 14.239) and Community Development Block Grant/State's Program (CFDA 14.228)</i>
<i>Compliance Requirement:</i>	<i>Program Income</i>

Criteria

Program income is the gross income that has been directly generated from the use of federal program funds. The most important items of program income for the City's Community Development Block Grant/State's Program ("CDBG") and Home Investment Partnerships Program ("HOME") programs are principal repayments received on loans, interest income received on loans and interest earned on federal monies before they are expended.

Program income under the HOME must be expended on eligible HOME expenses before additional federal funds may be drawn down from the U.S. Treasury. Available program income must be used to pay the next eligible program cost or portion thereof. See the California Department of Housing and Community Development HOME Contract Management Manual, Chapter I – HOME Basics, page I-21; also see OMB Compliance Supplement, Part 3, J.

For the CDBG program, program income must be substantially expended by the end of each program year. However, under the CDBG program, if revenue directly generated from the program is under \$25,000 in any particular year, it is treated as miscellaneous revenue and not "program income" subject to federal and state requirements. See California Department of Housing and Community Development CDBG Grant Management Manual, Chapter 14 Program Income and Revolving Loan Accounts, pages 14-1 and 14-2.

In order to comply with the requirements for use of program income, internal controls should be implemented to maintain an accurate balance of program income at any given time by recording each item of program income when it is received and each disbursement when it is disbursed.

City of Ione
Schedule of Findings and Questioned Costs
Year Ended June 30, 2010

Condition

We attempted to perform tests to verify that all program income was being properly tracked. We inquired whether or not the City maintained a balance of program income in its accounting records. The City stated that program income reports are furnished to the California Housing and Community Development but that a sequential log of program income receipts and disbursements is not maintained. We contacted the City's program administrator for the HOME program. He provided the program income reports for the Home Investment Partnerships Program which report the program income balance, however, the program administrator does not keep a sequential log of program income receipts and disbursements. Instead, the program administrator contacts the City when the Program Income Reports are being prepared, determines whether or not any program income has been received and uses this information in preparing the report.

Questioned Costs

No costs are questioned.

Effect of Condition

When a running balance of available program income is not routinely maintained and updated, errors, both positive and negative, are much more likely to occur. While the fact that City does not receive much program income lessens this risk, it is good accounting practice to maintain the balance of program income in the accounting records.

Perspective

We do not believe any further information would provide a better perspective.

Recommendation

We recommend that the City establish a system which maintains an accurate balance of program income at any given time for both the Community Development Block Grant/State's Program and the Home Investment Partnerships Program. The system should show the beginning balance of program income, add program income when it is received, subtract program income when it is expended and show a current unexpended balance. We further suggest that this document be compared to the program income activity in the City's general ledger prior to preparation of the Program Income Reports.

Corrective Action Plan

The City will establish a system to maintain balance of program income at any given time for the CDBG Block grant/State's Program, and the HOME Investment Partnership Programs which will be reconciled against the City's general ledger.

City of Ione
Summary Schedule of Prior Audit Findings
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Schedule of Prior Year Findings

None