CITY OF IONE

FINANCIAL STATEMENTS

JUNE 30, 2012

CITY OF IONE
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Larry Bain, CPA,
An Accounting Corporation
2148 Frascati Drive
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INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Ione
Ione, California

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Ione, California, as of and for the year ended June 30, 2012, 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.

We conducted our audit in accordance with U.S. generally accepted auditing standards 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.

In our opinion, based on our audit, 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, California, as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated April 30, 2013 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion of the internal control over financial reporting or on compliance.

The City of Ione has not presented all Major Fund budget comparison schedules that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

The Management Discussion and Analysis (MD&A) and the required supplementary information (RSI) other than all of the Major Fund budget comparison schedules, 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 RSI. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the financial statements that collectively comprise the City's basic financial statements. The combining and individual fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements 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
April 30, 2013

City of Ione
Required Supplementary Information
Management's Discussion and Analysis
June 30, 2012

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, 2012. This information is presented in conjunction with the audited basic financial statements, which follows this section.

FINANCIAL HIGHLIGHTS FOR FISCAL YEAR 2011-12

- The City's net assets were $47,742,755 at June 30, 2012. Net assets increased $2,239,077 or 5%. Of the total net assets, $4,356,422 is unrestricted and may be used to meet ongoing obligations to citizens and creditors.
- Total cash and investments decreased $58,885 or 2% to $2,297,352. Of total cash, $1,266,981 is restricted for specific activities.
- As of June 30, 2012, the City's governmental funds reported combined fund balance of $2,763,195. In comparison, Fiscal Year 2010–11 had a combined fund balance of $1,160,512. The change in fund balance was a result of operations and reclassifying deferred revenue for CDBG/Home grants to restricted fund balance in the 2011/12 fiscal year. Six governmental funds are classified as major. They are: General Fund, Measure M, CDBG/HOME Program Loans, Governmental Impact Fees, Local Traffic Mitigation, and the Fire Services Impact Fees.
- The General Fund fund balance decreased $847,611 or186% to $(1,290,388) as of June 30, 2012. Of the fund balance $653,342 is non-spendable because it is tied up in long-term advances and the remainder in the amount of $(1,943,730) is reported as unassigned.
- The General Fund cash balance decreased $44,029 or 71% to $18,025.
- Projects funded by the gas tax fund include storm drains and street repairs.
- There were $15,000 general fund capital asset additions and $469,244 sewer related capital asset additions for FY 2011-2012.
- The City's proprietary funds (sewer) net assets increased $697,800 or 7% to $10,555,422. Cash increased $401,859 or 66% to $1,004,244. The increase in sewer connection fees in the sewer capital fund and sewer service payments in the sewer operations and maintenance fund accounted for the cash increase. For the past six 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, and the Amador County sales tax loan. The original principal amount for the fire station capital lease loan was $560,000, with a balance of $496,872 as of 6/30/12. The original principal amount for the sales tax loan is $149,293 with a balance of $127,834 as of 6/30/12.

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.

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 provides 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 functions 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, and parks and recreation. The business-type activities are sewer.

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

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

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

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 two fiduciary or agency funds. They are: community facilities districts and regional traffic mitigation.

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.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Assets

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

	June 30,2012			June 30, 2011		
	Governmental Activities	Business-type Activities	Total	Governmental Activities	Business-type Activities	Total
Current and other Assets	$ 4,518,723	$ 1,674,976	$ 6,193,699	$ 4,290,294	$ 1,246,449	$ 5,536,743
Capital Assets	34,836,473	9,000,690	43,837,163	35,076,847	8,691,850	43,768,697
Total Assets	**$ 39,355,196**	**$ 10,675,666**	**$ 50,030,862**	**$ 39,367,141**	**$ 9,938,299**	**$ 49,305,440**
Liabilities						
Current/non current	$ 2,167,863	$ 120,244	$ 2,288,107	$ 3,721,085	$ 80,677	$ 3,801,762
Total Liabilities	**$ 2,167,863**	**$ 120,244**	**$ 2,288,107**	**$ 3,721,085**	**$ 80,677**	**$ 3,801,762**
Net Asset:						
Invested in capital assets, net	$ 34,339,601	$ 9,000,690	$ 43,340,291	$ 35,076,847	$ 8,691,850	$ 43,768,697
Net assets restricted	-	46,041	46,041	-	(223,048)	(223,048)
Unrestricted net assets	2,847,732	1,508,691	4,356,422	569,209	1,388,820	1,958,029
Total Net Assets	**$ 37,187,333**	**$ 10,555,422**	**$ 47,742,755**	**$ 35,646,056**	**$ 9,857,622**	**$ 45,503,678**

The City's near-term financing situation, as measured by the current ratio (current assets divided by current liabilities), decreased. The ratio increased year-over-year from 3.05 to 3.33, excluding the impact of deferred revenue.Values greater than 1.00 are considered good.

The City's overall financial position, as measured by net assets is $47,742,755. The major component of net assets is invested in capital assets. Unrestricted net assets are $4,356,422 and represent the amount available for future operations. Unrestricted net assets increased and governmental activities accounted for the majority of the increase.

Statement of Activities

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

	June 30, 2012			June 30, 2011		
	Governmental Activities	Business-type Activities	Total	Governmental Activities	Business-type Activities	Total
Charges for services	$ 1,060,865	$ 1,047,334	$ 2,108,199	$ 825,087	$ 998,737	$ 1,823,824
Capital grants and contributions	335,220	526,974	862,194	91,298	239,529	330,827
Operating grants	500,813	-	500,813	312,237	-	312,237
General Revenue:						
Property taxes and assessments	503,405	-	503,405	536,264	-	536,264
Sales and use tax	147,190	-	147,190	132,169	-	132,169
Other taxes	727,443	-	727,443	790,400	-	790,400
Gain on sale of capital assets	13,500	-	13,500	-	-	-
Interest income	29,929	21,746	51,675	12,890	15,414	28,304
Total Revenue	**3,318,365**	**1,596,054**	**4,914,419**	**2,700,345**	**1,253,680**	**3,954,025**
Expenses:						
Governmental activities:						
General government	670,028	-	670,028	1,004,281	-	1,004,281
Public safety	1,708,698	-	1,708,698	1,402,011	-	1,402,011
Community development	287,548	-	287,548	224,572	-	224,572
Public Works	222,391	-	222,391	237,947	-	237,947
Streets and roads	281,014	-	281,014	150,944	-	150,944
Parks and recreation	393,202	-	393,202	456,287	-	456,287
Interest on debt	49,743	-	49,743	30,834	-	30,834
Business-type activities:						
Wastewater	-	974,829	974,829	-	1,092,800	1,092,800
Total Expense	**3,612,623**	**974,829**	**4,587,452**	**3,506,876**	**1,092,800**	**4,599,676**
Change in net assets	**(294,258)**	**621,225**	**326,967**	**(806,531)**	**160,880**	**(645,650)**
Net Assets:						
Beginning	35,646,056	9,857,622	45,503,678	36,193,125	9,683,728	45,876,853
Prior period adjustment	1,835,534	76,575	1,912,109	259,461	13,014	272,475
Ending	**$37,187,333**	**$ 10,555,422**	**$ 47,742,755**	**$ 35,646,055**	**$ 9,857,622**	**$ 45,503,678**

The statement of activities, identify the various revenue and expense items which affect the change in net assets. Total revenues increased $960,394 or 24% to $4,914,419 while total expenses decreased $12,224 to $4,587,452.The net assets increased $2,239,077 or 5% to $47,742,755.The increase to revenues for governmental activities was due to the increase in charges for services, capital grants and contributions, operating grants, sales and use taxes, interest income, and gain on sale of capital assets offset by a decrease to property taxes and assessments and other taxes. Expenses for governmental activities exceeded revenues by $299,258. Decrease in general government, public works, and parks and recreation expenses offset by increase in public safety, community development, streets and roads, termination and interest on debt contributed to the increase in expenses and the change in net assets. The City will see a savings from staffing reductions for future decreased cost.

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, unassigned 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), improved. The ratio increased over the two year period from 14.56 to 18.84. 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 $131,595.

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

Budgetary Highlights

General fund revenues for the 2011-12 fiscal year were budgeted at $1,580,430. The actual revenues were $1,632,788 which is a favorable variance of $52,358 or 3%. The majority of the variance was due to an increase of $25,614 in taxes due mainly to Sales Tax in the amount of $20,783 and $4,125 for real property transfer, $50,879 in licenses and permits, $25,296 for charges for current services, and $4,072 for use of money and property. Revenue categories that were over budget were intergovernmental in the amount of $13,922, fines, forfeitures and penalties in the amount of $1,899, and other revenue in the amount of $37,682.

General fund expenditures were budgeted at $2,338,578. The actual amount expended was $2,089,000 or $249,578 under budget. The positive budgetary variance was due to lower than expected costs for the city clerk, finance, city treasurer, planning, building inspection, engineering, corporate yard-vehicle, police department, and fire department. Conversely, city council, city manager, legal, insurance and general services, parks and recreation, interest, and capital outlay are over budget. For more information please see pages 41 and 42 of the audit report.

CAPITAL ASSETS

The Citycompleted the required GASB 34 study in fiscal year ending June 30, 2008.Information from this study as well as subsequent capital assets activity recorded by the City produces the current capital asset balances. Following is a summary of capital assets and accumulated depreciation:

	Governmental Activities		Business-type Activities		Total Government	
	6/30/2012	6/30/2011	6/30/2012	6/30/2011	6/30/2012	6/30/2011
Land	$ 29,696,609	$ 29,696,609	$ 3,873,444	$ 3,873,444	$ 33,570,053	$ 33,570,053
Construction in progress	242,451	15,370	1,836,491	1,212,666	2,078,942	1,228,036
Structures	3,329,120	3,074,786	1,460,112	1,460,112	4,789,232	4,534,898
Site improvements	929,993	929,993	446,396	446,396	1,376,389	1,376,389
Vehicles and equipment	1,618,142	1,607,160	489,206	489,206	2,107,348	2,096,366
Infrastructure	2,313,407	2,313,407	4,025,063	3,924,917	6,338,470	6,238,324
Accumulated depreciation	(3,293,252)	(2,560,479)	(3,130,022)	(2,714,891)	(6,423,274)	(5,275,370)
Total Capital Assets, Net	$ 34,836,470	$ 35,076,846	$ 9,000,690	$ 8,691,850	$ 43,837,160	$ 43,768,696

As of June 30, 2012 the City's investment in capital assets totaled $43,837,163 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%.

In September 2011it was discovered that the State Board of Equalization misallocated the City's sales tax owing to the County for the 4th quarter of 2008 and the 1st quarter of 2009. A repayment agreement was reached between the City and the County to offset the loss of revenues in the amount of $149,293. The County will loan the City $11,220.32 for eight quarters beginning December 1, 2011, and pays the County $7,683.68 per quarter with an interest rate at 2%.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The City Council adopted the City's Fiscal Year 2011-12General Fund Final Budget on December 6, 2011 and the Sewer and Gas Tax Budget on January 13, 2012. During the past six 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. Construction is expected to begin in 2012-2013.

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 wish 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, 2012

	Activities	Activities	Total
Assets			
Cash and investments	$ 26,127	$ 1,004,244	$ 1,030,371
Accounts receivables	702,307	128,862	831,169
Grants	-		-
Taxes receivable	360,388		360,388
Due from others		297,070	297,070
Due from other governments	93,071		93,071
Deposits with others	45,355		45,355
Prop 1A	121,612		121,612
Interest receivable	1,543		1,543
Total current assets	1,350,403	1,430,176	2,780,579
Non Current Assets			
Restricted cash and investments	1,266,981	-	1,266,981
Internal balances	(244,800)	244,800	-
Interest receivable	209,446		209,446
Loans receivable (net of allowance for uncollectibles)	1,936,693		1,936,693
Capital assets			
Land	29,696,609	3,873,444	33,570,053
Construction in progress	242,452	1,836,491	2,078,943
Structures	3,329,120	1,460,112	4,789,232
Site improvements	929,993	446,396	1,376,389
Vehicles and equipment	1,618,142	489,206	2,107,348
Infrastructure	2,313,407	4,025,063	6,338,470
Accumulated depreciation	(3,293,251)	(3,130,022)	(6,423,273)
Total capital assets, net	34,836,472	9,000,690	43,837,162
Total Assets	$ 39,355,195	$10,675,666	$50,030,861
Liabilities			
Current liabilities:			
Accounts payable	$ 87,809	$ 65,436	$ 153,245
Accrued payroll	143,694	7,251	150,945
Deposits from others	489,192	3,297	492,489
Deferred revenue	-		-
Noncurrent liabilities:			
OPEB-retiree health	443,902	26,315	470,217
Termination benefit-PARS	202,022	10,146	212,168
Due within one year	98,570		98,570
Due in more than one year	702,674	7,799	710,473
Total Liabilities	2,167,863	120,244	2,288,107
Net Assets			
Invested in capital assets net of related debt	34,339,600	9,000,690	43,340,290
Restricted for capital replacement		46,041	46,041
Unrestricted	2,847,732	1,508,691	4,356,423
Total Net Assets	$ 37,187,332	$10,555,422	$47,742,754

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

CITY OF IONE

STATEMENT OF ACTIVITIES
JUNE 30, 2012

		Program Revenues			Changes in Net Assets		
Functions/programs	Expenses	Charges for Services	Capital Grants and Contributions	Operating Grants	Governmental Activities	Business-type Activities	Total
Governmental Activities:							
General government	$ 670,028	$ 105,886	$ 183,497	$ 71,187	$ (309,458)	$ -	$ (309,458)
Public safety	1,708,698	476,500	59,631	247,061	(925,506)		(925,506)
Community development	287,548			182,565	(104,983)		(104,983)
Public works	222,391	469,915			247,524		247,524
Streets and roads	281,014		4,880		(276,134)		(276,134)
Parks and recreation	393,202	8,564	87,212		(297,426)		(297,426)
Interest on debt	49,743				(49,743)		(49,743)
Total Governmental Activities	3,612,624	1,060,865	335,220	500,813	(1,715,726)		(1,715,726)
Business-type Activities:							
Wastewater	974,829	1,047,334	526,974			599,479	599,479
Total Business-type Activities	974,829	1,047,334	526,974			599,479	599,479
Total Government	$ 4,587,453	$ 2,108,199	$ 862,194	$ 500,813	(1,715,726)	599,479	(1,116,247)
General Revenues:							
Taxes:							
Property taxes					503,405		503,405
Sales and use tax					147,190		147,190
Transient occupancy tax					570		570
Franchise tax					84,878		84,878
Motor vehicle in lieu tax					624,471		624,471
Other taxes					17,524		17,524
Gain on sale of capital assets					13,500		13,500
Investment income					29,930	21,746	51,676
Total general revenues					1,421,468	21,746	1,443,214
Change in net assets					(294,258)	621,225	326,967
Net assets - beginning					35,646,056	9,934,197	45,580,253
Prior Period Adjustment					1,835,534		1,835,534
Net assets - ending					$ 37,187,332	$ 10,555,422	$ 47,742,754

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

CITY OF IONE

GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2012

	General	Measure M	CDBG/HOME Program Loans	Governmental Impact Fees	Local Traffic Mitigation	Fire Services Impact Fees	Nonmajor Funds	Governmental Funds
Assets								
Cash and investments	$ 18,025	$ -	$ -	$ -	$ -	$ -	$ 8,102	$ 26,127
Due from other funds					376,310	3,193	543,382	922,885
Receivables								
Accounts (net of allowance)	363,008	74,311		2,890	-	-	262,098	702,307
Grants			-					-
Taxes	360,388							360,388
Due from other governments	93,071							93,071
Deposits with others	45,355							45,355
Prop 1A	121,612							121,612
Interest	1,543							1,543
Total Current Assets	1,003,002	74,311	-	2,890	376,310	3,193	813,582	2,273,288
Advances to other funds	653,342	353,655		25,000	-		1,595,463	2,627,460
Interest receivable							209,446	209,446
Loans receivable (net of allowance for uncollectible)							1,936,693	1,936,693
Restricted cash and investments		10,347		5,744	245,941	84,400	920,549	1,266,981
Total Long-Term Assets	653,342	364,002		30,744	245,941	84,400	4,662,151	6,040,580
Total Assets	$ 1,656,344	$ 438,313	$ -	$ 33,634	$ 622,251	$ 87,593	$ 5,475,733	$ 8,313,868
Liabilities and Fund Balances								
Liabilities								
Accounts payable	$ 49,301	$ -	$ -	$ -	$ 563	$ -	$ 37,945	$ 87,809
Accrued payroll	139,086						4,608	143,694
Deposits from others	129,840					359,352		489,192
Due to other funds	457,818			106,621			358,446	922,885
Deferred revenue	816,573		-				218,260	1,034,833
Total Current Liabilities	1,592,618			106,621	563	359,352	619,259	2,678,413
Long-term Liabilities								
Advances from other funds	1,354,114			598,000		920,146		2,872,260
Total Liabilities	2,946,732			704,621	563	1,279,498	619,259	5,550,673
Fund Balances								
Restricted for loans receivable							1,936,693	1,936,693
Non-spendable for advances	653,342	353,655		25,000			1,595,463	2,627,460
Committed for public safety		84,658					342,762	427,420
Committed for community development							414,347	414,347
Committed for streets and roads							542,409	542,409
Assigned for capital projects				(695,987)	621,688	(1,191,905)	24,800	(1,241,404)
Unassigned, reported in General fund	(1,943,730)							(1,943,730)
Total Fund Balances	(1,290,388)	438,313	-	(670,987)	621,688	(1,191,905)	4,856,474	2,763,195
Total Liabilities and Fund Balances	$ 1,656,344	$ 438,313	$ -	$ 33,634	$ 622,251	$ 87,593	$ 5,475,733	$ 8,313,868

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

CITY OF IONE

RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS JUNE 30, 2012

Fund Balances of Governmental Funds	$	2,763,195
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.		34,836,472
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.		(412,335)
Net assets of governmental activities	$	37,187,332

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

CITY OF IONE

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	General	Measure M	CDBG/HOME Program Loans	Impact Fees	Local Traffic Mitigation	Fire Services Impact Fees	Nonmajor Funds	Governmental Funds
Revenues								
Taxes	$ 661,196	$ -	$ -	$ -	$ -	$ -	$ -	$ 661,196
Special assessment/impact fees		250,765		2,187	57,460	2,171	231,380	543,963
Licenses and permits	209,629							209,629
Use of money and property	92,672	7,053					10,663	110,388
Intergovernmental	565,289						836,924	1,402,213
Fines, forfeitures and penalties	4,601							4,601
Charges for current services	75,096							75,096
Other	24,305	2,077						26,382
Total Revenues	1,632,788	259,895	-	2,187	57,460	2,171	1,078,967	3,033,468
Expenditures								
Current:								
General government	561,175			196			4,920	566,291
Public ways and facilities/ transportation	142,047				563		180,055	322,665
Public safety	1,088,630	245565					144,546	1,478,741
Community development	262,301						287,548	549,849
Capital Outlay	15,000						175,334	190,334
Debt service								
Principal	-					17,865		17,865
Interest	19,848					29,895		49,743
Total Expenditures	2,089,000	245,565		196	563	47,760	792,403	3,175,487
Excess (Deficit) of Revenues over Expenditures	(456,212)	14,330		1,991	56,897	(45,589)	286,564	(142,019)
Other Financing Sources (Uses)								
Proceeds of debt							45,000	45,000
Sale of property	13,500							13,500
Operating transfers in	37						42,732	42,769
Operating transfers out							(42,769)	(42,769)
Total Other Financing Sources (Uses)	13,537						44,963	58,500
Excess (Deficit) of Revenues and Other Financing Sources over Expenditures and Other Financing Uses	(442,675)	14,330		1,991	56,897	(45,589)	331,527	(83,519)
Fund Balances, July 1	(442,777)	423,983	376,662	(671,488)	565,593	(1,145,934)	2,054,472	1,160,512
Prior period adjustments	(404,936)		(376,662)	(1,490)	(802)	(382)	2,470,474	1,686,202
Fund Balances, June 30	$(1,290,388)	$ 438,313	$ -	$ (670,987)	$ 621,688	$ (1,191,905)	$ 4,856,473	$ 2,763,195

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

CITY OF IONE

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Net Change in Fund Balances - Total Governmental Funds	$	(83,519)
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		208,199
Capital contributions		-
Depreciation expense		(360,172)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		271,397
Proceeds of capital leases are other financing sources in the governmental funds, but the proceeds increase long-term liabilities in the Statement of Net Assets		(45,000)
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.		
Changes in the OPEB Liability reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported in governmental funds.		(343,289)
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.		58,126
Change in net assets of governmental activities	$	(294,258)

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

CITY OF IONE

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2012
(With comparative totals as of June 30, 2011)

	Sewer O & M	Sewer Capital	Nonmajor Sewer Tertiary Plant	Totals 2012	Totals 2011
Current assets:					
Cash and investments	$ 1,807,823	$ (481,090)	$ (322,489)	$ 1,004,244	$ 1,152,324
Receivables					
Accounts	87,093	3,582	38,187	128,862	168,496
Interest				-	-
Due from others		297,070		297,070	297,070
Restricted cash and investments		-		-	(549,939)
Total current assets	1,894,916	(180,438)	(284,302)	1,430,176	1,067,951
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	1,836,491			1,836,491	1,467,393
Structures	1,460,112			1,460,112	1,460,112
Site improvements	446,396			446,396	446,396
Vehicles and equipment	489,206			489,206	489,206
Infrastructure	4,025,063			4,025,063	3,924,917
Accumulated depreciation	(3,130,022)			(3,130,022)	(2,932,490)
Total capital assets	9,000,690			9,000,690	8,728,978
Total Assets	$ 10,895,606	64,362	$ (284,302)	$ 10,675,666	$10,041,729
Liabilities					
Current liabilities:					
Accounts payable	$ 32,309	$ 18,321	$ 14,806	$ 65,436	$ 57,400
Accrued payroll	7,251			7,251	7,277
Customer deposits	3,297			3,297	2,434
Total current liabilities	42,857	18,321	14,806	75,984	67,111
Noncurrent liabilities:					
OPEB-retiree health	26,315			26,315	15,618
Termination benefit-PARS	10,146			10,146	-
Compensated absences	7,799			7,799	24,803
Total noncurrent liabilties	44,260	-	-	44,260	40,421
Total Liabilities	87,117	18,321	14,806	120,244	107,532
Net assets:					
Invested in capital assets net of related debt	9,000,690			9,000,690	8,728,978
Restricted for capital replacement		46,041		46,041	(223,048)
Unrestricted	1,807,799		(299,108)	1,508,691	1,428,267
Total Net Assets (Accumulated Deficit)	$ 10,808,489	$ 46,041	$ (299,108)	$ 10,555,422	$ 9,934,197

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

CITY OF IONE

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(With comparative totals as of June 30, 2011)

	Sewer O & M	Sewer Capital	Nonmajor Sewer Tertiary Plant	Totals 2012	Totals 2011
Operating Revenues					
Charges for services	$ 918,134	$ -	$ 129,200	$ 1,047,334	$ 1,018,435
Connection fees		526,974		526,974	239,529
Other	-			-	159
Total Operating Revenues	918,134	526,974	129,200	1,574,308	1,258,123
Operating Expenses					
Salaries and benefits	151,296			151,296	179,142
Services and supplies	415,490	-	210,511	626,001	685,787
Depreciation expense	197,532			197,532	217,599
Total Operating Expenses	764,318	-	210,511	974,829	1,082,528
Operating Income	153,816	526,974	(81,311)	599,479	175,595
Non-Operating Revenues (Expenses)					
Interest income	21,746			21,746	15,414
Total Non-Operating Revenues (Expenses)	21,746			21,746	15,414
Income (Loss) Before Transfers	175,562	526,974	(81,311)	621,225	191,009
Operating Transfers					
Operating transfers in	728,807			728,807	257,892
Operating transfers out		(728,807)		(728,807)	(257,892)
Net Operating Transfers	728,807	(728,807)		-	-
Net Income (Loss)	904,369	(201,833)	(81,311)	621,225	191,009
Net Assets (Accumulated Deficit) Restated, July 1 (Note 13)	9,904,120	247,874	(217,797)	9,934,197	9,743,188
Net Assets (Accumulated Deficit), June 30	$ 10,808,489	$ 46,041	$ (299,108)	$ 10,555,422	$ 9,934,197

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

CITY OF IONE

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
JUNE 30, 2012

	Sewer O & M	Sewer Capital	Sewer Tertiary Plant	Total
Cash Flows from Operating Activities				
Cash received from customers	$ 902,716	$ 531,032	$ 161,200	$ 1,594,948
Cash payments to suppliers	(375,870)	8,732	(230,971)	(598,109)
Cash payments to employees	(147,482)			(147,482)
Net Cash Provided By (Used For) Operating Activities	379,364	539,764	(69,771)	849,357
Cash Flows from Capital and Related Financing Activities				
Purchase of fixed assets	(469,244)			(469,244)
Transfer from other funds	470,915			
Transfer to other funds		(470,915)		
Net Cash Used For Capital and Related Financing Activities	1,671	(470,915)		(469,244)
Cash Flows from Investing Activities:				
Interest income	21,746			21,746
Net Cash Provided By Investing Activities	21,746			21,746
Net Increase (Decrease) in Cash and Cash Equivalents	402,781	68,849	(69,771)	401,859
Cash and Cash Equivalents, July 1	1,405,042	(549,939)	(252,718)	602,385
Cash and Cash Equivalents, June 30	$1,807,823	$ (481,090)	$ (322,489)	$ 1,004,244
Reconciliation of Cash and Cash Equivalents:				
Cash and investments	$1,807,823	$ (481,090)	$ (322,489)	$ 1,004,243
Restricted cash and investments		-		-
Total Cash and Cash Equivalents, June 30	$1,807,823	$ (481,090)	$ (322,489)	$ 1,004,244
Reconciliation of Operating Income to Net Cash Provided by (Used For) Operating Activities				
Operating income (loss)	$ 153,816	$ 526,974	$ (81,311)	$ 599,479
Adjustments to operating income:				
Depreciation expense	197,532			197,532
(Increase) decrease in accounts receivable	(16,281)	4,058	32,000	19,777
Increase (decrease) in accounts payable	39,620	8,732	(20,460)	27,892
Increase in accrued payroll	(25)			(25)
Increase in customer deposits	863			863
Increase in OPEB	10,697			10,697
Increase in termination benefits-PARS	10,146			10,146
Decrease in compensated absences	(17,004)			(17,004)
Net Cash Provided By (Used For) Operating Activities	$ 379,364	$ 539,764	$ (69,771)	$ 849,357

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

CITY OF IONE

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES-AGENCY FUNDS
JUNE 30, 2012

	Agency Funds		
	Community Facilities Districts	Regional Traffic Mitigation	Totals
Assets			
Cash and investments	$ 1,774,820	$ 898	$ 1,775,718
Due from others			-
Due from other government	5,679		5,679
Total Assets	$ 1,780,499	$ 898	$ 1,781,397
Liabilities			
Deposits held for others	$ 1,780,499	$ 898	$ 1,781,397
Total Liabilities	$ 1,780,499	$ 898	$ 1,781,397

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

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.

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.

Note 1: Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation (Continued)

Measure M – This fund accounts for revenues and expenditures for firefighter related activities funded by the Measure M tax that was approved by voters in Amador County.

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.

Local Traffic Mitigation Fee – This fee in imposed on residential, commercial and industrial building permits and is for construction, improvement and maintenance of public roads within the City of Ione.

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 others.

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.

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:

Assets	Useful Life
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 loans receivable. Proprietary fund types' restricted assets are for renewal and replacement of equipment.

H. Loans Receivable

For the purpose of the fund financial statements, special revenue fund expenditures relating to long-term loans receivable arising from mortgage subsidy programs are charged to operations upon funding and the loans receivable balances are recorded offset by deferred revenue. The balance of the long-term loans receivable includes loans that may be forgiven if certain terms and conditions of the loans are met.

I. Property Tax

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

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

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

Note 1: Summary of Significant Accounting Policies (Continued)

J. Proprietary Fund Accounting

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

K. Restricted Assets

Restricted assets are financial resources generated for a specific purpose such as construction of improvements and financing of debt obligations. These amounts are restricted, as their use is limited by applicable bond covenants or other external requirements.

L. Compensated Absences

City employees are granted vacation and sick leave 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 60 days (50% of 120 days), or as provided by the PERS sick leave credit option. For employees hired after November 1, 2008 the total amount of sick leave accrued shall be unlimited and there is no payment for accumulation of sick leave at termination.

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, 2012, because the City does not believe any of the available year–end resources will be required to fund the year–end compensated absences liability.

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

M. Intergovernmental Revenues

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

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

N. Comparative Data/Reclassifications

Comparative total data for the prior year have been presented only for individual enterprise fund Statement of Net Assets and Statement of Revenues Expenses and Changes in Net Assets in the fund financial statements in order to provide an understanding of the changes in the financial position and operations of these funds as a whole. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

Note 2: Cash and Investments

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

Cash and investments	$ 1,030,371
Restricted cash and investements	1,266,981
Cash and investments, statement of net assets	2,297,352
Cash and investments, statement of fiduciary assets	1,775,718
Total cash and investments	$ 4,073,070

Checking account	$ 566,124
Imprest cash	400
Local agency investment fund	1,736,926
Money market account	1,769,620
Total cash and investments	$ 4,073,070

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.

Authorized Investment Type	Maximum Maturity	Percentage of Portfolio	Investment in One Issuer
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.

Note 2: Cash and Investments (Continued)

B. Disclosures Relating to Interest Rate Risk (Continued)

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:

		Remaining Maturity (in Months)			
Investment Type	Totals	12 Months or Less	13-24 Months	25-36 Months	37-48 Months
State Investment Pool*	$ 1,736,926	$ 1,736,926	$ -	$ -	$ -
Held by Trustee					
Money Market*	1,769,620	1,769,620			
Totals	$ 3,506,546	$ 3,506,546	$ -	$ -	$ -

*Not subject to categorization

C. Concentrations of Credit Risk

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

D. Custodial Credit Risk

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

At June 30, 2012, the City's deposits balance was $628,824 and the carrying amount was $566,125. The difference between the bank balance and the carrying amount was due to normal outstanding checks and deposits in transit. Of the bank balance, $628,824 was covered by the Federal Depository Insurance and $0 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 $66.35 billion. Of the $66.35 billion managed by the State Treasurer, 100% is invested in non-derivative financial products and 5.01% 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: Capital Assets

The City did not maintain the capital asset schedules for governmental-type and business-type capital additions during the fiscal year ended June 30, 2012. Furthermore the City did not provide for the annual depreciation expense and increases in accumulated depreciation on those capital assets for fiscal year ended June 30, 2012. Accounting principles generally accepted in the United States of America require capital additions to be carried at cost and that depreciation expense be recognized annually and accumulated depreciation be recognized for those assets.

Capital asset activity for the year ended June 30, 2012 was as follows:

Governmental Activities	Balance July 1, 2011	Additions	Prior Period/ Adjustments	Balance June 30, 2012
Capital assets, not being depreciated:				
Land	$ 29,696,609		$ -	$ 29,696,609
Construction in progress	15,370	163,494	63,587	242,451
Capital assets, being depreciated:				
Buildings and improvements	3,074,786	15,859	238,475	3,329,120
Site improvements	929,993			929,993
Equipment	1,607,160	10,982		1,618,142
Infrastructure	2,313,407			2,313,407
Total capital assets, being depreciated	7,925,346	26,841	238,475	8,190,662
Less accumulated depreciation for:				
Buildings and improvements	(801,605)	(86,480)	(80,518)	(968,603)
Site Improvements	(282,734)	(46,999)	(46,999)	(376,733)
Vehicle & Equipment	(1,312,962)	(85,160)	(103,550)	(1,501,672)
Infrastructure	(163,178)	(141,533)	(141,533)	(446,244)
Total accumulated depreciation	(2,560,479)	(360,172)	(372,600)	(3,293,252)
Total capital assets, being depreciated, net	5,364,867	(333,331)	(134,125)	4,897,410
Governmental activities capital assets, net	$ 35,076,846	$ (169,838)	$ (70,538)	$ 34,836,470
Business-Type Activities				
Capital assets, not being depreciated:				
Land	$ 3,873,444	$ -	$ -	$ 3,873,444
Construction in progress	1,212,666	369,098	254,727	1,836,491
Capital assets, being depreciated:				
Buildings and improvements	1,460,112			1,460,112
Site improvements	446,396			446,396
Equipment	489,206			489,206
Infrastructure	3,924,917	100,146		4,025,063
Total capital assets, being depreciated	6,320,631	100,146	-	6,420,777
Less accumulated depreciation for:				
Buildings and improvements	(583,994)	(36,512)	(36,512)	(657,019)
Site improvements	(332,151)	(6,221)	(20,776)	(359,148)
Vehicles & Equipment	(353,265)	(29,016)	(37,657)	(419,938)
Infrastructure	(1,445,481)	(125,783)	(122,654)	(1,693,918)
Total accumulated depreciation	(2,714,891)	(197,532)	(217,599)	(3,130,022)
Total capital assets, being depreciated, net	3,605,740	(97,386)	(217,599)	3,290,755
Business- type activities capital assets, net	$ 8,691,850	$ 271,712	$ 37,128	$ 9,000,690

Note 3: Capital Assets (Continued)

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

Governmental Activities	
General government	$ 47,139
Public safety	117,492
Public works	10,688
Streets and roads	99,742
Parks	85,099
Total	$ 360,160

Note 4: 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).

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, 2012:

Governmental Activities:

	Balance July 1, 2011	Additions/ Adjustments	Retirements	Balance June 30, 2012	Due Within One Year
Compensated absences-Note 1K	$ 125,065	$ 64,599	$ (58,126)	$ 131,538	$ -
Net OPEB Obligation Note 7	150,658	308,450		459,108	-
Termination Benefits-Pars Note 8		202,022		202,022	50,506
Amador County loan	149,293	-	(21,459)	127,834	29,116
Train Depot loan		45,000		45,000	-
Capital lease	514,737	-	(17,865)	496,872	18,948
Total	$ 939,753	$ 620,071	$ (97,450)	$ 1,462,374	$ 98,570

Amador County Loan

In September 2011 it was discovered that the California State Board of Equalization (BOE) mistakenly allocated the City of Ione sales tax owing to the County for the 4th quarter of 2008 and the 1st quarter of 2009. During the 2011/12 fiscal year the City and the County reached a repayment agreement whereby beginning December 1, 2011 the BOE will pay the County $19,084 sales tax payments, otherwise payable to the City, for a total of 8 quarters beginning December 1, 2011. To offset the loss of revenues the County will loan the City $11,220.32 for eight quarters beginning December 1, 2011 and then beginning December 1, 2013 through September 1, 2016 the City will pay the County $7,683.68 per quarter. The loan carries and interest rate of 2%. The following is the amortization schedule for this loan:

Note 5: Long-term Liabilities (Continued)

Amador County Loan (Continued)

Amador County Loan

Fiscal Year Ended June 30,	Principal	Interest	Total
2013	$ 29,116	$ 2,339	$ 31,455
2014	29,702	1,753	31,455
2015	30,301	1,154	31,455
2016	30,911	544	31,455
2017	7,804	39	7,843
Totals	$ 127,834	$ 5,829	$ 133,663

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.

Firehouse Lease

Fiscal Year Ended June 30,	
2013	$ 47,760
2014	47,760
2015	47,760
2016	47,760
2017	47,760
2018-2022	238,800
2023-2027	238,800
2028-2029	55,720
Total minimum lease payments	772,120
Less: Amount representing interest	(275,248)
Present value of minimum lease payments	$ 496,872

Train Depot Loan

On June 29, 2012 the City received a $45,000 donation from the Jackson Rancheria for relocating the train depot to City owned property. While there is no formal repayment agreement the intent of the City is to repay Jackson Rancheria. There is no amortization schedule for the loan.

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, 2012:

	Balance July 1, 2011	Additions	Retirements	Balance June 30, 2012
Compensated absences	$ 11,903	$ 997	$ (5,101)	$ 7,799
Termination Benefit-Pars Note 8		10,146		10,146
Total	$ 11,903	$ 11,143	$ (5,101)	$ 17,945

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 2011/12 was 14.937% for miscellaneous members and 55.096% 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 2011/2012, the City's annual pension cost was $313,334 and the City actually contributed $313,334. 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 2011/2012 was determined as part of the June 30, 2009, actuarial valuation using entry age actuarial cost method with the contributions determined as a percent of pay. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses); (b) projected salary increases that vary by duration of service ranging from 3.25% to 14.45% for miscellaneous members (from 3.25% to 14.45% for safety members), and (c) .25% salary adjustment. Both (a) and (b) include an inflation component of 3.0%. The actuarial value of the plan's assets was determined using a technique that smoothes the effect of short-term volatility in the market value of investments over a three year period (smoothed market value). The plan's unfunded actuarial accrued liability (or excess assets) is being amortized as a level percentage of projected

Note 6: Defined Benefit Pension Plan (Continued)

payroll on a closed basis. The remaining amortization period at June 30, 2009 was 19 years for miscellaneous members and 19 years for safety members as of the valuation date.

Three – Year Trend Information for the City

Fiscal Year Ending		Annual Pension Cost (APC)	Percentage of APC Contributed		Net Pension Obligation
06/30/10	$	370,230	100%	$	-
06/30/11	$	297,367	100%	$	-
06/30/12	$	313,334	71.48%	$	89,357

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 2011/2012 fiscal year was $12,655. As of June 30, 2012, five retired employees were 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, 2012 the City Council had not established a funding policy. The 2011-2012 fiscal year actuarial determined contribution was calculated based on amortized funding over a 30 year period using entry age normal cost. For the fiscal year ending June 30, 2012 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, 2012. The City made the net contribution for fiscal year end June 30, 2012 directly to health insurance providers totalling $12,655.

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 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:

Note 7: Post Retirement Health Care Benefits (Continued)

Unfunded Actuarial Accrued Liability (UAAL)	$	159,718
Interest on net OPEB obligation	*	15,913
ARC adjustment		(11,013)
Less: Unreimbursed retiree premium payments made to plan provider		(12,655)
Increase (decrease) in net OPEB obligation		151,963
Net OPEB obligation - beginning of year		150,658
Prior Period Adjustment		167,596
Net OPEB obligation - end of year	$	470,217

* Interest accrued because the City did not make the required contribution by fiscal year end. 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 as follows:

Fiscal Year End		Annual OPEB Cost	Percentage Annual OPEB Cost Contributed		Net OPEB (Obligation) Asset
June 30, 2010	$	150,658	0%	$	(150,658)
June 30, 2011		167,596	0%		(167,596)
June 30, 2012		151,963	0%		(151,963)

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, 2012, 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. The City did not adjust the liability for the current 2011/12 increase in the OPEB obligation. 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.

Note 8. Supplementary Retirement Plan

(A) Plan Description

The City has established a supplementary retirement plan through Public Agency Retirement System (PARS). PARS administers the single-employer, defined benefit plan on behalf of the City. Benefits under the plan are available only to employees who were full-time with the City on November 1, 2011, were at least 50 years of age and had completed five years of service with the City on January 30, 2012, had terminated employment with the City by no later than that date, and retired under the City's regular CalPERS miscellaneous plan no later than January 31, 2012. An application for benefits was required from eligible employees. The plan pays members 7% of final pay each year throughout their retirement. Copies of audited financial reports may be obtained PARS, 4350 Von Karman Avenue, Newport Beach, California 92660.

(B) Funding Policy

To fund the supplemental retirement plan, the City's annual required contribution is $53,042 per year for five years beginning in 2011-2012, which is the fixed price of the annuity purchased from Pacific Life Insurance Company to pay the benefits. The contribution amounts and benefit provisions are established through an agreement between the City and PARS, and may be amended only by mutual agreement. There is no employee contribution

(C) Annual Pension Cost and Net Pension Obligation

The District's annual pension cost and net pension obligation (asset) for its PARS retirement plan for fiscal year 2011-2012 is presented below. Information for preceding fiscal years is not available because 2011-2012 was the first year the plan was offered.

	June 30, 2012
Annual required contribution	$ 53,042
Interest on net pension obligation (asset)	-
Adjust to annual required contribution	-
Annual pension cost	53,042
Contributions made	(53,042)
Increase (decrease) in pension obligation (asset)	-
Net pension obligation (asset), beginning of year	-
Net pension obligation (asset), end of year	$ -

For fiscal year 2011-2012, the City's annual pension cost was $53,042 and was equal to the contribution actually made. The required contribution was based on the amount agreed upon between the City and PARS at the time the plan was put into place.

Three-Year Trend Information for PARS Supplemental Retirement Benefits

Because this is the first year of the plan three year trend information is not available.

	Annual Pension Cost (APC)	Dollar Amount of APC Contributed	Percentage of APC Contributed
Year ended June 30, 2012	$ 53,042	$ 53,042	100%

Note 9: 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, 2012, is:

Community Facilities District 2005-1	$ 1,405,000
Community Facilities District 2005-21A1	3,700,000
Community Facilities District 2005-21A2	1,130,000
Community Facilities District 2005-21A3	6,655,000
Total	$ 12,890,000

Note 10: 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 Northern California Cities Self Insurance Fund (NCCSIF), a public entity risk pool currently operating as a California Joint Powers Authority. The City pays an annual premium to NCCSIF for its insurance coverage. The Agreement for Formation of the NCCSIF provides that NCCSIF 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 NCCSIF. A management group employed by NCCSIF 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 NCCSIF are available at the City.

Note 11: Lease Income

On July 30th, 1990 the City entered into an agreement with Portlock International to lease the City owned property for the operation of a public golf course. The term of the lease is fifty five years commencing in June 1994. The rent is due as follows: years 6 to 10 is 1%, years 11 to 15 is 2% , years 16 to 20 is 3% and years 21 to 55 is 4% of gross revenue from the operation of the golf course, clubhouse, pro shop, driving range and other golf course facilities. The rent is due before the 20th day following each December 31st. Under this agreement the City received $44,817 in the 2009-2010 fiscal year, $40,817 in the 2010-2011 fiscal year and $43,000 in the 2011-2012 fiscal year. The agreement also states that lessee will pay the City the greater of $50,000 or 1% of the sales price, if the lessee assigns its leasehold interest to a third party.

Note 12: 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, 2012 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	$ 653,342	$ 1,354,114	$ 457,818	$ -	$ 37	$ -
Enterprise	244,800	-	-	-	-	-
Special Revenue	1,109,314	-	72185	523382	-	42,732
Capital Projects	864,804	1,518,146	392,882	399,503	42,732	37
Total	$ 2,872,260	$ 2,872,260	$ 922,885	$ 922,885	$ 42,769	$ 42,769

Note 13: Stewardship, Compliance and Accountability

A. Excess of Expenditures Over Appropriations

The final amended general fund budget had the following accounts with excess expenditures over appropriations.

	Final Amended Budget	Actual Expenditures	(Unfavorable) Variance
General Government			
City Council	$ 21,162	$ 22,043	$ (881)
City manager	46,000	47,083	(1,083)
Legal	100,000	112,630	(12,630)
Administrative services	191,549	193,819	(2,270)
Community Development			
Parks and recreation	248,554	255,975	(7,421)
Debt service			
Interest		19,848	(19,848)
Capital outlay	7,100	15,000	(7,900)

Note 13: Stewardship, Compliance and Accountability (Continued)

B. Deficit Fund Balances

Three major funds have deficit fund balances at June 30, 2012. The general fund had a deficit fund balance of 1,290,388 the fire building fund has a deficit fund balance of $1,191,905, the governmental impact fee fund had a deficit fund balance of $670,987. The Sewer Tertiary enterprise fund had a deficit net assets of $299,108. Non-major capital project funds had four funds with deficit fund balances at June 30, 2012. 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. The General fund deficit fund balance is expected to be eliminated through city staff restructuring, reimbursement of over $121,000 in the 2012/13 fiscal year from funding taken by the State with Prop 1A, over $359,000 reimbursement of vehicle license fees that currently are recorded as deferred revenue and by reducing expenditures.

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 capital assets, accounts receivable, accounts payable, accrued payroll and deferred revenue.

Impact of the restatements reported in the government-wide statement of net assets is presented below:

	Governmental Activities	Business-Type Activities
Net Assets Report as of June 30, 2011	$ 35,646,056	$ 9,857,622
Adjustments for:		
Correct accrued pay accounts	(70,501)	(28,207)
Correct renter insurance payable	(3,362)	-
Correct fundware balance	5,114	-
Reclassify payroll	(13,094)	
Correct sales tax advance	(136,824)	-
Correct prior year receivables	(53,893)	19,857
Correct cash accounts at 6/30/12	(7,227)	-
Correct developer deposit liabity	(428,730)	-
Correct developer receivable		297,070
Correct deferred revenue	2,903,056	-
Correct stable deposit	3,380	-
Reverse prior year duplicate charges	-	(250,624)
Correct interest on prior year CDBG Loans	34,960	-
Correct prior year depreciation	(372,600)	(217,599)
Correct prior year capital assets	302,062	254,727
Correct prior year engineering fees	(20,330)	-
Record activity in correct fund	(456,745)	-
Correct prior year loan receivables	(140,684)	-
Correct prior year loan programs	292,134	-
Correct prior year credit memo	(1,182)	-
Correct prior year accounts payable	(434)	1,351
Total Adjustment	1,835,100	76,575
Net Assests, July 1, 2011	$ 37,481,156	$ 9,934,197

Note 13: Stewardship, Compliance and Accountability (Continued)

B. Restatement of Net Assets and Fund Balance (Continued)

Impact of the restatements reported in the government-wide statement of net assets is presented below:

	General Fund	CDBG/HOME Program Loans	Governmental Impact Fees	Local Traffic Mitigation	Fire Services Impact Fees	Other Nonmajor Funds
Fund Balance, June 30, 2011	$ (442,777)	$ 376,662	$ (671,488)	$ 565,593	$ (1,145,934)	$ 2,054,472
Adjustments for:						
Correct accrued payroll	148,370					(2,294)
Correct renter insurance payable	(4,506)					1,144
Correct fundware balance	5,114					-
Reclassify payroll	(13,094)					-
Correct sales tax advance	(141,593)					4,769
Correct prior year laif interest	(49,336)		(1,056)			(3,067)
Correct cash accounts at 6/30/12	(1,863)					(5,364)
Correct developer deposit liabity	(428,730)					-
Reclassify deferred revenue to fund balance	77,318					2,389,291
Correct interest on prior year CDBG Loans						34,960
Correct prior year engineering fees						(20,330)
Record activity in correct fund		(376,662)				(80,083)
Correct prior year loan receivables						(140,684)
Correct prior year loan programs						292,134
Correct prior year credit memo				(801)	(381)	-
Correct prior year account receivable			(434)			-
Total adjustment	(408,320)	(376,662)	(1,490)	(801)	(381)	2,470,476
Fund Balance, July 1, 2011 as restated	$ (851,097)	$ -	$ (672,978)	$ 564,792	$ (1,146,315)	$ 4,524,948

Note 14: 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 15: 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 16: Gann Limit

Proceeds subject to the limit for 2011-12	$ 1,898,530
Amount of limit for 2011-12	2,602,603
Amount (under)/over the limit	$ (704,073)
Per Capita Percentage Change	-2.51%
Population Change*	1.35%

* Net of exclusions for correctional institution

Note 17: 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.

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.

The City has recorded a receivable, offset by an allowance for doubtful accounts, for amounts owed to the City from past developer fees and for reimbursable costs incurred by the City. While the amounts recorded as receivable is based on reconciled information supported by invoices, building permits and other documentation, the allowance for doubtful accounts is an estimate and the actual amount collected could vary significantly depending on the outcome of collection efforts.

Lawsuits

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

Note 18: Subsequent Events

During the 2011/12 fiscal year, because of extreme budget shortfalls, the City offered early retirement incentives to its employees. Four full time employees accepted the offer and retired during the 2011/12 fiscal year. Subsequent to June 30, 2012 three of the employees returned on a part time basis as retired annuitants.

Note 18: Subsequent Events (Continued)

During the 2012/13 fiscal year the City was notified by the State of California that approximately $190,000 of VLF funds taken away by the State as part of the basic aid to education formula during the 2010/11 fiscal year would be reimbursed to the City. The City was also notified subsequent to fiscal year end that approximately $169,000 in VLF funds taken away by the State in the 2011/12 fiscal year would be reimbursed to the City.

On September 10, 2012 the Regional Water Board filed an Administrative Civil Liability Complaint against the City of Ione for the City's failure to comply with the May 30, 2012 interim deadlines outlined in the 2011 Cease and Desist Order. The City retained an attorney with expertise defending actions by the Regional Water Board and negotiated a settlement totalling $123,818. $61,909 of the settlement will be paid directly to the Regional Board, while the other $61,909 will be used to make improvements to the Preston Avenue Project, which will benefit ratepayers.

CITY OF IONE

Required Supplementary Information
Budgetary Comparison Schedule
General Fund
For the Fiscal Year Ended June 30, 2012

	Original Budget	Final Original Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Taxes				
Property tax	$ 495,000	$ 495,000	$ 496,314	$ 1,314
Sales (including in lieu of property tax)	126,407	126,407	147,190	20,783
Transient occupancy	2,000	2,000	570	(1,430)
Sales tax - public safety	4,175	4,175	4,997	822
Sales Tax-Fire Measure M				
Real property transfer	8,000	8,000	12,125	4,125
Total Taxes	635,582	635,582	661,196	25,614
Licenses and Permits				
Franchise fee	88,000	88,000	84,878	(3,122)
Business license	5,000	5,000	5,399	399
Building permits and inspections	65,000	65,000	118,232	53,232
Burn permits	250	250	520	270
Encroachment permit	500	500	600	100
Total Licenses and Permits	158,750	158,750	209,629	50,879
Intergovernmental				
Motor vehicle in lieu (state)	451,241	451,241	454,961	3,720
HOPTR	7,000	7,000	7,091	91
Peace officers training				
AB 3229 SLESF				
Grants/reimbursements	120,970	120,970	103,237	(17,733)
Total Intergovernmental	579,211	579,211	565,289	(13,922)
Fines, Forfeitures and Penalties				
Parking citations and other fines	6,500	6,500	4,601	(1,899)
Total Fines, Forfeitures and Penalties	6,500	6,500	4,601	(1,899)
Charges for Current Services				
Planning fees	31,500	31,500	56,114	24,614
Parks and recreation	3,000	3,000	8,564	5,564
Police department services	1,400	1,400	1,882	482
Fire department services	13,900	13,900	8,536	(5,364)
Total Charges for Current Services	49,800	49,800	75,096	25,296
Use of Money and Property				
Interest and investment income	9,100	9,100	12,211	3,111
Rent	79,500	79,500	80,461	961
Total Use of Money and Property	88,600	88,600	92,672	4,072
Other				
Insurance refunds and dividends			367	367
Miscellaneous - all others	61,987	61,987	23,938	(38,049)
Total Other	61,987	61,987	24,305	(37,682)
Total Revenues	$ 1,580,430	$ 1,580,430	$ 1,632,788	$ 52,358

CITY OF IONE

Required Supplementary Information
Budgetary Comparison Schedule (Continued)
General Fund
For the Fiscal Year Ended June 30, 2012

	Original Budget	Final Original Budget	Actual	Variance Favorable (Unfavorable)
Total Revenues (Continued)	$ 1,580,430	$ 1,580,430	$ 1,632,788	$ 52,358
Expenditures				
General Government				
City Council	21,162	21,162	22,043	(881)
City Manager	46,000	46,000	47,083	(1,083)
City Clerk	86,507	86,507	79,946	6,561
Finance	113,245	113,245	103,070	10,175
City Treasurer	2,733	2,733	2,584	149
Legal	100,000	100,000	112,630	(12,630)
Administrative services	191,549	191,549	193,819	(2,270)
Total General Government	561,196	561,196	561,175	21
Public Ways and Facilities/Transportation				
Planning	31,646	31,646	16,993	14,653
Building inspection	88,251	88,251	95,606	(7,355)
Engineering	5,000	5,000	1,970	3,030
Corporate yard-vehicle	27,490	27,490	27,478	12
Total Public Ways and Facilities/Transpor	152,387	152,387	142,047	10,340
Public Safety				
Police	1,124,621	1,124,621	1,054,389	70,232
Fire	251,820	251,820	34,241	217,579
Total Public Safety	1,376,441	1,376,441	1,088,630	287,811
Community Development				
Parks and recreation	248,554	248,554	262,301	(13,747)
Total Community Development	248,554	248,554	262,301	(13,747)
Debt service				
Principal				
Interest			19,848	(19,848)
Capital Outlay			15,000	(15,000)
Total Expenditures	2,338,578	2,338,578	2,089,000	249,578
Excess (Deficit) of Revenues Over Expenditures	(758,148)	(758,148)	(456,212)	301,936
Other Financing Sources (Uses)				
Sale of property			13,500	13,500
Operating transfers in			37	37
Operating transfers out				
Total Other Financing Sources (Uses)			13,537	13,537
Excess (Deficit) of Revenues and Other Financing Sources over Expenditures and Other Financing Uses	$ (758,148)	$ (758,148)	(442,675)	$ 315,473
Fund Balance, July 1, 2011			(442,777)	
Prior Period Adjustment			(404,936)	
Fund Balance, June 30, 2012			$ (1,290,388)	

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. The City did not adopt budgets for all special revenue funds as required during the 2011/12 fiscal year.

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, 2012

	Special Revenue Funds	Capital Projects Funds	Total
Assets			
Current Assets			
Cash and investments	$ 8,102	$ -	$ 8,102
Due from other funds	523,382	20,000	543,382
Receivables			
Accounts	81,986	180,112	262,098
Prepaid expense	-		-
Total Current Assets	613,470	200,112	813,582
Long-Term Assets			
Advance to other funds	755,659	839,804	1,595,463
Interest receivable	209,446		209,446
Loans receivable (net of allowance for uncollectibles)	1,936,693		1,936,693
Restricted cash and investments	788,614	131,935	920,549
Total Long-Term Assets	3,690,412	971,739	4,662,151
Total Assets	$ 4,303,882	$1,171,851	$ 5,475,733
Liabilities and Fund Balances			
Liabilities			
Accounts payable	$ 16,959	$ 20,986	$ 37,945
Accrued payroll	4,608		4,608
Due to other funds	72,185	286,261	358,446
Deferred revenue	218,260	-	218,260
Total Liabilities	312,012	307,247	619,259
Fund Balances			
Non-spendable for advances	755,659	839,804	1,595,463
Restricted for loans receivable	1,936,693		1,936,693
Committed for public safety	342,762		342,762
Committed for community development	414,347		414,347
Committed for streets and roads	542,409		542,409
Assigned for capital projects		24,800	24,800
Total Fund Balance	3,991,870	864,604	4,856,474
Total Liabilities and Fund Balances	$ 4,303,882	$1,171,851	$ 5,475,733

CITY OF IONE

Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Fiscal Year Ended June 30, 2012

	Special Revenue Funds	Capital Project Funds	Total
Revenues			
Use of money and property	$ 10,663	$ -	$ 10,663
Intergovernmental	573,766	263,158	836,924
Special assessment/impact fees	221,136	10,244	231,380
Total Revenues	805,565	273,402	1,078,967
Expenditures			
Current:			
General government		4,920	4,920
Public ways and facilities/ transportation	180,055		180,055
Public safety	144,546		144,546
Community development	287,548		287,548
Capital outlay	52,331	123,003	175,334
Total Expenditures	664,480	127,923	792,403
Excess (Deficit) of Revenues Over Expenditures	141,085	145,479	286,564
Other Financing Sources (Uses)			
Proceeds of debt	45,000		45,000
Operating transfers in		42,732	42,732
Operating transfers out	(42,732)	(37)	(42,769)
Total Other Financing Sources (Uses)	2,268	42,695	44,963
Excess (Deficit) of Revenues and Other Financing Sources over Expenditures and Other Financing Uses	143,353	188,174	331,527
Fund Balances, July 1, 2011	1,370,636	683,837	2,054,473
Prior period adjustment	2,477,881	(7,407)	2,470,474
Fund Balances, June 30, 2012	$ 3,991,870	$ 864,604	$ 4,856,474

Rehab Housing	Low Income Housing	97-Home Grant	01-Home-518	03-STBG 1826 Grant	06-Home CDBG	05-STBG	2008 Housing Grant	2010-Home 4711	Self Help Housing	Totals
$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 8,102
									72,185	523,382
								75,100		81,986
								75,100	72,185	613,470
										755,659
9,926		41,210	25,000	14,929	58,381	16,976	42,824	200		209,446
149,893		156,818	43,289	110,452	452,417	287,884	648,640	87,300		1,936,693
882	84,675	770	160	36,669	-	-	-	-	178,102	788,614
160,701	84,675	198,798	68,449	162,050	510,798	304,860	691,464	87,500	178,102	3,690,412
$ 160,701	$ 84,675	$ 198,798	$ 68,449	$ 162,050	$ 510,798	$ 304,860	$ 691,464	$ 162,600	$ 250,287	$ 4,303,882
$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 6,550	$ -	$ 16,959
										4,608
					4,260			67,925		72,185
9,926		41,210	25,000	14,929	58,381	16,976	42,824	200		218,260
9,926		41,210	25,000	14,929	62,641	16,976	42,824	74,675		312,012
149,893		156,818	43,289	110,452	452,417	287,884	648,640	87,300		1,936,693
										755,659
										342,762
882	84,675	770	160	36,669	(4,260)			625	250,287	414,347
										542,409
150,775	84,675	157,588	43,449	147,121	448,157	287,884	648,640	87,925	250,287	3,991,870
$ 160,701	$ 84,675	$ 198,798	$ 68,449	$ 162,050	$ 510,798	$ 304,860	$ 691,464	$ 162,600	$ 250,287	$ 4,303,882

	Rehab Housing	Low Income Housing	97-Home Grant	01-Home-518	03-STBG 1826 Grant	06-Home CDBG	05-STBG	2008 Housing Grant	2010-Home 4711	Self Help Housing	Totals
	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 10,663
								84,390	98,175		573,766
											221,136
								84,390	98,175		805,565
											180,055
											144,546
			77,994	100,763				3,300	97,550	7,480	287,548
											52,331
			77,994	100,763				3,300	97,550	7,480	664,480
			(77,994)	(100,763)				81,090	625	(7,480)	141,085
											45,000
											-
											(42,732)
	-	-	-	-	-	-	-	-	-	-	2,268
	-	-	(77,994)	(100,763)	-	-	-	81,090	625	(7,480)	143,353
											1,370,636
	150,775	84,675	235,582	144,212	147,121	448,157	287,884	567,550	87,300	257,767	2,477,881
	$ 150,775	$ 84,675	$ 157,588	$ 43,449	$ 147,121	$ 448,157	$ 287,884	$ 648,640	$ 87,925	$ 250,287	$3,991,870

CITY OF IONE

Combining Statement of Revenues, Expenditures and
Changes in Fund Balances
Nonmajor Capital Projects Funds
For the Fiscal Year Ended June 30, 2012

	Parks & Rec Impact Fund	Energy Grant	Downtown Plan	Drainage Fund	Police Services Impact Fees	Safe Routes to School	Park and Ride Grant	Howard Park State Grant	Totals
Revenues									
Impact fees	$ 5,364	$ -	$ -	$ -	4,880	$ -	$ -	$ -	$ 10,244
Use of money and property									-
Intergovernmental		13,779	167,531					81,848	263,158
Total Revenues	5,364	13,779	167,531		4,880			81,848	273,402
Expenditures									
Current:									
General government		4,782						138	4,920
Capital outlay		13,779	107,145		2,079	-	-		123,003
Total Expenditures		18,561	107,145		2,079			138	127,923
Excess (Deficit) of Revenues Over Expenditures	5,364	(4,782)	60,386		2,801			81,710	145,479
Other Financing Sources (Uses)									
Operating transfers in						42,732			42,732
Operating transfers out		(37)							(37)
Total Other Financing Sources (Uses)		(37)				42,732		-	42,695
Excess (Deficit) of Revenues and Other Financing Sources over Expenditures and Other Financing Uses	5,364	(4,819)	60,386	-	2,801	42,732	-	81,710	188,174
Fund Balances, July 1, 2011	87,294	(5,518)	(78,957)	126,171	791,180	(55,655)	(97,857)	(82,821)	683,837
Prior period adjustment						12,923	(20,330)		(7,407)
Fund Balances, June 30, 2012	$ 92,658	$ (10,337)	$ (18,571)	$ 126,171	$ 793,981	$ -	$ (118,187)	$ (1,111)	$ 864,604

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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, 2012, and have issued our report thereon dated April 30, 2013. In our audit report we issued an unqualified opinion.

We conducted our audit in accordance with auditing standards generally accepted in the Unites 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 12-1 through FS 12-26 and FS 12-35 through 12-38, 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 presented as FS 12-27 to FS 12-34 and FS12-39 to FS 12-40 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 one instance of non-compliance that is 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 report is intended solely for the information and use of management, the audit committee, City Council, the Amador County Auditor Controller's Office, the California State Controller's Office, 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

Larry Bain, CPA,
An Accounting Corporation
April 30, 2013

PRIOR YEAR INTERNAL CONTROL FINDINGS

Deemed to be Significant Deficiencies and Material Weaknesses

FS 12-1 (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 administrating the grant programs in accordance with the grant agreement requirements. We noted for the 08 Home Loan programs 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, 2011. 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.

2010/11 Fiscal Year Status: The City hired a new finance manager who is responsible for administrating the grant programs. The grant summary schedules were not maintained during the 2010/2011 fiscal year. The City also merged the individual grants into one fund in the 09/10 fiscal year and did not separate back into individual funds during the 10/11 fiscal year.

Current Year Status: During the current year audit we noted the City reclassified the grants back into individual special revenue funds. During our testing of the grant schedules we noted that while the City updated the grant schedules there were multiple computational errors and in some instances the activity did not agree to the underlying documentation. It was also discovered that a $91,100 loan was secured by a property that had been foreclosed on. The loan was still recorded on the grant schedule and was recognized as a receivable in the general ledger.

The City contract accountant went through each grant and reconciled the activity to the schedules and we then retested without exception.

Recommendation: Continue to monitor the grant activity and reconcile the activity to the grant schedules as part of year end procedures. The City should also strengthen internal controls so that homes which go into foreclosure and have a City Grant are brought to the attention of the finance manager for adjustment in the grant schedule and the general ledger.

Management Response: The grant schedules being updated by the Finance Manager were brought forward from prior administration and during the current year audit it was discovered that some interest rates, etc. on prior existing loans were incorrect. The contract accountant went through all active grants and updated balances on schedules. The new grant schedules will be utilized by the Finance Manager who will continue to monitor and reconcile the grant activity to the grant schedules as part of year-end procedures. The City will strengthen internal controls so that homes that go into foreclosure having a City Grant are brought to the attention of the Finance Manager for adjustment to the grant schedule and the general ledger.

FS 12-2 (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.

2010/11 Fiscal 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 developer deposit accounts.

Current Year Status: Subsequent to fiscal year end the City retained a contract accountant to reconcile the developer deposit activity. The City is meeting with developers to determine the balances spent by the City and not reimbursed by developers. The final accounting of either the developer deposit liability or the amount due from developers is reflected in these financial statements.

Recommendation: We recommend the City collect the amounts owed from developers or repay any unspent developer deposits. Once the amounts are determinable the City should adjust the general ledger to reflect the actual balances and then monitor the activity.

Management Response: The reconciliation of the developer deposit accounts required the review of records back to the year 2000 and took several months to complete with the assistance of a contract accountant. The accounts have now been reconciled and the City will pursue collection of the amounts owed from developers/contractors and adjust the general ledger to reflect actual balances and monitor activity.

FS 12-3 (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.

2010/11 Fiscal 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.

Current Year Follow Up: Subsequent to fiscal year end the City retained a contract accountant to reconcile the developer deposit activity. The City is meeting with developers to determine the balances spent by the City and not been reimbursed by the developers. The final accounting of either the developer deposit liability or the amount due from developers has been reflected in these financial statements. The City also reclassified the agency fund for the developer deposits to the general fund and established the amounts due from or due to developers in the general fund.

Recommendation: We recommend the City collect the amounts owed from developers or repay any unspent developer deposits. The City should also establish procedures to monitor the developer deposit activity and the amounts that are owed by developers.

Management Response: The City will actively pursue the collection of the amounts owed from developers /contractors and repay any unspent deposits if warranted. The City will establish procedures to monitor all collection activity and amounts owed.

Finding 12-4 (Prior Year Finding 11-4): During the 2010/11 fiscal year while cash was being reconciled for the activity it was not reconciled to the general ledger (book) balance. Subsequent to fiscal year end the finance manager has started to reconcile to the general ledger balance.

Current Year Follow Up: During the 2011/12 fiscal year the finance manager made changes to the chart of accounts to establish pooled cash accounts in each fund as opposed to due to/from accounts that were previously set up. Up until the pooled cash accounts were established reconciling the reconciled bank balance to the general ledger was difficult and was not being done on a monthly basis. After the pooled cash accounts were established the finance manager is reconciling the general ledger to the reconciled bank balance.

Recommendation: Continue to reconcile the general ledger cash balances to the reconciled bank balance each month.

Management Response: Prior to establishing the pooled cash accounts for each fund as opposed to due to/from accounts previously used, bank account activity was being reconciled on a monthly basis with the bank accounts. The reconciled bank balance is now being reconciled to the general ledger on a monthly basis.

FS 12-5 (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 2011/2012 fiscal year.

Management Response: The City Attorney has reviewed the Howard Park Agreements related to this payment and has determined that the Howards Properties Trust is due a credit of $244,800 for payment of any future sewer annexation fees related to property still owned by the Howard Properties Trust. Therefore, the City will work with the Howard Properties Trust to memorialize this credit at which point the General Fund will no longer have a liability to the Sewer Capital Fund.

FS 12-6 (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.

2010/11 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.

Current Year Status: No change during the 2011/2012 fiscal year.

Management Response: The City has received some indication that the County previously sent the City a letter stating the ARSA funds were available for general fund use. The City is working to find records or documents related to the ARSA fund transaction to ascertain whether these funds were restricted for use at the tertiary plant or whether the funds were available for general fund use. The City will take action during the upcoming fiscal year to resolve this finding.

FS 12-7 (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 CFD's 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: The City did not reconcile the fiscal agent statements during the 2011/12 fiscal year as of the date of fieldwork. The accounting staff reconciled the statements and adjusted the accounts subsequent to fiscal year end.

Recommendation: The City should monitor/reconcile the fiscal agent statements during the year on a timely basis. As part of the reconciliation the City should verify that the amount collected for the CFD's through the County tax roll has been deposited to the correct CFD accounts and that the amount of payments for the CFD debt is properly reflected in the fiscal agent statements.

Management Response: The Finance department was not able to monitor/reconcile the CFD fiscal agent statements on a regular basis during the 2011/12 fiscal year due to daily workload and time consuming reconciliation of the developer deposit accounts. Finance department's workload should improve since the developer deposit reconciliation has been completed which will allow more time to monitor/reconcile the fiscal agent statements regularly to ensure County tax roll deposits for CFD debt are correctly reflected in fiscal agent statements.

FS 12-8 (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.

Recommendation: We recommend finalizing and having City Council approve the financial and accounting policy and procedures manual.

Management Response: The City has not been able to finalize the draft financial and accounting policy and procedures manual due to the workload in the Finance department. The City anticipates finalizing the policies and procedures manual prior to the FY 2012-13 audit.

FS 12-9 (Prior Year Finding 11-10): During the prior year audit entries were made to establish advances to and advances from other funds. New interfund loans were noted during the current year audit and were properly approved and recorded. We also observed a policy for allocating interest on the advances and verified interest was charged during the 2010/2011 fiscal year.

Current Year Status: During the 2011/12 fiscal year audit we noted there were 12 long-term interfund loans. Of these interfund loans we noted three interfund loans where the receiving fund was paying the lending fund interest and nine interfund loans where the receiving fund was paying no interest to the lending fund.

Recommendation: We recommend the City research if all of the lending funds should be receiving interest on the long-term advances.

Management Response: The City will research if all lending funds should be receiving interest on the long-term advances.

FS 12-10 (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.

2010/11 Follow Up: During the 2010/11 fiscal year audit we noted the new finance manager performed year end procedures for accounts receivables at June 30, 2010 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, 2011, however the general ledger was not adjusted to agree to the underlying support.

Current Year Follow Up: During the current fiscal year the finance manager entered a prior period adjustment to agree the accounts receivable balance to the June 30, 2011 schedule and then prepared the accounts receivables schedule and adjusted each funds accounts receivable balance to agree to the underlying support at June 30, 2012. During our search for unrecorded accounts receivables we discovered an additional $43,000 unrecorded accounts receivable for the 2011/12 2% Golf Course revenue with payment received in October 2012. We also discovered $15,878 unrecorded receivables from the CFD's cash with fiscal agent account to reimburse the City for Legal fees paid by the City on the CFD behalf.

The City also recorded a receivable for $38,187.41 related to prior year water treatment reimbursement due from Portlock. The Finance Manager will send them an invoice to attempt collection.

Recommendation: We recommend the City accrue all accounts receivables as part of year end procedures. We also recommend City Council be kept up to date on the collection of the $38,187.41 due from Portlock.

Management Response: The Finance Manager agrees that the $43,000 received for the Golf Course revenue should have been listed as an accounts receivable since the revenue is paid in arrears based on the previous year's revenue. The Finance Manager also agrees that the unrecorded receivable from the CFD was billed but not listed on the accounts receivable schedule. Procedures will be implemented to ensure all accounts receivables are listed on schedules as part of year-end procedures. The City has recorded an accounts receivable due from Portlock for prior year water treatment reimbursement that is for the years 2008 and 2009in the amount of $38,187.41. The original amount billed for both years totalled $70,187.41. In October of 2010 a "good faith" payment in the amount of $32,000 was received and applied to the respective years. The prior City Manager was reviewing the account prior to leaving.

FS 12-11 (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 miscoding also puts 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.

2010/11 Follow Up: During the current year audit we noted that no additional proceeds of debt were received in the 2010/2011 fiscal year. We noted that principal and interest expense were budgeted in the fire services impact fee fund, but some of the principal and interest expense was paid from the general fund with no budget for those amounts.

Current Year Follow Up: During the current fiscal year the debt payments were recorded in the fire impact fund, however the City did not adopt a budget for that fund in the 2011/12 fiscal year. There were no proceeds of debt in the 2011/12 fiscal year. Interfund balances are in balance as of the end of the fiscal year.

Recommendation: The City will need to adopt a budget for all funds required to operate under a legally adopted budget.

Management Response: The City will adopt budgets for the next budget year for all funds required to operate under a legally adopted budget.

FS 12-12 (Prior Year Finding 09-8): During our audit we noted the City accrued the Safe Routes to School $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 capital project fund. The effect of this treatment was overstating receivables and revenue in the general fund and understating receivables and revenue in the capital project fund. The capital project 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.

2010/11 Follow Up: At June 30, 2011 we noted the Safe Routes to School fund had a negative $60,156 cash balance a $59,803 receivable balance and $55,302 deferred revenue balance. The receivable and deferred revenue balance was unchanged from the prior fiscal year.

Current Year Follow Up: During the current fiscal year audit the Safe Routes to School fund was closed with $42,732 transferred in from the gas tax fund to cover the City portion of the project and a $12,923 prior period adjustment was recorded to true up prior year unrecorded adjustments.

Recommendation: None.

FS 12-13 (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 was a condition that had an effect on our opinion of the fair presentation of the financial statements.

Current Year Follow Up: The compensated absence schedule had not been prepared when we started the audit, however management informed us that this item needed to be completed. After the schedule was completed, we tested the schedule and noted that no liability was recorded for accumulated sick leave which is required to be paid out upon termination of employment. The City revised the schedule to include a prior period adjustment of $82,083 to account for accrued sick leave liability at June 30, 2011 and then adjusted to a balance of $55,334 for both governmental fund types and proprietary fund types at June 30, 2012.

Recommendation: We recommend the City prepare the compensated absences schedule prior to the start of audit fieldwork and include all termination related liabilities (vacation, sick, CTO etc.) in the schedule.

Management Response: Prior audits did not include sick leave as part of the compensated absence liability but will be incorporated in future schedules which will be prepared prior to start of audit.

FS 12-14: (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.

2010/11 Follow Up: During our testing of accounts payables we noted year end procedures had been performed to schedule out accounts payables, however the schedule was not reconciled to the general ledger. We also discovered additional accounts payables during our search for unrecorded accounts payables which were not included on the client schedule.

Current Year Follow Up: During the current fiscal year the City prepared the accounts payable schedule and reconciled the schedule to the general ledger. During our testing we noted the City proposed accruing the audit fee for the June 30, 2012 audit. The services for the June 30, 2012 audit had not been performed as of June 30, 2012 and therefore should not have been accrued. The City adjusted the journal entry to exclude the audit fee. We also noted the City accrued a payable in the amount of $8,813.58 for asset seizure funds. This amount was not a payable, but should have been recorded as deferred revenue. We advised the City and a journal entry was made to properly account for that activity.

Recommendation: We recommend the City only accrue items meeting the definition of an accounts payable.

Management Response: At the time the asset seizure funds were received, prior management believed the funds may need to be returned. The journal entry had not been posted prior to audit after it was determined that these funds did not have to be returned and could be utilized by the police department. The City will review all year-end transactions in the future to ensure that accounts payable are accrued accurately.

FS 12-15 (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.

2010/11 Follow Up: While it appears that cutoff procedures were performed at June 30, 2011 the accrued payroll totals were not reconciled to the general ledger. The general ledger appeared materially misstated as a result.

Current Year Follow Up: During the current fiscal year audit we noted the City performed year end procedures for accrued payroll. During our testing we noted errors in reconciling accrued payroll from the supporting documentation to the general ledger. The City, with the assistance of the contract accountant, made the appropriate corrections and adjusted the general ledger balances to agree with the supporting documentation.

Recommendation: Continue to perform year end procedures for accrued payroll and review the schedule and agree the schedule to the general ledger prior to the audit.

Management Response: Journal entries were proposed to eliminate the double accrual of employee portion of taxes. The corrected method of calculation will be used in the future.

FS 12-16 (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.

2010/11 Follow Up: During the current fiscal year audit we noted that many of the accounts had not been reconciled to the underlying support. While the City did perform many of the year end procedures the City finance staff was shorthanded and unable to complete all the reconciliations prior to the audit.

Current Year Follow Up: Due to the circumstances requiring the City to begin the audit prior to all account balances being reconciled to the underlying support, the City provided the auditor with over 65 additional journal entries after starting the audit. The number of journal entries needed to reconcile the general ledger to the underlying support increases the risk of material misstatement and creates inefficiencies in performing the audit.

Recommendation: We recommend performing year end procedures and closing the books so the audit can start sooner when conditions are known that will require the audit to be conducted by a certain date.

Management Response: Performing year end procedures and closing the books prior to the scheduled audit was delayed because of the workload in the finance department and mainly due to the reconciliation of the developer deposits accounts. The Finance department anticipates all year-end procedures and closing processes to be completed prior to next year's audit.

FS 12-17 (Prior Year Finding 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.

2010/11 Follow Up: No change in the current year. The process of calculating cash balances by fund can lead to errors in determining available cash and in making decisions for budgeting and other purposes.

Current Year Follow Up: During the fiscal year under audit the chart of accounts was changed to eliminate the due to/from accounts and to create pooled cash accounts for each fund. The new chart of accounts records cash as would be expected for a Governmental entity with multiple funds. The Finance Manager started reconciling the bank balance to the general ledger on a monthly basis during the 2011/12 fiscal year. During our testing of cash we noted the reconciled bank balance was $30,679 higher than general ledger. The Finance Manager identified $20,901 in reconciling items and proposed recording an increase to cash of $9,777.81 to true up the cash balance. This adjustment was posted to the general fund.

Recommendation: We recommend the City continue to reconcile cash on a monthly basis and agree the reconciled balance to the general ledger.

Management Response: Cash activity in the general ledger was being reconciled on a monthly basis to cash in bank throughout the year. The cash balance was reconciled to the general ledger; however the reconciling journal entry had not been posted prior to the beginning of the audit.

FS 12-18 (Prior Year Finding 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.

2010/11 Follow Up: During the 2010/11 fiscal year the funding policy had not been adopted. Furthermore the liability for the actuarial determined unfunded liability was not recorded in the financial statements during the current fiscal year audit.

Current Year Follow Up: During the current fiscal year the funding policy had not been adopted.

The liability for the actuarial determined unfunded liability was calculated by the contract accountant and recorded by the City. The actuarial report was dated November 2008. GASB 43/45 requires an actuarial valuation of the OPEB at least once every three years.

Recommendation: We recommend the City adopt a policy for funding, or not funding the ARC for the GASB 45 OPEB. We also recommend the City have prepared a new actuarial valuation. The City should qualify for performing the valuation under the modified formula. This type of valuation report would have significantly less preparation cost.

Management Response: The City has received a proposal from an Actuary to prepare a new actuarial valuation as required. The City will adopt a policy for funding or not funding the ARC for the GASB 45 OPEB prior to the next audit.

FS 12-19 (Prior Year Finding 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.

Current Year Follow Up: The City retained a contract accountant to assist with year-end close. Because of the tight deadline to complete the audit some of the accounts had not been reconciled to the underlying documentation and we detected material misstatements as a result of audit procedures and proposed audit entries to correct the misstatements for GAAP presentation. We feel the risk of material misstatement in future audits will be minimized as a result of the Finance Manager having more time to prepare for the audit and with the use of the contract accountant.

Recommendation: 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.

Management Response: The Finance Manager has prepared financial statements in the past and planned to prepare the financial statements and related notes in accordance with generally accepted accounting principles for the 2011/12 fiscal year. Priorities changed during the fiscal year which included the major undertaking of reconciling the developer deposit accounts that required the review of documents going back to the year 2000. This project took months to accomplish which required assistance from a contract accountant in order to complete the project. Due to unforeseen obstacles that delayed completion of this project, the Finance department was not able to sufficiently prepare for the fiscal year 2011/12 audit. The City recognizes training must be provided in order to update Finance staff of the on-going changes to governmental accounting rules and regulations and will work with staff to allow more training. In the future the use of the disclosure checklist will be utilized for financial statement content.

FS 12-20 (Prior Year Finding 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.

2010/11 Follow Up: While we did not observe the treatment noted above for accounts receivable, we noted the underlying accounts receivable schedules did not agree to the general ledger. We recommend reconciling the receivable balances to the general ledger.

Current Year Follow Up: During the current year audit, and subsequent to fiscal year end, we noted the City with the assistance of the contract accountant resolved the accounting process for accounts receivables. We noted the City reconciled the accounts receivable general ledger balances to the underlying supporting documentation.

Recommendation: Continue to monitor accounts receivables to verify transactions are posted properly.

Management Response: During the reconciliation of cash to the general ledger, it was discovered that transactions being billed to customers were posting incorrectly to the cash and accounts receivable accounts. These automatic posting errors were made by the financial system and had been occurring since the financial system software conversion. Finance staff has corrected the problem and the transactions are now posting correctly.

FS 12-21 (Prior Year Finding 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.

2010/11 Follow Up: During the current year we noted the budget was not amended when the City became aware that revenue would not meet the budgeted amounts. By not changing the budgeted revenues and taking action to offset the loss in revenue the City overspent in the general fund resulting in a loss of $1,737,188 and an ending general fund balance of negative $442,777.

Current Year Follow Up: During the current fiscal year we noted that a budget for the general fund and the gas tax fund were the only approved budgets adopted by City Council. The City spent from other funds without a legally approved budget.

Recommendation: We recommend the City adopt a budget for all funds required to operate under a legally adopted budget.

Management Response: Prior Interim City Manager did not prepare budgets for FY 11/12 or FY 12/13 funds other than the General Fund, Gas Tax Fund, and Sewer Enterprise Funds since there was little or no activity in remaining funds. City management will prepare budgets for all funds required to operate under a legally adopted budget for the next budget year.

Prior Year Significant Deficiencies, Not Deemed to be Material Weaknesses

FS 12-22 (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.

Current Year Follow Up: During the current fiscal year audit, we noted the City prepared schedules of capital outlay activity for fiscal year ending June 30, 11 and June 30, 2012. The City also made prior period adjustments to agree the beginning balances with the June 30, 2011 balance. They then posted entries in the sewer fund and prepared entries for Government-Wide financial statements to agree the final balances to the fiscal year ending June 30, 2012 activity. The schedules were tested without exception.

Recommendation: None.

FS 12-23 (Prior Year Finding 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.

2010/11 Follow Up: During the current fiscal year we noted the LTC/TDA and Measure M funds were established and assets were transferred from the general fund to establish/reestablish these funds. The City did not establish a separate SLESF/AB3229 fund and did not segregate the CDBG, Home and self-help funds into separate funds.

Current Year Follow Up: The City established a separate SLESF/AB3229 fund and separated the CDBG, Home and self-help funds into individual funds.

Recommendation: None.

FS 12-24 (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.

2010/11 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 the $3,200 receivable.

Current Year Follow Up: During the current fiscal year audit we noted the self help grant fund was separated into its own fund. We did not observe City Council approval to write off the $3,200 receivable.

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

FS 12-25 (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.

2010/11 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 2010/2011 fiscal year for the prior sewer connection fees.

Current Year Follow Up: Subsequent to fiscal year end the City retained a contract account who researched sewer charges for new building permits. The results of that research are currently being reviewed and discussed with management and Council for corrective action. The City has recorded a receivable in these financial statements for the amount due.

Recommendation: We recommend the City continue to pursue collection of the past sewer connection charges.

Management Response: City billed developer for four sewer connection fees in May 2010. As of this date the developer has not paid. Developer is included in list of other developers/contractors that are being reviewed and discussed with management and Council for corrective action and direction on collection of these fees.

FS 12-26 (Prior Year Finding 11-29: During our audit we noted accounts receivables, accounts payables, deposit liabilities, OPEB liability, compensated absences, fixed assets, deferred revenue and accrued payroll were not reconciled to the underlying documentation resulting in a scope limitation that precluded us from issuing and opinion on the financial statements. This condition exists because the City finance staff was shorthanded and the workload for the finance manager was unreasonable in relation to tasks required for her to complete. We noted during the fieldwork that the finance manager, in addition to assisting us with the audit, was answering the phones, assisting customers at the front desk and completing the day to day operations of the finance department for processing receipts, payroll and disbursements as well as performing special projects for the City Manager and City Council.

Current Year Follow Up: City management posted prior period adjustments to agree the June 30, 2011 beginning equity balances to the prior year support. The City then made entries to reconcile the June 30, 2012 general ledger balances to the underlying support. While the year-end work was not totally complete upon starting the 2011/12 fiscal year audit fieldwork the City made much improvement in closing the books. Over 65 adjusting entries were required to be posted after starting the audit.

Recommendation: We recommend the City complete the year-end close and reconcile the general ledger to the underlying documentation prior to the audit. We recommend cross training other City employees or continuing using the outside accounting contractor to assist the finance manager with year-end closing and day to day accounting functions.

Management Response: Since audit of developer deposits has been completed, finance staff anticipates year-end close and reconciliation of the general ledger will be completed prior to the next audit. Cross training of other Finance staff will continue.

Deemed to be Significant Deficiencies and Not Material Weaknesses

FS 12-27 (Prior Year Finding 11-30): We noted the City had a lack of segregation of duties, as one person is capable of handling all aspects of processing transactions from beginning to end. We also noted that journal entries are not approved or reviewed by management, other than the finance manager, who initiates, posts the entry and files the backup documentation. A lack of segregation of duties increases the risk of potential errors or irregularities occurring without being detected; however, due to a limited number of personnel in the finance department as a result of downsizing an adequate segregation of duties is not possible without incurring additional costs. We also noted the Finance Department journal entries do not always have an approval signature by the City Manager or other responsible employee, indicating the entries have been reviewed for accuracy and giving the Finance Department approval to post the entries.

Recommendation: We recommend the City segregate duties to the greatest extent possible given the limited number of personnel in the Finance Department. We also recommend the City review procedures for getting approval signatures on the journal entries and include this internal control procedure in the City's financial policies and procedures manual.

Management Response: The City will continue to try to segregate Finance staff duties given the limited number of personnel. City will add procedures for getting approval signatures on journal entries and include this internal control procedure in the City's financial policies and procedures manual.

FS 12-28 (Prior Year Finding 11- 31): The City did not implement the provisions of Government Accounting Standards Board Statement 54 as required by U.S. generally accepted accounting policies. This new standard went into effect for fiscal year ending June 30, 2011. The new requirement categorizes fund balances into five separate categories and sets a new definition for special revenue funds.

Current Year Follow Up: No change in the current fiscal year.

Recommendation: We recommend the City review the provisions of GASB 54 and take action to adopt the new standard.

Management Response: The fund balances in the financial statements have been reclassified into categories required by the new GASB 54 Standard. The City will further review the provisions of the new Standard for the FY 12-13 audit.

FS 12-29 (Prior Year Finding 11-32): During our review of building permits we noted the City is relying on the developer to track prepaid building permits. The City did not have a schedule to reconcile what was paid and when new parcels will need to start being charged additional permit fees.

Current Year Follow Up: The city retained a contract accountant to assist with determining the status of the prepaid building permits and to design controls over internally tracking prepaid building permits.

Recommendation: The City should internally track which prepaid building permits have been pulled and when the prepaid permits have been used.

Management Response: City staff reviewed building permits to determine status of prepaid building permits. City will design controls over tracking prepaid building permits.

FS 12-30 (Prior Year Finding 11-33): During our testing of sewer revenues we noted that when a delinquent sewer account is sent to the County to be placed on the County tax roll the amount sent to the County is not removed from the billing system and penalty and interest is shutoff so that any new delinquencies are not charge penalties and interest.

Current Year Follow Up: During the current year audit we noted the City created a separate tax roll receivable account and removed the delinquent accounts sent to the tax roll from the normal receivables billing system.

Recommendation: Continue to maintain the sewer tax roll receivable accounts and continue to reconcile the amounts collected and remitted from the County.

Management Response: The City will continue to maintain sewer tax roll receivable accounts and reconcile amounts collected and remitted from the County.

FS 12-31 (Prior Year Finding 11-34): During our testing of sewer commercial accounts we noted the City is charging based on number of fixtures, however the City did not have files for commercial properties documenting the number of fixtures so that we could recalculate the charges.

Current Year Follow Up: During the current year audit we noted the site inspections on commercial properties had not been performed. Furthermore, as part of our sewer receipts testing, we contacted a mobile home park that is being billed for 51 connections and were informed that there are 54 spaces at the mobile home park. It appears the City has been undercharging three connections for this commercial customer.

Recommendation: We recommend the City consider doing a site inspection of all commercial properties and document the number of fixtures. The City should then compare that data to the actual charges and make adjustments where needed. We recommend including the mobile home park noted above in the site inspections and changing the billing to include the additional three connections if it is determined the mobile home park was undercharged.

Management Response: City staff is limited but will prepare a plan to do a site inspection on all commercial properties and document fixtures and compare to actual charges. Adjustments to customer accounts will be made if needed.

FS 12-32 (Prior Year Finding 11-35): During our review of CalPERS pension contributions we noted one employee who was buying back years of service at $228 per pay period. The City did not remit the buy backs to CalPERS for 15 pay periods resulting in underfunding the pension obligation and not complying with a Department of Labor requirement that payments for retirement withholdings be remitted within fifteen days after the month of withholding.

Current Year Follow Up: During the current fiscal year we noted during one pay period 7/31/11 to /8/13/11 where the $228 payment was not remitted to CalPERS. This amount was added to the CalPERS accrual as of June 30, 2012. We also noted the City did not remit the CalPERS pension employee and employer contributions from March 11, 2012 to June 30, 2012. The amount owed to CalPERS for this period was $108,167. The total CalPERS unpaid employee and employer contributions at June 30, 2012 were $110,699 which included adjustments. This amount has been recorded as a liability in these financial statements.

Recommendation: We recommend the City implement internal controls to ensure that employee deductions are being transferred within the required time limits.

Management Response: City staff will implement procedures as well as train staff to ensure employee deductions are transferred within time limits.

FS 12-33 (Prior Year Finding 11-36): During our material disbursements test we noted for contracted vendors that current contracts were not kept on file in the fiscal department. The fiscal department did not appear to be reviewing invoices from contractors/engineers to verify that hourly rates charged by vendors were in accordance with contract terms. Various projects are charged by engineers at different rates; however no master list of projects (reimbursable, non-reimbursable) is maintained by the fiscal department to determine whether invoices are correctly billed. There is also no indication that the city engineer/project manager has reviewed the contractor invoices.

Current Year Follow Up: During the current year audit we noted one instance where $185 per hour was charged and the contract agreement specified a rate of $165 per hour. There were a total of 70.60 hours billed at this rate resulting in overcharges of $1,412.

We noted one professional service contract where City Council was not provided with "Exhibit A" mentioned in the contract. Exhibit A outlined all other legal services billing rates. On several invoices the City was billed $350 per hour which was not a rate specified in the approved agreement (exclusive of Exhibit A). The Finance Department also did not have a rate sheet supporting the billing rate. We did not observe evidence that the interim City Manager approved the special billing rate prior to the costs being incurred nor did we observe that the interim City Manager signed the payment voucher attached to the invoice packet.

The $350 rate discussed above was a billable rate for services performed where the City will be reimbursed by parties outside the City. During our testing of these invoices we noted that when these reimbursable invoices were paid they were coded to expense accounts. When the reimbursements were received the reimbursement was coded to revenue which netted the activity to $0. The city should be coding these charges to accounts receivable when paid in order to track the amount owed to the City from the third party. During our testing, we also noted $15,877.69 in reimbursable legal fees charged to the City at the $350 rate that had not been billed to the outside 3rd party. During the audit the City billed the 3rd party, recorded the receivable and reduced the City expense account.

We noted one other instance where a contract engineering firm's rate schedule indicated $165 per hour for a project engineer/scientist III position, but $168 per hour was charged.

Recommendation: We recommend that contract files be maintained in the finance department and that approved contract terms and rates be reconciled to the invoices. We also recommend that the city engineer/project manager initial the project invoices to indicate that the charges are reasonable/within contract terms and that the work has been performed.

Management Response: Contract files are being set up in the finance department to include contract terms and rates to reconcile with invoices. City Finance staff will initiate procedures to have engineer/project manager initial invoices or approve by email that charges on project invoices are reasonable/within contract terms and work has been performed.

FS 12-34 (Prior Year Finding 11-37): During our testing of payroll we noted the salary schedule for the Police Department had not been updated to reflect the 2010-11 salary steps. We noted 2 out of 20 employees tested did not have a completed W-4 form in their personnel folder. We noted 6 of 20 positions tested did not have a board approved salary schedule for the position and 6 of 20 employees tested where the salary did not agree to the salary schedule effective 7/1/10.

Current Year Follow Up: During the current fiscal year we noted the City Finance Department did not have pay rate information on file to verify Fire Fighter salaries. We noted that not all job positions for the Fire Fighters were noted on the pay schedule. We noted two Fire Fighter pay rates that did not agree to the personnel action form in the employee file. We noted one employee where we could not locate a W-4. We noted one employee who did not have a personnel action form on file.

Recommendation; We recommend taking action to correct the weaknesses noted above.

Management Response: City Finance department will review and update pay rate information on file to determine pay rates and job positions are accurately recorded and agree with personnel action forms.

CURRENT YEAR INTERNAL CONTROL FINDINGS

Deemed to be Significant Deficiencies and Material Weaknesses

FS 12-35: During our audit we noted the former interim City Manager was paid through accounts payables as an independent contractor as opposed to payroll during the 2011-12 fiscal year. We would expect this position to be paid through payroll and not be treated as an independent contractor for payroll purposes. The position takes direction from City Council, utilizes City Hall office space and uses City equipment to perform job duties. The total amount paid under the agreement was $104,000.

Recommendation: We recommend reviewing the rules differentiating between an employee versus independent contractor. The City could also contact the Employment Development Department to obtain a determination on the proper treatment for this position and corrective action needed, if any.

Management Response: The City agrees and will correct this issue while ensuring appropriate legal review of future employment contracts.

FS 12- 36: During our audit of vacation and sick leave payouts we noted a prior employee was paid out 100% of sick leave upon leaving the City. Per an agreement signed January 29, 2009 the employee opted into the section limiting sick leave payout to 50% of the unused sick leave to a maximum payout of 60 days (50% of 120 days). The actual amount of the sick leave payout was $37,003.36. The amount that should have been paid under the agreement was $18,501.68. This agreement superseded the employment agreement dated December 28, 2007.

Recommendation: We recommend the City request reimbursement of $18,501.68 from the former employee. The reimbursement will need to be made net of the necessary adjustments for payroll tax withholdings. The City will then need to amend the payroll tax returns for the reimbursement.

Management Response: The City is currently negotiating a settlement with the employee.

FS 12-37: During our material disbursements testing we discovered one item for $10,982 that was coded to material and supplies that should have been coded to capital equipment. We noted one item where the payment voucher/purchase order did not have any approval/authorization signatures. We also noted one voided check for $81,881.67 where void was written in ink on the original check, but the check was not defaced.

Recommendation: We recommend reviewing invoices to determine the proper account coding for capital additions. We recommend obtaining the proper signatures for payment vouchers/purchase orders. We also recommend properly defacing voided checks by cutting out the signature block.

Management Response: All invoices are being reviewed by City Manager and Finance Manager to determine proper account coding. All voided checks will be properly defaced in future.

FS 12-38: During our audit we noted the finance manager consistently works over 40 hours with no overtime pay or CTO accrual. The finance manager has communicated that the position is an exempt position; however we did not observe a job description, ordinance, resolution or language in the personnel policy to support this as an exempt position.

Recommendation: We recommend the City update the appropriate manuals and policies for exempt positions and confer with the City attorney to verify that exempt positions are in compliance with State and Federal laws.

Management Response: The City will confer with City Attorney to verify that exempt positions are in compliance with State and Federal laws and will update the appropriate manuals and policies.

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<u>Deemed to be Significant Deficiencies and Not Material Weaknesses</u>

FS 12-39: During our testing of compensated absences we noted two firefighters who started accruing sick leave at the beginning of fiscal year 2011 at 3.69 hours per pay period, (96 hours per year) and then switched the accrual rate to 11.07 hours per pay period (288 hours per year) in May 2012. We also noted one instance where a firefighter indicated they used 6 hours compensated time off per their timesheet; however 6 hours sick leave was recorded per the pay register.

Recommendation: We recommend the City review the sick leave accruals for the firefighters and either justify the increased accrual in May 2012 and then retroactively adjust the sick leave accrual to properly reflect what should have been accrued. We also recommend reconciling compensated absence usage from the timesheet to the payroll register and the detail of activity schedule.

Management Response: Per Article 9 of the MOU between the City and the Fire Employees dated April 1, 2011, "Each employee shall accrue and take sick leave on the basis of the working day rate." …"a 24-hour per day employee will earn 288 hours/yr." All Fire Apparatus Engineers work 24-hour shifts which are equivalent to earning 11.08 hours sick leave accrual per pay period. Finance department will review sick leave accruals for firefighter accruals to verify accruals are accurate and adjust if needed.

FS 12-40 During our testing of sewer receivables we noted the sewer billing clerk was entering into sewer service charge delinquency repayment agreements with delinquent property owners who requested not to have their delinquent accounts put on the tax roll. During our testing we noted the payment agreements were not being monitored and some of the landowners had quit paying per the terms outlined in the agreement.

We also tested one account that had a credit balance of $787.95 at June 30, 2012. This balance was created over a period of years by the customers' auto paying a few dollars more than owed each month ($50 vs. $40.70). Per review we noted there may be several accounts with large credit balances.

Recommendation: We recommend that either the Finance Manager or City Manager review and sign the sewer service charge delinquency repayment agreements. We recommend that the sewer billing clerk monitor the activity for the repayment agreements to verify that the terms are being met. If the terms are not being met then action should be taken to immediately collect the entire balance due or other remedies as outlined in section 2 of the agreement.

We also recommend the City consider refunding customer accounts with large credit balances and notifying these customers of the proper amount due each month.

Management Response: The City Manager normally reviews and signs the sewer service delinquency repayment agreements; however the document tested was during the Acting City Manager period and was signed by the accounting technician II only. Future repayment agreements will be signed by the City Manager or the Finance Manager. The City will review all agreements and take immediate action to collect balances due or remedies as authorized by the agreements. City will review customer accounts with large credit balance for possible refunding.

CURRENT YEAR COMPLIANCE FINDING

The Cease and Desist Order issued by the State Regional Water Board (RWB) in 2011 required the City to file its report of waste discharge with the Regional Board by May 30, 2012. Because of a delay in retaining an engineering firm the City was unable to meet the RWB deadline. On September 10, 2012 the RWB filed an Administrative Civil Liability Complaint against the City for the City's failure to comply with the deadline.

Recommendation: We recommend the City be more proactive in meeting these types of reporting deadlines.