

**CITY OF IONE**  
**FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**CITY OF IONE**  
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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 fiscal year ended June 30, 2011 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.

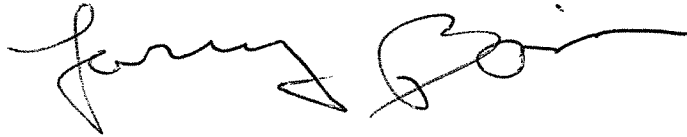
As discussed in Note 3 to the financial statements the City did not maintain capital asset schedules for current year capital additions, current year depreciation expense and for accumulated depreciation on those assets for governmental-type and business-type capital assets. As discussed in Note 5 to the financial statements the city did not maintain schedules to support the activity and amounts reported in the general ledger for compensated absences. As discussed in note 7 to the financial statements the City did not accrue the additional OPEB liability incurred during the 2010/11 fiscal year. Furthermore the City did not reconcile the following underlying documentation to the general ledger: \$897,607 recorded as accounts receivables, \$567,776 recorded as accounts receivable in the developer deposit trust fund, \$2,147,001 recorded as CDBG loans receivable offset by \$2,143,063 recorded as CDBG deferred revenue, an additional \$130,699 recorded as deferred revenue, \$279,849 recorded to accounts payable, \$155,256 recorded as accrued payroll and \$2,099,863 recorded in the deposits from others liability accounts.

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

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

In accordance with Government Auditing Standards, we have also issued our report dated January 14, 2013 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion of the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

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

A handwritten signature in black ink, appearing to read "Larry Bain", with a stylized flourish at the end.

*Larry Bain, CPA,  
An Accounting Corporation  
January 14, 2013*

**City of Ione**  
**Required Supplementary Information**  
**Management's Discussion and Analysis**  
**June 30, 2011**

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, 2011. This information is presented in conjunction with the audited basic financial statements, which follows this section.

**FINANCIAL HIGHLIGHTS FOR FISCAL YEAR 2010-11**

- The City's net assets were \$45,503,677 at June 30, 2011. Net assets decreased \$373,176 or 1%. Of the total net assets, \$1,958,030 is unrestricted and may be used to meet ongoing obligations to citizens and creditors.
- Total cash and investments decreased \$391,356 or 14% to \$2,356,237. Of total cash, \$1,074,072 is restricted for specific activities.
- As of June 30, 2011, the City's governmental funds reported combined fund balance of \$1,160,512. In comparison, Fiscal Year 2009-10 had a combined fund balance of \$1,615,353. Six major funds make up the governmental funds. They are: General Fund, Measure M, General and Fire Impact Fees, Local Traffic Mitigation, and the Housing Grant fund.
- The General Fund, fund balance decreased \$1,496,460 or 142% to \$(442,777) as of June 30, 2011. Of the fund balance \$693,141 is restricted for advances and the remainder in the amount of \$(1,135,918) is unrestricted and may be used to meet ongoing obligations to citizens and creditors.
- The General Fund cash balance decreased \$691,070 or 92% to \$62,054.
- Projects funded by the gas tax fund include storm drains and street repairs.
- There were \$13,838 general fund capital asset additions and \$288,989 non-major governmental fund related capital asset additions for FY 2010-2011.
- The City's proprietary funds (sewer) net assets increased \$173,894 or 2% to \$9,857,622. Cash increased \$152,016 or 34% to \$602,385. The increase in sewer connection fees in the sewer capital fund accounted for the cash increase. For the past five 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 \$514,737 as of 6/30/11. The principal amount for the sales tax loan is \$149,293 with no payments due until December 2013.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

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

**City of Ione**  
**Required Supplementary Information**  
**Management's Discussion and Analysis (Continued)**  
**June 30, 2011**

**REQUIRED FINANCIAL STATEMENTS**

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

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

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

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

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

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

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

**City of Ione**  
**Required Supplementary Information**  
**Management's Discussion and Analysis (Continued)**  
**June 30, 2011**

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

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

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

**Notes to the Financial Statements**

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

**Other Information**

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

**City of Ione**  
**Required Supplementary Information**  
**Management's Discussion and Analysis (Continued)**  
**June 30, 2011**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

**Net Assets**

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

	June 30, 2011			June 30, 2010		
	Governmental Activities	Business-type Activities	Total	Governmental Activities	Business-type Activities	Total
Current and other Assets	\$ 4,290,294	\$ 1,246,449	\$ 5,536,743	\$ 4,691,969	\$ 1,099,547	\$ 5,791,516
Capital Assets	35,076,847	8,691,850	43,768,697	35,076,846	8,691,850	43,768,696
<b>Total Assets</b>	<b>\$ 39,367,141</b>	<b>\$ 9,938,299</b>	<b>\$ 49,305,440</b>	<b>\$ 39,768,815</b>	<b>\$ 9,791,397</b>	<b>\$ 49,560,212</b>
<b>Liabilities</b>						
Current/non current	\$ 3,721,085	\$ 80,677	\$ 3,801,763	\$ 3,575,690	\$ 107,669	\$ 3,683,359
<b>Total Liabilities</b>	<b>\$ 3,721,085</b>	<b>\$ 80,677</b>	<b>\$ 3,801,763</b>	<b>\$ 3,575,690</b>	<b>\$ 107,669</b>	<b>\$ 3,683,359</b>
<b>Net Asset:</b>						
Invested in capital assets, net	\$ 35,076,847	\$ 8,691,850	\$ 43,768,697	\$ 35,076,846	\$ 8,691,850	\$ 43,768,696
Net assets restricted	-	(223,048)	(223,048)	-	(204,671)	(204,671)
Unrestricted net assets	569,209	1,388,820	1,958,030	1,116,279	1,196,549	2,312,828
<b>Total Net Assets</b>	<b>\$ 35,646,056</b>	<b>\$ 9,857,622</b>	<b>\$ 45,503,677</b>	<b>\$ 36,193,125</b>	<b>\$ 9,683,728</b>	<b>\$ 45,876,853</b>

The City's near-term financing situation, as measured by the current ratio (current assets divided by current liabilities), decreased. The ratio decreased over the two year period from 3.15 to 2.68. Values greater than 1.00 are considered good.

The City's overall financial position, as measured by net assets is \$45,503,677. The major component of net assets is invested in capital assets. Unrestricted net assets are \$1,958,030 and represent the amount available for future operations. Unrestricted net assets decreased and governmental activities accounted for the majority of the decrease.



**City of Ione**  
**Required Supplementary Information**  
**Management's Discussion and Analysis (Continued)**  
**June 30, 2011**

**Statement of Activities**

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

	June 30, 2011			June 30, 2010		
	Governmental Activities	Business-type Activities	Total	Governmental Activities	Business-type Activities	Total
Charges for services	\$ 825,087	\$ 998,737	\$ 1,823,824	\$ 159,674	\$ 986,072	\$ 1,145,746
Capital grants and contributions	91,298	239,529	330,827	408,598	45,840	454,438
Operating grants	312,237	-	312,237	977,740	-	977,740
General Revenue:						
Property taxes and assessments	536,264	-	536,264	545,675	-	545,675
Sales and use tax	132,169	-	132,169	229,327	-	229,327
Other taxes	790,400	-	790,400	821,977	-	821,977
Interest income	12,890	15,414	28,304	17,778	48,582	66,360
<b>Total Revenue</b>	<b>2,700,345</b>	<b>1,253,680</b>	<b>3,954,025</b>	<b>3,160,769</b>	<b>1,080,494</b>	<b>4,241,263</b>
Expenses:						
Governmental activities:						
General government	1,004,281	-	1,004,281	974,780	-	974,780
Public safety	1,402,011	-	1,402,011	1,371,148	-	1,371,148
Community development	224,572	-	224,572	423,610	-	423,610
Public Works	237,947	-	237,947	290,485	-	290,485
Streets and roads	150,944	-	150,944	234,279	-	234,279
Parks and recreation	456,287	-	456,287	381,715	-	381,715
Interest on debt	30,834	-	30,834	31,879	-	31,879
Business-type activities:						
Wastewater	-	1,092,800	1,092,800	-	1,108,449	1,108,449
<b>Total Expense</b>	<b>3,506,876</b>	<b>1,092,800</b>	<b>4,599,676</b>	<b>3,707,896</b>	<b>1,108,449</b>	<b>4,816,345</b>
<b>Change in net assets</b>	<b>(806,531)</b>	<b>160,880</b>	<b>(645,651)</b>	<b>(547,127)</b>	<b>(27,955)</b>	<b>(575,082)</b>
Net Assets:						
Beginning	36,193,125	9,683,728	45,876,853	34,847,131	8,810,227	43,657,358
Prior period adjustment	259,461	13,014	272,475	1,893,121	901,456	2,794,577
<b>Ending</b>	<b>\$35,646,055</b>	<b>\$ 9,857,622</b>	<b>\$ 45,503,677</b>	<b>\$ 36,193,125</b>	<b>\$ 9,683,728</b>	<b>\$ 45,876,853</b>

The statement of activities, identify the various revenue and expense items which affect the change in net assets. Total revenues decreased \$287,238 or 7% to \$3,954,025 while total expenses decreased \$216,669 or 5% to \$4,599,676. The net assets decreased \$373,176 or 1% to \$45,503,677. The decrease to revenues for governmental activities was due to the decline in interest income, capital grants and contributions, operating grants, and property, sales and other taxes offset by an increase to charges for services. Expenses for governmental activities exceeded revenues by \$806,531. General government, public safety, and parks and recreation activities contributed to the decrease in change in net assets even though total governmental activities expenses decreased. Included in the \$1,092,800 for business-type activities is \$749,877 for professional services. For the past five years, the City has been making improvements as well as planning improvements to its sewer plant to meet projected growth as well as comply with SWRCB requirements. For more information please see the financial statements and the notes to the financial statements.

**City of Ione**  
**Required Supplementary Information**  
**Management's Discussion and Analysis (Continued)**  
**June 30, 2011**

**FUNDS FINANCIAL ANALYSIS**

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

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

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

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

The combined funds near-term financing situation, as measured by the current ratio (current assets divided by current liabilities), increased. The ratio increased over the two year period from 8.93 to 14.56. 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 \$192,271.

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

**Budgetary Highlights**

General fund revenues for the 2010-11 fiscal year were budgeted at \$2,262,900. The actual revenues were \$1,560,283 which is an unfavorable variance of \$702,617 or 31%. The majority of the variance was due to a decrease of \$388,309 in taxes due mainly to Sales Tax in the amount of \$156,601, \$375,863 in Intergovernmental, \$17,298 for use of money, and \$28 for other revenue. Revenue categories that were over budget were Licenses and Permits in the amount of \$39,112, fines, forfeitures and penalties in the amount of \$4,839, and charges for current services in the amount of \$36,831.

General fund expenditures were budgeted at \$2,412,826. The actual amount expended was \$2,653,973 or \$241,147 overbudget. The lesser amount of budgeted expenditures was due to the city council, planning, fire department, and parks and recreation. Conversely, city manager, city clerk, finance, legal, OPEB retire health, insurance and general services, building inspection, engineering, corporate yard, and police department are over budget. For more information please see pages 38 and 39 of the audit report.

**City of Ione**  
**Required Supplementary Information**  
**Management's Discussion and Analysis (Continued)**  
**June 30, 2011**

**CAPITAL ASSETS**

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

	Governmental		Business-type		Total	
	Activities		Activities		Government	
	6/30/2011	6/30/2010	6/30/2011	6/30/2010	6/30/2011	6/30/2010
Land	\$ 29,696,609	\$ 29,696,609	\$ 3,873,444	\$ 3,873,444	\$ 33,570,053	\$ 33,570,053
Construction in progress	15,370	15,370	1,212,666	1,212,666	1,228,036	1,228,036
Structures	3,074,786	3,074,786	1,460,112	1,460,112	4,534,898	4,534,898
Site improvements	929,993	929,993	446,396	446,396	1,376,389	1,376,389
Vehicles and equipment	1,607,160	1,607,160	489,206	489,206	2,096,366	2,096,366
Infrastructure	2,313,407	2,313,407	3,924,917	3,924,917	6,238,324	6,238,324
Accumulated depreciation	(2,560,479)	(2,560,479)	(2,714,891)	(2,714,891)	(5,275,370)	(5,275,370)
<b>Total Capital Assets, Net</b>	<b>\$ 35,076,846</b>	<b>\$ 35,076,846</b>	<b>\$ 8,691,850</b>	<b>\$ 8,691,850</b>	<b>\$ 43,768,696</b>	<b>\$ 43,768,696</b>

As of June 30, 2011 the City's investment in capital assets totaled \$43,768,696 net of accumulated depreciation.

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

**LONG-TERM DEBT**

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

In September 2011 it was discovered that the State Board of Equalization misallocated the City's sales tax owing to the County for the 4<sup>th</sup> quarter of 2008 and the 1<sup>st</sup> 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. Amador County will loan the City \$11,220.32 for eight quarters beginning December 1, 2011, and beginning December 1, 2013 will pay the County \$7,683.68 per quarter with an interest rate at 2%.

**City of Ione**  
**Required Supplementary Information**  
**Management's Discussion and Analysis (Continued)**  
**June 30, 2011**

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

The City Council adopted the City's Fiscal Year 2010-11 Final Budget on January 4, 2011. During the past five fiscal years, the City has been making improvements as well as planning improvements to its sewer plant to meet projected growth as well as comply with SWRCB requirements. Planning for the sewer plant expansion is an ongoing project.

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

**ADDITIONAL FINANCIAL INFORMATION**

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

**CITY OF IONE**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2011**  
**(With comparative total as of June 30, 2010)**

	Governmental Activities	Business-type Activities	Totals	
			2011	2010
<b>Assets</b>				
Cash and investments	\$ 129,841	\$ 1,152,324	\$ 1,282,165	\$ 1,794,895
Accounts receivables	245,263	399,264	644,527	668,706
Grants	128,010		128,010	128,010
Taxes receivable	264,411		264,411	56,709
Prop 1A	121,612		121,612	121,612
Interest receivable	2,955		2,955	2,955
Total current assets	<u>892,092</u>	<u>1,551,588</u>	<u>2,443,680</u>	<u>2,772,887</u>
<b>Non Current Assets</b>				
Restricted cash and investments	1,624,011	(549,939)	1,074,072	952,698
Internal balances	(244,800)	244,800	-	-
Loans receivable	2,018,991		2,018,991	2,065,931
<b>Capital assets</b>				
Land	29,696,609	3,873,444	33,570,053	33,570,053
Construction in progress	15,370	1,212,666	1,228,036	1,228,036
Structures	3,074,786	1,460,112	4,534,898	4,534,898
Site improvements	929,993	446,396	1,376,389	1,376,389
Vehicles and equipment	1,607,160	489,206	2,096,366	2,096,366
Infrastructure	2,313,407	3,924,917	6,238,324	6,238,324
Accumulated depreciation	(2,560,479)	(2,714,891)	(5,275,370)	(5,275,370)
Total capital assets, net	<u>35,076,847</u>	<u>8,691,850</u>	<u>43,768,697</u>	<u>43,768,696</u>
Total Assets	\$ <u>39,367,141</u>	\$ <u>9,938,299</u>	\$ <u>49,305,440</u>	\$ <u>49,560,212</u>
<b>Liabilities</b>				
Current liabilities:				
Accounts payable	\$ 221,097	\$ 58,752	\$ 279,849	\$ 213,481
Accrued payroll	201,621	7,588	209,209	245,880
Deposits from others	268,000	2,434	270,434	268,015
OPEB-retiree health	150,658		150,658	150,658
Noncurrent liabilities:				
Deferred revenue	2,090,614		2,090,614	2,136,776
Due within one year	39,324		39,324	17,142
Due in more than one year	749,771	11,903	761,674	651,408
Total Liabilities	<u>3,721,085</u>	<u>80,677</u>	<u>3,801,762</u>	<u>3,683,359</u>
<b>Net Assets</b>				
Invested in capital assets net of related deb	35,076,847	8,691,850	43,768,697	43,768,696
Restricted for capital replacement		(223,048)	(223,048)	(204,671)
Unrestricted	569,209	1,388,820	1,958,029	2,312,828
Total Net Assets	\$ <u>35,646,056</u>	\$ <u>9,857,622</u>	\$ <u>45,503,678</u>	\$ <u>45,876,853</u>

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

**CITY OF IONE**

**STATEMENT OF ACTIVITIES**

**JUNE 30, 2011**

**(With comparative total as of June 30, 2010)**

Functions/programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
		Charges for Services	Capital Grants and Contributions	Operating Grants	Governmental Activities	Business-type Activities	Totals	
							2011	2010
Governmental Activities:								
General government	\$ 1,004,281	\$ 83,979	\$ 1,484	\$ -	\$ (918,818)	\$ -	\$ (918,818)	\$ (922,397)
Public safety	1,402,011	429,760	32,570	92,597	(847,084)		(847,084)	(911,857)
Community development	224,572			219,640	(4,932)		(4,932)	(26,092)
Public works	237,947	302,481			64,534		64,534	(212,555)
Streets and roads	150,944		53,660		(97,284)		(97,284)	211,268
Parks and recreation	456,287	8,867	3,584		(443,836)		(443,836)	(268,372)
Interest on debt	30,834				(30,834)		(30,834)	(31,879)
Total Governmental Activities	3,506,876	825,087	91,298	312,237	(2,278,254)		(2,278,254)	(2,161,884)
Business-type Activities:								
Wastewater	1,092,800	998,737	239,529			145,466	145,466	(76,537)
Total Business-type Activities	1,092,800	998,737	239,529			145,466	145,466	(76,537)
Total Government	\$ 4,599,676	\$ 1,823,824	\$ 330,827	\$ 312,237	(2,278,254)	145,466	(2,132,788)	(2,238,421)
General Revenues:								
Taxes:								
Property taxes					536,264		536,264	545,675
Sales and use tax					132,169		132,169	229,327
Transient occupancy tax					1,618		1,618	2,803
Franchise tax					89,922		89,922	85,766
Motor vehicle in lieu tax					684,223		684,223	720,365
Other taxes					14,637		14,637	13,043
Investment income					12,891	15,414	28,305	66,360
Total general revenues					1,471,724	15,414	1,487,138	1,663,339
Change in net assets					(806,530)	160,880	(645,650)	(575,082)
Net assets - beginning					36,193,125	9,683,728	45,876,853	43,657,358
Prior Period Adjustment					259,461	13,014	272,475	2,794,577
Net assets - ending					\$ 35,646,056	\$ 9,857,622	\$ 45,503,678	\$ 45,876,853

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

**CITY OF IONE**

**GOVERNMENTAL FUNDS  
BALANCE SHEET  
JUNE 30, 2011**

**(With comparative total as of June 30, 2010)**

	General	Measure M	CDBG/HOME Program Loans	Governmental Impact Fees	Local Traffic Mitigation	Fire Services Impact Fees	Other Nonmajor Funds	Total Governmental	
								2011	2010
<u>Assets</u>									
Cash and investments	\$ 62,054	\$ -	\$ 300,182	\$ -	\$ -	\$ -	\$ (232,395)	\$ 129,841	\$ 818,817
Receivables									
Accounts	47,372	73,812		2,416	801	381	120,481	245,263	264,328
Grants			128,010					128,010	128,010
Taxes	264,411							264,411	56,709
Prop 1A	121,612							121,612	121,612
Interest	2,955							2,955	2,955
Total Current Assets	498,404	73,812	428,192	2,416	801	381	(111,914)	892,092	1,392,431
Restricted cash and investments				(100,904)	564,792	172,981	987,142	1,624,011	1,478,407
Advances to other funds	693,141	350,171		25,000	-		1,381,924	2,450,236	1,557,945
Loans receivable			2,018,991					2,018,991	2,065,931
Total Long-Term Assets	693,141	350,171	2,018,991	(75,904)	564,792	172,981	2,369,066	6,093,238	5,102,283
Total Assets	\$ 1,191,545	\$ 423,983	\$ 2,447,183	\$ (73,488)	\$ 565,593	\$ 173,362	\$ 2,257,152	\$ 6,985,330	\$ 6,494,714
<u>Liabilities and Fund Balances</u>									
<u>Liabilities</u>									
Accounts payable	\$ 131,215	\$ -	\$ 4,590	\$ -	\$ -	\$ -	\$ 85,292	\$ 221,097	\$ 155,658
Accrued payroll	189,171						12,450	201,621	210,004
Deposits from others	(91,351)					359,351		268,000	265,947
OPEB-retiree health									150,658
Deferred revenue	268,196		2,065,931				104,937	2,439,064	2,294,348
Total Current Liabilities	497,231		2,070,521			359,351	202,679	3,129,782	3,076,615
Long-term Liabilities									
Advances from other funds	1,137,091			598,000		959,945		2,695,036	1,802,745
Total Liabilities	1,634,322		2,070,521	598,000		1,319,296	202,679	5,824,818	4,879,360
<u>Fund Balances</u>									
Restricted for loans receivable			376,662					376,662	381,594
Restricted for advances	693,141						839,804	1,532,945	1,557,945
Assigned for public safety		423,983					188,388	612,371	
Assigned for community development									
Assigned for streets and roads							1,182,248	1,182,248	
Assigned for capital projects				(671,488)	565,593	(1,145,934)	(155,967)	(1,407,795)	
Unassigned, reported in									
General fund	(1,135,918)							(1,135,918)	360,542
Special revenue funds									499,533
Capital projects funds									(1,184,260)
Total Fund Balances	(442,777)	423,983	376,662	(671,488)	565,593	(1,145,934)	2,054,473	1,160,512	1,615,354
Total Liabilities and Fund Balances	\$ 1,191,545	\$ 423,983	\$ 2,447,183	\$ (73,488)	\$ 565,593	\$ 173,362	\$ 2,257,152	\$ 6,985,330	\$ 6,494,714

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, 2011

	<u>2011</u>	<u>2010</u>
Fund Balances of Governmental Funds	\$ 1,160,512	\$ 1,615,354
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets, net of accumulated depreciation, are not current financial resources and are not included in the governmental funds.	35,076,847	35,076,846
Some liabilities, including long-term debt, compensated absences, OPEB and deferred revenue are not due and payable in the current period and therefore are not reported in the funds.	<u>(591,303)</u>	<u>(499,075)</u>
Net assets of governmental activities	\$ <u>35,646,056</u>	\$ <u>36,193,125</u>

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, 2011  
(With comparative total as of June 30, 2010)**

	General	Measure M	CDBG/HOME Program Loans	Governmental Impact Fees	Local Traffic Mitigation	Fire Services Impact Fees	Other Nonmajor Funds	Total Governmental	
								2011	2010
<b>Revenues</b>									
Taxes	\$ 646,191	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 646,191	\$ 1,066,692
Special assessment/impact fees		321,178		1,484	29,539	3,031	78,252	433,484	43,239
Licenses and permits	156,061							156,061	116,324
Use of money and property	91,202						2,893	94,095	103,313
Intergovernmental	588,136		219,640				293,168	1,100,944	1,779,376
Fines, forfeitures and penalties	7,139							7,139	11,845
Charges for current services	70,681							70,681	49,266
Other	872							872	4,586
<b>Total Revenues</b>	<b>1,560,282</b>	<b>321,178</b>	<b>219,640</b>	<b>1,484</b>	<b>29,539</b>	<b>3,031</b>	<b>374,313</b>	<b>2,509,467</b>	<b>3,174,641</b>
<b>Expenditures</b>									
Current:									
General government	905,968							905,968	955,631
Public ways and facilities/ transportation	209,107						179,784	388,891	432,499
Public safety	1,203,348						125,558	1,328,906	1,185,632
Community development	289,954		224,572				34,925	549,451	717,706
Capital Outlay	13,838						288,989	302,827	333,693
Debt service									
Principal	11,028					5,816		16,844	15,868
Interest	20,730					10,104		30,834	31,892
<b>Total Expenditures</b>	<b>2,653,973</b>		<b>224,572</b>			<b>15,920</b>	<b>629,256</b>	<b>3,523,721</b>	<b>3,672,921</b>
<b>Excess (Deficit) of Revenues over Expenditures</b>	<b>(1,093,691)</b>	<b>321,178</b>	<b>(4,932)</b>	<b>1,484</b>	<b>29,539</b>	<b>(12,889)</b>	<b>(254,943)</b>	<b>(1,014,254)</b>	<b>(498,280)</b>
<b>Other Financing Sources (Uses)</b>									
Operating transfers in		112,584					542,430	655,014	909,020
Operating transfers out	(643,497)	(11,517)					-	(655,014)	(909,020)
<b>Total Other Financing Sources (Uses)</b>	<b>(643,497)</b>	<b>101,067</b>					<b>542,430</b>	<b>-</b>	<b>-</b>
<b>Excess (Deficit) of Revenues and Other Financing Sources over Expenditures and Other Financing Uses</b>	<b>(1,737,188)</b>	<b>422,245</b>	<b>(4,932)</b>	<b>1,484</b>	<b>29,539</b>	<b>(12,889)</b>	<b>287,487</b>	<b>(1,014,254)</b>	<b>(498,280)</b>
<b>Fund Balances, July 1</b>	<b>1,053,683</b>		<b>381,594</b>	<b>(672,972)</b>	<b>536,054</b>	<b>(1,133,045)</b>	<b>1,450,040</b>	<b>1,615,355</b>	<b>2,450,598</b>
<b>Prior period adjustments</b>	<b>240,728</b>	<b>1,738</b>					<b>316,946</b>	<b>559,412</b>	<b>(336,964)</b>
<b>Fund Balances, June 30</b>	<b>\$ (442,777)</b>	<b>\$ 423,983</b>	<b>\$ 376,662</b>	<b>\$ (671,488)</b>	<b>\$ 565,593</b>	<b>\$ (1,145,934)</b>	<b>\$ 2,054,472</b>	<b>\$ 1,160,512</b>	<b>\$ 1,615,354</b>

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, 2011**

	<u>2011</u>	<u>2010</u>
Net Change in Fund Balances - Total Governmental Funds	\$ (1,014,254)	\$ (498,280)
<p>Amounts reported for governmental activities in the Statement of Activities differs from the amounts reported in the Statement of Revenues, Expenditures and Changes in Fund Balances because:</p>		
<p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities. The costs of those assets is allocated over their estimated useful lives as depreciation expense or are allocated to the appropriate functional expense when the cost is below the capitalization threshold. This activity is reconciled as follows:</p>		
Cost of assets capitalized	-	333,693
Capital contributions	-	-
Depreciation expense	-	(317,791)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	190,878	(13,871)
Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.	16,846	15,881
Changes in compensated absences reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported in governmental funds.	<u>-</u>	<u>(66,759)</u>
Change in net assets of governmental activities	<u>\$ (806,530)</u>	<u>\$ (547,127)</u>

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

**CITY OF IONE**

**STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
JUNE 30, 2011**

**(With comparative total as of June 30, 2010)**

	Sewer O & M	Sewer Capital	Nonmajor Sewer Tertiary Plant	Totals	
				2011	2010
Current assets:					
Cash and investments	\$ 1,405,042	\$ -	\$ (252,718)	\$ 1,152,324	\$ 976,078
Receivables					
Accounts	70,812	91,680	236,772	399,264	404,378
Interest				-	-
Due from other funds				-	-
Restricted cash and investments		(549,939)		(549,939)	(525,709)
Total current assets	<u>1,475,854</u>	<u>(458,259)</u>	<u>(15,946)</u>	<u>1,001,649</u>	<u>854,748</u>
Non Current Assets					
Advances to other funds		244,800		244,800	244,800
Capital assets					
Land	3,873,444			3,873,444	3,873,444
Construction in progress	1,212,666			1,212,666	1,212,666
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	3,924,917			3,924,917	3,924,917
Accumulated depreciation	(2,714,891)			(2,714,891)	(2,714,891)
Total capital assets	<u>8,691,850</u>			<u>8,691,850</u>	<u>8,691,850</u>
Total Assets	<u>\$ 10,167,704</u>	<u>(213,459)</u>	<u>\$ (15,946)</u>	<u>\$ 9,938,299</u>	<u>\$ 9,791,398</u>
Liabilities					
Current liabilities:					
Accounts payable	\$ 29,925	\$ 9,589	\$ 19,238	\$ 58,752	\$ 57,824
Accrued payroll	7,588			7,588	35,876
Customer deposits	2,434			2,434	2,068
Total current liabilities	<u>39,947</u>	<u>9,589</u>	<u>19,238</u>	<u>68,774</u>	<u>95,768</u>
Noncurrent liabilities:					
Compensated absences	11,903			11,903	11,903
Total noncurrent liabilities	<u>11,903</u>			<u>11,903</u>	<u>11,903</u>
Total Liabilities	<u>51,850</u>	<u>9,589</u>	<u>19,238</u>	<u>80,677</u>	<u>107,671</u>
Net assets:					
Invested in capital assets net of related debt	8,691,850			8,691,850	8,691,850
Restricted for capital replacement		(223,048)		(223,048)	(204,671)
Unreserved	<u>1,424,004</u>		<u>(35,184)</u>	<u>1,388,820</u>	<u>1,196,549</u>
Total Net Assets (Accumulated Deficit)	<u>\$ 10,115,854</u>	<u>\$ (223,048)</u>	<u>\$ (35,184)</u>	<u>\$ 9,857,622</u>	<u>\$ 9,683,727</u>

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, 2011  
(With comparative total as of June 30, 2010)**

	Sewer O & M	Sewer Capital	Nonmajor Sewer Tertiary Plant	Totals	
				2011	2010
Operating Revenues					
Charges for services	\$ 870,578	\$ -	\$ 128,000	\$ 998,578	\$ 991,844
Connection fees		239,529		239,529	45,840
Other	159			159	(5,772)
Total Operating Revenues	870,737	239,529	128,000	1,238,266	1,031,912
Operating Expenses					
Salaries and benefits	150,935			150,935	178,210
Services and supplies	414,008	257,906	269,951	941,865	701,072
Depreciation expense	-			-	229,167
Total Operating Expenses	564,943	257,906	269,951	1,092,800	1,108,449
Operating Income	305,794	(18,377)	(141,951)	145,466	(76,537)
Non-Operating Revenues (Expenses)					
Interest income	15,414			15,414	48,582
Total Non-Operating Revenues (Expenses)	15,414			15,414	48,582
Income (Loss) Before Transfers	321,208	(18,377)	(141,951)	160,880	(27,955)
Operating Transfers					
Operating transfers in				-	422,528
Operating transfers out				-	(422,528)
Net Operating Transfers				-	-
Net Income (Loss)	321,208	(18,377)	(141,951)	160,880	(27,955)
Net Assets, July 1	9,781,632	(204,671)	106,767	9,683,728	8,810,227
Prior Period Adjustments	13,014			13,014	901,456
Net Assets (Accumulated Deficit), June 30	<u>\$ 10,115,854</u>	<u>\$ (223,048)</u>	<u>\$ (35,184)</u>	<u>\$ 9,857,622</u>	<u>\$ 9,683,728</u>

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

**CITY OF IONE**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**JUNE 30, 2011**  
**(With comparative total as of June 30, 2010)**

	Sewer O & M	Sewer Capital	Nonmajor Sewer Tertiary Plant	Totals	
				2011	2010
Cash Flows from Operating Activities					
Cash received from customers	\$ 857,994	\$ 239,529	\$ 128,000	\$ 1,225,523	\$ 974,246
Cash payments to suppliers	(408,400)	(263,759)	(268,777)	(940,936)	(745,888)
Cash payments to employees	(147,986)			(147,986)	(174,803)
Net Cash Provided By (Used For) Operating Activities	301,608	(24,230)	(140,777)	136,601	53,555
Cash Flows from Capital and Related Financing Activities					
Purchase of fixed assets				-	(422,528)
Net Cash Used For Capital and Related Financing Activities				-	(422,528)
Cash Flows from Investing Activities:					
Interest income	15,414			15,414	56,871
Net Cash Provided By Investing Activities	15,414			15,414	56,871
Net Increase (Decrease) in Cash and Cash Equivalents	317,022	(24,230)	(140,777)	152,015	(312,102)
Cash and Cash Equivalents, July 1	1,088,020	(525,709)	(111,941)	450,370	762,472
Cash and Cash Equivalents, June 30	<u>\$ 1,405,042</u>	<u>\$ (549,939)</u>	<u>\$ (252,718)</u>	<u>\$ 602,385</u>	<u>\$ 450,370</u>
Reconciliation of Cash and Cash Equivalents:					
Cash and investments	\$ 1,405,042	\$ -	\$ (252,718)	\$ 1,152,323	\$ 976,078
Restricted cash and investments		(549,939)		(549,939)	(525,709)
Total Cash and Cash Equivalents, June 30	<u>\$ 1,405,042</u>	<u>\$ (549,939)</u>	<u>\$ (252,718)</u>	<u>\$ 602,385</u>	<u>\$ 450,370</u>
Reconciliation of Operating Income to Net Cash Provided by (Used For) Operating Activities					
Operating income (loss)	\$ 305,794	\$ (18,377)	\$ (141,951)	\$ 145,466	(76,536)
Adjustments to operating income:					
Depreciation expense				-	229,167
(Increase) decrease in accounts receivable	(13,109)			(13,109)	(59,368)
Increase (decrease) in due from other funds					
Increase (decrease) in accounts payable	5,608	(5,853)	1,174	929	(38,870)
Decrease in accrued payroll	2,949			2,949	3,054
Increase (decrease) in customer deposits	366			366	1,702
Increase in due to other funds				-	-
Increase (decrease) in compensated absences				-	354
Net Cash Provided By (Used For) Operating Activities	<u>\$ 301,608</u>	<u>\$ (24,230)</u>	<u>\$ (140,777)</u>	<u>\$ 136,600</u>	<u>\$ 53,555</u>

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, 2011  
(With comparative total as of June 30, 2010)**

	<b>Agency Funds</b>			<b>Totals</b>	
	<u>Community Facilities Districts</u>	<u>Regional Traffic Mitigation</u>	<u>Developer Deposits</u>	<u>2011</u>	<u>2010</u>
<u>Assets</u>					
Cash and investments	\$ 1,321,253	\$ 3,119	\$ (156,888)	\$ 1,167,484	\$ 1,634,359
Due from others		548	567,776	568,324	568,624
Due from other government	93,629			93,629	137,501
Total Assets	<u>\$ 1,414,882</u>	<u>\$ 3,667</u>	<u>\$ 410,888</u>	<u>\$ 1,829,437</u>	<u>\$ 2,340,484</u>
<u>Liabilities</u>					
Deposits held for others	\$ 1,414,882	\$ 3,667	\$ 410,880	\$ 1,829,429	\$ 2,340,484
Total Liabilities	<u>\$ 1,414,882</u>	<u>\$ 3,667</u>	<u>\$ 410,880</u>	<u>\$ 1,829,429</u>	<u>\$ 2,340,484</u>

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

**City of Ione**  
**Notes to Financial Statements**  
**June 30, 2011**

**Note 1:     Summary of Significant Accounting Policies**

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

The following is a summary of the more significant policies:

**A. Reporting Entity**

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

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

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

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

**B. Basis of Accounting**

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

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

**City of Ione**  
**Notes to Financial Statements**  
**June 30, 2011**

Note 1: Summary of Significant Accounting Policies (Continued)

B. Basis of Accounting (Continued)

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

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

C. Basis of Presentation

Government-Wide Financial Statements

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

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

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

Fund Financial Statements

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

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

The City reports the following major governmental funds:

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



**City of Ione**  
**Notes to Financial Statements**  
**June 30, 2011**

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 is 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 other governments, developers or landowners.

D. Use of Estimates

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

E. Cash Equivalents

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

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

**City of Ione**  
**Notes to Financial Statements**  
**June 30, 2011**

Note 1: Summary of Significant Accounting Policies (Continued)

F. Fixed Assets

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

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

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

G. Balance Sheet Classifications

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

H. Property Tax

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

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

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

**City of Ione**  
**Notes to Financial Statements**  
**June 30, 2011**

**Note 1:     Summary of Significant Accounting Policies (Continued)**

**I.   Proprietary Fund Accounting**

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

**J.   Fund Equity**

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

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

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

**K.   Compensated Absences**

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

Governmental Funds – Governmental Funds record expenditures for compensated absences as they are taken by employees. A year-end accrual for compensated absences has not been made in the Governmental Funds as of June 30, 2011, because the City does not believe any of the available year-end resources will be required to fund the year-end compensated absences liability.

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

**L.   Intergovernmental Revenues**

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

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

**City of Ione**  
**Notes to Financial Statements**  
**June 30, 2011**

**Note 2: Cash and Investments**

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

Cash and investments	\$ 1,282,165
Restricted cash and investments	<u>1,074,072</u>
Cash and investments, statement of net assets	2,356,237
Cash and investments, statement of fiduciary assets	<u>1,167,484</u>
Total cash and investments	<u><u>\$ 3,523,721</u></u>
Checking account	\$ 357,822
Imprest cash	400
Local agency investment fund	1,899,474
Money market account	<u>1,266,025</u>
Total cash and investments	<u><u>\$ 3,523,721</u></u>

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

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

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

**B. Disclosures Relating to Interest Rate Risk**

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of and investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates.

**City of Ione**  
**Notes to Financial Statements**  
**June 30, 2011**

**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:

Investment Type	Totals	Remaining Maturity (in Months)			
		12 Months or Less	13-24 Months	25-36 Months	37-48 Months
State Investment Pool*	\$ 1,899,474	\$ 1,899,474	\$ -	\$ -	\$ -
Held by Trustee					
Money Market*	1,266,025	1,266,025			
Totals	<u>\$ 3,165,499</u>	<u>\$ 3,165,499</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

\*Not subject to categorization

**C. Concentrations of Credit Risk**

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

**D. Custodial Credit Risk**

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

At June 30, 2011, the City's deposits balance was \$506,682 and the carrying amount was \$357,822. The difference between the bank balance and the carrying amount was due to normal outstanding checks and deposits in transit. Of the bank balance, \$500,000 was covered by the Federal Depository Insurance and \$6,682 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.

**City of Ione**  
**Notes to Financial Statements**  
**June 30, 2011**

**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, 2011. 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, 2011. 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, 2011 was as follows:

	Balance July 1, 2010	Additions	Retirements/ Adjustments	Balance June 30, 2011
<b>Governmental Activities</b>				
Capital assets, not being depreciated:				
Land	\$ 29,696,609	\$ -	\$ -	\$ 29,696,609
Construction in progress	15,370			15,370
Capital assets, being depreciated:				
Buildings and improvements	3,074,786			3,074,786
Site improvements	929,993			929,993
Equipment	1,607,160			1,607,160
Infrastructure	2,313,407			2,313,407
Total capital assets, being depreciated	7,925,347	-		7,925,347
Less accumulated depreciation for:				
Buildings and improvements	(801,605)			(801,606)
Site Improvements	(282,734)			(282,734)
Equipment	(1,312,962)			(1,312,962)
Infrastructure	(163,178)			(163,178)
Total accumulated depreciation	(2,560,479)	-		(2,560,480)
Total capital assets, being depreciated	5,364,868	-		5,364,867
Governmental activities capital assets, net	<u>\$ 35,076,847</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 35,076,846</u>
<b>Business-Type Activities</b>				
Capital assets, not being depreciated:				
Land	\$ 3,873,444	\$ -	\$ -	\$ 3,873,444
Construction in progress	1,212,666			1,212,666
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			3,924,917
Total capital assets, being depreciated	6,320,631	-	-	6,320,631
Less accumulated depreciation for:				
Buildings and improvements	(583,994)			(583,994)
Site improvements	(332,151)			(332,151)
Equipment	(353,265)			(353,265)
Infrastructure	(1,445,481)			(1,445,481)
Total accumulated depreciation	(2,714,891)	-	-	(2,714,891)
Total capital assets, being depreciated	3,605,740	-	-	3,605,740
Business- type activities capital assets, net	<u>\$ 8,691,850</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,691,850</u>

**City of Ione**  
**Notes to Financial Statements**  
**June 30, 2011**

**Note 3:    Capital Assets (Continued)**

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

Governmental Activities	
General government	\$       -
Public safety	
Public works	
Streets and roads	
Parks	
Total	<u><u>\$       -</u></u>

**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, 2011:

	Balance July 1, 2010	Additions	Retirements	Balance June 30, 2011	Due Within One Year
Compensated absences	\$ 125,065	\$ -	\$ -	\$ 125,065	\$ -
Amador County loan	-	149,293		149,293	21,459
Capital lease	531,581	-	16,844	514,737	17,865
Total	<u><u>\$ 656,646</u></u>	<u><u>\$ 149,293</u></u>	<u><u>\$ 16,844</u></u>	<u><u>\$ 789,095</u></u>	<u><u>\$ 39,324</u></u>

**Governmental Activities:**

**Capital Lease**

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

**City of Ione**  
**Notes to Financial Statements**  
**June 30, 2011**

**Note 5:     Long-term Liabilities (Continued)**

Fiscal Year Ended

<u>June 30,</u>	
2012	\$ 47,760
2013	47,760
2014	47,760
2015	47,760
2016	47,760
2017-2021	238,800
2022-2026	238,800
2027-2029	<u>103,480</u>
Total minimum lease payments	819,880
Less: Amount representing interest	<u>(305,143)</u>
Present value of minimum lease payments	<u>\$ 514,737</u>

**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 4<sup>th</sup> quarter of 2008 and the 1<sup>st</sup> 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 an interest rate of 2%. The following is the amortization schedule for this loan:

Fiscal Year Ended

<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 21,459	\$ 2,132	\$ 23,591
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	<u>7,804</u>	<u>39</u>	<u>7,843</u>
Totals	<u>\$ 149,293</u>	<u>\$ 7,961</u>	<u>\$ 157,254</u>

**Compensated Absences:**

The City did not track increases and decreases to compensated absences balances such that governmental activities and business-type activities balances could be segregated for the fiscal year ended June 30, 2011. Furthermore the City did not maintain documentation to support the amounts reported for compensated absences. Accounting principles generally accepted in the United States of America require governments to record compensated absence liabilities in accordance with Governmental Accounting Standards Board Statement no. 16



**City of Ione**  
**Notes to Financial Statements**  
**June 30, 2011**

**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, 2011:

	Balance July 1, 2010	Additions	Retirements	Balance June 30, 2011	Due Within One Year
Compensated absences	\$ 11,903	\$ -	\$ -	\$ 11,903	\$ -
Total	<u>\$ 11,903</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,903</u>	<u>\$ -</u>

**Note 6:     Defined Benefit Pension Plan**

**CalPERS**

**A. Plan Description**

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

**B. Funding Policy**

Active plan members in the City's defined pension plan are required to contribute 8% of miscellaneous employee and 9% of safety employee annual covered salaries. The City pays 4.5% of the safety member contribution and all of the miscellaneous member contribution as an employee benefit. The City is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS' Board of Administration. The required employer contribution rate for fiscal 2009/10 was 13.588% for miscellaneous members and 59.312% for safety members. The contribution requirements of the plan members are established by state statute and the employer contribution rate is established and may be amended by CalPERS.

**C. Annual Pension Cost**

For fiscal year 2010/2011, the City's annual pension cost was \$297,367 and the City actually contributed \$297,367. 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 2010/2011 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

**City of Ione**  
**Notes to Financial Statements**  
**June 30, 2011**

**Note 6: Defined Benefit Pension Plan (Continued)**

payroll on a closed basis. The remaining amortization period at June 30, 2008 was 14 years for miscellaneous members and 14 years for safety members as of the valuation date.

<u>Three – Year Trend Information for the City</u>				
<u>Fiscal</u> <u>Year</u> <u>Ending</u>	<u>Annual</u> <u>Pension</u> <u>Cost (APC)</u>	<u>Percentage</u> <u>of APC</u> <u>Contributed</u>	<u>Net</u> <u>Pension</u> <u>Obligation</u>	
06/30/09	\$ 292,851	100%	\$ -	
06/30/10	\$ 370,230	100%	\$ -	
06/30/11	\$ 297,367	100%	\$ -	

**Note 7: Post Retirement Health Benefits**

The City Council passed a resolution to establish health benefit vesting requirements for future retirees under public employees' medical and hospital care act, whereas an employee who is with the City of Ione for 5 years or longer and who has met other vesting requirements as defined by Government Code 20079, shall receive up to a maximum 100% of the health benefit for the employee premium plus up to 100% of the additional premium required for enrolment of family members in selected plans. The total City expense for postretirement health benefits in the 2010/2011 fiscal year was \$4,962. As of June 30, 2011, one retired employee is receiving postretirement health benefits.

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

*Funding Policy.* The contribution requirement of plan members is established by the City Council. As of June 30, 2011 the City Council had not established a funding policy. The 2010-2011 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, 2011 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, 2011. The City made the net contribution for fiscal year end June 30, 2011 directly to health insurance providers totaling \$4,962.

*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:

**City of Ione**  
**Notes to Financial Statements**  
**June 30, 2011**

**Note 7: Post Retirement Health Care Benefits (Continued)**

Unfunded Actuarial Accrued Liability (UAAL)	\$ 142,201
Interest on net OPEB obligation	* 14,643
Less: Unreimbursed retiree premium payments made to plan provider	<u>(4,962)</u>
Increase (decrease) in net OPEB obligation	151,882
Net OPEB obligation - beginning of year	<u>150,658</u>
Net OPEB obligation - end of year	<u><u>\$ 302,540</u></u>

\* 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 not necessary as fiscal year 2009-2010 was the City's year of implementation for GASB Statement 45.

*Funded Status and Funding Progress.* As of November 1, 2008, the most recent actuarial valuation date, the actuarial accrued liability (AAL) and the unfunded actuarial accrued liability (UAAL) for benefits was \$778,867. As of June 30, 2011, 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 2010/11 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.

**City of Ione**  
**Notes to Financial Statements**  
**June 30, 2011**

**Note 8:     Special Assessment Districts**

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

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

The amount of the special assessment debt with no governmental commitment at June 30, 2011, is:

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

**Note 9:     Risk Management**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City joined together with other cities in the State to form 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 10:     Lease Income**

On July 30<sup>th</sup>, 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 20<sup>th</sup> day following each December 31<sup>st</sup>. Under this agreement the City received \$46,281 in the 2008-2009 fiscal year, \$44,817 in the 2009-2010 fiscal year and \$40,817 in the 2010-2011 fiscal year. The agreement also states that lessee will pay the City the greater of \$50,000 or 1% of the sales price, if the lessee assigns its leasehold interest to a third party.

**City of Ione**  
**Notes to Financial Statements**  
**June 30, 2011**

**Note 11: Interfund Transactions**

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

**Receivables and Payables:**

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

Interfund transactions for the fiscal year ended June 30, 2011 are summarized as follows:

Fund Type	Advances To Other Funds	Advances From Other Funds	Due To Other Funds	Due From Other Funds	Operating Transfers In	Operating Transfers Out
General	\$ 693,141	\$ 1,137,091	\$ -	\$ -	\$ -	\$ 643,497
Enterprise	244,800	-	-	-	-	-
Special Revenue	482,344	-	-	-	255,014	11,517
Capital Projects	1,274,751	1,557,945	-	-	400,000	-
Total	<u>\$ 2,695,036</u>	<u>\$ 2,695,036</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 655,014</u>	<u>\$ 655,014</u>

**Note 12: 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.

Expenditures	Final Amended Budget	Actual Expenditures	(Unfavorable) Variance
General Government			
City Manager	\$ 136,256	\$ 178,627	\$ (42,371)
City Clerk	85,173	99,180	(14,007)
Finance	139,910	201,683	(61,773)
City Treasurer	2,584	2,584	
Legal	100,000	159,467	(59,467)
OPEB retiree health			
Administrative services	235,768	245,818	(10,050)
Public Ways and Facilities/Transportation			
Building inspection	72,803	123,246	(50,443)
Engineering	10,000	25,496	(15,496)
Corporate yard-vehicle	27,260	27,887	(627)
Public Safety			
Police	1,072,197	1,075,768	(3,571)
Debt service			
Principal		11,028	(11,028)
Interest		20,730	(20,730)
Capital Outlay	7,100	13,838	(6,738)
Other Financing Sources (Uses)			
Operating transfers out		(643,497)	(643,497)

**City of Ione**  
**Notes to Financial Statements**  
**June 30, 2011**

Note 12: Stewardship, Compliance and Accountability (Continued)

**B. Deficit Fund Balances**

Three major funds have deficit fund balances at June 30, 2011. The general fund had a deficit fund balance of 442,777, the fire building fund has a deficit fund balance of \$1,145,934, the governmental impact fee fund had a deficit fund balance of \$671,488. The Sewer Capital enterprise fund had a deficit net assets of \$223,048. Non-major special revenue funds had one fund with a deficit fund balance and non-major capital project funds had five funds with a deficit fund balance at June 30, 2011. 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 \$190,000 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 misstatements of capital assets, accounts receivable, accounts payable, 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 Reported as of June 30, 2010	\$ 36,193,125	\$ 9,683,728
Adjustments for:		
Correct accounts receivable	-	(18,223)
Correct loans receivable	1,738	31,237
Correct advance from other fund	(733)	
Correct accrued payroll	154,868	
Correct Amador County loan payable	(149,293)	
Correct misposting to CFD	252,881	
Total adjustment	259,461	13,014
Net Assets, July 1, 2010 as restated	\$ 36,452,586	\$ 9,696,742

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

	General Fund	Measure M	Other Governmental Funds
Fund Balance, June 30, 2010	\$ 1,053,683	\$ -	\$ 1,450,040
Adjustments for:			
Reclass to proper fund	(21,346)		21,346
Correct loans receivable	(8,314)	1,738	8,314
Correct advance from other fund	(733)		
Correct accrued payroll	120,463		34,405
Correct misposting to CFD			252,881
Correct OPEB liability	150,658		
Total adjustment	240,728	1,738	316,946
Fund Balance, July 1, 2010 as restated	\$ 1,294,411	\$ 1,738	\$ 1,766,986

**City of Ione**  
**Notes to Financial Statements**  
**June 30, 2011**

**Note 13:   Deferred Compensation Plan**

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

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

**Note 14:   Revenue Limitations Imposed by California Proposition 218**

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

**Note 15:   Gann Limit**

Proceeds subject to the limit for 2010-11	\$ 1,777,816
Amount of limit for 2010-11	<u>2,495,217</u>
Amount (under)/over the limit	<u>\$ (717,401)</u>
Per Capita Percentage Change	-2.54%
Population Change*	1.72%
* Net of exclusions for correctional institution	

**City of Ione**  
**Notes to Financial Statements**  
**June 30, 2011**

**Note 16:    Commitments and Contingencies**

**Grants**

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

**Contingent Liabilities**

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

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.

**Lawsuits**

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

**Note 17:    Subsequent 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. Three of the employees have returned on a part time basis as retired annuitants.

During the 2012/13 fiscal year the City was notified by the State of California that approximately \$190,000 taken away by the State of California during the 2010/11 fiscal year would be reimbursed to the City.



**CITY OF IONE**  
**Required Supplementary Information**  
**Budgetary Comparison Schedule**  
**General Fund**  
**For the Fiscal Year Ended June 30, 2011**

	Original Budget	Final Original Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenues</b>				
<b>Taxes</b>				
Property tax	\$ 520,000	\$ 520,000	\$ 528,782	\$ 8,782
Sales (including in lieu of property tax)	270,000	270,000	113,399	(156,601)
Transient occupancy	3,000	3,000	1,618	(1,382)
Sales tax - public safety	4,000	4,000	4,114	114
Sales Tax-Fire Measure M		230,000	(11,517)	(241,517)
Real property transfer	7,500	7,500	9,795	2,295
<b>Total Taxes</b>	<b>804,500</b>	<b>1,034,500</b>	<b>646,191</b>	<b>(388,309)</b>
<b>Licenses and Permits</b>				
Franchise fee	87,000	87,000	89,922	2,922
Business license	5,200	5,200	4,842	(358)
Building permits and inspections	24,000	24,000	59,393	35,393
Burn permits	250	250	380	130
Encroachment permit	500	500	1,525	1,025
<b>Total Licenses and Permits</b>	<b>116,950</b>	<b>116,950</b>	<b>156,061</b>	<b>39,112</b>
<b>Intergovernmental</b>				
Motor vehicle in lieu (state)	800,000	800,000	493,345	(306,655)
HOPTR	9,000	9,000	7,482	(1,518)
Peace officers training				
AB 3229 SLESF		100,000	87,310	(12,690)
Grants/reimbursements	55,000	55,000		(55,000)
<b>Total Intergovernmental</b>	<b>864,000</b>	<b>964,000</b>	<b>588,136</b>	<b>(375,863)</b>
<b>Fines, Forfeitures and Penalties</b>				
Parking citations and other fines	2,300	2,300	7,139	4,839
<b>Total Fines, Forfeitures and Penalties</b>	<b>2,300</b>	<b>2,300</b>	<b>7,139</b>	<b>4,839</b>
<b>Charges for Current Services</b>				
Planning fees	27,500	27,500	33,597	6,097
Parks and recreation	7,000	7,000	8,867	1,867
Police department services	1,150	1,150	25,773	24,623
Fire department services	100	100	2,445	2,345
<b>Total Charges for Current Services</b>	<b>35,750</b>	<b>35,750</b>	<b>70,681</b>	<b>34,932</b>
<b>Use of Money and Property</b>				
Interest and investment income	10,000	10,000	10,000	
Rent	98,500	98,500	81,202	(17,298)
<b>Total Use of Money and Property</b>	<b>108,500</b>	<b>108,500</b>	<b>91,202</b>	<b>(17,298)</b>
<b>Other</b>				
Insurance refunds and dividends			148	148
Miscellaneous - all others	900	900	724	(176)
<b>Total Other</b>	<b>900</b>	<b>900</b>	<b>872</b>	<b>(28)</b>
<b>Total Revenues</b>	<b>\$ 1,932,900</b>	<b>\$ 2,262,900</b>	<b>\$ 1,560,283</b>	<b>\$ (702,617)</b>

**CITY OF IONE**  
**Required Supplementary Information**  
**Budgetary Comparison Schedule (Continued)**  
**General Fund**  
**For the Fiscal Year Ended June 30, 2011**

	Original Budget	Final Original Budget	Actual	Variance Favorable (Unfavorable)
Total Revenues (Continued)	\$ 1,932,900	\$ 2,262,900	\$ 1,560,283	\$ (702,617)
Expenditures				
General Government				
City Council	19,418	19,418	18,609	809
City Manager	136,256	136,256	178,627	(42,371)
City Clerk	85,173	85,173	99,180	(14,007)
Finance	139,910	139,910	201,683	(61,773)
City Treasurer	2,584	2,584	2,584	
Legal	100,000	100,000	159,467	(59,467)
OPEB retiree health				
Administrative services	235,768	235,768	245,818	(10,050)
Total General Government	719,109	719,109	905,968	(186,859)
Public Ways and Facilities/Transportation				
Planning	42,650	42,650	32,478	10,172
Building inspection	72,803	72,803	123,246	(50,443)
Engineering	10,000	10,000	25,496	(15,496)
Corporate yard-vehicle	27,260	27,260	27,887	(627)
Total Public Ways and Facilities/Transportation	152,713	152,713	209,107	(56,394)
Public Safety				
Police	1,072,197	1,072,197	1,075,768	(3,571)
Fire	155,484	155,484	127,579	27,905
Total Public Safety	1,227,681	1,227,681	1,203,348	24,334
Community Development				
Parks and recreation	300,848	300,848	289,954	10,894
Total Community Development	300,848	300,848	289,954	10,894
Debt service				
Principal			11,028	(11,028)
Interest			20,730	(20,730)
Capital Outlay	7,100	7,100	13,838	(6,738)
Total Expenditures	2,407,451	2,407,451	2,653,972	(225,791)
Excess (Deficit) of Revenues Over Expenditures	(474,551)	(144,551)	(1,093,689)	(949,138)
Other Financing Sources (Uses)				
Operating transfers in	467,180	467,180		(467,180)
Operating transfers out			(643,497)	(643,497)
Total Other Financing Sources (Uses)	467,180	467,180	(643,497)	(1,110,677)
Excess (Deficit) of Revenues and Other Financing Sources over Expenditures and Other Financing Uses	\$ (7,371)	\$ 322,629	(1,737,186)	\$ (2,059,815)
Fund Balance, July 1, 2010			1,053,683	
Prior Period Adjustment			240,728	
Fund Balance, June 30, 2011			\$ (442,775)	

**CITY OF IONE**  
**Required Supplementary Information**  
**Budgetary Comparison Schedule**  
**Special Revenue Fund - Measure M**  
**For the Fiscal Year Ended June 30, 2011**

	Original Budget	Final Original Budget	Actual	Variance Favorable (Unfavorable)
REVENUES				
Measure M				
Special assessments/impact fees	\$ -	\$ -	\$ 321,178	\$ 321,178
Total Revenues	-	-	321,178	321,178
EXPENDITURES				
Public safety				
Capital outlay				
Total Expenditures				
Excess (Deficit) of Revenues over Expenditures	-	-	321,178	321,178
Other Financing Sources (Uses)				
Operating transfers in			112,584	112,584
Operating transfers out			(11,517)	
Total Other Financing Sources (Uses)			101,067	112,584
Excess (Deficit) of Revenues and Other Financing Sources over Expenditures and Other Financing Uses	\$ -	\$ -	422,245	\$ 433,762
Fund Balances, July 1, 2010			-	
Prior Period Adjustment			1,738	
Fund Balances, June 30, 2011			\$ 423,983	

**CITY OF IONE**  
**Required Supplementary Information**  
**Budgetary Comparison Schedule**  
**Special Revenue Fund -CDBG/HOME**  
**For the Fiscal Year Ended June 30, 2011**

	Original Budget	Final Proposed Budget	Actual	Variance Favorable (Unfavorable)
REVENUES				
Intergovernmental	\$ 349,000	\$ 349,000	\$ 219,640	\$ (129,360)
Other			-	-
Total Revenues	349,000	349,000	219,640	(129,360)
EXPENDITURES				
Community development	400,000	400,000	224,572	175,428
Total Expenditures	400,000	400,000	224,572	175,428
Excess (Deficit) of Revenues over Expenditures	(51,000)	(51,000)	(4,932)	46,068
Other Financing Sources (Uses)				
Operating transfers in/(out)			-	-
Change in net assets	<u>\$ (51,000)</u>	<u>\$ (51,000)</u>	(4,932)	<u>\$ 46,068</u>
Fund Balances, July 1, 2010			381,594	
Prior Period Adjustment			-	
Fund Balances, June 30, 2011			<u>\$ 376,662</u>	

**City of Ione**  
**Note to Required Supplementary Information**  
**June 30, 2011**

Budgets and Budgetary Accounting

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

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

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

## CITY OF IONE

Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2011

<u>Assets</u>	Special Revenue Funds	Capital Projects Funds	Total
Current Assets			
Cash and investments	\$ 41,627	\$ (274,022)	\$ (232,395)
Receivables			
Accounts	37,357	83,124	120,481
Total Current Assets	<u>78,984</u>	<u>(190,898)</u>	<u>(111,914)</u>
Long-Term Assets			
Advance to other funds	542,120	839,804	1,381,924
Restricted cash and investments	<u>831,503</u>	<u>155,639</u>	<u>987,142</u>
Total Long-Term Assets	<u>1,373,623</u>	<u>995,443</u>	<u>2,369,066</u>
Total Assets	<u>\$ 1,452,607</u>	<u>\$ 804,545</u>	<u>\$ 2,257,152</u>
<u>Liabilities and Fund Balances</u>			
Liabilities			
Accounts payable	\$ 19,886	\$ 65,406	\$ 85,292
Accrued payroll	12,450		12,450
Deferred revenue	<u>49,635</u>	<u>55,302</u>	<u>104,937</u>
Total Liabilities	<u>81,971</u>	<u>120,708</u>	<u>202,679</u>
Fund Balances			
Restricted for advances		839,804	839,804
Assigned for public safety	188,388		188,388
Assigned for streets and roads	1,182,248		1,182,248
Assigned for capital projects	<u>(155,967)</u>	<u>(155,967)</u>	<u>(155,967)</u>
Total Fund Balance	<u>1,370,636</u>	<u>683,837</u>	<u>2,054,473</u>
Total Liabilities and Fund Balances	<u>\$ 1,452,607</u>	<u>\$ 804,545</u>	<u>\$ 2,257,152</u>

**CITY OF IONE**

**Combining Statement of Revenues, Expenditures and  
Changes in Fund Balances  
Nonmajor Governmental Funds  
For the Fiscal Year Ended June 30, 2011**

	Special Revenue Funds	Capital Project Funds	Total
<b>Revenues</b>			
Use of money and property	\$ 2,893	\$ -	\$ 2,893
Intergovernmental	240,951	52,217	293,168
Special assessment/impact fees	73,225	5,027	78,252
	<hr/>	<hr/>	<hr/>
Total Revenues	317,069	57,244	374,313
	<hr/>	<hr/>	<hr/>
<b>Expenditures</b>			
Current:			
Public ways and facilities/ transportation	179,784		179,784
Public safety	125,558		125,558
Community development		34,925	34,925
Capital outlay		288,989	288,989
	<hr/>	<hr/>	<hr/>
Total Expenditures	305,342	323,914	629,256
	<hr/>	<hr/>	<hr/>
Excess (Deficit) of Revenues Over Expenditures	11,727	(266,670)	(254,943)
	<hr/>	<hr/>	<hr/>
Other Financing Sources (Uses)			
Operating transfers in	542,430	-	542,430
Operating transfers out			-
	<hr/>	<hr/>	<hr/>
Total Other Financing Sources (Uses)	542,430		542,430
	<hr/>	<hr/>	<hr/>
Excess (Deficit) of Revenues and Other Financing Sources over Expenditures and Other Financing Uses	554,157	(266,670)	287,487
	<hr/>	<hr/>	<hr/>
Fund Balances, July 1, 2010	499,533	950,507	1,450,040
	<hr/>	<hr/>	<hr/>
Prior period adjustment	316,946		316,946
	<hr/>	<hr/>	<hr/>
Fund Balances, June 30, 2011	<u>\$ 1,370,636</u>	<u>\$ 683,837</u>	<u>\$ 2,054,473</u>

## CITY OF IONE

Combining Balance Sheet  
Nonmajor Special Revenue Funds  
June 30, 2011

	TDA	Ione Dist 1 COIC	COPS SLESF AB3229	Gas Tax	Prop 172 Sales Tax Fire	Asset Seizure Fund	Wildflower Assessment	Conservation Fire Break Assessment	Totals
<u>Assets</u>									
Cash and investments	\$ -	\$ -	\$ -	\$ -	\$ 32,863	\$ 8,764	\$ -	\$ -	\$ 41,627
Accounts receivable			12,690	5,897	18,770				37,357
Total Current Assets			12,690	5,897	51,633	8,764			78,984
Advances to other funds	542,120								542,120
Restricted cash and investments		57,618		589,348			138,031	46,506	831,503
Total Long-Term Assets	542,120	57,618		589,348			138,031	46,506	1,373,623
Total Assets	<u>\$ 542,120</u>	<u>\$ 57,618</u>	<u>\$ 12,690</u>	<u>\$ 595,245</u>	<u>\$ 51,633</u>	<u>\$ 8,764</u>	<u>\$ 138,031</u>	<u>\$ 46,506</u>	<u>\$ 1,452,607</u>
<u>Liabilities and Fund Balances</u>									
<u>Liabilities</u>									
Accounts payable	\$ -	\$ 2,599	\$ -	\$ 2,943	\$ -	\$ 9,253	\$ 5,091	\$ -	\$ 19,886
Accrued payroll				4,064			8,386		12,450
Deferred revenue				49,635					49,635
Total Liabilities		2,599		56,642		9,253	13,477		81,971
<u>Fund Balances</u>									
Assigned for public safety			12,690		51,633	(489)	124,554		188,388
Assigned for streets and roads	542,120	55,019		538,603				46,506	1,182,248
Total Fund Balance	542,120	55,019	12,690	538,603	51,633	(489)	124,554	46,506	1,370,636
Total Liabilities and Fund Balances	<u>\$ 542,120</u>	<u>\$ 57,618</u>	<u>\$ 12,690</u>	<u>\$ 595,245</u>	<u>\$ 51,633</u>	<u>\$ 8,764</u>	<u>\$ 138,031</u>	<u>\$ 46,506</u>	<u>\$ 1,452,607</u>



## CITY OF IONE

**Combining Statement of Revenues, Expenditures and  
Changes in Fund Balances  
Nonmajor Special Revenue Funds  
For the Fiscal Year Ended June 30, 2011**

	TDA	Ione Dist 1 COIC	COPS SLESF AB3229	Gas Tax	Prop 172 Sales Tax Fire	Asset Seizure Fund	Wildflower Assessment	Conservation Fire Break Assessment	Totals
<b>Revenues</b>									
Use of money and property	\$ 2,893	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,893
Intergovernmental			12,690	209,491	18,770				240,951
Special assessment/impact fees							73,225		73,225
<b>Total Revenues</b>	<b>2,893</b>		<b>12,690</b>	<b>209,491</b>	<b>18,770</b>		<b>73,225</b>		<b>317,069</b>
<b>Expenditures</b>									
Current:									
Public ways and facilities/ transportation		28,840		150,944					179,784
Public safety							125,558		125,558
<b>Total Expenditures</b>		<b>28,840</b>		<b>150,944</b>			<b>125,558</b>		<b>305,342</b>
<b>Excess (Deficit) of Revenues Over Expenditures</b>	<b>2,893</b>	<b>(28,840)</b>	<b>12,690</b>	<b>58,547</b>	<b>18,770</b>		<b>(52,333)</b>		<b>11,727</b>
<b>Other Financing Sources (Uses)</b>									
Operating transfers in	530,913				11,517				542,430
Operating transfers out									
<b>Total Other Financing Sources (Uses)</b>	<b>530,913</b>				<b>11,517</b>		<b>-</b>	<b>-</b>	<b>542,430</b>
<b>Excess (Deficit) of Revenues and Other Financing Sources over Expenditures and Other Financing Uses</b>	<b>533,806</b>	<b>(28,840)</b>	<b>12,690</b>	<b>58,547</b>	<b>30,287</b>	<b>-</b>	<b>(52,333)</b>	<b>-</b>	<b>554,157</b>
<b>Fund Balances, July 1, 2010</b>		<b>83,859</b>		<b>465,917</b>		<b>(489)</b>	<b>(96,260)</b>	<b>46,506</b>	<b>499,533</b>
<b>Prior period adjustment</b>	<b>8,314</b>			<b>14,139</b>	<b>21,346</b>		<b>273,147</b>		<b>316,946</b>
<b>Fund Balances, June 30, 2011</b>	<b>\$ 542,120</b>	<b>\$ 55,019</b>	<b>\$ 12,690</b>	<b>\$ 538,603</b>	<b>\$ 51,633</b>	<b>\$ (489)</b>	<b>\$ 124,554</b>	<b>\$ 46,506</b>	<b>\$ 1,370,636</b>

CITY OF IONE

Combining Balance Sheet  
Nonmajor Capital Projects Funds  
June 30, 2011

	Parks & Rec Fund	Energy Grant	Downtown Plan	Drainage Fund	Police Services Impact Fees	Safe Routes to School	Park and Ride Grant	Howard Park State Grant	Totals
<u>Assets</u>									
Current Assets									
Cash and investments	\$ -	\$ (4,573)	\$ (36,543)	\$ -	\$ -	\$ (60,156)	\$ (97,857)	\$ (74,893)	\$ (274,022)
Accounts receivables	22,951				370	59,803	-		83,124
Interest receivable	-								-
Total Current Assets	22,951	(4,573)	(36,543)	-	370	(353)	(97,857)	(74,893)	(190,898)
Long-Term Assets									
Advance to other funds	21,000			22,000	796,804				839,804
Restricted cash and investments	43,343			104,171	8,125				155,639
Total Long-Term Assets	64,343	-	-	126,171	804,929	-	-	-	995,443
Total Assets	\$ 87,294	\$ (4,573)	\$ (36,543)	\$ 126,171	\$ 805,299	\$ (353)	\$ (97,857)	\$ (74,893)	\$ 804,545
<u>Liabilities and Fund Balances</u>									
Current Liabilities									
Accounts payable	\$ -	\$ 945	\$ 42,414	\$ -	\$ 14,119	\$ -	\$ -	\$ 7,928	\$ 65,406
Deferred revenue						55,302			55,302
Total Liabilities		945	42,414		14,119	55,302		7,928	120,708
Fund Balances									
Restricted for advances	21,000			22,000	796,804				839,804
Assigned for capital projects	66,294	(5,518)	(78,957)	104,171	(5,624)	(55,655)	(97,857)	(82,821)	(155,967)
Total Fund Balances	87,294	(5,518)	(78,957)	126,171	791,180	(55,655)	(97,857)	(82,821)	683,837
Total Liabilities and Fund Balances	\$ 87,294	\$ (4,573)	\$ (36,543)	\$ 126,171	\$ 805,299	\$ (353)	\$ (97,857)	\$ (74,893)	\$ 804,545

CITY OF IONE

Combining Statement of Revenues, Expenditures and  
Changes in Fund Balances  
Nonmajor Capital Projects Funds  
For the Fiscal Year Ended June 30, 2011

	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	\$ 3,584	\$ -	\$ -	\$ -	1,443	\$ -	\$ -	\$ -	\$ 5,027
Use of money and property									-
Intergovernmental						6,055	46,162		52,217
Total Revenues	3,584				1,443	6,055	46,162		57,244
Expenditures									
Current:									
Community Development	34,925								34,925
Capital outlay	48,587	5,518	78,957		73,106	-	-	82,821	288,989
Total Expenditures	83,512	5,518	78,957		73,106			82,821	323,914
Excess (Deficit) of Revenues Over Expenditures	(79,928)	(5,518)	(78,957)		(71,663)	6,055	46,162	(82,821)	(266,670)
Other Financing Sources (Uses)									
Operating transfers in									-
Operating transfers out									-
Total Other Financing Sources (Uses)									-
Excess (Deficit) of Revenues and Other Financing Sources over Expenditures and Other Financing Uses	(79,928)	(5,518)	(78,957)	-	(71,663)	6,055	46,162	(82,821)	(266,670)
Fund Balances, July 1, 2010	167,222			126,171	862,843	(61,710)	(144,019)		950,507
Fund Balances, June 30, 2011	\$ 87,294	\$ (5,518)	\$ (78,957)	\$ 126,171	\$ 791,180	\$ (55,655)	\$ (97,857)	\$ (82,821)	\$ 683,837

*Larry Bain, CPA,*  
*An Accounting Corporation*  
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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, 2011, and have issued our report thereon dated January 14, 2013. In our audit report we issued a qualified opinion.

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

**Internal Control over Financial Reporting**

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We identified deficiencies in internal control over financial reporting presented as FS 11-1 through FS 11-26 and FS 11-29, 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 11-27 to FS 11-28 and FS 11-30 to FS 11-37 following this report.

### Compliance and Other Matters

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

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

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

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

**Larry Bain, CPA,**  
**An Accounting Corporation**  
January 14, 2013

**City of Ione  
Schedule of Findings  
Year Ended June 30, 2011**

**PRIOR YEAR INTERNAL CONTROL FINDINGS**

**Deemed to be Significant Deficiencies and Material Weaknesses**

**FS 11-1 (Prior Year Finding 07-6):** We noted the City was not maintaining grant summary schedules showing the activity for each loan and the City was not reconciling summary schedules to the general ledger. We also noted that no City employee appeared to be responsible for administering the grant programs in accordance with the grant agreement requirements. We noted for the 08 Home Loan program the City made a \$100,000 loan, but did not record an accounts receivable for the reimbursement that had not been received by June 30, 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.

**Current Year Status:** The City hired a new finance manager who is responsible for administering 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.

**Management Response:** Partially agree. The City agrees that the individual grants should be separated back into individual funds in order to effectively monitor grant activities, however, this task did not get accomplished during the 2010/11 fiscal year. All grants will be moved to individual funds prior to the 2011/12 fiscal year close. All grant programs were monitored by the finance manager for the 2010/11 fiscal year and grant summary schedules were prepared for individual programs reflecting updated loans and interest. Journal entries reflecting interest had not been posted at time of audit.

**FS 11-2 (Prior Year Finding 07-8):** During our testing of the general fund deposits liability accounts we noted the City collects deposits from developers and citizens of Ione to be spent on the behalf of developers and for the Capital Facility District Mello-Roos assessment revenue and limited obligation debt payments. The City is using the general fund deposit liability accounts to record this activity. Furthermore the City could not reconcile the individual or organization deposit liabilities to a subsidiary ledger at June 30, 2007. The risk of material misstatement to the financial statements resulting from this significant deficiency is high.

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

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

**Management Response:** The City continues to work on the reconciliation of the deposit liability accounts in the general fund and the Capital Facility District Mello-Roos agency fund for the current and prior years, but was not able to complete this task due to the daily finance department workload. The reconciliation of the deposit liability accounts will be reconciled prior to the 2011/12 fiscal year close.

**FS 11-3 (Prior Year Finding 07-15):** During our testing of accounts receivables/deposit liability accounts we noted Tower Investments was billed \$69,788.16 on November 30, 2005 for legal fees related to the CFD formation. When the City received the money cash was offset by deposits liability account as opposed to accounts receivable. This miscoding resulted in an overstatement of accounts receivables and an overstatement of deposit liabilities in the amount of \$69,788.16.

**City of Ione**  
**Schedule of Findings**  
**Year Ended June 30, 2011**

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

**Management Response:** Staff continues to work on the reconciliation of the developer receivables and developer deposits as time allows. Reconciliation requires review of activity back to 2005 and some receivable accounts require research back to 2000 where most information is not available. The finance manager will have reconciliation of the developer projects fund completed prior to the 2011/12 fiscal year close.

**FS 11-4 (Prior Year Finding 07-18):** During our testing of cash we note the City had not performed bank reconciliation since October 2005. After performing the bank reconciliation we noted \$1,036,610 of banking activity that had not been recorded in the general ledger. The adjustments included a \$920,220 transfer from the bank account to the CFD trustee related to the defaulted bond activity, a \$75,000 collection received for a land purchase, but a stop payment was made on the check and several smaller transactions.

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

**Current Year Status:** 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.

**Management Response:** Partially agree. During the 2010/11 fiscal year, cash was reconciled on a monthly basis with monthly cash activity in the general ledger. Subsequent to fiscal year end the finance manager discovered a duplicate entry in cash. Once a journal entry to correct the duplicate entry was processed and a slight adjustment to the beginning cash balance, cash in bank totals in general ledger (book) balance will agree with the bank accounts with the exception of deposits in transit. Process for reconciling deposits in transit will be changed for 2011/12 year end close.

**FS 11-5 (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 2010/2011 fiscal year.

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

**FS 11-6 (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.

**City of Ione**  
**Schedule of Findings**  
**Year Ended June 30, 2011**

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

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

**FS 11-7 (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 community facility districts to pay for the new limited liability debt. The City did not designate an employee to reconcile the fiscal agent statements for the activity. This lack of monitoring could result in material misstatements to the financial statements.

**Current Year Status:** No change during the 2010/2011 fiscal year.

**Management Response:** Partially agree. Finance manager monitors the fiscal agent statements activity, however activity for the 2010/11 fiscal year had not been posted at time of audit.

**FS 11-8 (Prior Year Finding 08-2):** During our testing of housing grant projects we noted the City recorded a journal entry to record a loan payoff of \$50,800 in fund 41. We did not observe supporting documentation attached to a journal entry to support the payoff. Per review we also noted the property was transferred from the grantee to her son in June 2003, but based on our audit we did not see evidence that the loan was repaid to the City and therefore the loan receivable should not have been removed from the general ledger. It appears that the loan should have been paid back with the property transfer in 2003.

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

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

**Management Response:** Staff agrees. Staff has determined that the loan was not paid off and reversed the journal entry to reflect a loan receivable. Staff has verified that there was a transfer from father to son without the loan being paid off, however the City has obtained a copy of the deed of trust showing the original rehabilitation loan from the City is still attached to the property.

**FS 11-9 (Prior Year Finding 08-8):** During our audit we noted the City did not have a written financial and accounting policy that included internal control procedures. We have noted this finding in prior audits.

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

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

**Management Response:** Staff has developed draft financial and accounting policies that needs to be finalized and ensure they reflect the current procedures for all activities which will be taken to City Council for approval. Financial department staff has not been able to update draft due to department workload.



**City of Ione**  
**Schedule of Findings**  
**Year Ended June 30, 2011**

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

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

**Current Year Status:** During the prior year audit entries were made to establish advances to and advances from other funds. 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.

**Management Response:** Staff will continue to follow procedures to process interfund loans and allocate interest as needed.

**FS 11-11 (Finding 09-4):** During our audit we noted that no year end accruals were made for governmental fund accounts receivables. We also noted the beginning governmental fund accounts receivable balances were not adjusted in many of the funds. City staff did not appear to have performed year end procedures to search for and accrue accounts receivables and adjust the general ledger to the underlying support. This is a condition that has an effect on our opinion of the fair presentation of the financial statements.

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

**Current Year Follow Up:** During the current year audit we noted the new finance manager performed year end procedures for accounts receivables at June 30, 2009 and prepared a prior period adjustment to correct that balance. The new finance manager then performed year end procedures to accrue accounts receivables at June 30, 2011, however the general ledger was not adjusted to agree to the underlying support.

**Management Response:** Current year receivable schedule at June 30, 2011 was prepared and posted to the general ledger however balances in receivable accounts from prior years were still being reconciled at time of audit which made the underlying support not agree with the general ledger.

**FS 11-12 (Prior Year Finding 09-5):** During our audit we noted the City did not maintain controls over the general fixed assets of the City, the fixed assets of the enterprise fund and the depreciation expense and accumulated depreciation for those fixed assets. The City is paying an outside service provider to maintain the schedules for fixed assets, however the City did not provide the information for current year activity and therefore no schedules were provided with accurate year end figures. We also noted the City miscoded expenditures related to the master plan to service and supply expenses accounts as opposed to capital outlay accounts. This is a condition that has an effect on our opinion of the fair presentation of the financial statements.

**City of Ione**  
**Schedule of Findings**  
**Year Ended June 30, 2011**

**Recommendation:** We recommend the City provide the outside service provider with the information needed to update the fixed asset schedules for the governmental and business type capital assets, depreciation expense and accumulated depreciation. The City should then record the assets and accumulated depreciation activity into the business-type general ledger accounts and offset the difference to net assets and make this a prior period adjustment for the 2011/2012 fiscal year financial statements in the proprietary fund financial statement. The City should provide the auditor with the information for the governmental-type fixed assets, depreciation expense and accumulated depreciation for inclusion in the June 30, 2012 government-wide financial statements with the offset recorded to net assets as a prior period adjustment. The City should also review expenditures for major projects performed in the 2010/2011 fiscal year and verify that they are recorded in capital asset schedules.

**Current Year Follow Up:** No change.

**Management Response:** The auditor provided the City with his fixed asset schedule which was to be utilized to track fixed assets and depreciation. However, the fixed asset schedule was not updated prior to the 2010/11 fiscal year audit. All fiscal year 2010/11 and 2011/12 activity and depreciation will be updated on the fixed asset schedule with prior period adjustments as needed in the general ledger prior to the 2011/12 year end close.

**FS 11-13 (Prior Year Finding 09-6):** During our audit we noted the City received \$560,000 proceeds from a capital lease for the construction of the new fire house. The proceeds were recorded as a liability in the general ledger liability account advances from other funds. We also noted the \$12,538 principal and \$27,262 interest payments on this debt were recorded to asset account advance to other funds in the general fund as opposed to an expense in the fire impact fee fund. Principal and interest expense were also not included with the City's 2008/2009 budget. Audit adjustments were proposed to reclassify the proceeds from advance from other funds to other financing sources-proceeds of capital lease and to record principal and interest to expense accounts in the fire impact fee fund as opposed to advance to other funds in the general fund. The effect of the miscodings also put advances to and advances from other funds out of balance. City staff did not reconcile these accounts to agree that they were in balance.

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

**Current Year Follow Up:** During the current year audit we noted that no additional proceeds of debt were received in the 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.

**Management Response:** Adjusting journal entry to move principal and interest expense from the general fund had not been posted prior to the 2010/11 fiscal year audit.

**FS 11-14 (Prior Year Finding 09-8):** During our audit we noted the City accrued a \$10,280 receivable and recognized the revenue in the general fund. When the funds were received the City reversed the receivable and recognized the cash in the Safe Routes to School 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.

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

**City of Ione**  
**Schedule of Findings**  
**Year Ended June 30, 2011**

**Current Year 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.

**Management Response:** Reconciliation of the Safe Routes to School fund had not been completed prior to the 2010/11 fiscal year audit. The fund is now reconciled and project will be closed out as of the 2011/12 fiscal year end.

**FS 11-15 (Prior Year Finding 09-10):** During our audit we noted that after the payroll clerk was released it was discovered that many of her computer programs and files were deleted, including the compensated absence schedules. As a result we were unable to test the compensated absence activity for the fiscal year and to verify the accuracy of the ending balances reported by the City. This is a condition that has an effect on our opinion of the fair presentation of the financial statements.

**Recommendation:** We recommend the City safeguard assets when terminating employees. We also recommend the City review program and file backup procedures to ensure data is secure and retrievable. We recommend the City prepare a schedule of compensated absence activity from the June 30, 2008 audited schedule to current and make prior period adjustments in the 2009/2011 fiscal year to true up the amounts reported in the financial statement.

**Current Year Follow Up:** Preparing the compensated absence reconciliation was not completed during the current year audit.

**Management Response:** The finance manager was not able to complete the compensated absence schedule prior to the 2010/11 fiscal year audit due the finance department workload. Schedules will be updated and posted prior to the 2011/12 fiscal year close.

**FS 11-16: (Prior Year Finding 09-11):** During our testing of accounts payables we discovered \$147,946 in prior year accounts payable that had not been reversed in the current year. We also noted \$15,558 in prior year accounts payable that was reversed to fund equity in the current year as opposed to accounts payable. The effect of these items was to overstate accounts payable \$163,504, overstate expenses \$147,946, and to understate fund equity \$15,558 at June 30, 2009. We proposed journal entries to correct these misstatements. This is a condition that has an effect on our opinion of the fair presentation of the financial statements.

**Current Year Follow Up:** 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 that were not included on the client schedule.

**Management Response:** Finance manager was not able to reconcile prior year accounts payable postings in numerous accounts prior to the 2010/11 fiscal year audit. All accounts should be reconciled prior to the fiscal year 2011/12 audit.

**FS 11-17 (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.

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

**Current Year Follow Up:** 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.

**Management Response:** Accrued payroll schedules were prepared as of 2010/11 fiscal year end, however, due to finance department workload finance manager was not able to reconcile entries prior to the 2010/11 fiscal year audit.

**FS 11-18 (Prior Year Finding 09-13):** During the current year audit we were originally provided with a trial balance with a new chart of accounts. Based on our analysis we observed several problems with the new chart of accounts and the City opted to revert to the old chart of accounts/general ledger. After setting up the working trial balance and after we began testing account balances we noted material errors with accounts payable and payroll. Based on City staff review it was determined that several journal entries had not been posted to the old general ledger. We were provided with journal entries to post the accounts payable and payroll activity. City staff did not review account balances for accuracy and reconcile to underlying supporting documentation for all account balances. Furthermore the transition to the new accounting chart of accounts was not properly planned and monitored to ensure accuracy in financial reporting in accordance with U.S. generally accepted accounting principles.

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

**Current year Follow Up:** During the current fiscal year audit 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 short-handed and unable to complete all the reconciliations prior to the audit.

**Management Response:** The finance department was, and still is very short staffed during the 2011/12 fiscal year due to extreme budget cuts resulting in early retirements in all departments. Research and implementation of new measures to overcome the City's unforeseen budget crisis resulted in additional workload to an already short staffed finance department. The finance staff anticipates that the workload will begin to level out and that they will be able to perform internal checks and account reconciliations prior to audit for accurate financial reporting in accordance with U.S. generally accepted accounting principles.

**FS 11-19 (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.

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

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**Current Year 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.

**Management Response:** A separate fund (9612) was established in the 2011/12 fiscal year for SLESF/AB3229. Separate funds have not been established for the CDBG, Home and Self Help funds due to the finance department workload but will be set up and assets transferred prior to the 2011/12 year end close.

**FS 11-20 (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.

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

**Current Year 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.

**Management Response:** During FY 2011/12, the finance manager consulted with the fund accounting software provider, Blackbaud, to establish a new pooled cash account. The due to/due from accounts were closed out to the new "cash in bank" account in each fund which eliminates calculating cash balances by fund.

**FS 11-21 (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.

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

**Current Year 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.

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

**FS 11-22 (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.

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**Current Year Follow Up:** During our audit we also detected several material misstatements as a result of our audit procedures and proposed audit entries to correct the misstatements for GAAP presentation, however because we determined that most account balances had not been reconciled to the underlying documentation we could not continue with preparing journal entries and be independent from the City internal controls.

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

**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 2010/11 fiscal year. In September 2011, it was discovered that the General fund had a major budget deficit which changed the financial department's priorities. New measures were implemented to decrease the budget shortage which increased the workload in the already short staffed financial department. Due to these unforeseen circumstances, the finance department was not able to sufficiently prepare for the fiscal year 2010/11 audit.

**FS 11-23 (Prior Year Finding 10-32):** During our testing of material disbursements we noted the rate paid to the contract City Planner was \$75 per hour for all general non reimbursable charges. The contract indicates the rate should be \$65 per hour and we did not observe an authorized change to the contract rate.

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

**Current Year Follow Up:** The difference in rates was calculated and credited back to the City.

**Management Response:** Staff is setting up procedures to monitor all contracts to ensure rates are being charged correctly.

**FS 11-24 (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.

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

**Current Year 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.

**Management Response:** The finance department is implementing procedures to record all accounts receivables to the correct fund which had not been done in the past. Due to the workload in the financial department, staff was not able to reconcile the receivable balances from prior years to the general ledger for the 2010/11 fiscal year which resulted in the receivable schedules not agreeing to the general ledger.

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**FS 11-25 (Prior Year Finding 10-34):** During our testing of sewer revenue we noted that during the 2009/2010 fiscal year, when the City processes sewer bills on the first of each month, the accounting system was set up to increase accounts receivable and increase revenue in the sewer fund at the time of billing. When payments are received cash is recognized in the general fund and then is allocated to the sewer fund. This accounting treatment increases the risk that material errors could occur, by not posting directly to the receiving fund. We were informed that material errors had occurred during the 2009/2010 fiscal year as a result of how receipts were processed. These errors were corrected by the new finance manager prior to providing the working trial balance to the auditor. The errors however were not detected by normal internal controls of the City.

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

**Current Year Follow Up:** The system was changed to post the activity in the sewer fund.

**Management Response:** Staff continues to monitor the sewer revenue account monthly.

**FS 11-26 (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.

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

**Current Year 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.

**Management Response:** The 2010/11 fiscal year budget, prepared by prior management, was not approved until January 2011. In September 2011, after the prior manager had left and the new 2011/12 fiscal year had started, it was discovered that the revenue was much less than what had been budgeted for 2010/11 which resulted in the general fund deficit. Major steps have been implemented in the 2011/12 budget year to close the general fund deficit. The general fund is showing a major loss in revenues over expenditures over the prior year for several reasons. (1) Intergovernmental revenue (VLF) was shorted to all County cities due to an unforeseen State basic aid to school reduction in the amount of \$190,000, and the Measure M tax was previously being reported in the general fund and was moved out to a separate restricted fund in the current year in the amount of \$285,000 along with a reduction in local sales tax of \$115,928 due to an overpayment in prior year. In addition, transfers were made out to various funds in the amount of \$643,497 due to revenues erroneously being deposited to the general fund in prior years that should have been in other special revenue funds.

**Prior Year Significant Deficiencies, Not Deemed to be Material Weaknesses**

**FS 11-27 (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.

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

**Management Response:** Staff will bring this issue before City Council for approval to write off receivable due to the lapse in time. In addition, the one CDBG/Home grant fund will be separated back into individual funds for each grant fund program prior to the 2011/12 fiscal year audit.

**FS 11-28 (Prior Year Finding 07-42):** During our testing of receipts we noted building permit #2091 paid with receipt #35845 on 1/26/07 did not indicate a \$3,284 charge for sewer connection.

**Current Year Follow Up:** During the City review additional building permits were discovered where sewer connections were not charged. The City follow-up billed and the City will review this year. We did not observe amounts received during the 2010/2011 fiscal year for the prior sewer connection fees.

**Management Response:** City billed developer for four sewer connection fees in May 2010. Developer has refused to pay. Staff will prepare a report to the City Council regarding direction on collection of these fees.



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**CURRENT YEAR INTERNAL CONTROL FINDINGS**

**Deemed to be Significant Deficiencies and Material Weaknesses**

**FS 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 an 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.

**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 to assist the finance manager with year-end closing and day to day accounting functions.

**Management Response:** Due to short staffing in the finance department and the workload of the finance manager, the majority of all fund reconciliations were not completed prior to the 2010/11 audit. The finance manager is in the process of cross-training the other staff member to assist with year-end closing and day to day accounting functions.

**Deemed to be Significant Deficiencies and Not Material Weaknesses**

**FS 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.

**Management Response:** Due to limited number of personnel in the finance department and the workload, it has not been possible to have all journal entries reviewed by management. However, the finance manager is in the process of cross-training the other staff member to prepare journal entries and the finance manager will review and approve.

**FS 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.

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

**Management Response:** The finance manager was aware of the new GASB 54 standard but was not able to implement due to the work load in the finance department. New GASB reporting standards are regularly adopted and are required by the U.S. generally accepted accounting policies for financial reporting. The City will review the provisions of GASB 54 and take action to adopt any new standards.

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**FS 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.

**Recommendation:** The City should internally track which prepaid building permits have been pulled and the remaining building permits to be pulled and paid for.

**Management Response:** The finance manager could not find a schedule where prepaid building permits for developers were being tracked in prior years. Research showed that substantial amounts were received for prepaid building permits beginning in 2005. The finance manager continues to work on reconciliation of the developer deposit accounts as time allows, and when completed will have a schedule to show the status of all prepaid deposits.

**FS 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 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.

**Recommendation:** We recommend removing the accounts sent to the County from the billing system and putting them into a separate general ledger account for the assigned tax roll. The City would then apply any subsequent collections from the County to the assigned tax roll receivable account. The City would then continue to charge new sewer charges through the billing system and accrue penalties and interest for delinquent payments.

**Management Response:** The delinquent sewer accounts that were placed on the County tax roll have now been removed from the billing system and tracked separately on a schedule and in a general ledger account.

**FS 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.

**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.

**Management Response:** As time allows, the City's part-time building official will attempt to do a site inspection of all commercial properties to document the number of fixtures. Once completed the data will be compared to the actual charges and make adjustments where needed.

**FS 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.

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

**Management Response:** The pension contribution for the one employee was accidentally omitted from the pension calculation schedule set up for the new fiscal year. This resulted in the buy backs not being remitted timely. Internal controls have been implemented to ensure employee deductions are transferred to recipient's account timely.

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**FS 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.

**Recommendation:** We recommend that contract files be maintained in the finance department and that 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:** Although most invoices from contractor/engineers were reviewed to verify hourly rates were charged in accordance with contract terms, a master list of projects was not maintained by the finance department. In the 2011/12 fiscal year the finance department had already set up most contract files and plans to maintain a master list of projects to determine whether invoices are correctly billed. Since the city engineer/project managers are off site, the finance manager sends a copy of the invoice via email to get approval prior to payment.

**FS 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 employee's 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.

**Recommendation;** We recommend taking action to verify that the above weaknesses have been corrected.

**Management Response:** Management will review personnel files and salary schedules and make changes where needed.