CITY OF IONE

FINANCIAL STATEMENTS

JUNE 30, 2013

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

INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Ione
Ione, California

We have audited the accompanying statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Ione, California, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for out audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Ione, California, as of June 30, 2013, and where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3-10 and 39-40 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basis financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Ione, California's basic financial statements. The combining and individual nonmajor fund financial statements, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Larry Bain, CPA,
An Accounting Corporation
February 10, 2014

CITY OF IONE

STATEMENT OF NET POSITION
JUNE 30, 2013
(With comparative total as of June 30, 2012)

	Governmental Activities	Business-type Activities	Totals 2013	Totals 2012
Assets				
Cash and investments	$ 10,911	$ 742,612	$ 753,523	$ 1,030,371
Prepaid items	862		862	831,169
Accounts receivables	502,171	127,280	629,451	831,169
Grants	-		-	-
Taxes receivable	364,357		364,357	360,388
Due from others		297,070	297,070	297,070
Due from other governments	61,187		61,187	93,071
Deposits with others	50,099		50,099	45,355
Prop 1A	-		-	121,612
Interest receivable	947		947	1,543
Total current assets	990,534	1,166,962	2,157,496	2,780,579
Non Current Assets				
Restricted cash and investments	1,527,402	-	1,527,402	1,266,981
Internal balances	(244,800)	244,800	-	-
Interest receivable	225,803		225,803	209,446
Loans receivable (net of allowance for uncollectibles)	2,038,002		2,038,002	1,936,693
Capital assets				
Land	29,696,609	3,873,444	33,570,053	33,570,053
Construction in progress	41,347	2,733,255	2,774,602	2,078,943
Structures	3,329,120	1,460,112	4,789,232	4,789,232
Site improvements	929,993	446,396	1,376,389	1,376,389
Vehicles and equipment	1,698,006	559,198	2,257,204	2,107,348
Infrastructure	2,594,098	4,025,063	6,619,161	6,338,470
Accumulated depreciation	(3,586,723)	(3,317,836)	(6,904,559)	(6,423,273)
Total capital assets, net	34,702,451	9,779,632	44,482,083	43,837,163
Total Assets	$ 39,239,392	$ 11,191,394	$ 50,430,786	$50,030,862
Liabilities				
Current liabilities:				
Accounts payable	$ 80,237	$ 264,597	$ 344,834	$ 153,245
Accrued payroll	58,077	6,598	64,675	150,945
Deposits from others	489,270	2,972	492,242	492,489
Noncurrent liabilities:				
OPEB-retiree health	539,022	37,539	576,561	470,217
Termination benefit-PARS	151,516	7,610	159,126	212,168
Due within one year	151,611		151,611	98,570
Due in more than one year	584,409	11,861	596,270	710,473
Total Liabilities	2,054,142	331,177	2,385,319	2,288,107
Net Position				
Net investment in capital assets	34,224,527	9,779,632	44,004,159	43,340,291
Restricted for capital replacement		(621,710)	(621,710)	46,041
Unrestricted	2,960,723	1,702,295	4,663,017	4,356,422
Total Net Position	$ 37,185,250	$ 10,860,217	$ 48,045,467	$ 47,742,755

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

CITY OF IONE

STATEMENT OF ACTIVITIES
JUNE 30, 2013
(With comparative total as of June 30, 2012)

		Program Revenues			Net (Expense) Revenue and Changes in Net Position			
							Totals	
Functions/programs	Expenses	Charges for Services	Capital Grants and Contributions	Operating Grants	Governmental Activities	Business-type Activities	2013	2012
Governmental Activities:								
General government	$ 579,084	$ 120,415	$ 57,929	$ -	$ (400,740)	$ -	$ (400,740)	$ (309,458)
Public safety	1,547,031	405,442	126,465	267,339	(747,785)		(747,785)	(925,506)
Community development	22,006		48,121	62,200	88,315		88,315	(104,983)
Public works	126,934	406,764			279,830		279,830	247,524
Streets and roads	227,023		149	11,928	(214,946)		(214,946)	(276,134)
Parks and recreation	310,268	9,304	387		(300,577)		(300,577)	(297,426)
Interest on debt	28,811				(28,811)		(28,811)	(49,743)
Total Governmental Activities	2,841,157	941,925	233,051	341,467	(1,324,714)		(1,324,714)	(1,715,725)
Business-type Activities:								
Wastewater	1,215,890	1,106,982	444,502			335,594	335,594	599,479
Total Business-type Activities	1,215,890	1,106,982	444,502			335,594	335,594	599,479
Total Government	$ 4,057,047	$ 2,048,907	$ 677,553	$ 341,467	(1,324,714)	335,594	(989,120)	(1,116,246)
General Revenues:								
Taxes:								
Property taxes					625,709		625,709	503,405
Sales and use tax					166,522		166,522	147,190
Transient occupancy tax					3,180		3,180	570
Franchise tax					94,697		94,697	84,878
Motor vehicle in lieu tax					604,045		604,045	624,471
Other taxes					21,848		21,848	17,524
Gain on sale of capital assets					-		-	13,500
Investment income					21,778	18,523	40,301	51,675
Total general revenues					1,537,779	18,523	1,556,302	1,443,213
Change in net position					213,065	354,117	567,182	326,967
Net position - beginning					37,187,333	10,555,422	47,742,755	45,503,678
Prior Period Adjustment					(215,148)	(49,322)	(264,470)	1,912,109
Net Position - ending					$ 37,185,250	$ 10,860,217	$ 48,045,467	$ 47,742,755

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

CITY OF IONE

GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2013
(With comparative total as of June 30, 2012)

	General	Measure M	Governmental Impact Fees	Local Traffic Mitigation	Fire Services Impact Fees	Other Nonmajor Funds	Total Governmental 2013	Total Governmental 2012
Assets								
Cash and investments	$ -	$ -	$ -	$ -	$ -	$ 10,911	$ 10,911	$ 26,127
Due from other funds				196,051	3,193	498,219	697,463	922,885
Prepaid items					862		862	-
Receivables								
Accounts (net of allowance)	369,402	75,945	2,128	-	-	54,696	502,171	702,307
Grants							-	-
Taxes	364,357						364,357	360,388
Due from other governments	61,187						61,187	93,071
Deposits with others	50,099						50,099	45,355
Prop 1A	-						-	121,612
Interest	947						947	1,543
Total Current Assets	845,992	75,945	2,128	196,051	4,055	563,826	1,687,997	2,273,288
Advances to other funds	653,342	357,139	25,000	-		1,600,772	2,636,253	2,627,460
Interest receivable						225,803	225,803	209,446
Loans receivable (net of allowance for uncollectible)						2,038,002	2,038,002	1,936,693
Restricted cash and investments		30,283	3,664	469,762	35,932	987,761	1,527,402	1,266,981
Total Long-Term Assets	653,342	387,422	28,664	469,762	35,932	4,852,338	6,427,460	6,040,580
Total Assets	$ 1,499,334	$ 463,367	$ 30,792	$ 665,813	$ 39,987	$ 5,416,164	$ 8,115,457	$ 8,313,868
Liabilities and Fund Balances								
Liabilities								
Accounts payable	$ 70,643	$ -	$ -	$ -	$ -	$ 9,593	$ 80,236	$ 87,809
Accrued payroll	50,351					7,726	58,077	143,694
Deposits from others	129,918				359,352		489,270	489,192
Due to other funds	424,182		106,621			166,660	697,463	922,885
Deferred revenue	702,867	22,071				239,217	964,155	1,034,833
Total Current Liabilities	1,377,961	22,071	106,621		359,352	423,196	2,289,201	2,678,413
Long-term Liabilities								
Advances from other funds	1,362,907		598,000		920,146		2,881,053	2,872,260
Total Liabilities	2,740,868	22,071	704,621		1,279,498	423,196	5,170,254	5,550,673
Fund Balances								
Restricted for loans receivable						2,016,956	2,016,956	1,936,693
Non-spendable for advances	653,342	357,139	25,000			1,600,772	2,636,253	2,627,460
Committed for public safety		84,157				332,925	417,082	427,420
Committed for community development						376,041	376,041	414,347
Committed for streets and roads						633,550	633,550	542,409
Assigned for capital projects			(698,829)	665,813	(1,239,511)	32,724	(1,239,803)	(1,241,404)
Unassigned, reported in General fund	(1,894,876)						(1,894,876)	(1,943,730)
Total Fund Balances	(1,241,534)	441,296	(673,829)	665,813	(1,239,511)	4,992,968	2,945,203	2,763,195
Total Liabilities and Fund Balances	$ 1,499,334	$ 463,367	$ 30,792	$ 665,813	$ 39,987	$ 5,416,164	$ 8,115,457	$ 8,313,868

CITY OF IONE

RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION JUNE 30, 2013 (With comparative total as of June 30, 2012)

	2013	2012
Fund Balances of Governmental Funds	$ 2,945,203	$ 2,763,195
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets, net of accumulated depreciation, are not current financial resources and are not included in the governmental funds.	34,702,451	34,836,473
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.	(462,404)	(412,335)
Net position of governmental activities	$ 37,185,250	$ 37,187,333

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, 2013
(With comparative total as of June 30, 2012)

	General	Measure M	Governmental Impact Fees	Local Traffic Mitigation	Fire Services Impact Fees	Other Nonmajor Funds	Total Governmental	
							2013	2012
Revenues								
Taxes	$ 799,539	$ -	$ -	$ -	$ -	$ -	$ 799,539	$ 661,196
Special assessment/impact fees		266,065	125	46,312	153	134,881	447,536	543,963
Licenses and permits	207,817						207,817	209,629
Use of money and property	88,822	3,484				5,309	97,615	110,388
Intergovernmental	728,886					479,174	1,208,060	1,402,213
Fines, forfeitures and penalties	8,411						8,411	4,601
Charges for current services	84,275						84,275	75,096
Other	18,372	21,152					39,524	26,382
Total Revenues	1,936,122	290,701	125	46,312	153	619,364	2,892,777	3,033,468
Expenditures								
Current:								
General government	516,521		2,204			460	519,185	566,291
Public ways and facilities/ transportation	103,508			2,187		158,364	264,059	322,665
Public safety	934,707	287,718				204,590	1,427,015	1,478,741
Community development	225,416					22,006	247,422	549,849
Capital Outlay						113,333	113,333	190,334
Debt service								
Principal					18,948		18,948	17,865
Interest					28,811		28,811	49,743
Total Expenditures	1,780,152	287,718	2,204	2,187	47,759	498,753	2,618,773	3,175,487
Excess (Deficit) of Revenues over Expenditures	155,970	2,983	(2,079)	44,125	(47,606)	120,611	274,004	(142,019)
Other Financing Sources (Uses)								
Proceeds of debt							-	45,000
Sale of property							-	13,500
Operating transfers in						31,111	31,111	42,769
Operating transfers out						(31,111)	(31,111)	(42,769)
Total Other Financing Sources (Uses)								58,500
Excess (Deficit) of Revenues and Other Financing Sources over Expenditures and Other Financing Uses	155,970	2,983	(2,079)	44,125	(47,606)	120,611	274,004	(83,519)
Fund Balances, July 1	(1,290,388)	438,313	(670,987)	621,688	(1,191,905)	4,856,473	2,763,194	1,160,512
Prior period adjustments	(107,116)		(763)			15,883	(91,996)	1,686,202
Fund Balances, June 30	$(1,241,534)	$ 441,296	$ (673,829)	$ 665,813	$(1,239,511)	$ 4,992,967	$ 2,945,202	$ 2,763,195

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

CITY OF IONE

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES FOR THE FISCAL YEAR ENDED JUNE 30, 2013 (With comparative total as of June 30, 2012)

	2013	2012
Net Change in Fund Balances - Total Governmental Funds	$ 274,004	$ (83,519)
Amounts reported for governmental activities in the Statement of Activities differs from the amounts reported in the Statement of Revenues, Expenditures and Changes in Fund Balances because:		
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities. The costs of those assets is allocated over their estimated useful lives as depreciation expense or are allocated to the appropriate functional expense when the cost is below the capitalization threshold. The net activity is reconciled as follows:		
Cost of assets capitalized	113,333	190,334
Capital contributions	80,000	-
Depreciation expense	(327,355)	(360,172)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	52,472	271,397
Proceeds of capital leases are other financing sources in the governmental funds, but the proceeds increase long-term liabilities in the Statement of Net Position		(45,000)
Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.	47,919	17,334
Changes in the PARS and OPEB liabilities reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported in governmental funds.	(44,614)	(343,289)
Changes in compensated absences reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported in governmental funds.	17,306	58,126
Change in net position of governmental activities	$ 213,065	$ (294,258)

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

CITY OF IONE

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2013
(With comparative total as of June 30, 2012)

	Sewer O & M	Sewer Capital	Nonmajor Sewer Tertiary Plant	Totals 2013	Totals 2012
Current assets:					
Cash and investments	$ 742,612	$ -	$ -	$ 742,612	$ 1,004,244
Receivables					
Accounts	78,293		48,987	127,280	128,862
Interest				-	-
Due from others		297,070		297,070	297,070
Due from other funds	1,437,226			1,437,226	-
Restricted cash and investments		-		-	-
Total current assets	2,258,131	297,070	48,987	2,604,188	1,430,176
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	2,733,255			2,733,255	1,836,491
Structures	1,460,112			1,460,112	1,460,112
Site improvements	446,396			446,396	446,396
Vehicles and equipment	559,198			559,198	489,206
Infrastructure	4,025,063			4,025,063	4,025,063
Accumulated depreciation	(3,317,836)			(3,317,836)	(3,130,022)
Total capital assets	9,779,632			9,779,632	9,000,690
Total Assets	$ 12,037,763	541,870	$ 48,987	$ 12,628,620	$ 10,675,666
Liabilities					
Current liabilities:					
Accounts payable	$ 59,303	$ 155,251	$ 50,043	$ 264,597	$ 65,436
Accrued payroll	6,598			6,598	7,251
Due to other funds		1,008,329	428,897	1,437,226	
Customer deposits	2,972			2,972	3,297
Total current liabilities	68,873	1,163,580	478,940	1,711,393	75,984
Noncurrent liabilities:					
OPEB-retiree health	37,539			37,539	26,315
Termination benefit-PARS	7,610			7,610	10,146
Compensated absences	11,861			11,861	7,799
Total noncurrent liabilties	57,010			57,010	44,260
Total Liabilities	125,883	1,163,580	478,940	1,768,403	120,244
Net position:					
Net investment in capital assets.	9,779,632			9,779,632	9,000,690
Restricted for capital replacement		(621,710)		(621,710)	46,041
Unrestricted	2,132,248		(429,953)	1,702,295	1,508,691
Total Net Position (Accumulated Deficit)	$ 11,911,880	$ (621,710)	$ (429,953)	$ 10,860,217	$ 10,555,422

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

CITY OF IONE

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(With comparative total as of June 30, 2012)

	Sewer O & M	Sewer Capital	Nonmajor Sewer Tertiary Plant	Totals 2013	Totals 2012
Operating Revenues					
Charges for services	$ 979,552	$ -	$ 129,600	$ 1,109,152	$ 1,047,334
Connection fees		444,502		444,502	526,974
Other	(2,170)			(2,170)	-
Total Operating Revenues	977,382	444,502	129,600	1,551,484	1,574,308
Operating Expenses					
Salaries and benefits	175,252	-		175,252	151,296
Services and supplies	482,284	141,915	228,625	852,824	626,001
Depreciation expense	187,814			187,814	197,532
Total Operating Expenses	845,350	141,915	228,625	1,215,890	974,829
Operating Income	132,032	302,587	(99,025)	335,594	599,479
Non-Operating Revenues (Expenses)					
Interest income	18,523			18,523	21,746
Total Non-Operating Revenues (Expenses)	18,523			18,523	21,746
Income (Loss) Before Transfers	150,555	302,587	(99,025)	354,117	621,225
Operating Transfers					
Operating transfers in	966,756			966,756	728,807
Operating transfers out		(966,756)		(966,756)	(728,807)
Net Operating Transfers	966,756	(966,756)		-	-
Net Income (Loss)	1,117,311	(664,169)	(99,025)	354,117	621,225
Net Position (Accumulated Deficit), July 1	10,808,489	46,041	(299,108)	10,555,422	9,857,622
Prior Period Adjustments	(13,920)	(3,582)	(31,820)	(49,322)	76,575
Net Position (Accumulated Deficit), June 30	$ 11,911,880	$ (621,710)	$ (429,953)	$ 10,860,217	$ 10,555,422

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

CITY OF IONE

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
JUNE 30, 2013
(With comparative total as of June 30, 2012)

	Sewer O & M	Sewer Capital	Nonmajor Sewer Tertiary Plant	Totals 2013	Totals 2012
Cash Flows from Operating Activities					
Cash received from customers	$ 971,937	$ 444,502	$ 86,980	$ 1,503,419	$ 1,594,948
Cash payments to suppliers	(455,290)	(4,985)	(193,388)	(653,663)	(598,109)
Cash payments to employees	(163,155)			(163,155)	(147,482)
Net Cash Provided By (Used For) Operating Activities	353,492	439,517	(106,408)	686,601	849,357
Cash Flows from Capital and Related Financing Activities					
Purchase of fixed assets	(966,756)			(966,756)	(469,244)
Interfund lending	(1,437,226)	1,008,329	428,897	-	-
Transfer from other funds	966,756			966,756	470,915
Transfer to other funds		(966,756)		(966,756)	(470,915)
Net Cash Used For Capital and Related Financing Activities	(1,437,226)	41,573	428,897	(966,756)	(469,244)
Cash Flows from Investing Activities:					
Interest income	18,523			18,523	21,746
Net Cash Provided By Investing Activities	18,523			18,523	21,746
Net Increase (Decrease) in Cash and Cash Equivalents	(1,065,211)	481,090	322,489	(261,632)	401,859
Cash and Cash Equivalents, July 1	1,807,823	(481,090)	(322,489)	1,004,244	602,385
Cash and Cash Equivalents, June 30	$ 742,612	$ -	$ -	$ 742,612	$ 1,004,244
Reconciliation of Cash and Cash Equivalents:					
Cash and investments	$ 742,612	$ -	$ -	$ 742,611	$ 1,004,243
Restricted cash and investments		-		-	-
Total Cash and Cash Equivalents, June 30	$ 742,612	$ -	$ -	$ 742,612	$ 1,004,244
Reconciliation of Operating Income to Net Cash Provided by (Used For) Operating Activities					
Operating income (loss)	$ 132,032	$ 302,587	$ (99,025)	$ 335,594	599,479
Adjustments to operating income:					
Depreciation expense	187,814			187,814	197,532
(Increase) decrease in accounts receivable	(5,120)		(42,620)	(47,740)	19,777
Increase (decrease) in accounts payable	26,994	136,930	35,237	199,161	27,892
Increase in accrued payroll	(653)			(653)	(25)
Increase in customer deposits	(325)			(325)	863
Increase in OPEB	11,224			11,224	10,697
Increase in termination benefits-PARS	(2,536)			(2,536)	10,146
Decrease in compensated absences	4,062			4,062	(17,004)
Net Cash Provided By (Used For) Operating Activities	$ 353,492	$ 439,517	$ (106,408)	$ 686,601	$ 849,357

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

CITY OF IONE

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES-AGENCY FUNDS
JUNE 30, 2013
(With comparative total as of June 30, 2012)

	Agency Funds		Totals	
	Community Facilities Districts	Regional Traffic Mitigation	2013	2012
Assets				
Cash and investments	$ 2,037,914	$ -	$ 2,037,914	$ 1,775,718
Due from others		504,000	504,000	-
Due from other government	5,864		5,864	5,679
Total Assets	$ 2,043,778	$ 504,000	$ 2,547,778	$ 1,781,397
Liabilities				
Due to others	$ 2,043,778	$ 504,000	$ 2,547,778	$ 1,781,397
Total Liabilities	$ 2,043,778	$ 504,000	$ 2,547,778	$ 1,781,397

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

Note 1: Summary of Significant Accounting Policies

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

The following is a summary of the more significant policies:

A. Reporting Entity

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

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

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

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

B. Basis of Accounting

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

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

Note 1: Summary of Significant Accounting Policies (Continued)

B. Basis of Accounting (Continued)

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

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

C. Basis of Presentation

Government-Wide Financial Statements

The statement of net position 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 position are available, unrestricted resources are used only after the restricted resources are depleted.

Fund Financial Statements

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

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

The City reports the following major governmental funds:

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

Note 1: Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation (Continued)

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

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

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

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

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

The City reports the following major enterprise funds.

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

The City also reports the following Fiduciary Fund type:

Agency Fund – is used to account for assets held by the City in an agency capacity for 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.

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 position and the business-type activities column of the government-wide financial statements. Contributed fixed assets are valued at their estimated fair market value. Capital assets include land, buildings and site improvements, equipment and vehicles, and infrastructure. Capital assets are defined by the City as assets with an initial, individual cost of more than $5,000.

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

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

G. Balance Sheet Classifications

Certain resources are classified as restricted assets as their use is restricted for specific purposes by bond agreements, lease agreements, trust agreements, grant agreements, City Charter provisions, or other requirements. Governmental fund types’ restricted assets are for 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.

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 position 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 position for proprietary funds represent the net position 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 in the City's MOU's.

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, 2013, 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.

Note 2: Cash and Investments

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

Cash and investments	$ 753,523
Restricted cash and investements	1,527,402
Cash and investments, statement of net assets	2,280,925
Cash and investments, statement of fiduciary assets	2,037,914
Total cash and investments	$ 4,318,839

Checking and saving accounts	$ 719,245
Imprest cash	400
Local agency investment fund	1,542,645
Money market account	2,056,549
Total cash and investments	$ 4,318,839

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

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

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

B. Disclosures Relating to Interest Rate Risk

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

Note 2: Cash and Investments (Continued)
B. Disclosures Relating to Interest Rate Risk (Continued)

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

		Remaining Maturity (in Months)			
Investment Type	Totals	12 Months or Less	13-24 Months	25-36 Months	37-48 Months
State Investment Pool*	$ 1,542,645	$ 1,542,645	$ -	$ -	$ -
Held by Trustee					
Money Market*	2,056,549	2,056,549			
Totals	$ 3,599,194	$ 3,599,194	$ -	$ -	$ -

*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, 2013, the City's deposits balance was $738,084 and the carrying amount was $719,248. The difference between the bank balance and the carrying amount was due to normal outstanding checks and deposits in transit. Of the bank balance, $250,000 was covered by the Federal Depository Insurance.

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 $58.85 billion. Of the $58.85 billion managed by the State Treasurer, 100% is invested in non-derivative financial products and 1.96% is invested in structured notes and asset-backed securities. The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by state statute.

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

Note 3: Capital Assets

The City did not maintain the capital asset schedules for governmental-type and business-type capital additions during the fiscal year ended June 30, 2013. 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, 2013. 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, 2013 was as follows:

Governmental Activities	Balance July 1, 2012	Additions	Prior Period/ Adjustments	Balance June 30, 2013
Capital assets, not being depreciated:				
Land	$ 29,696,609		$ -	$ 29,696,609
Construction in progress	242,451	79,586	(280,691)	41,346
Capital assets, being depreciated:				
Buildings and improvements	3,329,120			3,329,120
Site improvements	929,993			929,993
Vehicles and equipment	1,618,142	113,748	(33,884)	1,698,006
Infrastructure	2,313,407	280,691		2,594,098
Total capital assets, being depreciated	8,190,662	394,439	(33,884)	8,551,217
Less accumulated depreciation for:				
Buildings and improvements	(968,603)	(87,909)		(1,056,512)
Site Improvements	(376,733)	(46,623)		(423,356)
Vehicles and Equipment	(1,501,672)	(51,290)	33,884	(1,519,078)
Infrastructure	(446,244)	(141,533)		(587,777)
Total accumulated depreciation	(3,293,252)	(327,355)	33,884	(3,586,723)
Total capital assets, being depreciated, net	4,897,410	67,084	-	4,964,494
Governmental activities capital assets, net	$ 34,836,470	$ 146,670	$ (280,691)	$ 34,702,449
Business-Type Activities				
Capital assets, not being depreciated:				
Land	$ 3,873,444	$ -	$ -	$ 3,873,444
Construction in progress	1,836,491	896,764		2,733,255
Capital assets, being depreciated:				
Buildings and improvements	1,460,112			1,460,112
Site improvements	446,396			446,396
Vehicle and equipment	489,206	69,992		559,198
Infrastructure	4,025,063			4,025,063
Total capital assets, being depreciated	6,420,777	69,992	-	6,490,769
Less accumulated depreciation for:				
Buildings and improvements	(657,019)	(36,512)		(693,531)
Site improvements	(359,148)	(6,228)		(365,376)
Vehicle and equipment	(419,938)	(19,291)		(439,229)
Infrastructure	(1,693,918)	(125,783)		(1,819,701)
Total accumulated depreciation	(3,130,022)	(187,814)	-	(3,317,836)
Total capital assets, being depreciated, net	3,290,755	(117,822)	-	3,172,933
Business- type activities capital assets, net	$ 9,000,690	$ 778,942	$ -	$ 9,779,632

Note 3: Capital Assets (Continued)

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

Governmental Activities	
General government	$ 46,166
Public safety	86,025
Public works	10,699
Streets and roads	99,742
Parks	84,723
Total	$ 327,355

Note 4: Long-term Liabilities

A summary of the changes in the City's governmental activities long-term liabilities reported in the government-wide financial statements for the year ended June 30, 2013:

	Balance July 1, 2012	Additions/ Adjustments	Retirements	Balance June 30, 2013	Due Within One Year
Compensated absences-Note 1K	$ 131,538	$ 81,707	$ (98,653)	$ 114,592	$ 49,327
Net OPEB Obligation Note 7	443,902	95,120		539,022	-
Termination Benefits-Pars Note 8	202,022		(50,506)	151,516	50,506
Amador County loan	127,834		(29,116)	98,718	29,702
Train Depot loan	45,000			45,000	-
Capital lease	496,872		(18,948)	477,924	22,076
Total	$ 1,447,168	$ 176,827	$ (197,223)	$ 1,426,772	$ 151,611

Governmental Activities:

Capital Lease

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

Fiscal Year Ended June 30,	
2014	$ 39,299
2015	41,932
2016	41,932
2017	41,932
2018	41,932
2019-2023	209,660
2024-2028	209,660
2029	6,989
Total minimum lease payments	633,335
Less: Amount representing interest	(155,411)
Present value of minimum lease payments	$ 477,924

Note 4: Long-term Liabilities (Continued)

Amador County Loan:

In September 2011 it was discovered that the California State Board of Equalization (BOE) mistakenly allocated to the City of Ione sales tax owing to Amador County for the 4th quarter of 2008 and the 1st quarter of 2009. During the 2011/12 fiscal year the City and the County reached a repayment agreement whereby beginning December 1, 2011 the BOE will pay the County $19,084 sales tax payments, otherwise payable to the City, for a total of 8 quarters. 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 June 30,	Principal	Interest	Total
2014	$ 29,702	$ 1,753	$ 31,455
2015	30,301	1,154	31,455
2016	30,911	544	31,455
2017	7,804	39	7,843
Totals	$ 98,718	$ 3,490	$ 102,208

Train Depot Loan

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

Business-Type Activities:

A summary of changes in the City's business-type activities long-term liabilities for the year ended June 30, 2013:

	Balance July 1, 2012	Additions	Retirements	Balance June 30, 2013
Compensated absences	$ 7,799	$ 11,252	$ (7,260)	$ 11,791
Termination Benefit-Pars Note 8	10,146		(2,536)	7,610
Total	$ 17,945	$ 11,252	$ (9,796)	$ 19,401

Note 5: Defined Benefit Pension Plan

CalPERS

A. Plan Description

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

Note 5: Defined Benefit Pension Plan (Continued):

B. Funding Policy

Active miscellaneous plan members in the City's defined pension plan are required to contribute 8% of their annual covered salary for tier 1, 7% for tier 2 and 6.25% for PEPRA new members. Active safety-police plan members in the City's defined benefit pension plan are required to contribute 9% of their annual covered salary for tier 1, 9% for tier 2 and 11.5% got PEPRA new members. Active safety-fire plan members in the City's defined benefit pension plan are required to contribute 7% and 9.5% for PEPRA new members. 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 2012/13 was 15.740% for miscellaneous tier 1, 7.846% for miscellaneous tier 2, 6.25% for PEPRA new members, 15.201% for safety-fire members tier 1, 9.5% for PEPRA new safety-fire members, 50.669% for safety-police tier 1, 20.774% for safety-police tier 2 and 11.5% for PEPRA new safety-police 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 2012/2013, the City's annual pension cost was $309,656 and the City actually contributed $309,656. 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 2012/2013 was determined as part of the June 30, 2010, 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 3.55% to 14.45% for miscellaneous members (from 3.55% to 14.45% for safety members), and (c) .25% salary adjustment. Both (a) and (b) include an inflation component of 3.0%. The actuarial value of the plan's assets was determined using a technique that smoothes the effect of short-term volatility in the market value of investments over a three year period (smoothed market value). The plan's unfunded actuarial accrued liability (or excess assets) is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2010 was 19 years for miscellaneous members and 19 years for safety members as of the valuation date.

Three – Year Trend Information for the City

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
06/30/11	$ 297,367	100%	$ -
06/30/12	$ 282,952	100%	$ -
06/30/13	$ 309,656	100%	$ -

Note 6: 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 2012/2013 fiscal year was $27,941. As of June 30, 2013, four retired employees were receiving postretirement health benefits.

Plan Description. City of Iones Post-Retirement Healthcare Plan is a multiple employer defined benefit healthcare plan administered by CalPERS. CalPERS provides medical insurance benefits only to eligible retirees and their eligible dependents. The City approved post retirement health insurance benefits for all of its employees based on

Note 6: Post Retirement Health Benefits (Continued):

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 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, 2013 the City Council had not established a funding policy. The 2012-2013 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, 2013 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, 2013. The City made the net contribution for fiscal year end June 30, 2013 directly to health insurance providers totaling $27,941.

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:

Annual required contribution		$ 128,221
Interest on beginning OPEB obligation	*	22,335
ARC adjustment		(16,270)
Less: Unreimbursed retiree premium payments made to plan provider		(27,941)
Increase (decrease) in net OPEB obligation		106,345
Net OPEB obligation - beginning of year		470,217
Net OPEB obligation - end of year		$ 576,562

* 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

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 presented as follows.

Fiscal Year End	Annual OPEB Cost	Percentage Annual OPEB Cost Contributed	Net OPEB (Obligation) Asset
June 30, 2011	167,596	0%	(167,596)
June 30, 2012	151,963	0%	(151,963)
June 30, 2013	106,299	0%	(106,345)

Note 6: Post Retirement Health Benefits (Continued):

Funded Status and Funding Progress. As of June 30, 2013, the most recent actuarial valuation date, the actuarial accrued liability (AAL) and the unfunded actuarial accrued liability (UAAL) for benefits was $876,094. As of June 30, 2013, the City's annual required contribution was not funded and is shown as a liability in the City's balance sheet along with the unfunded normal cost. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress will be presented in the future when multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits is available.

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. In the November 1, 2008, actuarial valuation, the entry age normal cost asset valuation method is used. The actuarial assumptions include an investment/discount rate of 4.75% based on long-term historical returns for surplus funds invested pursuant to California Government Code Sections 53601 et seq. The valuation assumes that 100% of all eligible retirees will actually participate in the retiree medical benefit. The annual healthcare premiums will increase an average of 4% per year.

Note 7: Special Assessment Districts

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

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

The amount of the special assessment debt with no governmental commitment at June 30, 2013, is:

Community Facilities District 2005-1	$	1,105,000
Community Facilities District 2005-2IA1		3,640,000
Community Facilities District 2005-2IA2		620,000
Community Facilities District 2005-2IA3		6,625,000
Total	$	11,990,000

Note 8. Supplementary Retirement Plan

(A) Plan Description

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

(B) Funding Policy

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

(C) Annual Pension Cost and Net Pension Obligation

The City's annual pension cost and net pension obligation (asset) for its PARS retirement plan for fiscal year 2012-2013 is presented below.

	June 30, 2013
Annual required contribution	$ 53,042
Interest on net pension obligation (asset)	-
Adjust to annual required contribution	-
Annual pension cost	53,042
Contributions made	(53,042)
Increase (decrease) in pension obligation (asset)	-
Net pension obligation (asset), beginning of year	-
Net pension obligation (asset), end of year	$ -

For fiscal year 2012-2013, the City's annual pension cost was $53,042 and was equal to the contribution actually made. The required contribution was based on the amount agreed upon between the City and PARS at the time the plan was put into place.

Three-Year Trend Information for PARS Supplemental Retirement Benefits

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

	Annual Pension Cost (APC)	Dollar Amount of APC Contributed	Percentage of APC Contributed
Year ended June 30, 2012	$ 53,042	$ 53,042	100%
Year ended June 30, 2013	$ 53,042	$ 53,042	100%

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 30th, 1990 the City entered into an agreement with Portlock International to lease the City owned property for the operation of a public golf course. The term of the lease is fifty five years commencing in June 1994. The rent is due as follows: years 6 to 10 is 1%, years 11 to 15 is 2% , years 16 to 20 is 3% and years 21 to 55 is 4% of gross revenue from the operation of the golf course, clubhouse, pro shop, driving range and other golf course facilities. The rent is due before the 20th day following each December 31st. Under this agreement the City received $40,817 in the 2010-2011 fiscal year, $43,000 in the 2011-2012 fiscal year and accrued an estimated receivable at June 30, 2013 of $43,000 for the 2012-13 fiscal year revenue. The agreement also states that lessee will pay the City the greater of $50,000 or 1% of the sales price, if the lessee assigns its leasehold interest to a third party.

Note 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, 2013 are summarized as follows:

Fund Type	Advances To Other Funds	Advances From Other Funds	Due To Other Funds	Due From Other Funds	Operating Transfers In	Operating Transfers Out
General	$ 653,342	$ 1,362,907	$ 424,182	$ -	$ -	$ -
Enterprise	244,800	-	1,437,226	1,437,226	-	-
Special Revenue	1,118,107	-	24,570	498,219	-	30,000
Capital Projects	864,804	1,518,146	248,711	199,244	31,111	1111
Total	$ 2,881,053	$ 2,881,053	$ 2,134,689	$ 2,134,689	$ 31,111	$ 31,111

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.

	Final Amended Budget	Actual Expenditures	(Unfavorable) Variance
General Government			
City Clerk	$ 33,715	$ 60,887	$ (27,172)
Finance	110,725	144,279	(33,554)
Treasurer	2,733	2,959	(226)
Administrative services	188,711	196,110	(7,399)
Public Ways and Facilities/Transportation			
Building inspection	42,196	44,401	(2,205)
Engineering	2,000	2,261	(261)
Corporate yard	27,749	29,896	(2,147)
Public Safety			
Police	855,913	871,734	(15,821)
Community Development			
Parks and recreation	193,826	225,416	(31,590)

B. Deficit Fund Balances

Three major funds have deficit fund balances at June 30, 2013. The general fund had a deficit fund balance of $1,241,435, the fire building fund has a deficit fund balance of $1,239,511, the governmental impact fee fund had a deficit fund balance of $673,829. The Sewer Capital enterprise fund had a deficit net position of $621,710 and the Nonmajor Sewer Tertiary Plant fund had a deficit net position of $429,953. Non-major capital project funds had three funds with a deficit fund balance at June 30, 2013. 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 with over $700,000 reimbursement of vehicle license fees and other charges that currently are recorded as deferred revenue and by reducing expenditures.

C. Restatement of Net Position 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 position in the government-wide statement of activities and proprietary fund statement of revenue, expenses and changes in net position 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.

Note 12: Stewardship, Compliance and Accountability (Continued)

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

	Governmental Activities	Business-Type Activities
Net Assets Reported as of June 30, 2012	$ 37,187,333	$ 10,555,422
Adjustments for:		
Reclass to proper fund	1,309	
Correct prior year receivables	13,363	(49,322)
Correct prior deferred revenue	(89,849)	
Adjust prior year deferred revenue	(123,152)	
Correct prior year COPS allocation	(16,819)	
Total adustment	(215,148)	(49,322)
Net Assets, July 1, 2012 as restated	$ 36,972,185	$ 10,506,100

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

	General Fund	Governmental Impact	Other Governmental Funds
Fund Balance, June 30, 2012	$ (1,290,388)	$ (670,987)	$ 1,450,040
Adjustments for:			
Reclass to proper fund			1,309
Correct prior year receivables	14,496	(763)	(370)
Correct prior deferred revenue	(121,612)		31,763
Correct prior year COPS allocation			(16,819)
Total adustment	(107,116)	(763)	15,883
Fund Balance, July 1, 2012 as restated	$ (1,397,504)	$ (671,750)	$ 1,465,923

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 2012-13	$ 2,024,525
Amount of limit for 2012-13	2,756,896
Amount (under)/over the limit	$ (732,371)
Per Capita Percentage Change	3.77%
Population Change*	2.08%

* Net of exclusions for correctional institution

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 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 unfavorable outcome and the dollar range of potential loss was not determinable.

Note 17: Subsequent Events

A. Effective September 1, 2013 the City entered into an instalment sale agreement with the California Infrastructure and Economic Development Bank to borrow $3,250,000 for use on the City's Wastewater Compliance Project. The interest rate is 2.32% and payments will commence on August 1, 2014 with final payment date of August 1, 2043.
B. On August 6, 2013 City Council awarded the Wastewater Compliance Project Phase 1 to Vinciguerra Construction in the amount of $774,000.
C. On July 1, 2013 the City entered into an agreement with the PERC Water Corporation for the operation and maintenance of the Wastewater Treatment Facility, the Tertiary Treatment Facility and the Sewer Collection System owned by the City. The agreement is effective for four years and may be extended for three additional two year periods. The monthly cost was set at $29,170 adjusted annually for inflation.

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. For the 2012/13 fiscal year not all legally required special revenue fund budgets were adopted. 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.

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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, 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, the financial statements of the governmental-type and business-type activities of City of Ione (the "City") as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated February 10, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

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 a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. The deficiencies in internal control that we consider to be material weaknesses following this report are identified as FS 13-1 through FS 13-11 and FS 13-27 through FS 13-28.

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. We consider the deficiencies FS 13-12 through FS 13-26 and 13-29 described in the accompanying Schedule of Findings to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from 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 two instances of noncompliance listed in the following schedule of findings as FS 13-30 and FS 13-31 and one item listed as other matters in the following schedule of findings as FS 13-32 that are required to be reported under *Government Auditing Standards.*

The City's Response to Findings

The City's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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.

Larry Bain, CPA,
An Accounting Corporation
February 10, 2014

PRIOR YEAR INTERNAL CONTROL FINDINGS

Deemed to be Significant Deficiencies and Material Weaknesses

FS 13-1 (Prior Year Finding 07-8): During our testing of the general fund deposits liability accounts we noted the City collects deposits from developers and citizens of Ione to be spent on the behalf of developers and for the Capital Facility District Mello-Roos assessment revenue and limited obligation debt payments. The City is using the general fund deposit liability accounts to record this activity. Furthermore the City could not reconcile the individual or organization deposit liabilities to a subsidiary ledger at June 30, 2007. The risk of material misstatement to the financial statements resulting from this significant deficiency is high.

2010/11 Fiscal Year Status: The deposit reconciliation will be a major undertaking requiring substantial resources to complete the reconciliation. The City created an agency fund (fund 14) in FY 2006-2007 and has set up developer deposit accounts.

2011/12 Fiscal Year Status: Subsequent to fiscal year end the City retained a contract accountant to reconcile the developer deposit activity. The City is meeting with developers to determine the balances spent by the City and not reimbursed by developers. The final accounting of either the developer deposit liability or the amount due from developers is reflected in these financial statements.

Current Year Follow up: During the current year audit we noted that while the City is maintaining a schedule of developer receivables and payables the City had not billed all amounts considered due. The City general ledger also does not have a sub account under developer receivables or deposit liability accounts to track the activity of each individual developer or other customers doing business with the City. During our testing we requested documentation to support the amount owed by JTS. City staff was unable to provide us with the supporting documentation and had to consult with the City’s attorney to provide us with the documentation.

Recommendation: We recommend the City continue to monitor the developer receivable and liability accounts and bill for the amounts considered owing. The City should also set up receivable accounts in the general ledger to account for the amounts billed/received and developer liability accounts for amounts deposited by the developers and spent by the City on the developers behalf. The City should maintain a file for each developer with documentation to support the amounts owed or the amounts due to developers.

Management Response: Subsequent to the FY 2011-12 year-end audit, the deposit and receivable activity going back mainly to 2006 was identified either by the developer, contractor, or individual. Finance staff began the task of locating invoices as backup to the developer, contractor, or individual billings which had not yet been completed prior to start of audit due to short staff in the Finance department. Staff maintains files on current receivable accounts which are recorded in the General Ledger and is still working on old receivable accounts as time allows. Staff will merge old accounts into the new Financial Edge financial system to reconcile to the General Ledger with the goal of completing prior to the start of the FY 2013-14 audit.

FS 13-2 (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 Follow up: No change during the 2012/2013 fiscal year.

Management Response: The City purchased Howard Park from the Howard Trust. The payment terms set up in the purchase agreement resulted in a trade for sewer connections. The transaction for the sewer annexation fees was never established in the General Ledger. The City Attorney has reviewed the Howard Park Agreements related to this payment and has determined that the Howard Property Trust is due a credit of $244,800 for payment of any future sewer annexation fees related to property still owned by the Howard Properties Trust. Therefore, the City will work with the Howard Property Trust to memorialize this credit at which point the General Fund will no longer have a liability to the Sewer Capital Fund.

FS 13-3 (Prior Year Finding 07-21): During our testing of Amador Regional Sanitation Agency (ARSA) expenditures we noted a $14,560 capital lease payment for a parking lot purchase paid for from the ARSA fund. We also noted over $300,000 in legal expenditures, resulting from the Portlock lawsuit, coded to this fund.

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

2010/11 Fiscal Year Status: $69,155 in remaining ARSA fund cash was transferred to the general fund during the conversion. We did not observe City Council approval to close the ARSA fund and transfer the remaining cash to the general fund.

Current Year Follow up: No change during the 2012/13 fiscal year.

Management Response: City staff will consider two options: (1) Re-establish the ARSA fund and move cash from the General Fund back to the ARSA fund; or (2) bring closure of the ARSA fund to the City Council for official approval of fund closure.

FS 13-4 (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 Follow up: The financial and accounting policy is in draft form and needs to be finalized.

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

Management Response: City staff has not been able to finalize the draft financial and accounting policy due to under staffing in the Finance department. Staff plans to finalize this project for Council approval prior to the start of the FY 2013-14 audit.

FS 13-5 (Prior Year Finding 09-6): During our audit we noted the City received $560,000 proceeds from a capital lease for the construction of the new fire house. The proceeds were recorded as a liability in the general ledger liability account advances from other funds. We also noted the $12,538 principal and $27,262 interest payments on this debt were recorded to asset account advance to other funds in the general fund as opposed to an expense in the fire impact fee fund. Principal and interest expense were also not included with the City's 2008/2009 budget. Audit adjustments were proposed to reclassify the proceeds from advance from other funds to other financing sources-proceeds of capital lease and to record principal and interest to expense accounts in the fire impact fee fund as opposed to advance to other funds in the general fund. The effect of the miscoding also puts advances to and advances from other funds out of balance. City staff did not reconcile these accounts to agree that they were in balance.

2010/11 Fiscal Year Status: 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.

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

Current Year Follow up: The debt service payments were recorded in the fire impact fund, however no budget was established in that fund.

Recommendation: The City will need to adopt a budget for all funds required to operate under an adopted budget which gives the City legal authority to spend from those funds.

Management Response: The City Councils adopted budgets for all funds required to operate under an adopted budget for FY 2013-14 and will continue to adopt budgets for these funds in subsequent years.

FS 13-6 (Prior Year Finding 09-10): During our audit we noted that after the payroll clerk was released it was discovered that many of her computer programs and files were deleted, including the compensated absence schedules. As a result we were unable to test the compensated absence activity for the fiscal year and to verify the accuracy of the ending balances reported by the City. This was a condition that had an effect on our opinion of the fair presentation of the financial statements.

2011/12 Fiscal Year Status: The compensated absence schedule had not been prepared when we started the audit, however management informed us that this item needed to be completed. After the schedule was completed, we tested the schedule and noted that no liability was recorded for accumulated sick leave which is required to be paid out upon termination of employment. The City revised the schedule to include a prior period adjustment of $82,083 to account for accrued sick leave liability at June 30, 2011 and then adjusted to a balance of $55,334 for both governmental fund types and proprietary fund types at June 30, 2012.

Current Year Follow up: During the current year audit the compensated absence schedule and adjustments were provided after we started the audit. During our testing we noted that employees who had left the City within the fiscal year still had minor ending balances on the compensated absences schedule. We noted several employees who were not eligible for sick leave payouts upon termination had accrued sick leave balances on the compensated absence schedule. We noted incorrect formulas were used on the City compensated absence schedule misstating some of the compensated absence balances. Furthermore we noted that while the miscellaneous employee policy provides for a cap on the number of vacation hours for miscellaneous employees there was no cap for public safety employees.

Recommendation: We recommend the City prepare the compensated absences schedule and record the compensated absence adjustments prior to the start of audit fieldwork. We recommend City staff review the schedule for accuracy prior to providing the schedule to the auditor. The City should verify that all terminated employee balances are zeroed out on the schedule. The City should not include a liability for sick leave payouts for employees hired after November 1, 2008. This could lead to overpayment of termination benefits. We also recommend the City Council review the cap for vacation accrual for public safety employees.

Management Response: Finance staff began implementation of new financial software shortly after the FY 12-13 ended which utilized the majority of staff time. The compensated absences schedule was partially completed prior to the FY 2012-13 audit, however not finalized until during audit which resulted in incorrect formulas in some areas. In the future, staff will complete the compensated absences schedule prior to the start of the audit to allow time for review to avoid errors. City staff will review the cap for vacation accruals for public safety employees and make recommendations to City Council.

FS 13-7 (Prior Year Finding 09-13): During the current year audit we were originally provided with a trial balance with a new chart of accounts. Based on our analysis we observed several problems with the new chart of accounts and the City opted to revert to the old chart of accounts/general ledger. After setting up the working trial balance and after we began testing account balances we noted material errors with accounts payable and payroll. Based on City staff review it was determined that several journal entries had not been posted to the old general ledger. We were provided with journal entries to post the accounts payable and payroll activity. City staff did not review account balances for accuracy and reconcile to underlying supporting documentation for all account balances. Furthermore the transition to the new accounting chart of accounts was not properly planned and monitored to ensure accuracy in financial reporting in accordance with U.S. generally accepted accounting principles.

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

2011/12 Fiscal Year Status: Due to the circumstances requiring the City to begin the audit prior to all account balances being reconciled to the underlying support, the City provided the auditor with over 65 additional journal entries after starting the audit. The number of journal entries needed to reconcile the general ledger to the underlying support increases the risk of material misstatement and creates inefficiencies in performing the audit.

Current Year Follow up: No change. The City had not closed the books prior to our starting the audit. This condition creates a less efficient audit and increases the risk of material misstatement.

Recommendation: We recommend performing year end procedures and closing the books prior to starting the audit. The City should start the process soon after fiscal year end in order to meet the February 1 reporting deadline imposed by I-Bank.

Management Response: Finance staff began implementation of the new financial system shortly after FY 2012-13 end and were unable to completely close the books prior to start of the audit. Staff will perform year-end procedures and closing the books prior to starting any future audits.

FS 13-8 (Prior Year Finding 10-30): During our review of GASB 45 for other post-employment benefits (OPEB), we noted the City did not adopt a funding policy for the annual required contribution (ARC). A $150,658 audit entry was proposed to record a liability for the current year unfunded ARC.

2010/11 Fiscal Year Status: 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.

2011/12 Fiscal Year Status: During the 2011/12 fiscal year the funding policy had not been adopted. The liability for the actuarial determined unfunded liability was calculated by the contract accountant and recorded by the City. The actuarial report was dated November 2008. GASB 43/45 requires an actuarial valuation of the OPEB at least once every three years.

Current Year Follow up: During the current fiscal year the City had an actuarial report prepared, which was used to calculate the annual required contribution and unfunded actuarial accrued liability. The funding policy had not been adopted.

Recommendation: We recommend the City Council adopt a funding policy for the OPEB.

Management Response: City staff will draft an OPEB funding policy to be adopted by City Council.

FS 13-9 (Prior Year Finding 10-35): During our review of the budget we noted the budget in the financial reporting system did not agree to the original budget plus all amendments to the budget approved by City Council. The amount used in the budget to actual statement for required supplementary information includes only the original budget and the final budget could be materially misstated by not including all budget amendments. Furthermore we noted in many instances the budget amendments approved by the City Council were vague on which specific budget accounts were to be increased or decreased.

2010/11 Fiscal Year Status: 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.

2011/12 Fiscal Year Status: During the current fiscal year we noted that a budget for the general fund and the gas tax fund were the only approved budgets adopted by City Council. The City spent from other funds without a legally approved budget.

Current Year Follow up: No change

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

Management Response: City Council has also adopted budgets for the Sewer Enterprise funds in previous budget years. For the FY2013-14 budget cycle, City Council adopted budgets for all funds required to operate under a legally adopted budget and will continue this practice in subsequent budget years.

FS 13-10 (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.

2011/12 Fiscal Year Follow up: During the current fiscal year audit, we noted the City prepared schedules of capital outlay activity for fiscal year ending June 30, 11 and June 30, 2012. The City also made prior period adjustments to agree the beginning balances with the June 30, 2011 balance. They then posted entries in the sewer fund and prepared entries for Government-Wide financial statements to agree the final balances to the fiscal year ending June 30, 2012 activity. The schedules were tested without exception.

Current Year Follow up: During our testing of Capital Assets we noted that an expense of $69,992 for equipment for the Waste Water Treatment Plant was miscoded to an incorrect account. We made a reclassification entry to capitalize this expense and the City revised the depreciation schedule to include this asset.

Recommendation: We recommend better attention to detail when coding an expense to ensure that it is being coded correctly.

Management Response: Staff miscoded a piece of equipment that was left in the construction in progress account that should have been capitalized in the current year. Due to under staffing in the Finance department very little time was available to review all posted transactions prior to the audit. Staff hopes to have more time available to review all transactions for accuracy once the new Financial Edge financial system implementation has been completed.

FS 13-11 (Prior Year Finding 11-29): During our audit we noted accounts receivables, accounts payables, deposit liabilities, OPEB liability, compensated absences, fixed assets, deferred revenue and accrued payroll were not reconciled to the underlying documentation resulting in a scope limitation that precluded us from issuing and opinion on the financial statements. This condition exists because the City finance staff was shorthanded and the workload for the finance manager was unreasonable in relation to tasks required for her to complete. We noted during the fieldwork that the finance manager, in addition to assisting us with the audit, was answering the phones, assisting customers at the front desk and completing the day to day operations of the finance department for processing receipts, payroll and disbursements as well as performing special projects for the City Manager and City Council.

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

Current Year Follow up: While the City retained the contract accountant to assist with year-end closing the process had not been completed prior to the start of our audit. Numerous journal entries were created after the start of the audit.

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

Management Response: Finance department has limited staff and is continuing to cross-train in certain areas. Year-end close was delayed due to staff time needed to begin implementation of new financial software. As the City's budget improves, staffing levels should increase to meet the strategic needs of the City.

Follow up on Prior Year Findings Deemed to be Significant Deficiencies and Not Material Weaknesses

Finding 13-12 (Prior Year Finding 11-4): During the 2010/11 fiscal year while cash was being reconciled for the activity it was not reconciled to the general ledger (book) balance. Subsequent to fiscal year end the finance manager has started to reconcile to the general ledger balance.

Current Year Follow Up: During the current fiscal year audit we noted that while reconciliations are being performed there is no line item on the treasurer's report for the general ledger balance to compare to the total reconciled balance. During our testing we noted a slight variance between the reconciled balance and the general ledger which was subsequently corrected by City staff.

Recommendation: Add a line item to the Treasurer's reconciliation report for the general ledger balance and agree this to the reconciled bank balance.

Management Response: Finance staff reconciles cash in bank to the general ledger and attaches copies of the general ledger reports to the monthly treasurer's report that is presented monthly at the City Council meeting. The discrepancy between the bank balance and the general ledger occurred as a result of journal entries posted inaccurately during the year-end close process.

FS 13-13 (Prior Year Finding 11-10): During the prior year audit entries were made to establish advances to and advances from other funds. New interfund loans were noted during the current year audit and were properly approved and recorded. We also observed a policy for allocating interest on the advances and verified interest was charged during the 2010/2011 fiscal year.

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

Current Year Follow up: No change

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

Management Response: City staff will research if all lending funds should be receiving interest on long-term advances and give recommendation to City Council.

FS 13-14 (Finding 09-4): During our audit we noted that no year end accruals were made for governmental fund accounts receivables. We also noted the beginning governmental fund accounts receivable balances were not adjusted in many of the funds. City staff did not appear to have performed year end procedures to search for and accrue accounts receivables and adjust the general ledger to the underlying support. This is a condition that has an effect on our opinion of the fair presentation of the financial statements.

2010/11 Follow Up: During the 2010/11 fiscal year audit we noted the new finance manager performed year end procedures for accounts receivables at June 30, 2010 and prepared a prior period adjustment to correct that balance. The new finance manager then performed year end procedures to accrue accounts receivables at June 30, 2011, however the general ledger was not adjusted to agree to the underlying support.

2011/12 Fiscal Year Status: During the 2011/12 fiscal year the finance manager entered a prior period adjustment to agree the accounts receivable balance to the June 30, 2011 schedule and then prepared the accounts receivables schedule and adjusted each funds accounts receivable balance to agree to the underlying support at June 30, 2012.

During our search for unrecorded accounts receivables we discovered an additional $43,000 unrecorded accounts receivable for the 2011/12 2% Golf Course revenue with payment received in October 2012. We also discovered $15,878 unrecorded receivables from the CFD's cash with fiscal agent account to reimburse the City for Legal fees paid by the City on the CFD behalf.

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

Current Year Follow up: The $38,187.41 receivable related to prior water treatment reimbursement has not been resolved. The City also recorded numerous accounts receivable journal entries after we started the audit. Furthermore, we noted Portlock had not submitted the Golf Course lease payment for the 2012/13 fiscal year by the due date.

Recommendation: We recommend the City accrue all accounts receivables as part of year end procedures and prior to the start of the audit. We recommend seeking collection action for the 2012/13 golf course lease payment. We also recommend City Council be kept up to date on the collection of the $38,187.41 due from Portlock.

Management Response: City staff will endeavour to have all receivable accounts updated in the new financial system to ensure all accounts receivable accounts are accrued prior to start of audit. Details related to prior year water treatment reimbursements from Portlock will be reviewed and recommendations made to City Council.

FS 13-15: (Prior Year Finding 09-11): During our testing of accounts payables we discovered $147,946 in prior year accounts payable that had not been reversed in the current year. We also noted $15,558 in prior year accounts payable that was reversed to fund equity in the current year as opposed to accounts payable. The effect of these items was to overstate accounts payable $163,504, overstate expenses $147,946, and to understate fund equity $15,558 at June 30, 2009. We proposed journal entries to correct these misstatements. This is a condition that has an effect on our opinion of the fair presentation of the financial statements.

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

2011/12 Fiscal Year Status: During the 2011/12 fiscal year the City prepared the accounts payable schedule and reconciled the schedule to the general ledger. During our testing we noted the City proposed accruing the audit fee for the June 30, 2012 audit. The services for the June 30, 2012 audit had not been performed as of June 30, 2012 and therefore should not have been accrued. The City adjusted the journal entry to exclude the audit fee. We also noted the City accrued a payable in the amount of $8,813.58 for asset seizure funds. This amount was not a payable, but should have been recorded as deferred revenue. We advised the City and a journal entry was made to properly account for that activity.

Current Year Follow up: During our testing of accounts payable we noted three invoices that should have been accrued, however because the dollar amounts were not material the City chose to pass on the adjustments.

Recommendation: None.

Management Response: City staff will review accounts payable accrual schedule prior to start of audit.

FS 13-16 (Prior Year Finding 09-12): During our testing of accrued payroll we noted that no cutoff procedures were performed for accrued payroll. City staff did not review the general ledger account balances for accrued payroll and reconcile to the underlying support. We also noted the accrued payroll balance for all funds was $238,529. There was also $56,146 in debit balances recorded to accrued payroll accounts, which are not normal balances for this type of account. This is a condition that has an effect on our opinion of the fair presentation of the financial statements.

2010/11 Fiscal Year Status: 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.

2011/12 Fiscal Year Status: During the 2011/12 fiscal year audit we noted the City performed year end procedures for accrued payroll. During our testing we noted errors in reconciling accrued payroll from the supporting documentation to the general ledger. The City, with the assistance of the contract accountant, made the appropriate corrections and adjusted the general ledger balances to agree with the supporting documentation.

Current Year Follow up: No errors discovered during the current fiscal year audit.

FS 13-17 (Prior Year Finding 07-6): We noted the City was not maintaining grant summary schedules showing the activity for each loan and the City was not reconciling summary schedules to the general ledger. We also noted that no City employee appeared to be responsible for administrating the grant programs in accordance with the grant agreement requirements. We noted for the 08 Home Loan programs the City made a $100,000 loan, but did not record an accounts receivable for the reimbursement that had not been received by June 30, 2011. The City also did not record the $100,000 loan receivable and deferred revenue to recognize the lending activity. The significant deficiencies noted above increase the risk that material misstatements could be made to the financial statements without being detected.

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

2011/12 Fiscal Year Status: During the current year audit we noted the City reclassified the grants back into individual special revenue funds. During our testing of the grant schedules we noted that while the City updated the grant schedules there were multiple computational errors and in some instances the activity did not agree to the underlying documentation. It was also discovered that a $91,100 loan was secured by a property that had been foreclosed on. The loan was still recorded on the grant schedule and was recognized as a receivable in the general ledger.

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

Current Year Follow up: During the current year audit the City prepared and adjusted the loan receivable schedules. After starting the audit the City provided us with journal entries to write off two uncollectible loans. We prepared the journal entries to correct the prior year deferred revenue associated with these loans.

Recommendation: We recommend recording the journal entries to agree the loan activity to the general ledger prior to starting the audit. We also recommend the City reconcile the deferred revenue activity associated with the loan write offs, or have the outside consultant review and true up this activity as the auditor cannot be part of the City internal controls.

Management Response: City staff will record journal entries to agree loan activity to the general ledger along with deferred revenue activity associated with loan write-offs prior to start of audit.

FS 13-18 (Prior Year Finding 12-27): We noted the City had a lack of segregation of duties, as one person is capable of handling all aspects of processing transactions from beginning to end. We also noted that journal entries are not approved or reviewed by management, other than the finance manager, who initiates, posts the entry and files the backup documentation. A lack of segregation of duties increases the risk of potential errors or irregularities occurring without being detected; however, due to a limited number of personnel in the finance department as a result of downsizing an adequate segregation of duties is not possible without incurring additional costs. We also noted the Finance Department journal entries do not always have an approval signature by the City Manager or other responsible employee, indicating the entries have been reviewed for accuracy and giving the Finance Department approval to post the entries.

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

Management Response: Finance staff duties will be reviewed to determine if additional segregation of duties can be achieved with limited staff. Staff will review approval procedures for journal entries to be included in the City's financial policies and procedures.

FS 13-19 (Prior Year Finding 11- 31): The City did not implement the provisions of Government Accounting Standards Board Statement 54 as required by U.S. generally accepted accounting policies. This new standard went into effect for fiscal year ending June 30, 2011. The new requirement categorizes fund balances into five separate categories and sets a new definition for special revenue funds.

Current Year Follow Up: While the fund balances in the financial statements are classified into the required categories we did not observe a policy that is in compliance with GASB 54.

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

Management Response: City staff will review provision of GASB 54 and take action to adopt policy.

FS 13-20 (Prior Year Finding 11-32): During our review of building permits we noted the City is relying on the developer to track prepaid building permits. The City did not have a schedule to reconcile what was paid and when new parcels will need to start being charged additional permit fees.

2011/12 Fiscal Year Status: The city retained a contract accountant to assist with determining the status of the prepaid building permits and to design controls over internally tracking prepaid building permits.

Current Year Follow up: While the City created a schedule to track the prepaid building permits for JTS, there was a discrepancy between the number of units included in the schedule and the number of prepaid building permits. Upon further review it was determined that a separate completed project was included in the schedule (Edgebrook). By including the 81 units from the Edgebrook development in the Castle Oaks schedule, it gave the appearance that the developer did not have prepaid impact fees, but actually owed for unpaid permits. We eventually were able to reconcile between the actual number of units developed and the amount of fees paid and determined that the City had properly recorded a liability reflecting the number of prepaid building permits.

Recommendation: The City should revise their schedule to only account for the historical permit activity of the Castle Oaks development and document which units have prepaid impact fees and how much each unit will owe for unpaid hook up fees when the permits are pulled. The City should have a tracking mechanism to trigger events in the developer agreement such as charging the Parks impact fee after the 250th permit is issued and charging the additional housing element after the 250th building permit.

Management Response: City Staff will revise JTS schedule to account for historical permit activity for Castle Oaks Development to document units have paid various impact fees and amounts owing when additional permits are pulled including tracking mechanism for triggered events in the Developer Agreement.

FS 13-21 (Prior Year Finding 11-33): During our testing of sewer revenues we noted that when a delinquent sewer account is sent to the County to be placed on the County tax roll the amount sent to the County is not removed from the billing system and penalty and interest is shutoff so that any new delinquencies are not charge penalties and interest.

2011/12 Fiscal Year Status: During the current year audit we noted the City created a separate tax roll receivable account and removed the delinquent accounts sent to the tax roll from the normal receivables billing system.

Current Year Follow up: During our testing of sewer accounts receivable we noted after one customer was placed on the County tax roll they paid the full balance to the City a few days later. The City removed the customer from the tax roll at the County, however the customer's account (as opposed to the tax roll account) at the City was credited for the balance paid leaving an incorrect credit balance on the customer's account. For 7 months the customer used the credit to pay the sewer bills until the City realized the credit was actually a mistake. The total of the 7 months sewer billings that were offset with the credit was $284.90. Additionally the City still had the balance showing on their tax roll receivable account at June 30, 2013 for this customer.

During our testing of sewer accounts receivable we also noted one customer who was placed on the tax roll and the City received full payment from the County. When the home was sold the sellers paid the City an additional $226.51, after the City received full payment from the County. The $226.51 should be refunded to seller.

During our testing of sewer accounts receivable we noted a Bank in possession of a home where the delinquent sewer charges had been placed on the tax roll paid for the delinquent charges. Full payment was also made by the County. The city applied both payments to the A/R tax roll account leaving a credit balance of $629.70. The City should have either refunded one of the payments or applied one of the payments to the customer accounts receivable and then applied future sewer charges against that credit balance.

Recommendation: We recommend that the City collect the $284.90 owed from the customer who did not make payments for seven months. We recommend the City issue a credit to the former home owner that over paid the sewer delinquencies and we recommend the City make the adjustments to the tax roll receivable and accounts receivable accounts. The city should periodically monitor the tax roll accounts and research credit balances.

Management Response: City staff will periodically monitor the sewer tax roll accounts and will research credit balances to ensure accurate account balances.

FS 13-22 (Prior Year Finding 11-34): During our testing of sewer commercial accounts we noted the City is charging based on number of fixtures, however the City did not have files for commercial properties documenting the number of fixtures so that we could recalculate the charges.

2011/12 Fiscal Year Status: During the current year audit we noted the site inspections on commercial properties had not been performed. Furthermore, as part of our sewer receipts testing, we contacted a mobile home park that is being billed for 51 connections and were informed that there are 54 spaces at the mobile home park. It appears the City has been undercharging three connections for this commercial customer.

Current Year Follow up: The City does not appear to have a rate schedule the supports all the charged rates. A banquet hall is paying $168.59 which is unsupported and an eatery is charged $54.41 which is unsupported. Additionally the late fees on sewer bills are not being calculated correctly. Interest on a late balance only includes the initial bill itself. If a bill was to be more than two months late, the interest would only include the current month late charge and the prior month late charge excluding the interest from the prior month late.

The public works employee made a site inspection at the mobile home park and determined that three mobile homes were vacant. We are still unsure if the mobile homes are hooked up to City sewer and if they should be charged the monthly sewer fee.

Recommendation: We recommend the City consider performing a site inspection of all commercial properties and documenting the number of fixtures. The City should then compare that data to the actual charges and make adjustments where needed or verify that the current charges are valid.

Management Response: The City utilizes *Municode 13-48.010 Rate schedule-service fees* for commercial sewer accounts where part of the formula is based on monthly water consumption. City staff will audit these accounts to determine if rates should be updated. The City has a document from the Department of Housing and Community Development stating that the mobile home park has 51 lots with drains and 3 lots without drains. The 3 lots without drains would not be charged a monthly sewer fee.

FS 13-23 (Prior Year Finding 11-35): During our review of CalPERS pension contributions we noted one employee who was buying back years of service at $228 per pay period. The City did not remit the buy backs to CalPERS for 15 pay periods resulting in underfunding the pension obligation and not complying with a Department of Labor requirement that payments for retirement withholdings be remitted within fifteen days after the month of withholding.

2011/12 Fiscal Year Status: During the current fiscal year we noted during one pay period 7/31/11 to /8/13/11 where the $228 payment was not remitted to CalPERS. This amount was added to the CalPERS accrual as of June 30, 2012. We also noted the City did not remit the CalPERS pension employee and employer contributions from March 11, 2012 to June 30, 2012. The amount owed to CalPERS for this period was $108,167. The total CalPERS unpaid employee and employer contributions at June 30, 2012 were $110,699 which included adjustments. This amount has been recorded as a liability in these financial statements.

Current Year Follow up: No exceptions noted.

Recommendation: None.

FS 13-24 (Prior Year Finding 11-37): During our testing of payroll we noted the salary schedule for the Police Department had not been updated to reflect the 2010-11 salary steps. We noted 2 out of 20 employees tested did not have a completed W-4 form in their personnel folder. We noted 6 of 20 positions tested did not have a board approved salary schedule for the position and 6 of 20 employees tested where the salary did not agree to the salary schedule effective 7/1/10.

2011/12 Fiscal Year Status: During the current fiscal year we noted the City Finance Department did not have pay rate information on file to verify Fire Fighter salaries. We noted that not all job positions for the Fire Fighters were noted on the pay schedule. We noted two Fire Fighter pay rates that did not agree to the personnel action form in the employee file. We noted one employee where we could not locate a W-4. We noted one employee who did not have a personnel action form on file.

Current Year Follow up: No change from the prior year.

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

Management Response: City Staff will review all current payroll files to ensure all necessary documentation are included. Pay rate schedules will be updated to reflect current year pay rates.

FS 13-25 (Prior Year Finding FS 12-36): During our audit of vacation and sick leave payouts we noted a prior employee was paid out 100% of sick leave upon leaving the City. Per an agreement signed January 29, 2009 the employee opted into the section limiting sick leave payout to 50% of the unused sick leave to a maximum payout of 60 days (50% of 120 days). The actual amount of the sick leave payout was $37,003.36. The amount that should have been paid under the agreement was $18,501.68. This agreement superseded the employment agreement dated December 28, 2007.

Current Year Follow up: The City entered into an agreement with the former employee and the employee reimbursed the City.

Recommendation: None.

13-26: (Prior Year Finding FS 12-40) During our testing of sewer receivables we noted the sewer billing clerk was entering into sewer service charge delinquency repayment agreements with delinquent property owners who requested not to have their delinquent accounts put on the tax roll. During our testing we noted the payment agreements were not being monitored and some of the landowners had quit paying per the terms outlined in the agreement.

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

Current Year Follow up: In the 2013/14 fiscal year the City issued a check to the customer with the $787.95 credit balance. We did not observe any additional service charge delinquent repayment agreements in the 2012/13 fiscal year.

Recommendation: Continue to monitor and notify customers with large credit balances who continue to overpay there sewer service charges.

Management Response: City staff will continue to monitor and notify sewer customers with large credit balances who continue to pay over their sewer service charges.

CURRENT YEAR INTERNAL CONTROL FINDINGS

Deemed to be Significant Deficiencies and Material Weaknesses

FS 13-27: During our review of the financial statements we noted the sewer tertiary plant revenues are not sufficient to cover the expenses. During the fiscal years ending June 30, 2013, 2012 and 2011 the sewer tertiary fund lost $130,845, $81,311 and $141,951 respectively. As of June 30, 2013 the sewer tertiary plant had a negative cash balance of $428,897 which it has effectively borrowed from other funds. We have not seen a work out plan from the City detailing how the sewer tertiary fund is going to pay back the borrowed funds or how it is going to meet operational expenses.

We also noted that while the general fund experienced a $155,970 positive revenues over expenditures in the 2012/13 fiscal year, the ending accumulated deficit at June 30, 2013 was $(1,241.534).

Furthermore the general impact fee fund had a deficit fund balance of $673,829 at June 30, 2013 and reported $125 revenue during the 2012/13 fiscal year.

Recommendation: We recommend the City evaluate the tertiary plant operations and prepare a plan of how the tertiary fund will pay back amounts borrowed from other funds and how the plant will meet future operational expenses. While the City expects current financial resources will be sufficient to cover current liabilities, we recommend close attention to resolving the accumulated deficit in the general fund. We also recommend reviewing the current fee structure for the general impact fee and determine why revenue is not being generated to cure the deficit fund balance and when revenues will be generated in this fund.

Management Response: The City had one new construction permit issued during FY 2012-13 where the $125 general plan impact fee collected was based on a rate times the square footage of the structure. The impact fees collected in the general plan impact fee fund were used to pay for costs incurred to update the City's General Plan (2009) creating a deficit fund balance. The General Plan update should remain valid for at least a 20-year period with fees collected on new construction permits that will pay down, and payoff, the deficit fund balance.

FS 13-28: During our testing of compensated absences we noted one employee who exceeded the maximum cap of 280 vacation hours. The City continued to accrue vacation hours after the cap was reached and the City Manager authorized paying out 80 vacation hours to bring the balance below the cap. The City policy for miscellaneous employees does not allow for a vacation payout option. This matter should have gone before the City Council for approval.

Recommendation: We recommend that the City follow the policy and stop accruing vacation hours once an employee has reached the maximum vacation accumulation cap. We also recommend that if the City would like to offer employees the option to be paid vacation hours in lieu of taking the time off, and if the City will allow employees to continue accruing vacation hours after the maximum accrual is reached, then the City Council should amend the vacation policy.

Management Response: Understaffing throughout the City is an ongoing concern as it impacts the ability for staff to provide adequate services and perform mandated functions. One outcome of under staffing is the inability of staff to adequately take accrued vacation time without impacting job functions because of the limited ability by other staff to cover the job duties of the vacationing staff member. Understaffing, therefore, greatly increases the probability of exceeding maximum accruals. It would be inappropriate to punish staff by taking vacation accruals above the maximum cap away from staff when staff cannot schedule an adequate number of vacation hours to stay under the cap.

Under staffing is a short-term problem. Because staffing is a function of the size of the budget, the City expects to strategically increase staffing levels to fulfill key responsibilities and provide an outlet for necessary staff training, sick leave, and vacation as the budget improves. Due to the temporal nature of this issue, the City Manager exercised a short-term fix within the City Manager's spending authority to require staff to take 80-hours of vacation and a corresponding, one-time 80-hour vacation payout to get staff below the vacation cap. As staffing levels improve, the vacation cap will be strictly enforced.

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

FS 13-29: During our test of other current and post-employment benefits we noted that one current employee over contributed on their PERS Health by $357.74. This condition was a result of not changing the payroll deduction for health benefits. We also noted one other employee who added a dependent to their plan which created an additional $102.92 employee contribution on each pay period. The City did not adjust the employee deduction to reconcile to the maximum benefit paid by the City resulting in an over contribution by the City of $2,675.92. Additionally, the City under contributed the post retirement health premium to one retiree which was discovered by CalPERS and was retroactively corrected.

Recommendation: We recommend that the City collect the $2,675.92 that was over paid to one employee. We recommend the City reimburse the employee that overpaid $357.74. Controls over monitoring health insurance payroll deductions appear to be weak, therefore the City should continuously monitor the PERS Health contributions to ensure that both the correct employee and employer contribution are being made in accordance with City policy.

Management Response: City staff will prepare a payment schedule to collect amount underpaid by employee for health insurance and will develop controls to monitor health insurance payroll deductions.

COMPLIANCE FINDING

FS 13-30: The City hired three retired annuitants receiving retirement benefits from CalPERS. CalPERS has established the Public Employees' Pension Reform Act of 2013 (PEPRA) governing the rules of hiring retired annuitants. One of the rules is that the length of hire is for a limited duration. We did not see an indication that the City has reviewed the PEPRA rules to verify compliance.

Recommendation: We recommend the City review CalPERS PEPRA rules to verify compliance over hiring retired annuitants and document the compliance in the retired annuitant file.

Management Response: City staff will review PEPRA rules to verify compliance over hiring retired annuitant and will place compliance information in the retirees employee file.

FS 13-31: During our review of transient occupancy tax (T.O.T.) revenue it was determined that the tax is lower than expected. The amount of T.O.T. reported during the 2012/13 fiscal year was $3,180. Based on the amount submitted to the City, the hotel is reporting revenue for the 2012/13 fiscal year of $31,800. With 14 rooms available and assuming an average rate of $100 per nights stay this equates to an occupancy rate of approximately 6.2%, or less than one room rented per day.

Recommendation: We recommend the City monitor the T.O.T. revenue and consider performing an audit of the City Hotels for compliance and to educate the Motel owner on complying with the T.O.T ordinance.

Management Response: City staff will review TOT collections and give recommendation to City Council regarding a TOT audit by an independent auditor.

OTHER MATTERS

FS 13-32: It was brought to our attention that in a prior year the former Police Chief of the City transferred a police vehicle to a police officer who was under contract with the City. Further details of the transaction are that the former Police Chief provided an older police vehicle to continue providing code enforcement services to the City under contract. The police officer also paid for major repairs of the vehicle. Upon termination of services the former police officer kept the vehicle because repairs exceeded the value of the vehicle.

After this was brought to our attention we noted the vehicle was still on the City asset schedule and was recorded on the City general ledger. The City Finance Department then prepared the adjusting entry to remove the asset from the City general ledger and from the City fixed asset schedule. To our knowledge the City Council did not vote to approve the disposition of this asset.

Recommendation: We recommend that City Departments report to the Finance Department when an asset has been sold or salvaged and that the Finance Department then remove the asset from the City general ledger and depreciation schedule. We recommend the City have a policy for City employees to follow when selling or surplusing City property. The City Council should also be aware of and approve disposition of City assets.

Management Response: Finance staff was made aware of this prior year transaction during the FY 2012-13 audit and removed the vehicle from the fixed asset list. City staff will develop a policy for City employees to follow when selling or surplusing City property.