

# Richardson & Company

550 Howe Avenue, Suite 210  
Sacramento, California 95825

Telephone: (916) 564-8727  
FAX: (916) 564-8728

November 28, 2012

City Council  
City of Sutter Creek, California

We have audited the financial statements of the City of Sutter Creek (the City) for the year ended June 30, 2011, and have issued our report thereon dated November 28, 2012. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter to you dated August 17, 2010. Professional standards also require that we communicate to you the following information related to our audit.

## Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated August 17, 2010, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Our responsibility for the supplementary information accompanying the financial statements, as described by professional standards, is to evaluate the presentation of the supplementary information in relation to the financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

## Planned Scope and Timing of the Audit

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested.

Our audit will include obtaining an understanding of the entity and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Material misstatements may result from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the entity or to acts by management or employees acting on behalf of the entity. Internal control related matters that are required to be communicated under professional standards are reported in a separate letter.

### Significant Audit Findings

#### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. However, the following items related to the application of accounting principles were noted for the year ended June 30, 2011.

- The City was required to implement Government Accounting Standards Board Statement No. 45, which requires that a liability be recorded for healthcare benefits provided to retirees. We understand that such benefits are limited to only allowing the retirees to participate in the City's plan and partially subsidizing the premiums in some cases, but these conditions do create some amount of liability. Because the calculation of the liability is performed by an actuary and the City did not have an actuarial valuation performed, the City has not accrued this liability. The liability could be significant, but the impact could not be determined.
- The City was not able to provide certain records and supporting data related to the governmental activities capital assets. Thus, we issued an adverse opinion related to the governmental activities statement of net assets, as no amounts are being reported in the financial statements.
- Note M of the financial statements refers to the doubt about the City's ability to continue as a going concern, primarily related to the operating losses the City's General Fund has been experiencing, and the fact that the General Fund has a deficit fund balance of \$1,159,457 at June 30, 2011.
- For the June 30, 2010 audit, the City was not able to provide certain records, supporting data and account reconciliations in a timely manner. Thus, we were unable to form an opinion on accounts receivable, due from other governments, developer deposits payable, grants and business-type capital assets. The City was able to complete the analysis of these accounts for the June 30, 2011 audit, resulting in certain adjustments to prior year balances as described in Note J to the financial statements and we were able to remove the disclaimer of our audit opinion for the June 30, 2011 financial statements.

We noted no transaction entered into by the City during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the City's financial statements were determining the depreciable lives and methods used for capital assets and the collectibility of receivables. We evaluated the key factors and assumptions used to develop these estimates in determining that it is reasonable in relation to the financial statements taken as a whole.

#### *Difficulties Encountered in Performing the Audit*

The issues encountered with obtaining documentation of various account balances, the issues documented in the internal control report and the large number of adjustments during the audit process resulted in significant delays and additional time needed to complete the audit. In order to remove our prior year

disclaimer of an opinion on many of the financial statement line items, additional effort was spent verifying proper June 30, 2010 and 2011 account balances.

*Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. Audit adjustments included 39 entries posted after the general ledger was provided to us for the audit, which were needed to correct balances of the accounts and transactions not reconciled or analyzed prior to the start of our audit. This large number of adjustments indicates that the City's reporting processes and closing procedures need to be strengthened to ensure these types of adjustments are identified and recorded prior to the start of the audit so they do not have a significant effect on the City's financial reporting process. A list of these adjustments is attached.

In addition, the attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

*Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting or auditing matter, whether or not resolved to our satisfaction that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

*Management Representations*

We have requested certain representations from management that are included in the management representation letter dated November 28, 2012.

*Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

*Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the City Council and management of the City intended to be and should not be used by anyone other than these specified parties.

*Richardson & Company*

November 28, 2012

CITY OF SUTTER CREEK, CALIFORNIA  
SUMMARY OF UNADJUSTED AUDIT DIFFERENCES  
YEAR ENDED JUNE 30, 2011

**GOVERNMENT ACTIVITIES**

Description (Nature) of Audit Difference	Financial Statements Effect - Amount of Overstatement (Understatement) of:					Total Change in Fund Balance
	Total Assets	Total Liabilities	Total Fund Balance	Total Revenue	Total Expenses	
Effect of overaccrual of compensated absences		\$ 13,118	\$ (13,118)	\$	13,118	\$ (13,118)
Effect of overaccrual of PERS liability		9,109	(9,109)		9,109	(9,109)
Net Unadjusted Audit Differences - This Year	-	22,227	(22,227)	-	22,227	(22,227)
Financial Statement Caption Totals (Total Government Funds)	\$ 2,472,958	275,617	2,197,341	\$ 1,895,055	1,891,228	3,827
Net Audit Differences as % of F/S Captions	0.00%	8.06%	(1.01%)	0.00%	1.18%	(580.79%)

Client: **CITY OF SUTTER CREEK**  
Engagement: **2011 AUDIT - CITY OF SUTTER CREEK**  
Period Ending: **6/30/2011**  
Trial Balance: **CITYWIDE DATABASE**  
Workpaper: **Adjusting Journal Entries Report**

Account	Description	W/P Ref	Debit	Credit
<b>Adjusting Journal Entries JE # 1</b>				
Entry to re-class negative cash as due to other funds.				
1-10999-0000	Cash Clearing Account		438,599.00	
39-14201-0000	DUE FROM FUND 01		814,081.00	
41-10999-0000	Cash Clearing Account		38,481.00	
44-10999-0000	Cash Clearing Account		16,197.00	
46-10999-0000	Cash Clearing Account		13,598.00	
50-10999-0000	Cash Clearing Account		12,814.00	
59-10999-0000	Cash Clearing Account		44,000.00	
72-10999-0000	Cash Clearing Account		76,985.00	
80-10999-0000	Cash Clearing Account		21,374.00	
82-10999-0000	Cash Clearing Account		13,393.00	
90-10999-0000	Cash Clearing Account		51,022.00	
9-10999-0000	Cash Clearing Account		87,618.00	
1-20139-0000	Due To Fund 39			438,599.00
39-10999-0000	Cash Clearing Account			814,081.00
41-20139-0000	DUE TO FUND 39			38,481.00
44-20139-0000	Due To Fund 39			16,197.00
46-20139-0000	Due To Fund 39			13,598.00
50-20139-0000	DUE TO FUND 39			12,814.00
59-20139-0000	Due To Fund 39			44,000.00
72-20139-0000	DUE TO FUND 39			76,985.00
80-20139-0000	DUE TO FUND 39			21,374.00
82-20139-0000	DUE TO FUND 39			13,393.00
90-20139-0000	DUE TO FUND 39			51,022.00
9-20139-0000	DUE TO FUND 39			87,618.00
<b>Total</b>			<b>1,628,162.00</b>	<b>1,628,162.00</b>
<b>Adjusting Journal Entries JE # 3</b>				
Clinet prepared entry to accrue interest payable for ARSA loan.				
15-69075-1540	Interest Expens		1,969.00	
15-20201-0000	A/P - Interest			1,969.00
<b>Total</b>			<b>1,969.00</b>	<b>1,969.00</b>
<b>Adjusting Journal Entries JE # 4</b>				
To true-up Due To/Due From				
1-20139-0000	Due To Fund 39		1.00	
1-67010-1050	O&M Equipment			1.00
<b>Total</b>			<b>1.00</b>	<b>1.00</b>
<b>Adjusting Journal Entries JE # 5</b>				
To reclass prior year adjusting journal entry reversal from accounts receivable to due from other governments.				
1-11100-0000	AR FYE Accrual		85,079.00	
1-14500-0000	Due From Other Governments			85,079.00
<b>Total</b>			<b>85,079.00</b>	<b>85,079.00</b>
<b>Adjusting Journal Entries JE # 6</b>				
To accrue invoices for expenses included as of 6/30/11				
1-61058-1060	Dispatching		18,077.00	
1-20200-0000	Accounts Payable			18,077.00
<b>Total</b>			<b>18,077.00</b>	<b>18,077.00</b>
<b>Adjusting Journal Entries JE # 7</b>				
Reverse prior year accrual of compensated absences.				
10-21610-0000	Compensated Absences-Current		10,721.00	
1-21600-0000	Compensated Absences		2,300.00	
24-21610-0000	Compensated Absences-Current		49,602.00	
10-40000-1510	Salaries			10,721.00
1-40000-1050	Salaries			2,300.00
24-40000-0000	Salaries			49,602.00
<b>Total</b>			<b>62,623.00</b>	<b>62,623.00</b>

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Workpaper: **Adjusting Journal Entries Report**

Account	Description	W/P Ref	Debit	Credit
<b>Adjusting Journal Entries JE # 8</b>		<b>CC-5</b>		
Entry to re-class current portion of compensated absences.				
10-21600-0000	Compensated Absences		19,608.00	
24-21600-0000	Compensated Absences		78,929.00	
24-40000-0000	Salaries		80,045.00	
10-21610-0000	Compensated Absences-Current			19,608.00
24-11550-0000	Retirmt of Gen Long Term Debt			80,045.00
24-21610-0000	Compensated Absences-Current			78,929.00
<b>Total</b>			<b>178,582.00</b>	<b>178,582.00</b>
<b>Adjusting Journal Entries JE # 9</b>		<b>CC-3</b>		
Adjusting to correct posting of USDA debt principal payment in error				
15-20303-0000	N/P-US Treasury RECD Loan-Sewr		14,000.00	
15-69074-1540	Principal Pymt			14,000.00
<b>Total</b>			<b>14,000.00</b>	<b>14,000.00</b>
<b>Adjusting Journal Entries JE # 10</b>		<b>13-10</b>		
Entry to accrue 2006 Spring Storm receivable, 4/11 to 6/11 ACES Franchise Fee and record 200/11 Accnet Reimbursement.				
1-11501-0000	Franchise Fees Receivable		3,910.00	
1-14500-0000	Due From Other Governments		29,290.00	
1-31660-0000	Tax, Franchise - AT&T, PG&E,W			3,910.00
1-34141-0000	Fees-PD Services			29,290.00
<b>Total</b>			<b>33,200.00</b>	<b>33,200.00</b>
<b>Adjusting Journal Entries JE # 12</b>		<b>13-1</b>		
Client Adj.				
0-10100-0000	UMPQUA Bank		163.00	
0-10100-0000	UMPQUA Bank		398.00	
0-10100-0000	UMPQUA Bank		441.00	
0-10100-0000	UMPQUA Bank		763.00	
0-10100-0000	UMPQUA Bank		1,304.00	
0-10100-0000	UMPQUA Bank		1,313.00	
0-10100-0000	UMPQUA Bank		1,431.00	
0-10100-0000	UMPQUA Bank		6,786.00	
0-10100-0000	UMPQUA Bank		13,925.00	
0-10100-0000	UMPQUA Bank		14,544.00	
0-11507-0000	Collection Accounts		15,617.00	
1-10999-0000	Cash Clearing Account		15,617.00	
0-10100-0000	UMPQUA Bank			1,903.00
0-10100-0000	UMPQUA Bank			3,553.00
0-10100-0000	UMPQUA Bank			7,789.00
0-10999-0000	Cash Clearing Account			15,617.00
0-10999-0000	Cash Clearing Account			27,823.00
1-11507-0000	Collection Accounts			15,617.00
<b>Total</b>			<b>72,302.00</b>	<b>72,302.00</b>
<b>Adjusting Journal Entries JE # 14</b>		<b>13-3</b>		
Client Adj.				
0-10110-0000	LAIF		1,346.00	
0-10111-0000	S.C.Pub Fin Authority		73.00	
0-10114-0000	Investment UMPQUA Public Funds		1,448.00	
0-10116-0000	Invest - Edward Jones		6,050.00	
0-10200-0000	Edward Jones Cash Account		27,000.00	
0-10999-0000	Cash Clearing Account		40,000.00	
0-10999-0000	Cash Clearing Account		40,000.00	
1-60015-1050	Software Maint		6,103.00	
95-36100-0000	Income - Interest Earnings		40,000.00	
0-10116-0000	Invest - Edward Jones			27,000.00
0-10116-0000	Invest - Edward Jones			40,000.00
0-10116-0000	Invest - Edward Jones			40,000.00
0-10999-0000	Cash Clearing Account			2,867.00
0-10999-0000	Cash Clearing Account			6,050.00
1-10999-0000	Cash Clearing Account			6,103.00
95-10999-0000	Cash Clearing Account			40,000.00
<b>Total</b>			<b>162,020.00</b>	<b>162,020.00</b>

Client: **CITY OF SUTTER CREEK**  
Engagement: **2011 AUDIT - CITY OF SUTTER CREEK**  
Period Ending: **6/30/2011**  
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Workpaper: **Adjusting Journal Entries Report**

Account	Description	W/P Ref	Debit	Credit
<b>Adjusting Journal Entries JE # 15</b>		<b>13-4</b>		
Client Adj.				
1-22501-0000	Gold Rush Golf Resort		3,268.00	
1-22501-0000	Gold Rush Golf Resort		8,003.00	
1-22502-0000	Sutter Creek Walgreens		460.00	
1-22507-0000	BLA-018-121-011&018-121-018		547.00	
1-22509-0000	ACTC-Sutter Hill Transit Ctr		8,166.00	
1-61025-1090	Engineering		460.00	
1-61025-1090	Engineering		547.00	
1-61025-1090	Engineering		8,003.00	
1-61025-1090	Engineering		8,166.00	
1-22501-0000	Gold Rush Golf Resort			8,003.00
1-22502-0000	Sutter Creek Walgreens			460.00
1-22507-0000	BLA-018-121-011&018-121-018			547.00
1-22509-0000	ACTC-Sutter Hill Transit Ctr			8,166.00
1-32160-0000	Ramb E & D Revenue			460.00
1-32160-0000	Ramb E & D Revenue			547.00
1-32160-0000	Ramb E & D Revenue			8,003.00
1-32160-0000	Ramb E & D Revenue			8,166.00
1-36820-0000	Income - Other Revenue			3,268.00
<b>Total</b>			<b>37,620.00</b>	<b>37,620.00</b>
<b>Adjusting Journal Entries JE # 16</b>		<b>13-5</b>		
Client Adj.				
1-22511-0000	ACTC ARTS Center		36.00	
1-22515-0000	Popovich Boundary Line Adjust		630.00	
1-22516-0000	Deposits Bruston Parcel Map		36.00	
1-22516-0000	Deposits Bruston Parcel Map		1,200.00	
1-22517-0000	PETROVICH		130.00	
1-22521-0000	SHTC Parcel Map		121.00	
1-61025-1090	Engineering		36.00	
1-61025-1090	Engineering		630.00	
1-61025-1090	Engineering		1,200.00	
1-22511-0000	ACTC ARTS Center			36.00
1-22515-0000	Popovich Boundary Line Adjust			630.00
1-22516-0000	Deposits Bruston Parcel Map			1,200.00
1-22517-0000	PETROVICH			121.00
1-22521-0000	SHTC Parcel Map			130.00
1-32160-0000	Ramb E & D Revenue			36.00
1-32160-0000	Ramb E & D Revenue			36.00
1-32160-0000	Ramb E & D Revenue			630.00
1-32160-0000	Ramb E & D Revenue			1,200.00
<b>Total</b>			<b>4,019.00</b>	<b>4,019.00</b>
<b>Adjusting Journal Entries JE # 17</b>		<b>13-6</b>		
Client Adj.				
1-22517-0000	PETROVICH		75.00	
1-22517-0000	PETROVICH		2,524.00	
1-22519-0000	Deposit Claire De Lauro		32.00	
1-22519-0000	Deposit Claire De Lauro		572.00	
1-22520-0000	PROSPECT/BOWERS REALIGNMENT		75.00	
1-22520-0000	PROSPECT/BOWERS REALIGNMENT		139.00	
1-22521-0000	SHTC Parcel Map		765.00	
1-61025-1090	Engineering		75.00	
1-61025-1090	Engineering		572.00	
1-61025-1090	Engineering		765.00	
1-61025-1090	Engineering		2,524.00	
1-22517-0000	PETROVICH			2,524.00
1-22519-0000	Deposit Claire De Lauro			572.00
1-22520-0000	PROSPECT/BOWERS REALIGNMENT			75.00
1-22521-0000	SHTC Parcel Map			765.00
1-32160-0000	Ramb E & D Revenue			32.00
1-32160-0000	Ramb E & D Revenue			75.00
1-32160-0000	Ramb E & D Revenue			75.00
1-32160-0000	Ramb E & D Revenue			139.00
1-32160-0000	Ramb E & D Revenue			572.00
1-32160-0000	Ramb E & D Revenue			765.00
1-32160-0000	Ramb E & D Revenue			2,524.00
<b>Total</b>			<b>8,118.00</b>	<b>8,118.00</b>

Client: **CITY OF SUTTER CREEK**  
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Period Ending: **6/30/2011**  
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Workpaper: **Adjusting Journal Entries Report**

Account	Description	W/P Ref	Debit	Credit
<b>Adjusting Journal Entries JE # 19</b>		<b>13-8</b>		
Client Adj.				
80-14500-0000	Due From Other Governments		11,710.00	
80-34390-0000	ARSA			11,710.00
<b>Total</b>			<b>11,710.00</b>	<b>11,710.00</b>
<b>Adjusting Journal Entries JE # 21</b>		<b>13-10</b>		
Client Adj.				
44-33514-0000	POST - Peace Ofcr Standards &		153,981.00	
49-33551-0000	2107 Highway User Tax		64,767.00	
44-14500-0000	Due From Other Governments			18,524.00
44-23500-0000	Central Eureka Fund-Deferred Revenue			35,190.00
44-33523-0000	Central Eureka Fund-Federal Grant Revenue			100,267.00
49-33519-0000	Indian Gaming Revenue			64,767.00
<b>Total</b>			<b>218,748.00</b>	<b>218,748.00</b>
<b>Adjusting Journal Entries JE # 22</b>		<b>13-11</b>		
Client Adj.				
10-16230-0000	IMPROVEMENTS BUILDING		17,497.00	
10-16460-0000	A/D Sewer Collection System		188,657.00	
10-16470-0000	A/D Sewer Treatment Plant		4,287.00	
10-27500-0000	Prior Year Adjustments		1,637.00	
11-16270-0000	Sewer Treatment Plant		30,000.00	
11-16400-0000	Fixed Assets - Mach & Equip		83,348.00	
10-16260-0000	Sewer Collection System			167,436.00
10-16270-0000	Sewer Treatment Plant			5,924.00
10-16410-0000	Accum Deprec -Buildings			852.00
10-27500-0000	Prior Year Adjustments			16,645.00
10-27500-0000	Prior Year Adjustments			18,801.00
10-27500-0000	Prior Year Adjustments			21,221.00
11-16470-0000	A/D Sewer Treatment Plant			64,547.00
11-70030-1530	Improvements			30,000.00
<b>Total</b>			<b>325,426.00</b>	<b>325,426.00</b>
<b>Adjusting Journal Entries JE # 23</b>		<b>13-12</b>		
Client Adj.				
10-63063-1510	Risk Management		7,234.00	
1-63063-1060	Risk Management		18,605.00	
63-10999-0000	Cash Clearing Account		25,839.00	
63-61030-6300	Expense Pokice Dept. Allocations		25,839.00	
10-10999-0000	Cash Clearing Account			7,234.00
1-10999-0000	Cash Clearing Account			18,605.00
63-34172-0000	Fees - City Attorney Services			25,839.00
63-37106-0000	Cost Allocation-Police			18,605.00
63-37151-0000	Cost Alloction-Sewer Treatment			7,234.00
<b>Total</b>			<b>77,517.00</b>	<b>77,517.00</b>
<b>Adjusting Journal Entries JE # 24</b>		<b>13-13</b>		
Client Adj.				
1-10999-0000	Cash Clearing Account		13,598.00	
46-14500-0000	Due From Other Governments		13,598.00	
46-61025-1120	Engineering		61.00	
46-61025-1120	Engineering		5,218.00	
46-61025-1120	Engineering		8,318.00	
9-14500-0000	Due From Other Governments		1,670.00	
9-14500-0000	Due From Other Governments		4,854.00	
9-33582-0000	FED FEMA HMGP HAZMAT		50,312.00	
1-61025-1120	Engineering			13,598.00
46-10999-0000	Cash Clearing Account			13,598.00
46-23500-0000	Deferred Revenue			13,597.00
9-14500-0000	Due From Other Governments			50,312.00
9-33582-0000	FED FEMA HMGP HAZMAT			1,670.00
9-33582-0000	FED FEMA HMGP HAZMAT			4,854.00
<b>Total</b>			<b>97,629.00</b>	<b>97,629.00</b>



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Workpaper: **Adjusting Journal Entries Report**

Account	Description	W/P Ref	Debit	Credit
<b>Adjusting Journal Entries JE # 25</b>		<b>13-14</b>		
Client Adj.				
1-49999-0000	Operating Trans		28,444.00	
40-14500-0000	Due From Other Governments		11,951.00	
55-14500-0000	Due From Other Governments		21,269.00	
55-33514-0000	POST - Peace Ofcr Standards &		149,852.00	
9-10999-0000	Cash Clearing Account		28,444.00	
1-10999-0000	Cash Clearing Account			28,444.00
40-23500-0000	Deferred Revenue			1,883.00
40-23500-0000	Deferred Revenue			10,068.00
55-23500-0000	Deferred Revenue			5,289.00
55-23500-0000	Deferred Revenue			15,980.00
55-23500-0000	Deferred Revenue			149,852.00
9-39999-0000	Operating Transfers In			28,444.00
<b>Total</b>			<b>239,960.00</b>	<b>239,960.00</b>
<b>Adjusting Journal Entries JE # 26</b>		<b>13-15</b>		
Client Adj.				
10-34410-0000	Fees - Sewer Service Undist		132,686.00	
10-34410-0000	Fees - Sewer Service Undist		943,764.00	
10-11510-0000	A/R - Utility Customers			132,686.00
10-11510-0000	A/R - Utility Customers			349,224.00
10-11510-0000	A/R - Utility Customers			594,540.00
<b>Total</b>			<b>1,076,450.00</b>	<b>1,076,450.00</b>
<b>Adjusting Journal Entries JE # 27</b>		<b>13-16</b>		
Client Adj.				
10-27500-0000	Prior Year Adjustments		65,000.00	
10-69062-1520	Bad Debt Expense		42.00	
10-69062-1520	Bad Debt Expense		42.00	
10-69062-1520	Bad Debt Expense		125.00	
10-69062-1520	Bad Debt Expense		391.00	
10-69062-1520	Bad Debt Expense		1,482.00	
10-69062-1520	Bad Debt Expense		4,471.00	
10-69062-1520	Bad Debt Expense		6,805.00	
10-69062-1520	Bad Debt Expense		6,969.00	
10-69062-1520	Bad Debt Expense		10,992.00	
10-11510-0010	A/R - Utility Customers			2,482.00
10-11510-0010	A/R - Utility Customers			5,125.00
10-11510-0010	A/R - Utility Customers			8,471.00
10-11510-0010	A/R - Utility Customers			12,542.00
10-11510-0010	A/R - Utility Customers			12,542.00
10-11510-0010	A/R - Utility Customers			12,969.00
10-11510-0010	A/R - Utility Customers			13,305.00
10-11510-0010	A/R - Utility Customers			17,891.00
10-11512-0000	Allowance forBad Debts			10,992.00
<b>Total</b>			<b>96,319.00</b>	<b>96,319.00</b>
<b>Adjusting Journal Entries JE # 28</b>		<b>13-17</b>		
Client Adj.				
10-14600-0000	Due From Other Governments Long-Term		382,380.00	
1-11600-0000	A/R - Gold Rush Developer		13,031.00	
1-41040-1060	Health Benefits		11,697.00	
1-52010-1060	Gen. Supplies		346.00	
15-69075-1540	Interest Expens		5,047.00	
1-61045-1090	Planner		14,092.00	
10-14500-0000	Due From Other Governments			382,380.00
1-20200-0000	Accounts Payable			346.00
1-21711-0000	P/R - Medical Health Pay.			11,697.00
1-22500-0000	E&P Deposits			13,031.00
1-22500-0000	E&P Deposits			14,092.00
15-20200-0000	Accounts Payable			5,047.00
<b>Total</b>			<b>426,593.00</b>	<b>426,593.00</b>

Client: **CITY OF SUTTER CREEK**  
Engagement: **2011 AUDIT - CITY OF SUTTER CREEK**  
Period Ending: **6/30/2011**  
Trial Balance: **CITYWIDE DATABASE**  
Workpaper: **Adjusting Journal Entries Report**

Account	Description	W/P Ref	Debit	Credit
<b>Adjusting Journal Entries JE # 29</b>		<b>13-18</b>		
Client Adj.				
1-22501-0000	Gold Rush Golf Resort		138,292.00	
1-22504-0000	Broad Street Water Line		22,713.00	
1-27500-0000	Prior Year Adjustments		29,660.00	
1-27500-0000	Prior Year Adjustments		138,292.00	
1-32160-0000	Ramb E & D Revenue		7,084.00	
1-34140-0000	Planning Fees		6,495.00	
1-34141-0000	Fees-PD Services		8,125.00	
1-34142-0000	Fees - School Res. Officer		5,330.00	
1-36820-0000	Income - Other Revenue		85.00	
16-20340-0000	AMADOR COUNTY - SH DRAINAGE		4,500.00	
16-27500-0000	Prior Period Adjustments		31,500.00	
54-10999-0000	Cash Clearing Account		4,500.00	
1-11502-0000	A/R - Customer			20,035.00
1-11520-0000	A/R - Reimbursable E&P Costs			175,036.00
1-27500-0000	Prior Year Adjustments			161,005.00
16-10999-0000	Cash Clearing Account			4,500.00
16-20340-0000	AMADOR COUNTY - SH DRAINAGE			31,500.00
54-20340-0000	AMADOR COUNTY - SH DRAINAGE			4,500.00
<b>Total</b>			<b>396,576.00</b>	<b>396,576.00</b>
<b>Adjusting Journal Entries JE # 30</b>		<b>13-19</b>		
Client Adj.				
35-27500-0000	Prior Period Adjustment		32,712.00	
90-27500-0000	Prior Period Adjustment		25,000.00	
9-33582-0000	FED FEMA HMGP HAZMAT		29,965.00	
35-23500-0000	Deferred Revenue			32,712.00
90-11555-0000	A/R - Other			25,000.00
9-10999-0000	Cash Clearing Account			29,965.00
<b>Total</b>			<b>87,677.00</b>	<b>87,677.00</b>
<b>Adjusting Journal Entries JE # 31</b>		<b>CC-3</b>		
Entry to reverse prior year interest payable accrual.				
15-20201-0000	A/P - Interest		5,152.00	
15-69075-1540	Interest Expens			5,152.00
<b>Total</b>			<b>5,152.00</b>	<b>5,152.00</b>
<b>Adjusting Journal Entries JE # 32</b>		<b>C-1 5/</b>		
To reverse prior year entry to recognize deferred revenue in the government wide statements.				
990-31000-0000	Sales and Use Tax		32,423.00	
24-25300-0000	Unreserved Fund Balance			32,423.00
<b>Total</b>			<b>32,423.00</b>	<b>32,423.00</b>
<b>Adjusting Journal Entries JE # 33</b>		<b>C-1 5/</b>		
Entry to recognize revenue in government wide statements deferred in the governmental fund statements.				
990-27005-0000	Deferred Revenue		330,982.00	
990-31000-0000	Sales and Use Tax			2,432.00
990-33519-0000	Operating Grants and Contributions - Public Works			328,550.00
<b>Total</b>			<b>330,982.00</b>	<b>330,982.00</b>
<b>Adjusting Journal Entries JE # 34</b>		<b>TB</b>		
Eliminate Interfund Transfer				
990-39999-0000	Transfes In		53,955.00	
990-79999-0000	Transfers Out			53,955.00
<b>Total</b>			<b>53,955.00</b>	<b>53,955.00</b>
<b>Adjusting Journal Entries JE # 35</b>		<b>FS-2.2</b>		
Internal Service Fund eliminating entry.				
199-14000-0000	Due from govt activities		24,626.00	
199-27500-0000	Prior Period Adjustment		19,453.00	
990-44500-0000	Charges for Services Internal Service Fund		462,122.00	
199-44500-0000	Internal Service Fund Revenue			44,079.00
24-25300-0000	Unreserved Fund Balance			19,453.00
990-21500-0000	Due to business-type activities			24,626.00
990-31100-0000	Public Safety Internal Service Fund			17,487.00
990-54000-0000	Salaries and Benefits Internal Service Fund			133,016.00
990-54100-0000	General Services and Supplies Internal Service Fund			267,540.00
<b>Total</b>			<b>506,201.00</b>	<b>506,201.00</b>

Client: **CITY OF SUTTER CREEK**  
Engagement: **2011 AUDIT - CITY OF SUTTER CREEK**  
Period Ending: **6/30/2011**  
Trial Balance: **CITYWIDE DATABASE**  
Workpaper: **Adjusting Journal Entries Report**

Account	Description	W/P Ref	Debit	Credit
<b>Adjusting Journal Entries JE # 36</b>		<b>13-19</b>		
Client entry to adjust Edward Jones investments to Stmt 6/30/11 and clear cash accounts to match GL.				
0-10116-0000	Invest - Edward Jones		40,001.00	
1-10999-0000	Cash Clearing Account		8,358.00	
0-10300-0000	INVESTMENT FMV ADJUSTMENT			8,905.00
0-10999-0000	Cash Clearing Account			31,096.00
1-36100-0000	Income - Interest Earnings			8,358.00
<b>Total</b>			<b>48,359.00</b>	<b>48,359.00</b>
<b>Adjusting Journal Entries JE # 37</b>				
Entry to reverse client prepared triple flip accrual and entry to correct triple flip accrual.				
1-11100-0000	AR FYE Accrual		2,432.00	
1-11100-0000	AR FYE Accrual		20,285.00	
1-11100-0000	AR FYE Accrual		22,400.00	
1-23500-0000	Deferred Revenue		9,044.00	
1-11100-0000	AR FYE Accrual			9,044.00
1-23500-0000	Deferred Revenue			2,432.00
1-31930-0000	Tax - Gen'l Retail Sales			20,285.00
1-31930-0000	Tax - Gen'l Retail Sales			22,400.00
<b>Total</b>			<b>54,161.00</b>	<b>54,161.00</b>
<b>Adjusting Journal Entries JE # 38</b>		<b>13-11</b>		
Client Adj.				
10-16210-0000	Accum Deprec - Mach & Eupip		10,500.00	
10-27500-0000	Prior Year Adjustments		13,137.00	
11-16470-0000	A/D Sewer Treatment Plant		97,494.00	
10-16400-0000	Fixed Assets - Mach & Equip			23,637.00
11-16210-0000	Accum Deprec - Mach & Eupip			97,494.00
<b>Total</b>			<b>121,131.00</b>	<b>121,131.00</b>
<b>Adjusting Journal Entries JE # 39</b>		<b>13-20</b>		
Client Adj				
44-33523-0000	Central Eureka Fund-Federal Grant Revenue		39,665.00	
44-14500-0000	Due From Other Governments			39,665.00
<b>Total</b>			<b>39,665.00</b>	<b>39,665.00</b>
<b>Adjusting Journal Entries JE # 40</b>		<b>C-2.1</b>		
Entry to reverse client's entry to reverse prior year reversal of prior year JE#14 posted in error.				
1-31930-0000	Tax - Gen'l Retail Sales		15,750.00	
1-11100-0000	AR FYE Accrual			15,750.00
<b>Total</b>			<b>15,750.00</b>	<b>15,750.00</b>
<b>Adjusting Journal Entries JE # 42</b>		<b>C-5.1 G</b>		
Entry to correct A/R accrual for Main Street Bridge Grant to agree prior year eligible expenditures to A/R as of 6/30/10.				
55-14500-0000	Due From Other Governments		63,979.00	
55-23500-0000	Deferred Revenue			63,979.00
<b>Total</b>			<b>63,979.00</b>	<b>63,979.00</b>
<b>Adjusting Journal Entries JE # 43</b>		<b>C-5.1</b>		
Entry to post a prior period adjustment for grant related revenue not recognized in the prior year.				
990-33519-0000	Operating Grants and Contributions - Public Works		206,948.00	
990-33520-0000	Operating Grants and Contributions - Public Safety		79,628.00	
24-25300-0000	Unreserved Fund Balance			286,576.00
<b>Total</b>			<b>286,576.00</b>	<b>286,576.00</b>
<b>Adjusting Journal Entries JE # 44</b>				
Entry to post change investment in capital assets.				
10-25320-0000	Investment in Fixed Assets		16,539.00	
10-27200-0000	Retained Earnings-Unreserved			16,539.00
<b>Total</b>			<b>16,539.00</b>	<b>16,539.00</b>
<b>Adjusting Journal Entries JE # 45</b>		<b>C-4</b>		
Entry to reclass AWA bad debt allowance to due from governments lead to match AWA receivable,				
10-11510-0010	A/R - Utility Customers		48,100.00	
10-14501 -0000	Allowance for Bad Debts AWA			48,100.00
<b>Total</b>			<b>48,100.00</b>	<b>48,100.00</b>

Client: **CITY OF SUTTER CREEK**  
Engagement: **2011 AUDIT - CITY OF SUTTER CREEK**  
Period Ending: **6/30/2011**  
Trial Balance: **CITYWIDE DATABASE**  
Workpaper: **Adjusting Journal Entries Report**

Account	Description	W/P Ref	Debit	Credit
<b>Adjusting Journal Entries JE # 46</b>				
Entry to adjust interfund borrowing				
1-36100-0000	Income - Interest Earnings		15,119.00	
1-10999-0000	Cash Clearing Account			15,119.00
<b>Total</b>			<b>15,119.00</b>	<b>15,119.00</b>
<b>Adjusting Journal Entries JE # 47</b>				
Entry to record intergovernmental receivable between the City and the ARSA agency fund and reverse due to/from.				
39-10999-0000	Cash Clearing Account		21,374.00	
39-14500-0000	Due From Other Governments		21,374.00	
80-10999-0000	Cash Clearing Account		21,374.00	
80-20139-0000	DUE TO FUND 39		21,374.00	
39-10999-0000	Cash Clearing Account			21,374.00
39-14201-0000	DUE FROM FUND 01			21,374.00
80-10999-0000	Cash Clearing Account			21,374.00
80-21550-0000	Due to Other Governments			21,374.00
<b>Total</b>			<b>85,496.00</b>	<b>85,496.00</b>
<b>Adjusting Journal Entries JE # 48</b>				
To reclass restricted net assets for deferred revenue govt-wide entry				
24-25300-0000	Unreserved Fund Balance		517,241.00	
990-25420-0000	Fund balance-restricted			517,241.00
<b>Total</b>			<b>517,241.00</b>	<b>517,241.00</b>

CITY OF SUTTER CREEK, CALIFORNIA

Audited Financial Statements and Supplemental Information

June 30, 2011

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CITY OF SUTTER CREEK, CALIFORNIA

Audited Financial Statements and Supplemental Information

June 30, 2011

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# Richardson & Company

550 Howe Avenue, Suite 210  
Sacramento, California 95825

Telephone: (916) 564-8727  
FAX: (916) 564-8728

## INDEPENDENT AUDITOR'S REPORT

To the City Council  
City of Sutter Creek, California

We were engaged to audit the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Sutter Creek, California, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Sutter Creek, California's management.

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

As discussed in Note A to the financial statements, management has not recorded capital assets related to its governmental activities and, accordingly, has not recorded depreciation expense on those assets. Accounting principles generally accepted in the United States of America require that the governmental activities capital assets be capitalized and depreciated, which would increase the assets, net assets, and either increase or decrease expenses of the governmental activities. The amount by which these departures would affect the assets, net assets, and expenses of the governmental activities is not reasonably determinable.

The City has not adopted Governmental Accounting Standards Board Statement (GASBS) No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and accordingly has not recorded a liability for post-employment benefits. Accounting principles generally accepted in the United States of America require the liability to be recorded as of June 30, 2011, which would decrease net assets and increase expenses of the City. The amount by which this departure would affect the net assets and expenses of the City is not reasonably determinable. Disclosures required by generally accepted accounting principles related to the post-employment benefits and related liability have also been omitted.

In our opinion, because of the effects of the matter discussed in the preceding paragraphs, the financial statements referred to previously do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the governmental activities of the City of Sutter Creek as of June 30, 2011, or the changes in financial position thereof for the year then ended.

To the City Council  
City of Sutter Creek, California

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, each major fund, and the aggregate remaining fund information of the City of Sutter Creek, California, as of June 30, 2011, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the City will continue as a going concern. As discussed in Note L to the financial statements, the City has suffered recurring losses in its General Fund, which raise substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters also are described in Note L. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As discussed in Note K, correction of errors were made during the current year. Accordingly, an adjustment has been made to assets and net assets as of July 1, 2010 to correct these errors.

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on pages 9 and 10 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 basic 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Sutter Creek, California financial statements as a whole. The combining and individual nonmajor fund statements listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. Such information are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Management has omitted Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

*Richardson & Company*

November 28, 2012

## **BASIC FINANCIAL STATEMENTS**

## CITY OF SUTTER CREEK

## GOVERNMENT-WIDE STATEMENT OF NET ASSETS

As of June 30, 2011

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 1,649,910	\$ 56,408	\$ 1,706,318
Accounts receivable, net of allowance for doubtful accounts	121,879	75,589	197,468
Interest receivable	5,021	1,105	6,126
Due from other government agencies	669,752	237,159	906,911
Internal balances	26,396	(26,396)	
Total current assets	<u>2,472,958</u>	<u>343,865</u>	<u>2,816,823</u>
Noncurrent assets:			
Due from other government agencies - long term		382,380	382,380
Capital assets, net of accumulated depreciation			
Non-depreciable		621,362	621,362
Depreciable		1,851,508	1,851,508
	<u></u>	<u>2,855,250</u>	<u>2,855,250</u>
Total assets	<u>2,472,958</u>	<u>3,199,115</u>	<u>5,672,073</u>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	96,624	31,840	128,464
Accrued liabilities	47,040	18,862	65,902
Interest payable		67,553	67,553
Deposits payable	48,871	3,056	51,927
Current portion of long-term liabilities	78,929	33,608	112,537
Total current liabilities	<u>271,464</u>	<u>154,919</u>	<u>426,383</u>
Long-term liabilities:			
Notes payable		1,109,000	1,109,000
Compensated absences	4,153	1,032	5,185
Total long-term liabilities	<u>4,153</u>	<u>1,110,032</u>	<u>1,114,185</u>
Total liabilities	<u>275,617</u>	<u>1,264,951</u>	<u>1,540,568</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt		1,824,870	1,824,870
Restricted	3,879,394		3,879,394
Unrestricted	(1,682,053)	109,294	(1,572,759)
Total net assets	<u>\$ 2,197,341</u>	<u>\$ 1,934,164</u>	<u>\$ 4,131,505</u>

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

CITY OF SUTTER CREEK  
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2011

	Expenses	Program Revenues		Governmental Activities	Business-type Activities	Total
		Charges for Services	Operating Grants and Contributions			
Governmental Activities:						
General government and administrative services	\$ 175,084	\$ 102,123		\$ (72,961)		\$ (72,961)
Public safety	976,133	87,513	\$ 244,597	(644,023)		(644,023)
Culture and recreation	82,583	44,464		(38,119)		(38,119)
Public works	592,759		232,516	(360,243)		(360,243)
Community development	64,669			(64,669)		(64,669)
Total governmental activities	<u>1,891,228</u>	<u>234,100</u>	<u>477,113</u>	<u>(1,180,015)</u>		<u>(1,180,015)</u>
Business-type activities:						
Wastewater	1,118,419	1,638,815			\$ 520,396	520,396
Interest on long-term debt	32,895				(32,895)	(32,895)
Total business-type activities	<u>1,151,314</u>	<u>1,638,815</u>			<u>487,501</u>	<u>487,501</u>
Total government	<u>\$3,042,542</u>	<u>\$ 1,872,915</u>	<u>\$ 477,113</u>	<u>\$ -</u>	<u>(1,180,015)</u>	<u>487,501</u>
General revenues						
Taxes:						
Property taxes				641,411		641,411
Sales and use taxes				184,931		184,931
Transient occupancy tax				172,743		172,743
Franchise tax				54,901		54,901
Gas taxes				79,245		79,245
Motor vehicle in-lieu				9,794		9,794
Investment income				16,668	4,560	21,228
Rental income				4,837		4,837
Transportation impact fees				6,666		6,666
Miscellaneous				12,646		12,646
Total general revenues				<u>1,183,842</u>	<u>4,560</u>	<u>1,188,402</u>
Changes in net assets				3,827	492,061	495,888
Net assets - beginning, as previously reported				1,978,097	1,490,210	3,468,307
Restatement				215,417	(48,107)	167,310
Net assets - beginning, as restated				<u>2,193,514</u>	<u>1,442,103</u>	<u>3,635,617</u>
Net assets - ending				<u>\$ 2,197,341</u>	<u>\$ 1,934,164</u>	<u>\$ 4,131,505</u>

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

## CITY OF SUTTER CREEK

BALANCE SHEET  
GOVERNMENTAL FUNDS

As of June 30, 2011

	Major Funds				
	General Fund	Bypass Relinquishment Fund	Sutter Creek Bridge Replacement Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>ASSETS</b>					
Cash and cash equivalents		\$ 385,912	\$ 143,025	\$ 1,094,822	\$ 1,623,759
Accounts receivable, net of allowance for doubtful accounts	\$ 88,535			33,344	121,879
Due from other governmental agencies	220,043	40,636	235,100	173,973	669,752
Interest receivable	1,001	2,271	153	1,596	5,021
Due from other funds		2,063,740			2,063,740
<b>TOTAL ASSETS</b>	<b>\$ 309,579</b>	<b>\$ 2,492,559</b>	<b>\$ 378,278</b>	<b>\$ 1,303,735</b>	<b>\$ 4,484,151</b>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>LIABILITIES</b>					
Accounts payable	\$ 51,445		\$ 2,552	\$ 17,829	\$ 71,826
Accrued liabilities	45,242			465	45,707
Due to other funds	1,321,046			691,672	2,012,718
Deferred revenue	2,432		235,100	93,450	330,982
Deposits payable	48,871				48,871
<b>TOTAL LIABILITIES</b>	<b>1,469,036</b>		<b>237,652</b>	<b>803,416</b>	<b>2,510,104</b>
<b>FUND BALANCES</b>					
Restricted		\$ 2,492,559	140,626	966,646	3,599,831
Committed				13,660	13,660
Unassigned	(1,159,457)			(479,987)	(1,639,444)
<b>TOTAL FUND BALANCES</b>	<b>(1,159,457)</b>	<b>2,492,559</b>	<b>140,626</b>	<b>500,319</b>	<b>1,974,047</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 309,579</b>	<b>\$ 2,492,559</b>	<b>\$ 378,278</b>	<b>\$ 1,303,735</b>	<b>\$ 4,484,151</b>

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

CITY OF SUTTER CREEK

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO GOVERNMENT-WIDE STATEMENT OF NET ASSETS

As of June 30, 2011

Total Governmental Fund Balances	\$ 1,974,047
Amounts reported for governmental activities in the statement of net assets are different because:	
Certain receivables are not available to pay current period expenditures and therefore are deferred in the governmental funds	330,982
Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds balance sheet.	
Compensated absences	(83,082)
Internal service funds are used by management to charge the costs of certain activities to other funds. The assets and liabilities of the internal service funds are included in the governmental activities in the government-wide statement of net assets.	<u>(24,606)</u>
Net Assets of Governmental Activities	<u><u>\$ 2,197,341</u></u>

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

## CITY OF SUTTER CREEK

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
GOVERNMENTAL FUNDS

For the Year Ended June 30, 2011

	Major Funds			Nonmajor Governmental Funds	Total Governmental Funds
	General Fund	Bypass Relinquishment Fund	Sutter Creek Bridge Replacement Fund		
REVENUES					
Taxes and assessments	\$ 1,051,843			\$ 79,245	\$ 1,131,088
Licenses and permits	70,885				70,885
Fines and penalties	8,974				8,974
Interest and investment income	10,637			6,031	16,668
Intergovernmental revenues	184,435			275,883	460,318
Charges for services	154,080			4,126	158,206
Other revenue	13,096			6,350	19,446
TOTAL REVENUES	<u>1,493,950</u>			<u>371,635</u>	<u>1,865,585</u>
EXPENDITURES					
General government and administration	144,641				144,641
Public safety	863,475			112,658	976,133
Public works	270,668		\$ 187,317	134,721	592,706
Community development	64,669				64,669
Cultural and recreation	82,583				82,583
TOTAL EXPENDITURES	<u>1,426,036</u>		<u>187,317</u>	<u>247,379</u>	<u>1,860,732</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	67,914		(187,317)	124,256	4,853
OTHER FINANCING SOURCES (USES)					
Transfers in	25,511			28,444	53,955
Transfers out	(28,444)			(25,511)	(53,955)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(2,933)</u>			<u>2,933</u>	
NET CHANGE IN FUND BALANCES	64,981		(187,317)	127,189	4,853
Fund balances, beginning of year	(1,217,491)	\$ 2,492,559	327,943	437,342	2,040,353
Restatement	(6,947)			(64,212)	(71,159)
Fund balances, beginning of year, as restated	<u>(1,224,438)</u>	<u>2,492,559</u>	<u>327,943</u>	<u>373,130</u>	<u>1,969,194</u>
FUND BALANCES, END OF YEAR	<u>\$ (1,159,457)</u>	<u>\$ 2,492,559</u>	<u>\$ 140,626</u>	<u>\$ 500,319</u>	<u>\$ 1,974,047</u>

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



CITY OF SUTTER CREEK

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF  
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2011

Net Change in Fund Balances - Total Governmental Funds	\$ 4,853
Amounts reported for governmental activities in the statement of activities are different because:	
Some receivables are deferred in the governmental funds because the amounts do not represent current financial resources that are recognized under the accrual basis in the statement of activities.	
Deferred revenue recognized	11,983
Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	(30,443)
Internal service funds are used by management to charge the costs of certain activities to other funds. The net revenues of certain activities of internal service funds is reported with governmental activities.	<u>17,434</u>
Change in Net Assets of Governmental Activities	<u><u>\$ 3,827</u></u>

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

CITY OF SUTTER CREEK

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL (BUDGETARY BASIS) - GENERAL FUND

For the Year Ended June 30, 2011

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive/ (Negative)
	Original	Final		
Revenues:				
Taxes	\$ 1,002,149	\$ 1,002,149	\$ 1,051,843	\$ 49,694
Licenses and permits	77,133	77,133	70,885	(6,248)
Fines and penalties	7,500	7,500	8,974	1,474
Interest and investment income			10,637	10,637
Intergovernmental	55,900	55,900	184,435	128,535
Charges for services	126,700	126,700	154,080	27,380
Other revenue	8,000	8,000	13,096	5,096
Total revenues	<u>1,277,382</u>	<u>1,277,382</u>	<u>1,493,950</u>	<u>216,568</u>
Expenditures:				
Current:				
General government and administration	177,978	177,978	144,641	33,337
Public safety	783,390	783,390	863,475	(80,085)
Public works	208,055	208,055	270,668	(62,613)
Community development	71,700	71,700	64,669	7,031
Culture and recreation	104,384	104,384	82,583	21,801
Total expenditures	<u>1,345,507</u>	<u>1,345,507</u>	<u>1,426,036</u>	<u>(80,529)</u>
Excess (deficiency) of revenues over expenditures	(68,125)	(68,125)	67,914	136,039
Other financing sources (uses):				
Transfers in		4,282	25,511	21,229
Transfers out	21	21	(28,444)	(49,444)
Total other financing uses	<u>21,000</u>	<u>25,282</u>	<u>(2,933)</u>	<u>(28,215)</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	(47,125)	(42,843)	64,981	107,824
Fund balances - beginning of year	<u>(1,224,438)</u>	<u>(1,224,438)</u>	<u>(1,224,438)</u>	
Fund balances - end of year	<u>\$ (1,271,563)</u>	<u>\$ (1,267,281)</u>	<u>\$ (1,159,457)</u>	<u>\$ 107,824</u>

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

CITY OF SUTTER CREEK

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL (BUDGETARY BASIS) -  
SUTTER CREEK BRIDGE REPLACEMENT FUND

For the Year Ended June 30, 2011

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final	(Budgetary Basis)	Final Budget Positive/ (Negative)
Expenditures:				
Public works			\$ 187,317	\$ (187,317)
Total expenditures			187,317	(187,317)
Excess (deficiency) of revenues over expenditures			(187,317)	(187,317)
Fund balances - beginning of year	\$ 327,943	\$ 327,943	327,943	
Fund balances - end of year	<u>\$ 327,943</u>	<u>\$ 327,943</u>	<u>\$ 140,626</u>	<u>\$ (187,317)</u>

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

## CITY OF SUTTER CREEK

STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS

As of June 30, 2011

	Major Enterprise Fund		Total Enterprise Funds	Governmental Activities Internal Service Fund
	Wastewater Fund	Noble Ranch Golf Fund		
ASSETS				
CURRENT ASSETS				
Cash and investments	\$ 56,408		\$ 56,408	\$ 26,151
Accounts receivable, net	75,589		75,589	
Interest receivable	1,105		1,105	
Due from other governments	237,159		237,159	
TOTAL CURRENT ASSETS	370,261		370,261	26,151
NONCURRENT ASSETS				
Due from other governments - long term	382,380		382,380	
Capital assets:				
Nondepreciable	596,362	\$ 25,000	621,362	
Depreciable	1,851,508		1,851,508	
TOTAL NONCURRENT ASSETS	2,830,250	25,000	2,855,250	
TOTAL ASSETS	3,200,511	25,000	3,225,511	26,151
LIABILITIES				
CURRENT LIABILITIES				
Accounts payable	31,840		31,840	24,798
Accrued liabilities	18,862		18,862	1,333
Due to other funds		51,022	51,022	
Interest payable	67,553		67,553	
Deposits payable	3,056		3,056	
Current portion of long-term liabilities	33,608		33,608	
TOTAL CURRENT LIABILITIES	154,919	51,022	205,941	26,131
NONCURRENT LIABILITIES				
Long-term debt, due in more than one year	1,109,000		1,109,000	
Compensated absences	1,032		1,032	
TOTAL NONCURRENT LIABILITIES	1,110,032		1,110,032	
TOTAL LIABILITIES	1,264,951	51,022	1,315,973	26,131
NET ASSETS				
Invested in capital assets, net of related debt	1,799,870	25,000	1,824,870	
Unrestricted	135,690	(51,022)	84,668	20
TOTAL NET ASSETS	\$ 1,935,560	\$ (26,022)	1,909,538	\$ 20
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds			24,626	
NET ASSETS OF BUSINESS-TYPE ACTIVITIES			\$ 1,934,164	

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

## CITY OF SUTTER CREEK

STATEMENT OF REVENUES, EXPENSES  
AND CHANGES IN FUND BALANCES - PROPRIETARY FUNDS

For the Year Ended June 30, 2011

	Major Enterprise Fund			Governmental Activities
	Wastewater Fund	Noble Ranch Golf Fund	Total Enterprise Funds	Internal Service Fund
OPERATING REVENUES				
Service charges	\$ 1,594,736		\$ 1,594,736	\$ 462,122
TOTAL OPERATING REVENUES	<u>1,594,736</u>		<u>1,594,736</u>	<u>462,122</u>
OPERATING EXPENSES				
Salaries and benefits	275,336		275,336	133,016
Operation and maintenance	745,651		745,651	267,540
Depreciation	97,432		97,432	
TOTAL OPERATING EXPENSES	<u>1,118,419</u>		<u>1,118,419</u>	<u>400,556</u>
OPERATING INCOME (LOSS)	<u>476,317</u>		<u>476,317</u>	<u>61,566</u>
NONOPERATING REVENUES (EXPENSES)				
Interest income	4,560		4,560	
Interest expense	(32,895)		(32,895)	(53)
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>(28,335)</u>		<u>(28,335)</u>	<u>(53)</u>
CHANGE IN NET ASSETS	447,982		447,982	61,513
Net assets, beginning of year, as previously reported	1,510,685	\$ (1,022)	1,509,663	(61,493)
Restatements	(23,107)	(25,000)	(48,107)	
Net assets, beginning year, as restated	<u>1,487,578</u>	<u>(26,022)</u>	<u>1,461,556</u>	<u>(61,493)</u>
NET ASSETS, END OF YEAR	<u>\$ 1,935,560</u>	<u>\$ (26,022)</u>	<u>1,909,538</u>	<u>\$ 20</u>
Change in net assets			\$ 447,982	
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds			<u>44,079</u>	
CHANGE IN NET ASSETS OF BUSINESS-TYPE ACTIVITIES			<u>\$ 492,061</u>	

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

CITY OF SUTTER CREEK  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS

For the Year Ended June 30, 2011

	Major Enterprise Fund			Governmental Activities
	Wastewater Fund	Noble Ranch Golf Fund	Total Enterprise Funds	Internal Service Fund
Cash Flows from Operating Activities:				
Cash received from customers	\$ 1,370,605		\$ 1,370,605	\$ 462,122
Cash paid to suppliers	(770,424)		(770,424)	(266,530)
Cash paid to employees and related benefits	(238,641)		(238,641)	(133,016)
Cash provided by operating activities	<u>361,540</u>		<u>361,540</u>	<u>62,576</u>
Cash Flows from Noncapital Financing Activities:				
Amounts received (paid) to other funds	<u>(264,266)</u>		<u>(264,266)</u>	<u>(36,425)</u>
Cash provided by noncapital financing activities	<u>(264,266)</u>		<u>(264,266)</u>	<u>(36,425)</u>
Cash Flows from Capital and Related Financing Activities				
Debt principal paid	(14,000)		(14,000)	
Interest paid	<u>(31,031)</u>		<u>(31,031)</u>	
Cash used for capital and related financing activities	<u>(45,031)</u>		<u>(45,031)</u>	
Cash Flows from Investing Activities				
Interest received	<u>4,165</u>		<u>4,165</u>	
Increase in cash and cash equivalents	56,408		56,408	26,151
Cash and cash equivalents, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Cash and cash equivalents, end of year	<u>\$ 56,408</u>	<u>\$ -</u>	<u>\$ 56,408</u>	<u>\$ 26,151</u>
Reconciliation of operating income from operations to cash provided by operating activities:				
Operating income	\$ 476,317		\$ 476,317	\$ 61,566
Adjustments to reconcile operating income to cash provided by operating activities:				
Depreciation	97,432		97,432	
Provision for bad debts	31,370		31,370	
(Increase) decrease in assets:				
Accounts receivable	(55,663)		(55,663)	
Due from other governments	(168,468)		(168,468)	
(Decrease) increase in liabilities:				
Accounts payable	(19,558)		(19,558)	4,584
Accrued expenses	(5,215)		(5,215)	(3,574)
Accrued compensated absences	<u>5,325</u>		<u>5,325</u>	
Cash provided by operating activities	<u>\$ 361,540</u>	<u>\$ -</u>	<u>\$ 361,540</u>	<u>\$ 62,576</u>

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

CITY OF SUTTER CREEK  
STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS

As of June 30, 2011

	<u>Agency Funds</u>
ASSETS	
Cash and investments	\$ 49,308
Due from other governments	<u>82,640</u>
TOTAL ASSETS	<u>\$ 131,948</u>
LIABILITIES	
Accounts payable	\$ 15,970
Deposits payable	1,163
Due to other governments	40,636
Other accrued liabilities	1,625
Agency obligations	<u>72,554</u>
TOTAL LIABILITIES	<u>\$ 131,948</u>

The accompanying notes are an integral part of this statement.

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## **NOTES TO THE BASIC FINANCIAL STATEMENTS**

CITY OF SUTTER CREEK, CALIFORNIA  
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2011

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Sutter Creek was incorporated in 1913, under the laws and regulations of the State of California. The City operates under a Council-Manager form of government and provides the following services: public safety, highways and streets, sewer, culture-recreation, public improvements, planning and zoning, and general administrative services. The voters of the City of Sutter Creek, California, give authority and responsibility for operations to the City Council. The City Council has the authority to employ administrative and support personnel to carry out its directives. The primary method used to monitor the performance of the City's management is the financial budget, which is adopted annually by the City Council.

The financial statements of the City have been prepared in accordance with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. On June 15, 1987, the GASB issued a codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. The City applies all GASB pronouncements. In addition the City applies all Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions and Accounting Research Bulletins (ARB) issued on or before November 30, 1989, unless they conflict with or contradict GASB pronouncements. The more significant of these accounting policies are described below and, where appropriate, subsequent pronouncements will be referenced.

Reporting Entity: The City operates as a self-governing local government unit within the state of California. It has limited authority to levy taxes and has the authority to determine user fees for the services that it provides. Voters elect a city council that passes laws and determines broad policies. The Council also oversees the operations of the City and approves all budgets, fund transfers and fund balance reserves. The City's main funding sources include property taxes, sales taxes, other intergovernmental revenue from state and federal sources, user fees, and federal and state financial assistance.

Government-wide and Fund Financial Statements: The government-wide financial statements (i.e., the statement of net assets and statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. 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 and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Certain indirect costs are included in the program expenses of most business-type activities. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

CITY OF SUTTER CREEK, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2011

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The accounts of the City are organized on the basis of funds. A fund is a separate self-balancing set of accounts. Each fund was established for the purpose of accounting for specific activities in accordance with applicable regulations, restrictions or limitations. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the last is excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Basis of Presentation: The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary funds financial statements and fiduciary fund statements, with the exception of agency funds, which have no measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements are met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 90 days of the end of the current fiscal period with the exception of grant-related government voluntary nonexchange revenue. The City considers grant related government voluntary nonexchange revenues to be available if they are collected within 365 days of the end of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments are recorded only when payment is due.

Major revenues that are determined to be susceptible to accrual include property taxes and assessments, sales taxes, franchise taxes, charges for services, intergovernmental revenues, and earnings on investments. Sales taxes collected and held by the state at year end on behalf of the government are also recognized as revenue. Other receipts and taxes become measurable and available when cash is received by the government and are recognized as revenue at that time. Entitlements and shared revenues (government mandated nonexchange transactions) are recognized when the City has satisfied all applicable eligibility requirements and if the amounts are measurable. If the grant funds are received before the revenue recognition criteria are satisfied, the unearned amounts are reported as deferred revenue.

The City reports the following major governmental funds:

General Fund – The General Fund is the primary operating fund of the City. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Bypass Relinquishment Fund – The Bypass Relinquishment Fund is used to account for costs associated with bringing a portion of the original State Route 49 relinquished to the City to a state of good repair.

CITY OF SUTTER CREEK, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2011

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Sutter Creek Bridge Replacement Fund – The Sutter Creek Bridge Replacement Fund is for resources received to reconstruct the Sutter Creek Bridge.

The City reports the following major enterprise funds:

Wastewater Fund – The Wastewater Operations Fund is used to account for sewer collection system and pollution control plant operations including major repair and replacement of the City's pollution control plant facilities.

Additionally, the City reports the following fund types:

*GOVERNMENTAL FUNDS*

Special Revenue Funds – Special Revenue Funds are used to account for the proceeds of specific revenue sources (not including private purpose trusts or major capital projects) that are legally restricted to expenditures for specified purposes.

Capital Projects Funds: Capital Funds are used to account for financial resources used for the acquisition or construction of major capital facilities.

*PROPRIETARY FUNDS*

Enterprise Funds – Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Internal Service Funds – Internal Service Funds are used to account for the financing of services provided by one city department to other departments on a cost reimbursement basis.

Fiduciary Funds

Agency Funds – Agency Funds account for assets held by the City in a purely custodial capacity. Agency Funds typically involve only the receipt, temporary investment and remittance of fiduciary resources to individuals, private organizations or other governments.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principle operating revenues of the City's enterprise funds and internal service funds are charges to customers or other funds for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

CITY OF SUTTER CREEK, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2011

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents: The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition, including the City's investment in California Local Agency Investment Fund (LAIF). Highly liquid money market investments with maturities of one year or less at time of purchase are stated at amortized cost.

Receivables and Payables: Property, sales, use, franchise, gas and transient occupancy taxes related to the current fiscal year are accrued as revenue and accounts receivable and considered available if received within 90 days of year end. Federal and State grants are considered receivable and accrued as revenue when reimbursable costs are incurred if received within 365 days of year-end. The amount recognized as revenue under the modified accrual basis of accounting is limited to the amount that is deemed measurable and collectible.

Transactions between funds that represent lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." Eliminations have not been made between or within the fund types.

The City has provided an allowance for doubtful accounts of \$85,328 at June 30, 2011 primarily related to its wastewater operations estimated by the City to be uncollectible.

Property Taxes: The County of Amador (the County) is responsible for the collection and allocation of property taxes. Under California law, property taxes are assessed and collected by the County up to 1% of the full cash value of taxable property, plus other increases approved by the voters and distributed in accordance with statutory formulas. The City recognizes property taxes when the individual installments are due provided they are collected within 90 days after year end. Secured property taxes are levied on or before January 1 of each year. They become a lien on real property on January 1. These taxes are paid 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. Secured property taxes, which are delinquent and unpaid as of June 30, are declared to be tax defaulted and are subject to redemption penalties, costs and interest when paid. These taxes are secured by liens on the property being taxed.

The term "unsecured" refers to taxes on personal property other than land and buildings. Property tax revenues are recognized in the fiscal year for which they are levied, provided they are due and collected within sixty days after fiscal year-end. The County apportions secured property tax revenue in accordance with the alternate methods of distribution, the "Teeter Plan," as prescribed by Section 4717 of the California Revenue and Taxation code. Therefore, the City receives 100% of the secured property tax levies to which it is entitled, whether or not collected. Unsecured delinquent taxes are considered fully collectible.

These taxes are accrued as intergovernmental receivables only if they are received from the County within 90 days after year end for the governmental funds and are accrued when earned for government-wide presentation regardless of the timing of the related cash flows.

# CITY OF SUTTER CREEK, CALIFORNIA

## NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2011

### NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets: Cost records are not maintained for governmental capital assets in accordance with generally accepted accounting principles. Because cost records for governmental capital assets are not available, amounts for these assets are not reflected in these financial statements. Capital assets for governmental fund types of the City are not capitalized in the funds used to acquire or construct them. Capital acquisitions are to be reflected as expenditure in the governmental fund, and the related assets are to be reported in the government-wide financial statements at historical cost or estimated historical cost if purchased or constructed. Contributed capital assets are to be recorded at their estimated fair market value on the date donated. At June 30, 2011, the City had not recorded donated assets.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not included in the additions to capital assets. Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	10 to 50 years
Wastewater facilities and treatment plant	25 to 50 years
Machinery and equipment	5 to 20 years

It is the policy of the City to capitalize all land, building, improvements, equipment, and eventually infrastructure assets, except assets costing less than \$5,000. Interest incurred during the construction phase of capital assets of business-type activities is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period. Costs of assets sold or retired (and related amounts of accumulated depreciation) are eliminated from the amounts in the year of sale or retirement and the resulting gain or loss is included in the operating statement of the related proprietary fund. In governmental funds, the sale of general capital assets is included in the statement of revenues, expenditures and changes in fund balances as proceeds from sale. The proceeds reported in the governmental fund are eliminated and the gain or loss on sale is reported in the government-wide presentation.

Deferred and Unearned Revenues: Unearned revenues arise when resources are received by the City before it has legal claim to them (i.e., when grant monies are received prior to the incurrence of qualifying expenditures). Deferred revenues in governmental funds arise when a potential revenue source does not meet both the "measurable" and "available" criteria for recognition in the current period. Revenues deferred because they were not received in the availability period are recognized for the government-wide presentation.

Compensated Absences: It is the City's policy to permit employees to accumulate earned but unused vacation, compensatory time off and administrative leave. Vacation is accrued when incurred in the government-wide presentation and in the proprietary funds and reported as a fund liability. Amounts that are expected to be liquidated with expendable available financial resources, for example, as a result of employee resignations or retirements that are currently payable, are reported as expenditures and a fund liability of the governmental fund that will pay it. Amounts not expected to be liquidated with expendable available financial resources represent a reconciling item between the fund and government-wide presentation. No expenditure is reported in the governmental fund financial statements for these amounts. The General Fund is used to liquidate compensated absences.

CITY OF SUTTER CREEK, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2011

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Long-term Obligations: Long-term debt of governmental funds are reported at face value in the government-wide financial statements and represent a reconciling item between the fund and government-wide presentation. Certain other governmental fund obligations not expected to be financed with current available financial resources are also reported in the government-wide financial statements and represent a reconciling item between the fund and government-wide presentation. Long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate funds.

For governmental fund types, proceeds from borrowing are reported as an other financing source net of the applicable premium or discount. Issuance costs, even if withheld from the actual net proceeds received, are reported as debt service expenditures.

Fund Equity: In the fund financial statements, governmental funds report nonspendable, restricted, committed, assigned and unassigned balances.

Nonspendable Funds – Fund balance should be reported as nonspendable when the amounts cannot be spent because they are either not in spendable form, or are legally or contractually required to be maintained intact. Nonspendable balances are not expected to be converted to cash within the next operating cycle, which comprise pre-paid items and long-term receivables. The City does not have any nonspendable funds.

Restricted Funds – Fund balance should be reported as restricted when constraints placed on the use of resources are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation.

Committed Funds – Fund balance should be reported as committed when the amounts can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority. These amounts cannot be used for any other purpose unless the City Council modifies, or removes the fund balance commitment.

Assigned Funds – Fund balance should be reported as assigned when the amounts are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed.

Unassigned Funds – Unassigned fund balance is the residual classification of the City's funds and includes all spendable amounts that have not been restricted, committed, or assigned to specific purposes.

The City's committed, assigned, or unassigned amounts are considered to have been spent when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classification could be used.

Net Assets: The government-wide financial statements utilize a net assets presentation. Net assets are categorized as invested capital assets (net of related debt), restricted and unrestricted.

Invested in Capital Assets, Net of Related Debt – This category groups all capital assets into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.

## CITY OF SUTTER CREEK, CALIFORNIA

## NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2011

## NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted Net Assets – This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Assets – This category represents net assets of the City not restricted for any project or other purpose.

Use of Estimates: The preparation of the 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 expenses during the reporting period. Actual results could differ from those estimates.

Budgetary Information: The City Council annually adopts the budget resolution for all operating funds of the City. Budgetary control is legally maintained at the fund level. Department heads submit budget requests to the City Administrator. The Administrator prepares an estimate of revenues and prepares recommendations for the next year's budget. The preliminary budget may or may not be amended by the City Council and is adopted by resolution by the City Council on or before June 30.

All budget amounts presented in the accompanying financial statements have been adjusted for legally authorized revisions of the annual budgets during the year. Appropriations, except open project appropriations, and unexpended grant appropriations, lapse at the end of each fiscal year. Amounts shown in the financial statements represent the original budgeted amounts and all supplemental appropriations. The supplemental appropriations were immaterial. The budgetary data is prepared on the modified accrual basis consistent with the related "actual" amounts. The City does not use encumbrance accounting.

Excess Expenditures Over Appropriations: The following funds had excess expenditures over appropriations:

Fund	Appropriations	Total Expenditures	Excess Expenditures
General Fund	\$ 1,338,507	\$ 1,426,036	\$ (87,529)
Major Special Revenue Fund:			
Sutter Creek Bridge Replacement Fund		187,317	(187,317)
Nonmajor Special Revenue Funds:			
Traffic Enhancement Activity Fund		2,093	(2,093)
Traffic Mitigation		4,279	(4,279)
Crestview Lighting District Fund		533	(533)
Local Transportation Commission Fund		1	(1)
HMGP-HAZMAT Grant Fund		51,312	(51,312)
Central Eureka Mine Project Fund		14,620	(14,620)
Badger Street Bridge Fund		13,597	(13,597)
SB 621 Gaming Grant	5,652	13,142	(7,490)



## CITY OF SUTTER CREEK, CALIFORNIA

## NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2011

## NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deficit Fund Equity: The following funds have fund deficits at June 30, 2011:

Fund	Deficit
General Fund	\$ (1,159,457)
Nonmajor Special Revenue Funds:	
Hazard Mitigation Grant Program Fund	(64,760)
Caltrans Street Fund	(38,481)
AB1600 Fund	(16,040)
Central Eureka Mine Project Fund	(101,954)
Badger Street Bridge Fund	(13,597)
Police Grants Fund	(465)
HOME Grant Fund	(5,513)
Community Center Grant Fund	(148,799)
General Plan Update Fund	(76,985)
RDA Formation Fund	(13,393)
Nonmajor Enterprise Fund:	
Noble Ranch Golf Fund	(26,022)

The deficits of these Funds, except for the General Fund, are anticipated to be eliminated with additional impact fees or intergovernmental revenues. See Note L for additional information on the General Fund deficit.

New Pronouncements: In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement amends the net assets reporting requirements of Statement No. 34 by incorporating deferred inflows and outflows into the definitions of the required components of residual measure and by renaming that measure as net position, rather than net assets. The provisions of the Statement are effective for periods beginning after December 15, 2011.

In March 2012, the GASB issued Statement No. 65, *Items Previously Reporting as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows and inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows or inflows of resources, certain items that were previously reported as assets and liabilities. The provisions of this Statement are effective for periods beginning after December 15, 2012.

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. This Statement requires governments providing defined benefit pension plans to recognize their long-term obligation for pension benefits as a liability on the statement of net position and to more comprehensively and comparably measure the annual costs of pension benefits. This Statement will require the City to record a liability and expense equal to their proportionate share of the collective net pension liability and expense for the PERS plan. This Statement requires the use of the entry age normal method to be used with each period's service cost determined as a level percentage of pay and requires certain other changes to compute the pension liability and expense. This Statement also requires revised and new note disclosures and required supplementary information (RSI) to be reported by employers. The provisions of this Statement are effective for periods beginning after June 15, 2014.

## CITY OF SUTTER CREEK, CALIFORNIA

## NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2011

## NOTE B – CASH AND INVESTMENTS

The City follows the practice of pooling cash and investments of all funds. Cash represents cash on hand, demand deposits in the bank and amounts invested in the State of California Local Agency Investment Fund (LAIF). Cash and investments at June 30, 2011 are classified in the accompanying financial statements as follows:

	Governmental Activities	Business Activities	Fiduciary Funds	Total
Cash and cash equivalents	\$ 1,649,910	\$ 56,408	\$ 49,308	\$ 1,755,626
	<u>\$ 1,649,910</u>	<u>\$ 56,408</u>	<u>\$ 49,308</u>	<u>\$ 1,755,626</u>

As of June 30, 2011, the City's cash and investments consisted of the following:

Cash on hand	\$ 1,010
Deposits in financial institutions	1,246,097
Total cash	<u>1,247,107</u>
Investments in Local Agency Investment Fund (LAIF)	370,462
Held by fiscal agent:	
U.S. Agency securities	138,057
Total investments	<u>508,519</u>
Total cash and investments	<u>\$ 1,755,626</u>

Investment policy: California statutes authorize cities to invest idle or surplus funds in a variety of credit instruments as provided for in the California Government Code, Section 53600, Chapter 4 - Financial Affairs. The table below identifies the investment types that are authorized for the City by 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.

	Maximum Maturity	Maximum Percentage Of Portfolio	Maximum Investment In One Issuer
U.S. Treasury obligations	2 years	None	None
U.S. Agency securities	2 years	50%	None
Local agency bonds	2 years	50%	None
Certificates of deposit	2 years	50%	None
LAIF	N/A	None	None

The City did not comply with the provisions of California Government Code (or the City's investment policy, where more restrictive) pertaining to the types of investments held, institutions in which deposits were made and security requirements. The City will continue to monitor compliance with applicable statutes pertaining to public deposits and investments.

## CITY OF SUTTER CREEK, CALIFORNIA

## NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2011

## NOTE B – CASH AND INVESTMENTS (Continued)

At June 30, 2011, all of the City's investments, totaling \$138,057, have maturities that exceeded the California Government Code maturity limit of five years and the City's maturity limit of two years.

**Interest Rate Risk:** Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The City's investment in LAIF has an average maturity of 237 days.

Due to Other Funds	Total	Remaining Maturity (in Months)			
		12 Months or Less	13 to 24 Months	25 to 60 Months	More than 60 Months
LAIF	\$ 370,462	\$ 370,462			
U.S. Agency Securities	138,057				\$ 138,057
	<u>\$ 508,519</u>	<u>\$ 370,462</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 138,057</u>

**Credit Risk:** Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the City's investment policy, and the actual ratings as of year-end for each investment type.

Due to Other Funds	Minimum Legal Rating	Total	Ratings as of Year End	Not Rated
			AAA	
LAIF	N/A	\$ 370,462		\$ 370,462
U.S. Agency Securities	AAA	138,057	\$ 138,057	
		<u>\$ 508,519</u>	<u>\$ 138,057</u>	<u>\$ 370,462</u>

**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 deposits or will not be able to recover collateral securities that are in the possession of an outside 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, other than the following provision for deposits: The California Governmental Code requires that a financial institution secure 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 governmental unit). The market 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 public agency deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. At June 30, 2011, the carrying amount of the City's deposits was \$1,246,097, and the bank balance was \$1,359,900. Of the bank balance, \$250,000 was covered by federal depository insurance, and \$1,109,900 was collateralized with securities held by the pledging financial institution at 110% of the deposits, in accordance with the State of California Government Code, but not in the City's name.

## CITY OF SUTTER CREEK, CALIFORNIA

## NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2011

## NOTE B – CASH AND INVESTMENTS (Continued)

Investment in LAIF: LAIF is stated at amortized cost, which approximates fair value. The LAIF is a special fund of the California State Treasury through which local governments may pool investments. The total fair value amount invested by all public agencies in LAIF is \$66,489,270,508 managed by the State Treasurer. Of that amount, 5.01% is invested in structured notes and asset-backed securities. The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by State Statute. The fair value of the City's investment in this pool is reported in the accompanying financial statements at amounts based upon the City's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

## NOTE C – INTERFUND TRANSACTIONS

Interfund balances at June 30, 2011 were as follows:

	Due from Other Funds Bypass Relinquishment Fund
<u>Due to Other Funds</u>	
General Fund	\$ 1,321,046
Non-major Special Revenue Funds	691,672
Non-Major Enterprise Fund	51,022
	<u>\$ 2,063,740</u>

The remaining interfund transactions resulted from the time lag between the dates that (1) Interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Transfers during the year ended June 30, 2011 were as follows:

	<u>Transfers in</u>		
	General Fund	Nonmajor Special Revenue Fund	Total
<u>Transfers Out</u>			
Nonmajor Special Revenue Fund	\$ 25,511		\$ 25,511
General Fund		\$ 28,444	28,444
	<u>\$ 25,511</u>	<u>\$ 28,444</u>	<u>\$ 53,955</u>

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them.

## CITY OF SUTTER CREEK, CALIFORNIA

## NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2011

## NOTE D – CAPITAL ASSETS

Business-type capital assets activities for the year ended June 30, 2011 was as follows:

	Restated Balance at June 30, 2010	Additions	Retirements	Transfers/ Adjustments	Balance at June 30, 2011
Capital assets, not being depreciated:					
Land	\$ 596,362				\$ 596,362
Construction in progress	25,000				25,000
Total capital assets, not being depreciated	621,362				621,362
Capital assets, being depreciated:					
Buildings and improvements	328,791				328,791
Wastewater facilities	2,169,275				2,169,275
Sewer treatment plant	1,722,785				1,722,785
Machinery and equipment	124,561				124,561
Total capital assets, being depreciated	4,345,412	-	-	-	4,345,412
Less accumulated depreciation for:					
Buildings and improvements	(312,146)	(3,163)			(315,309)
Wastewater facilities	(1,199,979)	(40,315)			(1,240,294)
Sewer treatment plant	(792,237)	(48,570)			(840,807)
Machinery and equipment	(92,110)	(5,384)			(97,494)
Total accumulated depreciation	(2,396,472)	(97,432)	-	-	(2,493,904)
Capital assets being depreciated, net	1,948,940	(97,432)	-	-	1,851,508
BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS, NET	\$ 2,570,302	\$ (97,432)	\$ -	\$ -	\$ 2,472,870

All of the depreciation expense for business-type capital assets was charged to the wastewater function.

## NOTE E – LONG-TERM LIABILITIES

	Balance June 30, 2010	Additions	Payments	Balance June 30, 2011	Due Within One Year
Governmental Activities:					
Compensated absences	\$ 70,861	\$ 38,489	(26,268)	\$ 83,082	\$ 78,929
Governmental activities long-term liabilities	\$ 73,708	\$ 38,489	\$ (26,268)	\$ 83,082	\$ 78,929
Business-Type Activities:					
Loan payable to USDA	\$ 687,000		\$ (14,000)	\$ 673,000	\$ 14,000
Loan payable to ARSA	450,000			450,000	
Compensated absences	15,315	\$ 13,990	(8,665)	20,640	19,608
Business-type activities long-term liabilities	\$ 1,152,315	\$ 13,990	\$ (22,665)	\$ 1,143,640	\$ 33,608

## CITY OF SUTTER CREEK, CALIFORNIA

## NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2011

## NOTE E – LONG-TERM LIABILITIES (Continued)

U.S. Department of Agriculture (USDA) Loan Payable: Long-term debt of the City's business-type activities consists of a loan payable to the USDA Rural Development to finance certain capital improvements to City's sewer collection system. Principal payments are due annually on May 1. Interest payments, at an interest rate of 4.5%, are due semi-annually on November 1 and May 1. The scheduled annual minimum debt service requirements at June 30, 2011 are as follows:

June 30	Principal	Interest	Total
2012	\$ 14,000	\$ 30,285	\$ 44,285
2013	15,000	29,655	44,655
2014	15,000	28,980	43,980
2015	16,000	28,305	44,305
2016	17,000	27,585	44,585
2017-2021	96,000	125,920	221,920
2022-2026	120,000	102,150	222,150
2027-2031	150,000	72,630	222,630
2032-2036	187,000	35,685	222,685
2037	43,000	1,935	44,935
Totals	<u>\$ 673,000</u>	<u>\$ 483,130</u>	<u>\$ 1,156,130</u>

Amador Regional Sanitation Authority (ARSA) Loan Payable: The City of Sutter Creek participates as a one of three members of the Amador Regional Sanitation Authority (ARSA). This joint powers authority, comprised of the City of Sutter Creek, the City of Amador City and the County of Amador, serves its members by facilitating and acquiring items needed for the disposal and discharging of treated effluent generated by its member agencies. A five member board, consisting of two County Supervisors, two Sutter Creek City Councilmembers and one Amador City Councilmember, holds regularly scheduled monthly meetings.

In March 2006, the City of Sutter Creek and ARSA jointly funded the acquisition of an easement costing \$750,000. The easement provides for the eventual delivery of effluent (pipeline easement) to a spray field for the discharging of partially treated effluent. These facilities are to provide additional effluent disposal areas for ARSA. The timing of this development is unknown at this time (see Note J disclosure on developer agreement). The agreement with ARSA calls for the construction of a pipeline along the easement and for the proper discharge of effluent once the Gold Rush Golf development occurs. The City's agreement with Gold Rush Golf calls for the construction of the pipeline by the developer.

The City provided \$300,000 of the funding of the easement while ARSA provided the remaining \$450,000. The purchase agreement calls for the City to reimburse ARSA the principal of \$450,000 plus interest at the State Treasurer's LAIF rate. Principal amounts are scheduled as follows:

\$50,000 due on June 30, 2008  
 \$50,000 due on June 30, 2009  
 \$50,000 due on June 30, 2010  
 \$100,000 due on June 30, 2011  
 \$100,000 due on June 30, 2012  
 \$100,000 due on June 30, 2013

## CITY OF SUTTER CREEK, CALIFORNIA

## NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2011

## NOTE E – LONG-TERM LIABILITIES (Continued)

Since the existing ARSA system is adequate at this time and economic conditions currently exist preventing the development of the Gold Rush Golf development, the pipeline and spray field easement is not needed. For this reason, the City has requested a delay from ARSA in the repayment schedule. The most recent deferral approved by ARSA grants the City a delay until August 2012. If the Gold Rush Golf development does not occur, the City intends to use sewer connection fees and sewer rate charges for making the repayments to ARSA. The City has recorded a liability for this repayment in its Sewer Fund.

## NOTE F – NET ASSETS AND FUND BALANCE

The following are the purposes for which net assets are restricted:

	<u>Governmental Activities</u>
Relinquished State Highway 49 projects	\$ 3,068,285
Street and bridge projects	696,279
Public safety projects	87,536
Community projects	26,895
Traffic mitigation projects	<u>399</u>
	<u><u>\$ 3,879,394</u></u>

The following are the components of the Governmental Funds fund balances:

	<u>General</u>	<u>Bypass Relinquishment</u>	<u>Sutter Creek Bridge Replacement</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Restricted for:					
Relinquished State Highway 49		\$ 2,492,559	140,626	\$ 200,000	\$ 2,833,185
Street and bridge projects				651,816	651,816
Public safety projects				87,536	87,536
Community projects				26,895	26,895
Traffic mitigation projects				399	399
Total Restricted	<u>-</u>	<u>2,492,559</u>	<u>140,626</u>	<u>966,646</u>	<u>3,599,831</u>
Committed for:					
Cemetery				13,660	13,660
Total Committed	<u>-</u>	<u>-</u>	<u>-</u>	<u>13,660</u>	<u>13,660</u>
Unassigned	<u>\$ (1,159,457)</u>			<u>(479,987)</u>	<u>(1,639,444)</u>
Total fund balances	<u><u>\$ (1,159,457)</u></u>	<u><u>\$ 2,492,559</u></u>	<u><u>\$ 140,626</u></u>	<u><u>\$ 500,319</u></u>	<u><u>\$ 1,974,047</u></u>

CITY OF SUTTER CREEK, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2011

NOTE G – DEFINED BENEFIT PENSION PLAN

Plan Description: The City contributes to the California Public Employees Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. All permanent full and part time City employees working at least 1,000 hours per year are eligible to participate in PERS. Under PERS, benefits vest after five years of service. Upon retirement, participants are entitled to an annual retirement benefit, payable for life, in an amount equal to a benefit factor multiplied by their highest average monthly salary over twelve consecutive months of employment. Benefit provisions and all other requirements are established by state statute. The establishment and amendment of specific benefit provisions of the plan is authorized by resolution of the City Council. PERS requires plans with less than 100 active participants to participate in risk pools. The City participated in the Miscellaneous 3.0% at 60 Risk Pool and the Safety 3.0% at 50 Risk Pool for the year ended June 30, 2011. Copies of the PERS annual financial report and pertinent past trend information may be obtained from their Executive Offices at 400 P Street, Sacramento, CA 95814.

Funding Policy: Active plan members in the PERS plans are required to contribute 8%, (9% for safety employees) of their annual covered salary. The City is required to contribute at an actuarially determined rate. The current rate is 21.390% for safety employees and 20.200% for non-safety employees of the annual covered payroll. The City makes the contributions required of City employees on their behalf and for their account, which amounted to \$58,648 for the year ended June 30, 2011. The contribution requirement of plan members and the City are established and may be amended by PERS. The City's contributions for the years ended June 30, 2011, 2010 and 2009 were \$148,378, \$196,280 and \$334,241, respectively, which were equal to the required contributions for each year.

NOTE H – INSURANCE

The City is a member of the Central San Joaquin Valley Risk Management Authority (CSJVRMA). CSJVRMA is a joint powers authority organized in accordance with Article 1, Chapter 5, Division 7, Title I of the California Government Fund Programs. The purpose is to create a common pool of funds to be used to meet obligations of the parties to provide workers' compensation benefits for their employees and to provide liability insurance. CSJVRMA provides claims processing administrative services, risk management services and actuarial studies. The City Council does not have significant oversight responsibility, since they evenly share all factors of responsibility with other agencies. The City does not retain the risk of loss. However, ultimate liability for payment of claims and insurance premiums resides with member agencies. CSJVRMA is empowered to make supplemental assessments as needed to eliminate deficit positions of member agencies. If CSJVRMA becomes insolvent, the City is responsible only to the extent of any deficiency in its equity balance. CSJVRMA establishes claims liabilities based on estimates of the ultimate cost of claims (including future claims settlement expenses) that have been reported but not settled, plus estimates of claims that have been incurred but not reported. Because actual claims costs depend on various factors, the claims liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claim frequency, and other economic and social factors. A provision for inflation is implicit in the calculation of estimated future claims costs. Adjustments to claims liabilities are charged or credited to expense in the periods in which they are made. The audited financial statements of the CSJVRMA are available at the CSJVRMA's office.



## CITY OF SUTTER CREEK, CALIFORNIA

## NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2011

## NOTE H – INSURANCE (Continued)

The City's insurance coverage and the respective coverage providers are as follows:

Amount	Coverage provider	Payment Source
<i>LIABILITY CLAIMS:</i>		
- \$ 10,000	Self-insured	City funds
\$ 10,001 - \$ 1,000,000	Central San Joaquin Valley Risk Management	Shared risk pool
\$ 1,000,000 - \$ 15,000,000	California Joint Powers Risk Management Authority	Excess pool
<i>WORKERS' COMPENSATION:</i>		
- \$ 10,000	Self-insured	City funds
\$ 10,001 - \$ 350,000	Central San Joaquin Valley Risk Management	Shared risk pool
\$ 350,001 Statutory Limit	California State Association of Counties Excess Workers' Compensation	Excess pool

There have been no significant reductions in insurance coverage from coverage in the prior fiscal year. Also, settled claims have not exceeded insurance coverage for the past three fiscal years.

## NOTE I – RELINQUISHMENT AGREEMENT, HIGHWAY 49 BYPASS

The City entered into an agreement on March 17, 2003 with the State of California acting through its Department of Transportation (CalTrans). The agreement, pursuant to the Street & Highways Code, relinquishes a portion of State Highway 49 from the State to the City (Old Highway 49). The City assumes responsibility of accepting Old Highway 49 in its then existing condition and assumes responsibility for replacing the Sutter Creek bridge that underpasses the old highway. The agreement further stipulates that the State make a payment of \$3,049,000 to the City for the cost of the bridge project (\$1,948,000) and for repairs to the old highway (\$1,101,000) to bring the old highway to a state of good repair as defined in Highway Code Section 23. The State made payment to the City in 2007, which the City recorded in a special revenue fund as restricted for the purposes of the agreement. However, the agreement makes no mention of interest earnings and the City treats the interest earnings on the fund as unrestricted.

The City recently obtained a federal grant of \$1.8 million for the bridge project estimated at a cost of \$2,000,000. The City set up a Capital Project Fund (Sutter Creek Bridge Replacement) to account for the project and its various funding sources. The Bypass Relinquishment Fund made a transfer of \$354,559 to the Sutter Creek Bridge Replacement Fund during fiscal year 2009/10.

## CITY OF SUTTER CREEK, CALIFORNIA

## NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2011

## NOTE I – RELINQUISHMENT AGREEMENT, HIGHWAY 49 BYPASS (Continued)

Up through June 30, 2011, the City has made a variety of loans and transfers of money from the Bypass Relinquishment Fund. The City determined that the unrestricted interest earnings can be used for transfers to other funds. The remaining transfers and loans are noted below and provide an accounting of funding from the Bypass Relinquishment Fund:

General Fund	\$ 882,448	Loan
Central Eureka Mine Fund	141,991	Loan
Community Center Fund	104,799	Loan
Traffic Mitigation Fund (Sutter Hill Drain)	102,169	Loan
AB 1600 Fees Fund	28,725	Loan
Knights Foundry Fund	15,176	Loan
Home Grant Fund	10,902	Loan
Monte Verde Store Fund	4,088	Loan
Bridge Replacement Fund	354,559	Transfer for Expenses
Broad Street Drain Fund	<u>200,000</u>	Transfer for Expenses
	<u><u>\$ 1,844,857</u></u>	

In addition, due to negative cash in various funds, the Bypass Relinquishment Fund also provided additional temporary funding to the following funds as of June 30, 2011:

General Fund	\$ 1,321,046
Central Eureka Mine Fund	158,188
Community Center Grant Fund	148,799
Sutter Hill Drain Fund	102,169
Hazmat Grant Fund	87,618
General Plan Update Fund	76,985
Noble Ranch Golf Fund	51,022
CalTrans Street and Road Fund	38,481
AB1600 Fund	28,725
Badger Street Bridge Grant Fund	13,598
RDA Formation Fund	13,393
Police Grants Fund	12,814
HOME Grant Fund	<u>10,902</u>
	<u><u>\$ 2,063,740</u></u>

## NOTE J – COMMITMENTS AND CONTINGENCIES

The City participates in various federal and state assisted grant programs. These programs are subject to program compliance audits by the grantors. The audits by the grantors for the year ended June 30, 2011, have not yet been conducted. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

## CITY OF SUTTER CREEK, CALIFORNIA

## NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2011

## NOTE J – COMMITMENTS AND CONTINGENCIES (Continued)

The City is party to various claims, legal actions and complaints that arise in the normal operation of business. Management and the City's legal counsel believe that there are no material loss contingencies that would have a material adverse impact on the financial position of the City.

Developer Agreement: The City entered into an agreement in January 2010 with the Gold Rush Golf LLC. The agreement provides parameters for the development of a master plan community encompassing approximately 900 acres on the west side of the City. The development as pursued by Gold Rush Golf LLC and its successor entities are also controlled and limited by the various environmental and planning approvals obtained through the various approval processes stipulated by State law.

The agreement calls for the installation of a variety of public improvements that will serve the prospective development. Some of those improvements involve the City's sewage treatment plant. At this time, the site for the master plan community remains undeveloped and no new planning approvals have been sought by the developers. Given the state of the economy and the housing industry, it is unknown as to the timing of its development. The City has not initiated any plans for the expansion of its sewage treatment plan nor the related licensing, capacity and discharge limitations subject to State approval. The City has not recorded any obligation for any prospective public improvements associated with the development.

## NOTE K – RESTATEMENT

During the fiscal year ended June 30, 2011, the City corrected prior year balances to correct certain errors for which account analysis was not completed as of June 30, 2010. As a result of these prior period adjustments, fund balances and net assets reported on the statement of revenues and expenses and statement of activities as of July 1, 2010 have been restated.

	General	Nonmajor Governmental Funds	Governmental Activities
Fund Balance/Net Assets as of July 1, 2010, as previously reported	\$ (1,217,491)	\$ 437,342	\$ 1,978,097
Adjustments			
Net write-down of engineering and planning deposits incorrectly posted as a receivable and deposit payable	(6,947)		(6,947)
Write-off of receivables incorrectly posted		(64,212)	(64,212)
Accrue intergovernmental revenue not recognized in prior year			286,576
Total Adjustments	<u>(6,947)</u>	<u>(64,212)</u>	<u>215,417</u>
Net assets/fund balance at June 30, 2010 as restated	<u><u>\$ (1,224,438)</u></u>	<u><u>\$ 373,130</u></u>	<u><u>\$ 2,193,514</u></u>

## CITY OF SUTTER CREEK, CALIFORNIA

## NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2011

## NOTE K – RESTATEMENT (Continued)

	Wastewater Fund	Noble Ranch Golf Fund	Business Activities
Net Assets as of July 1, 2010, as previously reported	\$ 1,510,685	\$ (1,022)	\$ 1,490,210
Adjustments			
Correct sewer capital assets and accumulated depreciation on certain assets	41,893		41,893
Record allowance for bad debts related to prior years	(65,000)		(65,000)
Write-off a receivable incorrectly posted in prior years		(25,000)	(25,000)
Total Adjustments	<u>(23,107)</u>	<u>(25,000)</u>	<u>(48,107)</u>
Net assets/fund balance at June 30, 2010 as restated	<u>\$ 1,487,578</u>	<u>\$ (26,022)</u>	<u>\$ 1,442,103</u>

## NOTE L – GOING CONCERN

The financial statements as of June 30, 2011 have been prepared assuming the City will continue as a going concern, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. Due to the economic downturn, tax revenues for the City have decreased significantly from past years, causing the City's General Fund to incur a fund deficit of \$1.1 million as of June 30, 2011. In order to compensate for the fund deficit, the General Fund has relied on borrowing funds from the Highway 49 Bypass Relinquishment funds. The Highway 49 Bypass Relinquishment Special Revenue Fund was created by the City to account for \$3.0 million of highway relinquishment funds as described in Note I. Due to the cumulative negative financial position of the General Fund, the City has no reserves for any unanticipated contingencies that could negatively impact the City fiscally, without continuing to borrow from the Highway 49 Bypass Fund.

Unaudited financial information for fiscal year 2011/12 shows revenues sufficient to cover expenditures in the General Fund due to the City reducing operating expenditures, but the City would need tax revenues or other revenue sources to increase substantially to repay the amounts borrowed in past years from the Highway 49 Bypass Special Revenue Fund due to the negative cash position of the General Fund.

For Fiscal Year 2011/12, the City adopted a General Fund budget totaling \$1,410,585 with a targeted operating surplus of \$84,000. Preliminary accounting for the fiscal year shows the General Fund to be on track to generate an operating surplus of at least \$90,000. Much of the improvement came from expenditures being held steady to budgeted amounts and revenues increasing by \$85,000 over the prior year. It appears that the City's revenue base in the General Fund has stabilized from the economic downturn. The City intends to continue budgeting a surplus each fiscal year as evidenced by the recent policy adopted by the City Council.

The City plans to hold full-time staffing levels the same for the upcoming fiscal year of 2012/13 while expecting to experience an improved revenue picture. The planned budget will once again target a contingency reserve in the General Fund operating budget in excess of \$75,000. The City aims to attain a positive budget result in three consecutive fiscal years by the end of FY 2012/13.

CITY OF SUTTER CREEK, CALIFORNIA  
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2011

NOTE L – GOING CONCERN (Continued)

For the most recent three fiscal budgets, the City has already acted aggressively in reducing its General Fund spending and expects to continue experiencing benefits from these reductions in future years. The City also understands the importance of establishing a formal long-term plan to eliminate the accumulated deficit in the General Fund. The recently adopted budgets provides the foundation for embarking upon the task of formalizing a long-term plan to eliminate the accumulated deficit.

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## **COMBINING STATEMENTS AND INDIVIDUAL FUND STATEMENTS**

CITY OF SUTTER CREEK  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS

As of June 30, 2011

	Special Revenue Funds							
	Traffic Enhancement Activity Fund	Traffic and Safety Fund	Traffic Mitigation Fund	Gas Tax Fund	Crestview Lighting District Fund	Local Transportation Commission Fund	Cemetery Fund	HMGP- HAZMAT Grant Fund
ASSETS								
Cash and cash equivalents	\$ 101,316	\$ 71,647	\$ 389,069	\$ 62,900	\$ 3,283	\$ 86,611	\$ 13,637	
Accounts receivable			32,712		632			
Due from other governmental agencies	11,951			9,854				\$ 29,964
Interest receivable	167	76	704	83	6	137	23	
TOTAL ASSETS	<u>\$ 113,434</u>	<u>\$ 71,723</u>	<u>\$ 422,485</u>	<u>\$ 72,837</u>	<u>\$ 3,921</u>	<u>\$ 86,748</u>	<u>\$ 13,660</u>	<u>\$ 29,964</u>
LIABILITIES AND FUND BALANCES								
LIABILITIES								
Accounts payable	\$ 427			\$ 1,515	\$ 3,531			\$ 7,106
Accrued liabilities								
Due to other funds			\$ 102,169					87,618
Deferred revenue	11,951		32,712					
TOTAL LIABILITIES	<u>12,378</u>		<u>134,881</u>	<u>1,515</u>	<u>3,531</u>			<u>94,724</u>
FUND BALANCES								
Restricted	101,056	\$ 71,723	287,604	71,322	390	\$ 86,748		
Committed							\$ 13,660	
Unassigned								(64,760)
TOTAL FUND BALANCES	<u>101,056</u>	<u>71,723</u>	<u>287,604</u>	<u>71,322</u>	<u>390</u>	<u>86,748</u>	<u>13,660</u>	<u>(64,760)</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 113,434</u>	<u>\$ 71,723</u>	<u>\$ 422,485</u>	<u>\$ 72,837</u>	<u>\$ 3,921</u>	<u>\$ 86,748</u>	<u>\$ 13,660</u>	<u>\$ 29,964</u>

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



Special Revenue Funds									
FEMA Fund	Cal Trans. Street Fund	AB 1600 Fund	Central Eureka Mine Project Fund	Badger Street Bridge Grant Fund	SB 621 Gaming Grant Fund	Police Grants Funds	Cal Trans ADA Fund	HOME Grant Fund	Community Center Grant Fund
\$ 12,388		\$ 12,678			\$ 75,975		\$ 32,769	\$ 5,386	
20		7	\$ 95,792	\$ 13,598	35	\$ 12,814	67	3	
<u>\$ 12,408</u>	<u>\$ -</u>	<u>\$ 12,685</u>	<u>\$ 95,792</u>	<u>\$ 13,598</u>	<u>\$ 76,010</u>	<u>\$ 12,814</u>	<u>\$ 32,836</u>	<u>\$ 5,389</u>	<u>\$ -</u>
			\$ 4,368		\$ 882	\$ 465			
	\$ 38,481	\$ 28,725	158,188	\$ 13,598		12,814		\$ 10,902	\$ 148,799
			35,190	13,597					
	<u>38,481</u>	<u>28,725</u>	<u>197,746</u>	<u>27,195</u>	<u>882</u>	<u>13,279</u>		<u>10,902</u>	<u>148,799</u>
\$ 12,408					75,128		\$ 32,836		
	(38,481)	(16,040)	(101,954)	(13,597)		(465)		(5,513)	(148,799)
<u>12,408</u>	<u>(38,481)</u>	<u>(16,040)</u>	<u>(101,954)</u>	<u>(13,597)</u>	<u>75,128</u>	<u>(465)</u>	<u>32,836</u>	<u>(5,513)</u>	<u>(148,799)</u>
<u>\$ 12,408</u>	<u>\$ -</u>	<u>\$ 12,685</u>	<u>\$ 95,792</u>	<u>\$ 13,598</u>	<u>\$ 76,010</u>	<u>\$ 12,814</u>	<u>\$ 32,836</u>	<u>\$ 5,389</u>	<u>\$ -</u>

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CITY OF SUTTER CREEK  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS

As of June 30, 2011

	Traffic Congestion Fund	Special Revenue Funds General Plan Update Fund	ACRA Regional Rec. Fees Fund	RDA Formation Fund	Total Nonmajor Special Revenue Funds	Capital Projects Funds Broad Street Drain Fund	Total Nonmajor Governmental Funds
ASSETS							
Cash and cash equivalents			\$ 26,852		\$ 894,511	\$ 200,311	\$ 1,094,822
Accounts receivable					33,344		33,344
Due from other governmental agencies					173,973		173,973
Interest receivable	\$ 9		43		1,380	216	1,596
<b>TOTAL ASSETS</b>	<b>\$ 9</b>	<b>\$ -</b>	<b>\$ 26,895</b>	<b>\$ -</b>	<b>\$ 1,103,208</b>	<b>\$ 200,527</b>	<b>\$ 1,303,735</b>
LIABILITIES AND FUND BALANCES							
LIABILITIES							
Accounts payable					\$ 17,829		\$ 17,829
Accrued liabilities					465		465
Due to other funds		\$ 76,985		\$ 13,393	691,672		691,672
Deferred revenue					93,450		93,450
<b>TOTAL LIABILITIES</b>		<b>76,985</b>		<b>13,393</b>	<b>803,416</b>		<b>803,416</b>
FUND BALANCES							
Restricted	\$ 9		\$ 26,895		766,119	\$ 200,527	966,646
Committed					13,660		13,660
Unassigned		(76,985)		(13,393)	(479,987)		(479,987)
<b>TOTAL FUND BALANCES</b>	<b>9</b>	<b>(76,985)</b>	<b>26,895</b>	<b>(13,393)</b>	<b>299,792</b>	<b>200,527</b>	<b>500,319</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 9</b>	<b>\$ -</b>	<b>\$ 26,895</b>	<b>\$ -</b>	<b>\$ 1,103,208</b>	<b>\$ 200,527</b>	<b>\$ 1,303,735</b>

## CITY OF SUTTER CREEK

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS

For the Year Ended June 30, 2011

	Special Revenue Funds							HMGP- HAZMAT Grant Fund
	Traffic Enhancement Activity Fund	Traffic and Safety Fund	Traffic Mitigation Fund	Gas Tax Fund	Crestview Lighting District Fund	Local Transportation Commission Fund	Cemetery Fund	
REVENUES								
Taxes and assessments				\$ 79,245				
Licenses and permits								
Fines and penalties								
Interest and investment income	\$ 711		\$ 3,079	348	\$ 24	\$ 596	\$ 99	
Intergovernmental revenues								\$ 50,312
Charges for services			3,626				500	
Other revenue			3,040	3,310				
TOTAL REVENUES	711		9,745	82,903	24	596	599	50,312
EXPENDITURES								
General government								
Public safety								
Public works and facilities	2,093		4,279	47,965	533	1		51,312
TOTAL EXPENDITURES	2,093		4,279	47,965	533	1		51,312
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	(1,382)		5,466	34,938	(509)	595	599	(1,000)
OTHER FINANCING SOURCES (USES):								
Transfers in								28,444
Transfers out			(238)				(1,000)	
TOTAL OTHER FINANCING SOURCES (USES)			(238)				(1,000)	28,444
NET CHANGE IN FUND BALANCES	(1,382)		5,228	34,938	(509)	595	(401)	27,444
Fund balances, beginning of year, as previously reported	102,438	71,723	346,588	36,384	899	86,153	14,061	(92,204)
Restatement			(64,212)					
Fund balances, beginning of year, as restated	102,438	71,723	282,376	36,384	899	86,153	14,061	(92,204)
FUND BALANCES END OF YEAR	\$ 101,056	\$ 71,723	\$ 287,604	\$ 71,322	\$ 390	\$ 86,748	\$ 13,660	\$ (64,760)

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

Special Revenue Funds									
FEMA Fund	Cal Trans. Street Fund	AB 1600 Fund	Central Eureka Mine Project Fund	Badger Street Bridge Grant Fund	SB 621 Gaming Grant Fund	Police Grants Funds	Cal Trans ADA Fund	HOME Grant Fund	Community Center Grant Fund
\$ 79		\$ 88	\$ 60,602		\$ 126 64,767	\$ 100,202	\$ 244	\$ 29	
79		88	60,602		64,893	100,202	244	29	
321			14,620	\$ 13,597	13,142	99,516			
321			14,620	13,597	13,142	99,516			
(242)		88	45,982	(13,597)	51,751	686	244	29	
(242)		88	45,982	(13,597)	51,751	686	244	29	
12,650	(38,481)	(16,128)	(147,936)		23,377	(1,151)	32,592	(5,542)	\$ (148,799)
12,650	(38,481)	(16,128)	(147,936)		23,377	(1,151)	32,592	(5,542)	(148,799)
\$ 12,408	\$ (38,481)	\$ (16,040)	\$ (101,954)	\$ (13,597)	\$ 75,128	\$ (465)	\$ 32,836	\$ (5,513)	\$ (148,799)

## CITY OF SUTTER CREEK

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS

For the Year Ended June 30, 2011

		Special Revenue Funds			Total Nonmajor Special Revenue Funds	Capital Projects Funds Broad Street Drain Fund	Total Nonmajor Governmental Funds
	Traffic Congestion Fund	General Plan Update Fund	ACRA Regional Rec. Fees Fund	RDA Formation Fund			
REVENUES							
Taxes and assessments					\$ 79,245		\$ 79,245
Licenses and permits							
Fines and penalties							
Interest and investment income			\$ 187		5,610	\$ 421	6,031
Intergovernmental revenues					275,883		275,883
Charges for services					4,126		4,126
Other revenue					6,350		6,350
TOTAL REVENUES			187		371,214	421	371,635
EXPENDITURES							
General government							
Public safety					112,658		112,658
Public works and facilities					134,721		134,721
TOTAL EXPENDITURES					247,379		247,379
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES			187		123,835	421	124,256
OTHER FINANCING SOURCES (USES):							
Transfers in					28,444		28,444
Transfers out	\$ (24,273)				(25,511)		(25,511)
TOTAL OTHER FINANCING SOURCES (USES)	(24,273)				2,933		2,933
NET CHANGE IN FUND BALANCES	(24,273)		187		126,768	421	127,189
Fund balances, beginning of year, as previously reported	24,282	\$ (76,985)	26,708	\$ (13,393)	237,236	200,106	437,342
Restatement					(64,212)		(64,212)
Fund balances, beginning of year, as restated	24,282	(76,985)	26,708	(13,393)	173,024	200,106	373,130
FUND BALANCES END OF YEAR	\$ 9	\$ (76,985)	\$ 26,895	\$ (13,393)	\$ 299,792	\$ 200,527	\$ 500,319

CITY OF SUTTER CREEK  
COMBINING STATEMENT OF ASSETS AND LIABILITIES  
AGENCY FUNDS

As of June 30, 2011

	Monteverde Store Fund	Knights Foundry Fund	Community Facilities District Fund	ARSA Funds	Community Trust Fund	Total
ASSETS						
Cash and investments	\$ 1,489	\$ 44,468	\$ 920		\$ 2,431	\$ 49,308
Due from other governments				\$ 82,640		82,640
TOTAL ASSETS	<u>\$ 1,489</u>	<u>\$ 44,468</u>	<u>\$ 920</u>	<u>\$ 82,640</u>	<u>\$ 2,431</u>	<u>\$ 131,948</u>
LIABILITIES						
Accounts payable	\$ 2,765			\$ 10,774	\$ 2,431	\$ 15,970
Deposits payable			\$ 1,163			1,163
Due to other governments	4,088	\$ 15,174		21,374		40,636
Other accrued liabilities				1,625		1,625
Agency obligations	(5,364)	29,294	(243)	48,867		72,554
TOTAL LIABILITIES	<u>\$ 1,489</u>	<u>\$ 44,468</u>	<u>\$ 920</u>	<u>\$ 82,640</u>	<u>\$ 2,431</u>	<u>\$ 131,948</u>

# Richardson & Company

550 Howe Avenue, Suite 210  
Sacramento, California 95825

Telephone: (916) 564-8727  
FAX: (916) 564-8728

## INDEPENDENT ACCOUNTANTS' REPORT ON AGREED-UPON PROCEDURES APPLIED TO APPROPRIATIONS LIMIT TESTING

City Council  
City of Sutter Creek  
Sutter Creek, California

We have applied the procedures enumerated below to the accompanying calculation of the Appropriation Limit of the City of Sutter Creek for the year ended June 30, 2011. These procedures, which were agreed to by the City of Sutter Creek and the League of California Cities (as presented in the League publication entitled Article XIII B Appropriations Limitation Uniform Guidelines) were performed solely to assist the City of Sutter Creek in meeting the requirements of Section 1.5 of Article XIII B of the California Constitution.

This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the specified users of the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures performed and our findings were as follows:

1. We obtained the City's calculation of the 2010/2011 appropriations limit and compared the limit and annual adjustment factors included in the calculation to the limit and annual adjustment factors that were adopted by resolution of the City Council.

Finding: No exceptions were noted as a result of our procedures.

2. We compared the methodology used to determine the cost of living adjustment component to Article XIII B which states that the City may annually adjust the component for either the change in California per capita personal income or, the percentage change in the City's assessed valuation which is attributable to non-residential new construction. We recalculated the factor based on the above information.

Finding: No exceptions were noted as a result of our procedures.

3. We compared the methodology used to determine the population adjustment component to Article XIII B which states that the City may annually choose to adjust the component for either the change in population in the County in which the City is located, or the change in population within the unincorporated area of the County in which the City is located. We recalculated the factor based on the above information.

Finding: No exceptions were noted as a result of our procedures.



4. We compared the prior year appropriations limit presented in the accompanying Appropriations Limit Calculation to the prior year appropriations limit adopted by the City Council for the prior year.

Finding: No exceptions were noted as a result of our procedures.

5. We recalculated the 2010/2011 Appropriation Limit by multiplying the product of the two above factors by the 2009/2010 appropriation limit.

Finding: No exceptions were noted as a result of our procedures.

6. We compared the City's actual revenues to the computed appropriation limit for fiscal year 2010/2011.

Finding: For the 2010/2011 fiscal year, the City's actual revenues subject to the appropriations limit did not exceed the appropriation limit adopted by resolution of the City Council.

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the accompanying Appropriations Limit calculation. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you. No procedures have been performed with respect to the determination of the appropriation limit for the base year, as defined by the League publication entitled Article XIII B Appropriations Limitation Uniform Guidelines.

This report is intended solely for the use of the City of Sutter Creek and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes. However, this report is a matter of public record and its distribution is not limited.

*Richardson & Company*

November 28, 2012

## APPENDIX A

### CITY OF SUTTER CREEK APPROPRIATION LIMIT CALCULATION Year Ended June 30, 2011

#### APPROPRIATION LIMIT ADOPTED BY CITY:

Recorded in Final 2010/2011 Budget	\$ 2,486,686
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#### APPROPRIATION LIMIT COMPUTATION PER REVIEW:

2009/2010 Appropriation Limit	\$ 2,551,494
Cost of living factor:	
Change in California per capita income	0.9746
Population Adjustment Factor:	
Population change in City of Sutter Creek	<u>1.0000</u>
Auditor computed limitation	<u>2,486,686</u>
Variance	<u><u>\$ -</u></u>

# Richardson & Company

550 Howe Avenue, Suite 210  
Sacramento, California 95825

Telephone: (916) 564-8727  
FAX: (916) 564-8728

To the City Council and Management  
City of Sutter Creek  
Sutter Creek, California

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Sutter Creek, California (the City) for the year ended June 30, 2011, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for determining our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. 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 significant deficiencies or material weaknesses and therefore there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 in a timely basis. We consider the deficiencies noted below in the City's internal control to be material weaknesses.

## Year-End Closing Procedures

The City's closing processes were delayed for fiscal year 2009/10 because of turnover in personnel and difficulty in locating documents and preparing account reconciliations. The results were delays in producing closing entries, trial balances, schedules, reconciliations, account analysis, and other financial reports needed by management and the auditors. We eventually determined the most efficient way to complete the 2009/10 audit was to disclaim our opinion on the various areas that were incomplete. Because of the delay in completing the 2009/10 audit, there was not sufficient time to put into place the proper year-end closing procedures for fiscal year 2010/11. For the 2010/11 audit, the City was able to prepare many of these account reconciliations in preparation for the audit, but many of them were not completed prior to the start of the audit, resulting in numerous adjustments during the course of the audit. However, many of the account analysis and adjustments enabled us to issue our audit opinion on various elements of the audit that we disclaimed our opinion on for the 2009/10 audit. We identified the following areas where improvements are needed.

- The City has not been producing a utility billing system receivable listing that reconciles to the general ledger, nor were such reconciliation is being performed during the year. Reconciliations of all accounts receivable balances to the subsidiary receivable system or other supporting

documentation, including reconciliations of the utility billing system to the general ledger, should be performed throughout the year as a standard practice, rather than just in preparation for the audit, and reviewed by the Finance Director. The City needs to ensure that an aging report is produced as of June 30 each year that can be reconciled to the receivable balance in the general ledger.

*Management's Response:* A reconciliation of the utility billing to the general ledger will be performed during FY 2012. Unfortunately, the majority of Fiscal Year 2011 had already transpired by the time the new accounting staff determined that the reconciling of the utility bills had not been done properly. The City did not have documented procedures for this task. Written procedures have been devised and will be in place for FY 2012-13.

- Procedures for ensuring all balances on the general ledger can be supported by an analysis or document need to be established. During the 2009/10 audit, we noted several receivable and payable balances that appear to be carried over from the prior year that are not being analyzed on a consistent basis. These balances were reconciled or eliminated as of June 30, 2011, but procedures need to be put in place to ensure that these reconciliations are performed on a timely basis, near the end of each fiscal year.

*Management's Response:* For several years the City has carried undocumented receivable and payable balances and the City's new auditors have asked the City to resolve these items. By February 2013, City staff will add a written procedure to its year end closing items that will specify that all accounts will have substantial documentation or be written off at year end.

#### Segregation of Duties

Segregation of duties and maintaining an effective review and oversight function are important to establishing an effective internal control system. During our evaluation of the City's internal controls system, we noted that the finance clerk performed many functions and review of this individual's work was not performed, or this review was not documented with an initial. Although the small size of the City makes it impractical to segregate all duties, we identified the following areas where the City could improve controls:

- All mail should be received and opened by an individual outside of the finance system and then distributed to the applicable individuals. All cash receipts and invoices should be logged before being processed. The log should then be compared to the bank statement by someone that does not handle cash.

*Management's Response:* The City has minimal staffing to maintain a log for all incoming cash receipts. By December 2012, City staff will work on devising a tracking system and log to be handled by a staff member not responsible for cash duties for all non-sewer related payments. The City faces minimum risks in not tracking sewer payments given the controls over the sewer billing system.

- After accounts payable and payroll checks have been signed, they are returned to the finance clerk for mailing. Signed checks should be mailed by someone not associated with the accounts payable/purchasing function. This prevents the checks from getting "lost" or changed after they are signed.

*Management's Response:* In Fiscal Year 2012, City staff began having the checks distributed by a staff member not associated with the accounts payable/purchasing functions. The City did not have documented procedures for this task. Written procedures addressing these findings noted by the auditors are being devised by December 2012.

- The check register should be incorporated as part of the check signing process and should be reviewed for missing checks, additional checks and overall completeness. Each check register should be checked to the previous check register and any gaps should be documented and explained.

*Management's Response:* The City did not have documented procedures for tracking check registers and spoiled checks. City staff will provide a written accounting of all checks issued and spoiled for FY 2011 and FY 2012. Written procedures addressing these findings are being devised by December 2012 for implementing on-going controls during FY 2012-13.

- We noted that individuals that generate bills and record customer payments also have the ability to make adjustments to utility billing customer accounts. At the end of each day, the individual preparing the utility billings prints out an adjustment report indicating which customer accounts were adjusted; however, a separate review of this report by another individual is not being performed. A review of all billing adjustments should be performed by the Finance Director. Documentation of the authorization of utility billing write-offs or adjustments needs to be maintained.

*Management's Response:* For FY 2011 and 2012, the Finance Director will document the review of all billing adjustments made to customer accounts. The City did not have documented procedures for this task. Written procedures addressing these findings are being devised by December 2012 for implementing on-going controls during FY 2013.

#### Governmental Capital Assets

In June 1999, Governmental Accounting Standards Board (GASB) issued GASB 34, which requires that state and local governments begin to report the value of their governmental infrastructure and other capital assets in the statement of net assets. The City currently has not implemented GASB 34 to value their infrastructure and other capital assets for financial statement reporting. GASB 34 requires that fixed asset records be maintained in a complete, accurate and detailed manner and that governments report all capital assets with the consideration of depreciation, including infrastructure assets and historical treasures. The value of land or infrastructure that is deeded to the City also needs to be recorded as capital assets. The City currently has not developed a governmental fixed assets system to implement the GASB 34 fixed asset reporting requirements. Although the general ledger did include amounts for capital assets, these amounts are not supported by a detail list and were excluded from the audited financial statements.

*Management's Response:* For the past twelve years the City has not complied with the accounting standards in documenting general fixed assets (non-sewer related items like police cars, city hall equipment, park improvements, street improvements, drain systems and other infrastructure). City staff will need to make an historical accounting of items going back numerous years to comply with this accounting standard. City staff will target the completion of this accounting by June 2013 for incorporation into the City's financial statements. Written procedures will be devised by December 2012 that will require staff to account for these items in accordance with the accounting standards. Staff expects that this finding will continue for issuance of financial statements for FY 2012.

### Grant Accounting

In our 2009/10 audit, we noted grant reimbursable expenditures were incurred in the current and prior periods but the corresponding grant revenue was not accrued. The City does not have a centralized person that maintains grant files and monitors billings to ensure they are prepared in a timely manner. Early in 2012, the City determined that grant expenditures incurred in fiscal year 2009 had not yet been billed. Grant billings were prepared during 2012; however, the City needs to develop procedures for tracking grant expenditures and reimbursements to ensure revenue is billed in a timely manner and the revenue is accrued to the extent of reimbursable expenditures incurred, and deferred if not expected to be received within the period of availability. The City was able to accrue receivables for expenditures that were to be reimbursed with grant funds, such that we were able to remove our disclaimer of an opinion related to grant receivables, revenue and deferred revenue.

*Management's Response:* The City does not have documented procedures for tracking grant expenditures, posting of revenues and ensuring reimbursements are billed in a timely manner. For FY 2011, City staff completed an accounting of grant expenditures, revenues and receivables in July 2012. Written procedures will be devised by December 2012 that will address these findings. City staff will work toward centralizing the accounting of grants in the Finance Department beginning in FY 2013.

### Deposits Payable

In our 2009/10 audit, we noted expenses related to development planning activities were recorded as a reduction in the deposit liability account instead of as an expense and recognizing the corresponding fee revenue. The City was able to reconcile and resolve the differences noted between the general ledger and developer statements and ensure the accuracy of the developer deposit liabilities as of June 30, 2011; however, we recommend that procedures be developed to ensure these developer deposit accounts are reconciled throughout the year.

*Management's Response:* For Fiscal Year 2011, City staff reconciled and resolved the differences between the general ledger and developer statements in order to more accurately reflect the deposit liabilities. The City does not have documented procedures for reconciling, resolving and closing out developer related deposits. Written procedures are being devised that requires periodic monitoring and accounting so that adjustments can be on an on-going basis as opposed to waiting for fiscal year end.

### Interfund borrowings

The City has significant interfund borrowings in the form of due to and due from other funds to eliminate negative cash balances totaling \$2.1 million in various City funds. The City has used Highway 49 Relinquishment funds to cover operating deficits of these various funds. However, based on our discussions with Cal Trans, these relinquishment funds are restricted for use in returning the old Highway 49 to a state of good repair and will need to be utilized to fund this work. Several of these funds with operating deficits have not demonstrated the ability to repay these interfund borrowings within the subsequent fiscal year due to insufficient revenue sources to pay for expenditures incurred in past years. These significant interfund liabilities need to be taken into consideration in determining the overall financial health of the City. We recommend that the City establish a plan to eliminate the need for each of these funds to continue using financing in the form of interfund borrowings so that the relinquishment funds are available for use for their intended purpose.

*Management's Response:* By February 2013, City staff will provide preliminary recommendations on establishing a plan to eliminate the need of the inter-fund loans so that the monies of the Bypass Relinquishment Fund can be used for its intended purpose.

### Journal Entries

We noted that a file of journal entries in sequential order, with supporting documentation attached, was not maintained, making it difficult to locate specific journal entries. In addition, the City does not appear to have utilized a journal entry form that indicates who prepared and reviewed the journal entry. We recommend that the City maintain adequate controls over organization, documentation, review and approval of journal entries.

*Management's Response:* City staff will provide an accurate log and documentation of all journal entries in Fiscal Year 2012.

### Other Postemployment Benefits

GASB 45 requires all governmental entities to calculate the actuarially-determined liability for other postemployment benefits (OPEB). Although the City's OPEB benefits consist of only allowing retirees to participate in the City's plan and may also include covering a portion of the premiums, the City would still be required to accrue a liability for this implied subsidy because the retirees are being offered lower rates by being on the City's plan than they would on their own. An OPEB actuarial calculation was not performed so the accrued liability for the value of the OPEB could not be recorded in the general ledger and actuarial information was not available for the financial statement disclosure as required by GASB 45.

*Management's Response:* City staff will work toward having calculations performed for the liability associated with retiree health benefits for incorporation of the liability for Fiscal Year 2013.

### Payroll Processes and Documentation

After the payroll is generated, the Finance Clerk prints a payroll register and posts the payroll to the general ledger. This process does not encompass a reconciliation of the payroll register to the general ledger or subsequent approval of the entry. We recommend that the payroll register be reconciled to the general ledger by the Finance Director and that review of the payroll register be documented.

*Management's Response:* At the beginning of December 2011, the City switched over to an outside payroll provider (PayChex) for the preparation of payrolls. With the use of the outside provider, the City has implemented a payroll system that minimizes the potential for duplicate payroll payments. For all payrolls through Fiscal Year 2011, City staff has already reconciled and reviewed all payrolls and tied them to W-2 statements. The results of this work generated several corrections to W-2 statements in calendar year 2008, calendar year 2009 and calendar year 2010.

We noted that salary changes, job promotions and job classification changes are not documented in the employee files. We recommend that this documentation be maintained in the employee files.

*Management's Response:* In September 2010, the City Manager created a personnel action form and implemented procedures for documenting salary changes, job promotions and classifications.

### Traffic and Safety Fund

The Traffic and Safety Fund was established to account for revenues generated from traffic safety fines. However, in 2002, the City recorded \$106,000 of revenue related to State Peace Officer Standards and Training funds, which appears to be grant funds for training of police officers, but it does not appear that the related expenditures were recorded in the same fund, resulting in an overstated fund balance in this fund. The City needs to determine whether the qualifying expenditures have been incurred and, if so, the revenue needs to be transferred to the fund where the expenditures were incurred.

*Management's Response:* In closing the accounting records for FY 2012, City staff will determine the proper accounting of the fund and close out the Traffic Safety Fund to resolve the auditor's finding.

#### Council Review of Financial Information

The City's practice has been to provide listings of checks paid by the City the previous month to the City Council on a monthly basis. However, during fiscal year 2009/10, these listings were only provided for four months of the fiscal year and during fiscal year 2010/11, no listings were provided. Due to the overall lack of segregation of duties due to small staff size, providing a check listing to the City Council for review is an important internal control. The City needs to ensure that these check listings are provided to the Council on a monthly basis.

*Management's Response:* Beginning in December 2012, City staff will begin to provide a monthly accounting to the Mayor and Vice Mayor of all accounts payable checks issued by the City.

We also noted the following other matters that have been included for your consideration:

#### Risk Assessment Plan

We recommend that the City develop a risk assessment plan to identify those risks within the City that could result in fraud or material misstatement of the financial statements, and then to implement internal controls to mitigate those identified risks. This risk assessment plan should identify potential risk areas and then ensure controls or processes are in place to mitigate those risks. This risk assessment should be performed on a periodic basis and can be incorporated into existing staff and management meetings. In addition, the Finance Committee of the City Council should be involved in this risk assessment process as well.

*Management's Response:* City staff will develop a risk assessment plan by July 1, 2013 that will identify risks within the City that can result in fraud or material misstatement of the financial statements. The plan will also implement internal controls to mitigate those identified risks and involve members of the City Council in such a process.

#### Cash Disbursements

In our cash disbursement testing, we noted several invoices that do not indicate proper review and approval of the actual invoice. We recommend that individuals paying invoices verify the accuracy of the invoices, and that all invoices be initialed to document approval prior to the checks being written.

*Management's Response:* City staff will implement procedures by December 2012 that provide for the footing of invoices and a review/approval process of all payments. Some of these review and approval features were already implemented in FY 2011, but not all of them.

#### Disaster Recovery Plan

We recommend that the City develop well-defined, written disaster recovery procedures. The time to make contingency plans is before disaster strikes, so that all personnel will be aware of their responsibilities in the event of an emergency situation that precludes the use of the existing IT facilities. The disaster recovery plan should include the following matters:

- Location of, and access to, off-site storage.
- A listing of all data files that would have to be obtained from the off-site storage location.



- Identification of a backup location (name and telephone number) with similar or compatible equipment for emergency processing. (Management should make arrangements for such backup with another City, a computer vendor, or a service center. The agreement should be in writing.)
- Responsibilities of various personnel in an emergency.
- Priority of critical applications and reporting requirements during the emergency period.

*Management's Response:* By June 2013, City staff will devise a well-defined disaster recovery plan that incorporates the findings from the auditors.

#### Equipment Replacement Fund

The Equipment Replacement Fund appears to have the same fund number as the General Fixed Asset Account Group in the chart of accounts. Since the General Fixed Account Group is used only to track the capital assets for the GASB 34 conversion entries, the City should set up a separate fund for the Equipment Replacement Fund for inclusion in the governmental fund financials.

*Management's Response:* For Fiscal Year 2012, City staff will segregate and account for all fixed assets in a manner to resolve this finding.

#### Anti-Retaliation/Whistle Blower Policy

The City should adopt an Anti-Retaliation/Whistle Blower Policy, including fraud reporting procedures, and include it in the Personnel Manual. These procedures should include a discussion of what types of activities constitute fraud or contracting improprieties, how an employee should report such suspected fraud or contracting improprieties and to whom or where an employee should report such activities, including reporting procedures if an employee's supervisor or a member of senior management is suspected of these activities.

*Management's Response:* By June 2013, City staff will provide a draft policy to the City Council that addresses the issues in this finding.

\* \* \* \* \*

We would like to take this opportunity to acknowledge the courtesy and assistance extended to us during the course of the audit. This communication is intended solely for the information and use of the City Council, management, and others within the organization and is not intended to be and should not be used by anyone other than these specific parties.

*Richardson & Company*

November 28, 2012