

CITY OF SUTTER CREEK, CALIFORNIA

Audited Financial Statements and Supplemental Information

June 30, 2012

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CITY OF SUTTER CREEK, CALIFORNIA

Audited Financial Statements and Supplemental Information

June 30, 2012

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INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Sutter Creek, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Sutter Creek, California, as of and for the year ended June 30, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

To the City Council
City of Sutter Creek, California

Basis for Adverse Opinion on Governmental Activities

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 a liability to be recorded, 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.

Adverse Opinion

In our opinion, because of the significance of the matter discussed in the “Basis for Adverse Opinion on the Governmental Activities” paragraphs, the financial statements referred to above 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, 2012, or the changes in financial position thereof for the year then ended.

Unmodified Opinion

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, 2012, 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.

Emphasis of Matter Regarding Going Concern

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. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on page 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

To the City Council
City of Sutter Creek, California

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.

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.

Other Information

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. 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 basic 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 8, 2013 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations and contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Richardson & Company

August 8, 2013

BASIC FINANCIAL STATEMENTS

CITY OF SUTTER CREEK

GOVERNMENT-WIDE STATEMENT OF NET ASSETS

As of June 30, 2012

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 1,710,896	\$ 428,549	\$ 2,139,445
Accounts receivable, net of allowance for doubtful accounts	121,380	96,164	217,544
Interest receivable	5,855	1,549	7,404
Due from other government agencies	1,100,221	133,982	1,234,203
Prepaid expenses	526		526
Internal balances	11,426	(11,426)	
Total current assets	<u>2,950,304</u>	<u>648,818</u>	<u>3,599,122</u>
Noncurrent assets:			
Due from other government agencies - long term		487,421	487,421
Capital assets, net of accumulated depreciation			
Non-depreciable		621,362	621,362
Depreciable		1,745,502	1,745,502
		<u>2,854,285</u>	<u>2,854,285</u>
Total assets	<u>2,950,304</u>	<u>3,503,103</u>	<u>6,453,407</u>
LIABILITIES			
Current liabilities:			
Accounts payable	719,772	54,617	774,389
Accrued liabilities	118,779	14,232	133,011
Interest payable		69,135	69,135
Deposits payable	26,391	3,098	29,489
Retentions payable	27,895		27,895
Current portion of long-term liabilities	34,033	22,915	56,948
Total current liabilities	<u>926,870</u>	<u>163,997</u>	<u>1,090,867</u>
Long-term liabilities:			
Notes payable		1,094,000	1,094,000
Compensated absences	34,033	7,915	41,948
Total long-term liabilities	<u>34,033</u>	<u>1,101,915</u>	<u>1,135,948</u>
Total liabilities	<u>960,903</u>	<u>1,265,912</u>	<u>2,226,815</u>
NET ASSETS			
Invested in capital assets, net of related debt		1,682,764	1,682,764
Restricted	3,600,447		3,600,447
Unrestricted	(1,611,046)	554,427	(1,056,619)
Total net assets	<u>\$ 1,989,401</u>	<u>\$ 2,237,191</u>	<u>\$ 4,226,592</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, 2012

	Expenses	Program Revenues		Governmental Activities	Business-type Activities	Total
		Charges for Services	Operating Grants and Contributions			
Governmental Activities						
General government and administrative services	\$ 173,429	\$ 65,229		\$ (108,200)		\$ (108,200)
Public safety	984,077	51,604	\$ 451,203	(481,270)		(481,270)
Culture and recreation	103,191	35,550	44,000	(23,641)		(23,641)
Public works	1,219,163		441,948	(777,215)		(777,215)
Community development	63,713			(63,713)		(63,713)
Total governmental activities	<u>2,543,573</u>	<u>152,383</u>	<u>937,151</u>	<u>(1,454,039)</u>		<u>(1,454,039)</u>
Business-type activities:						
Wastewater	1,260,032	1,591,028			\$ 330,996	330,996
Interest on long-term debt	31,867				(31,867)	(31,867)
Total business-type activities	<u>1,291,899</u>	<u>1,591,028</u>			<u>299,129</u>	<u>299,129</u>
Total government	<u>\$ 3,835,472</u>	<u>\$ 1,743,411</u>	<u>\$ 937,151</u>	<u>\$ -</u>	<u>(1,454,039)</u>	<u>299,129</u>
General revenues						
Taxes:						
Property taxes				645,528		645,528
Sales and use taxes				226,920		226,920
Transient occupancy tax				182,662		182,662
Franchise tax				60,049		60,049
Gas taxes				90,125		90,125
Motor vehicle in-lieu				9,176		9,176
Investment income				10,682	3,898	14,580
Rental income				6,582		6,582
Transportation impact fees				12,319		12,319
Miscellaneous				2,056		2,056
Total general revenues				<u>1,246,099</u>	<u>3,898</u>	<u>1,249,997</u>
Changes in net assets				(207,940)	303,027	95,087
Net assets - beginning				<u>2,197,341</u>	<u>1,934,164</u>	<u>4,131,505</u>
Net assets - ending				<u>\$ 1,989,401</u>	<u>\$ 2,237,191</u>	<u>\$ 4,226,592</u>

The accompanying notes are an integral part of these financial statements

CITY OF SUTTER CREEK

BALANCE SHEET
GOVERNMENTAL FUNDS

As of June 30, 2012

	Major Funds			Nonmajor	Total
	General	Bypass	Broad	Governmental	Governmental
	Fund	Relinquishment	Street Drain	Funds	Funds
		Fund	Fund		
ASSETS					
Cash and cash equivalents	\$ 174,158	\$ 184,617	\$ 200,818	\$ 1,065,189	\$ 1,624,782
Accounts receivable, net of allowance for doubtful accounts	85,898			35,482	121,380
Prepaid costs and other assets	443				443
Due from other governmental agencies	36,451	88,791	527,672	447,307	1,100,221
Interest receivable	1,003	2,603	300	1,949	5,855
Due from other funds		2,216,894			2,216,894
TOTAL ASSETS	<u>\$ 297,953</u>	<u>\$ 2,492,905</u>	<u>\$ 728,790</u>	<u>\$ 1,549,927</u>	<u>\$ 5,069,575</u>
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	\$ 56,834		\$ 582,042	\$ 42,678	\$ 681,554
Accrued liabilities	115,635			243	115,878
Retentions payable	27,895				27,895
Due to other funds	1,219,747		179,067	759,425	2,158,239
Deferred revenue	4,218		8,505	85,627	98,350
Deposits payable	26,391				26,391
TOTAL LIABILITIES	<u>1,450,720</u>		<u>769,614</u>	<u>887,973</u>	<u>3,108,307</u>
FUND BALANCES					
Nonspendable	443				443
Restricted		\$ 2,492,905		1,066,325	3,559,230
Committed				14,719	14,719
Unassigned	(1,153,210)		(40,824)	(419,090)	(1,613,124)
TOTAL FUND BALANCES	<u>(1,152,767)</u>	<u>2,492,905</u>	<u>(40,824)</u>	<u>661,954</u>	<u>1,961,268</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 297,953</u>	<u>\$ 2,492,905</u>	<u>\$ 728,790</u>	<u>\$ 1,549,927</u>	<u>\$ 5,069,575</u>

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, 2012

Total Governmental Fund Balances	\$ 1,961,268
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	98,350
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	(68,066)
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>(2,151)</u>
Net Assets of Governmental Activities	<u><u>\$ 1,989,401</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, 2012

	Major Funds				
	General	Bypass	Broad	Nonmajor	Total
	Fund	Relinquishment	Street Drain	Governmental	Governmental
	Fund	Fund	Fund	Funds	Funds
REVENUES					
Taxes and assessments	\$ 1,075,400			\$ 90,125	\$ 1,165,525
Licenses and permits	57,461				57,461
Fines and penalties	6,495				6,495
Interest and investment income	2,268	\$ 2,919	\$ 880	4,615	10,682
Intergovernmental revenues	151,517		526,092	501,604	1,179,213
Charges for services	93,545			4,161	97,706
Other revenue	5,103			23,625	28,728
TOTAL REVENUES	<u>1,391,789</u>	<u>2,919</u>	<u>526,972</u>	<u>624,130</u>	<u>2,545,810</u>
EXPENDITURES					
General government and administration	188,445				188,445
Public safety	860,365			123,712	984,077
Public works and facilities	199,985	2,573	703,563	313,023	1,219,144
Community development	63,713				63,713
Cultural and recreation	103,191			19	103,210
TOTAL EXPENDITURES	<u>1,415,699</u>	<u>2,573</u>	<u>703,563</u>	<u>436,754</u>	<u>2,558,589</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	(23,910)	346	(176,591)	187,376	(12,779)
OTHER FINANCING SOURCES (USES)					
Transfers in	30,600				30,600
Transfers out				(30,600)	(30,600)
TOTAL OTHER FINANCING SOURCES (USES)	<u>30,600</u>			<u>(30,600)</u>	
NET CHANGE IN FUND BALANCES	6,690	346	(176,591)	156,776	(12,779)
Fund balances, beginning of year	<u>(1,159,457)</u>	<u>2,492,559</u>	<u>135,767</u>	<u>505,178</u>	<u>1,974,047</u>
FUND BALANCES, END OF YEAR	<u><u>\$ (1,152,767)</u></u>	<u><u>\$ 2,492,905</u></u>	<u><u>\$ (40,824)</u></u>	<u><u>\$ 661,954</u></u>	<u><u>\$ 1,961,268</u></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, 2012

Net Change in Fund Balances - Total Governmental Funds	\$ (12,779)
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	(232,632)
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.	15,016
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>22,455</u>
Change in Net Assets of Governmental Activities	<u><u>\$ (207,940)</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, 2012

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final	(Budgetary Basis)	Final Budget Positive/ (Negative)
REVENUES				
Taxes	\$ 1,096,500	\$ 1,096,500	\$ 1,075,400	\$ (21,100)
Licenses and permits	56,300	56,300	57,461	1,161
Fines and penalties	9,000	9,000	6,495	(2,505)
Interest and investment income	22,000	22,000	2,268	(19,732)
Intergovernmental	195,800	195,800	151,517	(44,283)
Charges for services	73,100	73,100	93,545	20,445
Other revenue	8,500	8,500	5,103	(3,397)
TOTAL REVENUES	1,461,200	1,461,200	1,391,789	(69,411)
EXPENDITURES				
Current:				
General government and administration	178,297	178,297	188,445	(10,148)
Public safety	891,299	891,299	860,365	30,934
Public works and facilities	168,848	168,848	199,985	(31,137)
Community development	71,900	71,900	63,713	8,187
Culture and recreation	89,224	89,224	103,191	(13,967)
TOTAL EXPENDITURES	1,399,568	1,399,568	1,415,699	(16,131)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	61,632	61,632	(23,910)	(85,542)
OTHER FINANCING SOURCES (USES)				
Transfers in	30,600	30,600	30,600	
Transfers out				
TOTAL OTHER FINANCING USES	30,600	30,600	30,600	
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	92,232	92,232	6,690	(85,542)
Fund balances, beginning of year	(1,159,457)	(1,159,457)	(1,159,457)	
FUND BALANCES, END OF YEAR	\$ (1,067,225)	\$ (1,067,225)	\$ (1,152,767)	\$ (85,542)

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, 2012

	Major Enterprise Fund		Total Enterprise Funds	Governmental Activities Internal Service Fund
	Wastewater Fund	Noble Ranch Golf Fund		
ASSETS				
CURRENT ASSETS				
Cash and investments	\$ 428,549		\$ 428,549	\$ 86,114
Accounts receivable, net	96,164		96,164	
Interest receivable	1,549		1,549	
Due from other governments	133,982		133,982	
Prepaid and other assets				83
TOTAL CURRENT ASSETS	660,244		660,244	86,197
NONCURRENT ASSETS				
Due from other governments - long term	487,421		487,421	
Capital assets:				
Nondepreciable	596,362	\$ 25,000	621,362	
Depreciable	1,745,502		1,745,502	
TOTAL NONCURRENT ASSETS	2,829,285	25,000	2,854,285	
TOTAL ASSETS	3,489,529	25,000	3,514,529	86,197
LIABILITIES				
CURRENT LIABILITIES				
Accounts payable	54,617		54,617	38,218
Accrued liabilities	14,232		14,232	2,901
Due to other funds		51,022	51,022	7,633
Interest payable	69,135		69,135	
Deposits payable	3,098		3,098	
Current portion of long-term liabilities	22,915		22,915	
TOTAL CURRENT LIABILITIES	163,997	51,022	215,019	48,752
NONCURRENT LIABILITIES				
Long-term debt, due in more than one year	1,094,000		1,094,000	
Compensated absences	7,915		7,915	
TOTAL NONCURRENT LIABILITIES	1,101,915		1,101,915	
TOTAL LIABILITIES	1,265,912	51,022	1,316,934	48,752
NET ASSETS				
Invested in capital assets, net of related debt	1,657,764	25,000	1,682,764	
Unrestricted	565,853	(51,022)	514,831	37,445
TOTAL NET ASSETS	\$ 2,223,617	\$ (26,022)	2,197,595	\$ 37,445
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds			39,596	
NET ASSETS OF BUSINESS-TYPE ACTIVITIES			\$ 2,237,191	

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, 2012

	Major Enterprise Fund			Governmental Activities
	Wastewater Fund	Noble Ranch Golf Fund	Total Enterprise Funds	Internal Service Fund
OPERATING REVENUES				
Service charges	\$ 1,576,058		\$ 1,576,058	\$ 497,935
TOTAL OPERATING REVENUES	<u>1,576,058</u>		<u>1,576,058</u>	<u>497,935</u>
Salaries and benefits	255,678		255,678	210,791
Operation and maintenance	906,922		906,922	249,762
Depreciation	97,432		97,432	
TOTAL OPERATING EXPENSES	<u>1,260,032</u>		<u>1,260,032</u>	<u>460,553</u>
OPERATING INCOME (LOSS)	<u>316,026</u>		<u>316,026</u>	<u>37,382</u>
NONOPERATING REVENUES (EXPENSES)				
Interest income	3,898		3,898	43
Interest expense	(31,867)		(31,867)	
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>(27,969)</u>		<u>(27,969)</u>	<u>43</u>
CHANGE IN NET ASSETS	288,057		288,057	37,425
Net assets, beginning year	<u>1,935,560</u>	<u>(26,022)</u>	<u>1,909,538</u>	<u>20</u>
NET ASSETS, END OF YEAR	<u>\$ 2,223,617</u>	<u>\$ (26,022)</u>	<u>\$ 2,197,595</u>	<u>\$ 37,445</u>
Change in net assets			\$ 288,057	
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds			<u>14,970</u>	
CHANGE IN NET ASSETS OF BUSINESS-TYPE ACTIVITIES			<u>\$ 303,027</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, 2012

	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	\$ 1,553,619		\$ 1,553,619	\$ 497,935
Cash paid to suppliers	(880,159)		(880,159)	(234,857)
Cash paid to employees and related benefits	(260,488)		(260,488)	(210,791)
Cash provided by operating activities	<u>412,972</u>	<u></u>	<u>412,972</u>	<u>52,287</u>
Cash Flows from Noncapital Financing Activities:				
Amounts received (paid) to other funds				7,633
Cash provided by noncapital financing activities	<u></u>	<u></u>	<u></u>	<u>7,633</u>
Cash Flows from Capital and Related Financing Activities				
Debt principal paid	(14,000)		(14,000)	
Interest paid	(30,285)		(30,285)	
Cash used for capital and related financing activities	<u>(44,285)</u>	<u></u>	<u>(44,285)</u>	<u></u>
Cash Flows from Investing Activities				
Interest received	<u>3,454</u>	<u></u>	<u>3,454</u>	<u>43</u>
Increase in cash and cash equivalents	372,141		372,141	59,963
Cash and cash equivalents, beginning of year	<u>56,408</u>	<u>-</u>	<u>56,408</u>	<u>26,151</u>
Cash and cash equivalents, end of year	<u>\$ 428,549</u>	<u>\$ -</u>	<u>\$ 428,549</u>	<u>\$ 86,114</u>
Reconciliation of operating income from operations to cash provided by operating activities:				
Operating income	\$ 316,026		\$ 316,026	\$ 37,382
Adjustments to reconcile operating income to cash provided by operating activities:				
Depreciation	97,432		97,432	
Provision for bad debts	(8,946)		(8,946)	
(Increase) decrease in assets:				
Accounts receivable	(3,055)		(3,055)	
Due from other governments	(1,864)		(1,864)	
(Decrease) increase in liabilities:				
Accounts payable	22,819		22,819	13,420
Accrued expenses	(4,630)		(4,630)	1,568
Accrued compensated absences	<u>(4,810)</u>	<u></u>	<u>(4,810)</u>	<u></u>
Cash provided by operating activities	<u>\$ 412,972</u>	<u>\$ -</u>	<u>\$ 412,972</u>	<u>\$ 52,287</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, 2012

	Agency Funds
ASSETS	
Cash and investments	\$ 49,561
Due from other governments	103,419
Prepaid and other assets	<u>27,560</u>
TOTAL ASSETS	<u>\$ 180,540</u>
LIABILITIES	
Accounts payable	\$ 61,556
Due to other governments	88,791
Other accrued liabilities	2,843
Agency obligations	<u>27,350</u>
TOTAL LIABILITIES	<u>\$ 180,540</u>

The accompanying notes are an integral part of this statement.

NOTES TO THE BASIC FINANCIAL STATEMENTS

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CITY OF SUTTER CREEK, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2012

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, 2012

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, 2012

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Broad Street Drain Grant Fund: The Broad Street Drain Grant Fund is for resources received to construct a new storm drain.

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

CITY OF SUTTER CREEK, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2012

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 \$83,373 at June 30, 2012 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

CITY OF SUTTER CREEK, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2012

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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, 2012, 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

CITY OF SUTTER CREEK, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2012

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

CITY OF SUTTER CREEK, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2012

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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:

CITY OF SUTTER CREEK, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2012

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund	Appropriations	Total Expenditures	Excess Expenditures
General Fund	\$ 1,399,568	\$ 1,415,699	\$ (16,131)
Major Special Revenue Fund:			
Bypass Relinquishment Fund		2,573	(2,573)
Broad Street Drain Fund	-	703,563	(703,563)
Nonmajor Special Revenue Funds:			
Traffic Enhancement Activity Fund	-	18,939	(18,939)
Traffic Mitigation	-	19	(19)
Gas Tax Fund	-	93,953	(93,953)
Crestview Lighting District Fund	-	549	(549)
Local Transportation Commission Fund	-	1,709	(1,709)
Central Eureka Mine Project Fund	-	68,870	(68,870)
Badger Street Bridge Fund	-	56,261	(56,261)
SB 621 Gaming Grant Fund	-	33,868	(33,868)
Police Grants Fund	-	123,712	(123,712)
Sutter Creek Bridge Replacement Fund	-	22,774	(22,774)
Nonmajor Capital Projects Funds:	-		
Prospect Bowers Fund		16,100	(16,100)

Deficit Fund Equity: The following funds have fund deficits at June 30, 2012:

Fund	Deficit
General Fund	\$ (1,152,767)
Major Special Revenue Fund:	
Broad Street Drain Fund	(40,824)
Nonmajor Special Revenue Funds:	
Caltrans Street Fund	(38,481)
AB 1600 Fund	(15,985)
Central Eureka Mine Project Fund	(131,159)
Badger Street Bridge Fund	(8,004)
Police Grants Funds	(24,794)
HOME Grant Fund	(5,490)
Community Center Grant Fund	(104,799)
General Plan Update Fund	(76,985)
RDA Formation Fund	(13,393)
Nonmajor Enterprise Funds:	
Noble Ranch Gold 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.

CITY OF SUTTER CREEK, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2012

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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, 2012, are classified in the accompanying financial statements as follows:

	Governmental Activities	Business Activities	Fiduciary Funds	Total
Cash and cash equivalents	\$ 1,710,896	\$428,549	\$ 49,561	\$2,189,006
	<u>\$ 1,710,896</u>	<u>\$428,549</u>	<u>\$ 49,561</u>	<u>\$2,189,006</u>

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

June 30, 2012

NOTE B – CASH AND INVESTMENTS (Continued)

As of June 30, 2012, the City's cash and investments consisted of the following:

Cash on hand	\$ 1,447
Cash on deposit, Edward G Jones	10,001
Deposits in financial institutions, Umpqua Bank	1,505,596
Total cash	<u>1,517,044</u>
Investments in Local Agency Investment Fund (LAIF)	371,962
Central San Joaquin Valley Risk Manager Authority investment pool	300,000
Total investments	<u>671,962</u>
Total cash and investments	<u><u>\$2,189,006</u></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.

	<u>Maximum Maturity</u>	<u>Maximum Percentage Of Portfolio</u>	<u>Maximum Investment In One Issuer</u>
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 depositss	2 years	50%	None
Investment Pool	N/A	None	None
LAIF	N/A	None	None

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 270 days.

<u>Investments</u>	<u>Total</u>	<u>Remaining Maturity (in Months) 12 Months or Less</u>
LAIF	\$ 371,962	\$ 371,962
Central San Joaquin Valley Risk Management Authority pool	300,000	300,000
	<u><u>\$ 671,962</u></u>	<u><u>\$ 671,962</u></u>

CITY OF SUTTER CREEK, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2012

NOTE B – CASH AND INVESTMENTS (Continued)

Credit Risk: Generally, credit risk is the risk that an issue 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.

Investments	Minimum Legal Rating	Total	Not Rated
LAIF	N/A	\$ 371,962	\$ 371,962
Central San Joaquin Valley Risk Management Authority pool	N/A	<u>300,000</u>	<u>300,000</u>
		<u>\$ 671,962</u>	<u>\$ 671,962</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, 2012, the carrying amount of the City's deposits was \$1,505,596, and the bank balance was \$1,630,399. Of the bank balance, \$250,000 was covered by federal depository insurance, and \$1,380,399 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.

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 \$60,588,263,603 managed by the State Treasurer. Of that amount, 3.47% 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.

CITY OF SUTTER CREEK, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2012

NOTE B – CASH AND INVESTMENTS (Continued)

The City is a participant in the Central San Joaquin Valley Risk Management Authority Investment Pool (CSJVRM). The City reports its investment in CSJVRM at the fair value amount provided by CSJVRM, which is the same as the value of the pool share. The balance is available for withdrawal on demand, and is based on the accounting records maintained by CSJVRM, which are recorded on an amortized cost basis. Included in CSJVRM's investment portfolio are commercial paper, negotiable CDs, United States Treasury Notes and Bills, and Corporate Securities and Agency Funds. At June 30, 2012, these investments matured in an average of 2.58 years.

NOTE C – INTERFUND TRANSACTIONS

Interfund balances at June 30, 2012 were as follows:

	Due from Other Funds
	Bypass Relinquishment Fund
Due to other Funds	
General Fund	\$ 1,219,747
Broad Street Drain Fund	179,067
Non-major Special Revenue Funds	759,425
Non-major Enterprise Fund	51,022
Internal Service Fund	7,633
	<u>\$ 2,216,894</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, 2012 were as follows:

	Transfers in		
	General	Nonmajor	
Transfer Out	Fund	Special Revenue	Total
	Fund	Fund	
Nonmajor Special Revenue Fund	\$ 30,600	\$ -	\$ 30,600

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, 2012

NOTE D – CAPITAL ASSETS

Business-type capital assets activities for the year ended June 30, 2012 was as follows:

	Balance at June 30, 2011	Additions	Retirements	Transfers/ Adjustments	Balance at June 12, 2012
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
Waste water 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	(315,309)	(3,163)			(318,472)
Waste water facilities	(1,240,295)	(40,315)			(1,280,610)
Sewer treatment plant	(840,807)	(48,570)		(8,573)	(897,950)
Machinery and equipment	(97,494)	(5,384)			(102,878)
Total accumulated depreciation	(2,493,905)	(97,432)		(8,573)	(2,599,910)
Capital assets being depreciated, net	1,851,507	(97,432)		(8,573)	1,745,502
BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS, NET	\$2,472,869	\$ (97,432)	\$ -	\$ (8,573)	\$ 2,366,864

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

NOTE E – LONG-TERM LIABILITIES

	Balance June 30, 2011	Additions	Payments	Balance June 30, 2012	Due Within One Year
Governmental Activities:					
Compensated absences	\$ 83,082	\$ 16,483	\$ (31,499)	\$ 68,066	\$ 34,033
Governmental activities long-term liabilities	\$ 83,082	\$ 16,483	\$ (31,499)	\$ 68,066	\$ 34,033
Business- Type Activities:					
Loan payable to USDA	\$ 673,000	\$ -	\$ (14,000)	659,000	\$ 15,000
Loan payable to ARSA	450,000			450,000	
Compensated absences	20,640	\$ 11,726	(16,536)	15,830	7,915
Business- type activities long-term liabilities	\$ 1,143,640	\$ 11,726	\$ (30,536)	\$ 1,124,830	\$ 22,915

CITY OF SUTTER CREEK, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2012

NOTE E – LONG-TERM LIABILITIES

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, 2012 are as follows:

June 30	Principal	Interest	Total
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	18,000	26,820	143,920
2018-2022	100,000	121,600	202,150
2023-2027	125,000	96,750	197,630
2028-2032	157,000	65,880	192,685
2033-2037	196,000	27,270	197,935
Totals	<u>\$ 659,000</u>	<u>\$ 452,845</u>	<u>\$ 1,111,845</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, 2012

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 2013. 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:

	Governmental Activities
Relinquished State Highway 49 projects	\$ 2,492,905
Street and bridge projects	708,808
Public safety projects	43,283
Community projects	27,011
Traffic mitigation projects	328,440
	<u>\$ 3,600,447</u>

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

	General	Bypass Relinquishment	Broad Street Project	Nonmajor Government Funds	Total Government Funds
Nonspendable	\$ 443	\$ -	\$ -	\$ -	\$ 443
Restricted for:					
Relinquished State Highway 49		2,492,905			2,492,905
Street and bridge projects				700,303	700,303
Public safety projects				43,283	43,283
Community projects				27,011	27,011
Traffic mitigation projects				295,728	295,728
Total Restricted		<u>2,492,905</u>		<u>1,066,325</u>	<u>3,559,230</u>
Committed for:					
Cemetery				14,719	14,719
Total Committed				<u>14,719</u>	<u>14,719</u>
Unassigned	<u>(1,153,210)</u>		<u>(40,824)</u>	<u>(419,090)</u>	<u>(1,613,124)</u>
Total fund balances	<u>\$ (1,153,210)</u>	<u>\$ 2,492,905</u>	<u>\$ (40,824)</u>	<u>\$ 661,954</u>	<u>\$ 1,960,825</u>

CITY OF SUTTER CREEK, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2012

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 27.020% for safety employees and 22.439% for non-safety employees of the annual covered payroll. Participants in the Plan are required to contribute 8% of their annual covered salary. 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, 2012, 2011 and 2010 were \$172,550, \$148,378 and \$196,280, 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, 2012

NOTE H – INSURANCE (Continued)

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

Amount		Coverage provider	Payment Source
LIABILITY CLAIMS:			
	\$ 10,000	Self-Insurer	City funds
\$ 10,001	\$ 1,000,000	Central San Joaquin Valley Risk Management Authority	Shared risk pool
\$ 1,000,001	\$ 4,000,000	California Affiliated Risk Mgmt Authorities (CARMA)	Shared risk pool
\$ 4,000,001	\$ 14,000,000	Everest Reinsurance Group via CARMA	Purchased Insurance
\$ 14,000,001	\$ 29,000,000	Colony Natl Insurance Co. via CARMA	Purchased Insurance
WORKERS' COMPENSATION:			
	\$ 10,000	Self-Insurer	City funds
\$ 10,001	\$ 500,000	Central San Joaquin Valley Risk Management Authority	Shared risk pool
	\$ 5,000,000		Excess pool
\$ 500,001		Local Agency Workers Comp Excess JPA (LAWCX)	
\$ 5,000,001	\$ 50,000,000	Renaissance Reinsurance Company / Montpelier	Purchased Insurance
		Reinsurance / Axis Reinsurance via CSJVRMA	
\$ 50,000,001	Statutory Limit	Natl Union Fire Insurance Co (AJG) via CSJVRMA	Purchased Insurance

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, 2012

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

Up through June 30, 2012, 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>1,844,857</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, 2012:

General Fund	\$	337,299
Broad Street Drain Fund		179,067
Police Grants Fund		105,736
Capital Project Fund		76,985
Badger Street Bridge Grant Fund		69,859
Traffic Mitigation Fund		56,041
Noble Ranch Golf Course		51,022
CalTrans Street and Road Fund		38,481
RDA Formation Fund		13,393
Prospect Bowers		10,344
Internal Service Funds		<u>7,633</u>
	\$	<u>945,860</u>

CITY OF SUTTER CREEK, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2012

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, 2012, 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.

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.

Contractual Arrangements: During the course of normal business the City enters into a variety of contractual arrangements for services and supplies. As of the balance sheet date the amount of these contractual arrangements total \$174,519 for various vendors.

NOTE K – GOING CONCERN

The financial statements as of June 30, 2012 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 \$1,152,767 as of June 30, 2012. 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 \$3,000,000 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.

CITY OF SUTTER CREEK, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2012

NOTE K – GOING CONCERN (Continued)

Unaudited financial information for fiscal year 2012/13 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 2012/13, the City adopted a General Fund budget totaling \$1,366,292 with a targeted operating surplus of \$71,308. Preliminary accounting for the fiscal year shows the General Fund to be on track to generate an operating surplus of at least \$135,000. 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 General Fund full-time staffing levels the same for the upcoming fiscal year of 2013/14 while expecting to experience an improved revenue picture. The planned General Fund appropriations totaling \$1,394,292 in FY 2013/14 will once again target a contingency reserve in excess of \$85,000. With the adoption of FY 2013/14 budget, the City has adopted a projected General Fund surplus budget for four consecutive fiscal years.

For the most recent four years, the City has 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 the task of eliminating 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, 2012

	Special Revenue Funds				
	Traffic Enhancement Activity Fund	Traffic and Safety Fund	Traffic Mitigation Fund	Gas Tax Fund	Crestview Lighting District Fund
ASSETS					
Cash and cash equivalents	\$ 88,461	\$ 71,930	\$ 453,045	\$ 56,222	\$ 2,746
Accounts receivable			32,712	849	632
Due from other governmental agencies	32,664			11,562	
Interest receivable	205	30	893	127	7
TOTAL ASSETS	<u>\$ 121,330</u>	<u>\$ 71,960</u>	<u>\$ 486,650</u>	<u>\$ 68,760</u>	<u>\$ 3,385</u>
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	\$ 6,125			\$ 681	
Accrued liabilities				243	
Due to other funds			\$ 158,210		
Deferred revenue			32,712		
TOTAL LIABILITIES	<u>6,125</u>		<u>190,922</u>	<u>924</u>	
FUND BALANCES					
Restricted	115,205	\$ 71,960	295,728	67,836	\$ 3,385
Committed					
Unassigned					
TOTAL FUND BALANCES	<u>115,205</u>	<u>71,960</u>	<u>295,728</u>	<u>67,836</u>	<u>3,385</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 121,330</u>	<u>\$ 71,960</u>	<u>\$ 486,650</u>	<u>\$ 68,760</u>	<u>\$ 3,385</u>

Special Revenue Funds

Local Transportation Commission Fund	Cemetery Fund	FEMA Fund	Cal Trans. Street Fund	AB 1600 Fund	Central Eureka Mine Project Fund	Badger Street Bridge Grant Fund	SB 621 Gaming Grant Fund
\$ 85,239	\$ 14,690	\$ 12,437		\$ 12,728	\$ 36,902		\$ 43,224
174	29	25		12	52,915	\$ 61,846 9	59
<u>\$ 85,413</u>	<u>\$ 14,719</u>	<u>\$ 12,462</u>	<u>\$ -</u>	<u>\$ 12,740</u>	<u>\$ 89,817</u>	<u>\$ 61,855</u>	<u>\$ 43,283</u>
					\$ 26,070		
			\$ 38,481	\$ 28,725	141,991	\$ 69,859	
					52,915		
			<u>38,481</u>	<u>28,725</u>	<u>220,976</u>	<u>69,859</u>	
\$ 85,413	\$ 14,719	\$ 12,462					\$ 43,283
			(38,481)	(15,985)	(131,159)	(8,004)	
<u>85,413</u>	<u>14,719</u>	<u>12,462</u>	<u>(38,481)</u>	<u>(15,985)</u>	<u>(131,159)</u>	<u>(8,004)</u>	<u>43,283</u>
<u>\$ 85,413</u>	<u>\$ 14,719</u>	<u>\$ 12,462</u>	<u>\$ -</u>	<u>\$ 12,740</u>	<u>\$ 89,817</u>	<u>\$ 61,855</u>	<u>\$ 43,283</u>

CITY OF SUTTER CREEK
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS

As of June 30, 2012

	Special Revenue Funds				
	Police Grants Funds	Cal Trans ADA Fund	HOME Grant Fund	Community Center Grant Fund	Traffic Congestion Fund
ASSETS					
Cash and cash equivalents		\$ 32,899	\$ 5,407		\$ 32
Accounts receivable	\$ 1,289				
Due from other governmental agencies	79,628				
Interest receivable	25	81	5		9
TOTAL ASSETS	<u>\$ 80,942</u>	<u>\$ 32,980</u>	<u>\$ 5,412</u>	<u>\$ -</u>	<u>\$ 41</u>
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable					
Accrued liabilities					
Due to other funds	\$ 105,736		\$ 10,902	\$ 104,799	
Deferred revenue					
TOTAL LIABILITIES	<u>105,736</u>		<u>10,902</u>	<u>104,799</u>	
FUND BALANCES					
Restricted		\$ 32,980			\$ 41
Committed					
Unassigned	(24,794)		(5,490)	(104,799)	
TOTAL FUND BALANCES	<u>(24,794)</u>	<u>32,980</u>	<u>(5,490)</u>	<u>(104,799)</u>	<u>41</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 80,942</u>	<u>\$ 32,980</u>	<u>\$ 5,412</u>	<u>\$ -</u>	<u>\$ 41</u>

Special Revenue Funds				Total Nonmajor Special Revenue Funds	Capital Project Funds	Total Nonmajor Governmental Funds
General Plan Update Fund	ACRA Regional Rec. Fees Fund	Sutter Creek Bridge Replacement Fund	RDA Formation Fund		Prospect Bowers Fund	
	\$ 26,957	\$ 122,270		\$ 1,065,189 35,482		\$ 1,065,189 35,482
		192,592		431,207	\$ 16,100	447,307
	54	205		1,949		1,949
<u>\$ -</u>	<u>\$ 27,011</u>	<u>\$ 315,067</u>	<u>\$ -</u>	<u>\$ 1,533,827</u>	<u>\$ 16,100</u>	<u>\$ 1,549,927</u>
		\$ 4,046		\$ 36,922 243	\$ 5,756	\$ 42,678 243
\$ 76,985			\$ 13,393	749,081 85,627	10,344	759,425 85,627
<u>76,985</u>	<u></u>	<u>4,046</u>	<u>13,393</u>	<u>871,873</u>	<u>16,100</u>	<u>887,973</u>
	\$ 27,011	311,021		1,066,325 14,719		1,066,325 14,719
<u>(76,985)</u>	<u></u>	<u></u>	<u>(13,393)</u>	<u>(419,090)</u>	<u>-</u>	<u>(419,090)</u>
<u>(76,985)</u>	<u>27,011</u>	<u>311,021</u>	<u>(13,393)</u>	<u>661,954</u>	<u></u>	<u>661,954</u>
<u>\$ -</u>	<u>\$ 27,011</u>	<u>\$ 315,067</u>	<u>\$ -</u>	<u>\$ 1,533,827</u>	<u>\$ 16,100</u>	<u>\$ 1,549,927</u>

CITY OF SUTTER CREEK

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

For the Year Ended June 30, 2012

	Special Revenue Funds				
	Traffic Enhancement Activity Fund	Traffic and Safety Fund	Traffic Mitigation Fund	Gas Tax Fund	Crestview Lighting District Fund
REVENUES					
Taxes and assessments				\$ 90,125	
Interest and investment income	\$ 424	\$ 237	\$ 1,942	342	\$ 13
Intergovernmental revenues	32,664				
Charges for services			3,161		
Other revenue			3,040		3,531
TOTAL REVENUES	<u>33,088</u>	<u>237</u>	<u>8,143</u>	<u>90,467</u>	<u>3,544</u>
EXPENDITURES					
Public safety					
Cultural and recreation			19		
Public works and facilities	18,939			93,953	549
TOTAL EXPENDITURES	<u>18,939</u>	<u></u>	<u>19</u>	<u>93,953</u>	<u>549</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	14,149	237	8,124	(3,486)	2,995
OTHER FINANCING SOURCES (USES):					
Transfers in					
Transfers out					
TOTAL OTHER FINANCING SOURCES (USES)	<u></u>	<u></u>	<u></u>	<u></u>	<u></u>
NET CHANGE IN FUND BALANCES	14,149	237	8,124	(3,486)	2,995
Fund balances, beginning of year	<u>101,056</u>	<u>71,723</u>	<u>287,604</u>	<u>71,322</u>	<u>390</u>
FUND BALANCES END OF YEAR	<u>\$ 115,205</u>	<u>\$ 71,960</u>	<u>\$ 295,728</u>	<u>\$ 67,836</u>	<u>\$ 3,385</u>

Special Revenue Funds							
Local Transportation Commission Fund	Cemetery Fund	FEMA Fund	Cal Trans. Street Fund	AB 1600 Fund	Central Eureka Mine Project Fund	Badger Street Bridge Grant Fund	SB 621 Gaming Grant Fund
\$ 374	\$ 59	\$ 54		\$ 55	\$ 39,665	\$ 9 61,845	\$ 160 32,463
	1,000						
<u>374</u>	<u>1,059</u>	<u>54</u>		<u>55</u>	<u>39,665</u>	<u>61,854</u>	<u>32,623</u>
<u>1,709</u>					<u>68,870</u>	<u>56,261</u>	<u>33,868</u>
<u>1,709</u>					<u>68,870</u>	<u>56,261</u>	<u>33,868</u>
(1,335)	1,059	54		55	(29,205)	5,593	(1,245)
							(30,600)
							(30,600)
(1,335)	1,059	54		55	(29,205)	5,593	(31,845)
<u>86,748</u>	<u>13,660</u>	<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>\$ 85,413</u>	<u>\$ 14,719</u>	<u>\$ 12,462</u>	<u>\$ (38,481)</u>	<u>\$ (15,985)</u>	<u>\$ (131,159)</u>	<u>\$ (8,004)</u>	<u>\$ 43,283</u>

CITY OF SUTTER CREEK

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

For the Year Ended June 30, 2012

	Special Revenue Funds				
	Police Grants Funds	Cal Trans ADA Fund	HOME Grant Fund	Community Center Grant Fund	Traffic Congestion Fund
REVENUES					
Taxes and assessments					
Interest and investment income	\$ 52	\$ 144	\$ 23		\$ 32
Intergovernmental revenues	82,277			\$ 44,000	
Charges for services					
Other revenue	17,054				
TOTAL REVENUES	<u>99,383</u>	<u>144</u>	<u>23</u>	<u>44,000</u>	<u>32</u>
EXPENDITURES					
Public safety	123,712				
Cultural and recreation					
Public works and facilities					
TOTAL EXPENDITURES	<u>123,712</u>	<u></u>	<u></u>	<u></u>	<u></u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	(24,329)	144	23	44,000	32
OTHER FINANCING SOURCES (USES):					
Transfers in					
Transfers out					
TOTAL OTHER FINANCING SOURCES (USES)	<u></u>	<u></u>	<u></u>	<u></u>	<u></u>
NET CHANGE IN FUND BALANCES	(24,329)	144	23	44,000	32
Fund balances, beginning of year	<u>(465)</u>	<u>32,836</u>	<u>(5,513)</u>	<u>(148,799)</u>	<u>9</u>
FUND BALANCES END OF YEAR	<u>\$ (24,794)</u>	<u>\$ 32,980</u>	<u>\$ (5,490)</u>	<u>\$ (104,799)</u>	<u>\$ 41</u>

Special Revenue Funds				Total Nonmajor Special Revenue Funds	Capital Projects Funds	Total Nonmajor Governmental Funds
General Plan Update Fund	ACRA Regional Rec. Fees Fund	Sutter Creek Bridge Replacement Fund	RDA Formation Fund		Prospect Bowers Fund	
				\$ 90,125		\$ 90,125
	\$ 116	\$ 579		4,615		4,615
		192,590		485,504	\$ 16,100	501,604
				4,161		4,161
				23,625		23,625
	116	193,169		608,030	16,100	624,130
				123,712		123,712
				19		19
		22,774		296,923	16,100	313,023
		22,774		420,654	16,100	436,754
	116	170,395		187,376		187,376
				(30,600)		(30,600)
				(30,600)		(30,600)
	116	170,395		156,776		156,776
\$ (76,985)	26,895	140,626	\$ (13,393)	505,178		505,178
\$ (76,985)	\$ 27,011	\$ 311,021	\$ (13,393)	\$ 661,954	\$ -	\$ 661,954

CITY OF SUTTER CREEK

COMBINING STATEMENT OF ASSETS AND LIABILITIES
AGENCY FUNDS

As of June 30, 2012

	Monteverde Store Fund	Knights Foundry Fund	Community Facilities District Fund	ARSA Funds	Community Trust Fund	Total
ASSETS						
Cash and investments	\$ 1,553	\$ 44,645	\$ 923		\$ 2,440	\$ 49,561
Due from other governments				\$ 103,419		103,419
Prepaid and other assets				27,560		27,560
TOTAL ASSETS	<u>\$ 1,553</u>	<u>\$ 44,645</u>	<u>\$ 923</u>	<u>\$ 130,979</u>	<u>\$ 2,440</u>	<u>\$ 180,540</u>
LIABILITIES						
Accounts payable	\$ 2,765		\$ 1,162	\$ 55,198	\$ 2,431	\$ 61,556
Due to other governments	4,088	\$ 15,174		69,529		88,791
Other accrued liabilities				2,843		2,843
Agency obligations	(5,300)	29,471	(239)	3,409	9	27,350
TOTAL LIABILITIES	<u>\$ 1,553</u>	<u>\$ 44,645</u>	<u>\$ 923</u>	<u>\$ 130,979</u>	<u>\$ 2,440</u>	<u>\$ 180,540</u>

CITY OF SUTTER CREEK

COMPLIANCE REPORTS

June 30, 2012

CITY OF SUTTER CREEK, CALIFORNIA

COMPLIANCE REPORTS

June 30, 2012

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

City Council
City of Sutter Creek, California
Sutter Creek, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Sutter Creek (the City), as of and for the year ended June 30, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated August 8, 2013. The report was modified because the City has not recorded capital assets related to its governmental activities and has not recorded a liability for post-employment benefits.

Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2009/10-1 to 2009/10-4 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with

To the City Council
City of Sutter Creek, California

governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2009/10-5 to 2009/10-7 to be significant deficiencies.

Compliance and Other Matters

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

City's Response to Findings

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

Purpose of this Report

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

Richardson & Company

August 8, 2013

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM, INTERNAL CONTROL OVER COMPLIANCE AND SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS IN ACCORDANCE WITH OMB CIRCULAR A-133

City Council
City of Sutter Creek, California
Sutter Creek, California

Report on Compliance for Each Major Federal Program

We have audited the City of Sutter Creek's (the City) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2012. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of and for the year ended June 30, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated August 8, 2013, which contained adverse and unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain

To the City Council
City of Sutter Creek, California

additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Richardson & Company

August 8, 2013

CITY OF SUTTER CREEK, CALIFORNIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2012

A. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

- | | |
|---|---------|
| 1. Type of auditor's report issued: | Adverse |
| 2. Internal controls over financial reporting: | |
| a. Material weaknesses identified? | Yes |
| b. Significant deficiencies identified not considered to be considered to be material weaknesses? | Yes |
| 3. Noncompliance material to financial statements noted? | No |

Federal Awards

- | | |
|---|-------------|
| 1. Internal control over major programs: | |
| a. Material weaknesses identified? | No |
| b. Significant deficiencies identified not considered to be considered to be material weaknesses? | No |
| 2. Type of auditor's report issued on compliance for major programs: | Unqualified |
| 3. Any audit findings disclosed that are required to be reported in accordance with Circular OMB A-133, Section 510(a)? | No |

4. Identification of major programs:

CFDA Number

97.039

Name of Federal Program

Hazard Mitigation Grant
Broad Street Drainage Project

- | | |
|---|-----------|
| 5. Dollar Threshold used to distinguish between Type A and Type B programs? | \$300,000 |
| 6. Auditee qualified as a low-risk auditee under OMB Circular A-133, Section 530? | No |

B. FINDINGS – FINANCIAL STATEMENT AUDIT

None

C. FINDINGS AND QUESTIONED COSTS – MAJOR
FEDERAL AWARD PROGRAMS AUDIT

None

CITY OF SUTTER CREEK, CALIFORNIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2012

D. PRIOR YEAR AUDIT FINDINGS

MATERIAL WEAKNESSES

Finding 2009/10-1

Criteria: Internal controls over financial reporting should be in place to ensure the City has the ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements.

Year-End Closing

Condition: The City's closing processes improved for the 2011/12 audit. The City was able to prepare many of these account reconciliations in preparation for the audit, but some of them were not completed prior to the start of the audit, resulting in numerous adjustments during the course of the audit. We identified the following areas where improvements are needed.

- Procedures for ensuring all balances on the general ledger can be supported by an analysis or document need to be established. In prior year audits and again for fiscal year 2011/12, we noted granted expenditures were incurred but the corresponding revenue was not accrued; and grant and other revenues not received within the period of availability were not deferred. The City needs to develop procedures for tracking grant expenditures and reimbursements to ensure revenue is accrued to the extent of reimbursable expenditures incurred, a process for recording amounts not expected to be received during the availability period as deferred revenue and procedures for identifying whether revenues received should be deferred. 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 and prior to the start of the audit.
- We noted that the cash balances in the pooled cash fund as of June 30, 2012 did not equal total cash in each fund of the City. Procedures should be put in place as part of the monthly bank reconciliation to ensure that pooled cash equals total cash by fund of the City.

Cause: The City has had turnover in the accounting staff and has not devoted sufficient resources to properly reconcile general ledger accounts and prepare all closing entries prior to the start of the audit.

Auditor's Recommendation: We recommend that the City develop internal control procedures to create a responsible structure for accurate financial reporting. Procedures should be in place to prepare the required reconciliations at year-end and throughout the year and post entries needed to close the books prior to the start of the audit. A review function should also be in place to ensure work performed by the accountants are reviewed for accuracy and conformity with generally accepted accounting principles.

Views of Responsible Officials and Corrective Action Plan: For the past 30 months, City staff has been working in reconciling grant records to the general ledger dating back to 2006. City staff will draft procedures for the Fiscal Year 2013 closing that specifically address the tracking of grant expenditures and reimbursements and document the process of recording amounts as deferred revenues. City staff will also put procedures in place to perform grant reconciliations on a timely basis prior to the start of the audit.

CITY OF SUTTER CREEK, CALIFORNIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2012

D. PRIOR YEAR AUDIT FINDINGS (Continued)

The operational set-up of the cash and investment postings to the cash clearing fund in the general ledger software presents a challenge. Some of the adjustments to the cash clearing fund relate to prior year adjustments to cash and fair valuing of investments. City staff will put procedures in place by October 2013 as part of the monthly bank reconciliation to tie pooled cash by fund to the reconciliation. The procedures will begin with the recently completed reconciliation of July 2013.

Finding 2009/10-2

Governmental Capital Assets

Condition: 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.

Cause: The City has not maintained capital asset records needed to implement GASB 34.

Auditor Recommendation: We recommend the City perform an inventory of its capital assets, including infrastructure, assign a value to these items, and develop a capital asset listing.

Views of Responsible Officials and Corrective Action Plan: City staff will begin the task of documenting the governmental assets and record such amounts onto the ledger as part of the Fiscal 2013 closing.

Finding 2009/10-3

Interfund Borrowings

Condition: 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 CalTrans, 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.

Cause: The City utilized restricted Highway 49 Relinquishment funds to cover deficit cash balances in other City funds.

CITY OF SUTTER CREEK, CALIFORNIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2012

D. PRIOR YEAR AUDIT FINDINGS (CONTINUED)

Auditor Recommendation: We recommend the City establish a plan to eliminate the need to continue using financing in the form of interfund borrowings or relinquishment funds.

Views of Responsible Officials and Corrective Action Plan: City staff will prepare a City Council agenda item by December 2013 that recommends a plan for eliminating the inter-fund borrowings and quantify the amount that may burden the General Fund.

Finding 2009/10-4

Other Postemployment Benefits

Condition: 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.

Cause: The City has not had a calculation performed to value the OPEB liability needed to implement GASB 45.

Auditor Recommendation: We recommend the City perform the calculation to value the OPEB liability to determine whether it is material to the financial statements.

Views of Responsible Officials and Corrective Action Plan: City staff will budget in Fiscal Year 14-15 for an outside provider to calculate the liability. This item requires an annual outflow of cash of less than \$4,000 per year and the cost to hire a provider will be \$2,000 to \$3,000.

SIGNIFICANT DEFICIENCIES

Finding 2009/10-5

Segregation of Duties

Condition: 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.

- 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.

CITY OF SUTTER CREEK, CALIFORNIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2012

D. PRIOR YEAR AUDIT FINDINGS (Continued)

- 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.
- 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.

Cause: The City has had turnover in accounting staff and did not have in place certain procedures to improve controls.

Auditor Recommendation We recommend the City implement certain internal control procedures to establish effective segregation of duties.

Views of Responsible Officials and Corrective Action Plan: The City will change procedures by November 2013 so that the part-time clerk in City Clerk's office mails the checks.

City staff will document procedures so that the signer of the checks has a reconciliation of check numbers used by the previous check registers to identify any gaps. At the end of each month, the Finance Director reviews copies of cleared checks from the bank statements to identify any improperly issued checks. This mitigating control and other controls will be documented in our procedures on a prospective basis.

City staff will document and implement procedures by October 2013 whereas the Finance Director will provide the authorization for all billing adjustments on a quarterly basis.

Finding 2009/10-6

Traffic and Safety Fund

Condition: 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.

Cause: The City has not determined whether qualifying expenditure have been incurred in order to transfer revenue to the fund where expenditures were incurred.

Auditor Recommendation: We recommend the City substantiate the funding source related to the \$106,000 of revenue recorded in 2002 and determine whether qualifying expenditures have been incurred.

CITY OF SUTTER CREEK, CALIFORNIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2012

D. PRIOR YEAR AUDIT FINDINGS (Continued)

Views of Responsible Officials and Corrective Action Plan: City staff will recommend by December 2013 budget changes in order to consume money in this fund for traffic safety purposes. The City has not identified documentation as to the source of these revenues other than a posting description in 2002 that labeled money as "POST Revenue" from the State of California. Between 2002 and 2009, the general ledger had other postings described as "POST Revenue" that were not "POST Revenue" reimbursements. It appears this revenue account label was used incorrectly by prior city staff. City staff will rely on the assertion of previous management staff that this money is to be used for Traffic Safety purposes.

Finding 2009/10-7

Council Review of Financial Information

Condition: 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 and 2011/12, 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, or designated City Council members, for review is an important internal control. The City needs to ensure that these check listings are provided to the Council members on a monthly basis.

Cause: Policy and procedures do not require the Council to review a monthly listing of checks paid by the City.

Auditor Recommendation: We recommend the City ensures these check listing are provided to the Council, or designated Council members, on a monthly basis.

Views of Responsible Officials and Corrective Action Plan: By November 2013, City staff will implement and document a procedure and provides a listing of checks issued monthly by the City Council.

CITY OF SUTTER CREEK, CALIFORNIA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2012

<u>Federal Grantor/Pass-through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantors' Number</u>	<u>Expenditures</u>
MAJOR FEDERAL AWARDS:			
<u>Department of Homeland Security</u>			
Passed-through State of California Office of Emergency Services Hazard Mitigation Grant Broad Street Drainage Project	97.039	FEMA-1646-32-06 FIPS Code #005-77392	\$ 527,672
TOTAL MAJOR FEDERAL AWARDS			<u>527,672</u>
NON-MAJOR FEDERAL AWARDS:			
<u>U.S. Department of Justice</u>			
Community Oriented Policing—ARRA Hiring Recovery Program	16.710	2009RKWX0089	79,628
<u>U.S. Department of Transportation</u>			
Passed-through the State of California Business Transportation and Housing Agency Highway Planning and Construction Sutter Hill Road Realignment	20.205	HSIPL-5215(009)	17,045
Main Street Bridge Replacement	20.205	BRLS-5215(010)	20,162
Badger Street Bridge Replacement	20.205	BRLS-5215(012)	49,808
Highway Planning and Construction Cluster			<u>87,015</u>
<u>U.S. Environmental Protection Agency</u>			
Brownfields Assessment and Cleanup Cooperative Agreement Central Eureka Mine Restoration	66.818	BF-99987601.0	57,390
TOTAL NON-MAJOR FEDERAL AWARDS			<u>224,033</u>
			<u>\$ 751,705</u>

CITY OF SUTTER CREEK, CALIFORNIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2012

NOTE A – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of City of Sutter Creek, California and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

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

City Council
City of Sutter Creek
Sutter Creek, California

We have performed the procedures enumerated below to the accompanying calculation of the Appropriation Limit of the City of Sutter Creek for the year ended June 30, 2012. These procedures, which were agreed to by the City of Sutter Creek and the League of California Cities (as presented in the publication entitled *Agreed-Upon Procedures Applied to the Appropriations Limitation Prosecuted by Article XIII-B* of the California Constitution) 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. The City of Sutter Creek management is responsible for the Appropriations Limit calculation. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of those parties specified in this 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 2011/2012 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 2011/2012 Appropriation Limit by multiplying the product of the two above factors by the 2010/2011 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 2011/2012.

Finding: For the 2011/2012 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 Article XIII-B of the California Constitution.

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

August 8, 2013

APPENDIX A

CITY OF SUTTER CREEK APPROPRIATION LIMIT CALCULATION Year Ended June 30, 2012

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>

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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, 2012, 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 and other deficiencies that we consider to be significant deficiencies.

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

Year-End Closing Procedures

The City's closing processes improved for the 2011/12 audit. The City was able to prepare many of these account reconciliations in preparation for the audit, but some of them were not completed prior to the start of the audit, resulting in numerous adjustments during the course of the audit. We identified the following areas where improvements are needed.

- Procedures for ensuring all balances on the general ledger can be supported by an analysis or document need to be established. In prior year audits and again for fiscal year 2011/12, we noted granted expenditures were incurred but the corresponding revenue was not accrued; and grant and other revenues not received within the period of availability were not deferred. The City needs to develop procedures for tracking grant expenditures and reimbursements to ensure revenue is accrued to the extent of reimbursable expenditures incurred, a process for recording amounts not expected to be received during the availability period as deferred revenue and procedures for identifying whether revenues received should be deferred. 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 and prior to the start of the audit.

Management's Response: For the past 30 months, City staff has been working in reconciling grant records to the general ledger dating back to 2006. City staff will draft procedures for the Fiscal Year 2013 closing that specifically address the tracking of grant expenditures and reimbursements and document the process of recording amounts as deferred revenues. City staff will also put procedures in place to perform grant reconciliations on a timely basis prior to the start of the audit.

- We noted that the cash balance in the pooled cash fund as of June 30, 2012 did not equal total cash in each fund of the City. Procedures should be put in place as part of the monthly bank reconciliation to ensure that pooled cash equals total cash by fund of the City.

Management's Response: The operational set-up of the cash and investment postings to the cash clearing fund in the general ledger software presents a challenge. Some of the adjustments to the cash clearing fund relate to prior year adjustments to cash and fair valuing of investments. City staff will put procedures in place by October 2013 as part of the monthly bank reconciliation to tie pooled cash by fund to the reconciliation. The procedures will begin with the recently completed reconciliation of July 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: City staff will begin the task of documenting the governmental assets and record such amounts onto the ledger as part of the Fiscal 2013 closing.

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: City staff will prepare a City Council agenda item by December 2013 that recommends a plan for eliminating the inter-fund borrowings and quantify the amount that may burden the General Fund.

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 or alternative 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 budget in Fiscal Year 14-15 for an outside provider to calculate the liability. This item requires an annual outflow of cash of less than \$4,000 per year and the cost to hire a provider will be \$2,000 to \$3,000.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies in the City's internal control to be significant deficiencies.

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:

- 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: The City will change procedures by November 2013 so that the part-time clerk in City Clerk's office mails the checks.

- 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: City staff will document procedures so that the signer of the checks has a reconciliation of check numbers used by the previous check registers to identify any gaps. At the end of each month, the Finance Director reviews copies of cleared checks from the bank statements to identify any improperly issued checks. This mitigating control and other controls will be documented in our procedures on a prospective basis.

- 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: City staff will document and implement procedures by October 2013 whereas the Finance Director will provide the authorization for all billing adjustments on a quarterly basis.

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: City staff will recommend by December 2013 budget changes in order to consume money in this fund for traffic safety purposes. The City has not identified documentation as to the source of these revenues other than a posting description in 2002 that labeled money as "POST Revenue" from the State of California. Between 2002 and 2009, the general ledger had other postings described as "POST Revenue" that were not "POST Revenue" reimbursements. It appears this revenue account label was used incorrectly by prior city staff. City staff will rely on the assertion of previous management staff that this money is to be used for Traffic Safety purposes.

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 and 2011/12, 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, or designated City Council members, for review is an important internal control. The City needs to ensure that these check listings are provided to the Council members on a monthly basis.

Management's Response: By November 2013, City staff will implement and document a procedure and provides a listing of checks issued monthly by the City Council.

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

Payroll Processes and Documentation

We recommend that the payroll register be reconciled to the general ledger by the Finance Director and that review of the payroll register by the City Manager be documented. In our payroll testing we noted the following:

- Personnel file did not contain a personal action form authorizing the pay rate.
- Personnel action form did not reflect the current pay rate.

We recommend that this documentation be maintained in the employee files.

Management's Response: During the latter portion of fiscal year 2012 the City switched to PayChex payroll processing and the City prepared manual journal entries for the posting of payrolls. The manual journal entries generated the concern by the auditors regarding the reconciliation of the payroll register to the general ledger. During Fiscal Year 2013, City staff and PayChex continued in refining the payroll processing whereby Paychex provides a computerized generated payroll posting. With the newly

automated posting, staff believes the reconciliation of the payroll register to general ledger is unnecessary. During FY 2013 the City Manager began signing off on each payroll register. City staff will document this implemented procedure regarding the review of the payroll register by the City Manager. Please note that City staff is continuing to enhance the various controls and file documentation surrounding the personnel function.

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: By December 2013, the contractual finance director will draft the entire set of financial statements and provide them to the auditors prior to the start of the audit. By December 2013, the City Manager and the contractual finance director and the contractual city attorney will review all minutes of Fiscal Year 2013 and identify any and all obligations that may affect the City's financial position in a material fashion. The City Manager and contractual finance director will sign a management representation letter asserting to the fact that the audited financial statements are materially accurate.

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 2014, City staff will draft a well-defined disaster recovery plan with specific target dates of implementing all aspects of plan by June 2015. City staff will submit a budget proposal (summarizing the costs of implementing the recovery plan) to the City Council by June 2014.

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 September 2014, City staff will draft and implement procedures that address the concerns regarding 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

August 8, 2013

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August 8, 2013

To the 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 August 8, 2013. 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, 2012.

- 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 \$1,152,767 at June 30, 2012. The City Council approved a resolution addressing this deficit that applies 35% of the annual positive variance in the General Fund to the deficit until it is paid off, beginning with fiscal year 2012/13.

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 in the Enterprise Funds and the collectability 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 and reconciliations 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.

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 45 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.

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 August 8, 2013.

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

CITY OF SUTTER CREEK, CALIFORNIA
SUMMARY OF UNADJUSTED AUDIT DIFFERENCES
YEAR ENDED JUNE 30, 2012

Wastewater Fund

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 shortfall in allowance accrual for past due waste water billings	\$ 46,181	-	\$ 46,181	-	-	\$ 46,181
Net Unadjusted Audit Differences - This Year	46,181	-	46,181	-	-	46,181
Financial Statement Caption Totals (Total Enterprise Funds)	\$ 3,489,529	\$ 1,265,912	2,223,617	\$ 1,579,956	1,291,899	288,057
Net Audit Differences as % of F/S Captions	1.32%	0.00%	2.08%	0.00%	0.00%	16.03%