

CITY OF ANGELS

INDEPENDENT AUDITOR'S REPORT

AND

FINANCIAL STATEMENTS

JUNE 30, 2011

TABLE OF CONTENTS

| | <u>Page</u> |
|---|-------------|
| INDEPENDENT AUDITOR'S REPORT | 1 |
| FINANCIAL STATEMENTS: | |
| Government-Wide Financial Statements | |
| Statement of Net Assets | 2 |
| Statement of Activities and Changes in Net Assets | 3 |
| Fund Financial Statements | |
| Balance Sheet - Governmental Funds | 4 |
| Reconciliation of Total Governmental Fund Balance to Net Assets of Governmental Activities | 5 |
| Statement of Revenue, Expenditures and Changes in Fund Balance - Governmental Funds | 6 |
| Reconciliation of Statement of Revenue, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities and Changes in Net Assets | 7 |
| Statement of Net Assets - Proprietary Funds | 8 |
| Statement of Revenue, Expenses and Changes in Fund Net Assets - Proprietary Funds | 9 |
| Statement of Cash Flows - Proprietary Funds | 10 |
| Statement of Net Assets - Fiduciary Funds | 11 |
| Statement of Changes in Net Assets - Fiduciary Funds | 12 |
| Notes to Financial Statements | 13 - 34 |

TABLE OF CONTENTS (Continued)

| | <u>Page</u> |
|--|-------------|
| Required Supplementary Information | |
| Budgetary Comparison Schedule – General Fund | 35 |
| Supplemental Only Information | |
| Combining Balance Sheet – Nonmajor Governmental Funds | 36 - 37 |
| Combining Statement of Revenue, Expenditures and Changes in Fund Balance – Nonmajor Governmental Funds | 38 – 39 |
| 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 <i>GOVERNMENT AUDITING STANDARDS</i> | 40 – 41 |
| INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 | 42 – 43 |
| SCHEDULE OF EXPENDITURES OF FEDERAL FINANCIAL ASSISTANCE | 44 |
| SCHEDULE OF FINDINGS AND QUESTIONED COSTS | 45 - 47 |
| SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS | 48 |

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and City Council
City of Angels, California

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Angels, California, (the "City") as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

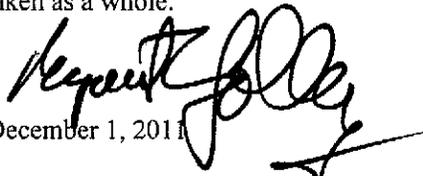
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 1, 2011 on our consideration of the City of Angels internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The City has not presented the Management Discussion and Analysis that accounting principles generally accepted in the United States have determined is necessary to supplement, although not required to be part of, the financial statements. The Budgetary Comparison Information on pages 34 and 35 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.


December 1, 2011

CITY OF ANGELS

STATEMENT OF NET ASSETS

JUNE 30, 2011

| | <u>Governmental</u> <u>Activities</u> | <u>Business-Type</u> <u>Activities</u> | <u>Total</u> |
|--|--|---|----------------------|
| ASSETS | | | |
| Cash and investments - unrestricted | \$ 3,264,158 | \$ 8,431,842 | \$ 11,696,000 |
| Cash and investments - restricted | - | 287,751 | 287,751 |
| Accounts receivable, net | 16,985 | 345,512 | 362,497 |
| Due from other governments | 89,317 | - | 89,317 |
| Taxes receivable | 224,379 | - | 224,379 |
| Interest receivable | 1,217 | - | 1,217 |
| Prepaid expense | 10,697 | - | 10,697 |
| Notes receivable | 1,066,740 | - | 1,066,740 |
| Deferred charges - Bond issuance costs, net | - | 49,958 | 49,958 |
| Capital assets, net of allowance for depreciation | <u>1,444,327</u> | <u>19,582,397</u> | <u>21,026,724</u> |
| Total assets | <u>6,117,820</u> | <u>28,697,460</u> | <u>34,815,280</u> |
| LIABILITIES | | | |
| Accounts payable and accrued expense | 165,023 | 300,127 | 465,150 |
| Accrued payroll | 42,843 | 22,713 | 65,556 |
| Accrued interest | 4,002 | 78,384 | 82,386 |
| Deposits payable | 43,530 | 15,560 | 59,090 |
| Compensated absences | 126,059 | 49,367 | 175,426 |
| Long-term liabilities | | | |
| Due within one year | 60,385 | 387,625 | 448,010 |
| Due in more than one year | 206,012 | 6,677,161 | 6,883,173 |
| Post-retirement health benefits | <u>277,514</u> | - | <u>277,514</u> |
| Total liabilities | <u>925,368</u> | <u>7,530,937</u> | <u>8,456,305</u> |
| NET ASSETS | | | |
| Invested in capital assets, net of related debt | 1,177,930 | 12,517,611 | 13,695,541 |
| Restricted for debt service | - | 287,751 | 287,751 |
| Restricted for specific projects and programs | 1,498,729 | - | 1,498,729 |
| Unrestricted | <u>2,515,793</u> | <u>8,361,161</u> | <u>10,876,954</u> |
| Total net assets/(deficit) | <u>\$ 5,192,452</u> | <u>\$ 21,166,523</u> | <u>\$ 26,358,975</u> |

CITY OF ANGELS

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS YEAR ENDED JUNE 30, 2011

| Functions/Programs | Program Revenue | | | Net Revenue/(Expense) and Changes in Net Assets | | | |
|-------------------------------------|---------------------|-------------------------|--|--|----------------------------|-----------------------------|------------------|
| | Expense | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business-Type Activities | Total |
| Primary Government | | | | | | | |
| Governmental activities | | | | | | | |
| General government | \$ 847,224 | \$ 36,483 | \$ 63,621 | \$ - | \$ (747,120) | \$ - | \$ (747,120) |
| Public works | 382,020 | 23,724 | 107,850 | - | (250,446) | - | (250,446) |
| Community development | 770,178 | 106,371 | 7,953 | 748,543 | 92,689 | - | 92,689 |
| Public safety | 1,647,987 | 79,479 | 123,155 | - | (1,445,353) | - | (1,445,353) |
| Parks and recreation | 156,116 | 25,871 | - | - | (130,245) | - | (130,245) |
| Debt Service | | | | | | | |
| Interest and fiscal charges | 16,031 | - | - | - | (16,031) | - | (16,031) |
| Total governmental activities | 3,819,556 | 271,928 | 302,579 | 748,543 | (2,496,506) | - | (2,496,506) |
| Business-type activities | | | | | | | |
| Water | 1,635,793 | 1,611,393 | - | - | - | (24,400) | (24,400) |
| Sewer | 2,070,501 | 2,326,965 | - | 1,673,111 | - | 1,929,575 | 1,929,575 |
| Total business-type activities | 3,706,294 | 3,938,358 | - | 1,673,111 | - | 1,905,175 | 1,905,175 |
| Total primary government | \$ 7,525,850 | \$ 4,210,286 | \$ 302,579 | \$ 2,421,654 | (2,496,506) | 1,905,175 | (591,331) |
| General Revenue | | | | | | | |
| Property taxes | | | | | 652,439 | - | 652,439 |
| Special assessments | | | | | 163,963 | - | 163,963 |
| Sales taxes | | | | | 464,687 | - | 464,687 |
| Franchise and other taxes | | | | | 901,827 | - | 901,827 |
| Motor vehicle license-in-lieu | | | | | 252,286 | - | 252,286 |
| Rents | | | | | 51,807 | - | 51,807 |
| Interest income | | | | | 10,959 | 30,306 | 41,265 |
| Other | | | | | 3,238 | - | 3,238 |
| Transfers | | | | | 126,853 | (126,853) | - |
| Total general revenue and transfers | | | | | 2,628,059 | (96,547) | 2,531,512 |
| Change in Net Assets | | | | | 131,553 | 1,808,628 | 1,940,181 |
| Net Assets | | | | | | | |
| Beginning of year | | | | | 5,060,899 | 19,357,895 | 24,418,794 |
| End of year | | | | | \$ 5,192,452 | \$ 21,166,523 | \$ 26,358,975 |

See accompanying notes.

CITY OF ANGELS

BALANCE SHEET – GOVERNMENTAL FUNDS

JUNE 30, 2011

| | General Fund | Other Governmental Funds | Total Governmental Funds |
|--|---------------------|--------------------------------|--------------------------------|
| ASSETS | | | |
| Cash and investments | \$ 1,660,955 | \$ 1,603,203 | \$ 3,264,158 |
| Accounts receivable, net | 16,985 | - | 16,985 |
| Due from other governments | 24,487 | 64,830 | 89,317 |
| Taxes receivable | 129,659 | 94,720 | 224,379 |
| Interest receivable | 820 | 397 | 1,217 |
| Prepaid expense | 7,467 | 3,230 | 10,697 |
| Due from other funds | 141,343 | - | 141,343 |
| Notes receivable | - | 1,066,740 | 1,066,740 |
| Total assets | <u>\$ 1,981,716</u> | <u>\$ 2,833,120</u> | <u>\$ 4,814,836</u> |
| LIABILITIES AND FUND BALANCE | | | |
| Liabilities | | | |
| Accounts payable and accrued expense | \$ 108,733 | \$ 56,290 | \$ 165,023 |
| Accrued payroll | 35,350 | 7,493 | 42,843 |
| Compensated absences | 120,929 | 5,130 | 126,059 |
| Due to other funds | - | 141,343 | 141,343 |
| Deposits payable | 43,530 | - | 43,530 |
| Total liabilities | <u>308,542</u> | <u>210,256</u> | <u>518,798</u> |
| Fund Balance | | | |
| Nonspendable | | | |
| Notes receivable | - | 1,066,740 | 1,066,740 |
| Restricted | | | |
| Capital improvement projects | - | 196,348 | 196,348 |
| Circulation improvements | - | 386,237 | 386,237 |
| Development activities | - | 1,093 | 1,093 |
| Lighting, landscape & park maintenance | - | 570,961 | 570,961 |
| Low-income housing activities | - | 281,432 | 281,432 |
| Public safety | - | 62,658 | 62,658 |
| Assigned | | | |
| Other post employment benefits | 275,769 | - | 275,769 |
| Street maintenance | 434,096 | - | 434,096 |
| Unassigned | 963,309 | 57,395 | 1,020,704 |
| Total fund balance | <u>1,673,174</u> | <u>2,622,864</u> | <u>4,296,038</u> |
| Total liabilities and fund balance | <u>\$ 1,981,716</u> | <u>\$ 2,833,120</u> | <u>\$ 4,814,836</u> |

CITY OF ANGELS

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE TO NET ASSETS OF GOVERNMENTAL ACTIVITIES JUNE 30, 2011

Total governmental fund balance \$ 4,296,038

Amounts reported for governmental activities in the Statement
of Net Assets are different because:

Capital assets used in governmental activities are not financial
resources and therefore are not reported in the funds 1,444,327

Governmental long-term liabilities are not due and payable in the current
period and, therefore, are not reported in the funds (543,911)

Interest on long-term debt is reported as an expenditure of the Governmental
Funds when paid because it requires the use of current financial
resources. However, accrued interest must be recorded when incurred (4,002)

Net assets of governmental activities \$ 5,192,452

CITY OF ANGELS

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE – GOVERNMENTAL FUNDS YEAR ENDED JUNE 30, 2011

| | General Fund | Other Governmental Funds | Total Governmental Funds |
|---------------------------------------|---------------------|--------------------------------|--------------------------------|
| Revenue | | | |
| Taxes | \$ 1,962,786 | \$ 472,417 | \$ 2,435,203 |
| Licenses, permits and impact fees | 114,276 | 154,565 | 268,841 |
| Intergovernmental | 499,493 | 397,064 | 896,557 |
| Charges for services | 119,946 | 21,012 | 140,958 |
| Fines and forfeitures | 16,694 | - | 16,694 |
| Rental | 51,807 | - | 51,807 |
| Interest | 7,529 | 3,430 | 10,959 |
| Other | 3,238 | - | 3,238 |
| Total revenue | <u>2,775,768</u> | <u>1,048,488</u> | <u>3,824,256</u> |
| Expenditures | | | |
| Current | | | |
| General government | 697,610 | - | 697,610 |
| Public works | 61,568 | 297,824 | 359,392 |
| Community development | 353,449 | 416,729 | 770,178 |
| Public safety | 1,332,044 | 211,275 | 1,543,319 |
| Parks and recreation | 146,369 | - | 146,369 |
| Capital outlay | - | - | - |
| Debt Service | | | |
| Principal | 57,540 | - | 57,540 |
| Interest and fiscal charges | 16,904 | - | 16,904 |
| Total expenditures | <u>2,665,484</u> | <u>925,828</u> | <u>3,591,312</u> |
| Revenue over/(under) expenditures | 110,284 | 122,660 | 232,944 |
| Other Financing Sources/(Uses) | | | |
| Transfers in/(out) - net | 101,803 | 25,050 | 126,853 |
| | <u>101,803</u> | <u>25,050</u> | <u>126,853</u> |
| Change in Fund Balance | 212,087 | 147,710 | 359,797 |
| Fund Balance | | | |
| Beginning of year | 1,461,087 | 2,475,154 | 3,936,241 |
| End of year | <u>\$ 1,673,174</u> | <u>\$ 2,622,864</u> | <u>\$ 4,296,038</u> |

CITY OF ANGELS

RECONCILIATION OF STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS YEAR ENDED JUNE 30, 2011

Net change in fund balance - total governmental funds \$ 359,797

Amounts reported for governmental activities in the Statement of Activities
are different because:

Repayment of long-term debt is an expenditure in governmental funds,
but the repayment reduces long-term liabilities in the Statement of
Net Assets 57,540

Post-retirement benefit costs in the Statement of Activities does not
require the use of current financial resources and, therefore,
is not reported as expenditures in the Governmental Funds (145,187)

Depreciation expense on capital assets is reported in the Statement of
Activities, but they do not require the use of current financial
resources. Therefore, depreciation expense is not required as
expenditures in Governmental Funds (141,470)

In the Statement of Activities interest is accrued on long-term debt,
whereas, in governmental funds interest expenditure is reported
when due 873

Change in net assets of governmental activities \$ 131,553

CITY OF ANGELS

STATEMENT OF NET ASSETS – PROPRIETARY FUNDS JUNE 30, 2011

| | Business-Type Activities - Enterprise Funds | | |
|---|--|----------------------|--|
| | Water | Sewer | Total Proprietary Funds |
| ASSETS | | | |
| Current assets | | | |
| Cash and investments - unrestricted | \$ 5,046,789 | \$ 3,385,053 | \$ 8,431,842 |
| Cash and investments - restricted for bonds | - | 287,751 | 287,751 |
| Accounts receivable, net | 159,592 | 185,920 | 345,512 |
| Total current assets | <u>5,206,381</u> | <u>3,858,724</u> | <u>9,065,105</u> |
| Non-current assets | | | |
| Advance from other fund | 1,105,000 | - | 1,105,000 |
| Deferred issuance costs | - | 49,958 | 49,958 |
| Property, plant and equipment, net of allowance for depreciation | 2,169,961 | 17,412,436 | 19,582,397 |
| Total assets | <u>8,481,342</u> | <u>21,321,118</u> | <u>29,802,460</u> |
| LIABILITIES | | | |
| Current liabilities | | | |
| Accounts payable and accrued expenses | 61,426 | 238,701 | 300,127 |
| Accrued payroll | 12,149 | 10,564 | 22,713 |
| Accrued interest | - | 78,384 | 78,384 |
| Deposits payable | 15,560 | - | 15,560 |
| Current portion of long-term debt | 77,804 | 309,821 | 387,625 |
| Total current liabilities | <u>166,939</u> | <u>637,470</u> | <u>804,409</u> |
| Non-current liabilities | | | |
| Advance to other fund | - | 1,105,000 | 1,105,000 |
| Long-term debt | 826,000 | 5,851,161 | 6,677,161 |
| Compensated absences | 27,153 | 22,214 | 49,367 |
| Total noncurrent liabilities | <u>853,153</u> | <u>6,978,375</u> | <u>7,831,528</u> |
| Total liabilities | <u>1,020,092</u> | <u>7,615,845</u> | <u>8,635,937</u> |
| NET ASSETS | | | |
| Invested in capital assets, net of related debt | 1,266,157 | 11,251,454 | 12,517,611 |
| Restricted for debt service | - | 287,751 | 287,751 |
| Unrestricted/(deficit) | 6,195,093 | 2,166,068 | 8,361,161 |
| Total net assets/(deficit) | <u>\$ 7,461,250</u> | <u>\$ 13,705,273</u> | <u>\$ 21,166,523</u> |

CITY OF ANGELS

STATEMENT OF REVENUE, EXPENSE, AND CHANGES IN FUND NET ASSETS – PROPRIETARY FUNDS YEAR ENDED JUNE 30, 2011

| | Business-Type Activities - Enterprise Funds | | |
|---------------------------------------|--|----------------------|--|
| | Water | Sewer | Total Proprietary Funds |
| Operating Revenue | | | |
| Charges for services | \$ 1,496,692 | \$ 2,326,965 | \$ 3,823,657 |
| Connection fees | 114,701 | - | 114,701 |
| Total operating revenue | <u>1,611,393</u> | <u>2,326,965</u> | <u>3,938,358</u> |
| Operating Expense | | | |
| Contractual services and utilities | 305,348 | 571,434 | 876,782 |
| Personnel | 572,779 | 622,224 | 1,195,003 |
| Supplies and materials | 644,920 | 174,985 | 819,905 |
| Depreciation and amortization | 111,449 | 445,239 | 556,688 |
| Total operating expense | <u>1,634,496</u> | <u>1,813,882</u> | <u>3,448,378</u> |
| Operating income/(loss) | <u>(23,103)</u> | <u>513,083</u> | <u>489,980</u> |
| Nonoperating Revenue/(Expense) | | | |
| Intergovernmental | - | 1,673,111 | 1,673,111 |
| Interest income | 20,774 | 9,532 | 30,306 |
| Interest expense | (1,297) | (256,619) | (257,916) |
| Total nonoperating revenue/(expense) | <u>19,477</u> | <u>1,426,024</u> | <u>1,445,501</u> |
| Net income/(loss) before transfers | <u>(3,626)</u> | <u>1,939,107</u> | <u>1,935,481</u> |
| Operating Transfers In/(Out) | <u>(68,942)</u> | <u>(57,911)</u> | <u>(126,853)</u> |
| Change in Net Assets | <u>(72,568)</u> | <u>1,881,196</u> | <u>1,808,628</u> |
| Net Assets | | | |
| Beginning of year | <u>7,533,818</u> | <u>11,824,077</u> | <u>19,357,895</u> |
| End of year | <u>\$ 7,461,250</u> | <u>\$ 13,705,273</u> | <u>\$ 21,166,523</u> |

CITY OF ANGELS

STATEMENT OF CASH FLOW - PROPRIETARY FUNDS YEAR ENDED JUNE 30, 2011

| | Business-Type Activities - Enterprise Funds | | |
|--|--|---------------------|---------------------|
| | Water | Sewer | Total |
| Operating Activities | | | |
| Receipts from customers and users | \$ 1,633,636 | \$ 2,340,415 | \$ 3,974,051 |
| Payments for contractual services and utilities | (272,167) | (482,155) | (754,322) |
| Payments to employees | (570,105) | (628,534) | (1,198,639) |
| Payment to suppliers | (644,920) | (174,985) | (819,905) |
| Net cash provided by (used in) operating activities | <u>146,444</u> | <u>1,054,741</u> | <u>1,201,185</u> |
| Non-capital Financial Activities | | | |
| Transfers (to)/from other funds | (68,942) | (57,911) | (126,853) |
| Payments from other governments | - | 1,673,111 | 1,673,111 |
| Net cash provided by (used in) noncapital financing activities | <u>(68,942)</u> | <u>1,615,200</u> | <u>1,546,258</u> |
| Capital and Related Financing Activities | | | |
| Purchase of property, plant and equipment | (99,888) | (1,768,759) | (1,868,647) |
| Principal paid on long-term debt | (77,306) | (205,038) | (282,344) |
| Advances (to)/from other funds | (1,105,000) | 1,105,000 | - |
| Interest paid on long-term debt | (1,297) | (249,715) | (251,012) |
| Net cash used in capital and related financing activities | <u>(1,283,491)</u> | <u>(1,118,512)</u> | <u>(2,402,003)</u> |
| Investing Activities | | | |
| Interest received | <u>20,774</u> | <u>9,532</u> | <u>30,306</u> |
| Net cash provided by investing activities | <u>20,774</u> | <u>9,532</u> | <u>30,306</u> |
| Net Increase (Decrease) in Cash | (1,185,215) | 1,560,961 | 375,746 |
| Cash | | | |
| Beginning of year | <u>6,232,004</u> | <u>2,111,843</u> | <u>8,343,847</u> |
| End of year | <u>\$ 5,046,789</u> | <u>\$ 3,672,804</u> | <u>\$ 8,719,593</u> |
| Cash Flows from Operating Activities | | | |
| Operating income (loss) | \$ (23,103) | \$ 513,083 | \$ 489,980 |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities: | | | |
| Depreciation and amortization | 111,449 | 445,239 | 556,688 |
| (Increase) Decrease in Accounts Receivable | 22,018 | 13,450 | 35,468 |
| Increase (Decrease) in Accounts Payable and Accrued Liabilities | <u>36,080</u> | <u>82,969</u> | <u>119,049</u> |
| Net Cash Provided by Operating Activities | <u>\$ 146,444</u> | <u>\$ 1,054,741</u> | <u>\$ 1,201,185</u> |

See accompanying notes.

CITY OF ANGELS

STATEMENT OF NET ASSETS – FIDUCIARY FUNDS YEAR ENDED JUNE 30, 2011

| | Greenhorn Creek Assessment District | LAFCO Trust Fund |
|---|--|-----------------------------|
| | <u> </u> | <u> </u> |
| ASSETS | | |
| Cash and investments | \$ 844,420 | \$ 188,256 |
| Restricted cash and investments with fiscal agents | 471,161 | - |
| Due from other governments | 41,493 | - |
| Due from other funds | 41,867 | - |
| Prepaid expense | - | 4,385 |
| Interest receivable | - | 132 |
| Total assets | <u>1,398,941</u> | <u>192,773</u> |
| LIABILITIES | | |
| Accounts payable | - | 15 |
| Due to bondholders | <u>1,398,941</u> | <u>-</u> |
| Total liabilities | <u>1,398,941</u> | <u>15</u> |
| NET ASSETS | | |
| Held in trust for Local Agency Formation Commission | <u>-</u> | <u>192,758</u> |
| Total net assets | <u>\$ -</u> | <u>\$ 192,758</u> |

CITY OF ANGELS

**STATEMENT OF CHANGES IN NET ASSETS – FIDUCIARY FUNDS
YEAR ENDED JUNE 30, 2011**

| | LAFCO Trust Fund |
|-----------------------------|-----------------------------|
| Additions | |
| Contributions | \$ 70,776 |
| Interest | <u>1,224</u> |
| Total additions | <u><u>72,000</u></u> |
| Deductions | |
| Administrative costs | <u>85,741</u> |
| Change in Net Assets | (13,741) |
| Net Assets | |
| Beginning of year | <u>206,499</u> |
| End of year | <u><u>\$ 192,758</u></u> |

CITY OF ANGELS

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2011

Note 1 – Summary of Significant Accounting Policies

The financial statements of the City of Angels (City) have been prepared in conformity with Accounting Principles Generally Accepted in the United States of America (GAAP) as applicable to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

These financial statements present the government and its component units, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities are, in substance, part of the government's operations and data from these units are combined with data of the primary government. Each blended component unit has a June 30 fiscal year end. There are no discretely presented component units included in these financial statements. The following sections further describe the significant accounting policies of the City.

Reporting Entity

The City was incorporated as a general law city in 1912. The City operates under a Council-Manager form of government. The City's major operations include public safety; highways and streets; water and sewer; parks and recreation; building inspection; public improvements; planning and zoning, and general administrative services.

Included in this report is the City of Angels Redevelopment Agency (Agency). The Agency was established to administer the City's redevelopment activities and projects. Members of the City Council automatically sit as the Agency's Board, the City Manager is appointed as Executive Director with the City staff providing all support services. Currently the Agency/City legislative meetings are held concurrently. The annual financial statements for the Agency for the fiscal year ended June 30, 2011 can be obtained through the City's Finance Department.

Basis of Presentation – Fund Accounting

Government-Wide Financial Statements - The Government-Wide Financial Statements (the Statement of Net Assets and the Statement of Activities and Changes in Net Assets) report information of all of the nonfiduciary activities of the primary government and its component units. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the governmental and business-type activities of the City. Governmental activities, which normally are supported by taxes and inter-governmental revenues, are reported separately from business-type activities, which rely significantly on fees charged to external parties.

The Statement of Activities and Changes in Net Assets presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and are clearly identifiable to a particular function. Program revenues include 1) charges paid by the recipients of goods or services offered by the programs and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

CITY OF ANGELS

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2011

Note 1 – Summary of Significant Accounting Policies (Continued)

Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net assets. When both restricted and unrestricted resources are available for use, generally, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

Governmental Fund Financial Statements - The Governmental Fund Financial Statements provide information about the City's funds, including fiduciary funds and the blended component unit. Separate statements for each fund category - governmental, proprietary and fiduciary - are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental funds are separately aggregated and reported as non-major funds.

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

The City reports the following major governmental fund:

General Fund – The General Fund is the general operating fund of the City. It is used for all financial resources except those required legally, or by sound financial management, to be accounted for in another fund. Generally, the General Fund is used to account for those traditional governmental services of the City, such as police and fire protection, planning and general administrative services.

The City reports the following additional fund types:

Fiduciary Funds - The Fiduciary Funds accounts for assets held by the City as an agent for Greenhorn Creek Assessment District and in trust for the Local Agency Formation Commission (LAFCO).

CITY OF ANGELS

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2011

Note 1 – Summary of Significant Accounting Policies (Continued)

Basis of Accounting

The Government-Wide and Proprietary Fund Financial Statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property and sales taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenues from sales tax are recognized when the underlying transactions take place. Revenues from grants, entitlements and donations are recognized in the fiscal year in which all eligible requirements have been satisfied.

Governmental Funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Property and sales taxes, interest, certain state and federal grants and charges for services are accrued when their receipt occurs within sixty days after the end of the accounting period so as to be both measurable and available. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, claims and judgments are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and capital leases are reported as other financing sources.

For its government-wide activities and Enterprise Funds, the City has elected under GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting, to apply all applicable GASB pronouncements as well as any applicable pronouncements of the Financial Accounting Standards Board, the Accounting Principles or any Accounting Research Bulletins issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units.

Proprietary Funds distinguish operating revenues and expenses from non-operating 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. Revenues and expenses not meeting this definition are reported as non-operating.

Financial Statement Amounts

Cash and Cash Equivalents - Cash and cash equivalents represent the City's cash bank accounts including, but not limited to, certificates of deposit, money market funds and cash management pools for reporting purposes in the Statement of Cash Flows. Additionally, investments with maturities of three months or less when purchased are included as cash equivalents in the Statement of Cash Flows.

The City maintains a cash and investment pool that is available for use by all funds. Interest earnings as a result of this pooling are distributed to the appropriate funds based on month end cash balances in each fund.

CITY OF ANGELS

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2011

Note 1 – Summary of Significant Accounting Policies (Continued)

Investments of the pool include only those investments authorized by the California Government Code such as, United States Treasury securities, agencies guaranteed by the United States Government, registered state warrants, and other investments. Investments primarily consist of deposits in the State of California Local Agency Investment Fund. Investments are stated at cost or amortized cost.

Accounts Receivable – Billed, but unpaid, services provided to individuals or non-governmental entities are recorded as accounts receivable. The Proprietary Funds include a year end accrual for services through the end of the fiscal year which have not yet been billed. Accounts receivable are reported without an allowance for uncollectibles as management considers all accounts to be collectible.

Calaveras County is responsible for the assessment, collection and apportionment of property taxes for all taxing jurisdictions. Property taxes are levied in equal installments on November 1 and February 1. They become delinquent on December 10 and April 10, respectively. The lien date is January 1 of each year. Property taxes are accounted for in the General Fund. Property tax revenues are recognized when they become measurable and available to finance current liabilities. The City considers property taxes as available if they are collected within 60 days after year end. Property tax on the unsecured roll are due on the January 1 lien date and become delinquent if unpaid on August 31. However, unsecured property taxes are not susceptible to year end accrual.

The City is permitted by Article XIII A of the State of California Constitution (known as Proposition 13) to levy a maximum tax of \$1.00 per \$100 of full cash value.

Interfund Receivables/Payables - Items classified as interfund receivable/payable represent short-term lending/borrowing transactions between funds. This classification also includes the current portion of an advance to or from another fund.

Advances To/From Other Funds - This classification represents non-current portions of any long-term lending/borrowing transactions between funds. This amount will be equally offset by a reserve of fund balance which indicates that it does not represent available financial resources and therefore, is not available for appropriation. The current portion of any interfund long-term loan (advance) is included as an interfund receivable/payable.

Capital Assets - Capital outlays are recorded as expenditures of the General, Special Revenue, and Capital Projects Funds and as assets in the Government-Wide Financial Statements to the extent the City's capitalization threshold is met.

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the Government-Wide Financial Statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

CITY OF ANGELS

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2011

Note 1 – Summary of Significant Accounting Policies (Continued)

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Betterments and major improvements which significantly increase values, change capacities or extend useful lives are capitalized. Upon sale or retirement of fixed assets, the cost and related accumulated depreciation are removed from the respective accounts and any resulting gain or loss is included in the results of operations.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities are included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the primary government are depreciated using the straight line method over the following estimated useful lives:

| | <u>Years</u> |
|----------------------------|--------------|
| Buildings and improvements | 20 - 40 |
| Plant system | 20 - 60 |
| Machinery and equipment | 5 - 10 |
| Infrastructure | 40 |

Compensated Absences - It is the City's policy to permit all employees to accumulate earned but unused vacation, sick pay and compensatory time benefits. Those employees on shift work schedules may also accumulate hours for holiday time benefits.

Vested or accumulated vacation, holiday and sick leave along with any compensation time that is expected to be paid with expendable available financial resources is reported as an expenditure in the fund financial statements of the Governmental Fund that will pay for it. Amounts not expected to be liquidated with expendable available financial resources are reported in the Government-Wide Financial Statements.

Vested leave of Proprietary Funds are recorded as an expense and liability as the benefits accrue.

Long-Term Obligations - In the Government-Wide Financial Statements and in the Proprietary Fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or Proprietary Fund Type Statement of Net Assets. Debt principal payments of both government and business-type activities are reported as decreases in the balance of the liability on the Statement of Net Assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

CITY OF ANGELS

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2011

Note 1 – Summary of Significant Accounting Policies (Continued)

In the fund financial statements, however, debt principal payments of Governmental Funds are recognized as expenditures when paid. Governmental Fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Non-Current Governmental Assets/Liabilities - GASB Statement No. 34 eliminates the presentation of account groups, but provides for these records to be maintained and incorporates the information into the Governmental Activities column in the Government-Wide Statement of Net Assets.

Net Assets/Fund Equity - The government-wide and business-type activities 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, including infrastructure, 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 on net assets imposed by creditors, grantors, contributors, 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.

Fund Equity – In the fund financial statements, governmental fund balance is made up of the following components:

- **Nonspendable fund balance** typically includes inventories, prepaid items, and other items that must be maintained intact pursuant to legal or contractual requirements, such as endowments.
- **Restricted fund balance** category includes amounts that can be spent only for specific purposes imposed by creditors, grantors, contributors, or laws or regulations of other governments or through enabling legislations.
- **Committed fund balance** classification includes amounts that can be used only for the specific purposes determined by a formal action of the City Council. The City Council has the authority to establish, modify, or rescind a fund balance commitment.
- **Assigned fund balance** are amounts designated by the City Council for specific purposes and do not meet the criteria to be classified as restricted or committed.
- **Unassigned fund balance** is the residual classification that includes all spendable amounts in the General Fund not contained in other classifications.

CITY OF ANGELS

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2011

Note 1 – Summary of Significant Accounting Policies (Continued)

When expenditures are incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) fund balances are available, the City's policy is to apply restricted first. When expenditures are incurred for purposes for which committed, assigned, or unassigned fund balances are available, the City's policy is to apply committed fund balance first, then assigned fund balance, and finally unassigned fund balance.

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

Implementation of New GASB Pronouncement – The City adopted GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, a new accounting standard which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

CITY OF ANGELS

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2011

Note 2 – Stewardship, Compliance and Accountability

California law authorizes the City to invest in obligations of the United States Treasury, agencies and instrumentalities, certificates of deposit or time deposits in banks and savings and loan associations which are insured by the Federal Deposit Insurance Corporation.

In accordance with applicable sections of the California Government Code and the City of Angels Municipal Code, the City prepares and legally adopts an annual balanced budget on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the General Fund, specific Special Revenue Funds, and specific Capital Projects Funds. Budget plans are adopted for Proprietary Funds. A proposed budget is presented to the City Council during May of each year for review. The Council holds public hearings and may add to, subtract from, or change appropriations within the revenues and reserves estimated as available. Expenditures may not legally exceed budgeted appropriations at the fund level. Supplementary appropriations which alter the total expenditures of any fund, or expenditures in excess of total budgeted fund appropriations, must be approved by the City Council.

All annual appropriations lapse at fiscal year end to the extent they have not been expended or encumbered.

Note 3 – Cash and Investments

The City pools all of its cash and investments except those funds required to be held by outside fiscal agents under the provisions of bond indentures. Interest income earned on pooled cash is allocated to the various funds on average cash balances. Interest income from cash investments held with fiscal agents is credited directly to the related funds.

Cash and investments as of June 30, 2011 are classified in the accompanying financial statements as follows:

| | |
|---|----------------------|
| Statement of Net Assets: | |
| Cash and Investments | \$ 11,696,000 |
| Cash and Investments with fiscal agent | 287,751 |
| Fiduciary Funds: | |
| Cash and Investments | 1,032,676 |
| Restricted Cash and Investments with fiscal agent | 471,161 |
| Total Cash and Investments | <u>\$ 13,487,588</u> |

Cash and investments as of June 30, 2011 consist of the following:

| | |
|--------------------------------------|----------------------|
| Cash on hand | \$ 825 |
| Deposits with Financial Institutions | 8,095,647 |
| Local Agency Investment Fund | 4,632,204 |
| Held by Fiscal Agent: | |
| Mutual Fund | 758,912 |
| Total Cash and Investments | <u>\$ 13,487,588</u> |

CITY OF ANGELS

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2011

Note 3 – Cash and Investments (Continued)

Investments Authorized by the California Government Code and the City's Investment Policy

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). The table also identifies certain provisions of the California Government Code (or the City's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk. The City's investment policy does not contain any specific provisions intended to limit the City's exposure to interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustee that are governed by the provisions of debt agreements of the City, rather than the general provisions of the California Government Code or the City's investment policy.

| <u>Authorized Investment Type</u> | <u>Maximum Maturity</u> | <u>Maximum Percentage of Portfolio</u> | <u>Maximum Investment In One Issuer</u> |
|-------------------------------------|-------------------------|--|---|
| Local Agency Bonds | 5 years | None | None |
| U.S. Treasury Obligations | 5 years | None | None |
| U.S. Agency Securities | 5 years | None | None |
| Banker's Acceptances | 180 days | 40% | 30% |
| Commercial Paper | 270 days | 15% | 10% |
| Negotiable Certificates of Deposit | 5 years | 30% | None |
| Medium-Term Notes | 5 years | 30% | None |
| Mutual Funds | N/A | 20% | 10% |
| Money Market Mutual Funds | N/A | 20% | 10% |
| Mortgage Pass-Through Securities | 5 years | 20% | None |
| County Pooled Investment Funds | N/A | None | None |
| Local Agency Investment Fund (LAIF) | N/A | None | None |

CITY OF ANGELS

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2011

Note 3 – Cash and Investments (Continued)

Investments Authorized by Debt Agreements

Investments of debt proceeds held by bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the City's investment policy. The table below identifies the investment types that are authorized for investments held by the bond trustee. The table also identifies certain provisions of these debt agreements that address interest rate risk, credit risk, and concentration of credit risk.

| Authorized Investment Type | Maximum Maturity | Maximum Percentage of Portfolio | Maximum Investment In One Issuer |
|-------------------------------------|------------------|---------------------------------|----------------------------------|
| U.S. Treasury Obligations | None | None | None |
| U.S. Agency Securities | None | None | None |
| Banker's Acceptances | 180 days | None | None |
| Commercial Paper | 270 days | None | None |
| Money Market Mutual Funds | N/A | None | None |
| Investment Contracts | None | None | None |
| Certificates of Deposits | 1 year | None | None |
| Repurchase Agreements | 30 days | None | None |
| Local Agency Investment Fund (LAIF) | N/A | None | None |
| Municipal Bonds | None | None | None |

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. As of June 30, 2011 the City had the following investments.

| Investment Type | | Maturity Date |
|------------------------------|---------------------|---------------|
| Local Agency Investment Fund | \$ 4,632,204 | N/A |
| Held by Bond Trustee: | | |
| Mutual Fund | <u>758,912</u> | N/A |
| Total | <u>\$ 5,391,116</u> | |

CITY OF ANGELS

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2011

Note 3 – Cash and Investments (Continued)

Disclosures Relating to Credit Risk

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

| Investment Type | | Minimum Legal Rating | Rating as of Year End Not Rated |
|---|---------------------|----------------------------|---------------------------------------|
| Local Agency Investment Fund Held by Bond Trustee: | \$ 4,632,204 | N/A | \$ 4,632,204 |
| Mutual Fund | <u>758,912</u> | N/A | <u>758,912</u> |
| Total | <u>\$ 5,391,116</u> | | <u>\$ 5,391,116</u> |

Concentration of Credit Risk

The investment policy of the City contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. There are no investments in any one issuer that represent 5% or more of total City investments.

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 Government 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 City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

\$5,844,474 of the City's deposits with financial institutions is in excess of federal depository insurance limits.

CITY OF ANGELS

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2011

Note 3 – Cash and Investments (Continued)

The custodial risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF).

Investment in State Investment Pool

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the City's investment in this pool is reported in the accompanying financial statements at amounts based upon the City's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

Note 4 – Notes Receivable

Notes receivable in the amount of \$1,066,740 consist of mortgage loans for housing and property rehabilitation and construction.

Note 5 – Interfund Receivables and Payables

Interfund receivables and payables consist of short-term loans resulting from regular transactions. These loans are expected to be repaid as soon as the borrowing fund has cash, and carry an interest rate equal to the rate earned on pooled cash.

Individual fund interfund receivables and payables balances as of June 30, 2011 are as follows:

| | <u>Due From</u> | <u>Due To</u> |
|----------------------------|-------------------|-------------------|
| General Fund | \$ - | \$ 141,343 |
| TOT Emergency Service Fund | 27,024 | - |
| TOT Tourism Fund | 942 | - |
| Capital Projects Fund | 103 | - |
| Redevelopment Agency Fund | 111,130 | - |
| Fire Impact Fees Fund | 2,144 | - |
| | <u>\$ 141,343</u> | <u>\$ 141,343</u> |

Note 6 – Capital Assets

In accordance with GASB Statement No. 34, the City has reported all capital assets including infrastructure additions in the government-wide statement of net assets. The City elected to use the basic approach whereby accumulated depreciation and depreciation expense have been recorded. The following page presents summary information on capital assets.

CITY OF ANGELS

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2011

Note 6 – Capital Assets (Continued)

Capital asset activity for the year ended June 30, 2011, was as follows:

| | Balance July 1, 2010 | Additions | Retirements | Balance June 30, 2011 |
|--|-------------------------|---------------------|-------------|--------------------------|
| <u>Governmental Activities</u> | | | | |
| Capital assets, not being depreciated | | | | |
| Land | \$ 750,942 | \$ - | \$ - | \$ 750,942 |
| Construction in progress | - | - | - | - |
| Total capital assets, not being depreciated | <u>750,942</u> | <u>-</u> | <u>-</u> | <u>750,942</u> |
| Capital assets, being depreciated | | | | |
| Buildings and improvements | 748,894 | - | - | 748,894 |
| Machinery and equipment | <u>1,616,028</u> | <u>-</u> | <u>-</u> | <u>1,616,028</u> |
| Total capital assets, being depreciated | <u>2,364,922</u> | <u>-</u> | <u>-</u> | <u>2,364,922</u> |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | (316,256) | (19,651) | - | (335,907) |
| Machinery and equipment | <u>(1,213,811)</u> | <u>(121,819)</u> | <u>-</u> | <u>(1,335,630)</u> |
| Total accumulated depreciation | <u>(1,530,067)</u> | <u>(141,470)</u> | <u>-</u> | <u>(1,671,537)</u> |
| Total capital assets, being depreciated, net | <u>834,855</u> | <u>(141,470)</u> | <u>-</u> | <u>693,385</u> |
| Governmental activities capital assets, net | <u>\$ 1,585,797</u> | <u>\$ (141,470)</u> | <u>\$ -</u> | <u>\$ 1,444,327</u> |
| <u>Business-Type Activities</u> | | | | |
| Capital assets, not being depreciated | | | | |
| Land | \$ 116,515 | \$ - | \$ - | \$ 116,515 |
| Construction in progress | <u>2,059,663</u> | <u>1,740,365</u> | <u>-</u> | <u>3,800,028</u> |
| Total capital assets, not being depreciated | <u>2,176,178</u> | <u>1,740,365</u> | <u>-</u> | <u>3,916,543</u> |
| Capital assets, being depreciated | | | | |
| Buildings and improvements | 20,854,789 | - | - | 20,854,789 |
| Infrastructure | 672,827 | - | - | 672,827 |
| Machinery and equipment | <u>658,530</u> | <u>128,282</u> | <u>-</u> | <u>786,812</u> |
| Total capital assets, being depreciated | <u>22,186,146</u> | <u>128,282</u> | <u>-</u> | <u>22,314,428</u> |
| Less: accumulated depreciation | <u>(6,091,886)</u> | <u>(556,688)</u> | <u>-</u> | <u>(6,648,574)</u> |
| Total capital assets, being depreciated, net | <u>16,094,260</u> | <u>(428,406)</u> | <u>-</u> | <u>15,665,854</u> |
| Business-type activities capital assets, net | <u>\$ 18,270,438</u> | <u>\$ 1,311,959</u> | <u>\$ -</u> | <u>\$ 19,582,397</u> |

CITY OF ANGELS

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2011

Note 6 – Capital Assets (Continued)

Depreciation expense was charged to the following functions in the Statement of Activities:

Governmental Functions:

| | | |
|------------------------------|-----------|----------------|
| General Government | \$ | 4,427 |
| Public Works and Development | | 22,628 |
| Public Safety | | 104,668 |
| Parks and Recreation | | 9,747 |
| | <u>\$</u> | <u>141,470</u> |

Business-Type Functions:

| | | |
|-------|-----------|----------------|
| Water | \$ | 111,449 |
| Sewer | | 445,239 |
| | <u>\$</u> | <u>556,688</u> |

Note 7 – Long-Term Debt

The City generally incurs long-term debt to finance projects or purchase assets which will have useful lives equal to or greater than the related debt. In governmental fund types, debt discounts and issuance costs are recognized in the current period. Debt discounts and issuance costs incurred in proprietary funds are deferred and amortized over the term of the debt using the bonds-outstanding method, which approximates the effective interest method. The City's debt transactions are summarized below and discussed in detail thereafter:

| | Balance July 1, 2010 | Additions | Retirements | Balance June 30, 2011 | Current Portion |
|---|-------------------------|------------------|---------------------|--------------------------|--------------------|
| <u>Governmental Activity Long Term Debt</u> | | | | | |
| Hydrox Property Lease Payable | \$ 323,937 | \$ - | \$ (57,540) | \$ 266,397 | \$ 60,385 |
| Total Governmental Activity Debt | <u>\$ 323,937</u> | <u>\$ -</u> | <u>\$ (57,540)</u> | <u>\$ 266,397</u> | <u>\$ 60,385</u> |
| <u>Business-Type Activity Long Term Debt</u> | | | | | |
| Bond Payable | | | | | |
| 2001A Wastewater Revenue Bonds | \$ 1,480,000 | \$ - | \$ (225,000) | \$ 1,255,000 | \$ 230,000 |
| Loans Payable | | | | | |
| California Department of Water Resources | 968,085 | - | (74,468) | 893,617 | 74,468 |
| U.S. Department of Agriculture | | | | | |
| Rural Development | 4,670,000 | - | (65,000) | 4,605,000 | 65,000 |
| California Department of Water Resources | 200,000 | 87,800 | - | 287,800 | 11,485 |
| Hydrox Property Lease Payable | 29,045 | - | (5,676) | 23,369 | 6,672 |
| Total Business-Type Activity Debt | <u>\$ 7,347,130</u> | <u>\$ 87,800</u> | <u>\$ (370,144)</u> | <u>\$ 7,064,786</u> | <u>\$ 387,625</u> |
| <u>Compensated Absences</u> | | | | | |
| Government Activities | \$ 107,927 | \$ 18,132 | \$ - | \$ 126,059 | |
| Business-Type Activities | <u>\$ 54,238</u> | <u>\$ -</u> | <u>\$ (4,871)</u> | <u>\$ 49,367</u> | |

CITY OF ANGELS

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2011

Note 7 – Long-Term Debt (Continued)

Long-term debt payable at June 30, 2011 was comprised of the following individual issues:

Lease Payable

Hydrox Property – In April 2001, the City entered into an agreement to purchase a Hydrox property for \$874,716. The City will make 15 annual payments of \$82,715 each with accrued interest at 5.5242% per annum.

Bond Payable

2001A Water and Wastewater Revenue Bonds - The City issued Wastewater Plant Improvement Revenue bonds which consisted of \$3,185,000 in bonds bearing interest at 2.6% to 4.4%. The interest is payable each October 1 and April 1. The Bonds mature annually at various amounts through October 1, 2015.

Loans Payable

State of California Department of Water Resources – The State of California Department of Water Resources granted a loan to the Water Fund of the City for construction of water facilities in the amount of \$1,685,595. Of this amount, \$1,489,361 was drawn down from the State. The note calls for semiannual payments of \$37,234 including interest at 0% until July 2023.

The United States Department of Agriculture Rural Development – The United States Department of Agriculture Rural Development granted a loan of \$5,000,000 bearing interest at 4.25% to the Sewer Fund for construction of wastewater facilities. The notes mature annually at various amounts through April 1, 2044.

State of California Department of Water Resources – The City entered into a revolving loan agreement with the State of California Department of Water Resources in March 2011. The agreement provides for a loan of up to \$3,372,800 for sewer system upgrades. Upon project completion \$3,086,400 of this loan will be forgiven through the receipt of a federal grant in the same amount. The final loan of \$286,400 bears interest at 1% per annum with repayment beginning September 1, 2011 over a twenty year period. As of June 30, 2011, the City had received \$286,400 in loan funds and \$3,086,400 in federal grant funds.

CITY OF ANGELS

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2011

Note 7 – Long-Term Debt (Continued)

The annual requirement to amortize the principal and interest on all long-term debt at June 30, 2011 were as follows:

| Years ending June 30, | Governmental Activities | | Business-Type Activities | |
|-----------------------|-------------------------|------------------|--------------------------|---------------------|
| | Principal | Interest | Principal | Interest |
| 2012 | \$ 60,385 | \$ 16,007 | \$ 387,625 | \$ 248,229 |
| 2013 | 63,354 | 12,322 | 404,718 | 234,339 |
| 2014 | 66,852 | 8,434 | 415,239 | 221,122 |
| 2015 | 75,806 | 4,330 | 425,172 | 207,174 |
| 2016 | - | - | 443,078 | 192,212 |
| 2017-2021 | - | - | 882,462 | 875,825 |
| 2022-2026 | - | - | 772,635 | 770,037 |
| 2027-2031 | - | - | 753,857 | 638,776 |
| 2032-2036 | - | - | 835,000 | 480,038 |
| 2037-2041 | - | - | 1,025,000 | 287,087 |
| 2042-2044 | - | - | 720,000 | 62,050 |
| | <u>\$ 266,397</u> | <u>\$ 41,093</u> | <u>\$ 7,064,786</u> | <u>\$ 4,216,889</u> |

Note 8 – Special Assessment Districts (AD) Bonds

The City acts as an agent on behalf of the Greenhorn Creek Assessment District. The City is not liable for the debt repayment but is merely acting as the property owner's agent in handling the debt service transactions by collecting assessments and forwarding them to the bondholders. The debt was refinanced in 2006 through the issuance of \$9,200,000 in new debt. Interest is payable semi-annually at rates ranging from 3.375% to 5% with principal payments through 2018. The bond transactions are accounted for in an Agency Fund. The current outstanding principal is \$6,690,000.

Note 9 – Advances From/To Other Funds

In order to assist the Sewer Fund with its sewer line replacement project, the Water Fund lent it \$1,105,000 in June 2011. The loan will be repaid in annual installments of \$200,000 plus interest at 2% per annum.

Note 10 – Fund Balance

Fund Balance and Retained Earnings Deficits - The following is a summary of deficit fund balances and retained earnings as of June 30, 2011:

| | |
|-----------------------|---------------------|
| Capital projects fund | |
| TOT Emergency Service | \$ (2,603) |
| Redevelopment Agency | (111,130) |
| Fire Impact Fees | (2,144) |
| | <u>\$ (115,877)</u> |

CITY OF ANGELS

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2011

Note 11 – Defined Benefit Pension Plan

Plan Description

The City of Angels contributes to the California Public Employees Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement, 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. Benefit provisions and all other requirements are established by state statute and city ordinance. Copies of PERS' annual financial report may be obtained from their executive office: 400 P Street, Sacramento, CA 95814.

Funding Policy

Participants are required to contribute 8% of their annual covered salary. The City makes the contributions required of City employees on their behalf and for their account. The City is required to contribute at an actuarially determined rate; the current rate is 17.171% for non-safety employees, 10.612% for firefighters, and 28.992% for police, of annual covered payroll. The contribution requirements of plan members and the City are established and may be amended by PERS.

Annual Pension Costs

For 2011, the City's annual pension cost of \$523,059 for PERS was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2009, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.75% investment rate of return (net administrative expenses), (b) projected annual salary increases that vary by duration of service, and (c) 3.25% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 3.00%. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a three-year period (smoothed market value). PERS unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2009 was 19 years.

THREE-YEAR TREND INFORMATION FOR PERS

| <u>Fiscal Year</u> | <u>Annual Pension Cost (APC)</u> | <u>Percentage of APC Contributed</u> | <u>Net Pension Obligation</u> |
|--------------------|----------------------------------|--------------------------------------|-------------------------------|
| 6/30/2009 | \$ 527,601 | 100% | \$ - |
| 6/30/2010 | 542,282 | 100% | - |
| 6/30/2011 | 523,059 | 100% | - |

A new State law authorized the creation of risk pools by PERS and required mandatory participation of employers to help reduce large fluctuations in their contribution rates. The City of Angels is now required to participate in the risk pool. Under this pooling method, assets and liabilities of the participant employers are aggregated. As such, individual employer's retirement data is no longer available.

CITY OF ANGELS

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2011

Note 12 – Post-Employment Health Care Benefits

Post Retirement Benefits

From an accrual accounting perspective, the cost of postemployment healthcare benefits, like the cost of pension benefits, generally should be associated with the periods in which the cost occurs, rather than in the future year when it will be paid. Prior to adopting the requirements of GASB Statement No. 45, the City recognized the cost of postemployment healthcare in the year it was paid. With the implementation of GASB Statement No. 45 the City will report the accumulated liability from prior years in order to provide information useful in assessing potential demands on the City's future cash flows. Recognition and funding of the liability accumulated from prior years will be phased in over 30 years, commencing with the 2009-2010 liability.

Plan Description

The City provides 50% of the monthly medical insurance premiums for retired employees only for life. To be eligible for these benefits, the employee must be 55 years of age upon retirement with five (5) years of service. As of June 30, 2011 the City had ten retired employees entitled to these health benefits. The City is financing these benefits on a pay as you go basis.

CITY OF ANGELS

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2011

Note 11 – Post-Employment Health Care Benefits (Continued)

Funding Policy

The contributions requirements of plan members and the City are established and may be amended by the City. The City determines the required contributions using the Entry Age Normal Method. The required contribution is based on projected pay-as-you-go financing requirements. For 2011, the District contributed \$17,559 to the plan through current year premium payments.

Membership in the plan consisted of the following at June 30, 2010, the date of the latest actuarial valuation.

| | |
|------------------------------|-----------|
| Retirees receiving benefits | 11 |
| Active plan members eligible | <u>4</u> |
| Total | <u>15</u> |
| Retired employees: | |
| Average Age | 63.1 |
| Average Retirement Age | 60 |
| Active members eligible: | |
| Average Age | 59.3 |
| Average Service Years | 14.3 |

Annual OPEB Cost and Net OPEB Obligation

The City's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period of thirty (30) years. The following table shows the amount contributed to the plan, and changes in the City's net OPEB obligation:

| | |
|--|-------------------|
| Annual required contribution (OPEB cost) | \$ 153,483 |
| Interest on net OPEB obligation | 9,263 |
| Adjustment to annual required contribution | - |
| Annual OPEB cost (expense) | <u>162,746</u> |
| Age adjusted contributions made | <u>(17,559)</u> |
| Increase in net OPEB obligation | 145,187 |
| Net OPEB obligation, beginning of year | <u>132,327</u> |
| Net OPEB obligation, end of year | <u>\$ 277,514</u> |

CITY OF ANGELS

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2011

Note 11 – Post-Employment Health Care Benefits (Continued)

The City's OPEB obligation as of implementation of GASB Statement No. 45 is less than the actuarial accrued liability of \$1,045,436, all of which is unfunded. However, the OPEB obligation will be increased prospectively to the actuarial accrued liability amount. The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation was as follows:

| <u>Year Ended June 30</u> | <u>Annual OPEB Cost</u> | <u>Contribution</u> | <u>Percentage of Annual OPEB Cost Contributed</u> | <u>Net OPEB Obligation</u> |
|-------------------------------|-----------------------------|---------------------|---|--------------------------------|
| 2010 | 153,483 | 21,156 | 13.8% | 132,327 |
| 2011 | 153,483 | 17,559 | 11.4% | 277,514 |

Funding Status and Progress

The funded status of the liability as of June 30, 2011, was as follows:

| <u>Actuarial Valuation Date</u> | <u>Project Unit Credit Cost Accrued Liability</u> | <u>Actuarial Value of Assets</u> | <u>Unfunded Liability (Excess Assets)</u> | <u>Funded Ratio</u> | <u>Annual Covered Payroll</u> | <u>UAAL As a % of Payroll</u> |
|---|---|--|---|-------------------------|---------------------------------------|---------------------------------------|
| 06/30/10 | 1,045,436 | - | 1,045,436 | 0.0% | 2,414,098 | 43.3% |

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding status and progress, as shown above, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and included the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefits costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

CITY OF ANGELS

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2011

Note 11 – Post-Employment Health Care Benefits (Continued)

The annual OPEB cost was determined as part of the June 30, 2010 actuarial valuation. Additional information as of the last actuarial valuations follows:

| | | |
|-------------------------------|---|-------------------------------------|
| Valuation Date | June 30, 2010 | |
| Actuarial Cost Method | Entry Age Normal | |
| Asset Valuation Method | Market Value | |
| Amortization Method | Level Dollar Amount | |
| Remaining Amortization Period | 30 years | |
| Actuarial Assumptions: | | |
| Investment Rate of Return | 5.0% | |
| Inflation Rate | 3.3% | |
| Payroll Increase | 3.3% | |
| Health Cost Trend Rates: | Annual increases in premium for retired medical and prescription drug benefits are assumed to be as follows: | |
| | Year After Valuation Date | Medical Premiums Actual Premiums |
| | 2010 | |
| | 2011 | 5.2% |
| | 2012 | 5.5% |
| | 2013 | 6.1% |
| | 2014 | 6.6% |
| | Thereafter | 6.8% |

Note 12 – Joint Venture – Utica Power Authority

The City of Angels entered into a joint exercise of powers agreement with Union Public Utility District (UPUD) for the purpose of purchasing and operating the Utica/Angels Hydro Electric Projects. Each of the member entities shall be responsible for paying one-half (1/2) of all UPA Project costs and liabilities, including annual operation, maintenance and replacement costs of the Project, and all costs of maintaining the Projects in compliance with requirements of the FERC or other regulatory authority. The agreement establishes a separate and distinct entity, the Utica Power Authority (UPA). The UPA is not a component unit of the City.

CITY OF ANGELS

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2011

Note 13 – Risk Management/Joint Venture

The City participates with other public entities in a joint venture under a joint powers agreement which establishes the Central San Joaquin Valley Risk Management Authority (CSJVRMA). The relationship between the City and CSJVRMA is such that CSJVRMA is not a component unit of the City for financial reporting purposes.

The City is covered for the first \$1,000,000 of each general liability claim and \$500,000 of each worker's compensation claim through the CSJVRMA. The City has the right to receive dividends and the obligation to pay assessments based on a formula which among other expenses, charges the City's account for liability losses under \$50,000 and workers' compensation losses under \$50,000. The CSJVRMA purchases excess reinsurance from \$1,000,000 to \$15,000,000. The CSJVRMA participates in an excess pool which provides workers' compensation coverage from \$500,000 to \$1,500,000 and purchases excess reinsurance above \$1,500,000 to the statutory limit.

The CSJVRMA is a consortium of 55 cities in San Joaquin Valley, California. It was established under the provisions of California Government Code Section 6500, et. seq. The CSJVRMA is governed by a Board of Directors, which meets three to four times each year, consisting of one member appointed by each member city. The day-to-day business is handled by a management group employed by the CSJVRMA. The financial statements of CSJVRMA can be obtained at 1831 K Street, Sacramento, CA 95814.

Contingent Liabilities

The City participates in a number of Federal and State assisted grant programs which are subject to financial and compliance audits. Audits for these programs and the respective findings are to be determined at a future date, and the City expects the amount, if any, of the expenditures which may be disallowed by the granting agency to be immaterial.

The City is a defendant in various lawsuits and claims. The City attorney anticipates that actual or potential claims against the City, not covered by insurance, would not materially affect the financial position of the City.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF ANGELS

BUDGETARY COMPARISON SCHEDULE

GENERAL FUND

YEAR ENDED JUNE 30, 2011

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget |
|-----------------------------------|---------------------|---------------------|---------------------|-------------------------------|
| | Original | Final | | Positive/ (Negative) |
| Revenue | | | | |
| Taxes | \$ 2,048,042 | \$ 2,048,042 | \$ 1,962,786 | \$ (85,256) |
| Licenses, permits and impact fees | 57,600 | 57,600 | 114,276 | 56,676 |
| Intergovernmental | 20,000 | 20,000 | 499,493 | 479,493 |
| Charges for services | 115,138 | 115,138 | 119,946 | 4,808 |
| Fines and forfeitures | 27,000 | 27,000 | 16,694 | (10,306) |
| Interest and rents | 73,236 | 73,236 | 59,336 | (13,900) |
| Other | 2,500 | 2,500 | 3,238 | 738 |
| Total revenue | <u>2,343,516</u> | <u>2,343,516</u> | <u>2,775,768</u> | <u>432,252</u> |
| Expenditures | | | | |
| Current | | | | |
| General government | 542,713 | 542,713 | 697,610 | (154,897) |
| Public works | 110,795 | 110,795 | 61,568 | 49,227 |
| Community development | 318,777 | 318,777 | 353,449 | (34,672) |
| Public safety | 1,376,874 | 1,376,874 | 1,332,044 | 44,830 |
| Parks and recreation | 108,156 | 108,156 | 146,369 | (38,213) |
| Debt Service | | | | |
| Principal | 57,540 | 57,540 | 57,540 | - |
| Interest and fiscal charges | 16,904 | 16,904 | 16,904 | - |
| Total expenditures | <u>2,531,759</u> | <u>2,531,759</u> | <u>2,665,484</u> | <u>(133,725)</u> |
| Revenue over (under)expenditures | (188,243) | (188,243) | 110,284 | 298,527 |
| Other Financing Sources | | | | |
| Transfers in (out) - net | - | - | 101,803 | 101,803 |
| Net Change in Fund Balance | <u>\$ (188,243)</u> | <u>\$ (188,243)</u> | 212,087 | <u>\$ 400,330</u> |
| Fund Balance | | | | |
| Beginning of year | | | 1,461,087 | |
| End of year | | | <u>\$ 1,673,174</u> | |

SUPPLEMENTAL ONLY INFORMATION

CITY OF ANGELS

**COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2011**

| | Special Revenue Funds | | | | | | | TOT |
|----------------------------|-----------------------|--------------|-----------------------|------------------------------|---------------|-------------------|------------|-----|
| | Gas Tax | CDBG Housing | Utica Power Authority | Light and Landscape District | Public Safety | Emergency Service | TOT Roads | |
| ASSETS | | | | | | | | |
| Cash and investments | \$ 51,204 | \$ 251,914 | \$ 184,284 | \$ 571,987 | \$ 63,640 | \$ - | \$ 236,747 | |
| Due from other governments | 13,358 | 29,518 | 1,416 | - | 638 | - | - | |
| Taxes receivable | - | - | - | 8,281 | - | - | 28,813 | |
| Interest receivable | - | - | - | 397 | - | - | - | |
| Prepaid expense | - | - | - | 3,230 | - | - | - | |
| Notes receivable | - | 1,066,740 | - | - | - | - | - | |
| Total assets | \$ 64,562 | \$ 1,348,172 | \$ 185,700 | \$ 583,895 | \$ 64,278 | \$ 28,813 | \$ 265,560 | |

LIABILITIES AND FUND BALANCE

| | | | | | | | |
|--------------------------------------|----------|------|------|-----------|----------|------|----------|
| Liabilities | | | | | | | |
| Accounts payable and accrued expense | \$ 3,917 | \$ - | \$ - | \$ 12,745 | \$ 1,620 | \$ - | \$ 2,081 |
| Accrued payroll | 2,912 | - | - | 189 | - | - | 4,392 |
| Compensated absences | 5,130 | - | - | - | - | - | - |
| Due to other funds | - | - | - | - | - | - | 27,024 |
| Total liabilities | 11,959 | - | - | 12,934 | 1,620 | - | 31,416 |

Fund Balance

| | | | | | | | |
|--|-----------|--------------|------------|------------|-----------|-----------|------------|
| Nonspendable | | | | | | | |
| Notes receivable | - | 1,066,740 | - | - | - | - | - |
| Restricted | | | | | | | |
| Capital improvement projects | - | - | 185,700 | - | - | - | - |
| Circulation improvements | 52,603 | - | - | - | - | - | 263,479 |
| Development activities | - | - | - | - | - | - | - |
| Lighting, landscape & park maintenance | - | - | - | 570,961 | - | - | - |
| Low-income housing activities | - | 281,432 | - | - | - | - | - |
| Public safety | - | - | - | - | 62,658 | - | - |
| Unassigned | - | - | - | - | - | (2,603) | - |
| Total fund balance | 52,603 | 1,348,172 | 185,700 | 570,961 | 62,658 | (2,603) | 263,479 |
| Total liabilities and fund balance | \$ 64,562 | \$ 1,348,172 | \$ 185,700 | \$ 583,895 | \$ 64,278 | \$ 28,813 | \$ 265,560 |

CITY OF ANGELS

**COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS (CONTINUED)
JUNE 30, 2011**

| | Special Revenue Fund | | Capital Projects Funds | | | | Total | |
|--|----------------------|-----------------------|------------------------|-----------|----------------------------|------------------|------------------------------|--|
| | TOT Tourism | Capital Projects Fund | Redevelopment Agency | Prop IB | Transportation Impact Fees | Fire Impact Fees | Non-major Governmental Funds | |
| ASSETS | | | | | | | | |
| Cash and investments | \$ - | \$ - | \$ - | \$ 70,155 | \$ 173,272 | \$ - | \$ 1,603,203 | |
| Due from other governments | - | 19,900 | - | - | - | - | 64,830 | |
| Taxes receivable | 28,813 | - | - | - | - | - | 94,720 | |
| Interest receivable | - | - | - | - | - | - | 397 | |
| Prepaid expense | - | - | - | - | - | - | 3,230 | |
| Notes receivable | - | - | - | - | - | - | 1,066,740 | |
| Total assets | \$ 28,813 | \$ 19,900 | \$ - | \$ 70,155 | \$ 173,272 | \$ - | \$ 2,833,120 | |
| LIABILITIES AND FUND BALANCE | | | | | | | | |
| Liabilities | | | | | | | | |
| Accounts payable and accrued expense | \$ 26,778 | \$ 9,149 | \$ - | \$ - | \$ - | \$ - | \$ 56,290 | |
| Accrued payroll | - | - | - | - | - | - | 7,493 | |
| Compensated absences | - | - | - | - | - | - | 5,130 | |
| Due to other funds | 942 | 103 | 111,130 | - | - | 2,144 | 141,343 | |
| Total liabilities | 27,720 | 9,252 | 111,130 | - | - | 2,144 | 210,256 | |
| Fund Balance | | | | | | | | |
| Nonspendable | - | - | - | - | - | - | 1,066,740 | |
| Restricted | | | | | | | | |
| Capital improvement projects | - | 10,648 | - | - | - | - | 196,348 | |
| Circulation improvements | - | - | - | 70,155 | - | - | 386,237 | |
| Community development activities | 1,093 | - | - | - | - | - | 1,093 | |
| Lighting, landscape & park maintenance | - | - | - | - | - | - | 570,961 | |
| Low-income housing activities | - | - | - | - | - | - | 281,432 | |
| Public safety | - | - | - | - | - | - | 62,658 | |
| Unassigned | - | - | (111,130) | - | 173,272 | (2,144) | 57,395 | |
| Total fund balance | 1,093 | 10,648 | (111,130) | 70,155 | 173,272 | (2,144) | 2,622,864 | |
| Total liabilities and fund balance | \$ 28,813 | \$ 19,900 | \$ - | \$ 70,155 | \$ 173,272 | \$ - | \$ 2,833,120 | |

CITY OF ANGELS

**COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE
NON-MAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2011**

| | Special Revenue Funds | | | | | | | TOT |
|---------------------------------------|-----------------------|---------------------|-----------------------|------------------------------|------------------|-------------------|-------------------|-----|
| Revenue | Gas Tax | CDBG Housing | Utica Power Authority | Light and Landscape District | Public Safety | Emergency Service | TOT Roads | |
| Taxes | \$ - | \$ - | \$ - | \$ 163,963 | \$ - | \$ 102,818 | \$ 102,818 | |
| Developer impact fees | - | - | - | - | - | - | - | |
| Intergovernmental | 107,850 | 7,953 | - | - | 121,379 | - | - | |
| Charges for services | - | - | 21,012 | - | - | - | - | |
| Interest | 163 | - | - | 2,430 | 638 | - | - | |
| Total revenue | <u>108,013</u> | <u>7,953</u> | <u>21,012</u> | <u>166,393</u> | <u>122,017</u> | <u>102,818</u> | <u>102,818</u> | |
| Expenditures | | | | | | | | |
| Public works | 145,164 | - | - | 102,459 | - | - | 50,201 | |
| Community development | - | 10,689 | - | - | - | - | - | |
| Public safety | - | - | - | - | 113,689 | 97,586 | - | |
| Capital outlay | - | - | - | - | - | - | - | |
| Total expenditures | <u>145,164</u> | <u>10,689</u> | <u>-</u> | <u>102,459</u> | <u>113,689</u> | <u>97,586</u> | <u>50,201</u> | |
| Revenue over (under) expenditures | (37,151) | (2,736) | 21,012 | 63,934 | 8,328 | 5,232 | 52,617 | |
| Other financing sources/(uses) | | | | | | | | |
| Operating transfers in/(out) - net | - | (59,510) | - | - | 25,050 | - | - | |
| | - | (59,510) | - | - | 25,050 | - | - | |
| Change in Fund Balance | (37,151) | (62,246) | 21,012 | 63,934 | 33,378 | 5,232 | 52,617 | |
| Fund Balance | | | | | | | | |
| Beginning of year | 89,754 | 1,410,418 | 164,688 | 507,027 | 29,280 | (7,835) | 210,862 | |
| End of year | <u>\$ 52,603</u> | <u>\$ 1,348,172</u> | <u>\$ 185,700</u> | <u>\$ 570,961</u> | <u>\$ 62,658</u> | <u>\$ (2,603)</u> | <u>\$ 263,479</u> | |

CITY OF ANGELS

**COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE
NON-MAJOR GOVERNMENTAL FUNDS (CONTINUED)
YEAR ENDED JUNE 30, 2011**

| | Special Revenue Fund | | | | | | | Total Non-major Governmental Funds |
|---------------------------------------|----------------------|--------------------------|-------------------------|------------------|-------------------------------|---------------------|-------------|---|
| | TOT Tourism | Capital Projects Fund | Redevelopment Agency | Prop 1B | Transportation Impact Fees | Fire Impact Fees | | |
| Revenue | | | | | | | | |
| Taxes | \$ 102,818 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 472,417 |
| Developer impact fees | - | - | - | - | 153,990 | 575 | - | 154,565 |
| Intergovernmental | - | 159,882 | - | - | - | - | - | 397,064 |
| Charges for services | - | - | - | - | - | - | - | 21,012 |
| Interest | - | - | - | - | 199 | - | - | 3,430 |
| Total revenue | <u>102,818</u> | <u>159,882</u> | <u>-</u> | <u>-</u> | <u>154,189</u> | <u>575</u> | <u>-</u> | <u>1,048,488</u> |
| Expenditures | | | | | | | | |
| Public works | - | - | - | - | - | - | - | 297,824 |
| Community development | 102,818 | 209,024 | - | 94,198 | - | - | - | 416,729 |
| Public safety | - | - | - | - | - | - | - | 211,275 |
| Capital outlay | - | - | - | - | - | - | - | - |
| Total expenditures | <u>102,818</u> | <u>209,024</u> | <u>-</u> | <u>94,198</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>925,828</u> |
| Revenue over (under) expenditures | - | (49,142) | - | (94,198) | 154,189 | 575 | - | 122,660 |
| Other financing sources/(uses) | | | | | | | | |
| Operating transfers in/(out) - net | - | 59,510 | - | - | - | - | - | 25,050 |
| | - | <u>59,510</u> | - | - | - | - | - | <u>25,050</u> |
| Change in Fund Balance | - | 10,368 | - | (94,198) | 154,189 | 575 | - | 147,710 |
| Fund Balance | | | | | | | | |
| Beginning of year | 1,093 | 280 | (111,130) | 164,353 | 19,083 | (2,719) | - | 2,475,154 |
| End of year | <u>\$ 1,093</u> | <u>\$ 10,648</u> | <u>\$ (111,130)</u> | <u>\$ 70,155</u> | <u>\$ 173,272</u> | <u>\$ (2,144)</u> | <u>\$ -</u> | <u>\$ 2,622,864</u> |

**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***

To the Honorable Mayor and City Council
City of Angels, California

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 of Angels, as of, and for the year ended June 30, 2011, which collectively comprise the City of Angels basic financial statements and have issued our report thereon dated December 1, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting 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 on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses. Item 2011-1 and 2011-2.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies. Item 2011-3.

Compliance and Other Matters

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

We noted certain other matters that we reported to management of the City of Angels in a separate letter dated December 1, 2011.

The City of Angels response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the City's response and, accordingly, we express no opinion on it.

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

A handwritten signature in black ink, appearing to read "Reynold J. [unclear]", written in a cursive style.

December 1, 2011

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL
EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Honorable Mayor and City Council
City of Angels, California

Compliance

We have audited the compliance of the City of Angels (the "City") with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. 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. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the 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, 2011.

Internal Control over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine the auditing procedures for the purpose of expressing our opinion on compliance 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.

Our consideration of the 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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

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 of Angels, as of and for the year then ended June 30, 2011, and have issued our report thereon dated December 1, 2011. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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



December 1, 2011

CITY OF ANGELS

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2011**

| Federal Grantor/Pass-through Grantor/Program Title | Federal CFDA Number | Agency or Pass-through Number | Federal Expenditures |
|---|------------------------------------|--|---------------------------------|
| Environmental Protection Agency | | | |
| Passed through California State Water Resources Control Board | | | |
| ARRA - Capitalization Grant for Drinking Water State | | | |
| Revolving Funds | | | |
| | 66.458 | 09-812-550-0 | \$ 1,379,028 |
| U.S. Department of Transportation | | | |
| Passed through California Department of Transportation | | | |
| American Recovery and Reinvestment Act of 2009 | | | |
| | 20.205 | ESPL-5206(011) | 84,097 |
| U.S. Department of Housing and Urban Development | | | |
| Passed through California Department of Housing and Community Development | | | |
| Community Development Block Grant | | | |
| | 14.218 | 08-PTAE-5382 | <u>13,098</u> |
| <i>Total Federal Expenditures</i> | | | <u>\$ 1,476,223</u> |

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

Funds received under the various grant programs have been recorded within special revenue and enterprise funds of the City. The City utilizes the modified accrual method of accounting for the special revenue funds and full accrual method for enterprise funds. The accompanying Schedule of Expenditures of Federal Awards has been prepared accordingly.

CITY OF ANGELS

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2011**

A. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:

Unqualified

Internal control over financial reporting:

- Material weaknesses identified? Yes No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes None reported
- Non-compliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

- Material weaknesses identified? Yes No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes None reported

Type of auditor's report issued on compliance for major programs:

Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?

Yes No

Identification of Major Programs

CFDA Number

Name of Federal Program or Cluster

66.458

ARRA – Capitalization Grant for Clean Water State Revolving Funds

Dollar threshold used to distinguish between Type A and Type B programs:

\$300,000

Auditee qualified as low-risk auditee?

Yes No

CITY OF ANGELS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED) YEAR ENDED JUNE 30, 2011

B. Findings – Financial Statements Audit

Material Weakness

2011-1 – Bank Reconciliations

Condition: Several bank reconciliations were not completed accurately or timely.

Criteria: Failure to reconcile cash in a timely manner is a deficiency in internal controls over a significant account balance.

Cause: There was lack of oversight and lack of accounting knowledge to ensure cash would be accurately reconciled on a timely basis.

Effect: Not reconciling the bank accounts to the general ledger on a monthly basis means that errors or other problems might not be recognized and resolved on a timely basis. Also, because of the significant delay in providing accurate reconciliations, there was a delay in completing the audit.

Recommendation: Timely preparation of complete and accurate bank reconciliations is a key to maintaining adequate control over cash receipts and disbursements. We recommend that management emphasize the importance in preparing and turning over accurate bank reconciliations for review and approval. We also recommend the proper review of the reconciliations when completed.

Management's Response: The City has hired a full-time City Administrator to ensure that proper controls are followed and that bank reconciliations are completed timely and accurately. The City Administrator will verify that the bank reconciliations are reconciled to the general ledger on a timely basis.

Material Weakness

2011-2 – Journal Entry Support and Review

Condition: We noted that journal entries prepared by the City were not properly approved and support was not kept with the journal entry.

Criteria: Adequate internal controls requires that journal entries be approved and contain adequate support.

Cause: The City does not have a policy of reviewing and approving journal entries.

Effect: The risk of errors and irregularities occurring and not being detected in a timely manner is increased if journal entries are not reviewed and approved.

Recommendation: We recommend the City develop and incorporate a policy for reviewing and approving journal entries.

Management's Response: The City will develop a journal entry review and approval process and implement the process to ensure all journal entries are properly supported.

CITY OF ANGELS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED) YEAR ENDED JUNE 30, 2011

B. Findings – Financial Statements Audit (Continued)

Significant Deficiency

2011- 3 – Wire Transfers

Condition: We noted that wire transfers are being initiated without proper review.

Criteria: Adequate internal controls requires that wire transfers be reviewed and approved by person independent of the general ledger and bank reconciliation.

Cause: The City does not have a policy for reviewing and approving wire transfers.

Effect: The risk of errors and irregularities occurring and not being detected in a timely manner is increased if wire transfers are not reviewed and approved.

Recommendation: We recommend the City develop and incorporate a policy for reviewing and approving wire transfers.

Management's Response: The City will develop a wire transfer review and approval process and implement the process to ensure that adequate internal controls exist for the bank accounts.

C. Findings and Questioned Costs – Major Federal Award Programs Audit

Significant Deficiencies and Instances of Noncompliance Related to the Audit of Major Federal Programs.

None noted.

CITY OF ANGELS

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2011**

Summary Schedule of Prior Audit Findings

There were no prior year audit findings.

CITY OF ANGELS REDEVELOPMENT AGENCY

INDEPENDENT AUDITOR'S REPORTS

AND

FINANCIAL STATEMENTS

JUNE 30, 2011

TABLE OF CONTENTS

| | <u>Page</u> |
|--|-------------|
| INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS | 1 |
| COMPONENT UNIT FINANCIAL STATEMENTS | |
| Statement of Net Assets | 2 |
| Statement of Activities | 3 |
| FUND FINANCIAL STATEMENTS | |
| Balance Sheet – Governmental Funds | 4 |
| Reconciliation of Total Governmental Fund Balance to Net Assets of Governmental Activities | 5 |
| NOTES TO COMPONENT UNIT FINANCIAL STATEMENTS | 6 - 8 |
| INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENTAL AUDITING STANDARDS</i> | 9 - 10 |

INDEPENDENT AUDITOR'S REPORT

Honorable Members of the
City of Angels Redevelopment Agency
Angels Camp, California

We have audited the accompanying component unit financial statements of the governmental activities of each major fund for the City of Angels Redevelopment Agency (Agency), a component unit of the City of Angels, California, as of and for the year ended June 30, 2011, which collectively comprise the Agency's basic financial statements as listed in the foregoing table of contents. The component unit financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on the component unit financial statements based on our audit.

We conducted our audit in accordance with United States of America generally accepted auditing standards and *Governmental 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 component unit financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the component unit financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall component unit financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of each major fund of the Agency at June 30, 2011, and the respective changes in financial position, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Agency has not presented the Management Discussion and Analysis that accounting principles generally accepted in the United States have determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 23, 2011 on our consideration of the Agency's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The accompanying financial statements have been prepared assuming that the Agency will continue as a going concern. As discussed in Note 3 to the financial statements, the Agency has net deficiency in net assets of \$111,130 at June 30, 2011, that raises substantial doubt about its ability to continue as a going concern. Management's plan in regard to these matters are also described in Note 3. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.



September 23, 2011

CITY OF ANGELS REDEVELOPMENT AGENCY

STATEMENT OF NET ASSETS JUNE 30, 2011

| | <u>Governmental Activities</u> |
|----------------------------|------------------------------------|
| Assets | |
| Cash and investments | \$ <u> -</u> |
| Total assets | <u> -</u> |
| Liabilities | |
| Long-term debt | |
| Due in more than one year | <u> 111,130</u> |
| Total liabilities | <u> 111,130</u> |
| Net Assets | |
| Unrestricted (deficit) | <u> (111,130)</u> |
| Total net assets (deficit) | <u>\$ (111,130)</u> |

CITY OF ANGELS REDEVELOPMENT AGENCY

STATEMENT OF ACTIVITIES YEAR ENDED JUNE 30, 2011

| | <u>Net Revenue/(Expenses) and Changes in Net Assets</u> | | | |
|-------------------------------|---|---|------------------------------------|---------------------|
| | <u>Primary Government</u> | | | |
| | <u>Expenses</u> | <u>Operating Grants and Contributions</u> | <u>Governmental Activities</u> | <u>Total</u> |
| FUNCTIONS/PROGRAMS | | | | |
| Primary government: | | | | |
| Governmental activities: | | | | |
| Community redevelopment | \$ - | \$ - | \$ - | \$ - |
| Total governmental activities | <u>\$ -</u> | <u>\$ -</u> | <u>-</u> | <u>-</u> |
| GENERAL REVENUE | | | | |
| Transfer from City of Angels | | | - | - |
| Total general revenue | | | <u>-</u> | <u>-</u> |
| CHANGE IN NET ASSETS | | | | |
| | | | - | - |
| NET ASSETS (DEFICIT) | | | | |
| Beginning of year | | | <u>(111,130)</u> | <u>(111,130)</u> |
| End of year | | | <u>\$ (111,130)</u> | <u>\$ (111,130)</u> |

CITY OF ANGELS REDEVELOPMENT AGENCY

BALANCE SHEET GOVERNMENTAL FUNDS JUNE 30, 2011

| | <u>Total Governmental Funds</u> |
|-------------------------------------|---|
| ASSETS | |
| Cash and investments | \$ - |
| Total assets | <u>\$ -</u> |
| LIABILITIES AND FUND BALANCE | |
| Liabilities | |
| Accounts payable | - |
| Total liabilities | <u>-</u> |
| Fund Balance | |
| Unassigned | - |
| Total fund balance | <u>-</u> |
| Total liabilities and fund balance | <u>\$ -</u> |

CITY OF ANGELS REDEVELOPMENT AGENCY

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE TO NET ASSETS OF GOVERNMENTAL ACTIVITIES JUNE 30, 2011

Total governmental fund balances \$ -

Amounts reported for governmental activities in
the statement of net assets are different because:

The liabilities below are not due and payable in the current period
and, therefore, are not reported in the Governmental Fund
Balance Sheet:

| | |
|---------------------------------------|---------------------|
| Advances from City of Angels | <u>(111,130)</u> |
| Net assets of governmental activities | <u>\$ (111,130)</u> |

CITY OF ANGELS REDEVELOPMENT AGENCY

NOTES TO COMPONENT UNIT FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2011

Note 1 – Summary of Significant Accounting Policies

Organization and Purpose – The City of Angels Redevelopment Agency (Agency) was formed under the provisions of the Community Redevelopment Law (California Health and Safety Code).

The Agency is an integral part of the City of Angels. Accordingly, the accompanying basic financial statements are included as a component of the basic financial statements of the City.

The financial statements of the City of Angels Redevelopment Agency have been prepared in conformity with accounting principles generally accepted in the United States of America, as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA), as applied to governmental units. The GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Agency's accounting policies are described below.

Government-wide Statements - The Statement of Net Assets and the Statement of Activities include the financial activities of the overall Agency government. Eliminations have been made to minimize the double counting of internal activities.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the Agency's activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include a) charges paid by the recipients of goods or services offered by the programs and b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements – The fund financial statements provide information about the Agency's funds. Separate statements for each governmental fund are presented. The emphasis of fund financial statements is on major individual funds, each of which is displayed in a separate column. The Agency considers all its funds to be major funds.

Major Funds – GASB Statement No. 34 defines major funds and requires that the Agency's major governmental type funds to be identified and presented separately in the fund financial statements. Major funds are defined as funds that have assets, liabilities, revenues, or expenditures equal to ten percent of their fund-type total and five percent of the grand total. The Agency has determined that all its funds are major funds.

The Agency reported the following major governmental fund in the accompanying financial statements:

Redevelopment Agency Fund – This fund accounts for redevelopment activity.

CITY OF ANGELS REDEVELOPMENT AGENCY

NOTES TO COMPONENT UNIT FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2011

Note 1 – Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation - The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as they are both measurable and available. Revenue is considered to be collectible when it is collectible within the current period or soon enough thereafter to pay liabilities for the current period. For this purpose, the Agency considers property taxes and other revenue to be available in the period for which levied if it is collected within 60 days after 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. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Non-exchange transactions, in which the Agency gives or receives value without directly receiving or giving equal value in exchange, include property taxes, grants, entitlements, and donations. On the accrual basis of accounting, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Under the terms of grant agreements, the Agency provides funds for certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. The Agency's policy is to first apply cost-reimbursement grant resources to such programs, followed by general revenues.

Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America, as prescribed by the GASB and the AICPA requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Net Assets

Government-wide Financial Statements

Unrestricted Net Assets – This amount is all net assets that do not meet the definition of “invested in capital assets, net of related debt” or “restricted net assets”.

Fund Financial Statements

Fund Equity – Restrictions of fund balances of governmental funds are created to either report legal covenants, including State laws that require a portion of the fund equity to be segregated or identify the portion of the fund equity not available for future expenditures.

CITY OF ANGELS REDEVELOPMENT AGENCY

NOTES TO COMPONENT UNIT FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2011

Note 2– Long-Term Debt

Changes in long-term debt for the year ended June 30, 2011 were as follows:

| | Balance | | | Balance |
|----------------------------------|---------------------|------------------|--------------------|----------------------|
| | July 1, 2010 | Additions | Retirements | June 30, 2011 |
| Advances from the City of Angels | \$ 111,130 | \$ - | \$ - | \$ 111,130 |
| | <u>\$ 111,130</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 111,130</u> |

Advance Payable – The City of Angels advanced \$111,130 to the Agency with a 0 % interest rate and no payment due date.

Note 3 – Going Concern

The Agency has a deficit net asset balance as of June 30, 2011, which raises doubt about its ability to continue as a going concern. The deficit has occurred due to the Agency incurring start up costs in excess of revenues. Once the redevelopment agency is active, the Agency will be able to reverse the deficit.

**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***

Honorable Members of the
City of Angels Redevelopment Agency
City of Angels, California

We have audited the financial statements of the City of Angels Redevelopment Agency, as of, and for the year ended June 30, 2011, and have issued our report thereon dated September 23, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Such provisions include those provisions of laws identified in the *Guidelines for Compliance Audits of California Redevelopment Agencies*, issued by the State Controller and as interpreted in the *Suggested Auditing Procedures for Accomplishing Compliance Audits of California Redevelopment Agencies*, issued by Governmental Accounting and Auditing Committee of the California Society of Certified Public Accountants. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Governing Board, others within the entity, and the State Controller and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in black ink, appearing to be "M. J. ...", written over the date.

September 23, 2011

CITY OF ANGELS
MANAGEMENT REPORT
FOR THE YEAR ENDED JUNE 30, 2011

TABLE OF CONTENTS

| | <u>Page</u> |
|------------------------------|--------------------|
| Required Communications | 1 - 3 |
| Current Year Recommendations | 4 - 5 |

To the Honorable Mayor and City Council
City of Angels, California

We have audited the financial statements of the City of Angels, California (City) for the year ended June 30, 2011, and have issued our report thereon dated December 1, 2011. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Generally Accepted Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with generally accepted accounting principles of the United States of America. Because an audit is designed to provide reasonable, but not absolute, assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or other illegal acts may exist and not be detected by us.

As part of our audit, we considered the internal controls of the City. Such considerations were solely for the purpose of determining our audit procedures and not to provide assurance concerning such internal control.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City are described in the notes to the financial statements.

We noted no transactions entered into by the City during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance and consensus.

Accounting Estimates

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. There were no significant estimates affecting the financial statements.

Corrected and Uncorrected Misstatements

For purposes of this letter, professional standards define significant audit adjustments as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the City's financial reporting process (that is, cause future financial statements to be materially misstated). The following material misstatements detected as a result of audit procedures were:

- Adjustments for the current year to properly reflect grant receivables and related activity and to adjust year end closing journal entries.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter 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 the audit.

Consultation 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. Our professional standards require a consulting accountant to check with us 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. This is to ensure that the consultant has all of the relevant facts. To our knowledge, there were no such consultations with other accountants.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter.

Other Audit Findings and 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 governmental unit'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 report is intended for the use of management, the City Council, and others within the organization, and it's not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to be "K. Reed" followed by a large, stylized flourish.

December 1, 2011

To the Honorable Mayor and City Council
City of Angels, California

In planning and performing our audit of the financial statements of the City of Angels, California (City) for the year ended June 30, 2011, we considered the City's internal control to plan our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control.

However, during our audit, we noted certain matters involving the internal control and other operational matters that are presented for your consideration. This letter does not affect our report dated December 1, 2011 on the financial statements of the City. We will review the status of these comments during our next audit engagement. Our comments and recommendations, all of which have been discussed with appropriate members of management, are intended to improve the internal control or result in other operating efficiencies. We will be pleased to discuss these comments in further detail at your convenience, perform any additional study of these matters, or assist you in implementing the recommendations. Our comments are summarized as follows:

Bank Reconciliation Discrepancy – As mentioned in our audit report we noted a material weakness with the reconciliation of the City's bank accounts. After substantial auditing and review of bank statements and the general ledger we were not able to identify approximately \$15,000 in discrepancies between the general ledger and the bank statements. Since this amount is below our materiality level, it did not affect our opinion on the City's financial statements. We did not audit or substantiate every transaction that affected cash so the actual difference could vary. The City should weigh the cost versus the benefit of re-reconciling the bank accounts to identify the discrepancies.

Terminate City of Angels of Redevelopment Agency – The Redevelopment Agency has not been operated as a Redevelopment Agency for many years. We recommend terminating the Redevelopment Agency.

Year-End Accounting for Accounts Payable – During the current year rather than record accounts payable as a liability, July 2011 disbursements that pertained to the fiscal year ended June 30, 2011 were dated as June 2011 checks, thereby understating cash and accounts payable. Although the batches that were done this way could be identified to properly record accounts payable, it added difficulty to reconciling cash as the outstanding check list included these checks. Ultimately a manual outstanding check list had to be created in order to ensure the outstanding check list was accurate. We recommend creating the check batches in the fiscal year they pertain to and then creating a spreadsheet to support the journal entry that is necessary to properly record accounts payable in its respective fund.

Payroll Tax Deposit Penalties – During our audit we noticed the City was assessed penalties from the Internal Revenue Service for not properly filing payroll taxes and correspondence. The IRS has stringent deadlines for remitting payroll taxes and they must be met in order to avoid penalties. We recommend the City has in place the proper procedures to ensure taxes are paid timely and accurately.

Payroll Time Sheet Approval – During our audit we noted several instances where time sheets were not approved by the supervisor. Although, time sheets are reviewed by the Finance Department it is the City's policy for supervisors to sign off on employee time sheets. We recommend the Finance Department ensure all time sheets are signed by the appropriate supervisor prior to submitting payroll.

We believe that the implementation of these recommendations will provide the City with a stronger system of internal accounting control while also making its operations more efficient. We will be happy to discuss the details of these recommendations with you and assist in any way possible with their implementation.

This report is intended solely for the information and use of the City Council and management. However, this report is a matter of public record and its distribution is not limited.


December 1, 2014