

CITY OF ANGELS

**INDEPENDENT AUDITOR'S REPORT
AND
FINANCIAL STATEMENTS
JUNE 30, 2010**

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 - 33

TABLE OF CONTENTS (Continued)

	<u>Page</u>
Required Supplementary Information	
Budgetary Comparison Schedule – General Fund	34
Budgetary Comparison Schedule – Capital Projects 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>GOVERNMENTAL AUDITING STANDARDS</i>	40 – 41
INDEPENDENT AUDITORS' 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
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS	46

BRYANT L. JOLLEY

CERTIFIED PUBLIC ACCOUNTANTS

Bryant L. Jolley C.P.A.
Ryan P. Jolley C.P.A.
Darryl L. Smith C.P.A.
Travis B. Evenson

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, 2010, 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.

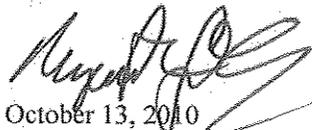
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and 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, 2010, 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 October 13, 2010 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.



October 13, 2010

CITY OF ANGELS

STATEMENT OF NET ASSETS JUNE 30, 2010

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and investments - unrestricted	\$ 2,501,591	\$ 8,056,096	\$ 10,557,687
Cash and investments - restricted	-	287,751	287,751
Accounts receivable, net	32,958	380,980	413,938
Due from other governments	483,046	-	483,046
Taxes receivable	264,094	-	264,094
Notes receivable	1,035,540	-	1,035,540
Deferred charges - Bond issuance costs, net	-	59,948	59,948
Capital assets, net of allowance for depreciation	1,585,797	18,270,438	19,856,235
Total assets	<u>5,903,026</u>	<u>27,055,213</u>	<u>32,958,239</u>
LIABILITIES			
Accounts payable and accrued expense	196,807	177,667	374,474
Accrued payroll	33,353	21,478	54,831
Accrued interest	4,875	81,470	86,345
Deposits payable	42,901	15,335	58,236
Compensated absences	107,927	54,238	162,165
Long-term liabilities			
Due within one year	56,894	370,790	427,684
Due in more than one year	267,043	6,976,340	7,243,383
Post-retirement health benefits	132,327	-	132,327
Total liabilities	<u>842,127</u>	<u>7,697,318</u>	<u>8,539,445</u>
NET ASSETS			
Invested in capital assets, net of related debt	1,261,860	10,923,308	12,185,168
Restricted for notes receivable	1,035,540	-	1,035,540
Restricted for debt service	-	287,751	287,751
Unrestricted:			
Designated for specific projects and programs	1,439,614	-	1,439,614
Undesignated	1,323,885	8,146,836	9,470,721
Total net assets/(deficit)	<u>\$ 5,060,899</u>	<u>\$ 19,357,895</u>	<u>\$ 24,418,794</u>

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2010

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	\$ 726,367	\$ 43,374	\$ 21,798	\$ -	\$ (661,195)	\$ -	\$ (661,195)
Public works	385,462	24,991	107,379	-	(253,092)	-	(253,092)
Community development	1,148,881	55,325	125,881	585,071	(382,604)	-	(382,604)
Public safety	2,002,547	87,752	134,582	-	(1,780,213)	-	(1,780,213)
Parks and recreation	223,662	23,164	-	-	(200,498)	-	(200,498)
Debt Service							
Interest and fiscal charges	20,841	-	-	-	(20,841)	-	(20,841)
Total governmental activities	4,507,760	234,606	389,640	585,071	(3,298,443)	-	(3,298,443)
Business-type activities							
Water	1,559,035	1,786,084	-	-	-	227,049	227,049
Sewer	2,091,498	2,409,894	-	1,411,889	-	1,730,285	1,730,285
Total business-type activities	3,650,533	4,195,978	-	1,411,889	-	1,957,334	1,957,334
Total primary government	\$ 8,158,293	\$ 4,430,584	\$ 389,640	\$ 1,996,960	(3,298,443)	1,957,334	(1,341,109)
General Revenue							
Property taxes					692,447	-	692,447
Special assessments					163,962	-	163,962
Sales taxes					445,466	-	445,466
Franchise and other taxes					895,937	-	895,937
Motor vehicle license-in-lieu					278,425	-	278,425
Other					1,015	-	1,015
Rents					54,410	-	54,410
Interest income					19,219	39,967	59,186
Total general revenue and transfers					2,550,881	39,967	2,590,848
Change in Net Assets					(747,562)	1,997,301	1,249,739
Net Assets							
Beginning of year					5,808,461	17,360,594	23,169,055
End of year					\$ 5,060,899	\$ 19,357,895	\$ 24,418,794

See accompanying notes.

CITY OF ANGELS

**BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2010**

	General Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and investments	\$ 1,378,837	\$ (309,889)	\$ 1,432,643	\$ 2,501,591
Accounts receivable, net	32,958	-	-	32,958
Due from other governments	27,412	372,883	82,751	483,046
Taxes receivable	167,767	-	96,327	264,094
Due from other funds	111,130	-	-	111,130
Notes receivable	-	-	1,035,540	1,035,540
Total assets	\$ 1,718,104	\$ 62,994	\$ 2,647,261	\$ 4,428,359

LIABILITIES AND FUND BALANCE

Liabilities				
Accounts payable and accrued expense	\$ 85,478	\$ 62,714	\$ 48,615	\$ 196,807
Accrued payroll	27,320	-	6,033	33,353
Compensated absences	101,318	-	6,609	107,927
Due to other funds	-	-	111,130	111,130
Deposits payable	42,901	-	-	42,901
Total liabilities	\$ 257,017	\$ 62,714	\$ 172,387	\$ 492,118

Fund Balance

Reserved for notes receivable	-	-	1,035,540	1,035,540
Unreserved:				
Designated for specific projects and programs	-	280	1,439,334	1,439,614
Undesignated	1,461,087	-	-	1,461,087
Total fund balance	1,461,087	280	2,474,874	3,936,241
Total liabilities and fund balance	\$ 1,718,104	\$ 62,994	\$ 2,647,261	\$ 4,428,359

See accompanying notes.

CITY OF ANGELS

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE TO NET ASSETS OF GOVERNMENTAL ACTIVITIES JUNE 30, 2010

Total governmental fund balance \$ 3,936,241

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 1,585,797

Governmental long-term liabilities are not due and payable in the current
period and, therefore, are not reported in the funds (323,937)

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 (4,875)

Net assets of governmental activities \$ 5,193,226

CITY OF ANGELS

**STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2010**

	General Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Revenue				
Taxes	\$ 2,002,750	\$ -	\$ 473,487	\$ 2,476,237
Licenses, permits and impact fees	79,379	-	10,074	89,453
Intergovernmental	21,798	585,071	367,842	974,711
Charges for services	94,435	-	23,623	118,058
Fines and forfeitures	27,095	-	-	27,095
Rental	54,410	-	-	54,410
Interest	14,644	-	4,575	19,219
Other	1,015	-	-	1,015
Total revenue	2,295,526	585,071	879,601	3,760,198
Expenditures				
Current				
General government	589,613	-	-	589,613
Public works	105,494	-	255,679	361,173
Community development	410,127	589,151	149,603	1,148,881
Public safety	1,537,555	-	360,046	1,897,601
Parks and recreation	213,915	-	-	213,915
Capital outlay	-	-	39,189	39,189
Debt Service	-	-	-	-
Principal	56,911	-	-	56,911
Interest and fiscal charges	21,668	-	-	21,668
Total expenditures	2,935,283	589,151	804,517	4,328,951
Revenue over/(under) expenditures	(639,757)	(4,080)	75,084	(568,753)
Other Financing Sources/(Uses)				
Transfers in/(out) - net	(4,380)	4,380	-	-
	(4,380)	4,380	-	-
Change in Fund Balance	(644,137)	300	75,084	(568,753)
Fund Balance				
Beginning of year	2,105,224	(20)	2,399,790	4,504,994
End of year	<u>\$ 1,461,087</u>	<u>\$ 280</u>	<u>\$ 2,474,874</u>	<u>\$ 3,936,241</u>

See accompanying notes.

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, 2010

Net change in fund balance - total governmental funds \$ (568,753)

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 56,911

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities and Changes in Net Assets the cost of those assets are capitalized as an asset and depreciated over the period of service 39,189

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 (132,327)

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 (143,409)

In the Statement of Activities interest is accrued on long-term debt, whereas, in governmental funds interest expenditure is reported when due 827

Change in net assets of governmental activities \$ (747,562)

CITY OF ANGELS

STATEMENT OF NET ASSETS – PROPRIETARY FUNDS

JUNE 30, 2010

	Business-Type Activities - Enterprise Funds		
	Water	Sewer	Total Proprietary Funds
ASSETS			
Current assets			
Cash and investments - unrestricted	\$ 6,232,004	\$ 1,824,092	\$ 8,056,096
Cash and investments - restricted for bonds	-	287,751	287,751
Accounts receivable, net	181,610	199,370	380,980
Total current assets	<u>6,413,614</u>	<u>2,311,213</u>	<u>8,724,827</u>
Non-current assets			
Deferred issuance costs	-	59,948	59,948
Property, plant and equipment, net of allowance for depreciation	<u>2,181,522</u>	<u>16,088,916</u>	<u>18,270,438</u>
Total assets	<u>8,595,136</u>	<u>18,460,077</u>	<u>27,055,213</u>
LIABILITIES			
Current liabilities			
Accounts payable and accrued expenses	28,245	149,422	177,667
Accrued payroll	8,775	12,703	21,478
Accrued interest	-	81,470	81,470
Deposits payable	15,335	-	15,335
Current portion of long-term debt	<u>77,629</u>	<u>293,161</u>	<u>370,790</u>
Total current liabilities	<u>129,984</u>	<u>536,756</u>	<u>666,740</u>
Non-current liabilities			
Long-term debt	903,481	6,072,859	6,976,340
Compensated absences	<u>27,853</u>	<u>26,385</u>	<u>54,238</u>
Total noncurrent liabilities	<u>931,334</u>	<u>6,099,244</u>	<u>7,030,578</u>
Total liabilities	<u>1,061,318</u>	<u>6,636,000</u>	<u>7,697,318</u>
NET ASSETS			
Invested in capital assets, net of related debt	1,200,412	9,722,896	10,923,308
Restricted for debt service	-	287,751	287,751
Unrestricted/(deficit)	<u>6,333,406</u>	<u>1,813,430</u>	<u>8,146,836</u>
Total net assets/(deficit)	<u>\$ 7,533,818</u>	<u>\$ 11,824,077</u>	<u>\$ 19,357,895</u>

See accompanying notes.

CITY OF ANGELS

STATEMENT OF REVENUE, EXPENSE, AND CHANGES IN FUND NET ASSETS – PROPRIETARY FUNDS YEAR ENDED JUNE 30, 2010

	Business-Type Activities - Enterprise Funds		
	Water	Sewer	Total Proprietary Funds
Operating Revenue			
Charges for services	\$ 1,698,195	\$ 2,402,694	\$ 4,100,889
Connection fees	87,889	7,200	95,089
Total operating revenue	<u>1,786,084</u>	<u>2,409,894</u>	<u>4,195,978</u>
Operating Expense			
Contractual services and utilities	600,731	526,322	1,127,053
Personnel	625,000	601,496	1,226,496
Supplies and materials	101,031	139,565	240,596
Bad debt expense	121,489	101,250	222,739
Depreciation and amortization	110,784	459,469	570,253
Total operating expense	<u>1,559,035</u>	<u>1,828,103</u>	<u>3,387,138</u>
Operating income/(loss)	<u>227,049</u>	<u>581,791</u>	<u>808,840</u>
Nonoperating Revenue/(Expense)			
Intergovernmental	-	1,411,889	1,411,889
Interest income	34,839	5,128	39,967
Interest expense	-	(263,395)	(263,395)
Total nonoperating revenue/(expense)	<u>34,839</u>	<u>1,153,622</u>	<u>1,188,461</u>
Net income/(loss) before transfers	<u>261,888</u>	<u>1,735,413</u>	<u>1,997,301</u>
Operating Transfers In/(Out)	<u>-</u>	<u>-</u>	<u>-</u>
Change in Net Assets	<u>261,888</u>	<u>1,735,413</u>	<u>1,997,301</u>
Net Assets			
Beginning of year	<u>7,271,930</u>	<u>10,088,664</u>	<u>17,360,594</u>
End of year	<u>\$ 7,533,818</u>	<u>\$ 11,824,077</u>	<u>\$ 19,357,895</u>

CITY OF ANGELS

STATEMENT OF CASH FLOW - PROPRIETARY FUNDS YEAR ENDED JUNE 30, 2010

	Business-Type Activities - Enterprise Funds		
	Water	Sewer	Total
Operating Activities			
Receipts from customers and users	\$ 1,804,875	\$ 2,409,416	\$ 4,214,291
Payments for contractual services and utilities	(661,555)	(619,306)	(1,280,861)
Payments to employees	(632,648)	(606,037)	(1,238,685)
Payment to suppliers	(101,031)	(139,565)	(240,596)
Net cash provided by (used in) operating activities	<u>409,641</u>	<u>1,044,507</u>	<u>1,454,148</u>
Non-capital Financial Activities			
Payments from other governments	-	1,411,889	1,411,889
Net cash provided by (used in) noncapital financing activities	<u>-</u>	<u>1,411,889</u>	<u>1,411,889</u>
Capital and Related Financing Activities			
Purchase of property, plant and equipment	(138,890)	(1,351,292)	(1,490,182)
Principal paid on long-term debt	(77,463)	(275,000)	(352,463)
Proceeds from new borrowing	-	200,000	200,000
Interest paid on long-term debt	-	(266,261)	(266,261)
Net cash used in capital and related financing activities	<u>(216,353)</u>	<u>(1,692,553)</u>	<u>(1,908,906)</u>
Investing Activities			
Interest received	<u>34,839</u>	<u>5,128</u>	<u>39,967</u>
Net cash provided by investing activities	<u>34,839</u>	<u>5,128</u>	<u>39,967</u>
Net Increase (Decrease) in Cash	<u>228,127</u>	<u>768,971</u>	<u>997,098</u>
Cash			
Beginning of year	<u>6,003,877</u>	<u>1,342,872</u>	<u>7,346,749</u>
End of year	<u>\$ 6,232,004</u>	<u>\$ 2,111,843</u>	<u>\$ 8,343,847</u>
Cash Flows from Operating Activities			
Operating income (loss)	\$ 227,049	\$ 581,791	\$ 808,840
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation and amortization	110,784	459,469	570,253
(Increase) Decrease in Accounts Receivable	140,280	100,772	241,052
Increase (Decrease) in Accounts Payable and Accrued Liabilities	(68,472)	(97,525)	(165,997)
Net Cash Provided by Operating Activities	<u>\$ 409,641</u>	<u>\$ 1,044,507</u>	<u>\$ 1,454,148</u>

See accompanying notes.

CITY OF ANGELS

STATEMENT OF NET ASSETS – FIDUCIARY FUNDS YEAR ENDED JUNE 30, 2010

	Greenhorn Creek Assessment District	LAFCO Trust Fund
	<u> </u>	<u> </u>
ASSETS		
Cash and investments	\$ 512,296	\$ 206,277
Restricted cash and investments with fiscal agents	471,161	-
Interest receivable	-	287
Total assets	<u>983,457</u>	<u>206,564</u>
LIABILITIES		
Accounts payable	-	65
Due to bondholders	<u>983,457</u>	<u>-</u>
Total liabilities	<u>983,457</u>	<u>65</u>
NET ASSETS		
Held in trust for Local Agency Formation Commission	-	206,499
Total net assets	<u>\$ -</u>	<u>\$ 206,499</u>

CITY OF ANGELS

STATEMENT OF CHANGES IN NET ASSETS – FIDUCIARY FUNDS YEAR ENDED JUNE 30, 2010

	<u>LAFCO Trust Fund</u>
Additions	
Contributions	\$ 28,225
Interest	422
Total additions	<u>28,647</u>
Deductions	
Administrative costs	<u>61,017</u>
Change in Net Assets	(32,370)
Net Assets	
Beginning of year	<u>238,869</u>
End of year	<u>\$ 206,499</u>

CITY OF ANGELS

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2010

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, 2010 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, 2010

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.

Capital Projects Fund – The Capital Projects Fund was established to account for the monies received from various sources which are to be used for the construction of various projects.

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, 2010

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, 2010

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, 2010

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, 2010

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.

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.

CITY OF ANGELS

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2010

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, 2010 are classified in the accompanying financial statements as follows:

Statement of Net Assets:	
Cash and Investments	\$ 10,557,687
Cash and Investments with fiscal agent	287,751
Fiduciary Funds:	
Cash and Investments	718,573
Restricted Cash and Investments with fiscal agent	471,161
Total Cash and Investments	<u>\$ 12,035,172</u>

Cash and investments as of June 30, 2010 consist of the following:

Cash on hand	\$ 750
Deposits with Financial Institutions	3,085,215
Local Agency Investment Fund	8,190,294
Held by Fiscal Agent:	
Mutual Fund	758,913
Total Cash and Investments	<u>\$ 12,035,172</u>

CITY OF ANGELS

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2010

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.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment In One Issuer
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, 2010

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, 2010 the City had the following investments.

Investment Type	Maturity Date
Local Agency Investment Fund Held by Bond Trustee:	N/A
Mutual Fund	N/A
Total	N/A

CITY OF ANGELS

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2010

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	Rating as of Year End
		Legal Rating	Not Rated
Local Agency Investment Fund Held by Bond Trustee:	\$ 8,190,294	N/A	\$ 8,190,294
Mutual Fund	<u>758,913</u>	N/A	<u>758,913</u>
Total	<u>\$ 8,949,207</u>		<u>\$ 8,949,207</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.

CITY OF ANGELS

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2010

Note 3 – Cash and Investments (Continued)

\$2,324,651 of the City's deposits with financial institutions in excess of federal depository insurance limits were held in uncollateralized accounts.

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 \$1,035,540 consist of mortgage loans for housing and property rehabilitation and construction.

Note 5 – 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, 2010

Note 5 – Capital Assets (Continued)

Capital asset activity for the year ended June 30, 2010, was as follows:

	Balance July 1, 2009	Additions	Retirements	Balance June 30, 2010
<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>1,576,839</u>	<u>39,189</u>	-	<u>1,616,028</u>
Total capital assets, being depreciated	<u>2,325,733</u>	<u>39,189</u>	<u>-</u>	<u>2,364,922</u>
Less accumulated depreciation for:				
Buildings and improvements	(296,605)	(19,651)	-	(316,256)
Machinery and equipment	<u>(1,090,053)</u>	<u>(123,758)</u>	-	<u>(1,213,811)</u>
Total accumulated depreciation	<u>(1,386,658)</u>	<u>(143,409)</u>	<u>-</u>	<u>(1,530,067)</u>
Total capital assets, being depreciated, net	<u>939,075</u>	<u>(104,220)</u>	<u>-</u>	<u>834,855</u>
Governmental activities capital assets, net	<u>\$ 1,690,017</u>	<u>\$ (104,220)</u>	<u>\$ -</u>	<u>\$ 1,585,797</u>
<u>Business-Type Activities</u>				
Capital assets, not being depreciated				
Land	\$ 116,515	\$ -	\$ -	\$ 116,515
Construction in progress	<u>625,514</u>	<u>1,434,149</u>	-	<u>2,059,663</u>
Total capital assets, not being depreciated	<u>742,029</u>	<u>1,434,149</u>	<u>-</u>	<u>2,176,178</u>
Capital assets, being depreciated				
Buildings and improvements	20,854,789	-	-	20,854,789
Infrastructure	672,827	-	-	672,827
Machinery and equipment	<u>602,497</u>	<u>56,033</u>	-	<u>658,530</u>
Total capital assets, being depreciated	<u>22,130,113</u>	<u>56,033</u>	<u>-</u>	<u>22,186,146</u>
Less: accumulated depreciation	<u>(5,531,623)</u>	<u>(560,263)</u>	<u>-</u>	<u>(6,091,886)</u>
Total capital assets, being depreciated, net	<u>16,598,490</u>	<u>(504,230)</u>	<u>-</u>	<u>16,094,260</u>
Business-type activities capital assets, net	<u>\$ 17,340,519</u>	<u>\$ 929,919</u>	<u>\$ -</u>	<u>\$ 18,270,438</u>

CITY OF ANGELS

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2010

Note 5 – 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		24,289
Public Safety		104,946
Parks and Recreation		9,747
	\$	<u>143,409</u>

Business-Type Functions:

Water	\$	110,784
Sewer		449,479
	\$	<u>560,263</u>

Note 6 – 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, 2009	Additions	Retirements	Balance June 30, 2010	Current Portion
<u>Governmental Activity Long Term Debt</u>					
Hydrox Property Lease Payable	\$ 380,848	\$ -	\$ (56,911)	\$ 323,937	\$ 56,894
Total Governmental Activity Debt	<u>\$ 380,848</u>	<u>\$ -</u>	<u>\$ (56,911)</u>	<u>\$ 323,937</u>	<u>\$ 56,894</u>
<u>Business-Type Activity Long Term Debt</u>					
Bond Payable					
2001A Water and Wastewater Revenue Bonds	\$ 1,695,000	\$ -	\$ (215,000)	\$ 1,480,000	\$ 225,000
Loans Payable					
California Department of Water Resources	1,042,553	-	(74,468)	968,085	74,468
U.S. Department of Agriculture Rural Development	4,730,000	-	(60,000)	4,670,000	65,000
Hydrox Property Lease Payable	32,040	-	(2,995)	29,045	6,322
State Water Resource Control Board	-	200,000	-	200,000	-
Total Business-Type Activity Debt	<u>\$ 7,499,593</u>	<u>\$ 200,000</u>	<u>\$ (352,463)</u>	<u>\$ 7,347,130</u>	<u>\$ 370,790</u>
<u>Compensated Absences</u>					
Government Activities	\$ 125,129	\$ -	\$ (17,202)	\$ 107,927	
Business-Type Activities	<u>\$ 65,359</u>	<u>\$ -</u>	<u>\$ (11,121)</u>	<u>\$ 54,238</u>	

CITY OF ANGELS

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2010

Note 6 – Long-Term Debt (Continued)

Long-term debt payable at June 30, 2010 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 2010. 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 will bear interest at 1% per annum with repayment beginning November 16, 2011 over a twenty year period. As of June 30, 2010, the City had received \$200,000 in loan funds and \$1,411,889 in federal grant funds.

CITY OF ANGELS

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2010

Note 6 – Long-Term Debt (Continued)

The annual requirement to amortize the principal and interest on all long-term debt at June 30, 2010 were as follows:

Years ending June 30,	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2011	\$ 56,894	\$ 19,499	\$ 370,790	\$ 255,391
2012	60,038	16,007	385,221	245,755
2013	63,353	12,322	400,682	233,499
2014	66,852	8,434	411,163	220,322
2015	76,800	4,330	420,410	206,415
2016-2020	-	-	1,120,554	897,464
2021-2025	-	-	799,078	790,992
2026-2030	-	-	703,259	666,219
2031-2035	-	-	810,973	514,147
2036-2040	-	-	985,000	328,950
2041-2045	-	-	940,000	102,000
	<u>\$ 323,937</u>	<u>\$ 60,592</u>	<u>\$ 7,347,130</u>	<u>\$ 4,461,154</u>

Note 7 – 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 \$7,155,000.

Note 8 – Fund Balance

Fund Balance and Retained Earnings Deficits - The following is a summary of deficit fund balances and retained earnings as of June 30, 2010:

Capital projects fund	
TOT Emergency Service	\$ (7,835)
Redevelopment Agency	(111,130)
Fire Impact Fees	(2,719)
	<u>\$ (121,684)</u>

CITY OF ANGELS

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2010

Note 9 – 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 16.366% for non-safety employees, 9.246% for firefighters, and 27.810% 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 2010, the City's annual pension cost of \$542,282 for PERS was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2008, 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, 2008 was 14 years.

THREE-YEAR TREND INFORMATION FOR PERS

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2008	\$ 531,398	100%	\$ -
6/30/2009	527,601	100%	-
6/30/2010	542,282	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, 2010

Note 10 – Proposition 1A Borrowing by the State of California

Under the provisions of Proposition 1A and as part of the 2009-10 budget package passed by the California state legislature on July 28, 2009, the State of California borrowed 8% of the amount of property tax revenue, including those property taxes associated with the in-lieu motor vehicle license fee, the triple flip in lieu sales tax, and supplemental property tax, apportioned to cities, counties, and special districts. The state is required to repay this borrowing plus interest by June 30, 2013. After repayment of this initial borrowing, the California legislature may consider only one additional borrowing within a ten-year period. The amount of this borrowing pertaining to the City was \$89,495.

Authorized with the 2009-10 State budget package, the Proposition 1A Securitization Program was instituted by the California Statewide Communities Development Authority (“California Communities”), a joint powers authority sponsored by the California State Association of Counties and the League of California Cities, to enable local governments to sell their Proposition 1A receivables to California Communities. Under the Securitization Program, California Communities simultaneously purchased the Proposition 1A receivables and issued bonds (“Prop 1A Bonds”) to provide local agencies with cash proceeds in two equal installments, on January 15, 2010 and May 3, 2010. The purchase price paid to the local agencies equaled 100% of the amount of the property tax reduction. All transaction costs of issuance and interest were paid by the State of California. Participating local agencies have no obligation on the bonds and no credit exposure to the State. The City participated in the securitization program and accordingly property taxes have been recorded in the same manner as if the State had not exercised its rights under Proposition 1A. The receivable sale proceeds were equal to the book value and, as a result, no gain or loss was recorded.

Note 11 – 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, 2010 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, 2010

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 2010, the District contributed \$21,156 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	\$ 153,483
Contributions made (premium payments made)	<u>(21,156)</u>
Increase in net OPEB obligation	132,327
Net OPEB obligation, beginning of year	<u>-</u>
Net OPEB obligation, end of year	<u>\$ 132,327</u>

CITY OF ANGELS

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2010

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

Funding Status and Progress

The funded status of the liability as of June 30, 2010, 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, 2010

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
	2010	Actual Premiums
	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, 2010

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, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		Positive/ (Negative)
Revenue				
Taxes	\$ 2,167,516	\$ 2,167,516	\$ 2,002,750	\$ (164,766)
Licenses, permits and impact fees	53,600	53,600	79,379	25,779
Intergovernmental	22,575	22,575	21,798	(777)
Charges for services	108,898	108,898	94,435	(14,463)
Fines and forfeitures	31,000	31,000	27,095	(3,905)
Interest and rents	107,580	107,580	69,054	(38,526)
Other	-	-	1,015	1,015
Total revenue	<u>2,491,169</u>	<u>2,491,169</u>	<u>2,295,526</u>	<u>(195,643)</u>
Expenditures				
Current				
General government	700,972	700,972	589,613	111,359
Public works	120,203	120,203	105,494	14,709
Community development	503,372	503,372	410,127	93,245
Public safety	1,546,225	1,546,225	1,537,555	8,670
Parks and recreation	236,715	236,715	213,915	22,800
Debt Service				
Principal	56,911	56,911	56,911	-
Interest and fiscal charges	21,668	21,668	21,668	-
Total expenditures	<u>3,186,066</u>	<u>3,186,066</u>	<u>2,935,283</u>	<u>250,783</u>
Revenue over (under) expenditures	(694,897)	(694,897)	(639,757)	55,140
Other Financing Sources				
Transfers in (out) - net	-	-	(4,380)	(4,380)
Net Change in Fund Balance	<u>\$ (694,897)</u>	<u>\$ (694,897)</u>	<u>(644,137)</u>	<u>\$ 50,760</u>
Fund Balance				
Beginning of year			2,105,224	
End of year			<u>\$ 1,461,087</u>	

CITY OF ANGELS

**BUDGETARY COMPARISON SCHEDULE
CAPITAL PROJECTS FUND
YEAR ENDED JUNE 30, 2010**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive/ (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenue				
Intergovernmental	\$ 765,100	\$ 765,100	\$ 585,071	\$ (180,029)
Interest	-	-	-	-
Total revenue	<u>765,100</u>	<u>765,100</u>	<u>585,071</u>	<u>(180,029)</u>
Expenditures				
Current				
Community development	765,100	765,100	589,151	175,949
Public safety	-	-	-	-
Capital outlay	-	-	-	-
Total expenditures	<u>765,100</u>	<u>765,100</u>	<u>589,151</u>	<u>175,949</u>
Revenue over (under)expenditures	-	-	(4,080)	(4,080)
Other Financing Sources				
Transfers in (out) - net	-	-	4,380	4,380
Net Change in Fund Balance	<u>\$ -</u>	<u>\$ -</u>	300	<u>\$ 300</u>
Fund Balance				
Beginning of year			(20)	
End of year			<u>\$ 280</u>	

SUPPLEMENTAL ONLY INFORMATION

CITY OF ANGELS

COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2010

	Special Revenue Funds							TOT
	Local Transportation	Gas Tax	CDBG Housing	Utica Power Authority	Light and Landscape District	Public Safety	Emergency Service	
ASSETS								
Cash and investments	\$ -	\$ 82,769	\$ 320,344	\$ 163,104	\$ 505,029	\$ 25,685	\$ (33,476)	
Due from other governments	-	16,331	54,673	1,584	-	10,163	-	
Taxes receivable	-	-	-	-	8,970	-	29,119	
Notes receivable	-	-	1,035,540	-	-	-	-	
Total assets	\$ -	\$ 99,100	\$ 1,410,557	\$ 164,688	\$ 513,999	\$ 35,848	\$ (4,357)	
LIABILITIES AND FUND BALANCE								
Liabilities								
Accounts payable and accrued expense	\$ -	\$ 182	\$ 139	\$ -	\$ 6,972	\$ 6,568	\$ -	
Accrued payroll	-	2,555	-	-	-	-	3,478	
Compensated absences	-	6,609	-	-	-	-	-	
Due to other funds	-	-	-	-	-	-	-	
Total liabilities	-	9,346	139	-	6,972	6,568	3,478	
Fund Balance								
Reserved for notes receivable	-	-	1,035,540	-	-	-	-	
Unreserved, designated for specific projects and programs	-	89,754	374,878	164,688	507,027	29,280	(7,835)	
Total fund balance	-	89,754	1,410,418	164,688	507,027	29,280	(7,835)	
Total liabilities and fund balance	\$ -	\$ 99,100	\$ 1,410,557	\$ 164,688	\$ 513,999	\$ 35,848	\$ (4,357)	

CITY OF ANGELS

**COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS (CONTINUED)
JUNE 30, 2010**

	Special Revenue Funds			Capital Projects Funds				Total	
	TOT Roads	TOT Tourism	TOT Redevelopment Agency	Prop 1B	Transportation		Fire Impact Fees	Non-major Governmental Funds	Total
					Impact Fees	Impact Fees			
ASSETS									
Cash and investments	\$ 181,743	\$ 1,093	\$ -	\$ 169,988	\$ 19,083	\$ (2,719)	\$ 1,432,643		
Due from other governments	-	-	-	-	-	-	82,751		
Taxes receivable	29,119	29,119	-	-	-	-	96,327		
Notes receivable	-	-	-	-	-	-	1,035,540		
Total assets	\$ 210,862	\$ 30,212	\$ -	\$ 169,988	\$ 19,083	\$ (2,719)	\$ 2,647,261		
LIABILITIES AND FUND BALANCE									
Liabilities									
Accounts payable and accrued expense	\$ -	\$ 29,119	\$ -	\$ 5,635	\$ -	\$ -	48,615		
Accrued payroll	-	-	-	-	-	-	6,033		
Compensated absences	-	-	-	-	-	-	6,609		
Due to other funds	-	-	111,130	-	-	-	111,130		
Total liabilities	-	29,119	111,130	5,635	-	-	172,387		
Fund Balance									
Reserved for notes receivable	-	-	-	-	-	-	1,035,540		
Unreserved, designated for specific projects and programs	210,862	1,093	(111,130)	164,353	19,083	(2,719)	1,439,334		
Total fund balance	210,862	1,093	(111,130)	164,353	19,083	(2,719)	2,474,874		
Total liabilities and fund balance	\$ 210,862	\$ 30,212	\$ -	\$ 169,988	\$ 19,083	\$ (2,719)	\$ 2,647,261		

CITY OF ANGELS

**COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE
NON-MAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2010**

	Special Revenue Funds							TOT
	Local Transportation	Gas Tax	CDBG Housing	Utica Power Authority	Light and Landscape District	Public Safety	Emergency Service	
Revenue								
Taxes	\$ -	\$ -	\$ -	\$ -	\$ 163,962	\$ -	\$ -	\$ 163,962
Developer impact fees	-	-	-	-	-	-	-	-
Intergovernmental	-	107,379	125,881	-	-	134,582	-	367,842
Charges for services	-	-	-	20,351	-	3,272	-	23,623
Interest	-	397	-	810	2,879	-	-	4,086
Total revenue	-	107,776	125,881	21,161	166,841	137,854	-	539,513
Expenditures								
Public works	-	153,540	-	160	101,907	-	-	255,607
Community development	-	-	7,027	-	-	-	-	7,027
Public safety	-	-	-	-	-	257,818	-	257,818
Capital outlay	-	-	-	-	-	39,189	-	39,189
Total expenditures	-	153,540	7,027	160	101,907	297,007	-	559,644
Revenue over (under) expenditures	-	(45,764)	118,854	21,001	64,934	(159,153)	-	947
Other financing sources/(uses)								
Operating transfers in/(out) - net	-	-	-	-	-	-	-	-
Change in Fund Balance	-	(45,764)	118,854	21,001	64,934	(159,153)	-	947
Fund Balance								
Beginning of year	-	135,518	1,291,564	143,687	442,093	188,433	-	2,191,305
End of year	-	89,754	1,410,418	164,688	507,027	29,280	-	2,181,167

CITY OF ANGELS

**COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE
NON-MAJOR GOVERNMENTAL FUNDS (CONTINUED)
YEAR ENDED JUNE 30, 2010**

	Special Revenue Funds			Capital Projects Fund			Total Non-major Governmental Funds
	TOT Roads	TOT Tourism	Redevelopment Agency	Prop 1B	Transportation Impact Fees	Fire Impact Fees	
Revenue							
Taxes	\$ 103,175	\$ 103,175	\$ -	\$ -	\$ -	\$ -	\$ 473,487
Developer impact fees	-	-	-	-	8,842	1,232	10,074
Intergovernmental	-	-	-	-	-	-	367,842
Charges for services	-	-	-	-	-	-	23,623
Interest	-	-	-	421	68	-	4,575
Total revenue	103,175	103,175	-	421	8,910	1,232	879,601
Expenditures							
Public works	-	-	-	-	72	-	255,679
Community development	-	130,680	-	11,896	-	-	149,603
Public safety	-	-	-	-	-	-	360,046
Capital outlay	-	-	-	-	-	-	39,189
Total expenditures	-	130,680	-	11,896	72	-	804,517
Revenue over (under) expenditures	103,175	(27,505)	-	(11,475)	8,838	1,232	75,084
Other financing sources/(uses)							
Operating transfers in/(out) - net	-	-	-	-	-	-	-
Change in Fund Balance	103,175	(27,505)	-	(11,475)	8,838	1,232	75,084
Fund Balance							
Beginning of year	107,687	28,598	(111,130)	175,828	10,245	(3,951)	2,399,790
End of year	\$ 210,862	\$ 1,093	\$ (111,130)	\$ 164,353	\$ 19,083	\$ (2,719)	\$ 2,474,874

BRYANT L. JOLLEY

CERTIFIED PUBLIC ACCOUNTANTS

Bryant L. Jolley C.P.A.
Ryan P. Jolley C.P.A.
Darryl L. Smith C.P.A.
Travis B. Evenson

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 *GOVERNMENTAL AUDITING STANDARDS*

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

We have audited the financial statements of the City of Angels, as of, and for the year ended June 30, 2010, and have issued our report thereon dated October 13, 2010. 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.

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.

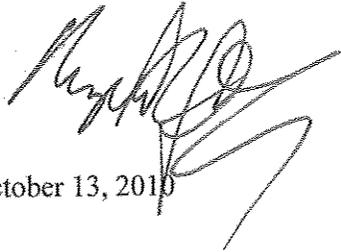
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. 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 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 matters that we reported to management of the City of Angels in a separate letter dated October 13, 2010.

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 be 'Raymond J. ...', written over the date.

October 13, 2010

**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

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, 2010. 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, 2010.

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 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 basic financial statements of the City as of June 30, 2010, and for the year then ended, and have issued our report thereon dated October 13, 2010. 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 OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, 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.



October 13, 2010

CITY OF ANGELS

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2010**

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			
American Recovery and Reinvestment Act of 2009	66.458	09-812-550-0	\$ 1,315,819
U.S. Department of Transportation			
Passed through California Department of Transportation			
American Recovery and Reinvestment Act of 2009	20.205	ESPL-5206(011)	25,704
TEA Grant	20.205	RPSTPLE-6128	<u>50,351</u>
			<u>76,055</u>
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	21,902
Community Development Block Grant	14.218	08-EDEF-5782	<u>23,845</u>
			<u>45,747</u>
<i>Total Federal Expenditures</i>			<u>\$ 1,437,621</u>

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of expenditures of federal awards reports expenditures on the modified accrual basis of accounting. Accordingly, expenditures represent amounts incurred during the fiscal year which meet federal grant eligibility requirements.

CITY OF ANGELS

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010**

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

American Recovery and Reinvestment Act of 2009

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

\$300,000

Auditee qualified as low-risk auditee?

Yes No

B. Findings – Financial Statements Audit

None noted.

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

None noted.

CITY OF ANGELS

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS YEAR ENDED JUNE 30, 2010

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, 2010

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, 2010, 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, 2010, 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 October 13, 2010 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, 2010, 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.


October 13, 2010

CITY OF ANGELS REDEVELOPMENT AGENCY

STATEMENT OF NET ASSETS JUNE 30, 2010

	<u>Governmental Activities</u>
Assets	
Cash and investments	\$ -
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, 2010

	<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, 2010

	<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	
Unreserved and undesignated	-
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, 2010

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

(111,130)

Net assets of governmental activities

\$ (111,130)

CITY OF ANGELS REDEVELOPMENT AGENCY

NOTES TO COMPONENT UNIT FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2010

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, 2010

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 – Reservations 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, 2010

Note 2– Long-Term Debt

Changes in long-term debt for the year ended June 30, 2010 were as follows:

	<u>Balance</u> <u>July 1, 2009</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2010</u>
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, 2010, 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, 2010, and have issued our report thereon dated October 13, 2010. 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.

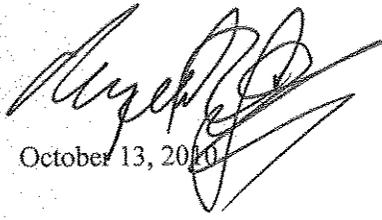
A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination 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 large, stylized handwritten signature in black ink, appearing to read "Ryder".

October 13, 2010