

**CITY OF NEVADA CITY,
CALIFORNIA**



**MANAGEMENT REPORT
FOR THE YEAR ENDED
JUNE 30, 2010**

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CITY OF NEVADA CITY, CALIFORNIA
MANAGEMENT REPORT
FOR THE YEAR ENDED JUNE 30, 2010

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TRANSMITTAL LETTER

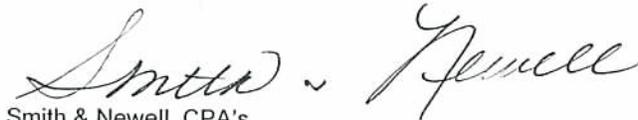
To the Honorable Mayor and Members of the City Council
City of Nevada City
Nevada City, California

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Nevada City, Nevada City, California (City), as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 24, 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.

Professional standards require that independent auditors communicate with the City about matters that are important to the City's oversight role. We previously reported on internal control and compliance in our 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 dated November 24, 2010.

However, during our audit we became aware of certain other matters that are opportunities for strengthening internal controls and operating efficiency, the following report summarizes our comments and suggestions including immaterial noncompliance and control deficiencies that are not considered significant deficiencies or material weaknesses. In addition, this report provides the status of prior year management comment recommendations.

This report is intended solely for the information and use of management, others within the organization, the City Council and its regulatory agencies and is not intended to be and should not be used by anyone other than these specified parties.



Smith & Newell, CPA's
Yuba City, California
November 24, 2010

CITY OF NEVADA CITY, CALIFORNIA
MANAGEMENT REPORT
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2010

10-MC-01 GASB 54

Condition

During the year ended June 30, 2010, the City early implemented GASB 54 Fund Balance Reporting and Governmental Fund Type Definitions. The implementation was accurately completed and fund balances were correctly reported. However, one of the requirements of the Statement is that a government should have an accounting policy regarding whether it considers restricted or unrestricted amounts to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted amounts are available.

Cause

The City early implemented GASB 54 but has not yet adopted a formal accounting policy recommended by this statement.

Criteria

GASB Statement No. 54 recommends that the City should establish an accounting policy regarding whether it considers restricted or unrestricted amounts to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted amounts are available.

Effect of Condition

The policies of the City did not contain specific reference to whether it considers restricted or unrestricted amounts to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted amounts are available.

Recommendation

We recognize the additional work the City undertook to early implement GASB 54 and we recommend that the City adopt the accounting policy to complete the implementation.

Corrective Action Plan

The finance director will bring the policy forward to the City Council for approval by the third quarter 2010-11.

**CITY OF NEVADA CITY, CALIFORNIA
MANAGEMENT REPORT
STATUS OF PRIOR YEAR RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2010**

<u>Audit Reference</u>	<u>Status of Prior Year Audit Recommendation</u>
09-MC-01	FUND CLASSIFICATION Recommendation We recommend that the City analyze all funds to evaluate whether they are properly classified according to GASB Statement No. 34. Status Implemented
09-MC-02	RENTAL INCOME Recommendation We recommend that the City monitor rental income on City owned property and adopt and follow approved collection procedures to ensure amounts collected are accurate and timely. Status Implemented
09-MC-03	INTERNAL CONTROL - SEGREGATION OF DUTIES Recommendation We recommend that the person responsible for the accounting functions not be authorized to sign checks. Status Implemented

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