

**CITY OF NEVADA CITY,  
CALIFORNIA**



**SINGLE AUDIT ACT  
REPORTS AND SCHEDULES  
FOR THE YEAR ENDED  
JUNE 30, 2011**

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**CITY OF NEVADA CITY**  
**Single Audit Act**  
**For the Year Ended June 30, 2011**

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

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, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Nevada City, California (City), as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated November 29, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the City is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control 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. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs that we consider to be significant deficiencies in internal control over financial reporting. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

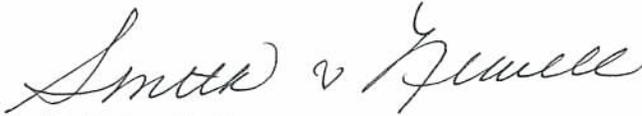
The Honorable Mayor and Members of the City Council  
City of Nevada City  
Nevada City, California

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City'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. 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 City's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the City's response, and accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, City Council, others within the organization, 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.

A handwritten signature in cursive script that reads "Smith & Newell".

Smith & Newell, CPAs  
Yuba City, California  
November 29, 2011

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

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

Compliance

We have audited City of Nevada City, California's compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. The City's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the 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 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.

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

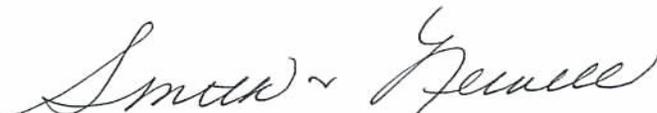
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement 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 internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Nevada City, California, as of and for the year ended June 30, 2011, and have issued our report thereon dated November 29, 2011. Our audit was performed for the purposes of forming our opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133, and is not a required part of the basic financial statements. Such information 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 management, City Council, others within the entity, 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.



Smith & Newell, CPAs  
Yuba City, California  
November 29, 2011

**CITY OF NEVADA CITY**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended June 30, 2011**

| <u>Federal Grantor/Pass-Through Program Title</u>  | <u>Federal<br/>CFDA Number</u> | <u>Pass-Through<br/>Grantor's<br/>Number</u> | <u>Disbursements/<br/>Expenditures</u> |
|--|--------------------------------|--|--|
| <u>Department of Housing and Community Development</u>   |                                |  |  |
| Direct Program:  |                                |  |  |
| Community Development Block Grants/State's Program<br>and Non-Entitlement Grants in Hawaii                     | 14.228                         | 08-EDEF-5787                                 | <u>20,338</u>                          |
| <b>Total Department of Housing and Community Development</b>   |                                |  | <u>20,338</u>                          |
| <u>Department of Justice</u>   |                                |  |  |
| Direct Program:  |                                |  |  |
| ARRA- Recovery Act- Assistance to Rural Law Enforcement to<br>Combat Crime and Drugs Competitive Grant Program | 16.810                         | 2009-SD-B9-0016                              | <u>272,944</u>                         |
| <b>Total Department of Justice</b>   |                                |  | <u>272,944</u>                         |
| <u>US Department of Transportation</u>   |                                |  |  |
| Passed Through Department of Transportation Office of Local Assistance:  |                                |  |  |
| Highway Planning and Construction  | 20.205                         | BRLS-5018(012)                               | 14,784                                 |
| ARRA- Highway Planning and Construction  | 20.205                         | CLM-5018(017)                                | 120,438                                |
| Highway Planning and Construction  | 20.205                         | CLM-5018(018)                                | 178,000                                |
| Highway Planning and Construction  | 20.205                         | CLM-5018(019)                                | 5,253                                  |
| Highway Planning and Construction  | 20.205                         | CLM-5018(021)                                | 30,578                                 |
| Highway Planning and Construction  | 20.205                         | CLM-5018(023)                                | 17,460                                 |
| Highway Planning and Construction  | 20.205                         | SRTSL-5018(0007)                             | <u>29,141</u>                          |
| <b>Subtotal 20.205</b>   |                                |  | <u>395,654</u>                         |
| Passed through State Department of Parks and Recreation:   |                                |  |  |
| Recreational Trails Program  | 20.219                         | RT-29-002                                    | <u>156,288</u>                         |
| <b>Total U.S. Department of Transportation</b>   |                                |  | <u>551,942</u>                         |
| <u>Department of Homeland Security</u>   |                                |  |  |
| Passed through FEMA:   |                                |  |  |
| Assistance to Firefighters Grant   | 97.044                         | EMW-2009-FV-06539                            | <u>180,767</u>                         |
| <b>Total Department of Homeland Security</b>   |                                |  | <u>180,767</u>                         |
| <b>Total Expenditures of Federal Awards</b>  |                                |  | <u><u>\$ 1,025,991</u></u>             |

See accompanying Notes to Schedule of Expenditures of Federal Awards

**CITY OF NEVADA CITY**  
**Notes to Schedule of Expenditures of Federal Awards**  
**June 30, 2011**

**1. REPORTING ENTITY**

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal financial assistance programs of the City of Nevada City. The City of Nevada City reporting entity is defined in Note 1 to the City's basic financial statements. All federal awards received directly from federal agencies as well as federal awards passed through other government agencies are included on the schedule.

**2. BASIS OF ACCOUNTING**

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus applied. All governmental funds are accounted for using the modified accrual basis of accounting. All proprietary funds are accounted for using the accrual basis of accounting. Expenditures of Federal Awards reported on the Schedule are generally recognized when they occur. In addition, the outstanding balance of prior years' loans that have significant continuing compliance requirements have been included in total federal expenditures.

In accordance with requirements under OMB Circular A-133, expenditures for federal awards under the American Recovery and Reinvestment Act of 2009 (ARRA) are separately identified by inclusion of the prefix "ARRA" on the Schedule of Federal Expenditures of Federal Awards.

**3. RELATIONSHIP TO FINANCIAL STATEMENTS**

The amounts reported in the accompanying Schedule of Expenditures of Federal Awards agree, in all material respects, to amounts reported within the City's financial statements, federal award revenues are reported principally in the City's financial statements as intergovernmental revenue in the General and Special Revenue Funds.

**4. PASS-THROUGH ENTITIES' IDENTIFYING NUMBER**

When federal awards were received from a pass-through entity, the Schedule of Expenditures of Federal Awards shows, if available, the identifying number assigned by the pass-through entity. When no identifying number is shown, the City determined that no identifying number is assigned for the program or the City was unable to obtain an identifying number from the pass-through entity.

**CITY OF NEVADA CITY**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended June 30, 2011**

**I. SUMMARY OF AUDITOR'S RESULTS**

| <u>Financial Statements</u>  | <u>Status</u> |
|--|---------------|
| 1. Type of auditor's report issued   | Unqualified   |
| 2. Internal controls over financial reporting:   |               |
| a. Material weaknesses identified?   | No            |
| b. Significant deficiencies identified not considered to be material weaknesses?   | Yes           |
| 3. Noncompliance material to financial statements noted?   | No            |
| <br><u>Federal Awards</u>  |               |
| 1. Internal control over major programs:   |               |
| a. Material weaknesses identified?   | No            |
| b. Significant deficiencies identified not considered to be material weaknesses?   | No            |
| 2. Type of auditor's report issued on compliance for major programs:   |               |
| All major programs   | Unqualified   |
| 3. Any audit findings disclosed including those that are required to be reported in accordance with OMB Circular A-133 Section 510(a)? | No            |
| 4. Identification of major programs:   |               |
| 16.810 ARRA Recovery Act - Assistance to Rural Law Enforcement to Combat Crime and Drugs Competitive Grant Program                     |               |
| 20.205 Highway Planning and Construction Recovery  |               |
| 5. Dollar threshold used to distinguish between Type A and Type B programs?  | \$300,000     |
| 6. Auditee qualified as a low-risk auditee under OMB Circular A-133, Section 530?  | No            |

**II. FINANCIAL STATEMENT FINDINGS**

|          |                        |
|----------|------------------------|
| 11-FS-01 | Significant Deficiency |
| 11-FS-02 | Significant Deficiency |

**CITY OF NEVADA CITY**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended June 30, 2011**

**III. FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS**

None

**CITY OF NEVADA CITY**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended June 30, 2011**

**Schedule of Significant Deficiencies**

**11-FS-01 Deficit Unassigned Fund Balance**

**Condition**

During our audit we noted that the General fund and numerous special revenue funds had deficit unassigned fund balances. The balance in unassigned fund balance is the amount of current net assets available to finance future operations. In particular, an adequate level of unassigned fund balance in the General fund is essential to mitigate current and future risks and to ensure stable service levels. This is a repeat of a prior year finding.

**Cause**

The City has not been able to maintain adequate levels of unassigned fund balance in the General fund and numerous special revenue funds.

**Criteria**

The Governmental Accounting, Auditing and Financial Reporting (Blue Book) recommends that local governments regardless of size, maintain unrestricted fund balance in their General fund of no less than two months of regular general fund operating revenues or regular general fund operating expenditures.

**Effect of Condition**

The City may not be in a position to adequately fund required future operations.

**Recommendation**

We recommend that the City establish a formal policy on the level of unassigned fund balance to be maintained in the General fund. This policy should provide both a temporal framework and specific plans for increasing the level of unassigned fund balance to bring it in compliance with that policy. In addition the City should review all special revenue funds with negative unassigned fund balance and determine what action is appropriate.

**Corrective Action Plan**

The Finance Director will establish a formal policy on the level of unassigned fund balance to be maintained in the General Fund and brought to Council for adoption by the third quarter of 2011-12. The Finance Director, during the third quarter of each fiscal year, will review all special revenue funds with negative unassigned fund balance determine the appropriate action to be taken prior to fiscal year end.

**CITY OF NEVADA CITY**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended June 30, 2011**

**Schedule of Significant Deficiencies**

**11-FS-02 Budget**

**Condition**

For the year ended June 30, 2011, we noted that the City incurred expenditures in excess of appropriations of \$310,818 in the General fund and \$546,837 in the Measure “S” major special revenue fund.

**Cause**

The City did not amend its budget to account for changes in estimates of expenditures during the fiscal year.

**Criteria**

California Government Code requires that appropriate operating budgets be adopted and amended as needed and that expenditures not exceed the approved budget.

**Effect of Condition**

Expenditures exceed appropriations in the General fund by \$310,818 and in the Measure “S” special revenue funds by \$546,837.

**Recommendation**

We recommend that the City control and monitor expenditures so that they do not exceed the approved budget. If a budget revision is required, we recommend that the City take appropriate action to amend the original budget.

**Corrective Action Plan**

The Finance Director will closely monitor the expenditures for the General fund and Measure “S” fund against the approved budget, and if revisions are required bring the budget amendments to City Council for approval during the mid fiscal year budget adjustments, or fiscal year end budget adjustments.

**CITY OF NEVADA CITY**  
**Schedule of Prior Year Recommendations**  
**For the Year Ended June 30, 2011**

**Audit Reference**

**Status of Prior Year Recommendations**

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**10-FS-01**

**Deficit Unassigned Fund Balance**

**Recommendation**

We recommend that the City establish a formal policy on the level of unreserved fund balance to be maintained in the General fund. This policy should provide both a temporal framework and specific plans for increasing the level of unreserved fund balance to bring it in compliance with that policy. In addition the City should review all special revenue funds with negative unreserved fund balance and determine what action is appropriate.

**Status**

Not Implemented

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