

**CITY OF NEVADA CITY,
CALIFORNIA**



**SINGLE AUDIT ACT
REPORTS AND SCHEDULES
FOR THE YEAR ENDED
JUNE 30, 2015**

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CITY OF NEVADA CITY
Single Audit Act
For the Year Ended June 30, 2015

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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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Nevada City, California, (City) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated January 22, 2016.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies (2015-001).

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 from 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.

City's Response to Finding

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

Purpose of this Report

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



Smith & Newell, CPAs
Yuba City, California
January 22, 2016

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY
OMB CIRCULAR A-133**

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

Report on Compliance for Each Major Federal Program

We have audited the City of Nevada City, California's (City) compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2015. The City's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

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

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 2015-002. Our opinion on each major federal program is not modified with respect to this matter.

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

Report on Internal Control Over Compliance

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

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

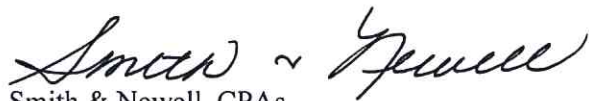
Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any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

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

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

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

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, California, (City) as of and for the year ended June 30, 2015 and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated January 22, 2016 which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.



Smith & Newell, CPAs
Yuba City, California
January 22, 2016

CITY OF NEVADA CITY
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2015

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Number</u>	<u>Federal Expenditures</u>
U.S. Department of Housing and Urban Development			
Passed through State Department of Housing and Community Development: Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	12-CDBG-8402	\$ 385,946
Total U.S. Department of Housing and Urban Development			<u>385,946</u>
U.S. Department of Transportation			
Passed through State Department of Transportation:			
Highway Planning and Construction	20.205	BRLS-5018(012)	95
Highway Planning and Construction	20.205	CML-5018(019)	2,049
Highway Planning and Construction	20.205	CML-5018(023)	1,533
Highway Planning and Construction	20.205	CML-5018(026)	3,201
Subtotal 20.205			<u>6,878</u>
Total U.S. Department of Transportation			<u>6,878</u>
Environmental Protection Agency			
Direct Program:			
Brownfields Assessment and Cleanup Cooperative Agreements	66.818	-	181,882
Total Environmental Protection Agency			<u>181,882</u>
Department of Homeland Security			
Passed through State Office of Emergency Services:			
Pre-Disaster Mitigation	97.047	2007-1004	1,210
Total Department of Homeland Security			<u>1,210</u>
Total			<u>\$ 575,916</u>

See the accompanying Notes to Schedule of Expenditures of Federal Awards

CITY OF NEVADA CITY
Notes to Schedule of Expenditures of Federal Awards
June 30, 2015

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 (City). The 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 in the Schedule of Expenditures of Federal Awards.

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. The accompanying Schedule of Expenditures of Federal Awards, is presented using the modified accrual basis of accounting for grants accounted for in the governmental fund types and the accrual basis of accounting for grants accounted for in the proprietary fund types, as described in the notes to the City financial statements.

3. RELATIONSHIP TO FEDERAL FINANCIAL REPORTS

The amounts reported in the accompanying Schedule of Expenditures of Federal Awards agree or can be reconciled with amounts reported in the related federal financial assistance reports.

4. RELATIONSHIP TO BASIC FINANCIAL STATEMENTS

The amounts reported in the accompanying Schedule of Expenditures of Federal Awards agree or can be reconciled with amounts reported in the City's basic financial statements.

5. 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.

6. LOANS WITH CONTINUING COMPLIANCE REQUIREMENTS

The City participates in certain federal award programs that sponsor revolving loan programs, which are administered by the City. These programs require servicing arrangements with the City, The funds are returned to the programs upon repayment of the principal and interest. In accordance with Subpart B, Section 205 of the U.S. Office of Management and Budget Circular A-133, the City has reported the outstanding balance of loans from previous years that have significant continuing compliance requirements as of June 30, 2015, along with the value of total outstanding and new loans made during the current year.

The programs listed below had the following aggregate, federally-funded loans outstanding at June 30, 2014:

Federal CFDA	Program Title	Amount Outstanding	
		July 1, 2014	June 30, 2015
14.228	Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	\$ -	\$ 70,000
	Total Loans Outstanding	<u>\$ -</u>	<u>\$ 70,000</u>

CITY OF NEVADA CITY
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2015

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements	<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

Federal Awards

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:	Unqualified
3. Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133 Section 510(a)?	Yes
4. Identification of major programs:	
14.228 Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	
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

SECTION II - FINANCIAL STATEMENT FINDINGS

AB 1600 Reconciliation	2015-001
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SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

14.228 Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	2015-002
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CITY OF NEVADA CITY
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2015

2015-001 AB 1600 Reconciliation (Significant Deficiency)

Condition

During our audit we noted that the City has collected AB 1600 fees, but has not complied with the AB 1600 reporting requirements.

Cause

The City has not prepared an annual report of AB 1600 fees and has not adopted a capital improvement plan.

Criteria

AB 1600 requires that the City account for every fee collected and that the following information be made available within 180 days after the last day of the fiscal year: a description of each fee, amount of each fee, beginning and ending balance, fees collected and interest earned, identification of each public improvement on which fees were expended and the amount of each expenditure, and approximate date by which construction of the public improvement will commence. In addition, every 5 years the City must make the following findings: identify the purpose for each fee, demonstrate a reasonable relationship between the fee and the purpose for which it is charged, identify all sources and amounts of funding anticipated to complete financing in incomplete improvements and designate the approximate dates on which the funding is expected to be deposited into the fund.

Effect of Condition

The City is not in compliance with AB 1600 requirements.

Recommendation

We recommend that the City review AB 1600 and prepare the necessary reports to be in compliance and make a determination if excess funds have been collected and need to be refunded.

Corrective Action Plan

The Assistant City Manager is currently reviewing the AB1600 fees and preparing a reconciliation to determine if funds collected should be refunded to be completed for review by City staff by the end of 3rd Quarter 2015/2016. By fiscal year end 2015/2016 the Assistant City Manager will prepare the necessary reports to be in compliance with AB1600 reporting. The City will be working to prepare a complete capital improvement plan at the completion of a capital study that is being done on the Water Treatment Plant/Distribution System, as well as, the Wastewater Plant/Collection System.

CITY OF NEVADA CITY
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2015

2015-002

Name: Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii
CFDA #: 14.228
Federal Grantor: U.S. Department of Housing and Urban Development
Pass Through Entity: California Department of Housing and Community Development
Award No.: 12-CDBG-8402
Year: 2014/2015

Condition

During our audit, we noted the City did not submit the semi-annual financial and accomplishment reports for the period 07/01/14 through 12/31/14 or 01/01/15 through 06/30/15, and did not submit the annual grantee performance report for the fiscal year ending 06/30/15. We further noted the City did not submit the semi-annual program income report and accomplishment report until 09/02/15.

Perspective

The City did not adequately monitor the CDBG program to ensure that reports were timely filed.

Criteria

Per Exhibit D of the grant agreement, semi-annual financial accomplishment reports are to be submitted by January 31 and July 31, an annual grantee performance report is to be submitted by July 31, and semi-annual program income and accomplishment reports are to be submitted by January 31 and July 31.

Effect of Condition

The City has not submitted all required reports by the due dates.

Questioned Costs

No costs are questioned.

Recommendation

We recommend that City staff review the grant agreement and develop a tracking system to ensure that all required reports are submitted by the due dates.

Corrective Action Plan

By fiscal year end 2015/2016 the Assistant Manager will develop a tracking system to ensure that all required reports are submitted by due dates.