

CITY OF ALTURAS
ALTURAS, CALIFORNIA

BASIC FINANCIAL STATEMENTS

JUNE 30, 2013

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INDEPENDENT AUDITORS' REPORT

To the Honorable Members
of the City Council
City of Alturas
Alturas, California

Report on the Financial Statements

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 City of Alturas, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise City of Alturas' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions 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 for 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to City of Alturas' preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of City of Alturas' internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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 and, where applicable, cash flows of City of Alturas, as of June 30, 2013, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (pages 3-10) and the required supplementary information (page 35-36), as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 17, 2014, on our consideration of City of Alturas' 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.

R. J. Ricciardi, Inc.

R. J. Ricciardi, Inc.
Certified Public Accountants

San Rafael, California
March 17, 2014

City of Alturas
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2013

The following discussion provides readers of City of Alturas' (the City's) financial statements a narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2013. Please read this document in conjunction with the accompanying Basic Financial Statements.

FISCAL YEAR 2013 FINANCIAL HIGHLIGHTS

Financial highlights of fiscal year 2013 include the following:

Entity-wide:

- The City's total assets were \$12,914,112 as of June 30, 2013. Of this total, \$4,448,757 were Governmental assets and \$8,465,355 were Business-type assets.
- Entity-wide Governmental revenues include program revenues of \$1,141,849 and general revenues and transfers of \$1,636,649, for a total of \$2,778,498.
- Entity-wide Governmental expenses were \$2,215,030.
- Entity-wide Business-type program revenues, transfers, other revenue and interest revenue were \$1,485,096 while Business-type expenses were \$1,492,282.

Fund Level:

- Governmental Fund balances increased \$351,693 in fiscal year 2013.
- Governmental Fund revenues decreased \$1,176,362 in fiscal year 2013.
- Governmental Fund expenditures decreased \$1,488,242 in fiscal year 2013.

General Fund:

- General Fund revenues of \$1,287,422 represented an increase of \$112,663 from the prior year.
- General Fund expenditures of \$1,143,311 represented an increase of \$51,638 from than the prior year.
- General Fund balance of \$370,136 as of June 30, 2013, was \$112,413 more than fiscal year 2012's fund balance.

OVERVIEW OF THE ANNUAL FINANCIAL REPORT

This Annual Financial Report is divided into two parts:

- 1) Management's Discussion and Analysis (MD&A);
- 2) The Basic Financial Statements, which include the Entity-wide and the Fund Financial Statements, along with the Notes to these financial statements.

The Basic Financial Statements

The Basic Financial Statements comprise the Entity-wide Financial Statements and the Fund Financial Statements; these two sets of financial statements provide two different views of the City's financial activities and financial position.

The Entity-wide Financial Statements provide a longer-term view of the City's activities as a whole, and comprise the Statement of Net Position and the Statement of Activities. The Statement of Net Position provides information about the financial position of the City as a whole, including all of its capital assets and long-term liabilities on the full accrual basis, similar to that used by corporations. The Statement of Activities provides information about all of the City's revenues and all of its expenses, also on the full accrual basis, with the emphasis on measuring net revenues or expenses of each of the City's programs. The Statement of Activities explains in detail the change in Net Position for the year.

City of Alturas
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2013

All of the City's activities are grouped into Governmental Activities and Business-type Activities, as explained below. The amounts in the Statement of Net Position and the Statement of Activities are separated into Governmental Activities and Business-type Activities in order to provide a summary of these two activities for the City as a whole.

The Fund Financial Statements report the City's operations in more detail than the Entity-wide statements and focus primarily on the short-term activities of the City's General Fund and other Major Funds. The Fund Financial Statements measure only current revenues and expenditures and fund balances; they exclude capital assets, long-term debt and other long-term amounts.

Major Funds account for the major financial activities of the City and are presented individually, while the activities of Non-major Funds are presented in summary, with subordinate schedules presenting the detail for each of these other funds. Major Funds are explained below.

The Entity-wide Financial Statements

Entity-wide Financial Statements are prepared on the accrual basis, which means they measure the flow of all economic resources of the City as a whole.

The Statement of Net Position and the Statement of Activities present information about the following:

- Governmental Activities – All of the City's basic services are considered to be governmental activities. These services are supported by general City revenues such as taxes and by specific program revenues such as user fees and charges.
- Business-type Activities – The City's enterprise activities of water and wastewater are reported in this area. Unlike governmental services, these services are supported by charges paid by users based on the amount of the service they use.

Fund Financial Statements

The Fund Financial Statements provide detailed information about each of the City's most significant funds, called Major Funds. The concept of Major Funds, and the determination of which are Major Funds, was established by Governmental Accounting Standards Board (GASB) Statement 34 and replaces the concept of combining like funds and presenting them in total. Instead, each Major Fund is presented individually, with all Non-major Funds summarized and presented only in a single column. Subordinate schedules present the detail of these Non-major Funds. Major Funds present the major activities of the City for the year, and may change from year-to-year as a result of changes in the pattern of the City's activities.

In the City's case, there are three major governmental funds: the General Fund, Special Road Fund and the Warner Fund.

The City's Enterprise Funds are reported as Major Funds.

Fund Financial Statements include governmental and proprietary funds as discussed below.

Governmental Fund Financial Statements are prepared on the modified accrual basis, which means they measure only current financial resources and uses. Capital assets and other long-lived assets, along with long-term liabilities, are not presented in the Governmental Fund Financial Statements.

City of Alturas
MANAGEMENT'S DISCUSSION AND ANALYSIS
 For the Fiscal Year Ended June 30, 2013

Proprietary Funds Financial Statements are prepared on the full accrual basis, as in the past, and include all of their assets and liabilities, current and long-term.

Comparisons of Budget and Actual financial information are presented only for the General Fund and the Special Road Fund, as required by GASB Statement 34.

FINANCIAL ACTIVITIES OF THE CITY AS A WHOLE

This analysis focuses on the net position and changes in net position of the City as a whole. Tables 1 and 2 focus on the City's Governmental Statement of Net Position and Statement of Activities, while Tables 3 and 4 focus on the City's Business-type Statement of Net Position and Statement of Activities.

Governmental Activities

Table 1
Governmental Net Position at June 30

	<u>2013</u>	<u>2012</u>
Current assets	\$ 1,510,947	\$ 1,800,289
Capital assets, net of depreciation	<u>2,937,810</u>	<u>2,741,291</u>
Total assets	<u>4,448,757</u>	<u>4,541,580</u>
Current liabilities	278,224	923,844
Long-term liabilities	<u>32,904</u>	<u>43,575</u>
Total liabilities	<u>311,128</u>	<u>967,419</u>
Net position:		
Invested in capital assets, net of debt	2,904,906	2,697,716
Restricted	926,499	678,165
Unrestricted	<u>306,224</u>	<u>198,280</u>
Total net position	<u>\$ 4,137,629</u>	<u>\$ 3,574,161</u>

The City's governmental net position amounted to \$4,137,629 as of June 30, 2013, a change of \$563,468 from 2012. This difference is the Change in Net Position reflected in the Governmental Activities column of the Statement of Activities shown in Table 2.

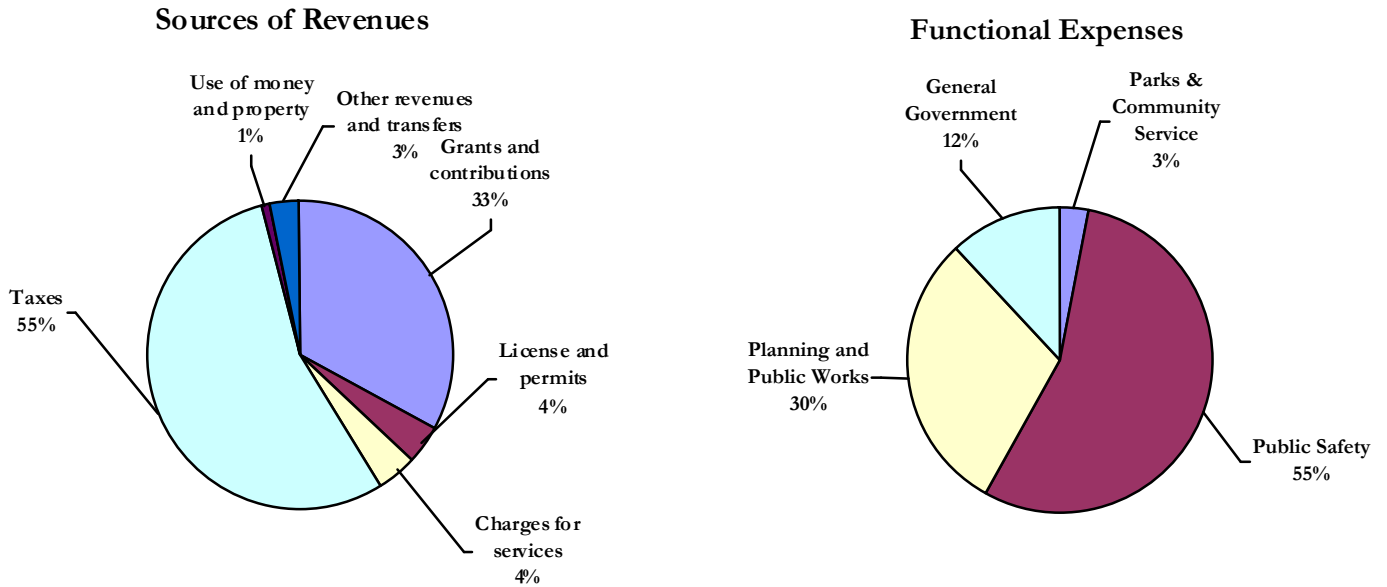
The City's governmental net position as of June 30, 2013 comprised the following:

- Cash and investments of \$1,122,795 in the city treasury. Substantially all of these amounts were held in short term investments in government securities, as detailed in Note 2 to the financial statements.
- Other assets comprise current receivables of \$331,598 and fuel inventory of \$56,554.
- Capital assets of \$2,937,810, net of depreciation charges, which includes all the City's capital assets used in governmental activities.
- Current liabilities, including accounts payable, claims and other amounts due currently, totaling \$278,224.
- Accrued compensated absence liabilities payable to employees of \$54,859, as explained in Note 1G to the financial statements.

City of Alturas
MANAGEMENT'S DISCUSSION AND ANALYSIS
 For the Fiscal Year Ended June 30, 2013

- Net position invested in capital assets, net of related debt, of \$2,904,906, representing the City's investment in capital assets used in Governmental Activities, net of amounts borrowed to finance that investment.
- Restricted net position totaling \$926,499, which may be used only to construct specified capital projects, for debt service, or for community development projects. The restrictions on these funds were placed there by outsiders and cannot be changed by the City.
- Unrestricted net position, the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants or other legal requirements or restrictions. The City had \$306,224 of unrestricted net position as of June 30, 2013.

GOVERNMENTAL ACTIVITIES



As the Sources of Revenues Chart shows, \$1,636,649, or 59%, of the City's fiscal year 2013 governmental activities revenue came from taxes and other general revenues, while \$1,141,849, or 41%, came from grants and contributions.

The Functional Expenses Chart includes only current year expenses; it does not include capital outlays, which are now added to the City's capital assets. As the Chart shows, general government is \$265,364, or 12%, of total government expenses, planning and public works is \$664,354, or 30%, Public Safety is \$1,228,078, or 55%, and Parks and Community Services is \$57,234, or 3%.

The Statement of Activities presents program revenues and expenses and general revenues in detail. All of these are elements in the Changes in Governmental Net Position summarized below.

City of Alturas
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2013

Table 2
Changes in Governmental Net Position

	<u>Governmental Activities 2013</u>	<u>Governmental Activities 2012</u>
<u>Expenses</u>		
General government	\$ 265,364	\$ 310,752
Public safety	1,228,078	1,314,722
Planning and public works	664,354	414,535
Parks and community services	<u>57,234</u>	<u>49,626</u>
Total expenses	<u>2,215,030</u>	<u>2,089,635</u>
<u>Revenues</u>		
Program revenues:		
Charges for services	203,917	196,480
Operating grants and contributions	423,535	689,671
Capital grants and contributions	<u>514,397</u>	<u>1,537,179</u>
Total program revenues	<u>1,141,849</u>	<u>2,423,330</u>
General revenues:		
Taxes	1,521,012	1,377,642
Other revenues	78,601	111,324
Interest income	<u>37,036</u>	<u>42,564</u>
Total general revenues	<u>1,636,649</u>	<u>1,531,530</u>
Total revenues	<u>2,778,498</u>	<u>3,954,860</u>
Change in net position	<u>\$ 563,468</u>	<u>\$ 1,865,225</u>

As the Sources of Revenue Chart and Table 2 above show, \$1,141,849, or 41%, of the City's fiscal year 2013 governmental revenue, came from program revenues and \$1,636,649, or 59%, came from general revenues such as taxes and interest and transfers.

Program revenues were composed of charges for services of \$203,917, which include permit revenues, fees and charges used to fund expenses incurred in providing services; and \$937,932 of grants and contributions which include streets, roads, housing, fire and police grants.

General revenues are not allocable to programs. General revenues are used to pay for the net cost of governmental programs.

Business-type Activities

The Statement of Net Position and Statement of Activities present a summary of the City's Business-type Activities that are composed of the City's enterprise funds.

City of Alturas
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2013

Table 3
Business-type Net Position at June 30

	<u>Business-type 2013</u>	<u>Business-type 2012</u>
Current assets	\$ 1,571,380	\$ 1,457,812
Capital assets, net of accumulated depreciation	<u>6,893,975</u>	<u>7,221,438</u>
Total assets	<u>8,465,355</u>	<u>8,679,250</u>
Current liabilities	243,850	305,198
Long-term debt outstanding	<u>3,888,578</u>	<u>4,037,092</u>
Total liabilities	<u>4,132,428</u>	<u>4,342,290</u>
Net position:		
Invested in capital assets	2,855,345	3,038,887
Restricted for debt service	296,852	295,600
Unrestricted	<u>1,180,730</u>	<u>1,002,473</u>
Total net position	<u>\$ 4,332,927</u>	<u>\$ 4,336,960</u>

The net position of business-type activities decreased by \$4,033 in fiscal year 2013.

Table 4
Changes in Business-Type Net Position

	<u>Business-Type Activities 2013</u>	<u>Business-Type Activities 2012</u>
<u>Expenses</u>		
Water	\$ 739,426	\$ 730,199
Sewer	<u>752,856</u>	<u>941,828</u>
Total expenses	<u>1,492,282</u>	<u>1,672,027</u>
<u>Revenues</u>		
Program revenues:		
Charges for services	<u>1,485,096</u>	<u>1,484,907</u>
Total program revenues	<u>1,485,096</u>	<u>1,484,907</u>
General revenues:		
Interest income	<u>3,153</u>	<u>3,855</u>
Total general revenues	<u>3,153</u>	<u>3,855</u>
Total revenues	<u>1,488,249</u>	<u>1,488,762</u>
Change in net position	<u>\$ (4,033)</u>	<u>\$ (183,265)</u>

City of Alturas
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2013

Analyses of Major Funds

Governmental Funds

General Fund

General Fund revenues increased \$112,663 this fiscal year due primarily to increases in tax revenues. Actual revenues were equal to budgeted amounts. Tax revenues increased \$102,275 due to an increase in taxes.

General Fund expenditures were \$1,091,673, an increase of \$51,638 from the prior year. Expenditures were less than budgeted amounts.

As of June 30, 2013, the General Fund's fund balance totaled \$370,136. The unassigned portion of fund balance represents available liquid resources.

Special Road Fund

This fund accounts for road projects funded by governmental grants and taxes. In fiscal year 2013, the fund received \$350,384 in taxes.

Warner Fund

This fund accounts for road projects funded by governmental grants. In fiscal year 2013, the fund received \$514,397 in grants.

Other Governmental Funds

These funds are not presented separately in the basic financial statements.

Proprietary Funds

Water Fund

Revenues decreased \$6,470 in fiscal year 2013, while expenses increased \$9,227. As a result the fund's net position increased \$181,613.

Sewer Fund

Net position of the Sewer Fund decreased \$185,646 in fiscal year 2013. Operating revenues increased \$6,659. Expenses increased \$188,972.

As of June 30, 2013, the fund's net position was \$2,065,013.

GENERAL FUND BUDGETARY HIGHLIGHTS

It is the City's policy to amend the budget at year end to match the actual amounts. The amendments are approved by the City Council. The original budget was not modified during the fiscal year ended June 30, 2013.

CAPITAL ASSETS

GASB Statement 34 requires the City to record all its capital assets including infrastructure, which was not recorded in prior years. Infrastructure includes roads, bridges, signals and similar assets used by the entire population.

In fiscal year 2013, the City reported the cost of all its infrastructure assets and computed the amount of accumulated depreciation for these assets based on their original acquisition dates. At the end of fiscal year 2013 the cost of infrastructure and other capital assets recorded on the City's financial statements was as shown in Table 5 below:

City of Alturas
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2013

Table 5
Capital Assets at Year-end

	Balance at June 30, 2013	Balance at June 30, 2012
<u>Governmental Activities</u>		
Land	\$ 80,000	\$ 80,000
Streets and roads	2,967,128	2,379,695
Buildings	572,221	572,221
Equipment	1,204,486	1,192,486
Less: accumulated depreciation	(1,886,025)	(1,483,111)
Governmental activity capital assets, net	\$ 2,937,810	\$ 2,741,291
<u>Business-type Activities</u>		
Wells	\$ 32,000	\$ 32,000
Water lines	5,576,948	5,576,948
Plant and equipment	6,169,567	6,169,567
Less: accumulated depreciation	(4,884,546)	(4,557,080)
Business-type activity capital assets, net	\$ 6,893,969	\$ 7,221,435

Detail on capital assets and current year additions can be found in Note 4.

The City depreciates all its capital assets over their estimated useful lives, as required by GASB Statement 34. The purpose of depreciation is to spread the cost of a capital asset over the years of its useful life so that an allocable portion of the cost of the asset is borne by all users. Additional information on depreciable lives may be found in Note 4 to the financial statements.

DEBT ADMINISTRATION

The City made all scheduled repayments of existing debt. Each of the City's debt issues are discussed in detail in Note 5 to the financial statements.

As of June 30, 2013, the City's debt comprised:

Table 6
Outstanding Debt

	June 30, 2013	June 30, 2012
<u>Government Activity Debt:</u>		
Equipment loan, 5.9%, due 6/14/16	\$ 32,904	\$ 43,575
<u>Business-type Activity Debt:</u>		
U.S. Government loan:		
1992 City water lines, 5.75%, due 5/1/32	2,777,596	2,857,476
State Water Loan:		
2008 Waste Water Treatment Plan, 2.4%, due 7/10/28	1,261,034	1,325,074
Total	\$ 4,071,534	\$ 4,226,125

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This Annual Financial Report is intended to provide citizens, taxpayers, and creditors with a general overview of the City's finances. Questions about this report should be directed to the City of Alturas, at 200 North Street, Alturas, CA 96101.

City of Alturas
STATEMENT OF NET POSITION
June 30, 2013

	<u>Governmental</u> Activities	<u>Business-Type</u> Activities	<u>Total</u>
<u>ASSETS</u>			
Cash and investments	\$ 1,122,795	\$ 1,130,619	\$ 2,253,414
Restricted cash and investments	-	296,852	296,852
Accounts receivable	331,598	143,909	475,507
Fuel inventory	56,554	-	56,554
Non-depreciable capital assets	80,000	-	80,000
Depreciable capital assets, net	<u>2,857,810</u>	<u>6,893,975</u>	<u>9,751,785</u>
 Total assets	 <u>4,448,757</u>	 <u>8,465,355</u>	 <u>12,914,112</u>
<u>LIABILITIES</u>			
Accounts payable	180,873	26	180,899
Accrued interest	-	58,808	58,808
Deposits	39,862	-	39,862
Compensated absences	54,859	34,964	89,823
Other current liabilities	2,630	-	2,630
Long-term debt			
Due within one year	8,715	150,052	158,767
Due in more than one year	<u>24,189</u>	<u>3,888,578</u>	<u>3,912,767</u>
 Total liabilities	 <u>311,128</u>	 <u>4,132,428</u>	 <u>4,443,556</u>
<u>NET POSITION</u>			
Investment in capital assets, net of related debt	2,904,906	2,855,345	5,760,251
Restricted for:			
Grants, contributions, and funds for specific purpose	926,499	-	926,499
Debt service	<u>-</u>	<u>296,852</u>	<u>296,852</u>
 Unrestricted net position	 <u>306,224</u>	 <u>1,180,730</u>	 <u>1,486,954</u>
 Total net position	 <u>\$ 4,137,629</u>	 <u>\$ 4,332,927</u>	 <u>\$ 8,470,556</u>

The accompanying notes are an integral part of these financial statements.

City of Alturas
STATEMENT OF ACTIVITIES
For the year ended June 30, 2013

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position		Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	
Governmental activities:						
General government	\$ 265,364	\$ -	\$ -	\$ -	\$ (265,364)	\$ (265,364)
Public safety	1,228,078	10,293	-	-	(1,217,785)	(1,217,785)
Planning and public works	664,354	101,147	423,535	514,397	374,725	374,725
Parks and community services	57,234	92,477	-	-	35,243	35,243
Total governmental activities	2,215,030	203,917	423,535	514,397	(1,073,181)	(1,073,181)
Business-type activities:						
Water	739,426	918,637	-	-	\$ 179,211	179,211
Sewer	752,856	566,459	-	-	(186,397)	(186,397)
Total business-type activities	1,492,282	1,485,096	-	-	(7,186)	(7,186)
Total	\$ 3,707,312	\$ 1,689,013	\$ 423,535	\$ 514,397	(1,073,181)	(7,186)
General revenues:						
Sales taxes					688,408	-
Property taxes					309,146	-
Gas taxes					47,606	-
Motor vehicle in-lieu					350,384	-
Occupancy taxes					125,468	-
Other revenues					78,601	-
Interest income					37,036	3,153
Total general revenues					1,636,649	3,153
Change in net position					563,468	(4,033)
Net position beginning of period					3,574,161	4,336,960
Net position ending of period					\$ 4,137,629	\$ 4,332,927
						\$ 8,470,556

The accompanying notes are an integral part of these financial statements.

City of Alturas
GOVERNMENTAL FUNDS
BALANCE SHEET
June 30, 2013

	General	Special Road Fund	Warner	Other Governmental Funds	Total Governmental Funds
<u>ASSETS</u>					
Cash and investments	\$ 284,729	\$ 407,959	\$ -	\$ 430,107	\$ 1,122,795
Taxes receivable	140,902	441	-	187,308	328,651
Fuel inventory	-	-	-	56,554	56,554
Due from other fund	9,053	-	-	-	9,053
Other receivable	2,942	-	-	5	2,947
Total assets	<u>\$ 437,626</u>	<u>\$ 408,400</u>	<u>\$ -</u>	<u>\$ 673,974</u>	<u>\$ 1,520,000</u>
<u>LIABILITIES</u>					
Accounts payable	\$ 25,323	\$ -	\$ -	\$ 155,550	\$ 180,873
Deposits payable	39,862	-	-	-	39,862
Due to other fund	-	-	9,053	-	9,053
Accrued liabilities	2,305	-	-	325	2,630
Total liabilities	<u>67,490</u>	<u>-</u>	<u>9,053</u>	<u>155,875</u>	<u>232,418</u>
<u>FUND BALANCES</u>					
Assigned for:					
Specific purposes	-	408,400	-	518,099	926,499
Unassigned	370,136	-	(9,053)	-	361,083
Total fund balances	<u>370,136</u>	<u>408,400</u>	<u>(9,053)</u>	<u>518,099</u>	<u>1,287,582</u>
Total liabilities and fund balances	<u>\$ 437,626</u>	<u>\$ 408,400</u>	<u>\$ -</u>	<u>\$ 673,974</u>	<u>\$ 1,520,000</u>

The accompanying notes are an integral part of these financial statements.

City of Alturas
 Reconciliation of the
GOVERNMENTAL FUNDS - BALANCE SHEET
 with the Governmental Activities
STATEMENT OF NET POSITION
 For the year ended June 30, 2013

TOTAL FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$ 1,287,582
<p>Amounts reported for Governmental Activities in the Statement of Net Position are different from those reported in the Governmental Funds above because of the following:</p>	
<p>CAPITAL ASSETS</p> <p>Capital Assets used in Governmental Activities are not current assets or financial resources and therefore are not reported in the Governmental Funds.</p>	
	2,937,810
<p>LONG-TERM ASSETS AND LIABILITIES</p> <p>The assets and liabilities below are not due and payable in the current period and therefore are not reported in the Funds:</p>	
Long-term debt	(32,904)
Non-current portion of compensated absences	(54,859)
	(87,763)
NET POSITION OF GOVERNMENTAL ACTIVITIES	\$ 4,137,629

The accompanying notes are an integral part of these financial statements.

City of Alturas
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES
For the year ended June 30, 2013

	General	Special Road Fund	Warner	Other Governmental Funds	Total Governmental Funds
Revenues:					
Taxes	\$ 1,072,854	\$ 350,384	\$ -	\$ 97,594	\$ 1,520,832
Licenses and permits	98,147	-	-	3,000	101,147
Fines and forfeitures	4,428	-	-	5,865	10,293
Charges for services	-	-	-	92,477	92,477
Interest income	34,771	896	-	1,369	37,036
Intergovernmental revenue	46,800	-	514,397	376,915	938,112
Other revenues	30,422	15,603	-	32,576	78,601
Total revenues	<u>1,287,422</u>	<u>366,883</u>	<u>514,397</u>	<u>609,796</u>	<u>2,778,498</u>
Expenditures:					
Current:					
General government	257,058	-	-	8,306	265,364
Public safety	787,806	-	-	440,272	1,228,078
Planning and public works	98,447	171,559	436,433	169,690	876,129
Parks and community services	-	-	-	57,234	57,234
Total expenditures	<u>1,143,311</u>	<u>171,559</u>	<u>436,433</u>	<u>675,502</u>	<u>2,426,805</u>
Excess (deficit) of revenues over (under) expenditures	<u>144,111</u>	<u>195,324</u>	<u>77,964</u>	<u>(65,706)</u>	<u>351,693</u>
Other financing sources (uses):					
Transfers in	-	1,356	-	70,540	71,896
Transfers out	<u>(31,698)</u>	<u>(8,283)</u>	<u>-</u>	<u>(31,915)</u>	<u>(71,896)</u>
Total other financing sources (uses)	<u>(31,698)</u>	<u>(6,927)</u>	<u>-</u>	<u>38,625</u>	<u>-</u>
Net change in fund balances	112,413	188,397	77,964	(27,081)	351,693
Fund balances, beginning of period	<u>257,723</u>	<u>220,003</u>	<u>(87,017)</u>	<u>545,180</u>	<u>935,889</u>
Fund balances, end of period	<u>\$ 370,136</u>	<u>\$ 408,400</u>	<u>\$ (9,053)</u>	<u>\$ 518,099</u>	<u>\$ 1,287,582</u>

The accompanying notes are an integral part of these financial statements.

City of Alturas
 Reconciliation of the
NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS
 with the
STATEMENT OF ACTIVITIES
 For the year ended June 30, 2013

The schedule below reconciles the Net Changes in Fund Balances reported on the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance, which measures only changes in current assets and current liabilities on the modified accrual basis, with the Change in Net Position of Governmental Activities reported in the Statement of Activities, which is prepared on the full accrual basis.

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$	351,693
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Amounts reported for governmental activities in the Statement of Activities are different because of the following:

CAPITAL ASSETS TRANSACTIONS

Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is capitalized and allocated over their estimated useful lives and reported as depreciation expense.

Purchases of capital assets are added back to the fund balance		599,433
Depreciation expense is deducted from the fund balance		(402,914)

ACCRUAL OF NON-CURRENT ITEMS

The amounts below included in the Statement of Activities do not provide or (require) the use of current financial resources and therefore are not reported as revenue or expenditures in the governmental funds (net change):

Accrued lease principal		10,671
Long-term compensated absences		4,585
		4,585

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	\$	563,468
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The accompanying notes are an integral part of these financial statements.

City of Alturas
 PROPRIETARY FUNDS
STATEMENT OF NET POSITION
 June 30, 2013

	Business-type Activities		Totals
	Enterprise Funds		
	Sewer	Water	
<u>ASSETS</u>			
Current assets:			
Cash and investments	\$ 152,100	\$ 978,519	\$ 1,130,619
Restricted cash and investments	-	296,852	296,852
Accounts receivable	264	143,645	143,909
Total current assets	<u>152,364</u>	<u>1,419,016</u>	<u>1,571,380</u>
Non-current assets:			
Capital assets, net of accumulated depreciation	<u>3,224,169</u>	<u>3,669,806</u>	<u>6,893,975</u>
Total assets	<u>3,376,533</u>	<u>5,088,822</u>	<u>8,465,355</u>
<u>LIABILITIES</u>			
Current liabilities:			
Accounts payable	-	26	26
Accrued interest	31,424	27,384	58,808
Compensated absences	19,062	15,902	34,964
Current maturities of long-term debt:			
USDA facility loan	65,579	-	65,579
FMHA Water Line Project Loan	-	84,473	84,473
Total current liabilities	<u>116,065</u>	<u>127,785</u>	<u>243,850</u>
Long-term liabilities			
FMHA Water Line Project Loan	-	2,693,123	2,693,123
USDA facility loan	<u>1,195,455</u>	<u>-</u>	<u>1,195,455</u>
Total liabilities	<u>1,311,520</u>	<u>2,820,908</u>	<u>4,132,428</u>
<u>NET POSITION</u>			
Invested in capital assets, net of related debt	1,963,135	892,210	2,855,345
Restricted for debt service	-	296,852	296,852
Unrestricted	<u>101,878</u>	<u>1,078,852</u>	<u>1,180,730</u>
Total net position	<u>\$ 2,065,013</u>	<u>\$ 2,267,914</u>	<u>\$ 4,332,927</u>

The accompanying notes are an integral part of these financial statements.

City of Alturas
 PROPRIETARY FUNDS
STATEMENT OF REVENUES,
EXPENSES, AND CHANGES IN FUND NET POSITION
 For the year ended June 30, 2013

	<u>Sewer</u>	<u>Water</u>	<u>Total</u>
Operating revenues:			
Charges for services	\$ 566,456	\$ 918,637	\$ 1,485,093
Other	<u>3</u>	<u>-</u>	<u>3</u>
Total operating revenues	<u>566,459</u>	<u>918,637</u>	<u>1,485,096</u>
Operating expenses:			
Personnel services	248,813	292,394	541,207
Materials, supplies, rent and services	185,810	124,604	310,414
Repair and maintenance	7,091	11,206	18,297
Depreciation	184,891	142,574	327,465
Other	<u>94,449</u>	<u>-</u>	<u>94,449</u>
Total operating expenses	<u>721,054</u>	<u>570,778</u>	<u>1,291,832</u>
Operating income (loss)	<u>(154,595)</u>	<u>347,859</u>	<u>193,264</u>
Non-operating revenues (expenses):			
Interest income	751	2,402	3,153
Interest expense	<u>(31,802)</u>	<u>(168,648)</u>	<u>(200,450)</u>
Total non-operating revenues (expenses)	<u>(31,051)</u>	<u>(166,246)</u>	<u>(197,297)</u>
Change in net position	(185,646)	181,613	(4,033)
Net position, beginning of period	<u>2,250,659</u>	<u>2,086,301</u>	<u>4,336,960</u>
Net position, end of period	<u>\$ 2,065,013</u>	<u>\$ 2,267,914</u>	<u>\$ 4,332,927</u>

The accompanying notes are an integral part of these financial statements.

City of Alturas
 PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
 For the year ended June 30, 2013

	Business-type Activities		
	Enterprise Funds		
	Sewer	Water	Total
Cash flows from operating activities:			
Receipts from customers	\$ 566,890	\$ 931,905	\$ 1,498,795
Payments to suppliers	(345,224)	(135,900)	(481,124)
Payments to employees	<u>(251,269)</u>	<u>(297,915)</u>	<u>(549,184)</u>
Net cash provided (used) by operating activities	<u>(29,603)</u>	<u>498,090</u>	<u>468,487</u>
Cash flows from capital and related financing activities:			
Principal payments on capital debt	(64,041)	(79,882)	(143,923)
Interest paid on capital debt	<u>(31,802)</u>	<u>(168,648)</u>	<u>(200,450)</u>
Net cash provided (used) by capital and related financing activities	<u>(95,843)</u>	<u>(248,530)</u>	<u>(344,373)</u>
Cash flows from investing activities:			
Interest earned	<u>751</u>	<u>2,402</u>	<u>3,153</u>
Net cash provided by investing activities	<u>751</u>	<u>2,402</u>	<u>3,153</u>
Net increase (decrease) in cash and cash equivalents	(124,695)	251,962	127,267
Cash and cash equivalents - beginning of period	<u>276,795</u>	<u>1,023,409</u>	<u>1,300,204</u>
Cash and cash equivalents - end of period	<u>\$ 152,100</u>	<u>\$ 1,275,371</u>	<u>\$ 1,427,471</u>
Reconciliation of operating income (loss) to net cash provided (used in) operating activities:			
Operating income (loss)	<u>\$ (154,595)</u>	<u>\$ 347,859</u>	<u>\$ 193,264</u>
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation	184,891	142,574	327,465
Changes in certain assets and liabilities:			
Accounts receivable	431	13,268	13,699
Accounts payable	(57,874)	(90)	(57,964)
Compensated absences	<u>(2,456)</u>	<u>(5,521)</u>	<u>(7,977)</u>
Total adjustments	<u>124,992</u>	<u>150,231</u>	<u>275,223</u>
Net cash provided (used) by operating activities	<u>\$ (29,603)</u>	<u>\$ 498,090</u>	<u>\$ 468,487</u>
Cash and investments			\$ 1,130,619
Restricted cash and investments			<u>296,852</u>
Total cash and cash equivalents			<u>\$ 1,427,471</u>

The accompanying notes are an integral part of these financial statements.

City of Alturas
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Alturas (the City) was incorporated September 16, 1901 under the general laws of the State of California and enjoys all the rights and privileges applicable to a General Law City. The City operates under a Council-Manager form of government and provides the following services as authorized: Public Safety (police, fire and civil defense), highways and streets, sanitation, health and social services, culture/recreation, education, public improvements, planning and zoning, and general administrative services. The City also provides the Water and Sewer services.

As required by U.S. generally accepted accounting principles, the financial statements of the City of Alturas have no component units. The accompanying basic financial statements present the financial activity of the City, which is the primary government.

B. Basis of Presentation

The City's basic financial statements are prepared in conformity with U.S. generally accepted accounting principles. The Governmental Accounting Standards Board (GASB) is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the U.S.A.

These standards require that the financial statements described below be presented.

Government-wide Statements: The Statement of Net Position and the Statement of Activities display information about the primary government (the City) and its component units. These statements include the financial activities of the overall City government, except for fiduciary activities. 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 generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The Statement of Activities 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, 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, (b) grants and contributions that are restricted to meeting the operational needs of a particular program and (c) fees, grants and contributions that are restricted to financing the acquisition or construction of capital assets. 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 City's funds, including fiduciary funds and blended component units. Separate statements for each fund category – *governmental* and *proprietary* – are presented. The emphasis of fund financial statements is on major individual governmental and enterprise funds, each of which is displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as non-major funds.

City of Alturas
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Presentation (concluded)

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. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

C. Major Funds

GASB Statement 34 defines major funds and requires that the City's major governmental and business-type funds be identified and presented separately in the fund financial statements. All other funds, called non-major funds, are combined and reported in a single column, regardless of their fund-type.

Major funds are defined as funds that have assets, liabilities, revenues or expenditures/expenses equal to ten percent of their fund-type total and five percent of the grand total. The General Fund is always a major fund. The City may also select other funds it believes should be presented as major funds.

The City reported the following major governmental funds in the accompanying financial statements:

General Fund: This is used for all the general revenues of the City not specifically levied or collected for other City funds and the related expenditures. The General Fund accounts for all financial resources of a governmental unit that are not accounted for in another fund.

Special Road Fund: This fund accounts for road projects funded by governmental grants.

Warner Fund: This fund accounts for street and road projects.

The City reported all its enterprise funds as major funds in the accompanying financial statements:

Water Fund: This fund accounts for all financial transactions relating to the City's Water service. Services are on a user charge basis to residents and business owners located in Alturas.

Sewer Fund: This fund accounts for all financial transactions relating to the City's Wastewater Collection and Treatment. Services are on a user charge basis to residents and business owners located in Alturas.

D. Basis of Accounting

Government-wide and proprietary fund financial statements are reported using the *economic resources measurement focus* and full *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.

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". The City considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General 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*.

City of Alturas
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Basis of Accounting (concluded)

Those revenues susceptible to accrual are property, sales and franchise taxes, certain other intergovernmental revenues, certain charges for services and interest revenue. Fines, licenses and permits, and charges for services are not susceptible to accrual because they are not measurable until received in cash.

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

The City may fund programs with a combination of cost-reimbursement grants, categorical block grants, and general revenues. Thus, both restricted and unrestricted net position may be available to finance program expenditures. The City's policy is to first apply restricted grant resources to such programs, followed by general revenues if necessary.

Certain indirect costs are included in program expenses reported for individual functions and activities.

The City follows Statements and Interpretations of the Financial Accounting Standards Board and its predecessors that were issued on or before November 30, 1989, in accounting for its business-type activities, unless they conflict with GASB pronouncements.

E. Revenue Recognition for Water and Sewer Funds

Revenues are recognized based on cycle billings rendered to customers. All residential and commercial utility customers are billed once per month. There is one billing cycle per month that includes all types of customers, based on their location within the City. Revenues for services provided but not billed at the end of a fiscal year are accrued.

Contributions of cash or assets to proprietary funds from state and federal agencies, developers and others are recorded as revenue.

F. Property Tax

Modoc County (the County) assesses properties and bills, collects and distributes property taxes to the City. The County remits the entire amount levied and handles all delinquencies, retaining interest and penalties. Secured and unsecured property taxes are levied on July 1 of the preceding fiscal year.

Secured property tax is due in two installments, on November 1 and February 1, and becomes a lien on those dates. It becomes delinquent on December 10 and April 10, respectively. Unsecured property tax is due on July 1 and becomes delinquent on August 31. Collection of delinquent accounts is the responsibility of the County, which retains all penalties.

The term "unsecured" refers to taxes on personal property other than real estate, land and buildings. These taxes are secured by liens on the property being taxed. Property tax revenues are recognized by the City in the fiscal year they are assessed provided they become available as defined above.

City of Alturas
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. Compensated Absences

City employees are entitled to certain compensated absences based on their length of employment. Compensated absences accumulate and are accrued when they are earned. The City's liability for compensated absences is recorded in various governmental funds or proprietary funds as appropriate. The liability for compensated absences is determined annually. For all governmental funds, amounts expected to be paid out of current financial resources are recorded as fund liabilities; the long-term portion is recorded in the Statement of Net Position. The amount of accrued sick pay is not due upon termination and therefore is not recorded as a liability of the City.

The net changes of compensated absences are as follows:

	Governmental Activities	Business-type Activities	Total
Beginning balance	\$ 59,444	\$ 58,808	\$ 118,252
Additions	-	-	-
Payments	<u>4,585</u>	<u>23,844</u>	<u>28,429</u>
Ending balance	<u>\$ 54,859</u>	<u>\$ 34,964</u>	<u>\$ 89,823</u>
Current portion	<u>\$ 54,859</u>	<u>\$ 34,964</u>	<u>\$ 89,823</u>

The General Fund has been used to liquidate compensated absences.

H. Budgets and Budgetary Accounting

The City Council annually adopts a budget by December 31 of the fiscal year for all governmental fund types. The budgeted expenditures become the appropriations to the various departments. The budget includes estimates for revenue that, along with the appropriations, compute the budgetary fund balance. The appropriated budget covers substantially all governmental fund type expenditures, which constitute a legally authorized non-appropriated budget. The City Council may amend the budget at any time.

The City Finance Manager may transfer funds from one object purpose (personnel services, operating expenditures or capital outlay expenditures) to another within the same department without changing the total budget of a department. A department head may transfer funds from like object categories of the same department with the Finance Director's approval. The City Council must approve changes to departmental level. All unused appropriations lapse at year-end. The City Council adopts governmental fund budgets consistent with U.S. generally accepted accounting principles as legally required.

There are no significant non-budgeted financial activities. Revenues for special revenue funds are budgeted by entitlements, grants and estimates of future development and economic growth. Expenditures and transfers are budgeted based upon available financial resources. Expenditures may not legally exceed budget appropriations at the fund type level.

On or before April 1 of each year, each department submits data to the City Finance Manager for budget preparation. Staff prepares the budget by fund, function, and activity. The budget includes information on past years, current year estimates, and requested appropriations for the next fiscal year. Before June 30, the City Council receives the proposed budget.

City of Alturas
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (concluded)

H. Budgets and Budgetary Accounting (concluded)

The City Council holds public hearings and may amend the budget by a majority vote. Any changes to the budget must be within the available revenues and reserves.

The City uses an encumbrance system as an aid in controlling expenditures. When the City issues a purchase order for goods or services, it records an encumbrance until the vendor delivers the goods or performs the service. Encumbrances outstanding at year-end lapse unless encumbered by specific Council approval.

I. Excess of Expenditures over Appropriations

The City had no funds that had incurred expenditures in excess of their budgets.

J. Use of Estimates

The financial statements have been prepared in conformity with U.S. generally accepted accounting principles, and as such, include amounts based on informed estimates and judgments of management with consideration given to materiality. Actual results could differ from those amounts.

NOTE 2 - CASH AND INVESTMENTS

The City pools cash from all sources and all funds, except certain specific investments within funds and cash with fiscal agents, so that it can be invested at the maximum yield, consistent with safety and liquidity, while individual funds can make expenditures at any time.

A. Categorization of Credit Risk of Securities Instruments

The City and its fiscal agents invest in individual investments and in investment pools. Individual investments are evidenced by specific identifiable pieces of paper called *securities instruments*, or by an electronic entry registering the owner in the records of the institution issuing the security, called the *book entry* system. Individual investments are generally made by the City's fiscal agents as required under its debt issues. In order to maximize security, the City employs the Trust Department of a bank as the custodian of all City managed investments, regardless of their form.

Investments are carried at fair value and are categorized as follows at June 30, 2013:

<u>Pooled Investments (non-categorized):</u>	
State of California Local Agency Investment Fund (LAIF)	\$ 1,958,012
Subtotal Investments	1,958,012
<u>Cash Deposits with Banks</u>	592,254
Total Cash and Investments	\$ <u>2,550,266</u>

Cash and investments are classified in the financial statements as shown below, based on whether or not their use is restricted under the terms of City debt instruments or agency agreements.

City of Alturas
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2013

NOTE 2 - CASH AND INVESTMENTS (continued)

A. Categorization of Credit Risk of Securities Instruments (concluded)

Cash and investments in City Treasury	\$ 2,253,414
Restricted cash and investments	<u>296,852</u>
Total City cash and investments	<u>\$ 2,550,266</u>

Cash and investments are used in preparing Proprietary Fund statements of cash flows because these assets are highly liquid and are expended to liquidate liabilities arising during the year.

Custodial Credit Risk – Deposits

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 custodial credit risk for deposits and investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) 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.

California Law requires banks and savings and loan associations to pledge government securities with a market value of 110% of the City's cash on deposit or first trust deed mortgage notes with a value of 150% of the deposit as collateral for these deposits. Under California Law, this collateral is held in the City's name and places the City ahead of general creditors of the institution. The carrying amount of the City's cash deposits was \$779,795 at June 30, 2013.

Custodial Credit Risk – Investments

Custodial credit risk for investments is the risk that in the event of the failure of a counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All investments in LAIF are not evidenced by specific securities and therefore, are not subject to custodial credit risk.

B. Authorized Investments

The City's investment policy and section 53601 of the California Government Code allow the following investments: a) Certificates of Deposit; b) Obligations of the State of California.

The City does not enter into reverse repurchase agreements.

The City's investments are carried at fair value instead of cost, as required by U.S. generally accepted accounting principles. The City adjusts the carrying value of its investments to reflect their fair value at each fiscal year end if material, and it includes the effects of these adjustments in income for that fiscal year.

The City places certain funds with the State of California's Local Agency Investment Fund (LAIF). The City is a voluntary participant in LAIF, which is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California and the Pooled Money Investment Board. The State Treasurer's office pools these funds with those of other governmental agencies in the state and invests the cash. The fair value of the City's investment in this pool is reported in the accompanying financial statements 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).

City of Alturas
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2013

NOTE 2 - CASH AND INVESTMENTS (concluded)

B. Authorized Investments (concluded)

The management of the State of California Pooled Money Investment Account has indicated to the City that as of June 30, 2013 the carrying amount of the pool was \$58,828,474,533 and the estimated market value of the pool (including accrued interest) was \$58,852,094,221. The City's proportionate share of that value is \$1,958,012. Included in LAIF's investment portfolios are certain derivative securities or similar products in the form of structured notes, totaling \$400,000,000 and asset-backed securities totaling \$753,400,000. LAIF's (and the City's) exposure to risk (credit, market or legal) is not currently available.

The monies held in the pooled investment funds are not subject to categorization by risk category. The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on the amortized cost basis. Funds are accessible and transferable to the master account with twenty-four hours notice. Financial statements for LAIF can be obtained from the California State Treasurer's Office: State Treasurer's Office, 915 Capitol Mall, Suite 110, Sacramento, CA 95814.

NOTE 3 - INTER-FUND TRANSACTIONS

Internal Balances: Internal balances are presented in the City-wide financial statements only. They represent the net interfund receivables and payables remaining after the elimination of all such balances within governmental and business-type activities.

NOTE 4 - CAPITAL ASSETS

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated fair market value on the date contributed. City policy has set the capitalization threshold for reporting capital assets at the following:

General capital assets	\$ 8,000
Infrastructure capital assets	25,000

GASB Statement 34 requires that all capital assets with limited useful lives be depreciated over their estimated useful lives. Alternatively, the "modified approach" may be used for certain capital assets. Depreciation is not provided under this approach, but all expenditures on these assets are expensed, unless they are additions or improvements.

The purpose of depreciation is to spread the cost of capital assets equitably among all users over the life of these assets. The amount charged to depreciation expense each year represents that year's pro-rata share of the cost of capital assets.

Depreciation is provided using the straight line method which means the cost of the asset is divided by its expected useful life in years and the result is charged to expense each year until the asset is fully depreciated.

City of Alturas
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2013

NOTE 4 - CAPITAL ASSETS (concluded)

The City has assigned the useful lives listed below to capital assets:

Buildings	20-40 years
Improvements	40 years
Machinery and equipment	3-6 years
Streets and roads	20 years
Curb, gutter, sidewalks & median curbs	20 years
Storm drains	75 years
Traffic signals	20 years
Water and Sewer Lines	40 years

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

	Balance 7/1/12	Additions	Deletions	Balance 6/30/13
Land (not depreciated)	\$ 80,000	\$ -	\$ -	\$ 80,000
Buildings	572,221	-	-	572,221
Streets and roads	2,379,695	587,433	-	2,967,128
Equipment	1,192,486	12,000	-	1,204,486
Subtotal	4,224,402	<u>\$ 599,433</u>	<u>\$ -</u>	4,823,835
Accumulated depreciation	<u>(1,483,111)</u>			<u>(1,886,025)</u>
Net book value	<u>\$ 2,741,291</u>			<u>\$ 2,937,810</u>

The changes in proprietary fund types fixed assets for the fiscal year are:

	Balance 7/1/12	Adjustments	Deletions	Balance 6/30/13
Wells	\$ 32,000	\$ -	\$ -	\$ 32,000
Water lines	5,576,954	-	-	5,576,954
Plant and equipment	6,169,567	-	-	6,169,567
Subtotal	11,778,521	<u>\$ -</u>	<u>\$ -</u>	11,778,521
Accumulated depreciation	<u>(4,557,081)</u>			<u>(4,884,546)</u>
Net book value	<u>\$ 7,221,440</u>			<u>\$ 6,893,975</u>

Depreciation Allocation

Depreciation expense is charged to functions and programs based on their usage of the related assets. The amounts allocated to each function or program are as follows:

Governmental Activities

Public Works	<u>\$ 402,914</u>
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Business-type Activities

Water	\$ 142,574
Sewer	<u>184,891</u>
Total Business-type Activities	<u>\$ 327,465</u>

City of Alturas
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2013

NOTE 5 - LONG-TERM DEBT

A. Changes in Long-Term Debt

The following is a summary of debt transactions of the City for the year ended June 30, 2013:

	<u>Beginning</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u>	<u>Due in one Year</u>
Governmental Activities					
Leases	\$ 43,575	\$ -	\$ 10,671	\$ 32,904	\$ 8,715
Business-type Activities					
Water lines	\$ 2,857,476	\$ -	\$ 79,880	\$ 2,777,596	\$ 84,473
Sewer treatment plant	1,325,075	-	64,041	1,261,034	65,579
Total	<u>\$ 4,182,551</u>	<u>\$ -</u>	<u>\$ 143,921</u>	<u>\$ 4,038,630</u>	<u>\$ 150,052</u>

B. U.S. Government Loan

The U.S. Government Loan is for replacing the City's water lines. The original loan amount of \$3,738,860 will mature on May 1, 2032 and is payable as to principal and interest in May and November each year. The interest rate is 5.75%.

The annual requirements to amortize the loan outstanding as of June 30, 2013, including interest payments, are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 84,473	\$ 159,712	\$ 244,185
2015	89,330	154,855	244,185
2016	94,467	149,718	244,185
2017	99,899	144,286	244,185
2018	105,643	138,542	244,185
2019	111,717	132,468	244,185
2020	118,141	126,044	244,185
2021	124,934	119,251	244,185
2022	132,118	112,067	244,185
2023	139,714	104,471	244,185
2024	147,748	96,437	244,185
2025	156,244	87,941	244,185
2026	165,228	78,957	244,185
2027	174,728	69,457	244,185
2028	184,775	59,410	244,185
2029	195,400	48,785	244,185
2030	206,635	37,550	244,185
2031	218,517	25,668	244,185
2032	227,885	12,909	240,794
Total	<u>\$ 2,777,596</u>	<u>\$ 1,858,528</u>	<u>\$ 4,636,124</u>

City of Alturas
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2013

NOTE 5 - LONG-TERM DEBT (concluded)

C. State Water Loan

The State Water Loan is for the construction of the City's Waste Water Treatment Plant. The original loan amount of \$1,600,000 will mature on July 10, 2028 and is payable as to principal and interest in July of each year. The interest rate is 2.4%. The outstanding loan amount as of June 30, 2013 is \$1,261,034.

The annual requirements to amortize the loan outstanding as of June 30, 2013, including interest payments, are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 65,579	\$ 30,264	\$ 95,843
2015	67,153	28,691	95,844
2016	68,765	27,079	95,844
2017	70,415	25,429	95,844
2018	72,105	23,739	95,844
2019	73,835	22,008	95,843
2020	75,607	20,237	95,844
2021	77,422	18,422	95,844
2022	79,280	16,564	95,844
2023	81,183	14,661	95,844
2024	83,131	12,713	95,844
2025	85,126	10,718	95,844
2026	87,169	8,674	95,843
2027	89,261	6,583	95,844
2028	91,403	4,440	95,843
2029	93,600	2,244	95,844
Total	<u>\$ 1,261,034</u>	<u>\$ 272,466</u>	<u>\$ 1,533,500</u>

NOTE 6 - CITY EMPLOYEES' RETIREMENT PLAN

Plan Description:

The City contributes to the California Public Employees' Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement and 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% (9% for safety employees) 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 0.0% for non-safety employees and 8.49% for police employees, of annual covered payroll. The contribution requirements of plan members and the City are established, and may be amended, by PERS.

City of Alturas
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2013

NOTE 6 - CITY EMPLOYEES' RETIREMENT PLAN (concluded)

Annual Pension Cost:

For 2013, the City's annual pension cost of \$270,757 for PERS was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2011 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.50% investment rate of return (net of administrative expenses), (b) projected annual salary increases that vary by duration of service, and (c) 3.30% - 14.20% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 2.75%. 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 fifteen-year period (smoothed market value). Initial unfunded liabilities are amortized over a closed period that depends on the plan's date of entry into CalPERS. Subsequent plan amendments are amortized as a level % of pay over a closed 19 to 20-year period. Gains and losses that occur in the operation of the plan are amortized over a rolling period, which results in an amortization of 10% of unamortized gains and losses each year. If the plan's accrued liability exceeds the actuarial value of plan assets, then the amortization payment on the total unfunded liability may not be lower than the payment calculated over a 30-year amortization period.

Three-Year Trend Information for PERS:

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/11	\$ 244,929	100%	\$ -0-
6/30/12	\$ 251,133	100%	\$ -0-
6/30/13	\$ 270,757	100%	\$ -0-

Required Supplementary Information – Miscellaneous Plan

(A)	(B)	(C)	(D)	(E)	(F)	
Valuation Date	Accrued Liability	Actuarial Value of Assets	Unfunded Liability (Excess Assets) [(A)-(B)]	Funded Ratio [(B)/(A)]	Annual Covered Payroll	UAAL as a % of Payroll $\frac{\{(A)-(B)\}}{(E)}$
6/30/09	\$883,394,429	\$694,384,975	\$189,009,454	78.6%	\$161,972,631	116.7%
6/30/10	\$945,221,095	\$754,858,961	\$190,362,134	79.9%	\$159,156,834	119.6%
6/30/11	\$1,023,127,404	\$825,991,347	\$197,136,057	80.7%	\$160,900,495	122.5%

Required Supplementary Information - Safety Plan

(A)	(B)	(C)	(D)	(E)	(F)	
Valuation Date	Accrued Liability	Actuarial Value of Assets	Unfunded Liability (Excess Assets) [(A)-(B)]	Funded Ratio [(B)/(A)]	Annual Covered Payroll	UAAL as a % of Payroll $\frac{\{(A)-(B)\}}{(E)}$
6/30/09	\$1,802,882,330	\$1,520,081,328	\$282,801,002	84.3%	\$221,600,192	127.6%
6/30/10	\$1,915,095,826	\$1,628,915,283	\$286,180,543	85.1%	\$224,562,008	127.4%
6/30/11	\$2,061,923,933	\$1,759,286,797	\$302,637,136	85.3%	\$225,026,216	134.5%

City of Alturas
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2013

NOTE 7 - LITIGATION CONTINGENCY

There is pending or potential litigation against two different engineering firms that were engaged with the City for the upgrade of the City's wastewater treatment plant to correct violations of the State of California Water Quality standards. An outside law firm specializing in these matters has been retained by the City to pursue against either or both of the two engineering firms, initially by negotiation, or by litigation if necessary, the collection of damages sustained by the City as a result of the allegedly faulty engineering work of either or both of the two engineering firms, plus the penalties that have or will be assessed against the City by the State Water Quality Control Board for violation of the State water quality standards. The outcome of this litigation is not presently determinable.

The City is a defendant in various other lawsuits and other claims. Although the outcomes of these lawsuits are not presently determinable, it is the opinion of the City's counsel that resolution of these matters will not have a material adverse effect on the financial condition of the government.

NOTE 8 - RISK MANAGEMENT

The City manages risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters by participating in the public entity risk pools described below.

Public entity risk pools are formally organized and separate entities established under the Joint Exercise of Powers Act of the State of California. As separate legal entities, those entities exercise full powers and authorities within the scope of the related Joint Powers Agreements including the preparation of annual budgets, accountability for all funds, the power to make and execute contracts and the right to sue and be sued. Each risk pool is governed by a board consisting of representatives from member municipalities. Each board controls the operations of the respective risk pool, including selection of management and approval of operating budgets, independent of any influence by member municipalities beyond their representation on that board. Obligations and liabilities of these risk pools are not the City's responsibility.

The City is a member of a program through which certain specified and limited self-insured workers' compensation and employer's liability risks are administered by PARSAC and shared by its participating members.

Complete audited financial statements for PARSAC can be obtained from PARSAC's office at 1525 Response Road, Suite One, Sacramento, CA 95815.

The program period runs one year. The City has workers' compensation and employer's liability. The City has a general liability self-insurance retention level of \$10,000. The self-insurance retention level is somewhat similar to a deductible.

Maximum Amounts of Protection: Program Maximum Amounts of Protection for each accident or each employee for disease are:

a.	Workers' Compensation	\$250,000
b.	Employer's Liability	\$250,000
c.	Workers' Compensation and Employer's Liability combined	\$250,000

City of Alturas
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2013

NOTE 8 - RISK MANAGEMENT (concluded)

Limit of Protection: \$995,000 Ultimate Net Loss as the result of any one occurrence because of Bodily Injury, Property Damage, Personal Injury, or Public Officials Errors and Omissions or any combination thereof in excess of the retained limit.

Retained Limit: \$5,000 Ultimate Net Loss as the result of any one occurrence because of Bodily Injury, Property Damage, Personal Injury, or Public Officials Errors and Omissions or any combination thereof. The City contributed \$390 for coverage during the year.

NOTE 9 - NET POSITION AND FUND BALANCES

GASB Statement 34 added the concept of Net Position, which is measured on the full accrual basis, to the concept of Fund Balance, which is measured on the modified accrual basis.

A. Net Position

Net Position is the excess of all the City's assets over all its liabilities, regardless of fund. Net Position is divided into three captions under GASB Statement 34. These captions apply only to Net Position, which are determined only at the Government-wide level, and are described below:

Invested in Capital, net of related debt describes the portion of Net Position that is represented by the current net book value of the City's capital assets, less the outstanding balance of any debt issued to finance these assets.

Restricted describes the portion of Net Position that is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions that the City cannot unilaterally alter. These principally include developer fees received for use on capital projects, debt service requirements, and redevelopment funds restricted to low and moderate income purposes.

Unrestricted describes the portion of Net Position that is not restricted as to use.

B. Fund Balances

The accompanying basic financial statements reflect certain changes that have been made with respect to the reporting components of fund balances for governmental funds. In previous years, fund balances for governmental funds were reported in accordance with previous standards that included components for reserved fund balance, unreserved fund balance, designated fund balance, and undesignated fund balance. Due to the implementation of GASB Statement 54, the components of the fund balances of governmental *funds* now reflect the component classifications described below. In the fund financial statements, governmental fund balances are reported in the following classifications:

Nonspendable fund balance includes amounts that are not in a spendable form, such as prepaid items or supplies inventories, or that are legally or contractually required to remain intact, such as principal endowments.

Restricted fund balance includes amounts that are subject to externally enforceable legal restrictions imposed by outside parties (i.e., creditors, grantors, contributors) or that are imposed by law through constitutional provisions or enabling legislation.

City of Alturas
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2013

NOTE 9 - NET POSITION AND FUND BALANCES (concluded)

B. Fund Balances (concluded)

Committed fund balance includes amounts whose use is constrained by specific limitations that the government imposes upon itself, as determined by a formal action of the highest level decision-making authority. The City Council serves as the City's highest level decision-making authority and has the authority to establish, modify or rescind a fund balance commitment via minutes action.

Assigned fund balance includes amounts intended to be used by the City for specific purposes, subject to change, as established either directly by the City Council or by management officials to whom the assignment authority has been delegated by the City Council.

Unassigned fund balance is the residual classification that includes the spendable amounts in the General Fund that are available for any purpose.

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

C. Fund Balance and Net Position Deficits

The following funds had deficit fund balances at June 30, 2013. Deficits will be covered by future revenues and/or General Fund transfers.

Special Revenue Funds

Traffic Safety
Police Grant Fund 6
Natural Gas
Warner
Police Department Tech
Airport Annual
Emergency Preparedness
Proposition 40 Grant
Gas Tax
Show Grounds

The Special Revenue funds are expected to have their deficit eliminated through grant reimbursements for prior year expenditures and transfers from the General Fund.

City of Alturas
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2013

NOTE 10 - TRANSFERS

Transfers between funds during the fiscal year ended June 30, 2013 were as follows:

	Transfer In	Transfer Out
General Fund	\$ -	\$ 31,698
Special Revenue		
Special Road Fund	1,356	8,283
Cops Grant	-	8,071
LAFCO	20,833	-
Airport	7,695	10,123
FAA Grant	-	211
FTA Grant	-	7,483
Airport Grant	18,406	-
Nuisance Grant	5,000	-
PD Grant	8,071	-
Emergency Preparation Grant	5,865	-
EECGB	-	1,536
Show Grounds Grant	3,000	-
Recreation fund	-	1,491
Proposition 40 Grant	1,490	-
Community Project	180	3,000
Total	\$ 71,896	\$ 71,896

NOTE 11 - SUBSEQUENT EVENTS

In preparing these financial statements, the City has evaluated events and transactions for potential recognition or disclosure through the date the financial statements were issued.

City of Alturas
Required Supplemental Information
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
Budget and Actual
For the year ended June 30, 2013
(Unaudited)

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with
	<u>Original</u>	<u>Final</u>		Final Budget Positive (Negative)
Revenues:				
Taxes	\$ 1,072,854	\$ 1,072,854	\$ 1,072,854	\$ -
Licenses and permits	118,785	118,785	98,147	(20,638)
Fines and forfeitures	4,403	4,403	4,428	25
Use of money and property	34,519	34,519	34,771	252
Intergovernmental revenue	26,752	26,752	46,800	20,048
Other revenues	29,993	29,993	30,422	429
Total revenues	<u>1,287,306</u>	<u>1,287,306</u>	<u>1,287,422</u>	<u>116</u>
Expenditures:				
Current:				
General government	281,444	281,444	257,058	24,386
Public safety	828,292	828,292	787,806	40,486
Planning and public works	95,854	95,854	98,447	(2,593)
Total expenditures	<u>1,205,590</u>	<u>1,205,590</u>	<u>1,143,311</u>	<u>62,279</u>
Excess of revenues over (under) expenditures	<u>81,716</u>	<u>81,716</u>	<u>144,111</u>	<u>62,395</u>
Other financing sources (uses):				
Transfers in	-	-	-	-
Transfers out	(31,698)	(31,698)	(31,698)	-
Total other financing sources (uses)	<u>(31,698)</u>	<u>(31,698)</u>	<u>(31,698)</u>	<u>-</u>
Net change in fund balance	<u>\$ 50,018</u>	<u>\$ 50,018</u>	112,413	<u>\$ 62,395</u>
Fund balance, beginning of period			<u>257,723</u>	
Fund balance, end of period			<u>\$ 370,136</u>	

City of Alturas
 Required Supplemental Information
 SPECIAL ROAD FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

Budget and Actual
 For the year ended June 30, 2013
 (Unaudited)

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with
	<u>Original</u>	<u>Final</u>		Final Budget Positive (Negative)
Revenues:				
Taxes	\$ 355,409	\$ 355,409	\$ 350,384	\$ (5,025)
Interest income	-	-	896	896
Other revenue	<u>11,475</u>	<u>11,475</u>	<u>15,603</u>	<u>4,128</u>
Total revenues	<u>366,884</u>	<u>366,884</u>	<u>366,883</u>	<u>(1)</u>
Expenditures:				
Current:				
Public works	<u>266,156</u>	<u>266,156</u>	<u>171,559</u>	<u>94,597</u>
Total expenditures	<u>266,156</u>	<u>266,156</u>	<u>171,559</u>	<u>94,597</u>
Excess of revenues over (under) expenditures	<u>100,728</u>	<u>100,728</u>	<u>195,324</u>	<u>94,596</u>
Other financing sources (uses):				
Transfers in	1,356	1,356	1,356	-
Transfers out	<u>(8,283)</u>	<u>(8,283)</u>	<u>(8,283)</u>	<u>-</u>
Total other financing sources (uses)	<u>(6,927)</u>	<u>(6,927)</u>	<u>(6,927)</u>	<u>-</u>
Net change in fund balance	<u>\$ 93,801</u>	<u>\$ 93,801</u>	188,397	<u>\$ 94,596</u>
Fund balance, beginning of period			<u>220,003</u>	
Fund balance, end of period			<u>\$ 408,400</u>	

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

To the Honorable Members
of the City Council
City of Alturas
Alturas, California

We have audited the basic financial statements of City of Alturas as of and for the year ended June 30, 2013, and have issued our report thereon dated March 17, 2014. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the U.S. Comptroller General.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Alturas' internal control over financial reporting as a basis for designing our auditing procedures, for the purpose of expressing our opinion on City of Alturas' financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Alturas' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of City of Alturas' 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 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 City of Alturas' basic financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the 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 City of Alturas' basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*. However, we noted certain matters that we reported to management of the City of Alturas in a separate letter dated March 17, 2014.

To the Honorable Members of the City Council
City of Alturas- Page 2

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

R.J. Ricciardi, Inc.

R.J. Ricciardi, Inc.
Certified Public Accountants

San Rafael, California
March 17, 2014