

CITY OF FORTUNA, CALIFORNIA
Reports on Internal Control, Compliance, and
Federal Awards Programs
For the Fiscal Year Ended June 30, 2011

CITY OF FORTUNA, CALIFORNIA
Reports on Federal Awards Programs
June 30, 2011

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Terry E. Krieg, CPA

Certified Public Accountant

Honorable Mayor and Members
of the City Council
City of Fortuna
Fortuna, California

I have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Fortuna, California as of and for the year ended June 30, 2011, which collectively comprise the City of Fortuna, California's basic financial statements and have issued my report thereon dated January 31, 2012, which report was modified to disclose that the City adopted in fiscal 2011 the financial reporting requirements of Governmental Accounting Standards Board Statement Number 54, titled Fund Balance Reporting and Governmental Fund Type Definitions, and was modified to discuss the going concern issues related to the City's blended component unit redevelopment agency and its dissolution effective February 1, 2012. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the City of Fortuna is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing my audit, I considered the City of Fortuna, California's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Fortuna, California's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the City of Fortuna, California's internal control over financial reporting.

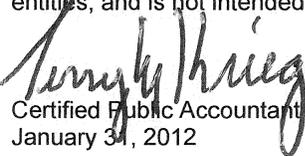
A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented or detected and corrected on a timely basis.

My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Fortuna, California's financial statements are free of material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

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


Certified Public Accountant
January 31, 2012



Terry E. Krieg, CPA

Certified Public Accountant

Honorable Mayor and Members
of the City Council
City of Fortuna, California

Independent Auditor's Report

Compliance

I have audited the City of Fortuna, California, 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 City of Fortuna's major federal programs for the year ended June 30, 2011. City of Fortuna's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Fortuna's management. My responsibility is to express an opinion on the City of Fortuna's compliance based on my audit.

I conducted my 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 I 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 of Fortuna's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination of the City of Fortuna's compliance with those requirements.

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

Internal Control Over Compliance

The management of the City of Fortuna, California is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing my audit, I considered the City of Fortuna, California's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on internal control over compliance in accordance with *OMB Circular A-133*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of the City's internal control over compliance.

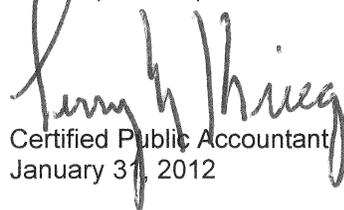
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement 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.

My consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

I have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Fortuna, California, as of and for the year ended June 30, 2011, and have issued my report thereon dated January 31, 2012 which report was modified to discuss the going concern issues related to the pending dissolution of the City's blended component unit redevelopment agency and to disclose that the City in fiscal 2011 changed its accounting principles to implement the financial reporting requirements of Governmental Accounting Standards Board Statement Number 54, titled, Fund Balance Reporting and Governmental Fund Type Definitions. My audit was performed for the purpose of forming my opinions on the financial statements that collectively comprise the City of Fortuna, California's 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole,

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


Certified Public Accountant
January 31, 2012

CITY OF FORTUNA, CALIFORNIA
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2011

Federal Agency	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Transportation:			
Highway Planning and Construction:			
Federal Highway Administration (FHWA)			
Pass-through Program From:			
<i>California State Department of Transportation:</i>			
ARRA Highway Planning and Construction :			
Fortuna Avenue Paving and Pedestrian Improvement Project	20.205	ESPL-5145 (011)	952,388
Total Highway Planning and Construction			952,388
Highway Safety:			
National Highway Traffic Safety Administration (NHTSA)			
Pass-through Programs From:			
<i>California State Department of Transportation:</i>			
State and Highway Community Safety	20.600	AL-1035	7,118
Minimum Penalties for Repeat Offenders While Driving Intoxicated	20.608	AL-1159	28,715
Total Highway safety			35,833
Total U.S. Department of Transportation Pass-Through Programs			988,221
U.S. Department of Justice:			
Direct Programs:			
ARRA - Edward Byrne Memorial Justice Assistance Grant (JAG)			
Programs/Grants to Units of Local Government	16.804	N/A	10,777
ARRA - Public Safety Partnership and Community Policing Grants			
	16.710	N/A	129,447
Total U.S. Department of Justice Direct Programs			140,224
Total Expenditures of Federal Awards			\$ 1,128,445

See notes to schedule of expenditures of federal awards

CITY OF FORTUNA, CALIFORNIA
Notes to Schedule of Expenditures
of Federal Awards
June 30, 2011

Note 1. Summary of Significant Accounting Policies

Basis of Accounting. The schedule of expenditures of federal awards is presented on the modified accrual basis of accounting. Under this basis, revenues are recognized when grant eligible reimbursement requirements have been satisfied by the City, and expenditures are recognized when the related fund liability is incurred.

Note 2. Direct and Pass-through Programs

Direct programs represent programs where the grantor federal agency remits federal funds direct to the City. Pass-through programs represent programs where the grantor federal agency remits funds to another government agency and that agency enters into a sub-recipient agreement with the City of Fortuna and then reimburses the City with federal grant funds.

CITY OF FORTUNA, CALIFORNIA
Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2011

SECTION I - SUMMARY OF AUDITOR'S RESULTS

A. Financial Statements:

1. Type of Auditor's report issued:	Modified for Change in Accounting Principle to adopt GASB Statement 54 – Fund Balance Reporting and Governmental Fund Type Definitions, and Modified to Discuss Going Concern Issues Related to Dissolution of the City's Blended Component Unit Redevelopment Agency		
<hr/>			
2. Internal control over financial reporting:			
Material weakness identified?	_____ Yes	_____ <u>X</u>	No
Significant deficiencies identified that are not considered to be material weaknesses?	_____ Yes	_____ <u>X</u>	None reported
Noncompliance material to the financial statements noted?	_____ Yes	_____ <u>X</u>	No

B. Federal Awards:

1. Internal Control Over Major Programs:			
Material weakness identified?	_____ Yes	_____ <u>X</u>	No
Significant deficiencies identified that are not considered to be material weaknesses?	_____ Yes	_____ <u>X</u>	None reported
2. Type of auditor's report issued on compliance for major programs:		Unqualified	
<hr/>			
3. Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133	_____ Yes	_____ <u>X</u>	No
4. Identification of major programs:	20.205	ARRA Highway Planning and Construction	
<hr/>			
5. Dollar threshold used to distinguish between type A and type B programs			\$300,000
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6. Auditee qualifies as low-risk auditee	_____ Yes	_____ <u>X</u>	No

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

SECTION II - FINANCIAL STATEMENT FINDINGS

No matters were reported

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.