

CITY OF DUNSMUIR, CALIFORNIA

FINANCIAL STATEMENTS

**FOR THE YEAR ENDED
JUNE 30, 2013**

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INDEPENDENT AUDITORS' REPORT

To the City Council
City of Dunsmuir, California

Report of 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 Dunsmuir, California as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's 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.

Auditors' 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 applicable to financial audits contained in *Governmental 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 auditors' 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, the auditor considers internal control relevant to the entity's 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 the entity's 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 of City of Dunsmuir, California as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require the budgetary comparison information on pages 28 through 29 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.

Management has omitted *Management's Discussion and Analysis* that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Other information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Dunsmuir, California's financial statements as a whole. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements.

The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2013 on our consideration of City of Dunsmuir, California's 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Dunsmuir, California's internal control over financial reporting and compliance.

Aiello, Goodrich & Teuscher

Aiello, Goodrich & Teuscher
An Accountancy Corporation
Mt. Shasta, California
December 20, 2013



BASIC FINANCIAL STATEMENTS

City of Dunsmuir
Statement of Net Position
June 30, 2013

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets:			
Cash and investments	\$ 341,598	\$ 1,616,898	\$ 1,958,496
Receivables (net of allowances for bad debts, where applicable):			
Trade accounts	-	97,131	97,131
Loans	1,009,622	-	1,009,622
Intergovernmental	132,980	-	132,980
Internal balances	44,860	(44,860)	-
Other assets	16,187	9,473	25,660
Total current assets	1,545,247	1,678,642	3,223,889
Restricted assets:			
Cash and investments	-	110,370	110,370
Capital assets:			
Non-depreciable	1,211,655	2,241,766	3,453,421
Depreciable, net	3,042,583	6,925,072	9,967,655
Amortizable, net	-	7,889	7,889
Total capital assets	4,254,238	9,174,727	13,428,965
Total assets	5,799,485	10,963,739	16,763,224
LIABILITIES			
Accounts payable	212,775	34,308	247,083
Unearned revenue	12,405	2,175	14,580
Deposits	8,500	78,833	87,333
Current portion, compensated absences	22,263	30,546	52,809
Current portion of long-term debt	3,000	35,790	38,790
Total current liabilities	258,943	181,652	440,595
Long-term liabilities:			
Long-term compensated absences, net of current portion	40,933	60,079	101,012
Long-term debt, net of current portion	102,000	1,548,480	1,650,480
Total liabilities	401,876	1,790,211	2,192,087
NET POSITION			
Net investment in capital assets	4,149,238	7,590,457	11,739,695
Restricted, spendable	254,738	110,370	365,108
Unrestricted	993,633	1,472,701	2,466,334
Total net position	\$ 5,397,609	\$ 9,173,528	\$14,571,137

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

**City of Dunsmuir
Statement of Activities
Year Ended June 30, 2013**

	Program Revenues		Net (Expense) Revenues and Changes in Net Position			
	Expense	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Business- Type Activities	
					Governmental Activities	Total
Governmental activities:						
General government	\$ 237,945	\$ 88,114	-	\$ 48,854	\$ (100,977)	\$ -
Sewer connection loans	6,390	8,820	-	-	2,430	-
Public safety	682,951	33,805	88,961	769,236	209,051	-
Streets and roads	408,002	-	223,551	345,011	160,560	-
Community and economic development	484,419	-	120,001	-	(364,418)	-
Total governmental activities	1,819,707	130,739	432,513	1,163,101	(93,354)	-
Business-type activities:						
Sewer	730,903	786,661	-	438,202	-	493,960
Solid waste	383,267	408,337	5,000	-	-	30,070
Water	413,418	440,083	-	-	-	26,665
Airport	111,425	16,194	12,732	-	-	(82,499)
Total business-type activities	1,639,013	1,651,275	17,732	438,202	-	468,196
Total primary government	\$3,458,720	\$1,782,014	\$ 450,245	\$1,601,303	(93,354)	468,196

General revenues:		
Taxes:		
Property	252,953	-
Sales	100,436	-
Transient occupancy	109,088	-
Other	112,089	-
Investment earnings	94,175	6,378
Other	32,145	-
Total general revenues	700,886	6,378
Change in net position	607,532	474,574
Net position, beginning	4,809,050	8,698,954
Net position, ending	\$5,416,582	\$ 9,173,528

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

**City of Dunsmuir
Balance Sheet
and
Reconciliation of Governmental Fund Balance to the Statement of Net Position - Governmental Activities
Governmental Funds
June 30, 2013**

	General Fund	Community Development Block Grant Fund	Other Governmental Funds	Total Governmental Funds
<u>ASSETS</u>				
Cash and investments	\$ 105,547	\$ -	\$ 236,051	\$ 341,598
Receivables, net of allowance				
Loans	-	860,812	148,810	1,009,622
Intergovernmental	105,703	-	27,277	132,980
Due from other funds	136,142	-	-	136,142
Other assets	15,456	-	731	16,187
Total assets	<u>\$ 362,848</u>	<u>\$ 860,812</u>	<u>\$ 412,869</u>	<u>\$ 1,636,529</u>
<u>LIABILITIES AND FUND BALANCES</u>				
Liabilities:				
Accounts payable	\$ 212,016	\$ -	\$ 759	\$ 212,775
Due to other funds	-	57,940	33,342	91,282
Unearned revenue	12,405	-	-	12,405
Other	8,500	-	-	8,500
Total liabilities	<u>232,921</u>	<u>57,940</u>	<u>34,101</u>	<u>324,962</u>
Fund balances:				
Nonspendable:				
Noncurrent receivables	-	860,812	148,810	1,009,622
Restricted for:				
Streets and roads	-	-	13,570	13,570
Public safety	-	-	29,424	29,424
Community and economic development	-	-	211,744	211,744
Total	-	-	254,738	254,738
Unassigned	129,927	(57,940)	(24,780)	47,207
Total fund balance	<u>129,927</u>	<u>802,872</u>	<u>378,768</u>	<u>1,311,567</u>
Total liabilities and fund balance	<u>\$ 362,848</u>	<u>\$ 860,812</u>	<u>\$ 412,869</u>	<u>\$ 1,636,529</u>

Total governmental fund balance, as above \$ 1,311,567

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore not reported in the statement of net assets	4,254,238
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds	(105,000)
Compensated absences in governmental activities are not due and payable in the current period and therefore are not reported in the balance sheet	(63,196)

Net position of governmental activities \$ 5,397,609

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

City of Dunsmuir
Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Funds
For The Year Ended June 30, 2013

	General Fund	Community Development Block Grant Fund	Other Governmental Funds	Total Governmental Funds
REVENUES				
Property taxes	\$ 252,953	\$ -	\$ -	\$ 252,953
Sales and use taxes	100,436	-	-	100,436
Transient occupancy taxes	109,088	-	-	109,088
Franchise and other licenses	56,351	-	-	56,351
Assessments	-	-	42,625	42,625
Licenses and permits	19,484	-	-	19,484
Intergovernmental revenues	1,402,292	120,001	129,059	1,651,352
Charges for services	88,114	-	-	88,114
Fines, forfeitures and penalties	7,128	-	-	7,128
Use of money and property	81,219	2,297	10,659	94,175
Other	5,533	-	-	5,533
Total revenues	<u>2,122,598</u>	<u>122,298</u>	<u>182,343</u>	<u>2,427,239</u>
EXPENDITURES				
Current:				
City council	3,167	-	-	3,167
City administrator	38,841	-	-	38,841
City clerk	2,460	-	-	2,460
City attorney	11,095	-	-	11,095
Planning	14,645	-	-	14,645
Finance and administration	55,739	-	-	55,739
Building inspection	23,098	-	-	23,098
Police protection	420,551	-	-	420,551
Fire protection	177,700	-	4,100	181,800
Streets and roads	97,213	-	120,476	217,689
Transit assistance	-	-	44,027	44,027
Buildings and grounds	60,461	-	-	60,461
Health and welfare	2,124	-	-	2,124
Community and economic development	20,315	132,734	40,470	193,519
Bad debt expense (recovery)	-	79,459	211,441	290,900
Capital outlay	1,199,844	-	-	1,199,844
Debt service:				
Principal	-	-	3,000	3,000
Interest	-	-	6,390	6,390
Total expenditures	<u>2,127,253</u>	<u>212,193</u>	<u>429,904</u>	<u>2,769,350</u>
Excess of revenues over (under) expenditures	<u>(4,655)</u>	<u>(89,895)</u>	<u>(247,561)</u>	<u>(342,111)</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers in	38,968	-	25,866	64,834
Operating transfers out	(25,866)	-	(38,968)	(64,834)
Total other financing sources (uses)	<u>13,102</u>	<u>-</u>	<u>(13,102)</u>	<u>-</u>
Excess of revenues and other sources over (under) expenditures and other uses	8,447	(89,895)	(260,663)	(342,111)
FUND BALANCE				
Beginning of the year	121,480	892,767	639,431	1,653,678
End of the year	<u>\$ 129,927</u>	<u>\$ 802,872</u>	<u>\$ 378,768</u>	<u>\$ 1,311,567</u>

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

City of Dunsmuir
Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balance to the Statement of Activities
Governmental Funds
For The Year Ended June 30, 2013

Change in fund balance, governmental funds	\$ (342,111)
<p>Amounts reported for governmental activities in the statement of activities is different because:</p>	
<p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:</p>	
Capital outlay:	1,199,844
Depreciation expense:	(253,201)
<p>Government funds report repayment of long-term debt as an expenditure, but the repayment reduces long-term liabilities in the Statement of Net Assets and does not affect the Statement of Activities.</p>	
	3,000
<p>Government funds do not report the change in compensated absences as revenue or expenditure, but it is reported in the Statement of Activities</p>	
	<u>(18,973)</u>
Change in net position of governmental activities	<u><u>\$ 588,559</u></u>

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

City of Dunsmuir
Statement of Net Assets
Proprietary Funds
June 30, 2013

	Sewer Fund	Solid Waste Fund	Water Fund	Airport Fund	Total
ASSETS					
Current assets:					
Cash and investments	\$ 809,979	\$ 465,527	\$ 341,392	\$ -	\$1,616,898
Receivables (net of allowances for bad debts, where applicable):					
Trade accounts	63,866	26,346	6,919	-	97,131
Advances to other funds	-	99,274	-	-	99,274
Other assets	3,174	3,996	2,236	67	9,473
Total current assets	<u>877,019</u>	<u>595,143</u>	<u>350,547</u>	<u>67</u>	<u>1,822,776</u>
Restricted assets:					
Cash and investments	74,842	-	35,528	-	110,370
Capital assets:					
Non-depreciable	653,258	-	166,831	1,421,677	2,241,766
Depreciable, net	3,107,533	-	2,665,604	1,151,935	6,925,072
Amortizable, net	-	-	7,889	-	7,889
Total capital assets, net	<u>3,760,791</u>	<u>-</u>	<u>2,840,324</u>	<u>2,573,612</u>	<u>9,174,727</u>
Total assets	<u>4,712,652</u>	<u>595,143</u>	<u>3,226,399</u>	<u>2,573,679</u>	<u>11,107,873</u>
LIABILITIES					
Current liabilities:					
Accounts payable	28,950	1,383	1,080	2,895	34,308
Unearned revenue	2,175	-	-	-	2,175
Deposits	-	-	78,833	-	78,833
Due to other funds	-	-	-	44,860	44,860
Advances from other funds	-	-	99,274	-	99,274
Current portion, compensated absences	17,171	697	12,400	278	30,546
Current portion of long-term debt	21,000	-	14,790	-	35,790
Total current liabilities	<u>69,296</u>	<u>2,080</u>	<u>206,377</u>	<u>48,033</u>	<u>325,786</u>
Long-term liabilities:					
Long-term compensated absences, net of current portion	20,166	24,172	13,777	1,964	60,079
Long-term debt, net of current portion	1,075,000	-	473,480	-	1,548,480
Total long-term liabilities	<u>1,095,166</u>	<u>24,172</u>	<u>487,257</u>	<u>1,964</u>	<u>1,608,559</u>
Total liabilities	<u>1,164,462</u>	<u>26,252</u>	<u>693,634</u>	<u>49,997</u>	<u>1,934,345</u>
NET ASSETS					
Invested in capital assets, net of related debt	2,664,791	-	2,352,054	2,573,612	7,590,457
Restricted for debt service, spendable	74,842	-	35,528	-	110,370
Unrestricted	808,557	568,891	145,183	(49,930)	1,472,701
Total net assets	<u>\$3,548,190</u>	<u>\$ 568,891</u>	<u>\$2,532,765</u>	<u>\$2,523,682</u>	<u>\$9,173,528</u>

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

City of Dunsmuir
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Funds
For The Year Ended June 30, 2013

	Sewer Fund	Solid Waste Fund	Water Fund	Airport Fund	Total
REVENUES					
User fees and charges	\$ 786,661	\$ 408,337	\$ 440,083	\$ -	\$1,635,081
Facilities rent	-	-	-	16,194	16,194
Total operating revenues	<u>786,661</u>	<u>408,337</u>	<u>440,083</u>	<u>16,194</u>	<u>1,651,275</u>
OPERATING EXPENSES					
Personnel and related expenses	230,271	71,859	133,358	4,483	439,971
Contract services	46,507	208,819	5,731	-	261,057
General and administrative services	204,016	39,491	59,952	7,769	311,228
Repairs and maintenance	16,448	25,508	17,656	337	59,949
Materials and supplies	12,071	3,940	23,812	-	39,823
Insurance and permits	23,075	7,187	14,599	7,386	52,247
Bad debts	6,267	1,975	2,564	-	10,806
Depreciation and amortization	143,758	24,488	130,657	91,450	390,353
Total operating expenses	<u>682,413</u>	<u>383,267</u>	<u>388,329</u>	<u>111,425</u>	<u>1,565,434</u>
Operating income (loss)	<u>104,248</u>	<u>25,070</u>	<u>51,754</u>	<u>(95,231)</u>	<u>85,841</u>
OTHER REVENUES (EXPENSES)					
Intergovernmental revenues	438,202	5,000	-	12,732	455,934
Interest earned	2,751	2,533	1,094	-	6,378
Loss on disposal of property	-	-	-	-	-
Interest expense	(48,490)	-	(25,089)	-	(73,579)
Total other revenues (expenses)	<u>392,463</u>	<u>7,533</u>	<u>(23,995)</u>	<u>12,732</u>	<u>388,733</u>
Change in net position	496,711	32,603	27,759	(82,499)	474,574
NET POSITION					
Beginning of year	<u>3,051,479</u>	<u>536,288</u>	<u>2,505,006</u>	<u>2,606,181</u>	<u>8,698,954</u>
End of the year	<u>\$3,548,190</u>	<u>\$ 568,891</u>	<u>\$2,532,765</u>	<u>\$2,523,682</u>	<u>\$9,173,528</u>

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

City of Dunsmuir
Statement of Cash Flows
Proprietary Funds
For The Year Ended June 30, 2013

	Sewer Fund	Solid Waste Fund	Water Fund	Airport Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	\$ 761,357	\$ 394,236	\$ 466,531	\$ 16,194	\$1,638,318
Payments to suppliers	(335,900)	(298,132)	(131,133)	(80,865)	(846,030)
Payments to employees	(227,878)	(67,281)	(123,448)	(4,106)	(422,713)
Net cash provided (used) by operating activities	<u>197,579</u>	<u>28,823</u>	<u>211,950</u>	<u>(68,777)</u>	<u>369,575</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES					
Receipt of intergovernmental revenues	-	5,000	-	12,732	17,732
Interfund advances and payments	-	48,900	(48,900)	44,860	44,860
Net cash provided (used) by non-capital financing activities	<u>-</u>	<u>53,900</u>	<u>(48,900)</u>	<u>57,592</u>	<u>62,592</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING					
Receipt of intergovernmental revenues for capital	438,202	-	-	-	438,202
Purchase of fixed assets	(420,186)	-	-	-	(420,186)
Principal payments on debt	(21,000)	-	(13,790)	-	(34,790)
Interest payments on debt	(48,490)	-	(25,089)	-	(73,579)
Net cash (used) by investing activities	<u>(51,474)</u>	<u>-</u>	<u>(38,879)</u>	<u>-</u>	<u>(90,353)</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest income received	<u>2,751</u>	<u>2,533</u>	<u>1,094</u>	<u>-</u>	<u>6,378</u>
Net increase (decrease) in cash	148,856	85,256	125,265	(11,185)	348,192
CASH					
Beginning of the year	<u>735,965</u>	<u>380,271</u>	<u>251,655</u>	<u>11,185</u>	<u>1,379,076</u>
End of the year	<u>\$ 884,821</u>	<u>\$ 465,527</u>	<u>\$ 376,920</u>	<u>\$ -</u>	<u>\$1,727,268</u>
Comprised of:					
Cash and investments	\$ 809,979	\$ 465,527	\$ 341,392	\$ -	\$1,616,898
Restricted cash and investments	74,842	-	35,528	-	110,370
Total cash and cash investments	<u>\$ 884,821</u>	<u>\$ 465,527</u>	<u>\$ 376,920</u>	<u>\$ -</u>	<u>\$1,727,268</u>
Reconciliation of operating income (loss) to cash provided (used) by operating activities:					
Operating income (loss)	\$ 104,248	\$ 25,070	\$ 51,754	\$ (95,231)	\$ 85,841
Adjustments to reconcile operating income (loss) to cash provided (used) by operating activities:					
Depreciation and amortization	143,758	24,488	130,657	91,450	390,353
(Increase) decrease in accounts receivable	(25,304)	(14,101)	19,006	-	(20,399)
(Increase) decrease in other assets	(3,174)	(3,996)	(2,236)	(67)	(9,473)
Increase (decrease) in accounts payable	(24,342)	(7,216)	(4,583)	(65,306)	(101,447)
Increase (decrease) in compensated absences	2,393	4,578	9,910	377	17,258
Increase in deposits	-	-	7,442	-	7,442
Net cash provided (used) by operating activities	<u>\$ 197,579</u>	<u>\$ 28,823</u>	<u>\$ 211,950</u>	<u>\$ (68,777)</u>	<u>\$ 369,575</u>

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

City of Dunsmuir
Statement of Fiduciary Net Position
Agency Fund - Siskiyou Regional Development Association
June 30, 2013

	<u>Agency Fund</u>
<u>ASSETS</u>	
Cash and investments	<u>\$ 12,166</u>
<u>LIABILITIES</u>	
Agency obligations	<u>\$ 12,166</u>

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

City of Dunsmuir
Notes to the Basic Financial Statements
June 30, 2013

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Dunsmuir, California (hereafter "the City") operates under a City Administrator -- City Council form of government and provides the following services: public safety, streets and roads, water and sewer, culture and recreation, public improvements, planning and zoning, and general administrative services.

The accounting policies of the City conform to accounting principles generally accepted in the United States of America as applicable to governmental entities. The following is a summary of the more significant policies.

The City applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. The enterprise/proprietary fund types apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) Opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

The financial statements of the City include all of the financial activities of the City. In evaluating how to define the City, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic - but not the only - criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the City is able to exercise oversight responsibilities. Based upon the application of these criteria, the City does not have any component units.

B. Basis of Presentation

Government-wide Financial Statements:

The statement of net position and statement of activities include the financial activities of the overall 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 are reported separately from business-type activities (such as sewer, solid waste, water, and airport).

The statement of activities presents a comparison between direct expenses and program revenues for each different identifiable activity of the City's business-type activities 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 charges paid by recipients of goods and services offered by the program, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented instead as general revenues.

When both restricted and unrestricted net position are available, restricted resources are depleted first before the unrestricted resources are used.

City of Dunsmuir
Notes to the Basic Financial Statements
June 30, 2013

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fund Financial Statements:

Fund financial statements of the City are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

Total assets, liabilities, revenues or expenditure/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category type; and

Total assets, liabilities, revenues, or expenditures/expenses for the individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The funds of the City are described below:

Major Governmental Funds:

The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

The Community Development Block Grant (CDBG) Fund accounts for the financing of home rehabilitation, as financed by monies passed through the State by the federal government.

Major Proprietary Funds:

The Enterprise Funds are used to account for operations that are financed and operated in a manner similar to a private business enterprise where the intent of the governing body is that the costs (expenses) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The Sewer Fund was established to account for the operations of the City's sewer utility, a self-supporting activity which renders a service on a user charge basis to residents and businesses within the City.

The Solid Waste Fund was established to account refuse collection, a self-supporting activity which renders a service on a user charge basis to residents and businesses within the City.

The Water Fund was established to account for the operations of the City's water utility, a self-supporting activity which renders a service on a user charge basis to residents and businesses within the City.

The Airport Fund was established to account for the operations of Mott Field.

Additionally, the City reports the following governmental funds:

Local Transportation Fund: Established to account for the construction and maintenance of the streets and roads of the City, as well as to provide mass transit, as financed from "Transportation Development Act" monies passed through the County of Siskiyou by the State.

City of Dunsmuir
Notes to the Basic Financial Statements
June 30, 2013

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Gas Tax Funds (2106, 2107, 2107.5, 2107SR): Established to account for the construction and maintenance of the streets and roads of the City as financed by gas taxes received from the State.

Fire Assessment Fund: Established to account for fire suppression activities, as financed by fire suppression fees levied on property owners.

Economic Development Block Grant (EDBG) Fund accounts for the financing of businesses, as financed by monies passed through the State by the federal government.

EDBG Revolving Loan Fund: Established to account for revolving loans and the monies associated with those loans.

CDBG Revolving Loan Fund: Established to account for revolving loans and the monies associated with those loans.

South Dunsmuir Sewer Assessment Fund: Established to account for assessments levied against certain property owners for the purpose of payment of long-term bonds issued for improvements of the sewer system.

The City reports the following Fiduciary Fund:

Siskiyou Regional Development Association Agency Fund: used to account for funds collected from other cities and used by the Association for meetings and economic development activities.

C. Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

Measurement Focus:

In the government-wide statements, both governmental and business-type activities are presented using the economic resources measurement focus as defined below.

In the fund financial statements, the current financial resources measurement focus or the economic resources measurement focus is used as appropriate.

All governmental funds utilize a current financial resources measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present resources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the year.

All proprietary (enterprise) funds utilize an economic resources measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as a net asset.

Fiduciary (agency) funds are not involved in the measurement of results of operations; therefore, measurement focus is not applicable to them.

City of Dunsmuir
Notes to the Basic Financial Statements
June 30, 2013

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of Accounting:

In the government-wide statements, both governmental and business-type activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental and agency funds are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when measurable and available. Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within 60 days after year end. Expenditures (including capital outlays) are recorded when the related fund liability is incurred.

All proprietary funds utilize the accrual basis of accounting, as described above.

D. Assets, Liabilities, Net Position or Fund Equity

Cash and Cash Equivalents:

For purposes of the statement of cash flows, the City considers as cash equivalents all highly liquid investments with a maturity at the date of purchase of three months or less.

Investments:

The City participates in the California Local Agency Investment Fund ("LAIF"). LAIF is an external investment pool through which local governments may pool investments. Investments in LAIF are highly liquid, as deposits can be converted to cash within 24 hours without the loss of interest. The fair value of the City's portion of LAIF is the same as its value of the pool shares. The regulatory oversight of LAIF rests with the Local Agency Investment Board.

Receivables:

In the fund financial statements, material receivables in governmental funds are the same as those in the government-wide statements, since they are both measurable and available. Interest earnings are recorded when earned only if paid within 60 days since they would be considered both measurable and available. Proprietary fund material receivables consist of all revenues earned at year-end but not yet received. Allowances for uncollectible accounts receivable are based on historical trends, periodic aging of accounts receivable, and management's detailed analysis of the composition of accounts receivable.

Property Taxes:

The County of Siskiyou assesses, bills, and collects property taxes for the City. Assessed values are determined annually by the Siskiyou County Assessor as of January 1, and become a lien on such property January 1. Taxes are due November 1 and February 1 (secured), and July 1 (unsecured) and are delinquent if not paid by December 10 and April 10 (secured), and August 31 (unsecured). The County is permitted by the State Constitution (Article XIII A) to levy taxes at 1% of the full market value of the property (at the time of purchase) and can increase a property's assessed valuation by reappraisal due to new construction, change in ownership, or by increase in fair market value not to exceed a 2% each year. Property taxes collected by the County on behalf of the City but not remitted to the City by June 30 are accrued in revenue and included in other accounts receivable.

City of Dunsmuir
Notes to the Basic Financial Statements
June 30, 2013

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Interfund Receivables and Payables:

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. These may include amounts relating to goods and services type transactions, and interfund loans.

Restricted Assets:

Certain resources set aside for the repayment of the City's sewer and water funds long-term debt are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable debt covenants.

Capital Assets:

The accounting treatment for property, plant, equipment and infrastructure assets (capital assets) depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

In the government-wide financial statements, property, plant, equipment and infrastructure assets with a cost, as defined below, of \$1,000 or more are accounted for as capital assets. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available, except donated capital assets are recorded at their estimated fair market value at the date of donation. Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Position. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Utility plant	40 years
Buildings	20 to 40 years
Improvements not buildings	10 to 40 years
Machinery and equipment	5 to 40 years
Infrastructure	40 years

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for the same as in the government-wide statements.

Donated Assets:

Donated assets are recorded at fair market value at the time of donation.

Compensated Absences:

Vacation pay, sick leave, and compensated time off is vested to the employees as it accrues and is payable upon separation of service and therefore, have been accrued in the accompanying financial statements.

Unearned Revenue:

Unearned revenue represents monies received that has not yet been expended by the City and is not earned (as revenue) until it is properly expended.

City of Dunsmuir
Notes to the Basic Financial Statements
June 30, 2013

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fund Balance Classification:

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- Nonspendable: This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact.
- Restricted: This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. The City has classified police, fire, streets and roads, public transportation, community development and parks and fund balances as restricted for fund purposes. Monies set aside for noncurrent receivables and capital improvements are also classified as a restricted fund balance.
- Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the City Council. These amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The City did not have any committed resources as of June 30, 2013.
- Assigned: This classification includes amounts that are constrained by the City's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the City Council or through the City Council delegating this responsibility to the City manager through the budgetary process. This classification also includes the remaining positive fund balance for all governmental funds except for the General Fund. The City did not have any assigned resources as of June 30, 2013.
- Unassigned: This classification includes the residual fund balance for the General Fund. The Unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of Assigned fund balance amounts.

The City would typically use Restricted fund balances first, followed by Committed resources, and then Assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend Unassigned resources first to defer the use of these other classified funds.

E. Revenues, Expenditures and Expenses

Operating Revenues and Expenses:

Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering goods and/or services. It also includes all revenues and expenses not related to capital and related financing, noncapital financing, or investing activities.

City of Dunsmuir
Notes to the Basic Financial Statements
June 30, 2013

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Expenditures/Expenses:

In the government-wide financial statements, expenses are classified by function for both governmental and business-type activities.

In the fund financial statements, expenditures are classified by character (current, debt service or capital outlay) for governmental funds, and by operating or nonoperating classifications for proprietary funds.

In the fund financial statements, governmental funds report expenditures of financial resources. Proprietary funds report expenses relating to use of economic resources.

F. Estimates

The preparation of basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

G. Budgets

The City adopts an annual budget for the fiscal year commencing the following July 1. Budgets are adopted on a basis consistent with generally accepted accounting principles. The level of control, the level at which expenditures may not exceed budget, is the fund. Unused appropriations lapse at the end of the fiscal year. The City does not use encumbrance accounting.

NOTE 2 CASH AND INVESTMENTS

The City follows the practice of pooling cash of all funds, unless the funds are required by law, debt covenant or other instrument to be held in a separate account. Interest income on pooled cash invested is allocated monthly to the various funds based on the same proportion that such funds bear to the total monies invested.

Cash and investments as of June 30, 2013 are classified in the accompanying financial statements as follows:

Statement of net position:	
Current cash and investments	\$ 1,958,496
Restricted cash and investments	110,370
Statement of fiduciary net position	12,166
Total cash and investments	<u>\$ 2,081,032</u>
Consisting of the following:	
Cash on hand	\$ 350
Deposits with financial institutions	758,835
Investments in LAIF	1,321,847
	<u>\$ 2,081,032</u>

City of Dunsmuir
Notes to the Basic Financial Statements
June 30, 2013

NOTE 2 CASH AND INVESTMENTS (continued)

Investments Authorized:

The City manages its pooled idle cash investments under the guidelines of the State of California Government Code Section 53601 which specifically authorizes investments in the following instruments: treasury bills, treasury notes, federal agency securities, bankers' acceptances, nonnegotiable certificates of deposit, commercial paper, negotiable certificates of deposit, and repurchase agreements. All investments activities are conducted with financial institutions approved by the City Council.

Disclosure Relating to Interest Rate Risk:

Interest rate risk is the risk that changes in market rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value in market interest rates. As of year end, the weighted average maturity, as well as the estimated fair value of each investment, are shown in the table below.

	<u>Cost</u>	<u>Fair Value</u>	<u>Maturity Date</u>
Local Agency Investment Fund	<u>\$1,321,847</u>	<u>\$1,321,847</u>	278 day average

Disclosure Relating to Credit Risk:

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. LAIF does not have such a rating.

Concentration of Credit Risk:

The investment policy of the City contains no limitation on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. There are no investments in any one issuer that represent 5 percent or more of total City investments. There are no investments in any one issuer that represent 5 percent or more of total investments by reporting unit.

Custodial Credit Risk:

Custodial credit risk of 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 California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provisions for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits.

The City's balance in banks was \$746,142, all of which was covered by federal depository insurance, or the collateral requirements discussed in the preceding paragraph. The bank balance differs from the book balance of \$758,835 because of deposits in transit and outstanding checks.

City of Dunsmuir
Notes to the Basic Financial Statements
June 30, 2013

NOTE 2 CASH AND INVESTMENTS (continued)

The custodial credit risk for 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 possession of another party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF).

Investment in State Investment Pool (LAIF):

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the City's investment in this pool is reported in the accompanying financial statements at amounts 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). The balance available for withdrawal is based on accounting records maintained by LAIF, which are recorded on an amortized cost basis.

NOTE 3 LOANS RECEIVABLE

The following is the composition of loans receivable at June 30, 2013:

	<u>CDBG Fund</u>	<u>EDBG Fund</u>	<u>CDBG Revolving Loan Funds</u>	<u>EDBG Revolving Loan Funds</u>	<u>Total</u>
Mortgage loans	\$ 940,271	\$ 263,392	\$ 57,991	\$ 108,457	\$ 1,370,111
Less: allowance for bad debt	(79,459)	(131,262)	(41,311)	(108,457)	(360,489)
Total	<u>\$ 860,812</u>	<u>\$ 132,130</u>	<u>\$ 16,680</u>	<u>\$ -</u>	<u>\$ 1,009,622</u>
Related party loans	<u>\$ 173,774</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 173,774</u>

NOTE 4 DUE TO / DUE FROM OTHER FUNDS, ADVANCES TO / FROM OTHER FUNDS, AND OPERATING TRANSFERS IN/OUT

The following is a summary of the interfund receivables and payables at June 30, 2013:

<u>Due from:</u>	<u>Due to: General Fund</u>
Community Development	
Block Grant Fund	\$ 57,940
Gas Tax Fund	33,342
Airport Fund	44,860
Total	<u>\$ 136,142</u>

The above amounts are to cover negative cash balances in the respective funds' pooled cash accounts, and will be repaid by transferring monies from other cash accounts or from future revenues.

City of Dunsmuir
Notes to the Basic Financial Statements
June 30, 2013

NOTE 4 DUE TO / DUE FROM OTHER FUNDS, ADVANCES TO / FROM OTHER FUNDS, AND OPERATING TRANSFERS IN/OUT (Continued)

The Solid Waste Fund made an advance to the Water fund for the purpose of paying off the COPS Water Loan. The Water fund is scheduled to repay the advance over three years at 1% interest. The balance due to the Solid Waste fund from the Water fund at June 30, 2013 was \$99,274.

The following is a summary of operating transfers in/out:

<u>Transfer in to:</u>	<u>Transfer out from:</u>		
	<u>General Fund</u>	<u>Fire Assessment Fund</u>	<u>Total</u>
Community Development Block Grant Fund	\$ 25,866	\$ -	\$ 25,866
General Fund	-	38,968	38,968
Total	\$ 25,866	\$ 38,968	\$ 64,834

Operating transfer to the Gas Tax Fund is for overhead activities in the general fund. Transfers out of the Fire Assessment Fund is for the City's match for capital grant funds.

NOTE 5 CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2013 was as follows:

	<u>June 30, 2012</u>	<u>Additions and Transfers</u>	<u>Retirements and Transfers</u>	<u>June 30, 2013</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 1,151,800	\$ -	\$ -	\$ 1,151,800
Construction in progress	16,832	43,023	-	59,855
Total capital assets not being depreciated:	<u>1,168,632</u>	<u>43,023</u>	<u>-</u>	<u>1,211,655</u>
Capital assets being depreciated:				
Buildings	1,739,864	-	-	1,739,864
Machinery and equipment	1,175,176	814,960	-	1,990,136
Infrastructure	2,559,149	341,861	-	2,901,010
Total capital assets being depreciated	<u>5,474,189</u>	<u>1,156,821</u>	<u>-</u>	<u>6,631,010</u>
Less accumulated depreciation for:				
Buildings	1,339,957	20,730	-	1,360,687
Machinery and equipment	824,375	87,777	-	912,152
Infrastructure	1,170,894	144,694	-	1,315,588
Total accumulated depreciation	<u>3,335,226</u>	<u>253,201</u>	<u>-</u>	<u>3,588,427</u>
Total capital assets being depreciated, net	<u>2,138,963</u>	<u>903,620</u>	<u>-</u>	<u>3,042,583</u>
Subtotal, governmental activities	<u>3,307,595</u>	<u>946,643</u>	<u>-</u>	<u>4,254,238</u>

City of Dunsmuir
Notes to the Basic Financial Statements
June 30, 2013

NOTE 5 CAPITAL ASSETS (Continued)

	June 30, 2012	Additions and Transfers	Retirements and Transfers	June 30, 2013
Business-type activities:				
Capital assets not being depreciated:				
Land	1,718,508	-	-	1,718,508
Construction in progress	103,072	420,186	-	523,258
Total capital assets not being depreciated	<u>1,821,580</u>	<u>420,186</u>	<u>-</u>	<u>2,241,766</u>
Capital assets being depreciated:				
Utility plant	7,821,527	-	-	7,821,527
Buildings	240,861	-	-	240,861
Improvements not buildings	2,896,158	-	-	2,896,158
Machinery and equipment	1,103,108	-	-	1,103,108
Total capital assets being depreciated	<u>12,061,654</u>	<u>-</u>	<u>-</u>	<u>12,061,654</u>
Less accumulated depreciation for:				
Utility plant	2,545,728	197,606	-	2,743,334
Buildings	93,435	10,125	-	103,560
Improvements not buildings	1,411,283	98,307	-	1,509,590
Machinery and equipment	701,526	78,572	-	780,098
Total accumulated depreciation	<u>4,751,972</u>	<u>384,610</u>	<u>-</u>	<u>5,136,582</u>
Total capital assets being depreciated, net	<u>7,309,682</u>	<u>(384,610)</u>	<u>-</u>	<u>6,925,072</u>
Capital assets being amortized:				
Organization costs	109,530	-	-	109,530
Less: accumulated amortization	95,898	5,743	-	101,641
Total capital assets being amortized, net	<u>13,632</u>	<u>(5,743)</u>	<u>-</u>	<u>7,889</u>
Subtotal, business-type activities	<u>9,144,894</u>	<u>29,833</u>	<u>-</u>	<u>9,174,727</u>
Total, government-wide	<u>\$ 12,452,489</u>	<u>\$ 976,476</u>	<u>\$ -</u>	<u>\$ 13,428,965</u>

Depreciation and amortization expense was charged to functions/programs as follows:

Governmental activities:	
General government	\$ 26,315
Public safety	80,600
Streets and roads	146,286
Total depreciation and amortization expense - governmental activities	<u>\$ 253,201</u>
Business-type activities:	
Sewer	\$ 143,758
Solid Waste	24,488
Water	130,657
Airport	91,450
Total depreciation and amortization expense - business-type activities	<u>\$ 390,353</u>

City of Dunsmuir
Notes to the Basic Financial Statements
June 30, 2013

NOTE 6 LONG TERM DEBT

The following is a summary of Governmental activities long-term liabilities activity during the year ended June 30, 2013:

	June 30, 2012	Additions	Reductions	June 30, 2013	Current Portion
Bonds and notes payable:					
So. Dunsmuir Sewer Assessment system	108,000	-	3,000	105,000	3,000
Total governmental activities long-term debt	<u>\$ 108,000</u>	<u>\$ -</u>	<u>\$ 3,000</u>	<u>\$ 105,000</u>	<u>\$ 3,000</u>

Payments on the bonds and notes payable that pertain to the City's governmental activities are made by South Dunsmuir Sewer Assessment District Funds.

Debt service requirements for principal and interest for Governmental bonds and notes payable for future years is as follows:

Interest rate date Year Ended June 30,:	So. Dunsmuir Sewer Assessment	
	Principal	Interest
	6.00%	
	September 2, 2030	
2014	3,000	6,210
2015	4,000	6,000
2016	4,000	5,760
2017	4,000	5,400
2018	4,000	5,160
2019-2023	26,000	21,240
2024-2028	34,000	11,940
2029-2031	26,000	1,500
	<u>\$105,000</u>	<u>\$ 63,210</u>

The following is a summary of Business-type activities long-term liabilities activity during the year ended June 30, 2013:

	June 30, 2012	Additions	Reductions	June 30, 2013	Current Portion
Bonds and notes payable:					
1994 Sewer Improvement Certificates of Participation	\$ 407,000	\$ -	\$ 11,000	\$ 396,000	\$ 11,000
2007 USDA Sewer Loan	710,000	-	10,000	700,000	10,000
Total sewer fund	<u>1,117,000</u>	<u>-</u>	<u>21,000</u>	<u>1,096,000</u>	<u>21,000</u>
1994 Water Improvement Certificates of Participation	463,000	-	11,000	452,000	12,000
2005 Water System Loan	39,060	-	2,790	36,270	2,790
Total water fund	<u>502,060</u>	<u>-</u>	<u>13,790</u>	<u>488,270</u>	<u>14,790</u>
Total Business-type activities long term debt	<u>\$ 1,619,060</u>	<u>\$ -</u>	<u>\$ 34,790</u>	<u>\$ 1,584,270</u>	<u>\$ 35,790</u>

City of Dunsmuir
Notes to the Basic Financial Statements
June 30, 2013

Payments on the bonds and notes payable that pertain to the City's business-type activities are made by the Water and Sewer Funds.

Debt service requirements for principal and interest for Business-type activities bonds and notes payable for future years is as follows:

	1994 Sewer Certificates of Participation		2007 USDA Sewer Loan		1994 Water Improvement Certificates of		2005 Water System Loan	
	4.50%		4.25%		5.13%		N/A	
Interest rate								
Maturity	May 1, 2035		May 1, 2046		May 1, 2035		July, 1 2026	
Year Ended								
June 30,:	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2014	11,000	17,820	10,000	29,750	12,000	23,114	2,790	-
2015	11,000	17,325	11,000	29,325	13,000	22,499	2,790	-
2016	12,000	16,830	11,000	28,857	13,000	21,833	2,790	-
2017	12,000	15,750	11,000	28,390	14,000	21,166	2,790	-
2018	13,000	16,290	12,000	27,923	15,000	20,449	2,790	-
2019-2023	75,000	69,345	68,000	131,580	86,000	89,995	13,950	-
2024-2028	93,000	50,895	83,000	115,855	110,000	65,600	8,370	-
2029-2033	115,000	28,125	103,000	96,518	142,000	34,286	-	-
2034-2038	54,000	3,061	125,000	72,888	47,000	3,024	-	-
2039-2043	-	-	156,000	43,795	-	-	-	-
2044-2046	-	-	110,000	9,478	-	-	-	-
Total	\$ 396,000	\$ 235,441	\$700,000	\$614,359	\$ 452,000	\$ 301,966	\$ 36,270	\$ -

Year Ended	Total	
	Principal	Interest
June 30,:		
2014	35,790	70,684
2015	37,790	69,149
2016	38,790	67,520
2017	39,790	65,306
2018	42,790	64,662
2019-2023	242,950	290,920
2024-2028	294,370	232,350
2029-2033	360,000	158,929
2034-2038	226,000	78,973
2039-2043	156,000	43,795
2044-2046	110,000	9,478
Total	\$ 1,584,270	\$ 1,151,766

City of Dunsmuir
Notes to the Basic Financial Statements
June 30, 2013

NOTE 7 COMPENSATED ABSENCES

Compensated absence activity for the year ended June 30, 2013 is summarized as follows:

	June 30, 2012	Additions	Reductions	June 30, 2013	Current Portion
Governmental activities:					
General fund	\$ 44,223	\$ 18,973	\$ -	\$ 63,196	\$ 9,510
Business-type activities:					
Sewer fund	34,944	2,393	-	37,337	17,171
Solid Waste fund	20,291	4,578	-	24,869	697
Water fund	16,267	9,910	-	26,177	12,400
Airport fund	1,865	377	-	2,242	278
Total business-type activities	<u>73,367</u>	<u>17,258</u>	<u>-</u>	<u>90,625</u>	<u>30,546</u>
Total compensated absences	<u>\$ 117,590</u>	<u>\$ 36,231</u>	<u>\$ -</u>	<u>\$ 153,821</u>	<u>\$ 40,056</u>

NOTE 8 PENSION PLAN

Plan Description – The City's defined benefit pension plan, City of Dunsmuir Pension Plan ("the Plan") provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Plan is part of the Public Agency portion of the California Public Retirement System (CalPERS), an agent multiple-employer plan administered by CalPERS, which acts as a common investment and administrative agent for participating public employers within the State of California. A menu of benefit provisions as well as other requirements are established by State Statutes within the Public Employees' Retirement Law. The City selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through local resolutions. CalPERS issues a separate comprehensive annual financial report. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 Q Street, Sacramento, California 95814.

Funding Policy – Active plan members of the Plan are required to contribute 7.00% of their annual covered salary. The City has elected to pay a portion of the employees' contribution. The City is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rate for the year ended June 30, 2013 was 9.119%. The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS.

Annual Pension Cost – For the year ended June 30, 2013 the City's annual pension cost was \$ 44,806, which is also the amount the City contributed. The required contribution for the year ended June 30, 2013 was determined as part of the June 30, 2010 actuarial valuation using the entry age normal actuarial cost method with the contributions determined as a percentage of pay. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses); (b) projected salary increases that vary by age, service, and type of employment ranging from 3.55% to 14.45%, and; (c) 3.25% cost-of-living adjustment. Both (a) and (b) include an inflation component of 3.00%. The actuarial value of the Plan's assets was determined using a technique that smoothes the effect of short-term volatility in the market value of investments over a three year period. The Plan's unfunded actuarial accrued liability (or excess assets) is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2013 was 18 years. The City also paid a portion of the employees' contributions, which totaled \$19,864 for the year ended June 30, 2013.

City of Dunsmuir
Notes to the Basic Financial Statements
June 30, 2013

NOTE 8 PENSION PLAN (Continued)

Three Year Trend Information:

	<u>June 30, 2013</u>	<u>June 30, 2012</u>	<u>June 30, 2011</u>
Annual Pension Cost (APC)	\$ 44,806	\$ 38,397	\$ 37,666
Percentage APC contributed	100%	100%	100%
Net Pension Obligation	\$ -	\$ -	\$ -

During the year ended June 30, 2003, CalPERS grouped all small employers (defined as those with less than 100 members in the Plan) into a risk pool. Therefore, information for the years ended June 30, 2012, 2011 and 2010 (the latest available) are for the pool as a whole.

	<u>June 30, 2012</u>	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Actuarial value of assets (AVA)	\$ 3,686,598,343	\$ 3,203,214,899	\$ 2,946,408,106
Actuarial Accrued Liability (AAL)	\$ 4,175,139,166	\$ 3,619,835,876	\$ 3,309,064,934
Unfunded AAL (UAAL)	\$ 488,540,823	\$ 416,620,977	\$ 362,656,828
Funded Ratio (AVA/AAL)	88.3%	88.5%	89.0%

NOTE 9 SELF-INSURANCE

The City is a member of the Small Cities Organized Risk Effort (SCORE), a general liability shared risk pool. The City is responsible to pay the first \$25,000 of each claim, but has coverage through the pool of up to \$45,000,000 per claim.

NOTE 10 DEFICIT FUND BALANCE

At June 30, 2013 the Gas Tax Fund had a deficit fund balance of \$24,780. The City expects the deficit to be cleared in future years with the revenues of normal operations, transfers in from other funds and/or a reduction in services.

NOTE 11 RESTRICTED NET POSITION

Restricted net position is equity whose use is subject to constraints that are either; (1) externally imposed by creditors (such as debt covenants), grantors, or laws or regulations of governments, or (2) imposed by law through constitutional provisions or enabling legislation. Restricted net position at June 30, 2013 for business-type activities were restricted for debt service.

City of Dunsmuir
Notes to the Basic Financial Statements
June 30, 2013

NOTE 12 FUND BALANCE

Fund balances are classified as follows:

Nonspendable—Amounts that cannot be spent either because they are not in a spendable form or because they are legally or contractually required to be maintained intact.

Restricted—Amounts that can be spent only for specific purposes because of the City Charter, City Code, state or federal laws, or externally imposed conditions by grantors or creditors.

Committed—Amounts that can be used only for specific purposes determined by a formal action by City Council ordinance or resolution. This includes the budget reserve account.

Assigned—Amounts that are designated by the Mayor for a specific purpose but are not spendable until a budget ordinance is passed by City Council.

Unassigned—All amounts not included in other spendable classifications.

As discussed in Note 1, restricted funds are used first as appropriate. Assigned Funds are reduced to the extent that expenditure authority has been budgeted by Council or the Assignment has been changed by the Mayor. Decreases to fund balance first reduce Unassigned Fund balance; in the event that Unassigned Fund Balance becomes zero, then Assigned and Committed Fund Balances are used in that order.

General Fund

The General Fund has Unassigned Fund Balance of \$129,927 at June 30, 2013.

Other Major Fund

The Community Development Block Grant Fund has Non-spendable Fund Balance of \$860,812 consisting of noncurrent receivables and an Unassigned Fund Balance of \$(57,940) at June 30, 2013.

Other Funds

Other governmental (nonmajor) funds have Non-spendable Fund Balance of \$148,810, consisting of noncurrent receivables, Restricted Fund Balance of \$254,738 and Unassigned Fund Balance of \$(24,780) at June 30, 2013.

NOTE 13 CONTINGENCIES

The City participates in several Federal and State assisted grant programs that are subject to audit by the grantors. Although the ultimate outcome of such audits cannot be determined at this time, the City believes that such audits will not have a material adverse effect on the City.

The City is also a party to several legal actions. Should the outcome be unfavorable to the City, it does not expect the financial effects will be material to the financial position of the City.

REQUIRED SUPPLEMENTARY INFORMATION

City of Dunsmuir
 Budgetary Comparison Schedule
 General Fund
 For The Year Ended June 30, 2013

	Original Budget	Final Budget	Actual Amounts	Favorable (Unfavorable) Variance With Final Budget
REVENUES				
Property taxes	\$ 278,000	\$ 278,000	\$ 252,953	\$ (25,047)
Sales and use taxes	83,935	83,935	100,436	16,501
Transient occupancy taxes	116,000	116,000	109,088	(6,912)
Franchise and other licenses	65,006	65,006	56,351	(8,655)
Licenses and permits	17,300	17,300	19,484	2,184
Intergovernmental revenues	1,398,044	1,398,044	1,402,292	4,248
Charges for services	38,415	38,415	88,114	49,699
Fines, forfeitures and penalties	4,752	4,752	7,128	2,376
Use of money and property	98,864	98,864	81,219	(17,645)
Other	400	400	5,533	5,133
Indirect cost allocation	228,672	228,672	246,850	18,178
Total revenues	<u>2,329,388</u>	<u>2,329,388</u>	<u>2,369,448</u>	<u>40,060</u>
EXPENDITURES				
Current:				
City council	9,278	9,278	9,088	190
City administrator	113,675	113,675	111,468	2,207
City clerk	4,476	4,476	7,061	(2,585)
City attorney	51,500	51,500	31,840	19,660
Planning	19,076	19,076	14,645	4,431
Finance and administration	175,866	175,866	172,596	3,270
Building inspection	21,100	21,100	23,098	(1,998)
Police protection	410,259	410,259	420,551	(10,292)
Fire protection	117,566	117,566	177,700	(60,134)
Streets and roads	110,410	110,410	97,213	13,197
Buildings and grounds	78,197	78,197	86,560	(8,363)
Health and welfare	2,300	2,300	2,124	176
Community and economic development	21,700	21,700	20,315	1,385
Capital outlay	1,145,108	1,145,108	1,199,844	(54,736)
Total expenditures	<u>2,280,511</u>	<u>2,280,511</u>	<u>2,374,103</u>	<u>(93,592)</u>
Excess of revenues over (under) expenditures	<u>48,877</u>	<u>48,877</u>	<u>(4,655)</u>	<u>(53,532)</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers in	-	-	38,968	38,968
Operating transfers out	(33,996)	(33,996)	(25,866)	8,130
Total other financing sources (uses)	<u>(33,996)</u>	<u>(33,996)</u>	<u>13,102</u>	<u>47,098</u>
Excess of revenues and other sources over (under) expenditures and other uses	<u>\$ 14,881</u>	<u>\$ 14,881</u>	<u>\$ 8,447</u>	<u>\$ (6,434)</u>

Footnote - The actual amounts above differ from GAAP information presented in the basic financial statements as the city budgets for administrative allocation and insurance refunds as other income instead of an expense offset.

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

City of Dunsmuir
 Budgetary Comparison Schedule
 Community Development Block Grant
 For The Year Ended June 30, 2013

	Original Budget	Final Budget	Actual Amounts	Favorable (Unfavorable) Variance With Final Budget
<u>REVENUES</u>				
Intergovernmental	\$ 350,000	\$ 350,000	\$ 120,001	\$ (229,999)
Use of money and property	12,786	12,786	2,297	(10,489)
Total revenues	362,786	362,786	122,298	(240,488)
<u>EXPENDITURES</u>				
Current:				
Community and economic development	351,799	351,799	132,734	219,065
Bad debt expense	-	-	79,459	(79,459)
Total expenditures	351,799	351,799	212,193	139,606
Excess of revenues (under) expenditures	10,987	10,987	(89,895)	(100,882)
<u>OTHER FINANCING (USES)</u>				
Operating transfers out	(12,000)	(12,000)	-	12,000
Excess of revenues (under) expenditures and other u	\$ (1,013)	\$ (1,013)	\$ (89,895)	\$ (88,882)

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

SUPPLEMENTARY INFORMATION

City of Dunsmuir
Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2013

	Special Revenue						Total	
	Local Transportation Fund	Gas Tax Fund	Fire Assessment Fund	EDBG Fund	EDBG Revolving Loan Fund	CDBG Revolving Loan Fund		South Dunsmuir Sewer Assessment Fund
<u>ASSETS</u>								
Cash	\$ 3,115	\$ -	\$ 23,006	\$ 42,927	\$ 70,811	\$ 95,579	\$ 613	\$ 236,051
Receivables (net of allowance for doubtful accounts, where applicable):								
Loans	-	-	-	132,130	-	16,680	-	148,810
Intergovernmental and other	10,433	8,612	6,418	-	-	-	1,814	27,277
Other assets	22	709	-	-	-	-	-	731
Total assets	\$ 13,570	\$ 9,321	\$ 29,424	\$ 175,057	\$ 70,811	\$ 112,259	\$ 2,427	\$ 412,869

LIABILITIES AND FUND BALANCES

Liabilities:								
Accounts payable	\$ -	\$ 759	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 759
Due to other funds	-	33,342	-	-	-	-	-	33,342
Total liabilities	-	34,101	-	-	-	-	-	34,101
Fund balances:								
Nonspendable:								
Noncurrent receivables	-	-	-	132,130	-	16,680	-	148,810
Restricted for:								
Streets and roads	13,570	-	-	-	-	-	-	13,570
Public safety	-	-	29,424	-	-	-	-	29,424
Community and economic development	-	-	-	42,927	70,811	95,579	2,427	211,744
Total	13,570	-	29,424	42,927	70,811	95,579	2,427	254,738
Unassigned	-	(24,780)	-	-	-	-	-	(24,780)
Total fund balance	13,570	(24,780)	29,424	175,057	70,811	112,259	2,427	378,768
Total liabilities and fund balance	\$ 13,570	\$ 9,321	\$ 29,424	\$ 175,057	\$ 70,811	\$ 112,259	\$ 2,427	\$ 412,869

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

City of Dunsmuir
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Non-Major Governmental Funds
For The Year Ended June 30, 2013

	Special Revenue							
	Local Transportation Fund	Gas Tax Fund	Fire Assessment Fund	EDBG Fund	EDBG Revolving Loan Fund	CDBG Revolving Loan Fund	South Dunsmuir Sewer Assessment Fund	Total
REVENUES								
Assessments	\$ -	\$ -	\$ 33,805	\$ -	\$ -	\$ -	\$ 8,820	\$ 42,625
Intergovernmental revenues	55,738	73,321	-	-	-	-	-	129,059
Use of money and property	33	-	112	8,474	1,817	223	-	10,659
Total revenues	55,771	73,321	33,917	8,474	1,817	223	8,820	182,343
EXPENDITURES								
Current:								
Fire protection	-	-	4,100	-	-	-	-	4,100
Streets and roads	7,349	111,899	1,228	-	-	-	-	120,476
Transit assistance	44,027	-	-	-	-	-	-	44,027
Community and economic development	-	-	-	31,898	140	8,432	-	40,470
Bad debt expense	-	-	-	61,673	108,457	41,311	-	211,441
Debt service:								
Principal	-	-	-	-	-	-	3,000	3,000
Interest	-	-	-	-	-	-	6,390	6,390
Total expenditures	51,376	111,899	5,328	93,571	108,597	49,743	9,390	429,904
Excess of revenues over (under) expenditures	4,395	(38,578)	28,589	(85,097)	(106,780)	(49,520)	(570)	(247,561)
OTHER FINANCING SOURCES (USES)								
Operating transfers in	-	25,866	-	-	-	-	-	25,866
Operating transfers out	-	-	(38,968)	-	-	-	-	(38,968)
Total other financing sources (uses)	-	25,866	(38,968)	-	-	-	-	(13,102)
Excess of revenues and other sources over (under) expenditures and other uses	4,395	(12,712)	(10,379)	(85,097)	(106,780)	(49,520)	(570)	(260,663)
FUND BALANCE								
Beginning of the year	9,175	(12,068)	39,803	260,154	177,591	161,779	2,997	639,431
End of the year	\$ 13,570	\$ (24,780)	\$ 29,424	\$ 175,057	\$ 70,811	\$ 112,259	\$ 2,427	\$ 378,768

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

SINGLE AUDIT SCHEDULES AND REPORTS

**City of Dunsmuir
Schedule of Expenditures of Federal Awards
For The Year Ended June 30, 2013**

<u>Program Title</u>	<u>Federal CFDA #</u>	<u>Pass Through Grantor #</u>	<u>Federal Expenditures</u>	<u>Loan Disbursements Included In Expenditures</u>
Department of Housing and Urban Development				
Passed through California Department of Housing and Community Development				
Community Development Block Grant/State's program	14.228	09-STBG-6403	119,089	2,484
Total Department of Housing and Urban Development Programs			119,089	2,484
Department of Transportation				
Highway Planning and Construction	20.205	N/A	39,070	-
Total Department of Homeland Security Programs			39,070	-
Department of Homeland Security				
Assistance to Firefighters Grant	97.044	N/A	769,236	-
Total Department of Homeland Security Programs			769,236	-
Total Expenditure of Federal Awards			<u>\$ 927,395</u>	<u>\$ 2,484</u>

Notes:

The Schedule of Expenditures of Federal Awards is prepared using the modified accrual basis of accounting, which is the same basis used in preparing the basic financial statements.

City of Dunsmuir, California expended no federal non-cash assistance during the year, had no federal insurance in effect during the year, and had no outstanding federal loan guarantees during the year.



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

To the City Council
City of Dunsmuir, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Dunsmuir as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City of Dunsmuir's basic financial statements, and have issued our report thereon dated December 20, 2013.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Dunsmuir, California's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Aiello, Goodrich & Teuscher

Aiello, Goodrich & Teuscher
An Accountancy Corporation
Mt. Shasta, California
December 20, 2013





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

To the City Council
City of Dunsmuir, California

Report on Compliance for Each Major Federal Program

We have audited City of Dunsmuir's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of City of Dunsmuir's major federal programs for the year ended June 30, 2013. City of Dunsmuir's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

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

We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of City of Dunsmuir's compliance with those requirements.

Opinion on Each Major Federal Program

In our opinion, City of Dunsmuir complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

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

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

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

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

Aiello, Goodrich & Teuscher

Aiello, Goodrich & Teuscher
An Accountancy Corporation
Mt. Shasta, CA
December 20, 2013



City of Dunsmuir
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2013

Summary of Auditors' Results

1. The auditors' report expresses an unqualified opinion on the financial statements of the City of Dunsmuir, California.
2. No material weakness relating to the audit of the financial statements are reported in the *Independent Auditors' Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With Government Auditing Standards*.
3. No instances of noncompliance were disclosed that are material to the financial statements of the City of Dunsmuir, California.
4. No material weaknesses relating to the audit of the major federal awards programs are reported in the *Independent Auditors' Report On Compliance For Each Major Program And On Internal Control Over Compliance Required By OMB Circular A-133*.
5. The Independent Auditors' Report on compliance for the major federal award programs expresses an unqualified opinion on all major federal programs.
6. There were no audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
7. The program tested as a major program was CFDA #97.044 – Assistance to Firefighters Grant.
8. The threshold used for distinguishing between Type A and B programs was \$300,000.
9. The City of Dunsmuir, California did not qualify as a low-risk auditee.

Findings - Financial Statement Audit

None

Findings and Questioned Costs-Major Federal Award Programs Audit

None

City of Dunsmuir
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2013

Summary of Prior Audit Findings

Department of Housing and Urban Development

2012-A Community Development Block Grants/State's Program – CFDA #14.228

Condition: The City does not have sufficient procedures in place to monitor the subrecipient of the award.

Criteria: Subrecipient monitoring is required to meet program guidelines.

Cause: Reliance on subrecipient's procedures.

Effect: Costs may be disallowed if the proper procedures were not followed by the subrecipient.

Recommendation: We recommend the City implement procedures to ensure proper monitoring of the subrecipient.

Status: The City of Dunsmuir has worked with staff at the California Department of Housing and Community Development to address compliance findings. The City of Dunsmuir's CDBG and EDBG grants expired 12/31/2012 and the City intends to administer any future grant programs in house by securing a CDBG program specialist as city staff.

2012-1 and 2011-4 Reconciliation of Utility Billing System

Condition: The City is unable to reconcile the utility billing system with the General Ledger because they are unable to extract detail customer aging by fund.

Criteria: The City is required to reconcile all detail to the General Ledger.

Effect: Without proper reconciliation or access to reports, accuracy of the General Ledger is questionable.

Recommendation: The City should work with utility billing software support so they can receive detailed data and ensure the General Ledger is accurate.

Status: City management has performed a thorough reconciliation of the utility billing system and the General Ledger and made the necessary adjustments.