

CITY OF DUNSMUIR, CALIFORNIA

FINANCIAL STATEMENTS

**FOR THE YEAR ENDED
JUNE 30, 2012**



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INDEPENDENT AUDITORS' REPORT

To the City Council
City of Dunsmuir, California

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, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of Dunsmuir, California's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2012, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2012 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* and should be considered in assessing the results of our audit.

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.

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 financial statements. The accompanying 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. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 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 our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Aiello, Goodrich & Teuscher
Aiello, Goodrich & Teuscher
An Accountancy Corporation
Mt. Shasta, California
December 20, 2012

BASIC FINANCIAL STATEMENTS

City of Dunsmuir
Statement of Net Assets
June 30, 2012

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
<u>ASSETS</u>			
Current assets:			
Cash and investments	\$ 719,068	\$ 1,165,949	\$ 1,885,017
Receivables (net of allowances for bad debts, where applicable):			
Trade accounts	-	76,732	76,732
Loans	1,341,170	-	1,341,170
Intergovernmental	77,783	-	77,783
Prepaid expenses	796	-	796
Total current assets	<u>2,138,817</u>	<u>1,242,681</u>	<u>3,381,498</u>
Restricted assets:			
Cash and investments	-	213,127	213,127
Capital assets:			
Non-depreciable	1,168,632	1,821,580	2,990,212
Depreciable, net	2,138,963	7,309,682	9,448,645
Amortizable, net	-	13,632	13,632
Total capital assets	<u>3,307,595</u>	<u>9,144,894</u>	<u>12,452,489</u>
Total assets	<u>5,446,412</u>	<u>10,600,702</u>	<u>16,047,114</u>
<u>LIABILITIES</u>			
Accounts payable	119,231	135,755	254,986
Deferred revenue	357,408	2,175	359,583
Deposits	-	71,391	71,391
Other	8,500	-	8,500
Current portion, compensated absences	9,510	19,989	29,499
Current portion of long-term debt	3,000	34,790	37,790
Total current liabilities	<u>497,649</u>	<u>264,100</u>	<u>761,749</u>
Long-term liabilities:			
Long-term compensated absences, net of current portion	34,713	53,378	88,091
Long-term debt, net of current portion	105,000	1,584,270	1,689,270
Total liabilities	<u>637,362</u>	<u>1,901,748</u>	<u>2,539,110</u>
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	3,199,595	7,525,834	10,725,429
Restricted, spendable	266,119	213,127	479,246
Unrestricted	1,343,336	959,993	2,303,329
Total net assets	<u>\$ 4,809,050</u>	<u>\$ 8,698,954</u>	<u>\$13,508,004</u>

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

City of Dunsmuir
Statement of Activities
Year Ended June 30, 2012

	Program Revenues			Net (Expense) Revenues and Changes in Net Assets		
	Expense	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- Type Activities	Total
Governmental activities:						
General government	\$ 248,059	\$ 15,779	\$ -	\$ (232,280)	\$ -	\$ (232,280)
Health and welfare	1,845	-	-	(1,845)	-	(1,845)
Sanitation	6,570	22,110	-	15,540	-	15,540
Public safety	628,635	45,946	239,767	(21,776)	-	(21,776)
Streets and roads	407,466	-	-	(286,128)	-	(286,128)
Community and economic development	144,036	-	260,606	116,570	-	116,570
Total governmental activities	<u>1,436,611</u>	<u>83,835</u>	<u>703,090</u>	<u>(409,919)</u>	<u>-</u>	<u>(409,919)</u>
Business-type activities:						
Sewer	682,315	750,264	31,315	-	99,264	99,264
Solid waste	381,748	398,119	10,000	-	26,371	26,371
Water	433,849	417,943	-	-	(15,906)	(15,906)
Airport	421,572	13,124	79,425	-	(329,023)	(329,023)
Total business-type activities	<u>1,919,484</u>	<u>1,579,450</u>	<u>120,740</u>	<u>-</u>	<u>(219,294)</u>	<u>(219,294)</u>
Total primary government	<u>\$3,356,095</u>	<u>\$1,663,285</u>	<u>\$ 823,830</u>	<u>(409,919)</u>	<u>(219,294)</u>	<u>(629,213)</u>
		General revenues:				
		Taxes:				
		Property	295,504			295,504
		Sales	85,553			85,553
		Other	171,005			171,005
		Investment earnings	84,804	5,379		90,183
		Other	17,414			17,414
		Total general revenues	<u>654,280</u>	<u>5,379</u>		<u>659,659</u>
		Change in net assets				
		Net assets, beginning				
		Net assets, ending	<u>244,361</u>	<u>(213,915)</u>		<u>30,446</u>
		Net assets, ending	<u>\$4,809,050</u>	<u>\$ 8,698,954</u>		<u>\$13,508,004</u>

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

City of Dunsmuir
Balance Sheet
and
Reconciliation of Total Governmental Fund Balance to the Statement of Net Assets - Governmental Activities
Governmental Funds
June 30, 2012

	<u>General Fund</u>	<u>Community Development Block Grant Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>ASSETS</u>				
Cash and investments	\$ 442,830	\$ -	\$ 276,238	\$ 719,068
Receivables (net of allowance for doubtful accounts, where applicable):				
Loans	-	955,790	385,380	1,341,170
Intergovernmental	65,988	-	11,795	77,783
Prepaid expenses	796	-	-	796
Due from other funds	<u>75,374</u>	<u>-</u>	<u>-</u>	<u>75,374</u>
Total assets	<u>\$ 584,988</u>	<u>\$ 955,790</u>	<u>\$ 673,413</u>	<u>\$ 2,214,191</u>
<u>LIABILITIES AND FUND BALANCES</u>				
Liabilities:				
Accounts payable	\$ 112,195	\$ 1,007	\$ 6,029	\$ 119,231
Due to other funds	-	57,540	17,834	75,374
Deferred revenue	342,813	4,476	10,119	357,408
Other	<u>8,500</u>	<u>-</u>	<u>-</u>	<u>8,500</u>
Total liabilities	<u>463,508</u>	<u>63,023</u>	<u>33,982</u>	<u>560,513</u>
Fund balances:				
Nonspendable:				
Noncurrent receivables	<u>-</u>	<u>955,790</u>	<u>385,380</u>	<u>1,341,170</u>
Restricted for:				
Streets and roads	-	-	9,175	9,175
Public safety	-	-	39,803	39,803
Community and economic development	-	-	217,141	217,141
Total	<u>-</u>	<u>-</u>	<u>266,119</u>	<u>266,119</u>
Unassigned	<u>121,480</u>	<u>(63,023)</u>	<u>(12,066)</u>	<u>46,389</u>
Total fund balance	<u>121,480</u>	<u>892,767</u>	<u>639,431</u>	<u>1,653,678</u>
Total liabilities and fund balance	<u>\$ 584,988</u>	<u>\$ 955,790</u>	<u>\$ 673,413</u>	<u>\$ 2,214,191</u>
Total governmental fund balance, as above				\$ 1,653,678
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 funds				3,307,595
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds				(108,000)
Compensated absences in governmental activities are not due and payable in the current period and therefore are not reported in the balance sheet				<u>(44,223)</u>
Net assets of governmental activities				<u>\$ 4,809,050</u>

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, 2012

	General Fund	Community Development Block Grant Fund	Other Governmental Funds	Total Governmental Funds
REVENUES				
Property taxes	\$ 295,504	\$ -	\$ -	295,504
Sales and use taxes	85,553	-	-	85,553
Transient occupancy taxes	125,250	-	-	125,250
Franchise and other licenses	45,755	-	-	45,755
Assessments	-	-	35,887	35,887
Licenses and permits	15,779	-	-	15,779
Intergovernmental revenues	560,913	232,807	149,137	942,857
Charges for services	27,532	-	-	27,532
Fines, forfeitures and penalties	4,637	-	-	4,637
Use of money and property	69,906	1,179	13,719	84,804
Other	12,414	5,000	-	17,414
Total revenues	<u>1,243,243</u>	<u>238,986</u>	<u>198,743</u>	<u>1,680,972</u>
EXPENDITURES				
Current:				
City council	4,692	-	-	4,692
City administrator	50,784	-	-	50,784
City clerk	2,383	-	-	2,383
City attorney	14,353	-	-	14,353
Planning	20,866	-	-	20,866
Finance and administration	54,991	-	-	54,991
Building inspection	20,837	-	-	20,837
Police protection	415,894	-	-	415,894
Fire protection	182,373	-	-	182,373
Streets and roads	127,362	-	111,484	238,846
Transit assistance	-	-	34,312	34,312
Buildings and grounds	52,406	-	-	52,406
Health and welfare	1,845	-	-	1,845
Community and economic development	20,786	105,222	55,295	181,303
Bad debt expense (recovery)	-	-	(37,267)	(37,267)
Capital outlay	256,599	-	-	256,599
Debt service:				
Principal	-	-	3,000	3,000
Interest	-	-	6,570	6,570
Total expenditures	<u>1,226,171</u>	<u>105,222</u>	<u>173,394</u>	<u>1,504,787</u>
Excess of revenues over (under) expenditures	<u>17,072</u>	<u>133,764</u>	<u>25,349</u>	<u>176,185</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers in	-	-	89,539	89,539
Operating transfers out	(25,866)	(18,312)	(45,361)	(89,539)
Total other financing sources (uses)	<u>(25,866)</u>	<u>(18,312)</u>	<u>44,178</u>	<u>-</u>
Excess of revenues and other sources over (under) expenditures and other uses	<u>(8,794)</u>	<u>115,452</u>	<u>69,527</u>	<u>176,185</u>
FUND BALANCE				
Beginning of the year	<u>130,274</u>	<u>777,315</u>	<u>569,904</u>	<u>1,477,493</u>
End of the year	<u>\$ 121,480</u>	<u>\$ 892,767</u>	<u>\$ 639,431</u>	<u>\$ 1,653,678</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, 2012

Change in fund balance, governmental funds	\$ 176,185
Amounts reported for governmental activities in the statement of activities is different because:	
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:	
Capital outlay:	256,599
Depreciation expense:	(189,753)
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.	
	3,000
Government funds do not report the change in compensated absences as revenue or expenditure, but it is reported in the Statement of Activities	
	<u>(1,670)</u>
Change in net assets of governmental activities	<u><u>\$ 244,361</u></u>

City of Dunsmuir
Statement of Net Assets
Proprietary Funds
June 30, 2012

	Enterprise				Total
	Sewer Fund	Solid Waste Fund	Water Fund	Airport Fund	
ASSETS					
Current assets:					
Cash and investments	\$ 557,791	\$ 380,271	\$ 216,702	\$ 11,185	\$1,165,949
Receivables (net of allowances for bad debts, where applicable):					
Trade accounts	38,562	12,245	25,925	-	76,732
Advances to other funds	-	148,174	-	-	148,174
Total current assets	<u>596,353</u>	<u>540,690</u>	<u>242,627</u>	<u>11,185</u>	<u>1,390,855</u>
Restricted assets:					
Cash and investments	178,174	-	34,953	-	213,127
Capital assets:					
Non-depreciable	233,072	-	166,831	1,421,677	1,821,580
Depreciable, net	3,251,291	24,488	2,790,518	1,243,385	7,309,682
Amortizable, net	-	-	13,632	-	13,632
Total capital assets, net	<u>3,484,363</u>	<u>24,488</u>	<u>2,970,981</u>	<u>2,665,062</u>	<u>9,144,894</u>
Total assets	<u>4,258,890</u>	<u>565,178</u>	<u>3,248,561</u>	<u>2,676,247</u>	<u>10,748,876</u>
LIABILITIES					
Current liabilities:					
Accounts payable	53,292	8,599	5,663	68,201	135,755
Deferred revenue	2,175	-	-	-	2,175
Deposits	-	-	71,391	-	71,391
Advances from other funds	-	-	148,174	-	148,174
Current portion, compensated absences	13,466	2,576	3,736	211	19,989
Current portion of long-term debt	21,000	-	13,790	-	34,790
Total current liabilities	<u>89,933</u>	<u>11,175</u>	<u>242,754</u>	<u>68,412</u>	<u>412,274</u>
Long-term liabilities:					
Long-term compensated absences, net of current portion	21,478	17,715	12,531	1,654	53,378
Long-term debt, net of current portion	1,096,000	-	488,270	-	1,584,270
Total long-term liabilities	<u>1,117,478</u>	<u>17,715</u>	<u>500,801</u>	<u>1,654</u>	<u>1,637,648</u>
Total liabilities	<u>1,207,411</u>	<u>28,890</u>	<u>743,555</u>	<u>70,066</u>	<u>2,049,922</u>
NET ASSETS					
Invested in capital assets, net of related debt	2,367,363	24,488	2,468,921	2,665,062	7,525,834
Restricted for debt service, spendable	178,174	-	34,953	-	213,127
Unrestricted	505,942	511,800	1,132	(58,881)	959,993
Total net assets	<u>\$3,051,479</u>	<u>\$ 536,288</u>	<u>\$2,505,006</u>	<u>\$2,606,181</u>	<u>\$8,698,954</u>

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

City of Dunsmuir
Statement of Revenues, Expenses and Changes in Retained Earnings
Proprietary Funds
For The Year Ended June 30, 2012

	Enterprise				Total
	Sewer Fund	Solid Waste Fund	Water Fund	Airport Fund	
REVENUES					
User fees and charges	\$ 750,264	\$ 398,119	\$ 417,943	\$ -	\$1,566,326
Facilities rent	-	-	-	13,124	13,124
Total operating revenues	<u>750,264</u>	<u>398,119</u>	<u>417,943</u>	<u>13,124</u>	<u>1,579,450</u>
OPERATING EXPENSES					
Personnel and related expenses	234,012	69,497	132,957	4,058	440,524
Contract services	11,212	178,688	7,624	65,979	263,503
General and administrative services	193,671	52,403	70,702	30,516	347,292
Repairs and maintenance	14,400	33,585	15,398	272	63,655
Materials and supplies	11,533	4,495	22,651	-	38,679
Insurance and permits	17,404	7,533	12,927	4,647	42,511
Bad debt	8,549	961	989	-	10,499
Depreciation and amortization	141,488	34,586	133,252	89,724	399,050
Total operating expenses	<u>632,269</u>	<u>381,748</u>	<u>396,500</u>	<u>195,196</u>	<u>1,605,713</u>
Operating income (loss)	<u>117,995</u>	<u>16,371</u>	<u>21,443</u>	<u>(182,072)</u>	<u>(26,263)</u>
OTHER REVENUES (EXPENSES)					
Intergovernmental revenues	31,315	10,000	-	79,425	120,740
Interest earned	3,094	1,473	516	296	5,379
Loss on disposal of property	-	-	-	(226,376)	(226,376)
Interest expense	(50,046)	-	(37,349)	-	(87,395)
Total other revenues (expenses)	<u>(15,637)</u>	<u>11,473</u>	<u>(36,833)</u>	<u>(146,655)</u>	<u>(187,652)</u>
Change in net assets	102,358	27,844	(15,390)	(328,727)	(213,915)
NET ASSETS					
Beginning of year	<u>2,949,121</u>	<u>508,444</u>	<u>2,520,396</u>	<u>2,934,908</u>	<u>8,912,869</u>
End of the 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>

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, 2012

	Enterprise				Total
	Sewer Fund	Solid Waste Fund	Water Fund	Airport Fund	
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	\$ 763,895	\$ 405,330	\$ 420,763	\$ 13,124	\$1,603,112
Payments to suppliers	(217,778)	(273,955)	(120,098)	(77,778)	(689,609)
Payments to employees	(226,754)	(67,169)	(130,943)	(3,882)	(428,748)
Net cash provided (used) by operating activities	<u>319,363</u>	<u>64,206</u>	<u>169,722</u>	<u>(68,536)</u>	<u>484,755</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES					
Receipt of intergovernmental revenues	31,315	10,000	-	79,425	120,740
Interfund advances and payments	-	(148,174)	148,174	-	-
Net cash provided (used) by non-capital financing activities	<u>31,315</u>	<u>(138,174)</u>	<u>148,174</u>	<u>79,425</u>	<u>120,740</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING					
Purchase of fixed assets	(114,665)	-	-	-	(114,665)
Principal payments on debt	(51,000)	-	(308,790)	-	(359,790)
Interest payments on debt	(50,046)	-	(37,349)	-	(87,395)
Net cash (used) by investing activities	<u>(215,711)</u>	<u>-</u>	<u>(346,139)</u>	<u>-</u>	<u>(561,850)</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest income received	3,094	1,473	516	296	5,379
Net increase (decrease) in cash	138,061	(72,495)	(27,727)	11,185	49,024
CASH					
Beginning of the year	597,904	452,766	279,382	-	1,330,052
End of the year	<u>\$ 735,965</u>	<u>\$ 380,271</u>	<u>\$ 251,655</u>	<u>\$ 11,185</u>	<u>\$1,379,076</u>
Comprised of:					
Cash and investments	\$ 557,791	\$ 380,271	\$ 216,702	\$ 11,185	\$1,165,949
Restricted cash and investments	178,174	-	34,953	-	213,127
Total cash and cash investments	<u>\$ 735,965</u>	<u>\$ 380,271</u>	<u>\$ 251,655</u>	<u>\$ 11,185</u>	<u>\$1,379,076</u>
Reconciliation of operating income (loss) to cash provided (used) by operating activities:					
Operating income (loss)	\$ 117,995	\$ 16,371	\$ 21,443	\$ (182,072)	\$ (26,263)
Adjustments to reconcile operating income (loss) to cash provided (used) by operating activities:					
Depreciation and amortization	141,488	34,586	133,252	89,724	399,050
(Increase) decrease in accounts receivable	13,631	7,211	2,820	-	23,662
Increase (decrease) in accounts payable	38,991	3,710	3,397	67,176	113,274
Increase (decrease) in compensated absences	7,258	2,328	2,014	176	11,776
(Decrease) in deferred revenue	-	-	-	(43,540)	(43,540)
Increase in deposits	-	-	6,796	-	6,796
Net cash provided (used) by operating activities	<u>\$ 319,363</u>	<u>\$ 64,206</u>	<u>\$ 169,722</u>	<u>\$ (68,536)</u>	<u>\$ 484,755</u>

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

City of Dunsmuir
Statement of Fiduciary Net Assets
Agency Fund - Siskiyou Regional Development Association
June 30, 2012

	<u>Agency Fund</u>
<u>ASSETS</u>	
Cash and investments	<u>\$ 12,125</u>
<u>LIABILITIES</u>	
Agency obligations	<u>\$ 12,125</u>

City of Dunsmuir, California
Notes to the Basic Financial Statements
June 30, 2012

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 assets 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 assets are available, unrestricted resources are depleted first before the restricted resources are used.

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

City of Dunsmuir, California
Notes to the Basic Financial Statements
June 30, 2012

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

City of Dunsmuir, California
Notes to the Basic Financial Statements
June 30, 2012

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 assets (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, California
Notes to the Basic Financial Statements
June 30, 2012

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 Assets 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, California
Notes to the Basic Financial Statements
June 30, 2012

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 Assets. 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.

Deferred Revenue

Deferred 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, California
Notes to the Basic Financial Statements
June 30, 2012

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. The City did not have any nonspendable reserves as of June 30, 2012.
- 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, 2012.
- 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, 2012.
- 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, California
Notes to the Basic Financial Statements
June 30, 2012

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, 2012 are classified in the accompanying financial statements as follows:

Statement of net assets:	
Current cash and investments	\$ 1,885,017
Restricted cash and investments	213,127
Statement of fiduciary net assets	<u>12,125</u>
Total cash and investments	<u>\$ 2,110,269</u>
Consisting of the following:	
Cash on hand	\$ 350
Deposits with financial institutions	792,410
Investments	<u>1,317,509</u>
	<u>\$ 2,110,269</u>

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,

City of Dunsmuir, California
Notes to the Basic Financial Statements
June 30, 2012

NOTE 2 CASH AND INVESTMENTS (continued)

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	\$1,317,509	\$1,317,509	270 day average

Disclosure Relating to Credit Risk:

Generally, credit risk is the risk that an issuer if 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 \$767,808, 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 \$792,410 because of deposits in transit.

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

City of Dunsmuir, California
Notes to the Basic Financial Statements
June 30, 2012

NOTE 2 CASH AND INVESTMENTS (continued)

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, 2012:

	<u>CDBG Fund</u>	<u>EDBG Fund</u>	<u>CDBG Revolving Loan Funds</u>	<u>Total</u>
Mortgage loans	\$ 955,790	\$ 287,256	\$ 167,221	\$ 1,410,267
Less allowance for bad debts	-	(69,097)	-	(69,097)
Total	<u>\$ 955,790</u>	<u>\$ 218,159</u>	<u>\$ 167,221</u>	<u>\$ 1,341,170</u>
Related party loans	<u>\$ 185,880</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 185,880</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, 2012:

<u>Due To:</u>	<u>Gas Tax Fund</u>	<u>So. Dunsmuir Sewer Assess.</u>	<u>Total</u>
General Fund	<u>\$ 17,834</u>	<u>\$ 57,540</u>	<u>\$ 75,374</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.

The following is a summary of interfund advances receivable and payable at June 30, 2012:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Solid Waste	Water	<u>\$ 148,174</u>

The Refuse 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.

City of Dunsmuir, California
Notes to the Basic Financial Statements
June 30, 2012

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

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

Transfer In To:	Transfer Out From:			
	General Fund	EDBG	CDBG	Total
Gas Tax Fund	\$25,866	\$ -	\$ -	\$25,866
EDBG RLF	-	45,361	-	45,361
CDBG RLF	-	-	18,312	18,312
	<u>\$25,866</u>	<u>\$45,361</u>	<u>\$18,312</u>	<u>\$89,539</u>

Operating transfer to the Gas Tax Fund is for overhead activities in the general fund. Transfers out of the CDBG and EDBG Funds into the revolving loan funds represents loan repayments that are now available in the revolving funds.

NOTE 5 CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2012 was as follows:

	June 30, 2011	Additions and Transfers	Retirements and Transfers	June 30, 2012
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 1,151,800	\$ -	\$ -	\$ 1,151,800
Construction in progress	4,764	16,832	(4,764)	16,832
Total capital assets not being depreciated:	<u>1,156,564</u>	<u>16,832</u>	<u>(4,764)</u>	<u>1,168,632</u>
Capital assets being depreciated:				
Buildings	1,739,864	-	-	1,739,864
Machinery and equipment	930,645	244,531	-	1,175,176
Infrastructure	2,559,149	-	-	2,559,149
Total capital assets being depreciated	<u>5,229,658</u>	<u>244,531</u>	<u>-</u>	<u>5,474,189</u>
Less accumulated depreciation for:				
Buildings	1,319,227	20,730	-	1,339,957
Machinery and equipment	782,953	41,422	-	824,375
Infrastructure	1,043,293	127,601	-	1,170,894
Total accumulated depreciation	<u>3,145,473</u>	<u>189,753</u>	<u>-</u>	<u>3,335,226</u>
Total capital assets being depreciated, net	<u>2,084,185</u>	<u>54,778</u>	<u>-</u>	<u>2,138,963</u>
Subtotal, governmental activities	<u>3,240,749</u>	<u>71,610</u>	<u>(4,764)</u>	<u>3,307,595</u>

City of Dunsmuir, California
Notes to the Basic Financial Statements
June 30, 2012

NOTE 5 CAPITAL ASSETS (Continued)

	<u>June 30,</u> <u>2011</u>	<u>Additions</u> <u>and Transfers</u>	<u>Retirements</u> <u>and Transfers</u>	<u>June 30,</u> <u>2012</u>
Business-type activities:				
Capital assets not being depreciated:				
Land	1,718,508	-	-	1,718,508
Construction in progress	507,105	74,800	(478,833)	103,072
Total capital assets not being depreciated	<u>2,225,613</u>	<u>74,800</u>	<u>(478,833)</u>	<u>1,821,580</u>
Capital assets being depreciated:				
Utility plant	7,781,662	39,865	-	7,821,527
Buildings	240,861	-	-	240,861
Improvements not buildings	2,643,701	252,457	-	2,896,158
Machinery and equipment	1,103,108	-	-	1,103,108
Total capital assets being depreciated	<u>11,769,332</u>	<u>292,322</u>	<u>-</u>	<u>12,061,654</u>
Less accumulated depreciation for:				
Utility plant	2,350,029	195,699	-	2,545,728
Buildings	83,321	10,114	-	93,435
Improvements not buildings	1,314,013	97,270	-	1,411,283
Machinery and equipment	611,301	90,225	-	701,526
Total accumulated depreciation	<u>4,358,664</u>	<u>393,308</u>	<u>-</u>	<u>4,751,972</u>
Total capital assets being depreciated, net	<u>7,410,668</u>	<u>(100,986)</u>	<u>-</u>	<u>7,309,682</u>
Capital assets being amortized:				
Organization costs	109,530	-	-	109,530
Less: accumulated amortization	<u>90,156</u>	<u>5,742</u>	<u>-</u>	<u>95,898</u>
Total capital assets being amortized, net	<u>19,374</u>	<u>(5,742)</u>	<u>-</u>	<u>13,632</u>
Subtotal, business-type activities	<u>9,655,655</u>	<u>(31,928)</u>	<u>(478,833)</u>	<u>9,144,894</u>
Total, government-wide	<u>\$ 12,896,404</u>	<u>\$ 39,682</u>	<u>\$ (483,597)</u>	<u>\$ 12,452,489</u>

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

Governmental activities:	
General government	\$ 28,827
Public safety	29,683
Streets and roads	<u>131,243</u>
Total depreciation and amortization expense – governmental activities	<u>\$ 189,753</u>
Business-type activities:	
Sewer fund	\$ 141,488
Solid waste fund	34,586
Water fund	133,252
Airport fund	<u>89,724</u>
Total depreciation and amortization expense – business-type activities	<u>\$ 399,050</u>

City of Dunsmuir, California
Notes to the Basic Financial Statements
June 30, 2012

NOTE 6 LONG TERM DEBT

The following is a summary of Governmental activities long-term liabilities activity during the year ended June 30, 2012:

	June 30, 2011	Additions	Reductions	June 30, 2012	Current Portion
Bonds and notes payable:					
So. Dunsmuir Sewer Assessment system	719,000	-	9,000	710,000	10,000
Total governmental activities long-term debt	<u>\$ 719,000</u>	<u>\$ -</u>	<u>\$ 9,000</u>	<u>\$ 710,000</u>	<u>\$ 10,000</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:

	So. Dunsmuir Sewer Assessment	
Interest rate	6.00%	
Maturity date	September 2, 2030	
Year Ended		
June 30,:	Principal	Interest
2013	3,000	6,390
2014	3,000	6,210
2015	4,000	6,000
2016	4,000	5,760
2017	4,000	5,400
2018-2022	24,000	22,800
2023-2027	33,000	14,040
2028-2032	33,000	3,000
	<u>\$ 108,000</u>	<u>\$ 69,600</u>

City of Dunsmuir, California
Notes to the Basic Financial Statements
June 30, 2012

NOTE 6 LONG TERM DEBT (Continued)

The following is a summary of Business-type activities long-term liabilities activity during the year ended June 30, 2012:

	June 30, 2011	Additions	Reductions	June 30, 2012	Current Portion
Bonds and notes payable:					
1974 Sewer Revenue Bonds	\$ 32,000	\$ -	\$ 32,000	\$ -	\$ -
1994 Sewer Improvement Certificates of Participation	417,000	-	10,000	407,000	11,000
2007 USDA Sewer Loan	719,000	-	9,000	710,000	10,000
Total sewer fund	<u>1,168,000</u>	<u>-</u>	<u>51,000</u>	<u>1,117,000</u>	<u>21,000</u>
2000 Water Certificates of Participation	295,000	-	295,000	-	-
1994 Water Improvement Certificates of Participation	474,000	-	11,000	463,000	11,000
2005 Water System Loan	41,850	-	2,790	39,060	2,790
Total water fund	<u>810,850</u>	<u>-</u>	<u>308,790</u>	<u>502,060</u>	<u>13,790</u>
Total Business-type activities long term debt	<u>\$ 1,978,850</u>	<u>\$ -</u>	<u>\$ 359,790</u>	<u>\$ 1,619,060</u>	<u>\$ 34,790</u>

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:

Interest rate	1994 Sewer Certificates of Participation		2007 USDA Sewer Loan	
	4.50%		4.25%	
Maturity date	May 1, 2035		May 1, 2046	
Year Ended				
June 30,:	Principal	Interest	Principal	Interest
2013	11,000	18,315	10,000	30,175
2014	11,000	17,820	10,000	29,750
2015	11,000	17,325	11,000	29,325
2016	12,000	16,830	11,000	28,857
2017	12,000	15,750	11,000	28,390
2018-2022	72,000	73,125	65,000	134,343
2023-2027	89,000	54,900	80,000	119,255
2028-2032	110,000	33,075	99,000	100,725
2033-2037	79,000	6,616	120,000	77,988
2038-2042	-	-	149,000	50,128
2043-2046	-	-	144,000	15,597
Total	<u>\$ 407,000</u>	<u>\$ 253,756</u>	<u>\$ 710,000</u>	<u>\$ 644,533</u>

City of Dunsmuir, California
Notes to the Basic Financial Statements
June 30, 2012

NOTE 6 LONG TERM DEBT (continued)

	1994 Water Improvement Certificates of Participation		2005 Water System Loan	
	Principal	Interest	Principal	Interest
Interest rate	5.13%		Not applicable	
Maturity date	May 1, 2035		July, 1 2026	
<u>Year Ended June 30, :</u>				
2013	11,000	23,677	2,790	-
2014	12,000	23,114	2,790	-
2015	13,000	22,499	2,790	-
2016	13,000	21,833	2,790	-
2017	14,000	21,166	2,790	-
2018-2022	82,000	94,198	13,950	-
2023-2027	105,000	70,981	11,160	-
2028-2032	135,000	41,205	-	-
2033-2037	78,000	6,970	-	-
Total	<u>\$ 463,000</u>	<u>\$ 325,643</u>	<u>\$ 39,060</u>	<u>\$ -</u>

	Total	
	Principal	Interest
2013	\$ 34,790	\$ 72,167
2014	35,790	70,684
2015	37,790	69,149
2016	38,790	67,520
2017	39,790	65,306
2018-2022	232,950	301,666
2023-2027	285,160	245,136
2028-2032	344,000	175,005
2033-2037	277,000	91,574
2038-2042	149,000	50,128
2043-2046	144,000	15,597
Total	<u>\$1,619,060</u>	<u>\$1,223,932</u>

City of Dunsmuir, California
Notes to the Basic Financial Statements
June 30, 2012

NOTE 7 COMPENSATED ABSENCES

Compensated absence activity for the year ended June 30, 2012 is summarized as follows:

	June 30, 2011	Additions	Reductions	June 30, 2012	Current Portion
Governmental activities:					
General fund	\$ 42,553	\$ 1,670	\$ -	\$ 44,223	\$ 9,510
Business-type activities:					
Sewer fund	27,686	7,258	-	34,944	13,466
Solid Waste fund	17,963	2,328	-	20,291	2,576
Water fund	14,253	2,014	-	16,267	3,736
Airport fund	1,689	176	-	1,865	211
Total business-type activities	61,591	11,776	-	73,367	19,989
Total compensated absences	\$ 104,144	\$ 13,446	\$ -	\$ 117,590	\$ 29,499

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 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, 2011 was 7.828%. 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, 2012 the City's annual pension cost was \$ 40,405, which is also the amount the City contributed. The required contribution for the year ended June 30, 2011 was determined as part of the June 30, 2008 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 duration of service ranging from 3.25% 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, 2012 was 6 years. The City also paid the employees contributions, which totaled \$ 26,273 for the year ended June 30, 2012.

City of Dunsmuir, California
Notes to the Basic Financial Statements
June 30, 2012

NOTE 8 PENSION PLAN (Continued)

Three Year Trend Information:

	<u>June 30,</u> <u>2011</u>	<u>June 30,</u> <u>2011</u>	<u>June 30,</u> <u>2010</u>
Annual Pension Cost (APC)	\$ 40,405	\$ 37,666	\$ 27,370
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, 2008, 2007 and 2006 (the latest available) are for the pool as a whole.

<u>Schedule of funding progress:</u>	<u>June 30, 2010</u>	<u>June 30, 2009</u>	<u>June 30, 2008</u>
Actuarial value of assets	\$ 466,195,860	\$ 442,936,897	\$ 390,402,716
Actuarial accrued liability (AAL) – entry age	509,198,137	480,513,699	399,268,718
Unfunded (overfunded) AAL (UAAL)	43,002,277	37,576,802	8,866,002
Funded ratio	91.6%	92.2%	97.8%

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, 2012 the Gas Tax Fund had a deficit fund balance of \$12,068. 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 ASSETS

Restricted net assets are net assets whose use are 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 assets at June 30, 2012 for business-type activities were restricted for debt service.

City of Dunsmuir, California
Notes to the Basic Financial Statements
June 30, 2012

NOTE 12 FUND BALANCE

As of these financial statements, the City has adopted GASB Statement No. 54, which redefined how fund balances of the governmental funds are presented in the financial statements. 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 \$121,480 at June 30, 2012.

Other Major Fund

The Community Development Block Grant Fund has Non-spendable Fund Balance of \$955,790 consisting of noncurrent receivables and \$(63,023) of Unassigned Fund balance at June 30, 2012.

Other Funds

Other governmental (nonmajor) funds have Non-spendable Fund Balance of \$385,380, consisting of noncurrent receivables, Restricted Fund Balance of \$266,119 and Unassigned Fund Balance of \$(12,068) at June 30, 2012.

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, 2012

	Original Budget	Final Budget	Actual Amounts	Favorable (Unfavorable) Variance With Final Budget
REVENUES				
Property taxes	\$ 317,200	\$ 316,200	\$ 295,504	\$ (20,696)
Sales and use taxes	74,000	63,735	85,553	21,818
Transient occupancy taxes	116,000	116,000	125,250	9,250
Franchise and other licenses	49,895	47,006	45,755	(1,251)
Licenses and permits	14,000	17,300	15,779	(1,521)
Intergovernmental revenues	870,095	499,594	560,913	61,319
Charges for services	37,270	42,465	27,532	(14,933)
Fines, forfeitures and penalties	3,996	4,752	4,637	(115)
Use of money and property	70,038	69,590	69,906	316
Other	314,485	258,954	12,414	(246,540)
Total revenues	1,866,979	1,435,596	1,243,243	(192,353)
EXPENDITURES				
Current:				
City council	6,620	4,883	4,692	191
City administrator	167,983	146,993	50,784	96,209
City clerk	6,981	7,341	2,383	4,958
City attorney	40,500	41,500	14,353	27,147
Planning	40,980	21,206	20,866	340
Finance and administration	165,937	155,613	54,991	100,622
Building inspection	20,725	21,100	20,837	263
Police protection	452,114	409,427	415,894	(6,467)
Fire protection	331,013	412,301	182,373	229,928
Streets and roads	456,853	131,914	127,362	4,552
Buildings and grounds	62,767	108,947	52,406	56,541
Health and welfare	2,740	2,300	1,845	455
Community and economic development	8,200	19,776	20,786	(1,010)
Capital outlay	-	-	256,599	(256,599)
Total expenditures	1,763,413	1,483,301	1,226,171	257,130
Excess of revenues over (under) expenditures	103,566	(47,705)	17,072	64,777
OTHER FINANCING SOURCES (USES)				
Operating transfers out	(33,996)	(33,996)	(25,866)	8,130
Total other financing sources (uses)	(33,996)	(33,996)	(25,866)	8,130
Excess of revenues and other sources over (under) expenditures and other uses	\$ 69,570	\$ (81,701)	\$ (8,794)	\$ 72,907

City of Dunsmuir
 Budgetary Comparison Schedule
 Community Development Block Grant
 For The Year Ended June 30, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Favorable (Unfavorable) Variance With Final Budget</u>
<u>REVENUES</u>				
Use of money and property	\$ -	\$ 748	\$ 1,179	\$ 431
Intergovernmental	-	212,375	232,807	20,432
Other	-	-	5,000	5,000
Total revenues	<u>-</u>	<u>213,123</u>	<u>238,986</u>	<u>25,863</u>
<u>EXPENDITURES</u>				
Current:				
Community and economic development	-	107,685	105,222	2,463
Excess of revenues (under) expenditures	<u>-</u>	<u>105,438</u>	<u>133,764</u>	<u>28,326</u>
<u>OTHER FINANCING (USES)</u>				
Operating transfers out	-	(18,312)	(18,312)	-
Excess of revenues (under) expenditures and other uses	<u>\$ -</u>	<u>\$ 87,126</u>	<u>\$ 115,452</u>	<u>\$ 28,326</u>

SUPPLEMENTARY INFORMATION

City of Dunsmuir
Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2012

	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
ASSETS								
Cash	\$ 9,175	\$ -	\$ 39,803	\$ 52,114	\$ 68,511	\$ 103,638	\$ 2,997	\$ 276,238
Receivables (net of allowance for doubtful accounts, where applicable):								
Loans	-	-	-	218,159	109,080	58,141	-	385,380
Intergovernmental	-	11,795	-	-	-	-	-	11,795
Total assets	\$ 9,175	\$ 11,795	\$ 39,803	\$ 270,273	\$ 177,591	\$ 161,779	\$ 2,997	\$ 673,413
LIABILITIES AND FUND BALANCES								
Liabilities:								
Accounts payable	\$ -	\$ 6,029	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,029
Due to other funds	-	17,834	-	10,119	-	-	-	17,834
Deferred revenue	-	-	-	10,119	-	-	-	10,119
Total liabilities	-	23,863	-	10,119	-	-	-	33,982
Fund balances:								
Nonspendable:								
Noncurrent receivables	-	-	-	218,159	109,080	58,141	-	385,380
Restricted for:								
Streets and roads	9,175	-	-	-	-	-	-	9,175
Public safety	-	-	39,803	-	-	-	-	39,803
Community and economic development	-	-	-	41,995	68,511	103,638	2,997	217,141
Total	9,175	-	39,803	41,995	68,511	103,638	2,997	266,119
Unassigned	-	(12,068)	-	-	-	-	-	(12,068)
Total fund balance	9,175	(12,068)	39,803	260,154	177,591	161,779	2,997	639,431
Total liabilities and fund balance	\$ 9,175	\$ 11,795	\$ 39,803	\$ 270,273	\$ 177,591	\$ 161,779	\$ 2,997	\$ 673,413

City of Dunsmuir
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Non-Major Governmental Funds
For The Year Ended June 30, 2012

	Special Revenue						South Dunsmuir Sewer Assessment Fund	Total
	Local Transportation Fund	Gas Tax Fund	Fire Assessment Fund	EDBG Fund	EDBG Revolving Loan Fund	CDBG Revolving Loan Fund		
REVENUES								
Assessments	-	-	\$ 13,777	-	\$ -	\$ -	\$ 22,110	\$ 35,887
Intergovernmental revenues	34,312	87,026	-	27,799	-	-	-	149,137
Use of money and property	45	13	132	6,291	6,887	351	-	13,719
Total revenues	34,357	87,039	13,909	34,090	6,887	351	22,110	198,743
EXPENDITURES								
Current:								
Streets and roads	1,075	110,409	-	-	-	-	-	111,484
Transit assistance	34,312	-	-	-	-	-	-	34,312
Community and economic development	-	-	-	53,497	-	1,798	-	55,295
Bad debt expense (recovery)	-	-	-	69,883	(107,150)	-	-	(37,267)
Debt service:								
Principal	-	-	-	-	-	-	3,000	3,000
Interest	-	-	-	-	-	-	6,570	6,570
Total expenditures	35,387	110,409	-	123,380	(107,150)	1,798	9,570	173,394
Excess of revenues over (under) expenditures	(1,030)	(23,370)	13,909	(89,290)	114,037	(1,447)	12,540	25,349
OTHER FINANCING SOURCES (USES)								
Operating transfers in	-	25,866	-	-	45,361	18,312	-	89,539
Operating transfers out	-	-	-	(45,361)	-	-	-	(45,361)
Total other financing sources (uses)	-	25,866	-	(45,361)	45,361	18,312	-	44,178
Excess of revenues and other sources over (under) expenditures and other uses	(1,030)	2,496	13,909	(134,651)	159,398	16,865	12,540	69,527
FUND BALANCE								
Beginning of the year	10,205	(14,564)	25,894	394,805	18,193	144,914	(9,543)	569,904
End of the year	\$ 9,175	\$ (12,068)	\$ 39,803	\$ 260,154	\$ 177,591	\$ 161,779	\$ 2,997	\$ 639,431

SINGLE AUDIT SCHEDULES AND REPORTS

**City of Dunsmuir
Schedule of Expenditures of Federal Awards
For The Year Ended June 30, 2012**

<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	08-EDEF-5871	27,839	15,940
Community Development Block Grant/State's program	14.228	09-STBG-6403	<u>232,807</u>	<u>168,419</u>
Total Department of Housing and Urban Development Programs			<u>260,646</u>	<u>184,359</u>
Federal Aviation Administration				
Airport Improvement Program	20.106	N/A	<u>62,680</u>	<u>-</u>
Total Federal Aviation Administration Programs			<u>62,680</u>	<u>-</u>
Department of Homeland Security				
Assistance to Firefighters Grant	97.044	N/A	<u>241,793</u>	<u>-</u>
Total Department of Homeland Security Programs			<u>241,793</u>	<u>-</u>
Total Expenditure of Federal Awards			<u>\$ 565,119</u>	<u>\$ 184,359</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.



**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 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, 2012, which collectively comprise the City of Dunsmuir's basic financial statements, and have issued our report thereon dated December 20, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of City of Dunsmuir is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered City of Dunsmuir's internal control over financial reporting as a basis for designing our auditing procedures and 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Dunsmuir's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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. We consider the deficiency described in the accompanying schedule of findings as Item, 2012-1 to be a material weakness.

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 an instance of noncompliance or other matters that are required to be reported under Government Auditing Standards and which is described in the accompanying schedule of findings as Item 2012-1.

This report is intended solely for the information and use of management, City Council, others within the entity, Siskiyou County Auditor-Controller, and the California State Controller's Office, and is not intended to be and should not be used by anyone other than these specified parties.

Aiello, Goodrich & Teuscher

Aiello, Goodrich & Teuscher
An Accountancy Corporation
Mt. Shasta, California
December 20, 2012





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

To the City Council
City of Dunsmuir, California

Compliance

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, 2012. 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. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of City of Dunsmuir's management. Our responsibility is to express an opinion on City of Dunsmuir's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about 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.

As described in item 2012-A in the accompanying schedule of findings and questioned costs, City of Dunsmuir did not comply with requirements regarding subrecipient monitoring that are applicable to its Community Development Block Grant program. Compliance with such requirements is necessary, in our opinion, for City of Dunsmuir to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, City of Dunsmuir 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, 2012.

Internal Control Over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2012-A to be a material weakness.

City of Dunsmuir's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit City of Dunsmuir's responses and, accordingly, we express no opinion on the responses.

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



Aiello, Goodrich & Teuscher
An Accountancy Corporation
Mt. Shasta, CA
December 20, 2012

**City of Dunsmuir, California
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2012**

Summary of Auditors' Results

1. The auditors' report expresses an unqualified opinion on the financial statements of the City of Dunsmuir, California.
2. One material weakness relating to the audit of the financial statements is reported in the *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. One instance of noncompliance was disclosed that is material to the financial statements of the City of Dunsmuir, California.
4. One material weakness relating to the audit of the major federal awards programs is reported in the *Report On Compliance With Requirements Applicable To 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 a qualified opinion on the Community Development Block Grant program and an unqualified opinion on all other 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 programs tested as a major program were CFDA #14.228 – Community Development Block Grants/State's program and 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

2012-1 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.

Response: The City is working with the agency that supports the City's accounting software to reconcile the Utility Billing software to the general ledger.

**City of Dunsmuir, California
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2012**

Findings and Questioned Costs-Major Federal Award Programs Audit

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.

Response: 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 expire 12/31/2012 and the City intends to administer any future grant programs in house by securing a CDBG program specialist as city staff.

Summary of Prior Audit Findings

2011-1 Time study

Condition: The City allocates employees' time using set percentages. No time study has been done to support those percentages.

Criteria: A time study is necessary in order to properly allocate time between each fund.

Cause: The lack of documented time study cause a time allocation based on unsupportable means.

Effect: Without a time study, the amounts of administrative costs may be materially misallocated.

Recommendation: The City should either start using timecards and spread employee time by actual hours worked or perform a time study.

Status: The City performed a time study and has begun allocating time based on that study.

2011-2 Documentation of pay rate changes

Condition: Pay rate changes were not documented in employee files.

Criteria: Pay rate changes are required to be documented in employee files.

Cause: There is no documentation related to pay rate changes in employee files.

Effect: Without proper documentation, approval of pay rate changes is unknown.

Recommendation: The City should implement a procedure whereby all pay rate changes are documented in employee file and approved by appropriate City personnel and/or council.

Status: The City files have been updated with forms that document pay rate changes.

City of Dunsmuir, California
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2012

2011-3 Financial Reporting

Condition: Council does not receive financial reports on a regular basis.

Criteria: The Chief Financial Officer should present detailed financial information monthly, or at the very least, quarterly, in conformity with Policy No. 92-04.

Cause: Regular financial reports have not been produced.

Effect: Without timely reporting, Council is unaware of the City's financial position at any given point in time.

Recommendation: The City should implement a procedure whereby the Chief Financial Officer produces financial reports on a monthly or quarterly basis.

Status: Effective November, 2011, financial statements and cash reports are included in the City Council meeting agendas and packets quarterly.

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: As of the year ended June 30, 2012, this has not been resolved and has been reported as finding 2012-1.



Certified Public Accountants

Aiello, Goodrich & Tensecher

An Accountancy Corporation

Management Consultants

December 20, 2012

To the City Council
City of Dunsmuir
Dunsmuir, California

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund of City of Dunsmuir for the year ended June 30, 2012. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated September 30, 2010. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by City of Dunsmuir are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2011/2012. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate(s) affecting the City's financial statements was:

Management's estimate of the allowance for bad debts is based on past experience, receivable aging and the likelihood of collection. We evaluated the key factors and assumptions used to develop the allowance for bad debts in determining that it is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. The following material misstatements detected as a result of audit procedures were corrected by management:

