

**CITY OF DUNSMUIR, CALIFORNIA**

**FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED  
JUNE 30, 2010**



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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, the aggregate remaining fund information, and fiduciary fund type of the City of Dunsmuir, California, as of and for the year ended June 30, 2010, 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 management. Our responsibility is to express an opinion 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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, the aggregate remaining fund information, and fiduciary fund type of the City of Dunsmuir, California, as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, 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 January 13, 2011 on our consideration of City of Dunsmuir, California's internal control over financial reporting and 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 controls over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information 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. The City of Dunsmuir, California has not presented *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. Our opinion on the basic financial statements is not affected by this missing information. The budgetary comparison information is presented on pages 28 and 29. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual nonmajor fund financial statements on pages 30 and 31 are presented for the purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements 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  
January 13, 2011



**BASIC FINANCIAL STATEMENTS**

City of Dunsmuir  
Statement of Net Assets  
June 30, 2010

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Current assets:			
Cash and investments	\$ 960,562	\$ 1,119,507	\$ 2,080,069
Receivables (net of allowances for bad debts, where applicable):			
Trade accounts	-	81,383	81,383
Loans	1,654,219	-	1,654,219
Intergovernmental	56,906	-	56,906
Assessments and other	3,614	-	3,614
Internal balances	49,405	(49,405)	-
Total current assets	2,724,706	1,151,485	3,876,191
Restricted assets:			
Cash and investments	-	186,083	186,083
Capital assets:			
Non-depreciable	1,086,564	2,225,622	3,312,186
Depreciable, net	1,742,086	7,734,793	9,476,879
Amortizable, net	-	25,116	25,116
Total capital assets	2,828,650	9,985,531	12,814,181
Total assets	5,553,356	11,323,099	16,876,455
<b>LIABILITIES</b>			
Accounts payable	118,189	66,358	184,547
Accrued liabilities	43,350	51,336	94,686
Deferred revenue	409,493	3,702	413,195
Deposits	-	56,638	56,638
Other	450	-	450
Current portion of long-term debt	3,000	106,790	109,790
Current portion, unpaid pension obligation	48,477	-	48,477
Total current liabilities	622,959	284,824	907,783
Long-term liabilities:			
Long-term debt, net of current portion	111,000	1,978,850	2,089,850
Total liabilities	733,959	2,263,674	2,997,633
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	2,714,650	7,900,364	10,615,014
Restricted	-	186,083	186,083
Unrestricted	2,104,747	972,978	3,077,725
Total net assets	\$ 4,819,397	\$ 9,059,425	\$13,878,822

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

City of Dunsmuir  
Statement of Activities  
Year Ended June 30, 2010

	Program Revenues			Net (Expense) Revenues and Changes in Net Assets		
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<b>Governmental activities:</b>						
General government	\$ 429,682	\$ -	\$ -	\$ (410,864)	\$ -	\$ (410,864)
Health and welfare	2,114	-	-	(2,114)	-	(2,114)
Sanitation	6,930	-	-	(584)	-	(584)
Public safety	532,978	301,428	-	(146,249)	-	(146,249)
Streets and roads	429,207	-	-	(429,207)	-	(429,207)
Community and economic development	46,820	136,042	-	89,222	-	89,222
Total governmental activities	<u>1,447,731</u>	<u>437,470</u>	-	<u>(899,796)</u>	-	<u>(899,796)</u>
<b>Business-type activities:</b>						
Sewer	831,857	-	-	-	(243,037)	(243,037)
Solid waste	412,491	5,000	-	-	4,636	4,636
Water	442,742	-	-	-	(93,572)	(93,572)
Airport	225,128	-	47,035	-	(157,458)	(157,458)
Total business-type activities	<u>1,912,218</u>	<u>5,000</u>	<u>47,035</u>	-	<u>(489,431)</u>	<u>(489,431)</u>
Total primary government	<u>\$3,359,949</u>	<u>\$ 442,470</u>	<u>\$ 47,035</u>	<u>(899,796)</u>	<u>(489,431)</u>	<u>(1,389,227)</u>
<b>General revenues:</b>						
Taxes:						
Property				278,547	-	278,547
Sales				49,880	-	49,880
Other				147,337	-	147,337
Investment earnings				32,253	13,372	45,625
Other				291,903	-	291,903
Total general revenues				799,920	13,372	813,292
Change in net assets				(99,876)	(476,059)	(575,935)
Net assets, beginning				4,919,273	9,535,484	14,454,757
Net assets, ending				<u>\$4,819,397</u>	<u>\$ 9,059,425</u>	<u>\$13,878,822</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, 2010

	<u>General Fund</u>	<u>Community Development Block Grant Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>				
Cash and investments	\$ 634,913	\$ -	\$ 325,649	\$ 960,562
Receivables (net of allowance for doubtful accounts, where applicable):				
Loans	-	812,469	841,750	1,654,219
Intergovernmental	48,023	-	8,883	56,906
Assessments and other	1,024	2,590	-	3,614
Due from other funds	65,851	-	19,397	85,248
	<u>65,851</u>	<u>-</u>	<u>19,397</u>	<u>85,248</u>
Total assets	<u>\$ 749,811</u>	<u>\$ 815,059</u>	<u>\$ 1,195,679</u>	<u>\$ 2,760,549</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable	\$ 115,583	\$ -	\$ 2,606	\$ 118,189
Accrued liabilities	33,665	-	9,685	43,350
Due to other funds	-	15,072	20,771	35,843
Deferred revenue	409,493	-	-	409,493
Other	450	-	-	450
	<u>450</u>	<u>-</u>	<u>-</u>	<u>450</u>
Total liabilities	<u>559,191</u>	<u>15,072</u>	<u>33,062</u>	<u>607,325</u>
Fund balances:				
Reserved for noncurrent loans receivables and due from other funds	<u>57,960</u>	<u>812,469</u>	<u>841,750</u>	<u>1,712,179</u>
Unreserved:				
Designated for:				
Streets and roads	-	-	52,730	52,730
Public safety	-	-	72,203	72,203
Community and economic development	-	-	220,063	220,063
Total	<u>-</u>	<u>-</u>	<u>344,996</u>	<u>344,996</u>
Undesignated	<u>132,660</u>	<u>(12,482)</u>	<u>(24,129)</u>	<u>96,049</u>
Total fund balance	<u>190,620</u>	<u>799,987</u>	<u>1,162,617</u>	<u>2,153,224</u>
Total liabilities and fund balance	<u>\$ 749,811</u>	<u>\$ 815,059</u>	<u>\$ 1,195,679</u>	<u>\$ 2,760,549</u>

Total governmental fund balance, as above 2,153,224

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 2,828,650

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds (162,477)

Net assets of governmental activities \$ 4,819,397

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, 2010

	General Fund	Community Development Block Grant Fund	Other Governmental Funds	Total Governmental Funds
<u>REVENUES</u>				
Property taxes	\$ 278,547	\$ -	\$ -	278,547
Sales and use taxes	49,880	-	-	49,880
Transient occupancy taxes	108,899	-	-	108,899
Franchise and other licenses	38,437	-	-	38,437
Assessments	-	-	26,309	26,309
Licenses and permits	18,818	-	-	18,818
Intergovernmental revenues	301,428	-	136,042	437,470
Charges for services	59,463	-	-	59,463
Fines, forfeitures and penalties	5,875	-	-	5,875
Use of money and property	14,864	1,181	16,208	32,253
Other	288,325	3,578	-	291,903
Total revenues	<u>1,164,536</u>	<u>4,759</u>	<u>178,559</u>	<u>1,347,854</u>
<u>EXPENDITURES</u>				
Current:				
City council	27,943	-	-	27,943
City administrator	65,723	-	-	65,723
City clerk	6,650	-	-	6,650
City attorney	22,129	-	-	22,129
Planning	40,375	-	-	40,375
Finance and administration	176,867	-	-	176,867
Building inspection	18,714	-	-	18,714
Police protection	434,968	-	-	434,968
Fire protection	140,052	-	-	140,052
Streets and roads	104,658	-	133,872	238,530
Transit assistance	-	-	51,472	51,472
Buildings and grounds	56,901	-	-	56,901
Health and welfare	2,114	-	-	2,114
Community and economic development	12,413	23,965	10,442	46,820
Capital outlay	14,782	-	6,278	21,060
Debt service:				
Principal	-	-	3,000	3,000
Interest	-	-	6,930	6,930
Total expenditures	<u>1,124,289</u>	<u>23,965</u>	<u>211,994</u>	<u>1,360,248</u>
Excess of revenues over (under) expenditures	<u>40,247</u>	<u>(19,206)</u>	<u>(33,435)</u>	<u>(12,394)</u>
<u>OTHER FINANCING SOURCES (USES)</u>				
Operating transfers in	-	-	102,829	102,829
Operating transfers out	(33,996)	(3,110)	(65,723)	(102,829)
Total other financing sources (uses)	<u>(33,996)</u>	<u>(3,110)</u>	<u>37,106</u>	<u>-</u>
Excess of revenues and other sources over (under) expenditures and other uses	6,251	(22,316)	3,671	(12,394)
<u>FUND BALANCE</u>				
Beginning of year	184,369	822,303	1,158,946	2,165,618
End of the year	<u>\$ 190,620</u>	<u>\$ 799,987</u>	<u>\$ 1,162,617</u>	<u>\$ 2,153,224</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, 2010

Change in fund balance, governmental funds	\$ (12,394)
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. This is the amount by which depreciation expense (\$156,533) exceeds capital outlays (\$21,060) in the current period.	(135,473)
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 report repayment of unpaid pension obligations as an expenditure, but the repayment reduces a long-term liability in the Statement of Net Assets and does not affect the Statement of Activities.	44,990
Other	<u>1</u>
Change in net assets of governmental activities	<u><u>\$ (99,876)</u></u>

City of Dunsmuir  
Statement of Net Assets  
Proprietary Funds  
June 30, 2010

	Enterprise				Total
	Sewer Fund	Solid Waste Fund	Water Fund	Airport Fund	
<b>ASSETS</b>					
Current assets:					
Cash and investments	\$ 530,944	\$ 402,621	\$ 174,878	\$ 11,064	\$1,119,507
Receivables (net of allowances for bad debts, where applicable):					
Trade accounts	37,923	17,817	25,643	-	81,383
Due from other funds	8,555	-	-	-	8,555
Total current assets	<u>577,422</u>	<u>420,438</u>	<u>200,521</u>	<u>11,064</u>	<u>1,209,445</u>
Restricted assets:					
Cash and investments	71,199	-	114,884	-	186,083
Capital assets:					
Non-depreciable	158,272	-	166,831	1,900,519	2,225,622
Depreciable, net	3,419,679	77,240	3,014,178	1,223,696	7,734,793
Amortizable, net	-	-	25,116	-	25,116
Total capital assets, net	<u>3,577,951</u>	<u>77,240</u>	<u>3,206,125</u>	<u>3,124,215</u>	<u>9,985,531</u>
Total assets	<u>4,226,572</u>	<u>497,678</u>	<u>3,521,530</u>	<u>3,135,279</u>	<u>11,381,059</u>
<b>LIABILITIES</b>					
Current liabilities:					
Accounts payable	38,782	12,983	14,574	19	66,358
Accrued liabilities	20,908	16,499	12,410	1,519	51,336
Due to other funds	-	-	-	57,960	57,960
Deferred revenue	2,175	-	-	1,527	3,702
Deposits	-	-	56,638	-	56,638
Current portion of long-term debt	29,000	-	77,790	-	106,790
Total current liabilities	<u>90,865</u>	<u>29,482</u>	<u>161,412</u>	<u>61,025</u>	<u>342,784</u>
Long-term liabilities:					
Long-term debt, net of current portion	1,168,000	-	810,850	-	1,978,850
Total liabilities	<u>1,258,865</u>	<u>29,482</u>	<u>972,262</u>	<u>61,025</u>	<u>2,321,634</u>
<b>NET ASSETS</b>					
Invested in capital assets, net of related debt	2,380,951	77,240	2,317,485	3,124,688	7,900,364
Restricted for debt service	71,199	-	114,884	-	186,083
Unrestricted	515,557	390,956	116,899	(50,434)	972,978
Total net assets	<u>\$2,967,707</u>	<u>\$ 468,196</u>	<u>\$2,549,268</u>	<u>\$3,074,254</u>	<u>\$9,059,425</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, 2010

	Enterprise				Total
	Sewer Fund	Solid Waste Fund	Water Fund	Airport Fund	
<b>REVENUES</b>					
User fees and charges	\$ 588,820	\$ 412,127	\$ 347,378	\$ -	\$1,348,325
Facilities rent	-	-	-	15,467	15,467
Other	-	-	1,792	5,168	6,960
Total operating revenues	<u>588,820</u>	<u>412,127</u>	<u>349,170</u>	<u>20,635</u>	<u>1,370,752</u>
<b>OPERATING EXPENSES</b>					
Personnel and related expenses	227,353	84,550	127,757	7,435	447,095
Contract services	12,926	175,832	5,236	3,911	197,905
General and administrative services	225,020	70,406	64,132	-	359,558
Repairs and maintenance	83,421	33,852	12,786	897	130,956
Materials and supplies	11,257	1,828	24,132	1,295	38,512
Insurance and permits	76,763	16,737	21,932	7,173	122,605
Depreciation and amortization	141,604	29,286	142,110	204,417	517,417
Total operating expenses	<u>778,344</u>	<u>412,491</u>	<u>398,085</u>	<u>225,128</u>	<u>1,814,048</u>
Operating income (loss)	<u>(189,524)</u>	<u>(364)</u>	<u>(48,915)</u>	<u>(204,493)</u>	<u>(443,296)</u>
<b>OTHER REVENUES (EXPENSES)</b>					
Intergovernmental revenues	-	5,000	-	47,035	52,035
Interest earned	10,426	2,593	353	-	13,372
Interest expense	(53,513)	-	(44,657)	-	(98,170)
Total other revenues (expenses)	<u>(43,087)</u>	<u>7,593</u>	<u>(44,304)</u>	<u>47,035</u>	<u>(32,763)</u>
Change in net assets	<u>(232,611)</u>	<u>7,229</u>	<u>(93,219)</u>	<u>(157,458)</u>	<u>(476,059)</u>
<b>NET ASSETS</b>					
Beginning of year	<u>3,200,318</u>	<u>460,967</u>	<u>2,642,487</u>	<u>3,231,712</u>	<u>9,535,484</u>
End of the year	<u>\$2,967,707</u>	<u>\$ 468,196</u>	<u>\$2,549,268</u>	<u>\$3,074,254</u>	<u>\$9,059,425</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, 2010

	Enterprise				Total
	Sewer Fund	Solid Waste Fund	Water Fund	Airport Fund	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Receipts from customers	\$ 582,486	\$ 410,336	\$ 362,144	\$ 22,162	\$1,377,128
Payments to suppliers	(377,008)	(293,078)	(122,170)	(6,198)	(798,454)
Payments to employees	(215,907)	(71,011)	(120,531)	(13,943)	(421,392)
Net cash provided (used) by operating activities	<u>(10,429)</u>	<u>46,247</u>	<u>119,443</u>	<u>2,021</u>	<u>157,282</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>					
Receipt of intergovernmental revenues	-	5,000	-	103,289	108,289
Interfund transfers and payments	(897)	-	-	(40,151)	(41,048)
Net cash provided (used) by non-capital financing activities	<u>(897)</u>	<u>5,000</u>	<u>-</u>	<u>63,138</u>	<u>67,241</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING</b>					
Purchase of fixed assets	(267,054)	-	(34,772)	(52,568)	(354,394)
Principal payments on debt	(27,000)	-	(72,790)	-	(99,790)
Interest payments on debt	(53,513)	-	(44,657)	-	(98,170)
Net cash (used) by investing activities	<u>(347,567)</u>	<u>-</u>	<u>(152,219)</u>	<u>(52,568)</u>	<u>(552,354)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Interest income received	10,426	2,593	353	-	13,372
Net increase (decrease) in cash	(348,467)	53,840	(32,423)	12,591	(314,459)
<b>CASH</b>					
Beginning of the year	950,610	348,781	322,185	-	1,621,576
End of the year	<u>\$ 602,143</u>	<u>\$ 402,621</u>	<u>\$ 289,762</u>	<u>\$ 12,591</u>	<u>\$1,307,117</u>
Comprised of:					
Cash and investments	\$ 530,944	\$ 402,621	\$ 174,878	\$ 11,064	\$1,119,507
Restricted cash and investments	71,199	-	114,884	-	186,083
Total cash and cash investments	<u>\$ 602,143</u>	<u>\$ 402,621</u>	<u>\$ 289,762</u>	<u>\$ 11,064</u>	<u>\$1,305,590</u>
Reconciliation of operating income (loss) to cash provided (used) by operating activities:					
Operating income (loss)	\$ (189,524)	\$ (364)	\$ (48,915)	\$ (204,493)	\$ (443,296)
Adjustments to reconcile operating income (loss) to cash provided (used) by operating activities:					
Depreciation and amortization	141,604	29,286	142,110	204,417	517,417
(Increase) decrease in trade accounts receivable	(6,334)	(1,791)	11,662	-	3,537
Increase (decrease) in accounts payable	32,379	5,577	6,048	(667)	43,337
Increase (decrease) in accrued liabilities	11,446	13,539	7,226	1,237	33,448
Increase in deferred revenue	-	-	1,312	1,527	2,839
Net cash provided (used) by operating activities	<u>\$ (10,429)</u>	<u>\$ 46,247</u>	<u>\$ 119,443</u>	<u>\$ 2,021</u>	<u>\$ 157,282</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, 2010

	<u>Agency Fund</u>
<u>ASSETS</u>	
Cash and investments	<u>\$ 12,014</u>
<u>LIABILITIES</u>	
Agency obligations	<u>\$ 12,014</u>

**City of Dunsmuir, California**  
**Notes to the Basic Financial Statements**  
**June 30, 2010**

**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, 2010**

**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, 2010

**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 and CDBG Revolving Loan Funds: 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, 2010**

**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, 2010

**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.

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.

Equity Classifications:

In the government-wide financial statements, equity is classified as net assets and displayed as follows:

**City of Dunsmuir, California**  
**Notes to the Basic Financial Statements**  
**June 30, 2010**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Invested in capital assets, net of related debt, which consist of capital assets net of accumulated depreciation and reduced by any outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction or improvement of those assets.

Restricted net assets, which consists of net assets with constraints placed on the use either by external groups such as creditors, grantors, contributors, or laws or regulations of other governments, or by law through constitutional provisions or enabling legislation.

Unrestricted net assets, which consists of all other net assets that do not meet the definition of restricted or invested in capital assets, net of related debt.

In the fund financial statements, governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further split between designated and undesignated. Proprietary fund equity is classified the same as in the government-wide financial statements.

**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.

**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.

City of Dunsmuir, California  
Notes to the Basic Financial Statements  
June 30, 2010

**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, 2010 are classified in the accompanying financial statements as follows:

Statement of net assets:	
Current cash and investments	\$ 2,080,069
Restricted cash and investments	186,083
Statement of fiduciary net assets	<u>12,014</u>
Total cash and investments	<u>\$ 2,278,166</u>
Consisting of the following:	
Cash on hand	\$ 350
Deposits with financial institutions	972,334
Investments	<u>1,305,482</u>
	<u>\$ 2,278,166</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, 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.

	Cost	Fair Value	Maturity Date
Local Agency Investment Fund	<u>\$1,305,482</u>	<u>\$1,305,482</u>	203 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.

**City of Dunsmuir, California**  
**Notes to the Basic Financial Statements**  
**June 30, 2010**

**NOTE 2 CASH AND INVESTMENTS (continued)**

**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 \$972,398, and differs from the book balance of \$972,334 because of outstanding checks. All of the City's deposits with financial institutions were insured by federal depository insurance.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in possession of another party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF).

**Investment in State Investment Pool (LAIF):**

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

**NOTE 3 LOANS RECEIVABLE**

The following is the composition of loans receivable at June 30, 2010:

	<u>CDBG Fund</u>	<u>EDBG Fund</u>	<u>EDBG,CDBG Revolving Loan Funds</u>	<u>Total</u>
Mortgage loans	\$ 812,469	\$ 550,265	\$ 390,685	\$ 1,753,419
Less allowance for bad debts	-	(99,200)	-	(99,200)
Total	<u>\$ 812,469</u>	<u>\$ 451,065</u>	<u>\$ 390,685</u>	<u>\$ 1,654,219</u>

City of Dunsmuir, California  
Notes to the Basic Financial Statements  
June 30, 2010

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

The following is a summary of the interfund receivables and payables at June 30, 2010:

Due From:	Due To:				Total
	General Fund	Local Trans. Fund	CDBG Revolve Loan Fund	Sewer Fund	
Airport Fund	\$57,960	\$ -	\$ -	\$ -	\$57,960
Gas Tax Fund	7,891	4,325	-	-	12,216-
So Dunsmuir Sewer Assess.	-	-	-	8,555	8,555-
CDBG	-	-	15,072	-	15,072
	-	-	-	-	-
	<u>\$65,851</u>	<u>\$4,325</u>	<u>\$15,072</u>	<u>\$ 8,555</u>	<u>\$93,803</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 operating transfers in/out:

Transfer In To:	Transfer Out From:			Total
	General Fund	EDBG	CDBG	
Gas Tax Fund	\$33,996	\$ -	\$ -	\$ 33,996
EDBG RLF	-	65,723	-	65,723
CDBG RLF	-	-	3,110-	3,110
	<u>\$33,996</u>	<u>65,723</u>	<u>3,110</u>	<u>\$102,829</u>

Operating transfer to the Gas Tax Fund is for snow removal 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.

City of Dunsmuir, California  
Notes to the Basic Financial Statements  
June 30, 2010

**NOTE 5 CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2010 was as follows:

	June 30, 2009	Additions and Transfers	Retirements and Transfers	June 30, 2010
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 1,081,800	\$ -	\$ -	\$ 1,081,800
Construction in progress	2,560	2,204	-	4,764
Total capital assets not being depreciated:	<u>1,084,360</u>	<u>2,204</u>	<u>-</u>	<u>1,086,564</u>
Capital assets being depreciated:				
Buildings	1,409,864	-	-	1,409,864
Machinery and equipment	824,289	-	-	824,289
Infrastructure	2,498,950	18,856	-	2,517,806
Total capital assets being depreciated	<u>4,733,103</u>	<u>18,856</u>	<u>-</u>	<u>4,751,959</u>
Less accumulated depreciation for:				
Buildings	1,288,767	9,730	-	1,298,497
Machinery and equipment	774,869	21,381	-	796,250
Infrastructure	789,704	125,422	-	915,126
Total accumulated depreciation	<u>2,853,340</u>	<u>156,533</u>	<u>-</u>	<u>3,009,873</u>
Total capital assets being depreciated, net	<u>1,879,763</u>	<u>(137,677)</u>	<u>-</u>	<u>1,742,086</u>
Subtotal, governmental activities	<u>2,964,123</u>	<u>(135,473)</u>	<u>-</u>	<u>2,828,650</u>
Business-type activities:				
Capital assets not being depreciated:				
Land	1,718,508	-	-	1,718,508
Construction in progress	426,266	80,848	-	507,114
Total capital assets not being depreciated	<u>2,144,774</u>	<u>80,848</u>	<u>-</u>	<u>2,225,622</u>
Capital assets being depreciated:				
Utility plant	7,743,890	34,772	-	7,778,662
Buildings	240,861	-	-	240,861
Improvements not buildings	2,643,701	-	-	2,643,701
Machinery and equipment	758,756	238,780	-	997,536
Total capital assets being depreciated	<u>11,387,208</u>	<u>273,552</u>	<u>-</u>	<u>11,660,760</u>

**City of Dunsmuir, California**  
**Notes to the Basic Financial Statements**  
**June 30, 2010**

	June 30, 2009	Additions and Transfers	Retirements and Transfers	June 30, 2010
Less accumulated depreciation for:				
Utility plant	1,962,627	193,702	-	2,156,329
Buildings	62,896	10,245	-	73,141
Improvements not buildings	952,653	211,397	-	1,164,050
Machinery and equipment	436,116	96,331	-	532,447
Total accumulated depreciation	3,414,292	511,675	-	3,925,967
 Total capital assets being depreciated, net	 7,972,916	 (238,123)	 -	 7,734,793
 Capital assets being amortized:				
Organization costs	109,530	-	-	109,530
 Less accumulated amortization for:				
Organization costs	78,672	5,742	-	84,414
Total capital assets being amortized, net	30,858	(5,742)	-	25,116
Subtotal, business-type activities	10,148,548	(163,017)	-	9,985,531
Total, government-wide	\$ 13,112,671	\$ (298,490)	\$ -	\$ 12,814,181

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

Governmental activities:		
General government		\$ 14,380
Public safety		2,948
Streets and roads		139,205
Total depreciation and amortization expense – governmental activities		\$ 156,533
Business-type activities:		
Sewer fund		\$ 141,604
Solid waste fund		29,286
Water fund		142,110
Airport fund		204,417
Total depreciation and amortization expense – business-type activities		\$ 517,417

**City of Dunsmuir, California**  
**Notes to the Basic Financial Statements**  
**June 30, 2010**

**NOTE 6 LONG TERM DEBT**

The following is a summary of Governmental activities long-term liabilities activity during the year ended June 30, 2010:

	<u>June 30,</u> <u>2009</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30,</u> <u>2010</u>	<u>Current</u> <u>Portion</u>
Bonds and notes payable:					
So. Dunsmuir Sewer Assessment system	\$ 117,000	\$ -	\$ 3,000	\$ 114,000	\$ 3,000
Other liabilities:					
Unpaid pension obligation, prior Public Safety	<u>93,467</u>	<u>-</u>	<u>44,990</u>	<u>48,477</u>	<u>48,477</u>
Total Governmental activities long-term liabilities	<u>\$ 210,467</u>	<u>\$ -</u>	<u>\$ 47,990</u>	<u>\$ 162,477</u>	<u>\$ 51,477</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. The unpaid pension obligation will be liquidated by the General Fund. The unpaid pension obligation relates to the City's former police department, which is no longer in existence.

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

	<u>So. Dunsmuir Sewer</u> <u>Assessment</u>	
Interest rate	6.00%	
Maturity date	September 2, 2030	
	<u>Principal</u>	<u>Interest</u>
<u>Year Ended June 30,:</u>		
2011	\$ 3,000	\$ 6,840
2012	3,000	6,660
2013	3,000	6,480
2014	3,000	6,300
2015	4,000	6,120
2016-2020	22,000	26,940
2021-2025	29,000	19,620
2026-2030	39,000	9,720
2031-2035	8,000	480
Total	<u>\$ 114,000</u>	<u>\$ 89,160</u>

**City of Dunsmuir, California**  
**Notes to the Basic Financial Statements**  
**June 30, 2010**

The following is a summary of Business-type activities long-term liabilities activity during the year ended June 30, 2010:

	June 30, 2009	Additions	Reductions	June 30, 2010	Current Portion
Bonds and notes payable:					
1974 Sewer Revenue Bonds	\$ 51,000	\$ -	\$ 9,000	\$ 42,000	\$ 10,000
1994 Sewer Improvement Certificates of Participation	436,000	-	9,000	427,000	10,000
2007 USDA Sewer Loan	737,000	-	9,000	728,000	9,000
Total sewer fund	<u>1,224,000</u>	<u>-</u>	<u>27,000</u>	<u>1,197,000</u>	<u>29,000</u>
2000 Water Certificates of Participation	420,000	-	60,000	360,000	65,000
1994 Water Improvement Certificates of Participation	494,000	-	10,000	484,000	10,000
2005 Water System Loan	47,430	-	2,790	44,640	2,790
Total water fund	<u>961,430</u>	<u>-</u>	<u>72,790</u>	<u>888,640</u>	<u>77,790</u>
Total Business-type activities long term liabilities	<u>\$ 2,185,430</u>	<u>\$ -</u>	<u>\$ 99,790</u>	<u>\$ 2,085,640</u>	<u>\$ 106,790</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:

	1974 Sewer Revenue Bonds		1994 Sewer Certificates of Participation		2007 USDA Sewer Loan	
	Principal	Interest	Principal	Interest	Principal	Interest
Interest rate	5.00%		4.50%		4.25%	
Maturity date	November 1, 2013		May 1, 2035		May 1, 2046	
Year Ended June 30,;						
2011	\$ 10,000	\$ 2,100	\$ 10,000	\$ 19,215	\$ 9,000	\$ 30,558
2012	10,000	1,600	10,000	18,765	9,000	30,175
2013	11,000	1,100	11,000	18,315	10,000	29,750
2014	11,000	550	11,000	17,820	10,000	29,325
2015	-	-	11,000	17,325	11,000	28,857
2016-2020	-	-	65,000	78,570	59,000	136,977
2021-2025	-	-	82,000	62,460	74,000	122,528
2026-2030	-	-	101,000	42,345	91,000	104,762
2031-2035	-	-	126,000	17,550	111,000	82,875
2036-2040	-	-	-	-	137,000	56,185
2041-2045	-	-	-	-	169,000	22,270
2046-2050	-	-	-	-	38,000	808
Total	<u>\$ 42,000</u>	<u>\$ 5,350</u>	<u>\$ 427,000</u>	<u>\$ 292,365</u>	<u>\$ 728,000</u>	<u>\$ 675,070</u>

**City of Dunsmuir, California**  
**Notes to the Basic Financial Statements**  
**June 30, 2010**

**NOTE 6 LONG TERM DEBT (continued)**

	2000 Water Certificates of Participation		1994 Water Improvement Certificates of Participation		2005 Water System Loan	
	Principal	Interest	Principal	Interest	Principal	Interest
Interest rate	4.350 – 5.125%		5.13%		Not applicable	
Maturity date	August 14, 2014		May 1, 2035		July, 1 2026	
<b>Year Ended June 30, :</b>						
2011	\$ 65,000	\$ 16,339	\$ 10,000	\$ 24,753	\$ 2,790	\$ -
2012	70,000	13,056	11,000	24,241	2,790	-
2013	70,000	9,600	11,000	23,677	2,790	-
2014	75,000	5,975	12,000	23,114	2,790	-
2015	80,000	2,050	13,000	22,499	2,790	-
2016-2020	-	-	74,000	101,988	13,950	-
2021-2025	-	-	95,000	80,975	13,950	-
2026-2030	-	-	123,000	54,018	2,790	-
2031-2035	-	-	135,000	19,373	-	-
2036-2040	-	-	-	-	-	-
<b>Total</b>	<b>\$ 360,000</b>	<b>\$ 47,020</b>	<b>\$ 484,000</b>	<b>\$ 374,638</b>	<b>\$ 44,640</b>	<b>\$ -</b>

Year Ended June 30, :	Total	
	Principal	Interest
2011	\$ 106,790	\$ 92,965
2012	112,790	87,838
2013	115,790	82,442
2014	121,790	76,784
2015	117,790	70,731
2016-2020	211,950	317,535
2021-2025	264,950	265,963
2026-2030	317,790	201,125
2031-2035	372,000	119,798
2036-2040	137,000	56,185
2041-2045	169,000	22,270
2046-2050	38,000	807
<b>Total</b>	<b>\$ 2,085,640</b>	<b>\$ 1,394,443</b>

**NOTE 7 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

**City of Dunsmuir, California**  
**Notes to the Basic Financial Statements**  
**June 30, 2010**

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, 2010 was 7.543%. 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, 2010 the City's annual pension cost was \$ 27,370, which is also the amount the City contributed. The required contribution for the year ended June 30, 2010 was determined as part of the June 30, 2007 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, 2010 was 29 years. The City also paid the employees contributions, which totaled \$ 24,321 for the year ended June 30, 2010.

Three Year Trend Information:

	June 30, 2010	June 30, 2009	June 30, 2008
Annual Pension Cost (APC)	\$ 27,370	\$ 27,000	\$ 25,310
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, 2008</u>	<u>June 30, 2007</u>	<u>June 30, 2006</u>
Actuarial value of assets	\$ 390,402,716	\$ 377,230,242	\$ 371,203,956
Actuarial accrued liability (AAL) – entry age	399,268,718	391,672,319	389,558,550
Unfunded (overfunded) AAL (UAAL)	8,866,002	14,442,077	18,354,594
Funded ratio	97.8%	96.3%	95.3%

The City also has an unfunded pension obligation that relates to the City's former police department, which is no longer in existence. See Note 6.

City of Dunsmuir, California  
Notes to the Basic Financial Statements  
June 30, 2010

**NOTE 8 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 9 DEFICIT FUND BALANCE**

At June 30, 2010, the following funds had deficit fund balances: Gas Tax Fund \$15,574 and South Dunsmuir Sewer Assessment Fund \$8,555. The City expects the deficits to be cleared in future years with the revenues of normal operations, transfers in from other funds and/or a reduction in services.

**NOTE 10 OVEREXPENDITURE OF BUDGET**

For the year ended June 30, 2009 the following funds over expended the approved budget by the following amounts:

General fund	\$ (57,934)
CDBG fund	(15,317)

**NOTE 10 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, 2010 for business activities were restricted for debt service.

**NOTE 11 RESERVED AND DESIGNATED FUND BALANCES**

Fund balances, which are not available for appropriation or are not considered expendable available financial resources are reserved. Unreserved fund balances that have been earmarked for specified purposes are considered designated.

Reserved fund balances consist of amounts reserved for noncurrent loan receivables and noncurrent due from other funds.

Unreserved, designated fund balances are designated for fund purpose.

**NOTE 12 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, 2010

	Original Budget	Final Budget	Actual Amounts	Favorable (Unfavorable) Variance With Final Budget
<b>REVENUES</b>				
Property taxes	\$ 260,470	\$ 276,115	\$ 278,547	\$ 2,432
Sales and use taxes	66,100	57,003	49,880	(7,123)
Transient occupancy taxes	110,200	106,732	108,899	2,167
Franchise and other licenses	41,700	38,741	38,437	(304)
Licenses and permits	30,508	27,413	18,818	(8,595)
Intergovernmental revenues	314,770	311,182	301,428	(9,754)
Charges for services	25,869	33,940	59,463	25,523
Fines, forfeitures and penalties	5,400	5,629	5,875	246
Use of money and property	10,500	10,177	14,864	4,687
Other	214,070	264,578	288,325	23,747
Total revenues	1,079,587	1,131,510	1,164,536	33,026
<b>EXPENDITURES</b>				
Current:				
City council	1,150	29,745	27,943	1,802
City administrator	75,934	71,841	65,723	6,118
City clerk	7,227	7,298	6,650	648
City attorney	20,000	20,000	22,129	(2,129)
Planning	31,837	30,105	40,375	(10,270)
Finance and administration	118,378	154,828	176,867	(22,039)
Building inspection	19,250	20,496	18,714	1,782
Police protection	497,046	463,008	434,968	28,040
Fire protection	77,669	98,463	140,052	(41,589)
Streets and roads	77,144	82,136	104,658	(22,522)
Buildings and grounds	47,824	54,648	56,901	(2,253)
Health and welfare	2,415	2,024	2,114	(90)
Community and economic development	2,500	31,763	12,413	19,350
Capital outlay	-	-	14,782	(14,782)
Total expenditures	978,374	1,066,355	1,124,289	(57,934)
Excess of revenues over (under) expenditures	101,213	65,155	40,247	(24,908)
<b>OTHER FINANCING SOURCES (USES)</b>				
Operating transfers out	(34,000)	(44,000)	(33,996)	10,004
Total other financing sources (uses)	(34,000)	(44,000)	(33,996)	10,004
Excess of revenues and other sources over (under) expenditures and other uses	\$ 67,213	\$ 21,155	\$ 6,251	\$ (14,904)

City of Dunsmuir  
 Budgetary Comparison Schedule  
 Community Development Block Grant Fund  
 For The Year Ended June 30, 2010

	Original Budget	Final Budget	Actual Amounts	Favorable (Unfavorable) Variance With Final Budget
<u>REVENUES</u>				
Use of money and property	\$ 899	\$ 563	\$ 1,181	\$ 618
Other	45	8	3,578	3,570
Total revenues	944	571	4,759	4,188
<u>EXPENDITURES</u>				
Current:				
Community and economic development	12,482	8,648	23,965	(15,317)
Excess of revenues (under) expenditures	(11,538)	(8,077)	(19,206)	(11,129)
<u>OTHER FINANCING (USES)</u>				
Operating transfers out	(3,621)	(3,185)	(3,110)	75
Total other financing sources (uses)	(3,621)	(3,185)	(3,110)	75
Excess of revenues (under) expenditures and other uses	\$ (15,159)	\$ (11,262)	\$ (22,316)	\$ (11,054)

SUPPLEMENTARY INFORMATION

City of Dunsmuir  
Combining Balance Sheet  
Non-Major Governmental Funds  
June 30, 2010

	Special Revenue						Total
	Local Transportation Fund	Gas Tax Fund	Fire Assessment Fund	EDBG Fund	EDBG Revolving Loan Fund	CDBG Revolving Loan Fund	
<b>ASSETS</b>							
Cash	\$ 48,455	\$ -	\$ 72,203	\$ 97,618	\$ 33,546	\$ 73,827	\$ 325,649
Receivables (net of allowance for doubtful accounts, where applicable):							
Loans	-	-	-	451,065	246,057	144,628	841,750
Intergovernmental	-	8,883	-	-	-	-	8,883
Assessments and other	-	-	-	-	-	-	-
Due from other funds	4,325	-	-	-	-	15,072	19,397
<b>Total assets</b>	<b>\$ 52,780</b>	<b>\$ 8,883</b>	<b>\$ 72,203</b>	<b>\$ 548,683</b>	<b>\$ 279,603</b>	<b>\$ 233,527</b>	<b>\$ 1,195,679</b>

**LIABILITIES AND FUND BALANCES**

<b>Liabilities:</b>							
Accounts payable	\$ 50	\$ 2,556	\$ -	\$ -	\$ -	\$ -	\$ 2,606
Accrued liabilities	-	9,685	-	-	-	-	9,685
Due to other funds	-	12,216	-	-	-	-	20,771
<b>Total liabilities</b>	<b>50</b>	<b>24,457</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>33,062</b>
<b>Fund balances:</b>							
Fund balance (deficit):							
Reserved for noncurrent receivables	-	-	-	451,065	246,057	144,628	841,750
Unreserved:							
Designated for:							
Streets and roads	52,730	-	-	-	-	-	52,730
Public safety	-	-	72,203	-	-	-	72,203
Community and economic development	-	-	-	97,618	33,546	88,899	220,063
<b>Total</b>	<b>52,730</b>	<b>-</b>	<b>72,203</b>	<b>97,618</b>	<b>33,546</b>	<b>88,899</b>	<b>344,996</b>
Undesignated	-	(15,574)	-	-	-	-	(24,129)
<b>Total fund balance</b>	<b>52,730</b>	<b>(15,574)</b>	<b>72,203</b>	<b>548,683</b>	<b>279,603</b>	<b>233,527</b>	<b>1,162,617</b>
<b>Total liabilities and fund balance</b>	<b>\$ 52,780</b>	<b>\$ 8,883</b>	<b>\$ 72,203</b>	<b>\$ 548,683</b>	<b>\$ 279,603</b>	<b>\$ 233,527</b>	<b>\$ 1,195,679</b>

City of Dunsmuir  
 Combining Statement of Revenues, Expenditures and Changes in Fund Balances  
 Non-Major Governmental Funds  
 For The Year Ended June 30, 2010

	Special Revenue						Total
	Local Transportation Fund	Gas Tax Fund	Fire Assessment Fund	EDBG Fund	EDBG Revolving Loan Fund	CDBG Revolving Loan Fund	
<b>REVENUES</b>							
Assessments	\$ -	\$ -	\$ 19,963	\$ -	\$ -	\$ -	\$ 6,346
Intergovernmental revenues	51,472	80,018	-	4,552	-	-	-
Use of money and property	245	75	416	13,131	1,469	872	-
Total revenues	<u>51,717</u>	<u>80,093</u>	<u>20,379</u>	<u>17,683</u>	<u>1,469</u>	<u>872</u>	<u>6,346</u>
<b>EXPENDITURES</b>							
Current:							
Streets and roads	2,490	131,382	-	-	-	-	-
Transit assistance	51,472	-	-	-	-	-	-
Community and economic development	-	-	-	4,979	311	5,152	-
Capital outlay	6,278	-	-	-	-	-	-
Debt service:							
Principal	-	-	-	-	-	-	3,000
Interest	-	-	-	-	-	-	6,930
Total expenditures	<u>60,240</u>	<u>131,382</u>	<u>-</u>	<u>4,979</u>	<u>311</u>	<u>5,152</u>	<u>9,930</u>
Excess of revenues over (under) expenditures	<u>(8,523)</u>	<u>(51,289)</u>	<u>20,379</u>	<u>12,704</u>	<u>1,158</u>	<u>(4,280)</u>	<u>(3,584)</u>
<b>OTHER FINANCING SOURCES (USES)</b>							
Operating transfers in	-	33,996	-	-	65,723	3,110	-
Operating transfers out	-	-	-	(65,723)	-	-	-
Total other financing sources (uses)	-	<u>33,996</u>	<u>-</u>	<u>(65,723)</u>	<u>65,723</u>	<u>3,110</u>	<u>-</u>
Excess of revenues and other sources over (under) expenditures and other uses	<u>(8,523)</u>	<u>(17,293)</u>	<u>20,379</u>	<u>(53,019)</u>	<u>66,881</u>	<u>(1,170)</u>	<u>(3,584)</u>
<b>FUND BALANCE</b>							
Beginning of year	<u>61,253</u>	<u>1,719</u>	<u>51,824</u>	<u>601,702</u>	<u>212,722</u>	<u>234,697</u>	<u>(4,971)</u>
End of the year	<u>\$ 52,730</u>	<u>\$ (15,574)</u>	<u>\$ 72,203</u>	<u>\$ 548,683</u>	<u>\$ 279,603</u>	<u>\$ 233,527</u>	<u>\$ (8,555)</u>



**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, business-type activities, each major fund the aggregate remaining fund information, and fiduciary fund types of the City of Dunsmuir as of and for the year ended June 30, 2010, which collectively comprise the City of Dunsmuir's basic financial statements, and have issued our report thereon dated January 13, 2011. 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

In planning and performing our audit, we considered the City of Dunsmuir's internal control over financial reporting as a basis for designing our auditing procedures 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.

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

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

Compliance and Other Matters

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

This report is intended solely for the information and use of management, City Council, and 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*  
Aiello, Goodrich & Teuscher  
An Accountancy Corporation  
Mt. Shasta, California  
January 13, 2011