

**CITY OF DUNSMUIR, CALIFORNIA**

**FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED  
JUNE 30, 2011**



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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, 2011, 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, 2011, 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 27, 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 the 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 30 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'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 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  
An Accountancy Corporation  
Mt. Shasta, California  
January 27, 2012

**BASIC FINANCIAL STATEMENTS**

City of Dunsmuir  
Statement of Net Assets  
June 30, 2011

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Current assets:			
Cash and investments	\$ 770,444	\$ 1,019,446	\$ 1,789,890
Receivables (net of allowances for bad debts, where applicable):			
Trade accounts	-	97,792	97,792
Loans	1,143,851	-	1,143,851
Intergovernmental	64,877	2,602	67,479
Prepaid expenses	6,771	-	6,771
Internal balances	43,540	(43,540)	-
Total current assets	<u>2,029,483</u>	<u>1,076,300</u>	<u>3,105,783</u>
Restricted assets:			
Cash and investments	-	310,606	310,606
Capital assets:			
Non-depreciable	1,156,564	2,225,613	3,382,177
Depreciable, net	2,084,185	7,410,668	9,494,853
Amortizable, net	-	19,374	19,374
Total capital assets	<u>3,240,749</u>	<u>9,655,655</u>	<u>12,896,404</u>
Total assets	<u>5,270,232</u>	<u>11,042,561</u>	<u>16,312,793</u>
<b>LIABILITIES</b>			
Accounts payable	119,625	22,481	142,106
Accrued liabilities	1,584	-	1,584
Deferred revenue	422,281	2,175	424,456
Deposits	-	64,595	64,595
Other	8,500	-	8,500
Current portion, compensated absences	-	14,991	14,991
Current portion of long-term debt	3,000	112,790	115,790
Total current liabilities	<u>554,990</u>	<u>217,032</u>	<u>772,022</u>
Long-term liabilities:			
Long-term compensated absences, net of current portion	42,553	46,600	89,153
Long-term debt, net of current portion	108,000	1,866,060	1,974,060
Total liabilities	<u>705,543</u>	<u>2,129,692</u>	<u>2,835,235</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	3,129,749	7,676,805	10,806,554
Restricted, spendable	-	310,606	310,606
Unrestricted	1,434,940	925,458	2,360,398
Total net assets	<u>\$ 4,564,689</u>	<u>\$ 8,912,869</u>	<u>\$13,477,558</u>

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

City of Dunsmuir  
Statement of Activities  
Year Ended June 30, 2011

	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	\$ 524,357	\$ -	\$ 400,000	\$ (69,259)	\$ -	\$ (69,259)
Health and welfare	2,648	-	-	(2,648)	-	(2,648)
Sanitation	6,750	8,762	-	2,012	-	2,012
Public safety	517,486	306,966	-	(157,959)	-	(157,959)
Streets and roads	403,577	-	-	(403,577)	-	(403,577)
Community and economic development	601,789	175,178	-	(426,611)	-	(426,611)
Total governmental activities	<u>2,056,607</u>	<u>482,144</u>	<u>400,000</u>	<u>(1,058,042)</u>	<u>-</u>	<u>(1,058,042)</u>
<b>Business-type activities:</b>						
Sewer	712,174	-	-	-	(26,346)	(26,346)
Solid waste	372,630	800	-	-	38,797	38,797
Water	470,819	-	-	-	(31,873)	(31,873)
Airport	161,803	10,000	-	-	(139,346)	(139,346)
Total business-type activities	<u>1,717,426</u>	<u>10,800</u>	<u>-</u>	<u>-</u>	<u>(158,768)</u>	<u>(158,768)</u>
Total primary government	<u>\$3,774,033</u>	<u>\$ 492,944</u>	<u>\$ 400,000</u>	<u>(1,058,042)</u>	<u>(158,768)</u>	<u>(1,216,810)</u>
<b>General revenues:</b>						
Taxes:						
Property				277,966	-	277,966
Sales				72,116	-	72,116
Other				152,273	-	152,273
Investment earnings				17,670	12,212	29,882
Other				283,309	-	283,309
Total general revenues				<u>803,334</u>	<u>12,212</u>	<u>815,546</u>
Change in net assets				<u>(254,708)</u>	<u>(146,556)</u>	<u>(401,264)</u>
Net assets, beginning				<u>4,819,397</u>	<u>9,059,425</u>	<u>13,878,822</u>
Net assets, ending				<u>\$4,564,689</u>	<u>\$ 8,912,869</u>	<u>\$13,477,558</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, 2011

	General Fund	EDBG Revolving Loan Fund	Community Development Block Grant Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>					
Cash and investments	\$ 479,778	\$ 18,193	\$ -	\$ 272,473	\$ 770,444
Receivables (net of allowance for doubtful accounts, where applicable):					
Loans					
Intergovernmental	-	-	798,192	345,659	1,143,851
Prepaid expenses	45,577	-	11,423	7,877	64,877
Due from other funds	6,771	-	-	-	6,771
	<u>102,089</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>102,089</u>
Total assets	<u>\$ 634,215</u>	<u>\$ 18,193</u>	<u>\$ 809,615</u>	<u>\$ 626,009</u>	<u>\$ 2,088,032</u>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities:</b>					
Accounts payable	\$ 109,534	\$ -	\$ 841	\$ 9,250	\$ 119,625
Accrued liabilities	1,584	-	-	-	1,584
Due to other funds	-	-	31,459	27,090	58,549
Deferred revenue	384,323	-	-	37,958	422,281
Other	8,500	-	-	-	8,500
Total liabilities	<u>503,941</u>	<u>-</u>	<u>32,300</u>	<u>74,298</u>	<u>610,539</u>
<b>Fund balances:</b>					
Nonspendable:					
Noncurrent receivables	-	-	777,315	345,659	1,122,974
Restricted for:					
Streets and roads	-	-	-	10,205	10,205
Public safety	-	-	-	25,894	25,894
Community and economic development	-	18,193	-	194,060	212,253
Total	<u>-</u>	<u>18,193</u>	<u>-</u>	<u>230,159</u>	<u>248,352</u>
Unassigned	130,274	-	-	(24,107)	106,167
Total fund balance	<u>130,274</u>	<u>18,193</u>	<u>777,315</u>	<u>551,711</u>	<u>1,477,493</u>
Total liabilities and fund balance	<u>\$ 634,215</u>	<u>\$ 18,193</u>	<u>\$ 809,615</u>	<u>\$ 626,009</u>	<u>\$ 2,088,032</u>
Total governmental fund balance, as above					1,477,493
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					3,240,749
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds					(111,000)
Compensated absences in governmental activities are not due and payable in the current period and therefore are not reported in the balance sheet					(42,553)
Net assets of governmental activities					<u>\$ 4,564,689</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, 2011

	General Fund	EDBG Revolving Loan Fund	Community Development Block Grant Fund	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>					
Property taxes	\$ 277,966	\$ -	\$ -	\$ -	277,966
Sales and use taxes	72,116	-	-	-	72,116
Transient occupancy taxes	106,254	-	-	-	106,254
Franchise and other licenses	46,019	-	-	-	46,019
Assessments	-	-	-	36,220	36,220
Licenses and permits	55,098	-	-	-	55,098
Intergovernmental revenues	306,966	-	25,826	149,352	482,144
Charges for services	21,400	-	-	-	21,400
Fines, forfeitures and penalties	3,703	-	-	-	3,703
Use of money and property	9,963	114	444	7,149	17,670
Other	283,309	-	-	-	283,309
Total revenues	<u>1,182,794</u>	<u>114</u>	<u>26,270</u>	<u>192,721</u>	<u>1,401,899</u>
<b>EXPENDITURES</b>					
Current:					
City council	6,271	-	-	-	6,271
City administrator	160,941	-	-	-	160,941
City clerk	6,369	-	-	-	6,369
City attorney	40,097	-	-	-	40,097
Planning	35,447	-	-	-	35,447
Finance and administration	151,371	-	-	-	151,371
Building inspection	21,762	-	-	-	21,762
Police protection	389,802	-	-	-	389,802
Fire protection	121,318	-	-	-	121,318
Streets and roads	102,115	-	-	110,619	212,734
Transit assistance	-	-	-	40,891	40,891
Buildings and grounds	98,330	-	-	-	98,330
Health and welfare	2,648	-	-	-	2,648
Community and economic development	13,208	298,470	133,583	156,528	601,789
Capital outlay	44,653	-	-	128,380	173,033
Debt service:					
Principal	48,477	-	-	3,000	51,477
Interest	-	-	-	6,750	6,750
Total expenditures	<u>1,242,809</u>	<u>298,470</u>	<u>133,583</u>	<u>446,168</u>	<u>2,121,030</u>
Excess of revenues over (under) expenditures	<u>(60,015)</u>	<u>(298,356)</u>	<u>(107,313)</u>	<u>(253,447)</u>	<u>(719,131)</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Operating transfers in	-	36,946	84,641	33,996	155,583
Operating transfers out	(33,996)	-	-	(121,587)	(155,583)
Total other financing sources (uses)	<u>(33,996)</u>	<u>36,946</u>	<u>84,641</u>	<u>(87,591)</u>	<u>-</u>
Excess of revenues and other sources over (under) expenditures and other uses	<u>(94,011)</u>	<u>(261,410)</u>	<u>(22,672)</u>	<u>(341,038)</u>	<u>(719,131)</u>
<b>FUND BALANCE</b>					
Beginning of the year, as originally stated	190,620	279,603	799,987	883,014	2,153,224
Prior period adjustment	33,665	-	-	9,735	43,400
Beginning of the year, restated	<u>224,285</u>	<u>279,603</u>	<u>799,987</u>	<u>892,749</u>	<u>2,196,624</u>
End of the year	<u>\$ 130,274</u>	<u>\$ 18,193</u>	<u>\$ 777,315</u>	<u>\$ 551,711</u>	<u>\$ 1,477,493</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, 2011

Change in fund balance, governmental funds	\$ (719,131)
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:	173,033
Donated land and building:	400,000
Depreciation expense:	(160,934)
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.	51,477
Other	<u>847</u>
Change in net assets of governmental activities	<u><u>\$ (254,708)</u></u>

City of Dunsmuir  
Statement of Net Assets  
Proprietary Funds  
June 30, 2011

	Enterprise				Total
	Sewer Fund	Solid Waste Fund	Water Fund	Airport Fund	
<b>ASSETS</b>					
Current assets:					
Cash and investments	\$ 404,751	\$ 452,766	\$ 161,929	\$ -	\$1,019,446
Receivables (net of allowances for bad debts, where applicable):					
Trade accounts	52,193	19,456	26,143	-	97,792
Intergovernmental	-	-	2,602	-	2,602
Total current assets	<u>456,944</u>	<u>472,222</u>	<u>190,674</u>	<u>-</u>	<u>1,119,840</u>
Restricted assets:					
Cash and investments	<u>193,153</u>	<u>-</u>	<u>117,453</u>	<u>-</u>	<u>310,606</u>
Capital assets:					
Non-depreciable	158,272	-	166,831	1,900,510	2,225,613
Depreciable, net	3,352,914	59,074	2,918,028	1,080,652	7,410,668
Amortizable, net	-	-	19,374	-	19,374
Total capital assets, net	<u>3,511,186</u>	<u>59,074</u>	<u>3,104,233</u>	<u>2,981,162</u>	<u>9,655,655</u>
Total assets	<u>4,161,283</u>	<u>531,296</u>	<u>3,412,360</u>	<u>2,981,162</u>	<u>11,086,101</u>
<b>LIABILITIES</b>					
Current liabilities:					
Accounts payable	14,301	4,889	2,266	1,025	22,481
Due to other funds	-	-	-	43,540	43,540
Deferred revenue	2,175	-	-	-	2,175
Deposits	-	-	64,595	-	64,595
Current portion, compensated absences	9,012	2,304	3,483	192	14,991
Current portion of long-term debt	29,000	-	83,790	-	112,790
Total current liabilities	<u>54,488</u>	<u>7,193</u>	<u>154,134</u>	<u>44,757</u>	<u>260,572</u>
Long-term liabilities:					
Long-term compensated absences, net of current portion	18,674	15,659	10,770	1,497	46,600
Long-term debt, net of current portion	1,139,000	-	727,060	-	1,866,060
Total long-term liabilities	<u>1,157,674</u>	<u>15,659</u>	<u>737,830</u>	<u>1,497</u>	<u>1,912,660</u>
Total liabilities	<u>1,212,162</u>	<u>22,852</u>	<u>891,964</u>	<u>46,254</u>	<u>2,173,232</u>
<b>NET ASSETS</b>					
Invested in capital assets, net of related debt	2,343,186	59,074	2,293,383	2,981,162	7,676,805
Restricted for debt service, spendable	193,153	-	117,453	-	310,606
Unrestricted	412,782	449,370	109,560	(46,254)	925,458
Total net assets	<u>\$2,949,121</u>	<u>\$ 508,444</u>	<u>\$2,520,396</u>	<u>\$2,934,908</u>	<u>\$8,912,869</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, 2011

	Enterprise				Total
	Sewer Fund	Solid Waste Fund	Water Fund	Airport Fund	
<b>REVENUES</b>					
User fees and charges	\$ 685,828	\$ 410,627	\$ 438,946	\$ -	\$1,535,401
Facilities rent	-	-	-	12,457	12,457
Total operating revenues	<u>685,828</u>	<u>410,627</u>	<u>438,946</u>	<u>12,457</u>	<u>1,547,858</u>
<b>OPERATING EXPENSES</b>					
Personnel and related expenses	235,691	68,771	126,221	3,461	434,144
Contract services	13,090	176,869	10,339	-	200,298
General and administrative services	170,495	47,768	63,695	9,518	291,476
Repairs and maintenance	58,656	29,244	15,982	312	104,194
Materials and supplies	11,683	6,565	58,858	853	77,959
Insurance and permits	19,484	7,853	16,594	4,615	48,546
Bad debt	6,558	1,492	3,094	-	11,144
Depreciation and amortization	144,262	34,068	134,892	143,044	456,266
Total operating expenses	<u>659,919</u>	<u>372,630</u>	<u>429,675</u>	<u>161,803</u>	<u>1,624,027</u>
Operating income (loss)	<u>25,909</u>	<u>37,997</u>	<u>9,271</u>	<u>(149,346)</u>	<u>(76,169)</u>
<b>OTHER REVENUES (EXPENSES)</b>					
Intergovernmental revenues	-	800	-	10,000	10,800
Interest earned	7,760	1,451	3,001	-	12,212
Interest expense	(52,255)	-	(41,144)	-	(93,399)
Total other revenues (expenses)	<u>(44,495)</u>	<u>2,251</u>	<u>(38,143)</u>	<u>10,000</u>	<u>(70,387)</u>
Change in net assets	(18,586)	40,248	(28,872)	(139,346)	(146,556)
<b>NET ASSETS</b>					
Beginning of 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>
End of the 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>

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, 2011

	Enterprise				Total
	Sewer Fund	Solid Waste Fund	Water Fund	Airport Fund	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Receipts from customers	\$ 671,558	\$ 408,988	\$ 446,403	\$ 10,930	\$1,537,879
Payments to suppliers	(304,447)	(277,885)	(180,870)	(14,283)	(777,485)
Payments to employees	(228,913)	(67,307)	(124,378)	(3,291)	(423,889)
Net cash provided (used) by operating activities	<u>138,198</u>	<u>63,796</u>	<u>141,155</u>	<u>(6,644)</u>	<u>336,505</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>					
Receipt of intergovernmental revenues	8,555	800	(2,602)	10,000	16,753
Interfund transfers and payments	-	-	-	(14,420)	(14,420)
Net cash provided (used) by non-capital financing activities	<u>8,555</u>	<u>800</u>	<u>(2,602)</u>	<u>(4,420)</u>	<u>2,333</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING</b>					
Purchase of fixed assets	(77,497)	(15,902)	(33,000)	-	(126,399)
Principal payments on debt	(29,000)	-	(77,790)	-	(106,790)
Interest payments on debt	(52,255)	-	(41,144)	-	(93,399)
Net cash (used) by investing activities	<u>(158,752)</u>	<u>(15,902)</u>	<u>(151,934)</u>	<u>-</u>	<u>(326,588)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Interest income received	7,760	1,451	3,001	-	12,212
Net increase (decrease) in cash	(4,239)	50,145	(10,380)	(11,064)	24,462
<b>CASH</b>					
Beginning of the year	602,143	402,621	289,762	11,064	1,305,590
End of the year	<u>\$ 597,904</u>	<u>\$ 452,766</u>	<u>\$ 279,382</u>	<u>\$ -</u>	<u>\$1,330,052</u>
Comprised of:					
Cash and investments	\$ 404,751	\$ 452,766	\$ 161,929	\$ -	\$1,019,446
Restricted cash and investments	193,153	-	117,453	-	310,606
Total cash and cash investments	<u>\$ 597,904</u>	<u>\$ 452,766</u>	<u>\$ 279,382</u>	<u>\$ -</u>	<u>\$1,330,052</u>
Reconciliation of operating income (loss) to cash provided (used) by operating activities:					
Operating income (loss)	\$ 25,909	\$ 37,997	\$ 9,271	\$ (149,346)	\$ (76,169)
Adjustments to reconcile operating income (loss) to cash provided (used) by operating activities:					
Depreciation and amortization	144,262	34,068	134,892	143,044	456,266
(Increase) decrease in trade accounts receivable	(14,270)	(1,639)	(500)	-	(16,409)
Increase (decrease) in accounts payable	(24,481)	(8,094)	(12,308)	1,015	(43,868)
Increase (decrease) in compensated absences	6,778	1,464	1,843	170	10,255
(Decrease) in deferred revenue	-	-	-	(1,527)	(1,527)
Increase in deposits	-	-	7,957	-	7,957
Net cash provided (used) by operating activities	<u>\$ 138,198</u>	<u>\$ 63,796</u>	<u>\$ 141,155</u>	<u>\$ (6,644)</u>	<u>\$ 336,505</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, 2011

	<u>Agency Fund</u>
<u>ASSETS</u>	
Cash and investments	<u>\$ 12,062</u>
<u>LIABILITIES</u>	
Agency obligations	<u>\$ 12,062</u>

**City of Dunsmuir, California**  
**Notes to the Basic Financial Statements**  
**June 30, 2011**

**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, 2011**

**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.

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

**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.

**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.

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.

**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, 2011**

**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, 2011

**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, 2011.
- **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, 2011.
- **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, 2011.
- **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, 2011

**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, 2011 are classified in the accompanying financial statements as follows:

Statement of net assets:	
Current cash and investments	\$ 1,789,890
Restricted cash and investments	310,606
Statement of fiduciary net assets	<u>12,062</u>
 Total cash and investments	 <u>\$ 2,112,558</u>
 Consisting of the following:	
Cash on hand	\$ 350
Deposits with financial institutions	801,518
Investments	<u>1,310,690</u>
	 <u>\$ 2,112,558</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, 2011

**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	<u>\$1,310,690</u>	<u>\$1,310,690</u>	237 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 \$972,398, and differs from the book balance of \$972,334 because of outstanding checks. All but \$50,973 of the City's deposits with financial institutions were insured by federal depository insurance; the remainder is uninsured and uncollateralized.

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).

**City of Dunsmuir, California**  
**Notes to the Basic Financial Statements**  
**June 30, 2011**

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

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, 2011:

	<u>CDBG Fund</u>	<u>EDBG Fund</u>	<u>CDBG Revolving Loan Funds</u>	<u>Total</u>
Mortgage loans	\$ 798,192	\$ 287,118	\$ 165,691	\$ 1,251,001
Less allowance for bad debts	-	-	(107,150)	(107,150)
Total	<u>\$ 798,192</u>	<u>\$ 287,118</u>	<u>\$ 58,541</u>	<u>\$ 1,143,851</u>

**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, 2011:

<u>Due To:</u>	<u>Due From:</u>				<u>Total</u>
	<u>Airport Fund</u>	<u>Gas Tax Fund</u>	<u>So. Dunsmuir Sewer Assess.</u>	<u>CDBG Fund</u>	
General Fund	<u>\$ 43,540</u>	<u>\$ 17,547</u>	<u>\$ 31,459</u>	<u>\$ 9,543</u>	<u>\$ 102,089</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:

<u>Transfer In To:</u>	<u>Transfer Out From:</u>			
	<u>General Fund</u>	<u>EDBG</u>	<u>CDBG</u>	<u>Total</u>
Gas Tax Fund	\$33,996	\$ -	\$ -	\$ 33,996
EDBG RLF	-	36,946	-	36,946
CDBG RLF	-	-	84,641	84,641
	<u>\$33,996</u>	<u>\$36,946</u>	<u>\$84,641</u>	<u>\$155,583</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.

**City of Dunsmuir, California**  
**Notes to the Basic Financial Statements**  
**June 30, 2011**

**NOTE 5 CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2011 was as follows:

	June 30, 2010	Additions and Transfers	Retirements and Transfers	June 30, 2011
<b>Governmental activities:</b>				
<b>Capital assets not being depreciated:</b>				
Land	\$ 1,081,800	\$ 70,000	\$ -	\$ 1,151,800
Construction in progress	4,764	-	-	4,764
<b>Total capital assets not being depreciated:</b>	<b>1,086,564</b>	<b>70,000</b>	<b>-</b>	<b>1,156,564</b>
<b>Capital assets being depreciated:</b>				
Buildings	1,409,864	330,000	-	1,739,864
Machinery and equipment	824,289	131,690	(25,334)	930,645
Infrastructure	2,517,806	41,343	-	2,559,149
<b>Total capital assets being depreciated</b>	<b>4,751,959</b>	<b>503,033</b>	<b>(25,334)</b>	<b>5,229,658</b>
<b>Less accumulated depreciation for:</b>				
Buildings	1,298,497	20,730	-	1,319,227
Machinery and equipment	796,250	12,037	(25,334)	782,953
Infrastructure	915,126	128,167	-	1,043,293
<b>Total accumulated depreciation</b>	<b>3,009,873</b>	<b>160,934</b>	<b>(25,334)</b>	<b>3,145,473</b>
<b>Total capital assets being depreciated, net</b>	<b>1,742,086</b>	<b>342,099</b>	<b>-</b>	<b>2,084,185</b>
<b>Subtotal, governmental activities</b>	<b>2,828,650</b>	<b>412,099</b>	<b>-</b>	<b>3,240,749</b>
<b>Business-type activities:</b>				
<b>Capital assets not being depreciated:</b>				
Land	1,718,508	-	-	1,718,508
Construction in progress	507,105	-	-	507,105
<b>Total capital assets not being depreciated</b>	<b>2,225,613</b>	<b>-</b>	<b>-</b>	<b>2,225,613</b>
<b>Capital assets being depreciated:</b>				
Utility plant	7,778,662	3,000	-	7,781,662
Buildings	240,861	-	-	240,861
Improvements not buildings	2,643,701	-	-	2,643,701
Machinery and equipment	997,536	123,399	(17,827)	1,103,108
<b>Total capital assets being depreciated</b>	<b>11,660,760</b>	<b>126,399</b>	<b>(17,827)</b>	<b>11,769,332</b>

**City of Dunsmuir, California**  
**Notes to the Basic Financial Statements**  
**June 30, 2011**

	June 30, 2010	Additions and Transfers	Retirements and Transfers	June 30, 2011
Less accumulated depreciation for:				
Utility plant	2,156,329	193,700	-	2,350,029
Buildings	73,141	10,180	-	83,321
Improvements not buildings	1,164,050	149,963	-	1,314,013
Machinery and equipment	532,447	96,681	(17,827)	611,301
Total accumulated depreciation	3,925,967	450,524	(17,827)	4,358,664
Total capital assets being depreciated, net	7,734,793	(324,125)	-	7,410,668
Capital assets being amortized:				
Organization costs	109,530	-	-	109,530
Less accumulated amortization for:				
Organization costs	84,414	5,742	-	90,156
Total capital assets being amortized, net	25,116	(5,742)	-	19,374
Subtotal, business-type activities	9,985,522	(329,867)	-	9,655,655
Total, government-wide	\$ 12,814,172	\$ 82,232	\$ -	\$ 12,896,404

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

Governmental activities:		
General government		\$ 24,981
Public safety		5,707
Streets and roads		130,246
		\$ 160,934
Total depreciation and amortization expense -- governmental activities		
Business-type activities:		
Sewer fund		\$ 144,262
Solid waste fund		34,068
Water fund		134,892
Airport fund		143,044
		\$ 456,266
Total depreciation and amortization expense -- business-type activities		

**City of Dunsmuir, California**  
**Notes to the Basic Financial Statements**  
**June 30, 2011**

**NOTE 6 LONG TERM DEBT**

The following is a summary of Governmental activities long-term liabilities activity during the year ended June 30, 2011:

	<u>June 30, 2010</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2011</u>	<u>Current Portion</u>
Bonds and notes payable:					
So. Dunsmuir Sewer Assessment system	\$ 114,000	\$ -	\$ 3,000	\$ 111,000	\$ 3,000
Other liabilities:					
Unpaid pension obligation, prior Public Safety	48,477	-	48,477	-	-
Compensated absences	42,553	-	-	42,553	-
Total Governmental activities long-term liabilities	<u>\$ 205,030</u>	<u>\$ -</u>	<u>\$ 51,447</u>	<u>\$ 153,553</u>	<u>\$ 3,000</u>

Payments on the bonds and notes payable that pertain to the City's governmental activities are made by South Dunsmuir Sewer Assessment District Funds. 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>Assessment</u>	
	<u>Principal</u>	<u>Interest</u>
Interest rate	6.00%	
Maturity date	September 2, 2030	
Year Ended June 30,:		
2012	\$ 3,000	\$ 6,570
2013	3,000	6,390
2014	3,000	6,210
2015	4,000	6,000
2016	4,000	5,760
2017-2021	23,000	24,930
2022-2026	31,000	16,950
2027-2031	40,000	6,180
Total	<u>\$ 111,000</u>	<u>\$ 78,990</u>

**City of Dunsmuir, California**  
**Notes to the Basic Financial Statements**  
**June 30, 2011**

The following is a summary of Business-type activities long-term liabilities activity during the year ended June 30, 2011:

	June 30, 2010	Additions	Reductions	June 30, 2011	Current Portion
<b>Bonds and notes payable:</b>					
1974 Sewer Revenue Bonds	\$ 42,000	\$ -	\$ 10,000	\$ 32,000	\$ 10,000
1994 Sewer Improvement Certificates of Participation	427,000	-	10,000	417,000	10,000
2007 USDA Sewer Loan	728,000	-	9,000	719,000	9,000
<b>Total sewer fund</b>	<u>1,197,000</u>	<u>-</u>	<u>29,000</u>	<u>1,168,000</u>	<u>29,000</u>
2000 Water Certificates of Participation	360,000	-	65,000	295,000	70,000
1994 Water Improvement Certificates of Participation	484,000	-	10,000	474,000	11,000
2005 Water System Loan	44,640	-	2,790	41,850	2,790
<b>Total water fund</b>	<u>888,640</u>	<u>-</u>	<u>77,790</u>	<u>810,850</u>	<u>83,790</u>
<b>Total Business-type activities long term liabilities</b>	<u>\$ 2,085,640</u>	<u>\$ -</u>	<u>\$ 106,790</u>	<u>\$ 1,978,850</u>	<u>\$ 112,790</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,:						
2012	\$ 10,000	\$ 1,600	\$ 10,000	\$ 18,765	\$ 9,000	\$ 30,558
2013	11,000	1,100	11,000	18,315	10,000	30,175
2014	11,000	550	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
2017-2021	-	-	68,000	75,645	62,000	136,978
2022-2026	-	-	86,000	58,770	77,000	122,527
2027-2031	-	-	105,000	37,800	95,000	104,763
2032-2036	-	-	103,000	11,251	115,000	82,875
2037-2041	-	-	-	-	143,000	56,205
2042-2046	-	-	-	-	176,000	23,077
<b>Total</b>	<u>\$ 32,000</u>	<u>\$ 3,250</u>	<u>\$ 417,000</u>	<u>\$ 272,521</u>	<u>\$ 719,000</u>	<u>\$ 675,090</u>

**City of Dunsmuir, California**  
**Notes to the Basic Financial Statements**  
**June 30, 2011**

**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	
Year Ended June 30, :						
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	-	-	13,000	21,833	2,790	-
2017-2021	-	-	78,000	98,195	13,950	-
2022-2026	-	-	100,000	76,106	13,950	-
2027-2031	-	-	128,000	47,765	-	-
2032-2036	-	-	108,000	12,454	-	-
Total	<u>\$ 295,000</u>	<u>\$ 30,681</u>	<u>\$ 474,000</u>	<u>\$ 349,884</u>	<u>\$ 41,850</u>	<u>\$ -</u>

Year Ended June 30, :	Total	
	Principal	Interest
2012	\$ 112,790	\$ 88,220
2013	115,790	82,867
2014	121,790	77,209
2015	117,790	71,199
2016	38,790	67,520
2017-2021	221,950	310,818
2022-2026	276,950	257,404
2027-2031	328,000	190,328
2031-2036	326,000	106,579
2037-2041	143,000	56,205
2042-2046	176,000	23,077
Total	<u>\$ 1,978,850</u>	<u>\$ 1,331,426</u>

**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 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.

**City of Dunsmuir, California**  
**Notes to the Basic Financial Statements**  
**June 30, 2011**

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, 2011 the City's annual pension cost was \$ 37,666, 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, 2011 was 6 years. The City also paid the employees contributions, which totaled \$ 32,505 for the year ended June 30, 2011.

Three Year Trend Information:

	June 30, 2011	June 30, 2010	June 30, 2009
Annual Pension Cost (APC)	\$ 37,666	\$ 27,370	\$ 27,000
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%

The City also had 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, 2011**

**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, 2011, the following funds had deficit fund balances: Gas Tax Fund \$14,564 and South Dunsmuir Sewer Assessment Fund \$9,543. 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, 2011 the following funds over expended the approved budget by the following amounts:

EDBG RLF Fund	\$ 127,654
CDBG Fund	298,075

**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, 2011 for business activities were restricted for debt service.

**NOTE 10 – 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.

**City of Dunsmuir, California**  
**Notes to the Basic Financial Statements**  
**June 30, 2011**

General Fund

The General Fund has Unassigned Fund Balance of \$130,274 at June 30, 2011.

Other Major Funds

The EDBG Revolving Loan Fund has Restricted Funds of \$18,193 at June 30, 2011, consisting primarily of funds restricted for community and economic development.

The Community Development Block Grant Fund has Non-spendable Fund Balance of \$798,192 consisting of noncurrent receivables and \$(20,877) of Unassigned Fund balance at June 30, 2011.

Other Funds

Other governmental (nonmajor) funds have Non-spendable Fund Balance of \$345,659, consisting of noncurrent receivables, Restricted Fund Balance of \$230,159 and Unassigned Fund Balance of \$(24,107) at June 30, 2011.

**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.

**NOTE 13 PRIOR PERIOD ADJUSTMENT**

The City recognized certain long-term obligations for compensated absences in governmental funds in prior year in error. The prior period adjustments of \$33,665, \$50 and \$9,685 in the General Fund, Local Transportation Fund and Gas Tax Fund, respectively, correct this error.

REQUIRED SUPPLEMENTARY INFORMATION

City of Dunsmuir  
 Budgetary Comparison Schedule  
 General Fund  
 For The Year Ended June 30, 2011

	Original Budget	Final Budget	Actual Amounts	Favorable (Unfavorable) Variance With Final Budget
<b>REVENUES</b>				
Property taxes	\$ 298,837	\$ 276,500	\$ 277,966	\$ 1,466
Sales and use taxes	62,193	75,387	72,116	(3,271)
Transient occupancy taxes	120,000	120,000	106,254	(13,746)
Franchise and other licenses	45,833	53,692	46,019	(7,673)
Licenses and permits	46,560	46,854	55,098	8,244
Intergovernmental revenues	733,904	692,810	306,966	(385,844)
Charges for services	44,899	67,324	21,400	(45,924)
Fines, forfeitures and penalties	4,512	5,084	3,703	(1,381)
Use of money and property	9,915	10,714	9,963	(751)
Other	308,258	327,850	283,309	(44,541)
Total revenues	1,674,911	1,676,215	1,182,794	(493,421)
<b>EXPENDITURES</b>				
Current:				
City council	2,912	5,581	6,271	(690)
City administrator	171,166	173,099	160,941	12,158
City clerk	6,635	6,370	6,369	1
City attorney	20,000	38,128	40,097	(1,969)
Planning	20,194	40,167	35,447	4,720
Finance and administration	162,692	160,491	151,371	9,120
Building inspection	18,503	19,000	21,762	(2,762)
Police protection	434,071	434,225	389,802	44,423
Fire protection	108,390	114,454	121,318	(6,864)
Streets and roads	537,210	544,491	102,115	442,376
Buildings and grounds	119,753	78,087	98,330	(20,243)
Health and welfare	2,000	2,726	2,648	78
Community and economic development	13,200	18,204	13,208	4,996
Capital outlay	859	3,310	44,653	(41,343)
Total expenditures	1,617,585	1,638,333	1,194,332	444,001
Excess of revenues over (under) expenditures	57,326	37,882	(11,538)	(49,420)
<b>OTHER FINANCING SOURCES (USES)</b>				
Operating transfers out	(44,000)	(33,996)	(33,996)	-
Total other financing sources (uses)	(44,000)	(33,996)	(33,996)	-
Excess of revenues and other sources over (under) expenditures and other uses	\$ 13,326	\$ 3,886	\$ (45,534)	\$ (49,420)

City of Dunsmuir  
 Budgetary Comparison Schedule  
 EDBG Revolving Loan Fund  
 For The Year Ended June 30, 2011

	<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	\$ 406	\$ 406	\$ 114	\$ (292)
<u>EXPENDITURES</u>				
Current:				
Community and economic development	395	395	298,470	(298,075)
Excess of revenues (under) expenditures	11	11	(298,356)	(298,075)
<u>OTHER FINANCING (USES)</u>				
Operating transfers in	67,518	67,518	36,946	(30,572)
Total other financing sources (uses)	67,518	67,518	36,946	(30,572)
Excess of revenues (under) expenditures and other uses	<u>\$ 67,529</u>	<u>\$ 67,529</u>	<u>\$ (261,410)</u>	<u>\$ (328,647)</u>

City of Dunsmuir  
 Budgetary Comparison Schedule  
 Community Development Block Grant  
 For The Year Ended June 30, 2011

	Original Budget	Final Budget	Actual Amounts	Favorable (Unfavorable) Variance With Final Budget
<u>REVENUES</u>				
Use of money and property	\$ 563	\$ 563	\$ 444	\$ (119)
Intergovernmental	-	-	25,826	25,826
Other	1,122	1,122	-	(1,122)
Total revenues	1,685	1,685	26,270	24,585
<u>EXPENDITURES</u>				
Current:				
Community and economic development	5,929	5,929	133,583	(127,654)
Excess of revenues (under) expenditures	(4,244)	(4,244)	(107,313)	(103,069)
<u>OTHER FINANCING (USES)</u>				
Operating transfers in	-	-	84,641	84,641
Operating transfers out	(3,185)	(3,185)	-	3,185
Total other financing sources (uses)	(3,185)	(3,185)	84,641	87,826
Excess of revenues (under) expenditures and other uses	\$ (7,429)	\$ (7,429)	\$ (22,672)	\$ (15,243)

SUPPLEMENTARY INFORMATION

City of Dunsmuir  
 Combining Balance Sheet  
 Non-Major Governmental Funds  
 June 30, 2011

	Special Revenue					Total
	Local Transportation Fund	Gas Tax Fund	Fire Assessment Fund	EDBG Fund	CDBG Revolving Loan Fund	
<b>ASSETS</b>						
Cash	\$ 10,205	\$ -	\$ 26,513	\$ 149,382	\$ 86,373	\$ 272,473
Receivables (net of allowance for doubtful accounts, where applicable):						
Loans	-	-	-	287,118	58,541	345,659
Intergovernmental	-	7,091	-	786	-	7,877
<b>Total assets</b>	<b>\$ 10,205</b>	<b>\$ 7,091</b>	<b>\$ 26,513</b>	<b>\$ 437,286</b>	<b>\$ 144,914</b>	<b>\$ 626,009</b>

**LIABILITIES AND FUND BALANCES**

<b>Liabilities:</b>						
Accounts payable	\$ -	\$ 4,108	\$ 619	\$ 4,523	\$ -	\$ 9,250
Due to other funds	-	17,547	-	-	9,543	27,090
Deferred revenue	-	-	-	37,958	-	37,958
<b>Total liabilities</b>	<b>-</b>	<b>21,655</b>	<b>619</b>	<b>42,481</b>	<b>9,543</b>	<b>74,298</b>
<b>Fund balances:</b>						
Nonspendable:						
Noncurrent receivables	-	-	-	287,118	58,541	345,659
Restricted for:						
Streets and roads	10,205	-	-	-	-	10,205
Public safety	-	-	25,894	-	-	25,894
Community and economic development	-	-	-	107,687	86,373	194,060
<b>Total</b>	<b>10,205</b>	<b>-</b>	<b>25,894</b>	<b>107,687</b>	<b>86,373</b>	<b>230,159</b>
Unassigned	-	(14,564)	-	-	(9,543)	(24,107)
<b>Total fund balance</b>	<b>10,205</b>	<b>(14,564)</b>	<b>25,894</b>	<b>394,805</b>	<b>144,914</b>	<b>551,711</b>
<b>Total liabilities and fund balance</b>	<b>\$ 10,205</b>	<b>\$ 7,091</b>	<b>\$ 26,513</b>	<b>\$ 437,286</b>	<b>\$ 144,914</b>	<b>\$ 626,009</b>

City of Dunsmuir  
 Combining Statement of Revenues, Expenditures and Changes in Fund Balances  
 Non-Major Governmental Funds  
 For The Year Ended June 30, 2011

	Special Revenue						Total
	Local Transportation Fund	Gas Tax Fund	Fire Assessment Fund	EDBG Fund	CDBG Revolving Loan Fund	South Dunsmuir Sewer Assessment Fund	
<b>REVENUES</b>							
Assessments	\$ -	\$ -	\$ 27,458	\$ -	\$ -	\$ 8,762	\$ 36,220
Intergovernmental revenues	40,891	79,646	173	28,642	-	-	149,352
Use of money and property	167	-	-	6,728	254	-	7,149
Total revenues	<u>41,058</u>	<u>79,646</u>	<u>27,631</u>	<u>35,370</u>	<u>254</u>	<u>8,762</u>	<u>192,721</u>
<b>EXPENDITURES</b>							
Current:							
Streets and roads	2,742	107,877	-	-	-	-	110,619
Transit assistance	40,891	-	-	-	-	-	40,891
Community and economic development	-	-	-	152,302	4,226	-	156,528
Capital outlay	40,000	14,440	73,940	-	-	-	128,380
Debt service:							
Principal	-	-	-	-	-	3,000	3,000
Interest	-	-	-	-	-	6,750	6,750
Total expenditures	<u>83,633</u>	<u>122,317</u>	<u>73,940</u>	<u>152,302</u>	<u>4,226</u>	<u>9,750</u>	<u>446,168</u>
Excess of revenues over (under) expenditures	<u>(42,575)</u>	<u>(42,671)</u>	<u>(46,309)</u>	<u>(116,932)</u>	<u>(3,972)</u>	<u>(988)</u>	<u>(253,447)</u>
<b>OTHER FINANCING SOURCES (USES)</b>							
Operating transfers in	-	33,996	-	-	-	-	33,996
Operating transfers out	-	-	-	(36,946)	(84,641)	-	(121,587)
Total other financing sources (uses)	-	33,996	-	(36,946)	(84,641)	-	(87,591)
Excess of revenues and other sources over (under) expenditures and other uses	<u>(42,575)</u>	<u>(8,675)</u>	<u>(46,309)</u>	<u>(153,878)</u>	<u>(88,613)</u>	<u>(988)</u>	<u>(341,038)</u>
<b>FUND BALANCE</b>							
Beginning of the year, as originally stated	52,730	(15,574)	72,203	548,683	233,527	(8,555)	883,014
Prior period adjustment	50	9,685	-	-	-	-	9,735
Beginning of the year, restated	<u>52,780</u>	<u>(5,889)</u>	<u>72,203</u>	<u>548,683</u>	<u>233,527</u>	<u>(8,555)</u>	<u>892,749</u>
End of the year	<u>\$ 10,205</u>	<u>\$ (14,564)</u>	<u>\$ 25,894</u>	<u>\$ 394,805</u>	<u>\$ 144,914</u>	<u>\$ (9,543)</u>	<u>\$ 551,711</u>



An Accountancy Corporation  
**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, 2011, which collectively comprise the City of Dunsmuir's basic financial statements, and have issued our report thereon dated January 27, 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

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 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, 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. We consider the deficiencies described in the accompanying schedule of findings as Items, 2011-1, 2011-2, 2011-3, and 2011-4 to be material weaknesses.

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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings as Items 2011-1 through 2011-4.

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

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  
January 27, 2012

**CITY OF DUNSMUIR**  
**Schedule of Findings**  
For the Year Ended June 30, 2011

**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.

**Response:** A time study will be performed by the City in an effort to substantiate management allocation percentages.

**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 payrate changes are documented in employee file and approved by appropriate City personnel and/or council.

**Response:** Future pay rate changes will be documented and filed in employee file. Employee files have been updated with prior year pay rate changes.

**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.

Response: 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.

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.