

CITY OF DUNSMUIR, CALIFORNIA

FINANCIAL STATEMENTS

**FOR THE YEAR ENDED
JUNE 30, 2016**

DRAFT

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INDEPENDENT AUDITORS' REPORT

To the City Council
City of Dunsmuir, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of City of Dunsmuir, California as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of City of Dunsmuir, California as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require the budgetary comparison information on pages 32 and 33 and cost-sharing multiple employer defined benefit pension plan information on pages 34 and 35 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.

Other Information

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.

The combining nonmajor fund financial statements on pages 36 and 37 are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining nonmajor fund financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 16, 2017, on our consideration of the City of Dunsmuir, California's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Dunsmuir, California's internal control over financial reporting and compliance.

Aiello, Goodrich & Teuscher
An Accountancy Corporation
Mt. Shasta, California
January 12, 2017

BASIC FINANCIAL STATEMENTS

**City of Dunsmuir
Statement of Net Position
June 30, 2016**

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets:			
Cash and investments	\$ 480,916	\$ 1,098,950	\$ 1,579,866
Receivables (net of allowances for bad debts, where applicable):			
Trade accounts	-	59,303	59,303
Loans	1,132,718	-	1,132,718
Intergovernmental	967,972	553,059	1,521,031
Internal balances	(548,075)	548,075	-
Other assets	2,520	-	2,520
Total current assets	2,036,051	2,259,387	4,295,438
Restricted assets:			
Cash and investments	-	174,062	174,062
Capital assets:			
Non-depreciable	1,194,268	3,669,308	4,863,576
Depreciable, net	2,692,689	12,494,944	15,187,633
Total capital assets	3,886,957	16,164,252	20,051,209
Total assets	5,923,008	18,597,701	24,520,709
DEFERRED OUTFLOWS			
Pension related deferred outflows	934	1,309	2,243
LIABILITIES			
Accounts payable	452,387	379,671	832,058
Unearned revenue	8,304	2,175	10,479
Deposits	14,992	93,757	108,749
Current portion, compensated absences	10,169	51,155	61,324
Current portion of long-term debt	4,000	114,432	118,432
Total current liabilities	489,852	641,190	1,131,042
Long-term liabilities:			
Long-term compensated absences, net of current portion	36,479	49,796	86,275
Long-term debt, net of current portion	90,000	3,030,625	3,120,625
Net pension liability	441,615	354,064	795,679
Total long-term liabilities	568,094	3,434,485	4,002,579
Total liabilities	1,057,946	4,075,675	5,133,621
DEFERRED INFLOWS			
Pension related deferred inflows	97,048	100,916	197,964
NET POSITION			
Net investment in capital assets	3,792,957	13,149,195	16,942,152
Restricted, spendable	239,353	174,062	413,415
Unrestricted	736,638	1,099,162	1,835,800
Total net position	\$ 4,768,948	\$ 14,422,419	\$19,191,367

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

**City of Dunsmuir
Statement of Activities
June 30, 2016**

	Program Revenues				Net (Expense) Revenues and Changes in Net Position			
	Expense	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- Type Activities		Total
Governmental activities:								
General government	\$ 292,339	\$ 87,091	-	\$ 189,701	\$ (15,547)	\$ -	\$ (15,547)	
Public safety	692,632	76,287	100,000	-	(516,345)	-	(516,345)	
Streets and roads	524,533	-	-	118,718	(405,815)	-	(405,815)	
Community and economic development	116,222	-	-	1,276,463	1,160,241	-	1,160,241	
Total governmental activities	<u>1,625,726</u>	<u>163,378</u>	<u>100,000</u>	<u>1,584,882</u>	<u>222,534</u>	<u>-</u>	<u>222,534</u>	
Business-type activities:								
Sewer	1,092,981	740,045	-	-	-	(352,936)	(352,936)	
Solid waste	258,570	371,810	-	-	-	113,240	113,240	
Water	545,460	604,155	-	553,059	-	611,754	611,754	
Airport	159,224	17,674	-	30,000	-	(111,550)	(111,550)	
Total business-type activities	<u>2,056,235</u>	<u>1,733,684</u>	<u>-</u>	<u>583,059</u>	<u>-</u>	<u>260,508</u>	<u>260,508</u>	
Total primary government	<u>\$3,681,961</u>	<u>\$1,897,062</u>	<u>\$ 100,000</u>	<u>\$2,167,941</u>	<u>222,534</u>	<u>260,508</u>	<u>483,042</u>	

General revenues:

Taxes:	
Property	275,656
Sales	134,598
Transient occupancy	103,825
Investment earnings	122,967
Other	143,975
Transfers in (out)	(1,330,472)
Total general revenues	<u>(549,451)</u>
Change in net position	<u>(326,917)</u>
Net position, beginning	<u>5,095,865</u>
Net position, ending	<u>\$4,768,948</u>

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

**City of Dunsmuir
Balance Sheet
Reconciliation of Governmental Fund Balance to the Statement of Net Position - Governmental Activities
Governmental Funds
June 30, 2016**

	General Fund	Community Development Project Income Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and investments	\$ 244,356	\$ -	\$ 236,560	\$ 480,916
Receivables, net of allowance				
Loans	-	867,851	264,867	1,132,718
Intergovernmental	139,265	805,617	23,090	967,972
Due from other funds	76,393	-	-	76,393
Other assets	2,520	-	-	2,520
Total assets	\$ 462,534	\$ 1,673,468	\$ 524,517	\$ 2,660,519
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 212,071	\$ 223,915	\$ 16,401	\$ 452,387
Due to other funds	-	620,136	4,332	624,468
Unearned revenue	8,304	-	-	8,304
Other	14,992	-	-	14,992
Total liabilities	235,367	844,051	20,733	1,100,151
Fund balances:				
Nonspendable:				
Noncurrent receivables	-	867,851	264,867	1,132,718
Restricted for:				
Streets and roads	-	-	38,257	38,257
Public safety	-	-	89,058	89,058
Community and economic development	-	-	112,038	112,038
Total	-	-	239,353	239,353
Unassigned	227,167	(38,434)	-	188,733
Total fund balance	227,167	829,417	504,220	1,560,804
Total liabilities and fund balance	\$ 462,534	\$ 1,673,468	\$ 524,953	\$ 2,660,955
Total governmental fund balance, as above				\$ 1,560,804
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				3,886,957
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds				(94,000)
Pension liabilities are not due and payable in the current period and therefore are not reported on the balance sheet				(441,615)
Compensated absences in governmental activities are not due and payable in the current period and therefore are not reported in the balance sheet				(46,648)
Deferred inflows are not receivable or due and payable in the current period and therefore are not reported on the balance sheet				(96,550)
Net position of governmental activities				\$ 4,768,948

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

City of Dunsmuir
Statement of Revenues, Expenditures and Changes in Fund Balance
For The Year Ended June 30, 2016

	General Fund	Community Development Project Income Fund	Other Governmental Funds	Total Governmental Funds
REVENUES				
Property taxes	\$ 275,656	\$ -	\$ -	\$ 275,656
Sales and use taxes	134,598	-	-	134,598
Transient occupancy taxes	103,825	-	-	103,825
Franchise and other licenses	66,690	-	-	66,690
Assessments	-	-	26,640	26,640
Licenses and permits	16,915	-	-	16,915
Intergovernmental revenues	289,701	1,276,463	118,718	1,684,882
Charges for services	50,582	-	-	50,582
Fines, forfeitures and penalties	2,551	-	-	2,551
Use of money and property	95,296	16,597	11,074	122,967
Other	143,975	-	-	143,975
Total revenues	<u>1,179,789</u>	<u>1,293,060</u>	<u>156,432</u>	<u>2,629,281</u>
EXPENDITURES				
Current:				
City council	4,950	-	-	4,950
City administrator	50,725	-	-	50,725
City clerk	17,055	-	-	17,055
City attorney	37,151	-	-	37,151
Planning	28,697	-	-	28,697
Finance and administration	136,475	-	-	136,475
Building inspection	21,244	-	-	21,244
Police protection	441,249	-	-	441,249
Fire protection	202,058	-	16,107	218,165
Streets and roads	126,780	-	80,382	207,162
Transit assistance	-	-	68,738	68,738
Buildings and grounds	77,567	-	-	77,567
Health and welfare	1,926	-	-	1,926
Community and economic development	49,350	66,721	151	116,222
Other	60,848	-	-	60,848
Capital outlay	39,505	-	-	39,505
Debt service:				
Principal	-	-	4,000	4,000
Interest	-	-	5,761	5,761
Total expenditures	<u>1,295,580</u>	<u>66,721</u>	<u>175,139</u>	<u>1,537,440</u>
Excess of revenues over (under) expenditures	<u>(115,791)</u>	<u>1,226,339</u>	<u>(18,707)</u>	<u>1,091,841</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers in	24,795	51,000	50,000	125,795
Operating transfers out	(50,000)	(1,355,267)	(51,000)	(1,456,267)
Total other financing sources (uses)	<u>(25,205)</u>	<u>(1,304,267)</u>	<u>(1,000)</u>	<u>(1,330,472)</u>
Excess of revenues and other sources over (under) expenditures and other uses	<u>(140,996)</u>	<u>(77,928)</u>	<u>(19,707)</u>	<u>(238,631)</u>
FUND BALANCE				
Beginning of the year	<u>368,162</u>	<u>716,730</u>	<u>523,491</u>	<u>1,608,383</u>
End of the year	<u>\$ 227,166</u>	<u>\$ 638,802</u>	<u>\$ 503,784</u>	<u>\$ 1,369,752</u>

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

City of Dunsmuir
Reconciliation of the Statement of Revenues, Expenditures and
Governmental Funds
For The Year Ended June 30, 2016

Change in fund balance, governmental funds	\$ (238,631)
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:	39,505
Depreciation expense:	(296,497)
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.	
	4,000
Government funds do not report the change in compensated absences as revenue or expenditure, but it is reported in the Statement of Activities	
	(5,413)
Government funds do not report the decrease of unfunded pension obligations as a revenue, but it is reported in the Statement of Activities	
	<u>170,119</u>
Change in net position of governmental activities	<u><u>\$ (326,917)</u></u>

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

**City of Dunsmuir
Statement of Net Position
June 30, 2016**

	Sewer Fund	Solid Waste Fund	Water Fund	Airport Fund	Total
ASSETS					
Current assets:					
Cash and investments	\$ 142,797	\$ 506,662	\$ 449,491	\$ -	\$ 1,098,950
Receivables (net of allowances for bad debts, where applicable):					
Trade accounts	41,444	14,179	3,680	-	59,303
Intergovernmental	-	-	553,059	-	553,059
Due from other funds	620,136	-	-	-	620,136
Total current assets	<u>804,377</u>	<u>520,841</u>	<u>1,006,230</u>	<u>-</u>	<u>2,331,448</u>
Restricted assets:					
Cash and investments	138,532	-	35,530	-	174,062
Capital assets:					
Non-depreciable	130,000	-	2,117,631	1,421,677	3,669,308
Depreciable, net	8,931,012	49,994	2,653,430	860,508	12,494,944
Total capital assets, net	<u>9,061,012</u>	<u>49,994</u>	<u>4,771,061</u>	<u>2,282,185</u>	<u>16,164,252</u>
Total assets	<u>10,003,921</u>	<u>570,835</u>	<u>5,812,821</u>	<u>2,282,185</u>	<u>18,669,762</u>
DEFERRED OUTFLOWS					
Pension related deferred outflows	671	221	403	14	1,309
LIABILITIES					
Current liabilities:					
Accounts payable	48,106	53,620	273,240	4,705	379,671
Unearned revenue	2,175	-	-	-	2,175
Deposits	-	-	93,757	-	93,757
Due to other funds	-	-	-	72,061	72,061
Current portion, compensated absences	16,955	7,338	26,272	590	51,155
Current portion of long-term debt	97,642	-	16,790	-	114,432
Total current liabilities	<u>164,878</u>	<u>60,958</u>	<u>410,059</u>	<u>77,356</u>	<u>713,251</u>
Long-term liabilities:					
Long-term compensated absences, net of current portion	14,579	10,380	23,867	970	49,796
Long-term debt, net of current portion	2,605,515	-	425,110	-	3,030,625
Net pension liability	181,644	59,719	108,999	3,702	354,064
Total long-term liabilities	<u>2,801,738</u>	<u>70,099</u>	<u>557,976</u>	<u>4,672</u>	<u>3,434,485</u>
Total liabilities	<u>2,966,616</u>	<u>131,057</u>	<u>968,035</u>	<u>82,028</u>	<u>4,147,736</u>
DEFERRED INFLOWS					
Pension related deferred inflows	51,773	17,021	31,067	1,055	100,916
NET POSITION					
Invested in capital assets, net of related debt	6,487,855	49,994	4,329,161	2,282,185	13,149,195
Restricted for debt service, spendable	138,532	-	35,530	-	174,062
Unrestricted	359,816	372,984	449,431	(83,069)	1,099,162
Total net position	<u>\$6,986,203</u>	<u>\$ 422,978</u>	<u>\$4,814,122</u>	<u>\$2,199,116</u>	<u>\$14,422,419</u>

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

City of Dunsmuir
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Funds
For The Year Ended June 30, 2016

	Sewer Fund	Solid Waste Fund	Water Fund	Airport Fund	Total
REVENUES					
User fees and charges	\$ 740,045	\$ 371,810	\$ 604,155	\$ -	\$ 1,716,010
Facilities rent	-	-	-	17,674	17,674
Total operating revenues	<u>740,045</u>	<u>371,810</u>	<u>604,155</u>	<u>17,674</u>	<u>1,733,684</u>
OPERATING EXPENSES					
Personnel and related expenses	325,290	-	245,972	20,937	592,199
Contract services	75,718	190,588	31,195	15,867	313,368
General and administrative services	177,837	41,255	76,979	10,008	306,079
Repairs and maintenance	45,865	1,529	19,353	6,205	72,952
Materials and supplies	12,457	4,721	17,804	-	34,982
Insurance and permits	59,783	1,661	30,914	5,699	98,057
Depreciation and amortization	306,713	18,816	101,360	100,508	527,397
Total operating expenses	<u>1,003,663</u>	<u>258,570</u>	<u>523,577</u>	<u>159,224</u>	<u>1,945,034</u>
Operating income (loss)	<u>(263,618)</u>	<u>113,240</u>	<u>80,578</u>	<u>(141,550)</u>	<u>(211,350)</u>
OTHER REVENUES (EXPENSES)					
Intergovernmental revenues	-	-	553,059	30,000	583,059
Interest earned	2,156	1,480	1,336	-	4,972
Interest expense	(89,318)	-	(21,883)	-	(111,201)
Total other revenues (expenses)	<u>(87,162)</u>	<u>1,480</u>	<u>532,512</u>	<u>30,000</u>	<u>476,830</u>
Net income (loss) before transfers	<u>(350,780)</u>	<u>114,720</u>	<u>613,090</u>	<u>(111,550)</u>	<u>265,480</u>
TRANSFERS					
Transfers in (out)	<u>-</u>	<u>-</u>	<u>1,330,472</u>	<u>-</u>	<u>1,330,472</u>
Change in net position	<u>(350,780)</u>	<u>114,720</u>	<u>1,943,562</u>	<u>(111,550)</u>	<u>1,595,952</u>
NET POSITION					
Beginning of the year	7,336,983	308,258	2,870,560	2,310,666	12,826,467
End of the year	<u>\$6,986,203</u>	<u>\$ 422,978</u>	<u>\$4,814,122</u>	<u>\$2,199,116</u>	<u>\$14,422,419</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, 2016**

	Sewer Fund	Solid Waste Fund	Water Fund	Airport Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	\$ 755,416	\$ 375,296	\$ 602,306	\$ 17,677	\$ 1,750,695
Payments to suppliers	(349,160)	(204,437)	89,202	(33,074)	(497,469)
Payments to employees	(234,384)	(149,739)	(165,666)	(20,613)	(570,402)
Net cash provided (used) by operating activities	<u>171,872</u>	<u>21,120</u>	<u>525,842</u>	<u>(36,010)</u>	<u>682,824</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES					
Interfund advances and payments	(620,136)	-	-	6,010	(614,126)
Interfund transfers and repayments	-	-	1,330,472	-	1,330,472
Net cash provided (used) by non-capital financing activities	<u>(620,136)</u>	<u>-</u>	<u>1,330,472</u>	<u>6,010</u>	<u>716,346</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING					
Receipt of intergovernmental revenues used for capital asset purchases	-	-	-	30,000	30,000
Purchase of capital assets	-	-	(2,042,523)	-	(2,042,523)
Proceeds from debt	-	-	-	-	-
Principal payments on debt	(100,033)	-	(15,790)	-	(115,823)
Interest payments on debt	(89,318)	-	(21,883)	-	(111,201)
Net cash (used) by investing activities	<u>(189,351)</u>	<u>-</u>	<u>(2,080,196)</u>	<u>30,000</u>	<u>(2,239,547)</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest income received	<u>2,156</u>	<u>1,480</u>	<u>1,336</u>	<u>-</u>	<u>4,972</u>
Net increase (decrease) in cash	(635,459)	22,600	(222,546)	-	(835,405)
CASH					
Beginning of the year	<u>916,788</u>	<u>484,062</u>	<u>707,567</u>	<u>-</u>	<u>2,108,417</u>
End of the year	<u>\$ 281,329</u>	<u>\$ 506,662</u>	<u>\$ 485,021</u>	<u>\$ -</u>	<u>\$ 1,273,012</u>
Comprised of:					
Cash and investments	\$ 142,797	\$ 506,662	\$ 449,491	\$ -	\$ 1,098,950
Restricted cash and investments	138,532	-	35,530	-	174,062
Total cash and cash investments	<u>\$ 281,329</u>	<u>\$ 506,662</u>	<u>\$ 485,021</u>	<u>\$ -</u>	<u>\$ 1,273,012</u>
Reconciliation of operating income (loss) to cash provided (used) by operating activities:					
Operating income (loss)	\$ (263,618)	\$ 113,240	\$ 80,578	\$ (141,550)	\$ (211,350)
Adjustments to reconcile operating income (loss) to cash provided (used) by operating activities:					
Depreciation and amortization	306,713	18,816	101,360	100,508	527,397
(Increase) decrease in accounts receivable	15,371	3,486	(782)	3	18,078
Increase (decrease) in accounts payable	22,500	35,317	265,447	4,705	327,969
Increase (decrease) in compensated absences	(4,363)	2,845	15,965	250	14,697
Increase in deposits	-	-	(1,067)	-	(1,067)
(Decrease) in net pension liability	78,252	(112,581)	52,352	191	18,214
Increase in deferred inflows of resources related to pensions	17,017	(40,003)	11,989	(117)	(11,114)
Net cash provided (used) by operating activities	<u>\$ 171,872</u>	<u>\$ 21,120</u>	<u>\$ 525,842</u>	<u>\$ (36,010)</u>	<u>\$ 682,824</u>

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

City of Dunsmuir
Notes to the Basic Financial Statements
June 30, 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Dunsmuir, California (hereafter "the City") operates under a City Council – City Manager 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's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The more significant accounting policies established in GAAP and used by the City are discussed below.

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

B. Basis of Presentation

Government-wide Financial Statements:

The statement of net position and statement of activities include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the governmental and business-type activities of the City. Governmental activities are reported separately from business-type activities (such as sewer, solid waste, water, and airport).

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

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

City of Dunsmuir
Notes to the Basic Financial Statements
June 30, 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fund Financial Statements:

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

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

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

The funds of the City are described below:

Major Governmental Funds:

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

The Community Development Project Income Fund accounts for the financing of home rehabilitation, as financed by monies passed through the State by the federal government.

Major Proprietary Funds:

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

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

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

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

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

Additionally, the City reports the following governmental funds:

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

City of Dunsmuir
Notes to the Basic Financial Statements
June 30, 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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.

C. Measurement Focus and Basis of Accounting

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

Measurement Focus:

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

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

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

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

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

City of Dunsmuir
Notes to the Basic Financial Statements
June 30, 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of Accounting:

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

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

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

D. Assets, Liabilities, Net Position or Fund Equity

Cash and Cash Equivalents:

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

Investments:

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

Receivables:

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

Property Taxes:

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

City of Dunsmuir
Notes to the Basic Financial Statements
June 30, 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Interfund Receivables and Payables:

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

Restricted Assets:

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

Capital Assets:

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

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

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

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

Donated Assets:

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

Compensated Absences:

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

City of Dunsmuir
Notes to the Basic Financial Statements
June 30, 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Pensions:

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Local Government of Example's California Public Employees' Retirement System (CalPERS) plans (Plans) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Unearned Revenue:

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

Fund Balance Classification:

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

- **Nonspendable:** This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact.
- **Restricted:** This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. The City has classified police, fire, streets and roads, public transportation, community development and parks and fund balances as restricted for fund purposes. Monies set aside for noncurrent receivables and capital improvements are also classified as a restricted fund balance.
- **Committed:** This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the City Council. These amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The City did not have any committed resources as of June 30, 2016.
- **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, 2016.
- **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.

City of Dunsmuir
Notes to the Basic Financial Statements
June 30, 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

H. Implementation of New Pronouncement

GASB has issued Statement No. 68, Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. For defined benefit pension plans, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee services.

This pronouncement has been implemented for purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense/expenditures. Information about the fiduciary net position of the Agency's California Public Employees' Retirement System (CalPERS) plans and

City of Dunsmuir
Notes to the Basic Financial Statements
June 30, 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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, 2016 are classified in the accompanying financial statements as follows:

Statement of net position:	
Current cash and investments	\$ 1,579,866
Restricted cash and investments	174,062
Total cash and investments	\$ 1,753,928
Consisting of the following:	
Cash on hand	\$ 250
Deposits with financial institutions	295,815
Investments in LAIF	1,457,863
	\$ 1,753,928

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	\$1,457,863	\$1,457,863	167 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
Notes to the Basic Financial Statements
June 30, 2016

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 \$241,436, all of which was covered by federal depository insurance, or the collateral requirements discussed in the preceding paragraph. The bank balance differs from the book balance of \$295,815 because of deposits in transit and outstanding checks.

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.

City of Dunsmuir
Notes to the Basic Financial Statements
June 30, 2016

NOTE 3 LOANS RECEIVABLE

The following is the composition of loans receivable at June 30, 2016:

	Community Development Project Income Fund	EDBG Fund	Total
Mortgage loans	\$ 988,621	\$ 333,964	\$ 1,322,585
Less: allowance for bad debt	(120,770)	(69,097)	(189,867)
Total	\$ 867,851	\$ 264,867	\$ 1,132,718
 Related party loans	 \$ 167,642	 \$ -	 \$ 167,642

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

The following is a summary of the interfund receivables and payables at June 30, 2016:

Due from:	Due to:		Total
	General Fund	Sewer Fund	
South Dunsmuir Sewer Assessment Fund	\$ 917	\$ -	\$ 917
Local Transportation Fund	3,415	-	3,415
Airport Fund	72,061	-	72,061
Community Development Improvement Fund	-	620,136	620,136
Total	\$ 76,393	\$ 620,136	\$ 696,529

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 Transfers In
	General Fund	Sewer Fund	Community Development Program Income Fund	Economic Development Block Grant Fund	
General Fund	\$ -	\$ -	\$ 24,795	\$ -	\$ 24,795
Gas Tax Fund	50,000	-	-	-	50,000
Community Development Improvement Fund	-	-	-	51,000	51,000
Water Fund	-	-	1,330,472	-	1,330,472
Total Transfers Out	\$ 50,000	\$ -	\$ 1,355,267	\$ 51,000	\$ 1,456,267

The operating transfer to the Gas Tax Fund is for overhead activities in the General Fund. The operating transfer outs of the Community Development Program Income Fund and Sewer Fund were for various capital projects. The operating transfer between Economic Development Fund and Community Development Program Income Fund was for a transfer of project income.

City of Dunsmuir
Notes to the Basic Financial Statements
June 30, 2016

NOTE 5 CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2016 was as follows:

	June 30, 2015	Additions and Transfers	Retirements and Transfers	June 30, 2016
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 1,151,800	\$ -	\$ -	\$ 1,151,800
Construction in progress	17,673	24,795	-	42,468
Total capital assets not being depreciated:	<u>1,169,473</u>	<u>24,795</u>	<u>-</u>	<u>1,194,268</u>
Capital assets being depreciated:				
Buildings	1,739,864	1,642	-	1,741,506
Machinery and equipment	2,207,118	13,083	-	2,220,201
Infrastructure	3,169,809	-	-	3,169,809
Total capital assets being depreciated	<u>7,116,791</u>	<u>14,725</u>	<u>-</u>	<u>7,131,516</u>
Less accumulated depreciation for:				
Buildings	1,402,147	20,070	-	1,422,217
Machinery and equipment	1,126,743	123,269	-	1,250,012
Infrastructure	1,613,440	153,158	-	1,766,598
Total accumulated depreciation	<u>4,142,330</u>	<u>296,497</u>	<u>-</u>	<u>4,438,827</u>
Total capital assets being depreciated, net	<u>2,974,461</u>	<u>(281,772)</u>	<u>-</u>	<u>2,692,689</u>
Subtotal, governmental activities	<u>4,143,934</u>	<u>(256,977)</u>	<u>-</u>	<u>3,886,957</u>
Business-type activities:				
Capital assets not being depreciated:				
Land	1,718,508	5,200	-	1,723,708
Construction in progress	-	1,945,600	-	1,945,600
Total capital assets not being depreciated	<u>1,718,508</u>	<u>1,950,800</u>	<u>-</u>	<u>3,669,308</u>
Capital assets being depreciated:				
Utility plant	14,579,632	91,723	-	14,671,355
Buildings	240,861	-	-	240,861
Improvements not buildings	2,896,158	-	-	2,896,158
Machinery and equipment	1,218,533	-	-	1,218,533
Total capital assets being depreciated	<u>18,935,184</u>	<u>91,723</u>	<u>-</u>	<u>19,026,907</u>
Less accumulated depreciation for:				
Utility plant	3,307,572	368,852	-	3,676,424
Buildings	123,800	6,970	-	130,770
Improvements not buildings	1,714,222	107,365	-	1,821,587
Machinery and equipment	858,972	44,210	-	903,182
Total accumulated depreciation	<u>6,004,566</u>	<u>527,397</u>	<u>-</u>	<u>6,531,963</u>
Total capital assets being depreciated, net	<u>12,930,618</u>	<u>(435,674)</u>	<u>-</u>	<u>12,494,944</u>
Capital assets being amortized:				
Organization costs	109,530	-	-	109,530
Less: accumulated amortization	<u>109,530</u>	<u>-</u>	<u>-</u>	<u>109,530</u>
Total capital assets being amortized, net	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Subtotal, business-type activities	<u>14,649,126</u>	<u>1,515,126</u>	<u>-</u>	<u>16,164,252</u>
Total, government-wide	<u>\$ 18,793,060</u>	<u>\$ 1,258,149</u>	<u>\$ -</u>	<u>\$ 20,051,209</u>

City of Dunsmuir
Notes to the Basic Financial Statements
June 30, 2016

NOTE 5 CAPITAL ASSETS (Continued)

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

Governmental activities:		
General government	\$	28,388
Public safety		118,267
Streets and roads		149,842
Total depreciation and amortization expense - governmental activities	\$	<u>296,497</u>
Business-type activities:		
Sewer	\$	306,713
Solid Waste		18,816
Water		101,360
Airport		100,508
Total depreciation and amortization expense - business-type activities	\$	<u>527,397</u>

NOTE 6 LONG TERM DEBT

The following is a summary of Governmental activities long-term liabilities activity during the year ended June 30, 2016:

	<u>June 30, 2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2016</u>	<u>Current Portion</u>
Bonds and notes payable:					
So. Dunsmuir Sewer Assessment system	\$ 98,000	\$ -	\$ 4,000	\$ 94,000	\$ 4,000
Total governmental activities long-term debt	<u>\$ 98,000</u>	<u>\$ -</u>	<u>\$ 4,000</u>	<u>\$ 94,000</u>	<u>\$ 4,000</u>

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

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

Interest rate date Year Ended June 30,:	<u>So. Dunsmuir Sewer Assessment</u>	
	<u>Principal</u>	<u>Interest</u>
	6.00%	
	September 2, 2030	
2017	4,000	5,640
2018	4,000	5,400
2019	5,000	5,160
2020	5,000	4,860
2021	6,000	4,560
2022-2026	36,000	15,060
2027-2031	34,000	4,560
	<u>\$ 94,000</u>	<u>\$ 45,240</u>

City of Dunsmuir
Notes to the Basic Financial Statements
June 30, 2016

NOTE 6 LONG TERM DEBT (continued)

The following is a summary of Business-type activities long-term liabilities activity during the year ended June 30, 2016:

	June 30, 2015	Additions	Reductions	June 30, 2016	Current Portion
Bonds and notes payable:					
1994 Sewer Improvement Certificates of Participation	\$ 374,000	\$ -	\$ 12,000	\$ 362,000	\$ 12,000
2007 USDA Sewer Loan	679,000	-	11,000	668,000	11,000
State Water Resources Control Board	1,750,190	-	77,033	1,673,157	74,642
Total sewer fund	<u>2,803,190</u>	<u>-</u>	<u>100,033</u>	<u>2,703,157</u>	<u>97,642</u>
1994 Water Improvement Certificates of Participation					
2005 Water System Loan	427,000	-	13,000	414,000	14,000
2005 Water System Loan	30,690	-	2,790	27,900	2,790
Total water fund	<u>457,690</u>	<u>-</u>	<u>15,790</u>	<u>441,900</u>	<u>16,790</u>
Total Business-type activities long term debt	<u>\$ 1,584,270</u>	<u>\$ -</u>	<u>\$ 115,823</u>	<u>\$ 3,145,057</u>	<u>\$ 114,432</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:

	1994 Sewer Certificates of Participation		2007 USDA Sewer Loan		State Water Resources Control Board	
	Principal	Interest	Principal	Interest	Principal	Interest
Interest rate	4.50%		4.25%		1.80%	
Maturity	May 1, 2035		May 1, 2046		August 31, 2034	
Year Ended						
June 30,:	Principal	Interest	Principal	Interest	Principal	Interest
2017	12,000	15,750	11,000	28,390	74,642	30,117
2018	13,000	16,290	12,000	27,923	75,985	28,773
2019	14,000	15,165	12,000	27,413	77,353	27,406
2020	14,000	14,535	13,000	26,903	78,745	26,013
2021	15,000	13,905	14,000	26,350	161,769	47,749
2022-2026	86,000	58,770	77,000	122,528	430,598	93,195
2027-2031	105,000	37,800	95,000	104,762	470,773	53,020
2032-2036	103,000	11,251	115,000	82,875	303,292	10,983
2037-2041	-	-	143,000	56,206	-	-
2042-2046	-	-	176,000	30,341	-	-
2047-2049	-	-	-	-	-	-
Total	<u>\$ 362,000</u>	<u>\$ 183,466</u>	<u>\$668,000</u>	<u>\$533,691</u>	<u>\$ 1,673,157</u>	<u>\$ 317,256</u>

City of Dunsmuir
Notes to the Basic Financial Statements
June 30, 2016

NOTE 6 LONG TERM DEBT (continued)

Interest rate Maturity Year Ended June 30,:	1994 Water Improvement Certificates of		2005 Water System Loan		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
	5.13%		N/A			
	May 1, 2035		July, 1 2026			
2017	14,000	21,166	2,790	-	114,432	95,423
2018	15,000	20,449	2,790	-	118,775	93,435
2019	16,000	19,680	2,790	-	122,143	89,664
2020	16,000	18,860	2,790	-	124,535	86,311
2021	35,000	18,040	2,790	-	228,559	106,044
2022-2026	105,000	76,106	13,950	-	712,548	350,599
2027-2031	135,000	47,735	-	-	805,773	243,317
2032-2036	78,000	12,454	-	-	599,292	117,563
2037-2041	-	-	-	-	143,000	56,206
2042-2046	-	-	-	-	176,000	30,341
2047-2049	-	-	-	-	-	-
Total	\$ 414,000	\$ 234,490	\$ 27,900	\$ -	\$ 3,145,057	\$ 1,268,903

NOTE 7 COMPENSATED ABSENCES

Compensated absence activity for the year ended June 30, 2016 is summarized as follows:

	June 30, 2015	Additions	Reductions	June 30, 2016	Current Portion
Governmental activities:					
General fund	\$ 41,235	\$ 5,413	\$ -	\$ 46,648	\$ 10,169
Business-type activities:					
Sewer fund	35,897	-	4,363	31,534	16,955
Solid Waste fund	14,873	2,845	-	17,718	7,338
Water fund	34,174	15,965	-	50,139	26,272
Airport fund	1,310	250	-	1,560	590
Total business-type activities	86,254	19,060	4,363	100,951	51,155
Total compensated absences	\$ 127,489	\$ 24,473	\$ 4,363	\$ 147,599	\$ 61,324

NOTE 8 PENSION PLAN

A. General Information about the Pension Plans

Plan Descriptions – All qualified permanent and probationary employees are eligible to participate in the City's separate Safety (police and fire) and Miscellaneous (all other) Employee Pension Plans, cost-sharing multiple employer defined benefit pension plans administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plans are established by State statute and City resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

City of Dunsmuir
Notes to the Basic Financial Statements
June 30, 2016

NOTE 8 PENSION PLAN (continued)

Benefits Provided – CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees’ Retirement Law.

Funding Policy –The passage of California State Assembly Bill 340 created the Public Employees’ Pension Reform Act (PEPRA). PEPRA implemented new benefit formulas and final compensation period, as well as new contribution requirements for new employees hired on or after January 1, 2013 who meet the definition of a new member as per PEPRA. Employees enrolled in the Plan prior to January 1, 2013, are now referred to as Classic Plan members. Under PEPRA formula 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 contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS.

	<u>Miscellaneous</u>	
	Prior to January 1, 2013	On or after January 1, 2013
Hire date		
Benefit formula	2.0% @ 55	2.0% @ 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life
Retirement age	55	52-67
Monthly benefits, as a % of eligible compensation	2.0% to 2.5%	1.0% to 2.5%
Required employee contribution rates 2015-16	7.000%	6.250%
Required employer contribution rates 2015-16	8.003%	6.250%

	<u>Safety</u>	
	Prior to January 1, 2013	On or after January 1, 2013
Hire date		
Benefit formula	2.0% @ 50	2.0% @ 57
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life
Retirement age	50	50-57
Monthly benefits, as a % of eligible compensation	2.00%	2.0% to 2.7%
Required employee contribution rates 2015-16	9.000%	11.500%
Required employer contribution rates 2015-16	13.813%	11.500%

Contributions – Section 20814(c) of the California Public Employees’ Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for both Plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The City is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

City of Dunsmuir
Notes to the Basic Financial Statements
June 30, 2016

NOTE 8 PENSION PLAN (continued)

For the year ended June 30, 2016, the contributions recognized as part of pension expense for each Plan were as follows:

	<u>Miscellaneous</u>	<u>Safety</u>
Contributions - employer	\$ 17,374	\$ 7,167
Contributions - employee (paid by employer)	12,841	-
Contributions- employee	11,406	-

B. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

As of June 30, 2016, the City reported net pension liabilities for its proportionate shares of the net pension liability of each Plan as follows:

	<u>Proportionate Share of Net Pension Liability</u>
Miscellaneous	\$ 606,897
Safety	188,782
Total Net Pension Liability	<u>\$ 795,679</u>

The City's net pension liability for each Plan is measured as the proportionate share of the net pension liability. The net pension liability of each of the Plans is measured as of June 30, 2015, and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014 rolled forward to June 30, 2015 using standard update procedures. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. The City's proportionate share of the net pension liability for each Plan as of June 30, 2015 was as follows:

	<u>Miscellaneous</u>
Proportion - June 30, 2015	0.02212%
	<u>Safety</u>
Proportion - June 30, 2015	0.00458%

City of Dunsmuir
Notes to the Basic Financial Statements
June 30, 2016

NOTE 8 PENSION PLAN (continued)

For the year ended June 30, 2016, the City recognized pension expense of \$66,178. At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 53,878	\$ -
Differences between actual and expected experience	2,242	-
Difference between projected and actual earnings on pension plan investments	-	12,949
Change in assumptions	-	25,780
Difference between expected and actual experience	-	993
Change in employer's proportion	-	117,923
Change in employer's proportion and differences between the employer's proportionate share of contributions	-	40,320
Total	\$ 56,120	\$ 197,965

\$53,878 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended 30-Jun	
2016	\$ 66,466
2017	67,613
2018	58,406
2019	3,238
2020	-
Thereafter	-

Actuarial Assumptions – The total pension liabilities in the June 30, 2014 actuarial valuations were determined for Miscellaneous and Safety plans using the following actuarial assumptions:

	Miscellaneous	Safety
Valuation Date	June 30, 2014	June 30, 2014
Measurement Date	June 30, 2015	June 30, 2015
Actuarial Cost Method	Entry-Age Normal Cost Method	
Actuarial Assumptions:		
Discount Rate	7.65%	7.65%
Inflation	2.75%	2.75%
Payroll Growth	3.00%	3.00%
Projected Salary Increase	3.3% - 14.2% (1)	3.3% - 14.2% (1)
Investment Rate of Return	7.5% (2)	7.5% (2)
Mortality	20	20

(1) Depending on age, service and type of employment

(2) Net of pension plan investment expenses, including inflation

City of Dunsmuir
Notes to the Basic Financial Statements
June 30, 2016

NOTE 8 PENSION PLAN (continued)

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2014 valuation were based on the results of a January 2014 actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can found on the CalPERS website.

Discount Rate – The discount rate used to measure the total pension liability was 7.65% for each Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.65 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.65 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.65 percent investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65 percent. Using this lower discount rate has resulted in a slightly higher Total Pension Liability and Net Pension Liability. CalPERS checked the materiality threshold for the difference in calculation and did not find it to be a material difference.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2017-18 fiscal year.

CalPERS will continue to check the materiality of the difference in calculation until such time as we have changed our methodology.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

City of Dunsmuir
Notes to the Basic Financial Statements
June 30, 2016

NOTE 8 PENSION PLAN (continued)

Asset Class	New Strategic Allocation	Real Return Years 1 - 10(a)	Real Return Years 11+(b)
Global Equity	51.00%	5.25%	5.71%
Global Fixed Income	19.00%	0.99%	2.43%
Inflation Sensitive	6.00%	0.45%	3.36%
Private Equity	10.00%	6.83%	6.95%
Real Estate	10.00%	4.50%	5.13%
Infrastructure and Forestland	2.00%	4.50%	5.09%
Liquidity	2.00%	-0.55%	-1.05%
Total	100%		

(a) An expected inflation of 2.5% used for this period.

(b) An expected inflation of 3.0% used for this period.

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the City’s proportionate share of the net pension liability for each Plan, calculated using the discount rate for each Plan, as well as what the City’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

Classic Plans	Miscellaneous	Safety
1% Decrease	6.65%	6.65%
Net Pension Liability	\$ 1,017,830	\$ 302,709
Current Discount Rate	7.65%	7.65%
Net Pension Liability	\$ 606,910	\$ 188,799
1% Increase	8.65%	8.65%
Net Pension Liability	\$ 267,647	\$ 95,394

Pension Plan Fiduciary Net Position – Detailed information about each pension plan’s fiduciary net position is available in the separately issued CalPERS financial reports.

NOTE 9 SELF-INSURANCE

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

NOTE 10 RESTRICTED NET POSITION

Restricted net position is equity whose use is subject to constraints that are either; (1) externally imposed by creditors (such as debt covenants), grantors, or laws or regulations of governments, or (2) imposed by law through constitutional provisions or enabling legislation. Restricted net position at June 30, 2016 for governmental activities were restricted for the specific fund purpose and business-type activities were restricted for debt service.

City of Dunsmuir
Notes to the Basic Financial Statements
June 30, 2016

NOTE 11 FUND BALANCE

Fund balances are classified as follows:

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

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

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

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

Unassigned—All amounts not included in other spendable classifications.

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

General Fund

The General Fund has Unassigned Fund Balance of \$227,167 at June 30, 2016.

Other Major Fund

The Community Development Project Income Fund has Non-spendable Fund Balance of \$867,851 consisting of noncurrent receivables and an Unassigned Fund Balance (Deficit) of \$(38,434) at June 30, 2016.

Other Funds

Other governmental (nonmajor) funds have Non-spendable Fund Balance of \$264,867, consisting of noncurrent receivables and Restricted Fund Balance of \$239,353 restricted for fund purpose at June 30, 2016.

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 OVEREXPENDITURE OF BUDGET

The Community Development Project Income Fund overexpended its budget by \$66,447.

REQUIRED SUPPLEMENTARY INFORMATION

**City of Dunsmuir
Budgetary Comparison Schedule
General Fund
For The Year Ended June 30, 2016**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Favorable (Unfavorable) Variance With Final Budget</u>
<u>REVENUES</u>				
Property taxes	\$ 287,000	\$ 287,000	\$ 275,656	\$ (11,344)
Sales and use taxes	84,500	84,500	134,598	50,098
Transient occupancy taxes	109,000	109,000	103,825	(5,175)
Franchise and other licenses	57,700	57,700	66,690	8,990
Licenses and permits	20,000	20,000	16,915	(3,085)
Intergovernmental revenues	411,629	411,629	289,701	(121,928)
Charges for services	61,683	61,683	50,582	(11,101)
Fines, forfeitures and penalties	5,800	5,800	2,551	(3,249)
Use of money and property	95,600	95,600	95,296	(304)
Other	377,553	377,553	143,975	(233,578)
Total revenues	<u>1,510,465</u>	<u>1,510,465</u>	<u>1,179,789</u>	<u>(330,676)</u>
<u>EXPENDITURES</u>				
Current:				
City council	24,950	24,950	4,950	20,000
City administrator	96,117	96,117	50,725	45,392
City clerk	26,652	26,652	17,055	9,597
City attorney	37,000	37,000	37,151	(151)
Planning	57,714	57,714	28,697	29,017
Finance and administration	191,416	191,416	136,475	54,941
Building inspection	22,400	22,400	21,244	1,156
Police protection	455,246	455,246	441,249	13,997
Fire protection	210,786	210,786	202,058	8,728
Streets and roads	255,127	255,127	126,780	128,347
Buildings and grounds	114,739	114,739	77,567	37,172
Health and welfare	4,000	4,000	1,926	2,074
Community and economic development	37,200	37,200	49,350	(12,150)
Other	42,000	42,000	60,848	(18,848)
Capital outlay	-	-	39,505	(39,505)
Total expenditures	<u>1,575,347</u>	<u>1,575,347</u>	<u>1,295,580</u>	<u>279,767</u>
Excess of revenues over (under) expenditures	<u>(64,882)</u>	<u>(64,882)</u>	<u>(115,791)</u>	<u>(50,909)</u>
<u>OTHER FINANCING SOURCES (USES)</u>				
Operating transfers in	11,001	11,001	24,795	13,794
Operating transfers out	(11,001)	(11,001)	(50,000)	(38,999)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(25,205)</u>	<u>(25,205)</u>
Excess of revenues and other sources over (under) expenditures and other uses	<u>\$ (64,882)</u>	<u>\$ (64,882)</u>	<u>\$ (140,996)</u>	<u>\$ (76,114)</u>

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

**City of Dunsmuir
Budgetary Comparison Schedule
Community Development Project Income Fund
For The Year Ended June 30, 2016**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Favorable (Unfavorable) Variance With Final Budget</u>
<u>REVENUES</u>				
Intergovernmental revenues	\$ 1,200,000	\$ 1,200,000	\$1,276,463	\$ 76,463
Use of money and property	20,770	9,600	16,597	6,997
Total revenues	<u>1,220,770</u>	<u>1,209,600</u>	<u>1,293,060</u>	<u>83,460</u>
<u>EXPENDITURES</u>				
Current:				
Community and economic development	<u>274</u>	<u>274</u>	<u>66,721</u>	<u>(66,447)</u>
Excess of revenues (under) expenditures	<u>20,496</u>	<u>9,326</u>	<u>1,226,339</u>	<u>(59,450)</u>
<u>OTHER FINANCING (USES)</u>				
Operating transfers in	-	-	51,000	51,000
Operating transfers out	<u>(1,200,000)</u>	<u>(1,200,000)</u>	<u>(1,355,267)</u>	<u>(155,267)</u>
Total other financing sources (uses)	<u>(1,200,000)</u>	<u>(1,200,000)</u>	<u>(1,304,267)</u>	<u>(104,267)</u>
Excess of revenues (under) expenditures and other uses	<u><u>\$ (1,179,504)</u></u>	<u><u>\$ (1,190,674)</u></u>	<u><u>\$ (77,928)</u></u>	<u><u>\$ (214,717)</u></u>

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

City of Dunsmuir
 Cost-Sharing Multiple-Employer Defined Benefit Pension Plan
 As of June 30, 2016
 Last 10 Years (1)

SCHEDULE OF THE LOCAL GOVERNMENT'S
 PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

Safety Plan	6/30/2014 (1)	6/30/2015 (1)
Plan's proportion of the net pension liability	0.00253%	0.00458%
Plan's proportionate share of the net pension liability	\$157,261	\$188,782
Plan's covered-employee payroll	N/A	N/A
Plan's proportionate share of the net pension liability as percentage of its covered-employee payroll	N/A	N/A
Plan's proportionate share of the fiduciary net position as a percentage of the plan's total pension liability	81.42%	77.00%
Plan's proportionate share of aggregate employer contributions (2)	\$19,509	\$9,057
Miscellaneous Plan	6/30/2014 (1)	6/30/2015 (1)
Plan's proportion of the net pension liability	0.00925%	0.02212%
Plan's proportionate share of the net pension liability	\$575,878	\$606,897
Plan's covered-employee payroll	\$466,885	\$437,788
Plan's proportionate share of the net pension liability as percentage of its covered-employee payroll	123.30%	139.00%
Plan's proportionate share of the fiduciary net position as a percentage of the plan's total pension liability	83.72%	83.00%
Plan's proportionate share of aggregate employer contributions (2)	\$80,071	\$44,821

(1) Historical information is required only for measurement periods for which GASB 68 is applicable.

(2) The plan's proportionate share of aggregate contributions may not match the actual contributions made by the employer during the measurement period. The plan's proportionate share of aggregate contributions is based on the plan's proportion of fiduciary net position shown on line 5 of the tables above as well as any additional side fund (or unfunded liability) contributions made by the employer during the measurement period.

City of Dunsmuir
 Cost-Sharing Multiple-Employer Defined Benefit Pension Plan
 As of June 30, 2016
 Last 10 Years (1)

SCHEDULE OF CONTRIBUTIONS

Safety Plan	Fiscal Year 2013-14 (1)	Fiscal Year 2014-15 (1)
Actuarially determined contribution	5,498	7,552
Contributions in relation to the actuarially determined contribution	(5,498)	(7,552)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll (2)	N/A	N/A
Contributions as a percentage of covered-employee payroll	N/A	N/A
Miscellaneous Plan	Fiscal Year 2013-14 (1)	Fiscal Year 2014-15 (1)
Actuarially determined contribution	41,503	34,890
Contributions in relation to the actuarially determined contribution	(41,503)	(34,890)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll (2)	\$ 466,885	\$ 437,788
Contributions as a percentage of covered-employee payroll	8.89%	7.99%

(1) Historical information is required only for measurement periods for which GASB 68 is applicable.

(2) Payroll from prior was assumed to increase by 3.00 percent payroll growth assumptions.

Notes to Schedule

Change in Benefit Terms: None

Change in Assumptions: The discount rate was changed from 7.50% (net of administrative expenses) to 7.65% to correct for an adjustment to exclude administrative expenses.

SUPPLEMENTARY INFORMATION

**City of Dunsmuir
Combining Balance Sheet
June 30, 2016**

	Special Revenue					Total
	Local Transportation Fund	Gas Tax Fund	Fire Assessment Fund	EDBG Fund	South Dunsmuir Sewer Assessment Fund	
ASSETS						
Cash	\$ -	\$ 27,152	\$ 97,370	\$ 112,038	\$ -	\$ 236,560
Receivables (net of allowance for doubtful accounts, where applicable):						
Loans	-	-	-	264,867	-	264,867
Intergovernmental and other	4,111	10,532	5,468	-	2,979	23,090
Total assets	\$ 4,111	\$ 37,684	\$ 102,838	\$ 376,905	\$ 2,979	\$ 524,517
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	\$ 1,792	\$ 829	\$ 13,780	\$ -	\$ -	\$ 16,401
Due to other funds	917	-	-	-	3,415	4,332
Total liabilities	2,709	829	13,780	-	3,415	20,733
Fund balances:						
Nonspendable:						
Noncurrent receivables	-	-	-	264,867	-	264,867
Restricted for:						
Streets and roads	1,402	36,855	-	-	-	38,257
Public safety	-	-	89,058	-	-	89,058
Community and economic development	-	-	-	112,038	-	112,038
Total	1,402	36,855	89,058	112,038	-	239,353
Unassigned	-	-	-	-	(436)	(436)
Total fund balance	1,402	36,855	89,058	376,905	(436)	503,784
Total liabilities and fund balance	\$ 4,111	\$ 37,684	\$ 102,838	\$ 376,905	\$ 2,979	\$ 524,517

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

City of Dunsmuir
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
For The Year Ended June 30, 2016

	Special Revenue					Total
	Local Transportation Fund	Gas Tax Fund	Fire Assessment Fund	EDBG Fund	South Dunsmuir Sewer Assessment Fund	
REVENUES						
Assessments	\$ -	\$ -	\$ 26,640	\$ -	\$ -	\$ 26,640
Intergovernmental revenues	48,562	61,765	-	-	8,391	118,718
Use of money and property	21	-	231	10,822	-	11,074
Total revenues	<u>48,583</u>	<u>61,765</u>	<u>26,871</u>	<u>10,822</u>	<u>8,391</u>	<u>156,432</u>
EXPENDITURES						
Current:						
Fire protection	-	-	16,107	-	-	16,107
Streets and roads	-	80,382	-	-	-	80,382
Transit assistance	68,738	-	-	-	-	68,738
Community and economic development	-	-	-	151	-	151
Debt service:						
Principal	-	-	-	-	4,000	4,000
Interest	-	-	-	-	5,761	5,761
Total expenditures	<u>68,738</u>	<u>80,382</u>	<u>16,107</u>	<u>151</u>	<u>9,761</u>	<u>175,139</u>
Excess of revenues over (under) expenditures	<u>(20,155)</u>	<u>(18,617)</u>	<u>10,764</u>	<u>10,671</u>	<u>(1,370)</u>	<u>(18,707)</u>
OTHER FINANCING SOURCES (USES)						
Operating transfers in	-	50,000	-	-	-	50,000
Operating transfers out	-	-	-	(51,000)	-	(51,000)
Total other financing sources (uses)	-	<u>50,000</u>	-	<u>(51,000)</u>	-	<u>(1,000)</u>
Excess of revenues and other sources over (under) expenditures and other uses	<u>(20,155)</u>	<u>31,383</u>	<u>10,764</u>	<u>(40,329)</u>	<u>(1,370)</u>	<u>(19,707)</u>
FUND BALANCE						
Beginning of the year	<u>21,557</u>	<u>5,472</u>	<u>78,294</u>	<u>417,234</u>	<u>934</u>	<u>523,491</u>
End of the year	<u>\$ 1,402</u>	<u>\$ 36,855</u>	<u>\$ 89,058</u>	<u>\$ 376,905</u>	<u>\$ (436)</u>	<u>\$ 503,784</u>

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

OTHER SCHEDULES AND REPORTS

City of Dunsmuir
Schedule of Expenditures of Federal Awards
For The Year Ended June 30, 2016

<u>Program Title</u>	<u>Federal CFDA #</u>	<u>Pass Through Grantor #</u>	<u>Federal Expenditures</u>	<u>Loan Disbursements Included In Expenditures</u>
Department of Housing and Urban Development				
Passed through State of California Department of				
Housing and Community Development				
Community Development Block Grants				
State's Programs	14.228	13-CDBG-8968	1,271,504	-
Total Department of Housing and Urban Development			<u>1,271,504</u>	<u>-</u>
Total Expenditure of Federal Awards			<u>\$ 1,271,504</u>	<u>\$ -</u>

Notes:

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

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

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

To the City Council
City of Dunsmuir, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Dunsmuir as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City of Dunsmuir, California's basic financial statements, and have issued our report thereon dated January 12, 2017.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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



Aiello, Goodrich & Teuscher
An Accountancy Corporation
Mt. Shasta, California
January 12, 2017

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

To the City Council
City of Dunsmuir, CA

Report on Compliance for Each Major Federal Program

We have audited the City of Dunsmuir, CA's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City of Dunsmuir, CA's major federal programs for the year ended June 30, 2016. City of Dunsmuir, CA's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City of Dunsmuir, CA's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).¹ Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Dunsmuir, CA's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City of Dunsmuir, CA's compliance.

Opinion on Each Major Federal Program

In our opinion, the City of Dunsmuir, CA's, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2016-001. Our opinion on each major federal program is not modified with respect to these matters.

City of Dunsmuir, CA's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. City of Dunsmuir, CA's response was not subjected

to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

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

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

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

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


Aiello, Goodrich & Teuscher
An Accountancy Corporation
Mt. Shasta, California
January 12, 2017

City of Dunsmuir
Schedule of Findings and Questioned Costs
June 30, 2016

Findings - Financial Statement Audit

2016-001 Material Errors in the Financial Statements

Condition: Material audit adjustments were proposed. The items consisted of adjustments to properly record revenues, and expenses, capitalize capital asset purchases, record a receivable and revenue related to the major federal award program, and record the loan related to a grant program.

Criteria: The City must present its financial statements in accordance with generally accepted accounting principles.

Cause: The City was without qualified accounting staff or a finance officer for an extended period subsequent to year end, when normally these items would have been adjusted.

Effect: Material errors existed in the City's financial statements.

Recommendation: The City must employ competent accounting staff at all times, and ensure that their functions are being properly performed.

Views of Responsible Officials and Planned Corrective Action:

Summary of Prior Audit Findings

Finding 2016-001 is a repeat finding from prior year.