

CITY OF DUNSMUIR, CALIFORNIA
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
JUNE 30, 2017

Table of Contents

INDEPENDENT AUDITORS' REPORT 1

BASIC FINANCIAL STATEMENTS

Government-wide Financial Statements:

 Statement of Net Position 3

 Statement of Activities 4

Fund Financial Statements:

Governmental Funds:

 Balance Sheet and Reconciliation of Total Governmental Fund Balance
 to the Statement of Net Position – Governmental Activities, Governmental Funds..... 5

 Statement of Revenues, Expenditures and Changes in
 Fund Balance – Governmental Funds 6

 Reconciliation of the Statement of Revenues, Expenditures and Changes in
 Fund Balance to the Statement of Activities – Governmental Funds 7

Proprietary Funds:

 Statement of Net Position – Proprietary Funds 8

 Statement of Revenues, Expenses and Changes in Retained Earnings – Proprietary Funds 9

 Statement of Cash Flows – Proprietary Funds..... 10

Notes to the Basic Financial Statements 11

REQUIRED SUPPLEMENTARY INFORMATION (other than MD&A)

Budgetary Comparison Schedules (Major Funds):

 General Fund..... 32

 Community Development Project Income Fund..... 33

Cost-Sharing Multiple-Employer Defined Benefit Pension Plans:

 Schedule of the Local Government's Proportionate Share of the Net Pension Liability.....34

 Schedule the Local Government's Plan Contributions..... 35

SUPPLEMENTARY INFORMATION

Combining Balance Sheet – Non-Major Governmental Funds 36

Combining Statement of Revenues, Expenditures and Changes in
Fund Balance – Non-Major Governmental Funds..... 37

OTHER SCHEDULES AND REPORTS

Independent Auditors' Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards*..... 38

Schedule of Findings and Questioned Costs..... 40

INDEPENDENT AUDITORS' REPORT

To the City Council
City of Dunsmuir, California

Report on the Financial Statements

I 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, 2017, 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

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

In my 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, 2017, 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 *Management's Discussion and Analysis* (not presented), 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. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me 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. My opinion on the basic financial statements is not affected by this missing information.

The combining non-major 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 my opinion, the combining non-major 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*, I have also issued my report dated February 07, 2018, on my consideration of the City of Dunsmuir, California's internal control over financial reporting and on my 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 my 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.



Charles W. Pillon, CPA
Redding, California
February 07, 2018

BASIC FINANCIAL STATEMENTS

**City of Dunsmuir
Statement of Net Position
June 30, 2017**

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
<u>ASSETS</u>			
Current assets:			
Cash and investments	\$ 319,032	\$ 1,907,443	\$ 2,226,475
Receivables (net of allowances for bad debts, where applicable):			
Trade accounts	-	62,891	62,891
Loans	1,142,419	-	1,142,419
Intergovernmental	217,938	253,088	471,026
Internal balances	75,000	(75,000)	-
Other assets	1,050	-	1,050
Total current assets	<u>1,755,439</u>	<u>2,148,422</u>	<u>3,903,861</u>
Restricted assets:			
Cash and investments	-	174,073	174,073
Capital assets:			
Non-depreciable	1,151,800	1,980,176	3,131,976
Depreciable, net	2,838,212	14,352,742	17,190,954
Total capital assets	<u>3,990,012</u>	<u>16,332,918</u>	<u>20,322,930</u>
Total assets	<u>5,745,451</u>	<u>18,655,413</u>	<u>24,400,864</u>
<u>DEFERRED OUTFLOWS</u>			
Pension related deferred outflows	125,153	109,746	234,899
<u>LIABILITIES</u>			
Accounts payable	239,971	335,134	575,105
Unearned revenue	8,152	2,175	10,327
Deposits and other liabilities	16,419	78,918	95,337
Current portion, compensated absences	35,782	50,392	86,174
Current portion of long-term debt	4,000	119,042	123,042
Total current liabilities	<u>304,324</u>	<u>585,661</u>	<u>889,985</u>
Long-term liabilities:			
Long-term compensated absences, net of current portion	25,474	42,063	67,537
Long-term debt, net of current portion	86,000	2,944,371	3,030,371
Net pension liability	575,389	477,727	1,053,116
Total long-term liabilities	<u>686,863</u>	<u>3,464,161</u>	<u>4,151,024</u>
Total liabilities	<u>991,187</u>	<u>4,049,822</u>	<u>5,041,009</u>
<u>DEFERRED INFLOWS</u>			
Pension related deferred inflows	90,574	92,885	183,459
<u>NET POSITION</u>			
Net investment in capital assets	3,900,012	13,303,687	17,203,699
Restricted, spendable	160,528	174,073	334,601
Unrestricted	728,303	1,144,692	1,872,995
Total net position	<u>\$ 4,788,843</u>	<u>\$ 14,622,452</u>	<u>\$19,411,295</u>

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

**City of Dunsmuir
Statement of Activities
June 30, 2017**

	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	\$ 314,149	\$ 84,154	\$ 222,663	\$ -	\$ (7,332)	\$ -	\$ (7,332)
Public safety	819,921	144,966	129,325	-	(545,630)	-	(545,630)
Streets and roads	591,667	-	-	116,680	(474,987)	-	(474,987)
Community and economic development	148,246	-	-	383,667	235,421	-	235,421
Total governmental activities	<u>1,873,983</u>	<u>229,120</u>	<u>351,988</u>	<u>500,347</u>	<u>(792,528)</u>	<u>-</u>	<u>(792,528)</u>
Business-type activities:							
Sewer	1,060,217	742,333	-	103,852	-	(214,032)	(214,032)
Solid waste	413,297	279,852	5,000	-	-	(128,445)	(128,445)
Water	568,124	698,747	-	647,804	-	778,427	778,427
Airport	253,313	22,084	109,913	-	-	(121,316)	(121,316)
Total business-type activities	<u>2,294,951</u>	<u>1,743,016</u>	<u>114,913</u>	<u>751,656</u>	<u>-</u>	<u>314,634</u>	<u>314,634</u>
Total primary government	<u>\$4,168,934</u>	<u>\$1,972,136</u>	<u>\$ 466,901</u>	<u>\$1,252,003</u>	<u>(792,528)</u>	<u>314,634</u>	<u>(477,894)</u>
General revenues:							
Taxes:							
Property					285,302	-	285,302
Sales					221,864	-	221,864
Transient occupancy					150,611	-	150,611
Investment earnings					115,078	7,011	122,089
Other					93,336	-	93,336
Transfers in (out)					(9,273)	9,273	-
Total general revenues					<u>856,918</u>	<u>16,284</u>	<u>873,202</u>
Change in net position					64,390	330,918	395,308
Net position, beginning, as previously stated					4,768,948	14,422,421	19,191,369
Prior period adjustment					(44,495)	(130,887)	(175,382)
Net position, beginning, as restated					<u>4,724,453</u>	<u>14,291,534</u>	<u>19,015,987</u>
Net position, ending					<u>\$4,788,843</u>	<u>\$14,622,452</u>	<u>\$19,411,295</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, 2017**

	General Fund	Community Development Project Income Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and investments	\$ 173,311	\$ 10,864	\$ 134,857	\$ 319,032
Receivables, net of allowance				
Loans	-	868,292	274,127	1,142,419
Intergovernmental	164,739	40,187	13,012	217,938
Due from other funds	122,000	-	41,000	163,000
Other assets	1,050	-	-	1,050
Total assets	\$ 461,100	\$ 919,343	\$ 462,996	\$ 1,843,439
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 194,085	\$ 38,809	\$ 7,077	\$ 239,971
Due to other funds	-	41,000	47,000	88,000
Unearned revenue	8,152	-	-	8,152
Other	16,419	-	-	16,419
Total liabilities	218,656	79,809	54,077	352,542
Fund balances:				
Nonspendable:				
Noncurrent receivables	-	868,292	274,127	1,142,419
Restricted for:				
Streets and roads	-	-	7,313	7,313
Public safety	-	-	56,238	56,238
Community and economic development	-	-	96,977	96,977
Total	-	-	160,528	160,528
Unassigned	242,444	(28,758)	(25,736)	187,950
Total fund balance	242,444	839,534	408,919	1,490,897
Total liabilities and fund balance	\$ 461,100	\$ 919,343	\$ 462,996	\$ 1,843,439
Total governmental fund balance, as above				\$ 1,490,897
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				3,990,012
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds				(90,000)
Pension liabilities are not due and payable in the current period and therefore are not reported on the balance sheet				(575,389)
Compensated absences in governmental activities are not due and payable in the current period and therefore are not reported in the balance sheet				(61,256)
Deferred outflows and inflows are not receivable or due and payable in the current period and therefore are not reported on the balance sheet				34,579
Net position of governmental activities				\$ 4,788,843

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, 2017

	General Fund	Community Development Project Income Fund	Other Governmental Funds	Total Governmental Funds
REVENUES				
Property taxes	\$ 285,302	\$ -	\$ -	\$ 285,302
Sales and use taxes	221,864	-	-	221,864
Transient occupancy taxes	150,611	-	-	150,611
Franchise and other licenses	62,584	-	-	62,584
Assessments	-	-	26,943	26,943
Licenses and permits	14,703	-	-	14,703
Intergovernmental revenues	351,988	383,667	116,680	852,335
Charges for services	118,674	-	-	118,674
Fines, forfeitures and penalties	6,216	-	-	6,216
Use of money and property	97,365	9,606	8,107	115,078
Other	93,336	-	-	93,336
Total revenues	<u>1,402,643</u>	<u>393,273</u>	<u>151,730</u>	<u>1,947,646</u>
EXPENDITURES				
Current:				
City council	13,926	-	-	13,926
City administrator	44,035	-	-	44,035
City clerk	18,886	-	-	18,886
City attorney	16,013	-	-	16,013
Planning	36,649	-	-	36,649
Finance and administration	120,650	-	-	120,650
Building inspection	21,218	-	-	21,218
Police protection	445,831	-	-	445,831
Fire protection	251,818	-	3,838	255,656
Streets and roads	171,397	-	125,597	296,994
Transit assistance	-	-	44,033	44,033
Buildings and grounds	79,101	-	-	79,101
Health and welfare	1,579	-	-	1,579
Community and economic development	66,855	67,830	13,561	148,246
Capital outlay	327,854	-	61,827	389,681
Debt service:				
Principal	-	-	4,000	4,000
Interest	-	-	5,520	5,520
Total expenditures	<u>1,615,812</u>	<u>67,830</u>	<u>258,376</u>	<u>1,942,018</u>
Excess of revenues over (under) expenditures	<u>(213,169)</u>	<u>325,443</u>	<u>(106,646)</u>	<u>5,628</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers in	306,053	-	10,000	316,053
Operating transfers out	(10,000)	(315,326)	-	(325,326)
Total other financing sources (uses)	<u>296,053</u>	<u>(315,326)</u>	<u>10,000</u>	<u>(9,273)</u>
Excess of revenues and other sources over (under) expenditures and other uses	82,884	10,117	(96,646)	(3,645)
FUND BALANCE				
Beginning of the year, as previously stated	227,166	829,417	503,784	1,560,367
Prior period adjustment	(67,606)	-	1,781	(65,825)
Beginning of the year, restated	<u>159,560</u>	<u>829,417</u>	<u>505,565</u>	<u>1,494,542</u>
End of the year	<u>\$ 242,444</u>	<u>\$ 839,534</u>	<u>\$ 408,919</u>	<u>\$ 1,490,897</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, 2017

Change in fund balance, governmental funds	\$ (3,645)
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:	389,681
Depreciation expense:	(286,625)
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	
	(14,608)
Government funds do not report the decrease of unfunded pension obligations as a revenue, but it is reported in the Statement of Activities	
	<u>(24,413)</u>
Change in net position of governmental activities	<u><u>\$ 64,390</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	\$ 598,365	\$ 383,436	\$ 923,103	\$ 2,539	\$ 1,907,443
Receivables (net of allowances for bad debts, where applicable):					
Trade accounts	41,901	13,049	7,941	-	62,891
Intergovernmental	88,165	-	91,892	73,031	253,088
Total current assets	<u>728,431</u>	<u>396,485</u>	<u>1,022,936</u>	<u>75,570</u>	<u>2,223,422</u>
Restricted assets:					
Cash and investments	<u>138,542</u>	<u>-</u>	<u>35,531</u>	<u>-</u>	<u>174,073</u>
Capital assets:					
Non-depreciable	237,041	-	321,458	1,421,677	1,980,176
Depreciable, net	8,629,171	31,178	4,932,393	760,000	14,352,742
Total capital assets, net	<u>8,866,212</u>	<u>31,178</u>	<u>5,253,851</u>	<u>2,181,677</u>	<u>16,332,918</u>
Total assets	<u>9,733,185</u>	<u>427,663</u>	<u>6,312,318</u>	<u>2,257,247</u>	<u>18,730,413</u>
DEFERRED OUTFLOWS					
Pension related deferred outflows	<u>56,302</u>	<u>18,511</u>	<u>33,785</u>	<u>1,148</u>	<u>109,746</u>
LIABILITIES					
Current liabilities:					
Accounts payable	164,666	52,298	55,634	62,536	335,134
Unearned revenue	2,175	-	-	-	2,175
Deposits and other liabilities	15,904	-	62,614	400	78,918
Due to other funds	-	-	-	75,000	75,000
Current portion, compensated absences	26,955	2,824	18,927	1,686	50,392
Current portion of long-term debt	100,985	-	16,395	1,662	119,042
Total current liabilities	<u>310,685</u>	<u>55,122</u>	<u>153,570</u>	<u>141,284</u>	<u>660,661</u>
Long-term liabilities:					
Long-term compensated absences, net of current portion	10,036	4,649	26,473	905	42,063
Long-term debt, net of current portion	2,504,531	-	407,320	32,520	2,944,371
Net pension liability	245,086	80,577	147,069	4,995	477,727
Total long-term liabilities	<u>2,759,653</u>	<u>85,226</u>	<u>580,862</u>	<u>38,420</u>	<u>3,464,161</u>
Total liabilities	<u>3,070,338</u>	<u>140,348</u>	<u>734,432</u>	<u>179,704</u>	<u>4,124,822</u>
DEFERRED INFLOWS					
Pension related deferred inflows	<u>47,653</u>	<u>15,666</u>	<u>28,595</u>	<u>971</u>	<u>92,885</u>
NET POSITION					
Invested in capital assets, net of related debt	6,260,696	31,178	4,830,136	2,181,677	13,303,687
Restricted for debt service, spendable	138,542	-	35,531	-	174,073
Unrestricted	<u>272,258</u>	<u>258,982</u>	<u>717,409</u>	<u>(103,957)</u>	<u>1,144,692</u>
Total net position	<u>\$6,671,496</u>	<u>\$ 290,160</u>	<u>\$5,583,076</u>	<u>\$2,077,720</u>	<u>\$14,622,452</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	\$ 742,333	\$ 279,852	\$ 698,747	\$ 100	\$ 1,721,032
Facilities rent	-	-	-	21,984	21,984
Total operating revenues	<u>742,333</u>	<u>279,852</u>	<u>698,747</u>	<u>22,084</u>	<u>1,743,016</u>
OPERATING EXPENSES					
Personnel and related expenses	316,098	53,557	205,125	33,625	608,405
Contract services	96,264	225,984	17,672	105,336	445,256
General and administrative services	200,532	32,808	95,526	7,626	336,492
Repairs and maintenance	15,938	63,929	15,602	861	96,330
Materials and supplies	13,145	15,171	21,329	-	49,645
Insurance and permits	41,332	3,032	30,946	5,357	80,667
Depreciation and amortization	301,841	18,816	160,655	100,508	581,820
Total operating expenses	<u>985,150</u>	<u>413,297</u>	<u>546,855</u>	<u>253,313</u>	<u>2,198,615</u>
Operating income (loss)	<u>(242,817)</u>	<u>(133,445)</u>	<u>151,892</u>	<u>(231,229)</u>	<u>(455,599)</u>
OTHER REVENUES (EXPENSES)					
Intergovernmental revenues	103,852	5,000	647,804	109,913	866,569
Interest earned	3,095	3,113	803	-	7,011
Interest expense	(75,067)	-	(21,269)	-	(96,336)
Total other revenues (expenses)	<u>31,880</u>	<u>8,113</u>	<u>627,338</u>	<u>109,913</u>	<u>777,244</u>
Net income (loss) before transfers	<u>(210,937)</u>	<u>(125,332)</u>	<u>779,230</u>	<u>(121,316)</u>	<u>321,645</u>
TRANSFERS					
Transfers in (out)	-	-	9,273	-	9,273
Change in net position	<u>(210,937)</u>	<u>(125,332)</u>	<u>788,503</u>	<u>(121,316)</u>	<u>330,918</u>
NET POSITION					
Beginning of the year, as previously stated	6,986,202	422,979	4,814,124	2,199,116	14,422,421
Prior period adjustments	(103,769)	(7,487)	(19,551)	(80)	(130,887)
Beginning of the year, restated	<u>6,882,433</u>	<u>415,492</u>	<u>4,794,573</u>	<u>2,199,036</u>	<u>14,291,534</u>
End of the year	<u>\$6,671,496</u>	<u>\$ 290,160</u>	<u>\$5,583,076</u>	<u>\$2,077,720</u>	<u>\$14,622,452</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, 2017**

	Sewer Fund	Solid Waste Fund	Water Fund	Airport Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	\$ 741,876	\$ 280,982	\$ 691,979	\$ 22,484	\$ 1,737,321
Payments to suppliers	(354,020)	(354,829)	(456,170)	(61,746)	(1,226,765)
Payments to employees	(291,448)	(57,492)	(198,346)	(32,203)	(579,489)
Net cash provided (used) by operating activities	<u>96,408</u>	<u>(131,339)</u>	<u>37,463</u>	<u>(71,465)</u>	<u>(68,933)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES					
Receipt of intergovernmental revenue	-	5,000	-	36,883	41,883
Receipts from debt proceeds	-	-	-	34,182	34,182
Interfund advances and payments	620,136	-	-	2,939	623,075
Interfund transfers and repayments	-	-	9,273	-	9,273
Net cash provided (used) by non-capital financing activities	<u>620,136</u>	<u>5,000</u>	<u>9,273</u>	<u>74,004</u>	<u>708,413</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING					
Receipt of intergovernmental revenues used for capital asset purchases	15,689	-	1,108,972	-	1,124,661
Purchase of capital assets	(107,042)	-	(643,444)	-	(750,486)
Principal payments on debt	(97,641)	-	(18,185)	-	(115,826)
Interest payments on debt	(75,067)	-	(21,269)	-	(96,336)
Net cash (used) by investing activities	<u>(264,061)</u>	<u>-</u>	<u>426,074</u>	<u>-</u>	<u>162,013</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest income received	3,095	3,113	803	-	7,011
Net increase (decrease) in cash	455,578	(123,226)	473,613	2,539	808,504
CASH					
Beginning of the year	281,329	506,662	485,021	-	1,273,012
End of the year	<u>\$ 736,907</u>	<u>\$ 383,436</u>	<u>\$ 958,634</u>	<u>\$ 2,539</u>	<u>\$ 2,081,516</u>
Comprised of:					
Cash and investments	\$ 598,365	\$ 383,436	\$ 923,103	\$ 2,539	\$ 1,907,443
Restricted cash and investments	138,542	-	35,531	-	174,073
Total cash and cash investments	<u>\$ 736,907</u>	<u>\$ 383,436</u>	<u>\$ 958,634</u>	<u>\$ 2,539</u>	<u>\$ 2,081,516</u>
Reconciliation of operating income (loss) to cash provided (used) by operating activities:					
Operating income (loss)	\$ (242,817)	\$ (133,445)	\$ 151,892	\$ (231,229)	\$ (455,599)
Adjustments to reconcile operating income (loss) to cash provided (used) by operating activities:					
Depreciation and amortization	301,841	18,816	160,655	100,508	581,820
(Increase) decrease in accounts receivable	(458)	1,130	(4,261)	-	(3,589)
(Increase) in deferred outflows of resources related to pensions	(37,548)	(12,345)	(22,531)	(765)	(73,189)
Increase (decrease) in accounts payable	13,192	(13,906)	(275,094)	57,434	(218,374)
Increase (decrease) in compensated absences	5,457	(10,244)	(4,739)	1,031	(8,495)
Increase in deposits	-	-	(2,508)	400	(2,108)
Increase in net pension liability	63,442	20,858	38,070	1,293	123,663
(Decrease) in deferred inflows of resources related to pensions	(6,701)	(2,203)	(4,021)	(137)	(13,062)
Net cash provided (used) by operating activities	<u>\$ 96,408</u>	<u>\$ (131,339)</u>	<u>\$ 37,463</u>	<u>\$ (71,465)</u>	<u>\$ (68,933)</u>

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

City of Dunsmuir
Notes to the Basic Financial Statements
June 30, 2017

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, 2017

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, 2017

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 provide for fire apparatus and equipment and replacement thereof as needed by the Dunsmuir Fire Department. The Dunsmuir Fire Department is volunteer department with the exception of Fire Chief. The assessment district was not established to pay for volunteer costs which are none.

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, 2017

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, 2017

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, 2017

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, 2017.
- 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, 2017.
- 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, 2017

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 non-operating classifications for proprietary funds.

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

F. Estimates

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

G. Budgets

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

NOTE 2 CASH AND INVESTMENTS

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

City of Dunsmuir
Notes to the Basic Financial Statements
June 30, 2017

NOTE 2 CASH AND INVESTMENTS (continued)

Cash and investments as of June 30, 2017 are classified in the accompanying financial statements as follows:

Statement of net position:	
Current cash and investments	\$ 2,226,475
Restricted cash and investments	174,073
Total cash and investments	\$ 2,400,548

Consisting of the following:	
Cash on hand	\$ 350
Deposits with financial institutions	684,149
Investments in LAIF	1,716,049
	\$ 2,400,548

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	\$1,716,049	\$1,716,049	194 day average

Disclosure Relating to Credit Risk:

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

Concentration of Credit Risk:

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

Custodial Credit Risk:

Custodial credit risk of deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party.

City of Dunsmuir
Notes to the Basic Financial Statements
June 30, 2017

NOTE 2 CASH AND INVESTMENTS (continued)

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 \$673,956, 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 \$684,149 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.

NOTE 3 LOANS RECEIVABLE

The following is the composition of loans receivable at June 30, 2017:

	Community Development Project Income Fund	EDBG Fund	Total
	<u> </u>	<u> </u>	<u> </u>
Mortgage loans	\$ 989,062	\$ 343,224	\$ 1,332,286
Less: allowance for bad debt	<u>(120,770)</u>	<u>(69,097)</u>	<u>(189,867)</u>
Total	<u>\$ 868,292</u>	<u>\$ 274,127</u>	<u>\$ 1,142,419</u>
 Related party loans	 \$ 169,032	 \$ -	 \$ 169,032

City of Dunsmuir
Notes to the Basic Financial Statements
June 30, 2017

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 inter-fund receivables and payables at June 30, 2017:

Due from:	Due to:		Total
	General Fund	EDBG Fund	
South Dunsmuir Sewer Assessment Fund	\$ 5,000	\$ -	\$ 5,000
Gas Tax Fund	42,000	-	42,000
Airport Fund	75,000	-	75,000
Community Development Improvement Fund	-	41,000	41,000
Total	\$ 122,000	\$ 41,000	\$ 163,000

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	Community Development Program Income Fund	
General Fund	\$ -	\$ 306,053	\$ 306,053
Water Fund	-	9,273	9,273
Non-major governmental funds	10,000	-	10,000
Total Transfers Out	\$ 10,000	\$ 315,326	\$ 325,326

The operating transfer to non-major governmental funds is for overhead activities in the General Fund. The operating transfer out of the Community Development Program Income Fund was for various capital projects.

NOTE 5 CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2017 was as follows:

City of Dunsmuir
Notes to the Basic Financial Statements
June 30, 2017

	June 30, 2016	Additions and Transfers	Retirements and Transfers	June 30, 2017
<u>Governmental activities:</u>				
Capital assets not being depreciated:				
Land	\$ 1,151,800	\$ -	\$ -	\$ 1,151,800
Construction in progress	42,468	-	(42,468)	-
Total capital assets not being depreciated:	<u>1,194,268</u>	<u>-</u>	<u>(42,468)</u>	<u>1,151,800</u>
Capital assets being depreciated:				
Buildings	1,741,506	348,521	(1,640)	2,088,387
Machinery and equipment	2,220,201	85,267	-	2,305,468
Infrastructure	3,169,809	-	-	3,169,809
Total capital assets being depreciated	<u>7,131,516</u>	<u>433,788</u>	<u>(1,640)</u>	<u>7,563,664</u>
Less accumulated depreciation for:				
Buildings	1,422,217	21,661	-	1,443,878
Machinery and equipment	1,250,012	111,806	-	1,361,818
Infrastructure	1,766,598	153,158	-	1,919,756
Total accumulated depreciation	<u>4,438,827</u>	<u>286,625</u>	<u>-</u>	<u>4,725,452</u>
Total capital assets being depreciated, net	<u>2,692,689</u>	<u>147,163</u>	<u>(1,640)</u>	<u>2,838,212</u>
Subtotal, governmental activities	<u>3,886,957</u>	<u>147,163</u>	<u>(44,108)</u>	<u>3,990,012</u>
<u>Business-type activities:</u>				
Capital assets not being depreciated:				
Land	1,723,708	17,362	-	1,741,070
Construction in progress	1,945,600	151,596	(1,858,089)	239,107
Total capital assets not being depreciated	<u>3,669,308</u>	<u>168,958</u>	<u>(1,858,089)</u>	<u>1,980,177</u>
Capital assets being depreciated:				
Utility plant	14,671,355	2,439,616	-	17,110,971
Buildings	240,862	-	-	240,862
Improvements not buildings	2,896,158	-	-	2,896,158
Machinery and equipment	1,218,533	-	-	1,218,533
Total capital assets being depreciated	<u>19,026,908</u>	<u>2,439,616</u>	<u>-</u>	<u>21,466,524</u>
Less accumulated depreciation for:				
Utility plant	3,676,424	420,125	-	4,096,549
Buildings	130,770	10,120	-	140,890
Improvements not buildings	1,821,587	107,365	-	1,928,952
Machinery and equipment	903,182	44,210	-	947,392
Total accumulated depreciation	<u>6,531,963</u>	<u>581,820</u>	<u>-</u>	<u>7,113,783</u>
Total capital assets being depreciated, net	<u>12,494,945</u>	<u>1,857,796</u>	<u>-</u>	<u>14,352,741</u>
<u>Capital assets being amortized:</u>				
Organization costs	109,530	-	-	109,530
Less: accumulated amortization	109,530	-	-	109,530
Total capital assets being amortized, net	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Subtotal, business-type activities	<u>16,164,253</u>	<u>2,026,754</u>	<u>(1,858,089)</u>	<u>16,332,918</u>
Total, government-wide	<u>\$20,051,210</u>	<u>\$2,173,917</u>	<u>\$(1,902,197)</u>	<u>\$20,322,930</u>

City of Dunsmuir
Notes to the Basic Financial Statements
June 30, 2017

NOTE 5 CAPITAL ASSETS (Continued)

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

Governmental activities:	
General government	\$ 2,683
Public safety	106,228
Streets and roads	177,714
Total depreciation and amortization expense - governmental activities	<u>\$ 286,625</u>
Business-type activities:	
Sewer	\$ 301,841
Solid Waste	18,816
Water	160,655
Airport	100,508
Total depreciation and amortization expense - business-type activities	<u>\$ 581,820</u>

NOTE 6 LONG TERM DEBT

The following is a summary of Governmental activities long-term liabilities activity during the year ended June 30, 2017:

	<u>June 30,</u> 2016	<u>Additions</u>	<u>Reductions</u>	<u>June 30,</u> 2017	<u>Current</u> <u>Portion</u>
Bonds and notes payable:					
So. Dunsmuir Sewer Assessment system	\$ 94,000	\$ -	\$ 4,000	\$ 90,000	\$ 4,000
Total governmental activities long-term debt	<u>\$ 94,000</u>	<u>\$ -</u>	<u>\$ 4,000</u>	<u>\$ 90,000</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:

Govt Activities:		
	<u>So. Dunsmuir Sewer Assessment</u>	
Interest rate	6.00%	
date	September 2, 2030	
Year Ended		
<u>June 30,:</u>	<u>Principal</u>	<u>Interest</u>
2018	4,000	5,280
2019	5,000	5,010
2020	5,000	4,710
2021	5,000	4,410
2022	5,000	4,110
2023-2027	33,000	15,030
2028-2031	33,000	3,990
	<u>\$ 90,000</u>	<u>\$ 42,540</u>

City of Dunsmuir
Notes to the Basic Financial Statements
June 30, 2017

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, 2017:

	June 30, 2016	Additions	Reductions	June 30, 2017	Current Portion
Bonds and notes payable:					
1994 Sewer Improvement Certificates of Participation	\$ 362,000	\$ -	\$ 12,000	\$ 350,000	\$ 13,000
2007 USDA Sewer Loan	668,000	-	11,000	657,000	12,000
State Water Resources Control Board	1,673,157	-	74,642	1,598,515	75,985
Total sewer fund	2,703,157	-	97,642	2,605,515	100,985
1994 Water Improvement Certificates of Participation	414,000	-	14,000	400,000	15,000
2005 Water System Loan	27,900	-	4,185	23,715	1,395
Total water fund	488,270	-	18,185	423,715	16,395
2017 Airport Pavement Maintenance Management and Airport Layout Plan Loan	-	34,182	-	34,182	1,662
Total Business-type activities long term debt	\$ 3,191,427	\$ 34,182	\$ 115,827	\$ 3,063,412	\$ 119,042

Payments on the bonds and notes payable that pertain to the City's business-type activities are made by the Water, Sewer and Airport 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 date	May 1, 2035		May 1, 2046		August 31, 2034	
Year Ended June 30,:						
2018	13,000	15,750	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	80,163	24,596
2022	16,000	13,230	14,000	25,755	81,606	23,153
2023-2027	89,000	54,900	80,000	119,255	430,598	93,195
2028-2032	110,000	33,075	99,000	100,725	470,773	53,020
2033-2037	79,000	7,245	120,000	77,988	303,292	10,983
2038-2042	-	-	149,000	50,128	-	-
2043-2047	-	-	144,000	15,598	-	-
Total	\$ 350,000	\$ 167,805	\$ 657,000	\$ 498,035	\$ 1,598,515	\$ 287,139

City of Dunsmuir
Notes to the Basic Financial Statements
June 30, 2017

NOTE 6 LONG TERM DEBT (continued)

	Improvement Certificates of Participation		2005 Water System Loan		2017 Airport Management Plan Loan		Total	
Interest rate	5.13%		N/A		2.33%			
Maturity date	May 1, 2035		July 1, 2026		February 22, 2034			
Year Ended								
June 30,:	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2018	15,000	20,449	1,395	-	1,662	796	119,042	93,691
2019	16,000	19,680	2,790	-	1,700	758	123,843	90,422
2020	16,000	18,860	2,790	-	1,740	718	126,275	87,029
2021	17,000	18,040	2,790	-	1,781	678	130,734	83,569
2022	18,000	17,169	2,790	-	1,822	636	134,218	79,943
2023-2027	105,000	70,981	11,160	-	9,768	2,524	725,526	340,855
2028-2032	135,000	41,175	-	-	10,960	1,330	825,733	229,325
2033-2037	78,000	6,970	-	-	4,749	167	585,041	103,353
2038-2042	-	-	-	-	-	-	149,000	50,128
2043-2047	-	-	-	-	-	-	144,000	15,598
Total	\$ 400,000	\$ 213,324	\$ 23,715	\$ -	\$ 34,182	\$ 7,607	\$ 3,063,412	\$1,173,910

NOTE 7 COMPENSATED ABSENCES

Compensated absence activity for the year ended June 30, 2017 is summarized as follows:

	June 30, 2016	Additions	Reductions	June 30, 2017	Current Portion
Governmental activities:					
General fund	\$ 46,648	\$ 14,608	\$ -	\$ 61,256	\$ 35,782
Business-type activities:					
Sewer fund	31,534	5,457	-	36,991	26,955
Solid Waste fund	17,718	-	10,245	7,473	2,824
Water fund	50,139	-	4,739	45,400	18,927
Airport fund	1,560	1,031	-	2,591	1,686
Total business-type activities	100,951	6,488	14,984	92,455	50,392
Total compensated absences	\$ 147,599	\$ 21,096	\$ 14,984	\$ 153,711	\$ 86,174

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, 2017

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>	
Hire date	Prior to January 1, 2013	On or after January 1, 2013
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 2016-17	7.000%	6.250%
Required employer contribution rates 2016-17	8.003%	6.237%

	<u>Safety</u>	
Hire date	Prior to January 1, 2013	On or after January 1, 2013
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 2016-17	N/A	11.500%
Required employer contribution rates 2016-17	N/A	11.153%

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, 2017

NOTE 8 PENSION PLAN (continued)

For the year ended June 30, 2017, the contributions recognized as part of pension expense for each Plan were as follows:

Miscellaneous	Safety
\$ 54,333	\$ 9,057

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

As of June 30, 2017, the City reported net pension liabilities for its proportionate shares of the net pension liability of each Plan as follows:

	Proportionate Share of Net Pension Liability
Miscellaneous	\$ 818,866
Safety	234,250
Total Net Pension Liability	\$ 1,053,116

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, 2016, 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, 2015 rolled forward to June 30, 2016 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, 2016 was as follows:

	Miscellaneous
Proportion - June 30, 2016	0.02957%
	Safety
Proportion - June 30, 2016	0.00562%

City of Dunsmuir
Notes to the Basic Financial Statements
June 30, 2017

NOTE 8 PENSION PLAN (continued)

For the year ended June 30, 2017, the City recognized pension expense of \$148,007. At June 30, 2017, 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	\$ 86,182	\$ -
Differences between actual and expected experience	1,809	1,488
Difference between projected and actual earnings on pension plan investments	112,113	-
Change in assumptions	-	21,803
Change in employer's proportion	34,795	80,358
Differences between the employer's proportionate share of contributions	-	79,810
Total	\$ 234,899	\$ 183,459

\$86,182 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, 2017. 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	
2017	\$ (60,683)
2018	(50,048)
2019	46,919
2020	29,069
2021	-
Thereafter	-

City of Dunsmuir
Notes to the Basic Financial Statements
June 30, 2017

NOTE 8 PENSION PLAN (continued)

Actuarial Assumptions – The total pension liabilities in the June 30, 2015 actuarial valuations were determined for Miscellaneous and Safety plans using the following actuarial assumptions:

	<u>Miscellaneous</u>	<u>Safety</u>
Valuation Date	June 30, 2015	June 30, 2015
Measurement Date	June 30, 2016	June 30, 2016
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%	3.3% - 14.2%
	(1)	(1)
Investment Rate of Return	7.65% (2)	7.65% (2)
Mortality	20	20
(1) Depending on age, service and type of employment		
(2) Net of pension plan investment expenses, including inflation		

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2015 valuation were based on the results of a January 2014 actuarial experience study for the period 1997 to 2011 and rolled forward to June 30, 2015. There were no changes in methods or assumptions. 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 they have changed their methodology.

City of Dunsmuir
Notes to the Basic Financial Statements
June 30, 2017

NOTE 8 PENSION PLAN (continued)

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.

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	\$	1,304,418	\$	345,184
Current Discount Rate		7.65%		7.65%
Net Pension Liability	\$	818,866	\$	234,250
1% Increase		8.65%		8.65%
Net Pension Liability	\$	417,581	\$	143,185

City of Dunsmuir
Notes to the Basic Financial Statements
June 30, 2017

NOTE 8 PENSION PLAN (continued)

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 JPA providing shared risk pool for general liability and workers compensation claims and purchase of insurances in excess of shared losses, primary insurance or reinsurance for other risks incurred in City operations. 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, 2017 for governmental activities were restricted for the specific fund purpose and business-type activities were restricted for debt service.

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 \$242,444 at June 30, 2017.

Other Major Fund

The Community Development Project Income Fund has Non-spendable Fund Balance of \$868,292 consisting of noncurrent receivables and an Unassigned Fund Balance (Deficit) of \$(28,758) at June 30, 2017.

City of Dunsmuir
Notes to the Basic Financial Statements
June 30, 2017

NOTE 11 FUND BALANCE (continued)

Other Funds

Other governmental (non-major) funds have Non-spendable Fund Balance of \$274,127, consisting of noncurrent receivables, Restricted Fund Balance of \$160,528 restricted for fund purpose, and an Unassigned Fund Balance (Deficit) of \$(25,736) at June 30, 2017.

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 two 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 General Fund over-expended its budget by \$206,045, which is entirely related to capital outlay expenditures for the Community Center Remodel, budgeted for under the Community Development Project Income Fund but later transferred to the General Fund. Otherwise, the General Fund would have been under budget.

NOTE 14 PRIOR PERIOD ADJUSTMENTS

The City's various funds, both governmental and business-like activities, had prior period adjustments related to the following:

	Fund Balance Decrease (Increase)
1. Prior period adjustment for SCORE liability insurance special assessments that was not recorded	\$ 277,025
2. Prior period collections for water service surcharges were incorrectly recorded as water deposits	(28,635)
3. Prior period adjustments to deferred outflows and inflows related to pensions	(51,549)
4. Prior period adjustments for improperly record year-end accrued liabilities	(21,459)
Net impact on the Fund Balance	\$ 175,382

IMPACT ON:

GOVERNMENTAL ACTIVITIES

Net Position- July1, 2016- as previously reported	\$ 4,768,948
Prior Period Adjustment	(44,495)
Net Position- July, 1, 2016- as restated	\$ 4,724,453

	Sewer Fund	Solid Waste Fund	Water Fund	Airport Fund	Government- Wide Business-Type Activities
<u>BUSINESS-TYPE ACTIVITIES</u>					
Net Position- July1, 2016- as previously reported	\$ 6,986,202	\$ 422,979	\$ 4,814,124	\$ 2,199,116	\$ 14,422,421
Prior Period Adjustment	(103,769)	(7,487)	(19,551)	(80)	(130,887)
Net Position- July, 1, 2016- as restated	\$ 6,882,433	\$ 415,492	\$ 4,794,573	\$ 2,199,036	\$ 14,291,534

REQUIRED SUPPLEMENTARY INFORMATION

**City of Dunsmuir
Budgetary Comparison Schedule
General Fund
For The Year Ended June 30, 2017**

	Original Budget	Final Budget	Actual Amounts	Favorable (Unfavorable) Variance With Final Budget
REVENUES				
Property taxes	\$ 281,473	\$ 281,473	\$ 285,302	\$ 3,829
Sales and use taxes	159,000	159,000	221,864	62,864
Transient occupancy taxes	131,000	131,000	150,611	19,611
Franchise and other licenses	55,300	55,300	62,584	7,284
Licenses and permits	19,000	19,000	14,703	(4,297)
Intergovernmental revenues	329,739	329,739	351,988	22,249
Charges for services	66,600	66,600	118,674	52,074
Fines, forfeitures and penalties	4,000	4,000	6,216	2,216
Use of money and property	96,475	96,525	97,365	840
Other	213,578	226,981	93,336	(133,645)
Total revenues	<u>1,356,165</u>	<u>1,369,618</u>	<u>1,402,643</u>	<u>33,025</u>
EXPENDITURES				
Current:				
City council	24,100	24,100	13,926	10,174
City administrator	67,796	67,796	44,035	23,761
City clerk	37,186	37,186	18,886	18,300
City attorney	22,000	22,000	16,013	5,987
Planning	39,998	39,998	36,649	3,349
Finance and administration	182,381	182,381	120,650	61,731
Building inspection	22,000	22,000	21,218	782
Police protection	454,908	454,908	445,831	9,077
Fire protection	225,921	225,921	251,818	(25,897)
Streets and roads	167,323	157,323	171,397	(14,074)
Buildings and grounds	93,114	93,114	79,101	14,013
Health and welfare	2,000	2,000	1,579	421
Community and economic development	47,156	81,040	66,855	14,185
Other	-	-	-	-
Capital outlay	-	-	327,854	(327,854)
Total expenditures	<u>1,385,883</u>	<u>1,409,767</u>	<u>1,615,812</u>	<u>(206,045)</u>
Excess of revenues over (under) expenditures	<u>(29,718)</u>	<u>(40,149)</u>	<u>(213,169)</u>	<u>(173,020)</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers in	-	-	306,053	306,053
Operating transfers out	-	(10,000)	(10,000)	-
Total other financing sources (uses)	<u>-</u>	<u>(10,000)</u>	<u>296,053</u>	<u>306,053</u>
Excess of revenues and other sources over (under) expenditures and other uses	<u>\$ (29,718)</u>	<u>\$ (50,149)</u>	<u>\$ 82,884</u>	<u>\$ 133,033</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, 2017

	<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	\$ 899,545	\$ 899,545	\$ 383,667	\$ (515,878)
Use of money and property	18,260	18,260	9,606	(8,654)
Total revenues	<u>917,805</u>	<u>917,805</u>	<u>393,273</u>	<u>(524,532)</u>
<u>EXPENDITURES</u>				
Current:				
Community and economic development	<u>728,457</u>	<u>728,457</u>	<u>67,830</u>	<u>660,627</u>
Excess of revenues (under) expenditures	<u>(710,197)</u>	<u>(710,197)</u>	<u>325,443</u>	<u>651,973</u>
<u>OTHER FINANCING (USES)</u>				
Operating transfers in	7,500	7,500	-	(7,500)
Operating transfers out	-	(8,894)	(315,326)	(306,432)
Total other financing sources (uses)	<u>7,500</u>	<u>(1,394)</u>	<u>(315,326)</u>	<u>(313,932)</u>
Excess of revenues (under) expenditures and other uses	<u>\$ (710,197)</u>	<u>\$ (719,091)</u>	<u>\$ 10,117</u>	<u>\$ 345,541</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, 2017
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)	6/30/2016 (1)
Plan's proportion of the net pension liability	0.00636%	0.00688%	0.00674%
Plan's proportionate share of the net pension liability	\$157,261	\$188,782	\$234,250
Plan's covered-employee payroll	N/A	N/A	\$54,000
Plan's proportionate share of the net pension liability as percentage of its covered-employee payroll	N/A	N/A	433.80%
Plan's proportionate share of the fiduciary net position as a percentage of the plan's total pension liability	81.42%	77.00%	71.34%
Plan's proportionate share of aggregate employer contributions (2)	\$19,509	\$21,651	\$20,144
Miscellaneous Plan	6/30/2014 (1)	6/30/2015 (1)	6/30/2016 (1)
Plan's proportion of the net pension liability	0.02329%	0.02212%	0.02357%
Plan's proportionate share of the net pension liability	\$575,678	\$606,897	\$818,866
Plan's covered-employee payroll	\$466,885	\$437,788	\$448,299
Plan's proportionate share of the net pension liability as percentage of its covered-employee payroll	123.30%	138.63%	182.66%
Plan's proportionate share of the fiduciary net position as a percentage of the plan's total pension liability	83.72%	83.32%	77.29%
Plan's proportionate share of aggregate employer contributions (2)	\$80,071	\$104,869	\$103,811

(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, 2017
Last 10 Years (1)

SCHEDULE OF CONTRIBUTIONS

Safety Plan	Fiscal Year 2013-14 (1)	Fiscal Year 2014-15 (1)	Fiscal Year 2015-16 (1)
Actuarially determined contribution	5,498	7,552	9,348
Contributions in relation to the actuarially determined contribution	(5,498)	(7,552)	(13,395)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (4,047)</u>
Covered employee payroll (2)	N/A	N/A	\$ 54,000
Contributions as a percentage of covered-employee payroll	N/A	N/A	17.31%
<hr/>			
Miscellaneous Plan	Fiscal Year 2013-14 (1)	Fiscal Year 2014-15 (1)	Fiscal Year 2015-16 (1)
Actuarially determined contribution	41,503	43,782	62,452
Contributions in relation to the actuarially determined contribution	(41,503)	(43,782)	(49,995)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,457</u>
Covered employee payroll (2)	\$ 466,885	\$ 437,788	\$ 448,299
Contributions as a percentage of covered-employee payroll	8.89%	10.00%	13.93%

(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: None

SUPPLEMENTARY INFORMATION

**City of Dunsmuir
Combining Balance Sheet
June 30, 2017**

	Special Revenue					Total
	Local Transportation Fund	Gas Tax Fund	Fire Assessment Fund	EDBG Fund	South Dunsmuir Sewer Assessment Fund	
<u>ASSETS</u>						
Cash	\$ 7,099	\$ 17,543	\$ 50,507	\$ 59,187	\$ 521	\$ 134,857
Receivables (net of allowance for doubtful accounts, where applicable):						
Loans	-	-	-	274,127	-	274,127
Intergovernmental and other	285	4,414	5,731	-	2,582	13,012
Due from other funds	-	-	-	41,000	-	41,000
	<u>-</u>	<u>-</u>	<u>-</u>	<u>41,000</u>	<u>-</u>	<u>41,000</u>
Total assets	<u>\$ 7,384</u>	<u>\$ 21,957</u>	<u>\$ 56,238</u>	<u>\$ 374,314</u>	<u>\$ 3,103</u>	<u>\$ 462,996</u>
 <u>LIABILITIES AND FUND BALANCES</u>						
Liabilities:						
Accounts payable	\$ 71	\$ 3,796	\$ -	\$ 3,210	\$ -	\$ 7,077
Due to other funds	-	42,000	-	-	5,000	47,000
Total liabilities	<u>71</u>	<u>45,796</u>	<u>-</u>	<u>3,210</u>	<u>5,000</u>	<u>54,077</u>
Fund balances:						
Nonspendable:						
Noncurrent receivables	-	-	-	274,127	-	274,127
Restricted for:						
Streets and roads	7,313	-	-	-	-	7,313
Public safety	-	-	56,238	-	-	56,238
Community and economic development	-	-	-	96,977	-	96,977
Total	<u>7,313</u>	<u>-</u>	<u>56,238</u>	<u>96,977</u>	<u>-</u>	<u>160,528</u>
Unassigned	-	(23,839)	-	-	(1,897)	(25,736)
	<u>-</u>	<u>(23,839)</u>	<u>-</u>	<u>-</u>	<u>(1,897)</u>	<u>(25,736)</u>
Total fund balance	<u>7,313</u>	<u>(23,839)</u>	<u>56,238</u>	<u>371,104</u>	<u>(1,897)</u>	<u>408,919</u>
Total liabilities and fund balance	<u>\$ 7,384</u>	<u>\$ 21,957</u>	<u>\$ 56,238</u>	<u>\$ 374,314</u>	<u>\$ 3,103</u>	<u>\$ 462,996</u>

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, 2017

	Special Revenue					Total
	Local Transportation Fund	Gas Tax Fund	Fire Assessment Fund	EDBG Fund	South Dunsmuir Sewer Assessment Fund	
REVENUES						
Assessments	\$ -	\$ -	\$ 26,943	\$ -	\$ -	\$ 26,943
Intergovernmental revenues	50,018	58,604	-	-	8,058	116,680
Use of money and property	-	-	347	7,760	-	8,107
Total revenues	<u>50,018</u>	<u>58,604</u>	<u>27,290</u>	<u>7,760</u>	<u>8,058</u>	<u>151,730</u>
EXPENDITURES						
Current:						
Fire protection	-	-	3,838	-	-	3,838
Streets and roads	-	125,597	-	-	-	125,597
Transit assistance	44,033	-	-	-	-	44,033
Community and economic development	-	-	-	13,561	-	13,561
Capital outlay	-	-	61,827	-	-	61,827
Debt service:						
Principal	-	-	-	-	4,000	4,000
Interest	-	-	-	-	5,520	5,520
Total expenditures	<u>44,033</u>	<u>125,597</u>	<u>65,665</u>	<u>13,561</u>	<u>9,520</u>	<u>258,376</u>
Excess of revenues over (under) expenditures	<u>5,985</u>	<u>(66,993)</u>	<u>(38,375)</u>	<u>(5,801)</u>	<u>(1,462)</u>	<u>(106,646)</u>
OTHER FINANCING SOURCES (USES)						
Operating transfers in	-	10,000	-	-	-	10,000
Operating transfers out	-	-	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>10,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,000</u>
Excess of revenues and other sources over (under) expenditures and other uses	5,985	(56,993)	(38,375)	(5,801)	(1,462)	(96,646)
FUND BALANCE						
Beginning of the year, as previously stated	1,401	36,855	89,058	376,905	(435)	503,784
Prior period adjustment	(73)	(3,701)	5,555	-	-	1,781
Beginning of the year, restated	<u>1,328</u>	<u>33,154</u>	<u>94,613</u>	<u>376,905</u>	<u>(435)</u>	<u>505,565</u>
End of the year	<u>\$ 7,313</u>	<u>\$ (23,839)</u>	<u>\$ 56,238</u>	<u>\$ 371,104</u>	<u>\$ (1,897)</u>	<u>\$ 408,919</u>

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

OTHER SCHEDULES AND REPORTS

**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

I 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, 2017, and the related notes to the financial statements, which collectively comprise the City of Dunsmuir, California's basic financial statements, and have issued my report thereon dated February 07, 2018.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I 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 my 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, I 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.

My 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 my audit I did not identify any deficiencies in internal control that I 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, I 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 my audit and, accordingly, I do not express such an opinion. I consider item 2017-001 as a material misstatement.

Purpose of this Report

The purpose of this report is solely to describe the scope of my 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.

A handwritten signature in black ink, appearing to read 'Charles W. Pilon', with a stylized, cursive script.

Charles W. Pilon, CPA
Redding, California
February 07, 2018

City of Dunsmuir
Schedule of Findings and Questioned Costs
June 30, 2017

Findings - Financial Statement Audit

2017-001 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 annual depreciation, and record the loan to the Airport Fund.

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

Cause: The City is without qualified accounting staff or a finance officer with the skills, knowledge and expertise in the very significant audit area of “financial statement close and reporting”. This is due to an insufficient knowledge of generally accepted accounting principles, especially in the knowledge of Governmental Fund Accounting.

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

Recommendation: The City must ensure that the finance officer responsible for the presentation of financial statements in accordance with generally accepted accounting principles has the required training and skills to ensure the City’s financial statements are not materially misstated.

Views of Responsible Officials and Planned Corrective Action: Due to the size of the city and the budget constraints, it is not feasible to hire an outside person knowledgeable of GAAP at this time, but we will continue to grow my expertise internally.

Summary of Prior Audit Findings

Finding 2017-001 is a repeat finding from prior year.