

**CITY OF NEVADA CITY,
CALIFORNIA**



**FINANCIAL STATEMENTS
TOGETHER WITH
INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED
JUNE 30, 2016**

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**CITY OF NEVADA CITY
Annual Financial Report
For the Year Ended June 30, 2016**

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INTRODUCTORY SECTION

- **List of Officials**

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CITY OF NEVADA CITY
City Officials
For the Year Ended June 30, 2016

CITY COUNCIL

Jennifer Ray, Mayor

Evans Phelps, Vice Mayor

Robert Bergman

Duane Strawser

Terri Andersen

CITY STAFF

Mark Prestwich, City Manager

Niel Locke, City Clerk

David McKay, City Treasurer

Harold DeGraw, Consulting City Attorney

Sam Goodspeed, Fire Chief

Timothy Foley, Chief of Police

Bryan McAlister, City Engineer

Chris Schack, Superintendent of Public Works

Catrina Olson, Assistant City Manager

Amy Wolfson, City Planner

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FINANCIAL SECTION

- **Independent Auditor's Report**
- **Management's Discussion and Analysis**
- **Basic Financial Statements**
- **Required Supplementary Information**
- **Combining Nonmajor Fund Statements**

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and Members of the City Council
City of Nevada City
Nevada City, California

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

To the Honorable Mayor and Members of the City Council
City of Nevada City
Nevada City, California

Opinions

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

Emphasis of Matter

As described in Note 1R to the financial statements, in 2016, the City implemented Governmental Accounting Standards Board (GASB) Statement Nos. 72, 73, 76 and 79. Our opinion is not modified with respect to these matters.

As reported in Note 10, the net pension liability is measured as of June 30, 2015 and the pension expense is for the measurement period 2014-15. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, City Pension Plans-Schedule of Proportionate Share of the Net Pension Liability, City Pension Plans-Schedule of Contributions, Notes to the City Pension Plans and budgetary comparison information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section and combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

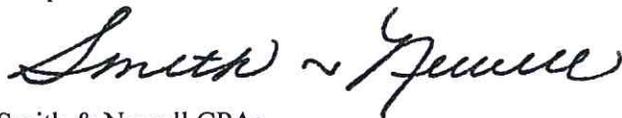
To the Honorable Mayor and Members of the City Council
City of Nevada City
Nevada City, California

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

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated January 11, 2017 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control over financial reporting and compliance.

A handwritten signature in cursive script, appearing to read "Smith & Newell", written in dark ink.

Smith & Newell CPAs
Yuba City, California
January 11, 2017

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**Management's Discussion and Analysis
(Unaudited)**

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**CITY OF NEVADA CITY, CALIFORNIA
MANAGEMENT DISCUSSION & ANALYSIS
Fiscal Year 2015/2016**

The following discussion provides users of the City of Nevada City's financial statements, a narrative overview and analysis of the financial activities of the City for the fiscal year ending June 30, 2016. Please read this document in conjunction with the basic financial statements and the accompanying notes to those financial statements.

The City has a diverse local economy based on business and industry, local government employment and tourism. This allows the City to provide a variety of services to all citizens. There has been a steady recovery in the local economy, an uptick in general fund revenues and decreases in business-type activity revenue tied to rate structure changes. The voters of Nevada City approved a three-eighths cent general purpose tax, Measure "L", on the November 2012 ballot. The improvement in the financial and economic condition of the City, as well as the passing of Measure "L", has provided the ability for the City to continue providing consistent service levels and build General Fund Reserves.

FINANCIAL HIGHLIGHTS

The following are some financial highlights for fiscal year 2016:

Entity-wide:

- ❑ The City's assets at the end of the year increased to \$31,373,784 up \$468,355 from the previous fiscal year. Of this total, \$16,496,636 is governmental assets up \$319,032 from the previous fiscal year, and \$14,877,148 is business-type assets up \$149,323 from the previous fiscal year.
- ❑ The City's liabilities at the end of the year increased to \$8,372,137 up \$406,261 from the previous fiscal year. Of this total, \$3,429,490 is governmental liabilities up \$521,370 from the previous fiscal year, and \$4,942,647 is business-type liabilities down \$115,109 from the previous fiscal year.
- ❑ The net effect of the changes in assets and liabilities left the City's net position at \$22,758,414 up \$275,958 from the previous fiscal year. Of this total, \$12,839,589 is governmental down \$35,223 from the previous fiscal year, and \$9,918,825 is business-type up \$311,181 from the previous fiscal year.
- ❑ Governmental revenues include program revenues of \$2,201,624 and general revenues of \$3,872,734 for a total revenue of \$6,074,358. Governmental expenses were \$6,039,581.
- ❑ Business-type revenues include program revenues of \$2,573,316 and general revenues of \$145,031 for total revenues of \$2,718,347. Business-type expenses were \$2,407,166.

Fund level:

- ❑ Governmental fund balances at the end of the fiscal year were \$1,579,811, a decrease of \$186,594 from the previous fiscal year.
- ❑ Governmental fund revenues were \$6,180,274 in 2016 compared to \$5,675,745 in 2015, a favorable increase of \$504,529.
- ❑ Governmental fund expenditures were \$6,565,098 in 2016 compared to \$5,906,505 in 2015, an increase of \$658,793 from the previous fiscal year.

General Fund:

- ❑ The General fund revenues of \$3,643,616 represent an increase of \$84,052 from the previous fiscal year.
- ❑ General fund expenditures of \$3,630,987 represent an increase of \$149,689 from the previous fiscal year.
- ❑ General fund other financing sources for the fiscal year totaled \$360,492 an increase of \$20,531 from the previous fiscal year.
- ❑ At the end of the fiscal year, the general fund balance was \$1,568,212 representing an increase of \$373,121 from the previous fiscal year.

OVERVIEW OF THE CITY'S ANNUAL FINANCIAL REPORT

The discussion and analysis that follows is intended to serve as an introduction to the City's basic financial statements. These statements include all activities of the City of Nevada City using the integrated approach as prescribed by GASB Statement No. 34. These statements are comprised of three components: (1) Government-Wide Financial Statements, (2) Fund Financial Statements and (3) Notes to the Financial Statements. The Statement of Net Position and the Statement of Activities provide information about the activities of the City as a whole and present a longer term view of the City's finances. Fund Financial Statements tells us how these services are financed in the short term as well as what remains for future spending. Fund Financial Statements also report the City's operations in more detail than the Government-Wide Financial Statements by providing information about the City's most significant funds. This report also contains required supplementary information in addition to the basic financial statements.

Government – Wide Financial Statements

The government-wide financial statements are designed to provide the readers with a broad overview of the City's finances. These statements include all assets and liabilities of the City using the accrual basis of accounting, which is similar to the accounting method used by most private sector businesses. All of the current fiscal year's revenues and expenses are taken into account regardless of when the cash is received.

The Statement of Net Position presents information on all of the City's assets, deferred outflows of resources, liabilities and deferred inflows of resources with differences between them reported as net position. Net position increases or decreases each year based on whether government-wide revenues exceeded the related expenses (increase), or government-wide expenses exceeded revenues (decrease). The change in net position over time may provide a useful tool in measuring whether or not the financial position of the City is improving or deteriorating.

The Statement of Activities presents financial information on the material types of revenue and expense transactions that occurred during the fiscal year that created the increase (decrease) in net position. All transactions are reported in the year in which they have been consummated, and not when the cash is received or paid. For example, uncollected taxes are accrued as revenue in these financial statements and earned but unused vacation pay are expensed in the period earned.

Both of these government-wide financial statements distinguish functions of the City that are principally supported by taxes and inter-governmental revenues (government activities) from other functions that are intended to recover all or a significant portion of their costs through user fees' and charges (business-type activities). The governmental activities of the City include public safety (police & fire), public works, streets and facilities maintenance, engineering, parks and recreation, land use planning, and general city administration responsibilities. The business-type activities of the City include water and wastewater utility operations.

The government-wide financial statements include the City only (known as the primary government). There are no component or blended component units that are part of the City's operations.

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds, not the City as a whole. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Some funds are required to be established by State law and by bond covenants. The City also establishes other funds to control and manage money for particular purposes or to show that the City is meeting legal or contractual responsibilities for using certain taxes, grants and other money. All of the funds of the City can be classified into the following categories: Governmental Funds, Proprietary Funds and Fiduciary Funds.

Governmental Funds. Most of the City's basic services are reported in governmental funds. These funds focus on how money flows into and out of these funds and balances left at year end that are available for subsequent expenditure. These funds are reported using an accounting method called "modified accrual" which measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the City's general governmental operations and the basic services it provides.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the Governmental Fund Balance Sheet and the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances provide a reconciliation to facilitate the comparison between governmental funds and governmental activities. These reconciliations explain the relationship between the fund statements and government-wide statements.

Proprietary Funds. Proprietary funds are generally used to account for services for which the City charges customers. Proprietary funds are meant to be financially self-supporting. Proprietary funds provide the same type of information as shown in the government-wide financial statements, only in more detail. The City's proprietary funds are used to account for the water and wastewater services provided by the City.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the City. The accounting used for fiduciary funds is much like that of the proprietary funds. The fiduciary fund activity is excluded from the City's other financial statements because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

Notes to Financial Statements

The notes to the financial statements provide additional information for readers that are essential for a full understanding of the data provided in the government-wide and fund financial statements.

FINANCIAL ACTIVITIES OF THE CITY AS A WHOLE

This analysis focuses on the net position and changes in the net position of the City as a whole. Tables 1 and 2 focus on the City's Governmental Statement of Net Position and Statement of Activities, and Tables 3 through 5 focus on the City's Business-type Statement of Net Position and Statement of Activities.

Governmental Activities:

**Table 1
Governmental Net position at June 30, 2016**

	<u>2016</u>	<u>2015</u>
Cash and investments	\$2,070,672	\$2,183,797
Other assets	612,786	546,351
Capital assets	13,813,178	13,447,456
Total Assets	16,496,636	16,177,604
Pension adjustments	349,009	353,928
Total Deferred Outflows of Resources	349,009	353,928
Current liabilities	529,929	601,731
Long- term liabilities	2,899,561	2,306,389
Total Liabilities	3,429,490	2,908,120
Business loan payments	69,801	-
Pension adjustments	506,765	748,600
Total Deferred Inflows of Resources	576,566	748,600
Net Position:		
Net investment in capital assets	13,813,178	13,432,857
Restricted	1,651,012	2,030,534
Unrestricted	(2,624,601)	(2,588,579)
Total Net Position	\$12,839,589	\$12,874,812

The City's governmental net position was \$12,839,589 as of June 30, 2016, a decrease of \$35,223 from the prior fiscal year. This decrease is the change in net position shown in Table 2. The City's Governmental Net Position as of June 30, 2016 was comprised of the net of the following:

- Cash of \$2,070,672 held in five Certificates of Deposit, State of California's Local Agency Investment Fund and the City's money market savings and general checking accounts.
- Receivables of \$509,093 comprised of accrued revenues, loans and amounts due from other funds.
- Prepaid costs of \$103,693.
- Capital assets net of depreciation charges of \$13,813,178; this includes all of the City's infrastructure as well as other capital assets used in government activities, see Notes 1 and 4 for additional information on capital assets.
- Deferred outflows of resources for pension adjustments of \$349,009.
- Current liabilities including accounts payable, accrued expenses, employee leave time earned but not yet used and amounts due to other funds totaling \$529,929.
- Long-term debt of \$2,899,561 of which \$2,797,182 matures in future years and \$102,379 is due within one year. The increase in long-term debt of \$480,644 is associated to the reporting of future pension obligations. Notes 7 and 10 provide additional detail on the City's liabilities, long-term debt and pension liability.
- Deferred inflows of resources for pension adjustments and business loan payments of \$576,566.

Note 4 provides more information on the changes in the City's capital assets during the year.

**Table 2
Changes in Governmental Net position June 30, 2016**

	2016	2015
Revenues:		
Program revenues:		
Charges for service	\$790,912	\$813,639
Grants and contributions	1,410,712	900,391
General Revenues:		
Property taxes	1,574,773	1,599,068
Other taxes	2,199,242	2,173,423
Interest and Investment Earnings	97,664	91,797
Other general revenues	136,348	156,710
Total Revenues	6,209,651	5,735,028
Program expenses:		
General government	2,282,319	1,914,797
Public protection	2,468,461	2,058,029
Public ways and facilities	945,099	793,882
Recreation and culture	342,833	331,996
Interest on long-term debt	869	5,072
Total expenses	6,039,581	5,103,776
Net (Expense) Revenue Before Transfers	170,070	631,252
Transfers	(135,293)	161,571
Change in Net Position	34,777	792,823
Net Position – Beginning	12,874,812	14,837,300
Prior period adjustment	(70,000)	-
Cumulative effect of change in accounting principal	-	(2,755,311)
Net Position - Ending	\$12,839,589	\$12,874,812

Overall total governmental revenues increased 8.3 percent from the prior fiscal year. Other taxes include sales and use tax, franchise tax and transient occupancy tax. Sales and use tax declined by .7 percent from the previous fiscal year. Included in this sales and use tax figures are Measure “S” collections of \$557,607, Measure “L” collections of \$411,249 and sales tax of \$759,715. The combined franchise tax of \$146,854 and transient occupancy tax of \$328,814 increased 8.5 percent as compared to the previous fiscal year collections. The 2015/2016 assessed property valuations increased 2 percent over the fiscal year 2014/2015 assessed valuations, however the collection of sales tax in lieu of property tax which is included in the property tax figure, declined by 29 percent. The City’s interest earnings increased 6.4 percent associated to the overall portfolio rate tied to the investments in certificates of deposit.

Table 2 shows that 35 percent of the City’s Governmental revenues were derived from fees for City services and grants, an increase from the prior fiscal year at 29 percent. Charges for services decreased 2 percent or \$22,727 from the previous fiscal year. Grants and contributions increased 56 percent from the previous fiscal year and are associated to the increase in completion of grant related projects.

Total Governmental expenses increased 18 percent from the previous fiscal year. The overall increase in program expense of \$935,805 is tied to operational and capital expenditure activity associated to general government grants, a significant increase in expenditure of Measure “S” funds for City streets capital outlay and the use of Measure “L” funds. The increase of 18 percent is the net of a 19 percent increase in general government operational expenditures, a 20 percent increase in public protection expenditures, a 19 percent increase in public ways and facilities operational expenditures and a 3 percent increase in parks and culture operational expenditures as compared to the previous fiscal year. The City implemented GASB 68 as of June 30, 2015 reporting period, accounting and financial reporting for pensions. The inclusion of this financial data improves accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. The fiscal year 2015/2016 CalPERS pension costs increased by 8 percent over the previous fiscal year despite the increased contributions from employees towards the employee share. The City generated two Community Development Block Grant (CDBG loans in the fiscal year 2014/2015). These were economic development loans that the City made to two local businesses for start-up. The improved financial reporting/accounting for the adjustments was refined in the fiscal year 2015/2016 which resulted in a prior period adjustment of \$70,000.

Business-Type Activities:

**Table 3
Business-Type Net Position at June 30, 2016**

	<u>2016</u>	<u>2015</u>
Cash and investments	\$1,131,002	\$2,244,274
Other assets	1,705,934	1,024,746
Capital assets	12,040,212	11,458,805
Total Assets	14,877,148	14,727,825
Pension adjustments	53,854	52,936
Total Deferred Outflows of Resources	52,854	52,936
Current liabilities	504,215	575,820
Long -term liabilities	4,438,432	4,481,936
Total Liabilities	4,942,647	5,057,756
Pension adjustments	69,530	115,361
Total Deferred Inflows of Resources	\$69,530	\$115,361
Net Position:		
Net investment in capital assets	7,887,675	7,090,041
Restricted	360,146	338,997
Unrestricted	1,671,004	2,178,606
Total Net Position	\$9,918,825	\$9,607,644

The City’s business-type enterprises consist of Water and Wastewater services. Total net position increased 3 percent, primarily driven by an increase in capital assets associated to the completion of five large projects that were supported by the Cosumnes, American, Bear River and Yuba Integrated Water Manager Group Grant (CABY) paid with Proposition 84 funds. These projects were transferred to the Water Fund capital assets structure.

Table 4
Changes in Business-Type Net Position June 30, 2016

	2016	2015
Revenues:		
Program revenues:		
Water	\$756,223	\$804,830
Wastewater	1,312,306	1,397,915
Capital Contribution	504,787	-
General Revenues	9,738	30,158
Total Revenues	2,583,054	2,232,903
Expenses:		
Water	813,397	556,657
Wastewater	1,593,769	1,255,868
Total Expenses	2,407,166	1,812,525
Net (Expense) Revenue Before Transfers	175,888	420,378
Transfers	135,293	(161,571)
Change in Net Position	311,181	258,807
Net Position – Beginning	9,607,644	9,755,033
Cumulative effect of a change in accounting principle	-	(406,196)
Net Position - Ending	\$9,918,825	\$9,607,644

The City's business-type revenue increased by 15.7 percent. Of the 15.7 percent increase from the previous fiscal year Water revenue collections decreased 6 percent associated to community water conservation efforts during the ongoing drought conditions and Wastewater revenue collections decreased 6.1 percent tied to the change in the Wastewater rates from a fixed structure to a 40 percent fixed and 60 percent flow structure based on water usage for the January/February period. The remainder of the increase is associated to capital contribution from the Proposition 84 capital projects and funds transfers from governmental-type activities to business activities.

There was an increase of 32.8 percent in total business-type activity expense from the previous fiscal year. Water operational expenditures increased 46.1 percent and Wastewater operation expenses increased 26.9 percent. Both primarily tied to significant increases in professional services for the Water and Wastewater citywide infrastructure assessment study performed by Coastland, a consulting firm.

The City implemented GASB 68 as of June 30, 2015 reporting period, accounting and financial reporting for pensions. The inclusion of this financial data improves accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities.

Table 5
Changes in Business-Type Net Position June 30, 2016
Net (Expense) Revenues from Services

	2016	2015
Water Services	\$670,161	\$34,640
Wastewater Services	(\$358,980)	(\$182,029)
Totals	\$311,181	(\$147,389)

There was an increase of \$458,570 to net position for business-type activities from the previous fiscal year. The change in net position for Water services was \$670,161 associated to intergovernmental revenues received and transfers for contributions to capital supplied by Proposition 84 grant funds for citywide water service projects. The change in net position for Wastewater services was (\$358,980) associated to reduced revenue collections tied to the rate structure change and increased expenses for professional services for the citywide infrastructure assessment study performed by Coastland.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets

In fiscal year 2003/2004 the City started recording the cost of its infrastructure assets and expensing them over time (depreciation expense). Infrastructure assets include streets, bridges, storm drains and similar assets used by the general population. Other capital assets include police and fire equipment, buildings, park facilities and water and wastewater facilities. The cost of infrastructure and other capital assets recorded on the City's financial statements is as shown below:

Table 6
Capital Assets at June 30, 2016
(Net of Depreciation)

	Government Activities	Business Activities	Total
Land	\$ 1,630,332	\$ -	\$ 1,630,332
Structures & Improvements	16,712,415	19,456,868	36,169,283
Vehicles, machinery, equipment and software	2,278,874	2,820,528	5,099,402
Construction in Progress	275,449	320,910	596,359
Less accumulated depreciation	(7,083,892)	(10,558,094)	(17,641,986)
Totals	\$13,813,178	\$12,040,212	\$25,853,390

The City depreciates capital assets over their estimated useful lives. The purpose of depreciation is to match the expense of capital assets to revenue sources over the asset's useful life so that the cost is borne by the users of the asset. Note 1 to the financial statements provides additional information on capital assets, depreciation methods and useful lives.

The major changes in capital assets in governmental activities for the fiscal year 2015/2016 were in the area of land improvements and infrastructure. The City completed projects during fiscal year 2015/2016 such as the Gold Flat Road and Zion Street Interchange totaling \$243,288 and East Broad Street totaling \$558,172, all funded by Congestion Mitigation and Air Quality Funds (CMAQ). Also completed during the fiscal year was a Measure "S" Nevada City paving project totaling \$703,429. Additions to capital assets for business activities were associated to a major water line and sewer line repair and projects transferred from governmental activities to business activities for projects funded by Proposition 84 funds from the Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coastal Protection Bond Act of 2006; see Note 4 of the financials for additional detail on changes in capital assets during the year.

Debt Administration

Table 7
Outstanding Debt at June 30, 2016

	Government Activities	Business Activities	Total
Loans Payable	\$ -	\$ 604,537	\$ 604,537
Certificates of Participation	-	3,548,000	3,548,000
Compensated absences payable	146,257	26,941	173,198
Total Outstanding Debt	146,257	4,179,478	4,325,735
Net Pension Liability	2,753,304	450,861	3,204,165
Totals	\$2,899,561	\$4,630,339	\$7,529,900

At year-end, the City had \$7,529,900 in long-term debt outstanding compared to \$7,134,909 at June 30, 2015. The City had an overall increase in debt of \$394,991. The increase in outstanding debt of \$394,991 was associated to an increase in the pension liability for government and business activities as a requirement of the new GASB 68 ruling setting forth changes in accounting principle. There was a decrease of \$216,227 in loans payable and Certificates of Participation associated to principal payments to the United States Department of Agriculture (USDA) for Certificates of Participation Series 2005 and 2007 for the Wastewater Treatment Plant upgrade that began fiscal year 2004/2005 and scheduled principal payments on the USDA Wastewater Fund Promissory note obtained in fiscal year 2007/2008. The City did not issue a Transfer of Funds from Nevada County, leveraging the City's property taxes, for the first time since fiscal year 2008/2009 which was originally used to complete a solar project installation, implementation of 500 new water meters, purchase of a DPW Vactron and to pay off the City's CalPERS side fund for \$626,781 and subsequently was used for cash flow purposes.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The budget developed for fiscal year 2016/2017 was adopted by the City Council on June 6, 2016. The General Fund budget approved by the City Council anticipates \$4.2 million in revenues and \$4.0 million in expenditures, with Net (Expense)/Revenue being \$193,045 and operational reserve transfers from Measure "L" of \$167,000. The City will continue to closely monitor economic activity along with actions taken by regional and state governments that may impact the City's budget.

Revenue collections for sales tax, property tax, and remaining general fund revenues were projected to increase 3.5 percent compared to the 2015/2016 year-end adjusted budget. The City projected an increase of 8.7 percent in sales tax and transient occupancy taxes and increase of 2.6 percent in property taxes as compared to the 2015/2016 year-end adjusted budget. The fiscal year 2016/2017 General Fund budget has incorporated an increase in expenditures of 6.8 percent as compared to the 2015/2016 year-end adjusted budget associated for the Fire Department. The City was facing the challenge to secure a sustainable funding source to ensure the continuity of Fire Department operations which experienced a loss of three staff members in April of 2015 when the Nevada County Consolidated Fire Department determined they could no longer afford to co-staff Nevada City Fire Station 54. In November 2016 the City put a transaction and use tax on the ballot, Measure "C", to secure funding specific to support the Nevada City Fire Department additional three positions and an additional Police Officer position. Measure "C" passed with an approval rating of 83 percent.

Revenue collections for the special taxes, Measure "S" and Measure "L", will continue to significantly assist the City in maintaining streets and roads, as well as provide funding for infrastructure and building maintenance and improvements that were deferred during the economic decline.

The General Fund has maintained a slow but improving economic financial position over the last four fiscal years. The City has a positive unassigned fund balance of \$591,007 ending fiscal year 2015/2016. It is crucial that City staff monitor incoming revenues and prioritize and review program expenditures to support, preserve and support sustainable and viable financial status and provide quality service levels to serve its constituency.

Contacting the City

This financial report is designed to provide the citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, contact the City at 317 Broad Street, Nevada City, CA 95959, or by phone (530) 265-2496.

Basic Financial Statements

- **Government-Wide Financial Statements**

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CITY OF NEVADA CITY
Statement of Net Position
June 30, 2016

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and investments	\$ 2,070,672	\$ 1,131,002	\$ 3,201,674
Receivables:			
Accounts	75,750	375,052	450,802
Interest	3,652	7,905	11,557
Taxes	563,123	-	563,123
Intergovernmental	588,974	504,878	1,093,852
Internal balances	(792,207)	792,207	-
Prepaid costs	10,681	2,420	13,101
Prepaid insurance	93,012	23,472	116,484
Loans receivable	69,801	-	69,801
Capital assets:			
Non depreciable assets	1,905,781	320,910	2,226,691
Depreciable assets, net of depreciation	11,907,397	11,719,302	23,626,699
Total capital assets	<u>13,813,178</u>	<u>12,040,212</u>	<u>25,853,390</u>
Total Assets	<u>16,496,636</u>	<u>14,877,148</u>	<u>31,373,784</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred pension adjustments	349,009	53,854	402,863
Total Deferred Outflows of Resources	<u>349,009</u>	<u>53,854</u>	<u>402,863</u>
LIABILITIES			
Accounts payable	350,725	216,843	567,568
Salaries and benefits payable	94,775	15,040	109,815
Interest payable	1,274	80,425	81,699
Due to State of California	50,000	-	50,000
Unearned revenue	33,155	-	33,155
Net pension liability	2,753,304	450,861	3,204,165
Long-term liabilities:			
Due within one year	102,379	191,907	294,286
Due in more than one year	43,878	3,987,571	4,031,449
Total Liabilities	<u>3,429,490</u>	<u>4,942,647</u>	<u>8,372,137</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred business loan payments	69,801	-	69,801
Deferred pension adjustments	506,765	69,530	576,295
Total Deferred Inflows of Resources	<u>576,566</u>	<u>69,530</u>	<u>646,096</u>

The notes to the basic financial statements are an integral part of this statement.

Continued (Page 1 of 2)

CITY OF NEVADA CITY
Statement of Net Position
June 30, 2016

	Governmental Activities	Business-Type Activities	Total
NET POSITION			
Net investment in capital assets	13,813,178	7,887,675	21,700,853
Restricted for:			
General government	970,595	-	970,595
Public protection	333,375	-	333,375
Public ways and facilities	299,563	-	299,563
Recreation and culture	47,479	-	47,479
Capital projects	-	25,860	25,860
Debt service	-	334,286	334,286
Unrestricted	(2,624,601)	1,671,004	(953,597)
Total Net Position	\$ 12,839,589	\$ 9,918,825	\$ 22,758,414

The notes to the basic financial statements are an integral part of this statement.

Continued (Page 2 of 2)

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CITY OF NEVADA CITY
Statement of Activities
For the Year Ended June 30, 2016

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Governmental activities:				
General government	\$ 2,282,319	\$ 89,561	\$ 268,672	\$ -
Public protection	2,468,461	123,414	(9,302)	-
Public ways and facilities	945,099	419,358	140,268	1,011,074
Recreation and culture	342,833	158,579	-	-
Interest on long-term debt	869	-	-	-
Total Governmental Activities	6,039,581	790,912	399,638	1,011,074
Business-type activities:				
Water	813,397	756,223	-	504,787
Sewer	1,593,769	1,312,306	-	-
Total Business-Type Activities	2,407,166	2,068,529	-	504,787
Total	\$ 8,446,747	\$ 2,859,441	\$ 399,638	\$ 1,515,861

General revenues:

Taxes:

Property taxes

Property transfer tax

Sales and use taxes

Franchise taxes

Transient occupancy taxes

Grants and contributions unrestricted

Interest and investment earnings

Miscellaneous

Transfers

Total General Revenues and Transfers

Change in Net Position

Net Position - Beginning

Prior period adjustment

Net Position - Beginning, Restated

Net Position - Ending

The notes to the basic financial statements are an integral part of this statement.

**Net (Expense) Revenue and
Changes in Net Position**

Governmental Activities	Business-Type Activities	Total
\$ (1,924,086)	\$ -	\$ (1,924,086)
(2,354,349)	-	(2,354,349)
625,601	-	625,601
(184,254)	-	(184,254)
(869)	-	(869)
<u>(3,837,957)</u>	<u>-</u>	<u>(3,837,957)</u>
-	447,613	447,613
-	(281,463)	(281,463)
<u>-</u>	<u>166,150</u>	<u>166,150</u>
<u>(3,837,957)</u>	<u>166,150</u>	<u>(3,671,807)</u>
1,555,773	-	1,555,773
19,000	-	19,000
1,728,574	-	1,728,574
146,854	-	146,854
323,814	-	323,814
2,931	-	2,931
97,664	15,657	113,321
133,417	(5,919)	127,498
(135,293)	135,293	-
<u>3,872,734</u>	<u>145,031</u>	<u>4,017,765</u>
<u>34,777</u>	<u>311,181</u>	<u>345,958</u>
12,874,812	9,607,644	22,482,456
(70,000)	-	(70,000)
<u>12,804,812</u>	<u>9,607,644</u>	<u>22,412,456</u>
<u>\$ 12,839,589</u>	<u>\$ 9,918,825</u>	<u>\$ 22,758,414</u>

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Basic Financial Statements

- **Fund Financial Statements**

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CITY OF NEVADA CITY
Balance Sheet
Governmental Funds
June 30, 2016

	<u>General</u>	<u>CABY Misc Agency</u>	<u>Measure "S"</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS					
Cash and investments	\$ 1,235,113	\$ -	\$ 97,927	\$ 737,632	\$ 2,070,672
Receivables:					
Accounts	75,750	-	-	-	75,750
Interest	136	-	340	3,176	3,652
Taxes	385,013	-	95,200	82,910	563,123
Intergovernmental	40,126	241,280	-	307,568	588,974
Prepaid costs	10,281	-	-	400	10,681
Prepaid insurance	92,452	-	560	-	93,012
Loans receivable	-	-	-	69,801	69,801
Total Assets	<u>\$ 1,838,871</u>	<u>\$ 241,280</u>	<u>\$ 194,027</u>	<u>\$ 1,201,487</u>	<u>\$ 3,475,665</u>
LIABILITIES					
Accounts payable	\$ 106,312	\$ 105,914	\$ 71,967	\$ 66,532	\$ 350,725
Salaries and benefits payable	87,784	155	1,008	5,828	94,775
Interest payable	-	-	-	1,274	1,274
Due to State of California	-	-	-	50,000	50,000
Unearned revenue	33,155	-	-	-	33,155
Due to other funds	-	444,880	-	347,327	792,207
Total Liabilities	<u>227,251</u>	<u>550,949</u>	<u>72,975</u>	<u>470,961</u>	<u>1,322,136</u>
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue	43,408	158,909	-	301,600	503,917
Deferred business loan payments	-	-	-	69,801	69,801
Total Deferred Inflows of Resources	<u>43,408</u>	<u>158,909</u>	<u>-</u>	<u>371,401</u>	<u>573,718</u>
FUND BALANCES					
Nonspendable	102,733	-	560	400	103,693
Restricted	649,910	-	120,492	560,446	1,330,848
Committed	203,138	-	-	62,506	265,644
Assigned	21,424	-	-	153,965	175,389
Unassigned	591,007	(468,578)	-	(418,192)	(295,763)
Total Fund Balances	<u>1,568,212</u>	<u>(468,578)</u>	<u>121,052</u>	<u>359,125</u>	<u>1,579,811</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 1,838,871</u>	<u>\$ 241,280</u>	<u>\$ 194,027</u>	<u>\$ 1,201,487</u>	<u>\$ 3,475,665</u>

The notes to the basic financial statements are an integral part of this statement.

CITY OF NEVADA CITY
Reconciliation of the Governmental Fund Balance Sheet
To the Government-Wide Statement of
Net Position - Governmental Activities
June 30, 2016

Total Fund Balance - Total Governmental Funds	\$ 1,579,811
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds balance sheet.	13,813,178
Other long term assets are not available to pay for current period expenditures and therefore, are reported as unavailable revenues in the governmental funds.	503,917
Deferred outflows of resources related to pensions are not reported in the governmental funds.	349,009
Deferred inflows of resources related to pensions are not reported in the governmental funds.	(506,765)
Certain liabilities are not due and payable in the current period and therefore, are not reported in the governmental funds.	
Compensated absences payable	(146,257)
Net pension liability	<u>(2,753,304)</u>
Net Position of Governmental Activities	<u>\$ 12,839,589</u>

The notes to the basic financial statements are an integral part of this statement.

CITY OF NEVADA CITY
Statement of Revenues, Expenditures, and
Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2016

	<u>General</u>	<u>CABY Misc Agency</u>	<u>Measure "S"</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES					
Taxes and assessments	\$ 2,653,035	\$ -	\$ 557,609	\$ 738,771	\$ 3,949,415
Licenses and permits	235,794	-	-	-	235,794
Fines and forfeitures	194,518	-	-	-	194,518
Intergovernmental revenues	86,425	275,394	-	938,182	1,300,001
Use of money and property	86,108	-	1,942	9,614	97,664
Charges for services	269,432	-	-	-	269,432
Other revenues	118,304	-	500	14,646	133,450
Total Revenues	<u>3,643,616</u>	<u>275,394</u>	<u>560,051</u>	<u>1,701,213</u>	<u>6,180,274</u>
EXPENDITURES					
Current:					
General government	968,451	476,506	-	637,877	2,082,834
Public protection	2,014,932	-	-	197,164	2,212,096
Public ways and facilities	265,551	-	61,156	135,366	462,073
Recreation and culture	262,058	-	-	4,700	266,758
Debt service:					
Principal	14,598	-	-	-	14,598
Interest and other charges	869	-	-	-	869
Capital outlay	104,528	-	782,367	638,975	1,525,870
Total Expenditures	<u>3,630,987</u>	<u>476,506</u>	<u>843,523</u>	<u>1,614,082</u>	<u>6,565,098</u>
Excess of Revenues Over (Under) Expenditures	<u>12,629</u>	<u>(201,112)</u>	<u>(283,472)</u>	<u>87,131</u>	<u>(384,824)</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	370,343	-	-	493,271	863,614
Transfers out	(9,851)	-	(43,426)	(542,107)	(595,384)
Total Other Financing Sources (Uses)	<u>360,492</u>	<u>-</u>	<u>(43,426)</u>	<u>(48,836)</u>	<u>268,230</u>
Net Change in Fund Balances	<u>373,121</u>	<u>(201,112)</u>	<u>(326,898)</u>	<u>38,295</u>	<u>(116,594)</u>
Fund Balances - Beginning	1,195,091	(267,466)	447,950	390,830	1,766,405
Prior period adjustment	-	-	-	(70,000)	(70,000)
Fund Balances - Beginning, Restated	<u>1,195,091</u>	<u>(267,466)</u>	<u>447,950</u>	<u>320,830</u>	<u>1,696,405</u>
Fund Balances - Ending	<u>\$ 1,568,212</u>	<u>\$ (468,578)</u>	<u>\$ 121,052</u>	<u>\$ 359,125</u>	<u>\$ 1,579,811</u>

The notes to the basic financial statements are an integral part of this statement.

CITY OF NEVADA CITY
Reconciliation of the Statement of Revenues, Expenditures,
And Changes in Fund Balances of Governmental Funds to the
Government-Wide Statement of Activities - Governmental Activities
For the Year Ended June 30, 2016

Net Change in Fund Balances - Total Governmental Funds \$ (116,594)

Amounts reported for governmental activities in the Statement of Activities are 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.

Expenditures for capital outlay	1,525,870
Less current year depreciation	(732,279)
Less transfer of capital assets to Water enterprise fund and miscellaneous adjustments	(427,869)

Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.

Principal retirements	14,598
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Some revenues reported in the statement of activities will not be collected for several months after the City's year end and do not provide current financial resources and therefore are not reported as revenues in the governmental funds.

Change in unavailable revenue	29,377
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Certain changes in deferred outflows and deferred inflows of resources reported in the Statement of Activities relate to long-term liabilities and are not reported in the governmental funds.

Change in deferred outflows of resources related to pensions	2,121
Change in deferred inflows of resources related to pensions	234,795

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.

Change in compensated absences	(6,356)
Change in net pension liability	(488,886)

Change in Net Position of Governmental Activities \$ 34,777

The notes to the basic financial statements are an integral part of this statement.

CITY OF NEVADA CITY
Statement of Net Position
Proprietary Funds
June 30, 2016

	Business-Type Activities		
	Enterprise Funds		
	Water	Sewer	Totals
ASSETS			
Current Assets:			
Cash and investments	\$ 25,784	\$ 1,105,218	\$ 1,131,002
Receivables:			
Accounts	126,266	248,786	375,052
Interest	76	7,829	7,905
Intergovernmental	504,787	91	504,878
Due from other funds	-	1,376,219	1,376,219
Prepaid costs	492	1,928	2,420
Prepaid insurance	7,320	16,152	23,472
Total Current Assets	664,725	2,756,223	3,420,948
Noncurrent Assets:			
Non depreciable assets	173,585	147,325	320,910
Depreciable assets, net of accumulated depreciation	2,480,972	9,238,330	11,719,302
Total Noncurrent Assets	2,654,557	9,385,655	12,040,212
Total Assets	3,319,282	12,141,878	15,461,160
DEFERRED OUTFLOWS OF RESOURCES			
Deferred pension adjustments	19,606	34,248	53,854
Total Deferred Outflows of Resources	19,606	34,248	53,854
LIABILITIES			
Current Liabilities:			
Accounts payable	132,649	84,194	216,843
Salaries and benefits payable	4,971	10,069	15,040
Interest payable	2,597	77,828	80,425
Due to other funds	584,012	-	584,012
Compensated absences	5,976	12,882	18,858
Loans payable	48,844	64,205	113,049
Certificates of participation	-	60,000	60,000
Total Current Liabilities	779,049	309,178	1,088,227
Noncurrent Liabilities:			
Compensated absences	2,562	5,521	8,083
Loans payable	-	491,488	491,488
Certificates of participation	-	3,488,000	3,488,000
Net pension liability	171,181	279,680	450,861
Total Noncurrent Liabilities	173,743	4,264,689	4,438,432
Total Liabilities	952,792	4,573,867	5,526,659

The notes to the basic financial statements are an integral part of this statement.

Continued (Page 1 of 2)

CITY OF NEVADA CITY
Statement of Net Position
Proprietary Funds
June 30, 2016

	Business-Type Activities Enterprise Funds		Totals
	Water	Sewer	
DEFERRED INFLOWS OF RESOURCES			
Deferred pension adjustments	28,451	41,079	69,530
Total Deferred Inflows of Resources	28,451	41,079	69,530
NET POSITION			
Net investment in capital assets	2,605,713	5,281,962	7,887,675
Restricted for capital projects	25,860	-	25,860
Restricted for debt service	50,000	284,286	334,286
Unrestricted	(323,928)	1,994,932	1,671,004
Total Net Position	\$ 2,357,645	\$ 7,561,180	\$ 9,918,825

The notes to the basic financial statements are an integral part of this statement.

Continued (Page 2 of 2)

CITY OF NEVADA CITY
Statement of Revenues, Expenses, and
Changes in Net Position
Proprietary Funds
For the Year Ended June 30, 2016

	Business-Type Activities		Totals
	Enterprise Funds		
	Water	Sewer	
OPERATING REVENUES			
Charges for services	\$ 756,223	\$ 1,312,306	\$ 2,068,529
Other revenues	-	(5,919)	(5,919)
Total Operating Revenues	<u>756,223</u>	<u>1,306,387</u>	<u>2,062,610</u>
OPERATING EXPENSES			
Salaries and benefits	237,206	413,124	650,330
Supplies	58,397	94,966	153,363
Power	69,885	85,375	155,260
Repairs and maintenance	12,562	38,488	51,050
Professional services	218,204	200,605	418,809
Insurance	13,096	40,979	54,075
Depreciation	144,918	426,325	571,243
Other expenses	55,180	121,824	177,004
Total Operating Expenses	<u>809,448</u>	<u>1,421,686</u>	<u>2,231,134</u>
Operating Income (Loss)	<u>(53,225)</u>	<u>(115,299)</u>	<u>(168,524)</u>
NON-OPERATING REVENUES (EXPENSES)			
Intergovernmental revenues	504,787	-	504,787
Interest income	(1,978)	17,635	15,657
Interest expense	(3,949)	(172,083)	(176,032)
Total Non-Operating Revenues (Expenses)	<u>498,860</u>	<u>(154,448)</u>	<u>344,412</u>
Income (loss) Before Contributions and Transfers	445,635	(269,747)	175,888
Capital contribution	403,523	-	403,523
Transfers in	294,379	-	294,379
Transfers out	(473,376)	(89,233)	(562,609)
Change in Net Position	670,161	(358,980)	311,181
Total Net Position - Beginning	<u>1,687,484</u>	<u>7,920,160</u>	<u>9,607,644</u>
Total Net Position - Ending	<u>\$ 2,357,645</u>	<u>\$ 7,561,180</u>	<u>\$ 9,918,825</u>

The notes to the basic financial statements are an integral part of this statement.

CITY OF NEVADA CITY
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2016

	Business-Type Activities		
	Enterprise Funds		
	Water	Sewer	Totals
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 755,433	\$ 1,275,472	\$ 2,030,905
Payments to suppliers	(312,640)	(720,628)	(1,033,268)
Payments to employees	(204,702)	(357,870)	(562,572)
Net Cash Provided (Used) by Operating Activities	238,091	196,974	435,065
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers from other funds	294,379	-	294,379
Transfers to other funds	(473,376)	(89,233)	(562,609)
Interfund loans made	-	(659,537)	(659,537)
Interfund loans received	527,778	-	527,778
Interfund loans repaid	(14,570)	-	(14,570)
Net Cash Provided (Used) by Noncapital Financing Activities	334,211	(748,770)	(414,559)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchase of capital assets	(472,551)	(276,577)	(749,128)
Principal paid on debt	(94,771)	(121,456)	(216,227)
Interest paid on debt	(4,915)	(174,131)	(179,046)
Net Cash Provided (Used) by Capital and Related Financing Activities	(572,237)	(572,164)	(1,144,401)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest on investments	36	10,587	10,623
Net Cash Provided (Used) by Investing Activities	36	10,587	10,623
Net Increase (Decrease) in Cash and Cash Equivalents	101	(1,113,373)	(1,113,272)
Balances - Beginning	25,683	2,218,591	2,244,274
Balances - Ending	\$ 25,784	\$ 1,105,218	\$ 1,131,002

The notes to the basic financial statements are an integral part of this statement.

Continued (Page 1 of 2)

CITY OF NEVADA CITY
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2016

	Business-Type Activities Enterprise Funds		
	Water	Sewer	Totals
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES			
Operating income (loss)	\$ (53,225)	\$ (115,299)	\$ (168,524)
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	144,918	426,325	571,243
Decrease (increase) in:			
Accounts receivable	(708)	(30,884)	(31,592)
Due from other governments	-	(31)	(31)
Prepaid costs	801	1,714	2,515
Prepaid insurance	3,619	2,539	6,158
Pension adjustments - deferred outflows	1,657	(2,575)	(918)
Increase (decrease) in:			
Accounts payable	110,264	(142,644)	(32,380)
Salaries and benefits payable	1,088	2,844	3,932
Deposits payable	(82)	-	(82)
Compensated absences	1,435	37	1,472
Net pension liability	45,084	84,020	129,104
Pension adjustments - deferred inflows	(16,760)	(29,072)	(45,832)
Net Cash Provided (Used) by Operating Activities	\$ 238,091	\$ 196,974	\$ 435,065
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES			
Contribution of capital assets	\$ 403,523	\$ -	\$ 403,523

The notes to the basic financial statements are an integral part of this statement.

Continued (Page 2 of 2)

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Basic Financial Statements

- **Notes to Basic Financial Statements**

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CITY OF NEVADA CITY
Notes to Basic Financial Statements
For the Year Ended June 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City was incorporated April 19, 1856 under the provisions of the statutes of the State of California. The City operates under a Council form of government and provides the following services: public safety, highways and streets, culture-recreation, public improvements, planning and zoning, general administrative services, and water and sewer.

Generally accepted accounting principles require government financial statements to include the primary government and its component units. Component units of a governmental entity are legally separate entities for which the primary government is considered to be financially accountable and for which the nature and significance of their relationship with the primary government are such that exclusion would cause the combined financial statements to be misleading. The primary government is considered to be financially accountable if it appoints a majority of an organization's governing body and is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to or impose specific financial burdens on the primary government.

Component Units

Based on the application of the criteria set forth by the Governmental Accounting Standards Board, management has determined that there are no component units of the City.

Joint Agencies

The City is a participant in Public Agency Risk Sharing Authority of California (PARSAC), which is a joint powers authority organized for the purpose of pooled joint-protection coverage to member entities. PARSAC operates public entity pools for auto and general liability coverage, plus workers compensation and errors and omissions coverage and the pool purchases excess insurance for members. PARSAC is under the control and direction of a 9 member executive committee consisting of representatives of the 37 member cities and one fire district. Complete audited financial statements of PARSAC can be obtained at 1525 Response Road, Suite One, Sacramento, California 95815-4805. The City is not financially accountable for this organization and therefore it is not a component unit under Statement Nos. 14, 39 and 61 of the Governmental Accounting Standards Board.

The City is participant in Northern California Cities Self-Insurance Fund (NCCSIF), the purpose of which is for members cities to share in the administrative costs of providing liability and workers' compensation insurance. The NCCSIF is governed by a board of directors appointed by the member cities. Complete financial information can be obtained from the Program Administrator, 2180 Harvard Street, Suite 460, Sacramento, CA 95815. The City is not financially accountable for this organization and therefore it is not a component unit under Statement Nos. 14, 39 and 61 of the Governmental Accounting Standards Board.

CITY OF NEVADA CITY
Notes to Basic Financial Statements
For the Year Ended June 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Reporting Entity (Continued)

Joint Agencies (Continued)

The City is a participant in the Nevada County Service Authority for the Abatement of Abandoned Vehicles program, which was created pursuant to California Vehicle Code Section 22710 in order for the County of Nevada, City of Nevada City, and City of Grass Valley to join together and establish a service authority for the abatement of abandoned vehicles. The County or City abatement ordinances that are realized by the County or City less the respective administrative costs are deposited in the Authority trust account. Complete financial activity of this trust account can be obtained at County of Nevada, Auditor-Controller, 950 Maidu Avenue, Nevada City, California 95959-8617. The City is not financially accountable for this organization and therefore it is not a component unit under Statement Nos. 14, 39 and 61 of the Governmental Accounting Standards Board.

The City is a participant in Western Nevada Public Transportation Authority, the purpose of which is to provide transportation services to the citizens of Nevada County including Nevada City. Complete financial activity can be obtained at County of Nevada, Auditor-Controller, 950 Maidu Avenue, Nevada City, California 95959-8617. The City is not financially accountable for this organization and therefore it is not a component unit under Statement Nos. 14, 39 and 61 of the Governmental Accounting Standards Board.

The City is a participant in Nevada County Fire and Emergency Services Joint Powers Agency, the purpose of which is to provide emergency dispatch and other services. The City participates in the Air Filling Station Services offered. Complete financial information can be obtained from the JPA's office at P.O. Box 3043, Grass Valley, CA 95945. The City is not financially accountable for this organization and therefore it is not a component unit under Statement Nos. 14, 39, and 61 of the Governmental Accounting Standards Board.

B. Basis of Presentation

Government-Wide Financial Statements

The statement of net position and statement of activities display information on all of the nonfiduciary activities of the City. These statements include the financial activities of the overall government. 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, which are normally supported by taxes and inter-governmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees charged to external parties.

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 1) charges paid by the recipients of goods and services offered by the program, 2) operating grants and contributions, and 3) capital grants and contributions. Taxes and other items not properly included among program revenues are presented instead as general revenues.

CITY OF NEVADA CITY
Notes to Basic Financial Statements
For the Year Ended June 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basis of Presentation (Continued)

Fund Financial Statements

The fund financial statements provide information about the City's funds. Funds are organized into two major categories: governmental and proprietary. An emphasis is placed on major funds within the governmental and proprietary categories; each is displayed in a separate column. All remaining governmental and proprietary funds are separately aggregated and reported as nonmajor funds.

The City reports the following major governmental funds:

- The General fund is used to account for all revenues and expenditures necessary to carry out basic governmental activities of the City that are not accounted for through other funds. For the City, the General fund includes such activities as public protection, public ways and facilities, community development, and recreation and culture services.
- The CABY Misc Agency fund is a special revenue fund used to account for revenues and expenditures related to other CABY projects. Funding comes primarily from CABY grants.
- The Measure "S" fund is a special revenue fund used to account for revenue and expenditures related to Measure "S". Funding comes primarily from Measure "S" tax revenues.

The City reports the following major proprietary funds:

- The Water fund is an enterprise fund used to account for activity related to providing customers with water service and billing for service provided by the City.
- The Sewer fund is an enterprise fund used to account for activity related to providing customers with sewer service and billing for service provided by the City.

C. Basis of Accounting and Measurement Focus

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property and sales tax, grants, entitlements, and donations. Under the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenues from sales tax are recognized when the underlying transactions take place. Revenues from grants, entitlements, and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

CITY OF NEVADA CITY
Notes to Basic Financial Statements
For the Year Ended June 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Accounting and Measurement Focus (Continued)

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Property and sales taxes, interest, certain state and federal grants, and charges for services are considered susceptible to accrual and are accrued when their receipt occurs within sixty days after the end of the fiscal year. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures as well as expenditures related to claims and judgments are recorded only when payment is due. General capital assets acquisitions are reported as expenditures in the various functions of the governmental funds. Proceeds of governmental long-term debt and acquisitions under capital leases are reported as other financing sources.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. Non-Current Governmental Assets/Liabilities

Non-current governmental assets and liabilities, such as capital assets and long-term liabilities, are reported in the governmental activities column in the government-wide statement of net position.

E. Cash and Cash Equivalents

For purposes of the accompanying Statement of Cash Flows, the City considers all highly liquid investments with an original maturity of three months or less and amounts held in the City's investment pool, to be cash and cash equivalents.

F. Investments

The City pools cash and investments of all funds. Each fund's share in this pool is displayed in the accompanying financial statements as cash and investments.

Investment transactions are recorded on the trade date. The fair value of investments is determined annually. Investments in nonparticipating interest-earning investment contracts are reported at cost; short term investments are reported at amortized cost, investments in Local Agency Investment Fund, an external pool, are reported at amortized cost which approximates fair value, and the fair value of all other investments are obtained by using quotations obtained from independent published sources or by the safekeeping institution. The fair value represents the amount the City could reasonably expect to receive for an investment in a current sale between a willing buyer and seller.

Income from pooled investments is allocated to the individual funds based on the fund or participant's average daily cash balance at quarter end in relation to the total pool investments. Income from non-pooled investments is recorded based on the specific investments held by the fund.

CITY OF NEVADA CITY
Notes to Basic Financial Statements
For the Year Ended June 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Receivables

Receivables for governmental activities consist mainly of accounts, interest, taxes and intergovernmental. Management believes its receivables are fully collectible and, accordingly, no allowance for doubtful accounts is required.

Receivables for enterprise funds consist mainly of user fees, interest and intergovernmental. Management believes its receivables are fully collectible and, accordingly, no allowance for doubtful accounts is required.

H. Other Assets

Inventory

Governmental fund inventories and proprietary fund inventories are recorded as expenditures/expenses at the time the inventory is purchased rather than when consumed. Records are not maintained of inventory and supplies on hand, although these amounts are not considered material.

Prepaid Items

Payments made for services that will benefit periods beyond June 30, 2016, are recorded as prepaid items under both the accrual and modified accrual basis of accounting. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased. The City records both prepaid costs for expenditures/expenses paid for services that will benefit future periods and prepaid insurance for the net investment in a joint powers self insurance agency.

I. Business Loans Receivable

A total of \$69,801 was recorded as loans receivable at June 30, 2016. These represent low interest notes and related accrued interest to finance business start-up costs. Loan terms are 15 years with interest rates at 3.25 percent. The primary source of funding for these loans comes from grants from the federal Community Development Block Grant (CDBG) program. The CDBG grants contain monitoring requirements to ensure grant compliance. These requirements are reflected in the loan agreements. Due to the terms of the loans, offsetting deferred inflows of resources of \$69,801 have been established in the Governmental Funds Balance Sheet for the business loan principal and interest payments.

J. Capital Assets

Capital assets, including public domain (infrastructure such as roads, bridges, sidewalks, sewer and similar items) are defined by the City as assets with a cost greater than \$5,000 for equipment and structures and improvements, and \$20,000 for infrastructure and an estimated useful life of more than one year. Capital assets are recorded at historical cost or estimated historical cost if actual historical cost is unavailable. Contributed capital assets are recorded at their acquisition value at the date of donation.

CITY OF NEVADA CITY
Notes to Basic Financial Statements
For the Year Ended June 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Capital Assets (Continued)

Capital assets used in operations are depreciated or amortized using the straight-line method over the assets estimated useful life in the government-wide financial statements. The range of estimated useful lives by type of asset is as follows:

<u>Depreciable Asset</u>	<u>Estimated Lives</u>
Equipment	3-10 years
Structures and improvements	20-40 years
Infrastructure	20-40 years

Maintenance and repairs are charged to operations when incurred. Betterments and major improvements which significantly increase values, change capacities or extend useful lives are capitalized. Upon sale or retirement of capital assets, the cost and related accumulated depreciation are removed from the respective accounts and any resulting gain or loss is included in the results of operations.

K. Property Tax

Nevada County assesses properties, bills, collects, and distributes property taxes to the City. The County remits the entire amount levied and handles all delinquencies, retaining interest and penalties.

Property taxes are levied on a fiscal year (July 1 - June 30). The secured property tax assessments are due on November 1 and February 1 and become delinquent after December 10 and April 10, respectively. The unsecured property tax assessments are due on August 1, and become delinquent after August 31. Property taxes become a lien on the property effective January 1 of the preceding year.

The City recognizes property taxes when the individual installments are due provided they are collected within 30 days after year-end.

L. Interfund Transactions

Interfund transactions are reflected as either loans, services provided or used, reimbursements or transfers.

Loans reported as receivables and payables are referred to as either “due to/from other funds” (i.e. the current portion of interfund loans) or “advances to/from other funds” (i.e., the noncurrent portion of interfund loans) as appropriate and are subject to elimination upon consolidation. Any residual balances outstanding between the governmental activities and the business-type activities, are reported in the government-wide financial statements as “internal balances”. Advances between funds, as reported in the fund financial statements, are offset by a nonspendable fund balance account in applicable governmental funds to indicate that they are not in spendable form.

Services provided or used, deemed to be at market or near market rates, are treated as revenues and expenditures or expenses. These services provide information on the net cost of each government function and therefore are not eliminated in the process of preparing the government-wide statement of activities.

Reimbursements occur when the funds responsible for particular expenditures or expenses repay the funds that initially paid for them. Such reimbursements are reflected as expenditures or expenses in the reimbursing fund and reductions to expenditures or expenses in the reimbursed fund.

CITY OF NEVADA CITY
Notes to Basic Financial Statements
For the Year Ended June 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Interfund Transactions (Continued)

All other interfund transactions are treated as transfers. Transfers between funds are netted as part of the reconciliation to the government-wide presentation.

M. Unearned Revenue

Under the accrual and modified accrual basis of accounting, revenue may be recognized only when it is earned. When assets are recognized in connection with a transaction before the earnings process is complete, those assets are offset by a corresponding liability for unearned revenue.

N. Compensated Absences and Postemployment Benefits

It is the City's policy to permit employees to accumulate a limited amount of earned but unused vacation and sick leave, which will be paid to employees upon separation from City service. Compensated absences liability is typically liquidated by the General fund for all non proprietary fund compensated absences. In the government-wide and proprietary fund financial statements, the accrued compensated absences is reported as an expense and related liability. In the governmental fund financial statements, the expenditures and liabilities related to those obligations are recognized only when they mature.

The City does not currently provide any postemployment healthcare or other nonpension benefits.

O. 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 City'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.

P. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense) until then. The City has one item that qualifies for reporting in this category. This item relates to the outflows from changes in the net pension liability and is reportable on the Statement of Net Position.

CITY OF NEVADA CITY
Notes to Basic Financial Statements
For the Year Ended June 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

P. Deferred Outflows/Inflows of Resources (Continued)

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The City has three types of items which qualify for reporting in this category. One item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues for receivables that have not been received within the modified accrual period. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The second item relates to the inflows from changes in the net pension liability and is reportable on the Statements of Net Position. The third item relates to the total business loan principal and interest receivable amount and is reportable on the Statement of Net Position as well as on the governmental funds balance sheet.

Q. 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.

R. Implementation of Governmental Accounting Standards Board Statements (GASB)

The following Governmental Accounting Standards Board (GASB) Statements have been implemented, if applicable, in the current financial statements.

Statement No. 72, Fair Value Measurement and Application. This statement addresses accounting and financial reporting issues related to fair value measurements. This statement provides guidance for determining a fair value measurement and for applying fair value to certain investments and disclosures related to all fair value measurements.

Statement No. 73, Accounting and Financial Reporting for Pension and Related Assets that are not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68. This statement establishes requirements for defined benefit pensions and defined contribution pensions that are not within the scope of Statement No. 68 as well as for the assets accumulated for purposes of providing those pensions.

Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments. This statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction is not specified within a source of authoritative GAAP.

Statement No. 79, Certain External Investment Pools and Pool Participants. This statement establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes.

CITY OF NEVADA CITY
Notes to Basic Financial Statements
For the Year Ended June 30, 2016

NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Restatement of Net Position/Fund Balance

Adjustments resulting from errors or a change to comply with provisions of the accounting standards are treated as adjustments to prior periods. Accordingly, the City reports these changes as restatements of beginning net position. During the current year a prior period adjustment was made to restate the business loans receivable as a deferred inflow of resources.

The impact of the restatements on the net position/fund balance on the financial statements as previously reported is presented below:

	Governmental Activities
Net Position, June 30, 2015, as previously reported	\$ 12,874,812
Adjustment associated with:	
Deferred inflows of resources adjustment	(70,000)
Total Adjustments	(70,000)
Net Position, July 1, 2015, as restated	<u>\$ 12,804,812</u>
	Other Governmental Funds
Fund Balance, June 30, 2015, as previously reported	\$ 390,830
Adjustment associated with:	
Deferred inflows of resources adjustment	(70,000)
Total Adjustments	(70,000)
Fund Balance, July 1, 2015, as restated	<u>\$ 320,830</u>

B. Deficit Fund Balance/Net Position

The following major governmental fund had a deficit fund balance:

The CABY Misc Agency fund had a fund balance deficit of \$468,578, which is expected to be eliminated in the future through grant revenues.

The following non-major governmental funds had deficit fund balances:

The Nevada Main Project fund had a fund balance deficit of \$34,330, which is expected to be eliminated in the future through increased revenues.

The Gas Tax Streets fund had a fund balance deficit of \$6,213, which is expected to be eliminated in the future through increased revenues.

The TDA Funds fund had a fund balance deficit of \$605, which is expected to be eliminated in the future through increased revenues.

CITY OF NEVADA CITY
Notes to Basic Financial Statements
For the Year Ended June 30, 2016

NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)

B. Deficit Fund Balance/Net Position (Continued)

The CMAQ ST & RD fund had a fund balance deficit of \$130,619, which is expected to be eliminated in the future through increased revenues.

The FEMA fund had a fund balance deficit of \$394, which is expected to be eliminated in the future through increased revenues.

The CEC grant fund had a fund balance deficit of \$3,333, which is expected to be eliminated in the future through increased revenues.

The UST Project fund had a fund balance deficit of \$11,025, which is expected to be eliminated in the future through increased revenues.

The LWCF Pool Rehab fund had a fund balance deficit of \$7,026, which is expected to be eliminated in the future through increased revenues.

The Little Deer Creek fund had a fund balance deficit of \$35,214, which is expected to be eliminated in the future through increased revenues.

The NC Recreation fund had a fund balance deficit of \$3,254, which is expected to be eliminated in the future through increased revenues.

The CDBG Enterprise fund had a fund balance deficit of \$176,864, which is expected to be eliminated in the future through increased revenues.

The CABY Nevada City fund had a fund balance deficit of \$8,915, which is expected to be eliminated in the future through increased revenues.

NOTE 3: CASH AND INVESTMENTS

A. Financial Statement Presentation

As of June 30, 2016, the City's cash and investments are reported in the financial statements as follows:

Governmental activities	\$ 2,070,672
Business-Type activities	<u>1,131,002</u>
Total Cash and Investments	<u>\$ 3,201,674</u>

CITY OF NEVADA CITY
Notes to Basic Financial Statements
For the Year Ended June 30, 2016

NOTE 3: CASH AND INVESTMENTS (CONTINUED)

A. Financial Statement Presentation (Continued)

As of June 30, 2016, the City's cash and investments consisted of the following:

Cash:	
Cash on hand	\$ 775
Deposits (less outstanding checks)	<u>1,277,307</u>
Total Cash	<u>1,278,082</u>
Investments:	
Certificates of Deposit	1,239,000
Local Agency Investment Fund	<u>684,592</u>
Total Investments	<u>1,923,592</u>
Total Cash and Investments	<u>\$ 3,201,674</u>

B. Cash

At year end, the carrying amount of the City's cash deposits (including amounts in checking accounts and money market accounts) was \$1,277,307 and the bank balance was \$1,311,725. The difference between the bank balance and the carrying amount represents outstanding checks and deposits in transit. In addition, the City had cash on hand of \$775.

Custodial Credit Risk for Deposits - Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the City will not be able to recover its deposits or collateral securities that are in the possession of an outside party. The City's investment policy requires that deposits in banks must meet the requirements of the California Government Code. Under this code, deposits of more than \$250,000 must be collateralized at 105 percent to 150 percent of the value of the deposit to guarantee the safety of the public funds. The first \$250,000 of the City's deposits are insured by the Federal Deposit Insurance Corporation (FDIC). Deposits of more than the \$250,000 insured amount are collateralized.

C. Investments

Pursuant to Section 53646 of the Government Code, the City prepares an investment policy annually and presents it to the City Council for review and approval. The investment policy provides the basis for the management of a prudent, conservative investment program. Funds are invested to provide the maximum security of principal with secondary emphasis on achieving the highest return, while meeting daily cash flow needs. All investments are made in accordance with the Government Code and, in general, the investment policy is more restrictive than state law.

Under the provisions of the City's investment policy the City may invest or deposit in the following:

- United States Treasury Bills, Bonds and Notes
- Local Agency Investment Fund (LAIF)
- Certificates of Deposit
- Securities of the US. Government or its Agencies

CITY OF NEVADA CITY
Notes to Basic Financial Statements
For the Year Ended June 30, 2016

NOTE 3: CASH AND INVESTMENTS (CONTINUED)

C. Investments (Continued)

Fair Value of Investments - The City measures and records its investments using fair value measurement guidelines established by generally accepted accounting principles. These guidelines recognize a three-tiered fair value hierarchy, as follows:

- Level 1: Quoted prices for identical investments in active markets;
- Level 2: Observable inputs other than quoted market prices; and,
- Level 3: Unobservable inputs.

The City's position in external investment pools is in its self regarded as a type of investment and looking through to the underlying investments of the pool is not appropriate. Therefore, the City's investment in external investment pools are not recognized in the three-tiered fair value hierarchy described above.

At June 30, 2016, the City had the following recurring fair value measurements.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Fair Value Measurements Using</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments by Fair Value Level				
Certificates of Deposit	\$ 1,239,000	\$ 1,239,000	\$ -	\$ -
Total Investments Measured at Fair Value	<u>1,239,000</u>	<u>\$ 1,239,000</u>	<u>\$ -</u>	<u>\$ -</u>
Investments in External Investment Pool				
Local Agency Investment Fund (LAIF)	<u>684,592</u>			
Total Investments	<u>\$ 1,923,592</u>			

Interest Rate Risk - Interest rate risk is the risk of loss due to the fair value of an investment falling due to interest rates rising. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. To limit the exposure to fair value losses resulting from increases in interest rates, the City's investment policy limits investment maturities to a term appropriate to the need for funds so as to permit the City to meet all projected obligations. Any investments that mature more than five years from the date of purchase cannot occur without prior approval of the City Council.

As of June 30, 2016, the City had the following investments all of which had a maturity of 5 years or less:

<u>Investment Type</u>	<u>Interest Rates</u>	<u>Maturities</u>		<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
		<u>0-1 year</u>	<u>1-5 years</u>		
Certificates of Deposit	0.65-1.80%	\$ 248,000	\$ 991,000	\$ 1,239,000	1.24
Local Agency Investment Fund (LAIF)	Variable	<u>684,592</u>	<u>-</u>	<u>684,592</u>	<u>-</u>
Total Investments		<u>\$ 932,592</u>	<u>\$ 991,000</u>	<u>\$ 1,923,592</u>	<u>0.80</u>

CITY OF NEVADA CITY
Notes to Basic Financial Statements
For the Year Ended June 30, 2016

NOTE 3: CASH AND INVESTMENTS (CONTINUED)

C. Investments (Continued)

Credit Risk - Credit risk is the risk that an issuer of 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. The City's investment policy sets specific parameters by type of investment to be met at the time of purchase. Presented below is the minimum rating required (where applicable) by the California Government Code or the City's investment policy, and the actual rating as of year end for each investment type.

<u>Investment Type</u>	<u>Minimum Legal Rating</u>	<u>Standard & Poor's Rating</u>	<u>Moody's Rating</u>	<u>% of Portfolio</u>
Certificates of Deposit	N/A	Unrated	Unrated	64.41%
LAIF	N/A	Unrated	Unrated	<u>35.59%</u>
Total				<u>100.00%</u>

Custodial Credit Risk - Custodial credit risk for investments is the risk that, in the event of the failure of a depository financial institution, the City will not be able to recover its deposits or collateral securities that are in the possession of an outside party. To mitigate the custodial credit risk the City's investment policy requires that all of its managed investments be held in the name of the City in safekeeping by a third party bank trust department.

Concentration of Credit Risk - Concentration of credit risk is the risk of loss attributed to the magnitude of the City's investment in a single issuer of securities. When investments are concentrated in one issuer, this concentration presents a heightened risk of potential loss. The City's investment policy contains limitations on the amount that can be invested in any one issuer. Investments in any one issuer (other than U.S. Treasury Securities, mutual funds, and external investment pools) at June 30, 2016, that represent 5 percent or more of total City investments are as follows:

<u>Investment Type</u>	<u>Amount Invested</u>	<u>Percentage of Investments</u>
Certificates of Deposit	\$ 1,239,000	64.41%

D. Investment in External Investment Pool

The City of Nevada City maintains an investment in the State of California Local Agency Investment Fund (LAIF), managed by the State Treasurer. This fund is not registered with the Securities and Exchange Commission as an investment company, but is required to invest according to California State Code. The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by State Statute. At June 30, 2016, the City's investment in LAIF valued at amortized cost was \$684,592 and is the same as the value of the pool shares. There are no restrictions on withdrawal of funds. The total amount invested by all public agencies in LAIF on that day was \$75.4 billion. Of that amount, 97.19 percent is invested in non-derivative financial products and 2.81 percent in structured notes and asset-backed securities.

CITY OF NEVADA CITY
Notes to Basic Financial Statements
For the Year Ended June 30, 2016

NOTE 4: CAPITAL ASSETS

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

Governmental Activities

	Balance <u>July 1, 2015</u>	Additions	Retirements	Transfers/ Adjustments	Balance <u>June 30, 2016</u>
Capital Assets, Not Being Depreciated:					
Land	\$ 1,630,332	\$ -	\$ -	\$ -	\$ 1,630,332
Construction in progress	<u>816,876</u>	<u>1,366,986</u>	<u>-</u>	<u>(1,908,413)</u>	<u>275,449</u>
Total Capital Assets, Not Being Depreciated	<u>2,447,208</u>	<u>1,366,986</u>	<u>-</u>	<u>(1,908,413)</u>	<u>1,905,781</u>
Capital Assets, Being Depreciated:					
Land improvements/infrastructure	10,807,637	6,425	-	1,480,544	12,294,606
Building and improvements	4,417,809	-	-	-	4,417,809
Equipment	721,488	10,723	(14,424)	-	717,787
Software	42,041	-	-	-	42,041
Vehicles	<u>1,398,717</u>	<u>141,736</u>	<u>-</u>	<u>(21,407)</u>	<u>1,519,046</u>
Total Capital Assets, Being Depreciated	<u>17,387,692</u>	<u>158,884</u>	<u>(14,424)</u>	<u>1,459,137</u>	<u>18,991,289</u>
Less Accumulated Depreciation for:					
Land improvements	(3,376,051)	(427,544)	-	-	(3,803,595)
Buildings and improvements	(1,598,550)	(113,782)	-	-	(1,712,332)
Equipment	(577,085)	(50,696)	14,424	-	(613,357)
Software	(42,041)	-	-	-	(42,041)
Vehicles	<u>(793,717)</u>	<u>(140,257)</u>	<u>-</u>	<u>21,407</u>	<u>(912,567)</u>
Total Accumulated Depreciation	<u>(6,387,444)</u>	<u>(732,279)</u>	<u>14,424</u>	<u>21,407</u>	<u>(7,083,892)</u>
Total Capital Assets, Being Depreciated, Net	<u>11,000,248</u>	<u>(573,395)</u>	<u>-</u>	<u>1,480,544</u>	<u>11,907,397</u>
Governmental Activities Capital Assets, Net	<u>\$ 13,447,456</u>	<u>\$ 793,591</u>	<u>\$ -</u>	<u>(\$ 427,869)</u>	<u>\$ 13,813,178</u>

CITY OF NEVADA CITY
Notes to Basic Financial Statements
For the Year Ended June 30, 2016

NOTE 4: CAPITAL ASSETS (CONTINUED)

Business-Type Activities

	Balance July 1, 2015	Additions	Transfers/ Retirements	Balance June 30, 2016
Capital Assets, Not Being Depreciated:				
Construction in progress	\$ 15,641	\$ 621,385	(\$ 316,116)	\$ 320,910
Total Capital Assets, Not Being Depreciated	<u>15,641</u>	<u>621,385</u>	<u>(316,116)</u>	<u>320,910</u>
Capital Assets, Being Depreciated:				
Structures and improvements	18,645,197	94,517	717,154	19,456,868
Equipment	2,653,954	35,710	-	2,689,664
Vehicles	<u>82,420</u>	<u>-</u>	<u>48,444</u>	<u>130,864</u>
Total Capital Assets, Being Depreciated	<u>21,381,571</u>	<u>130,227</u>	<u>765,598</u>	<u>22,277,396</u>
Less Accumulated Depreciation for:				
Structures and improvements	(8,393,994)	(502,651)	-	(8,896,645)
Equipment	(1,460,154)	(70,431)	-	(1,530,585)
Vehicles	<u>(84,259)</u>	<u>1,839</u>	<u>(48,444)</u>	<u>(130,864)</u>
Total Accumulated Depreciation	<u>(9,938,407)</u>	<u>(571,243)</u>	<u>(48,444)</u>	<u>(10,558,094)</u>
Total Capital Assets, Being Depreciated, Net	<u>11,443,164</u>	<u>(441,016)</u>	<u>717,154</u>	<u>11,719,302</u>
Business-Type Activities Capital Assets, Net	<u>\$ 11,458,805</u>	<u>\$ 180,369</u>	<u>\$ 401,038</u>	<u>\$ 12,040,212</u>

Depreciation

Depreciation expense was charged to governmental functions as follows:

General government	\$ 60,673
Public safety	172,135
Public ways and facilities	441,720
Recreation and culture	<u>57,751</u>
Total Depreciation Expense - Governmental Functions	<u>\$ 732,279</u>

Depreciation expense was charged to the business-type functions as follows:

Water	\$ 144,918
Sewer	<u>426,325</u>
Total Depreciation Expense - Business-Type Functions	<u>\$ 571,243</u>

Construction in Progress

Construction in progress for governmental activities relates primarily to work performed on street and sidewalk reconstruction.

Construction in progress for business-type activities relates primarily to water and sewer plant upgrades.

CITY OF NEVADA CITY
Notes to Basic Financial Statements
For the Year Ended June 30, 2016

NOTE 5: INTERFUND TRANSACTIONS

Due To/From Other Funds

During the course of operations, transactions occur between funds to account for goods received or services rendered. These receivables and payables are classified as due from or due to other funds. In addition, when funds overdraw their share of pooled cash, the receivables and payables are also classified as due from or due to other funds. The following are due to and due from balances as of June 30, 2016:

	Due From Other Funds	Due To Other Funds
CABY Misc Agency	\$ -	\$ 444,880
Nonmajor Governmental Funds	-	347,327
Water	-	584,012
Sewer	<u>1,376,219</u>	<u>-</u>
Total	<u>\$ 1,376,219</u>	<u>\$ 1,376,219</u>

Transfers

Transfers are indicative of funding for capital projects, lease payments or debt service, subsidies of various City operations and re-allocations of special revenues. The following are the interfund transfers for fiscal year ended June 30, 2016:

	Transfer In	Transfer Out
General Fund	\$ 370,343	\$ 9,851
Measure "S"	-	43,426
Nonmajor Governmental Funds	493,271	542,107
Water	294,379	473,376
Sewer	<u>-</u>	<u>89,233</u>
Total	<u>\$ 1,157,993</u>	<u>\$ 1,157,993</u>

NOTE 6: UNEARNED REVENUE

At June 30, 2016, components of unearned revenues were as follows:

	Unearned
General Fund	
July and August 2016 Swim Lessons	\$ 10,505
July 2016 Camp Revenues	9,519
July 2016 Park Fees	2,050
2016-2017 Business License Revenue	2,088
August 2016 Veteran's Building Rent	200
Downtown Employee Parking Permit Fees	96
Dog License Fees	20
Planning Deposit Fees	7,030
Mandated Costs	<u>1,647</u>
Total Unearned	<u>\$ 33,155</u>

CITY OF NEVADA CITY
Notes to Basic Financial Statements
For the Year Ended June 30, 2016

NOTE 7: LONG-TERM LIABILITIES

The following is a summary of changes in long-term liabilities for the year ended June 30, 2016:

<u>Type of Indebtedness</u>	<u>Balance July 1, 2015</u>	<u>Additions/ Adjustments</u>	<u>Retirements</u>	<u>Balance June 30, 2016</u>	<u>Amounts Due Within One Year</u>
Governmental Activities					
Compensated Absences	\$ 139,901	\$ 114,509	(\$ 108,153)	\$ 146,257	\$ 102,379
Capital Leases	14,598	-	(14,598)	-	-
Total Governmental Activities	<u>\$ 154,499</u>	<u>\$ 114,509</u>	<u>(\$ 122,751)</u>	<u>\$ 146,257</u>	<u>\$ 102,379</u>
Business-Type Activities					
Compensated Absences	\$ 25,469	\$ 19,222	(\$ 17,750)	\$ 26,941	\$ 18,858
Loans	762,764	-	(158,227)	604,537	113,049
Certificates of Participation	3,606,000	-	(58,000)	3,548,000	60,000
Total Business-Type Activities	<u>\$ 4,394,233</u>	<u>\$ 19,222</u>	<u>(\$ 233,977)</u>	<u>\$ 4,179,478</u>	<u>\$ 191,907</u>

Compensated absences are generally liquidated by the fund where the accrued liability occurred. The capital lease liability is liquidated by lease payments made by the department leasing the equipment.

Individual issues of debt payable outstanding at June 30, 2016, are as follows:

Loans:

All Points Capital Bond Refinance Loan, dated September 1, 2005, payable in annual installments of \$49,843 to \$67,877 with an interest rate of 4.09% and maturity of October 1, 2016. This loan was used to refinance prior loans used to finance the City's water system. \$ 48,844

Citizens Bank USDA Refunding Loan, dated June 1, 2008, payable in semiannual installments of \$2,369 to \$77,556 with an interest rate of 4.1% and maturity of August 1, 2025. This loan was used to refund prior loans used to finance the City's wastewater treatment and disposal system. 555,693

Total Loans 604,537

Certificates of Participation:

2005 Wastewater Certificates of Participation, dated October 1, 2005, payable in annual principal installments of \$16,000 to \$48,000, with an interest rate of 4.25%, and maturity of July 15, 2045. These Certificates of Participation were used to finance improvements to the City's wastewater collection, treatment and disposal system. 1,928,000

2007 Certificates of Participation, dated March 1, 2007, payable in annual principal installments of \$19,000 to \$90,000, with an interest rate of 4.125%, and maturity of July 15, 2046. These Certificates of Participation were used finance improvements to the City's wastewater collection, treatment and disposal facilities. 1,620,000

Total Certificates of Participation 3,548,000

Total Business-Type Activities \$ 4,152,537

CITY OF NEVADA CITY
Notes to Basic Financial Statements
For the Year Ended June 30, 2016

NOTE 7: LONG-TERM LIABILITIES (CONTINUED)

Following is a schedule of debt payment requirements of business-type activities to maturity for long-term debt, excluding compensated absences that have indefinite maturities.

Year Ended June 30	Loans Payable		
	Principal	Interest	Total
2017	\$ 113,050	\$ 22,529	\$ 135,579
2018	65,928	18,860	84,788
2019	71,594	16,037	87,631
2020	72,227	13,085	85,312
2021	60,920	10,352	71,272
2022-2026	<u>220,818</u>	<u>19,783</u>	<u>240,601</u>
Total	<u>\$ 604,537</u>	<u>\$ 100,646</u>	<u>\$ 705,183</u>

Year Ended June 30	Certificates of Participation		
	Principal	Interest	Total
2017	\$ 60,000	\$ 147,508	\$ 207,508
2018	62,000	144,949	206,949
2019	65,000	142,286	207,286
2020	67,000	139,517	206,517
2021	70,000	136,644	206,644
2022-2026	399,000	635,427	1,034,427
2027-2031	489,000	542,608	1,031,608
2032-2036	602,000	428,616	1,030,616
2037-2041	739,000	288,530	1,027,530
2042-2046	905,000	116,663	1,021,663
2047	<u>90,000</u>	<u>1,856</u>	<u>91,856</u>
Total	<u>\$ 3,548,000</u>	<u>\$ 2,724,604</u>	<u>\$ 6,272,604</u>

NOTE 8: NET POSITION

The government-wide financial statements utilize a net position presentation. Net position is categorized as net investment in capital assets, restricted and unrestricted.

- **Net investment in capital assets** - consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
- **Restricted net position** - consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation. These principally include restrictions for capital projects, debt service requirements and other special revenue fund purposes.
- **Unrestricted net position** - all other net position that does not meet the definition of “restricted” or “net investment in capital assets”.

CITY OF NEVADA CITY
Notes to Basic Financial Statements
For the Year Ended June 30, 2016

NOTE 8: NET POSITION (CONTINUED)

Net Position Restricted by Enabling Legislation

The government-wide Statement of Net Position reports \$2,011,158 of restricted net position, of which \$587,184 is restricted by enabling legislation.

Net Position Flow Assumption

When a government funds outlays for a particular purpose from both restricted and unrestricted resources, a flow assumption must be made about the order in which the resources are considered to be applied. When both restricted and unrestricted net position are available, it is considered that restricted resources are used first, followed by the unrestricted resources.

NOTE 9: FUND BALANCES

As prescribed by GASB Statement No. 54, governmental funds report fund balance in classifications based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in the funds can be spent. As of June 30, 2016, fund balances for governmental funds are made up of the following:

- **Nonspendable fund balance** - amounts that cannot be spent because they are either (a) not in spendable form, or (b) legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash, for example: inventories and prepaid amounts.
- **Restricted fund balance** - amounts with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation. Restrictions may effectively be changed or lifted only with the consent of resource providers.
- **Committed fund balance** - amounts that can only be used for the specific purposes determined by formal action of the City’s highest level of decision making authority. The City Council is the highest level of decision making authority for the City that can, by adoption of an ordinance commit fund balance. Once adopted, the limitation imposed remains in place until a similar action is taken to remove or revise the limitation. The underlying action that imposed the limitation needs to occur no later than the close of the reporting period.
- **Assigned fund balance** - amounts that are constrained by the City’s intent to be used for specific purposes. The intent can be established at either the highest level of decision-making, or by a body or an official designated for that purpose.
- **Unassigned fund balance** - the residual classification for the City’s General fund that includes all amounts not contained in the other classifications. In other funds, the unassigned classification is used only if expenditures incurred for specific purposes exceed the amounts restricted, committed, or assigned to those purposes.

CITY OF NEVADA CITY
Notes to Basic Financial Statements
For the Year Ended June 30, 2016

NOTE 9: FUND BALANCES (CONTINUED)

The fund balances for all the major and nonmajor governmental funds as of June 30, 2016, were distributed as follows:

	General Fund	CABY Misc Agency	Measure "S"	Other Governmental Funds	Total
Nonspendable:					
Prepaid costs	\$ 102,733	\$ -	\$ 560	\$ 400	\$ 103,693
Subtotal	<u>102,733</u>	<u>-</u>	<u>560</u>	<u>400</u>	<u>103,693</u>
Restricted for:					
General reserve	649,910	-	-	-	649,910
Measure "S"	-	-	120,492	-	120,492
Measure "L"	-	-	-	274,414	274,414
AB1600	-	-	-	191,718	191,718
P&R Quimby	-	-	-	29,255	29,255
Traffic Mitigation	-	-	-	1	1
Brownfields	-	-	-	2,728	2,728
Fire Dept	-	-	-	4,977	4,977
SLESF	-	-	-	57,353	57,353
Subtotal	<u>649,910</u>	<u>-</u>	<u>120,492</u>	<u>560,446</u>	<u>1,330,848</u>
Committed to:					
General reserve	203,138	-	-	-	203,138
Prop 172	-	-	-	62,506	62,506
Subtotal	<u>203,138</u>	<u>-</u>	<u>-</u>	<u>62,506</u>	<u>265,644</u>
Assigned to:					
Fire Department	21,424	-	-	-	21,424
Park & Rec Raffle	-	-	-	14,224	14,224
Indian Trail	-	-	-	47,407	47,407
MATHIVET	-	-	-	72,915	72,915
Bicentennial	-	-	-	1,195	1,195
Becker	-	-	-	18,224	18,224
Subtotal	<u>21,424</u>	<u>-</u>	<u>-</u>	<u>153,965</u>	<u>175,389</u>
Unassigned	<u>591,007</u>	<u>(468,578)</u>	<u>-</u>	<u>(418,192)</u>	<u>(295,763)</u>
Total	<u>\$ 1,568,212</u>	<u>(\$ 468,578)</u>	<u>\$ 121,052</u>	<u>\$ 359,125</u>	<u>\$ 1,579,811</u>

Fund Balance Flow Assumption

When a government funds outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance), a flow assumption must be made about the order in which the resources are considered to be applied. When both restricted and unrestricted fund balance are available, it is considered that restricted fund balance is depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

CITY OF NEVADA CITY
Notes to Basic Financial Statements
For the Year Ended June 30, 2016

NOTE 9: FUND BALANCES (CONTINUED)

Fund Balance Policy

The City Council adopted the City of Nevada City Fund Balance Policy in 2013. The policy establishes procedures for reporting fund balance classifications, establishes prudent reserve requirements and establishes a hierarchy of fund balance expenditures. The policy also provides for a measure of financial protection for the City against unforeseen circumstances and to comply with GASB Statement No. 54.

NOTE 10: PENSION PLANS

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, Safety 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.

Effective January 1, 2013, the City added retirement tiers for both Miscellaneous and Safety Plans for new employees as required under the Public Employee Pension Reform Act (PEPRA). New employees hired on or after January 1, 2013 will be subject to new, lower pension formulas, caps on pensionable income levels and new definitions of pensionable income. In addition, new employees will be required to contribute half of the total normal cost of the pension benefit unless impaired by an existing Memorandum of Understanding. The cumulative effect of these PEPRA changes will ultimately reduce the City's retirement costs. As of the valuation date there were no Safety PEPRA employees.

Summary of Plans and Eligible Participants

Open for New Enrollment

Miscellaneous PEPRA	Miscellaneous members hired on or after January 1, 2013
Safety PEPRA	Safety employees hired on or after January 1, 2013

Closed to New Enrollment

Miscellaneous First Tier	Miscellaneous members hired before July 1, 2008
Miscellaneous Second Tier	Miscellaneous members hired after July 1, 2008 and before January 1, 2013
Safety First Tier	Safety employees hired before January 1, 2013

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. Retirement benefits are paid monthly for life. 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.

CITY OF NEVADA CITY
Notes to Basic Financial Statements
For the Year Ended June 30, 2016

NOTE 10: PENSION PLANS (CONTINUED)

A. General Information About the Pension Plans (Continued)

Benefits Provided (Continued)

Each Plan's specific provisions and benefits in effect at June 30, 2016, are summarized as follows:

	<u>Benefit Formula</u>	<u>Retirement Age</u>	<u>Monthly Benefits as a % of Eligible Compensation</u>
Miscellaneous First Tier	2.5% @ 55	50-55	2.000% to 2.500%
Miscellaneous Second Tier	2.0% @ 60	50-63	1.462% to 2.418%
Miscellaneous PEPRA	2.0% @ 62	50-62	1.000% to 2.500%
Safety First Tier	3.0% @ 50	50	3.000%
Safety PEPRA	2.0% @ 57	57	2.000%

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 all 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.

	<u>Employer Contribution Rates</u>	<u>Employee Contribution Rates</u>	<u>Employer Paid Member Contribution Rates</u>
Miscellaneous First Tier	9.671%	8.000%	4.000%
Miscellaneous Second Tier	7.163%	8.000%	0.000%
Miscellaneous PEPRA	6.237%	6.250%	0.000%
Safety First Tier	18.524%	9.000%	2.500%
Safety PEPRA	11.500%	11.500%	0.000%

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

	<u>Contributions-Employer</u>	<u>Contributions-Employee (Paid by Employer)</u>
Miscellaneous	\$ 181,437	\$ 24,473
Safety	215,552	23,045

CITY OF NEVADA CITY
Notes to Basic Financial Statements
For the Year Ended June 30, 2016

NOTE 10: PENSION PLANS (CONTINUED)

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

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

	Proportionate Share of Net Pension Liability
Miscellaneous	\$ 1,493,988
Safety	1,710,177
Total Net Pension Liability	\$ 3,204,165

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

	Proportion June 30, 2014	Proportion June 30, 2015	Change - Increase (Decrease)
Miscellaneous	.01804%	.02177%	.00373%
Safety	.02352%	.02492%	.00140%

For the year ended June 30, 2016, the City recognized pension expense of \$334,324. At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 402,863	\$ -
Changes of assumptions	-	(201,957)
Differences between expected and actual experience	-	(17,794)
Differences between projected and actual earnings on pension plan investments	-	(101,909)
Difference between City contributions and proportionate share of contributions	-	(15,362)
Adjustment due to differences in proportions	-	(239,273)
Total	\$ 402,863	(\$ 576,295)

CITY OF NEVADA CITY
Notes to Basic Financial Statements
For the Year Ended June 30, 2016

NOTE 10: PENSION PLANS (CONTINUED)

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

\$402,863 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 <u>June 30</u>	
2017	(\$ 250,556)
2018	(248,061)
2019	(205,797)
2020	128,119
Thereafter	<u>-</u>
Total	<u>(\$ 576,295)</u>

Actuarial Assumptions

The total pension liabilities in the June 30, 2014 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	June 30, 2014
Measurement Date	June 30, 2015
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Projected Salary Increase	Varies by entry age and service
Mortality	Derived using CalPERS membership data for all funds
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period 1997 to 2011 including updates to salary increase, mortality and retirement rates. Further details of the Experience Study can be found on the CalPERS website.

Change of Assumptions

GASB 68, paragraph 68 states that the long-term expected rate of return should be determined net of pension plan investment expense but without reduction for pension plan administrative expense. The discount rate of 7.50 percent used for the June 30, 2014 measurement date was net of administrative expenses. The discount rate of 7.65 percent used for the June 30, 2015 measurement date is without reduction of pension plan administrative expense.

CITY OF NEVADA CITY
Notes to Basic Financial Statements
For the Year Ended June 30, 2016

NOTE 10: PENSION PLANS (CONTINUED)

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

Discount Rate

The discount rate used to measure the total pension liability was 7.65 percent 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 is applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at the CalPERS website under the GASB 68 section.

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 following table 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.

<u>Asset Class</u>	<u>New Strategic Allocation</u>	<u>Real Return Years 1 - 10(a)</u>	<u>Real Return Years 11+(b)</u>
Global Equity	51.0%	5.25%	5.71%
Global Fixed Income	19.0%	0.99%	2.43%
Inflation Sensitive	6.0%	0.45%	3.36%
Private Equity	10.0%	6.83%	6.95%
Real Estate	10.0%	4.50%	5.13%
Infrastructure and Forestland	2.0%	4.50%	5.09%
Liquidity	2.0%	-0.55%	-1.05%
Total	<u>100%</u>		

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

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

CITY OF NEVADA CITY
Notes to Basic Financial Statements
For the Year Ended June 30, 2016

NOTE 10: PENSION PLANS (CONTINUED)

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

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 as of the measurement date, 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:

	1% Decrease <u>6.65%</u>	Discount Rate <u>7.65%</u>	1% Increase <u>8.65%</u>
Miscellaneous	\$ 2,412,419	\$ 1,493,988	\$ 735,716
Safety	2,845,727	1,710,177	779,047

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 11: RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City has joined together with other municipalities to participate in the Public Agency Risk Sharing Authority of California (PARSAC) for general liability, vehicle liability, and errors and omissions purposes. PARSAC is a public entity risk pool which serves as a common risk management and insurance program for 37 member cities and one fire district. The City pays an annual premium to PARSAC for its insurance coverage. The agreements with PARSAC provide that they will be self sustaining through member premiums and will reinsure through commercial companies for excess coverage.

There are no significant reductions in insurance coverage from prior years and there have been no settlements exceeding the insurance coverages for each of the past three fiscal years.

CITY OF NEVADA CITY
Notes to Basic Financial Statements
For the Year Ended June 30, 2016

NOTE 11: RISK MANAGEMENT (CONTINUED)

The City is a member of Northern California Cities Self Insurance Fund (NCCSIF), a joint powers agency which provides the City with a shared risk layer of coverage above the self insured \$100,000 retention for workers compensation. The NCCSIF is composed of 22 member cities and is governed by a board of directors appointed by the member cities. The governing board has authority over budgeting and financing. NCCSIF is a joint powers agency organized in accordance with Article 1, Chapter 5, Division 7, Title 1 of the California Government Fund Programs. The purpose is to create a common pool of funds to be used to meet obligations of the parties to provide workers' compensation benefits for their employees and to provide excess liability insurance. The Authority provides claims processing administrative services, risk management services, and actuarial studies. It is governed by a member from each city. The City of Nevada City council members do not have significant oversight responsibility, since they evenly share all factors of responsibility with the other cities. However, ultimate liability for payment of claims and insurance premiums resides with member cities. The Authority is empowered to make supplemental assessments as needed to eliminate deficit positions of member cities. If the JPA becomes insolvent, the City is responsible only to the extent of any deficiency in its equity balance. Upon termination of the JPA agreement, all property of the Authority will vest in the respective parties which theretofore transferred, conveyed or leased said property to the Authority. Any surplus of funds will be returned to the parties in proportion to actual balances of each equity.

The Authority establishes claims liabilities based on estimates of the ultimate cost of claims (including future claims settlement expenses) that have been reported but not settled, plus estimates of claims that have been incurred but not reported. Because actual claims costs depend on various factors, the claims liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claim frequency, and other economic and social factors. A provision of inflation is implicit in the calculation of estimated future claims costs. Adjustments to claims liabilities are charged or credited to expense in the periods in which they are made.

The participants as of June 30, 2016 were as follows:

- Anderson
- Auburn
- Colusa
- Corning
- Dixon
- Elk Grove
- Folsom
- Galt
- Gridley
- Ione
- Jackson
- Lincoln
- Marysville
- Nevada City
- Oroville
- Paradise
- Placerville
- Red Bluff
- Rio Vista
- Rocklin
- Willows
- Yuba City

The City's investment in the NCCSIF of \$116,484 is recorded in the General fund, Measure "S" fund, and Water and Sewer funds as prepaid insurance. The net change is shown as an income or expenditure/expense item.

CITY OF NEVADA CITY
Notes to Basic Financial Statements
For the Year Ended June 30, 2016

NOTE 12: OTHER INFORMATION

A. Commitments and Contingencies

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the appreciable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the government expects such amounts, if any, to be immaterial.

B. Subsequent Event

Management has evaluated events subsequent to June 30, 2016 through January 11, 2017, the date on which the financial statements were available for issuance. Management has determined no other subsequent events requiring disclosure have occurred.

**Required Supplementary Information
(Unaudited)**

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CITY OF NEVADA CITY
Required Supplementary Information
City Pension Plans
Schedule of Proportionate Share of the Net Pension Liability
For the Year Ended June 30, 2016
Last 10 Years*

	2015	2016
Miscellaneous		
Proportion of the net pension liability	0.01804%	0.02180%
Proportionate share of the net pension liability	\$ 1,122,916	\$ 1,493,988
Covered employee payroll	862,176	862,176
Proportionate share of the net pension liability as a percentage of covered employee payroll	130.24%	173.28%
Plan fiduciary net position as a percentage of the total pension liability	83.03%	77.85%
Safety		
Proportion of the net pension liability	0.02352%	0.02490%
Proportionate share of the net pension liability	\$ 1,463,261	\$ 1,710,177
Covered employee payroll	768,634	768,634
Proportionate share of the net pension liability as a percentage of covered employee payroll	190.37%	222.50%
Plan fiduciary net position as a percentage of the total pension liability	81.42%	79.35%

* The City implemented GASB 68 for fiscal year June 30, 2015, therefore only two years are shown.

CITY OF NEVADA CITY
Required Supplementary Information
City Pension Plans
Schedule of Contributions
For the Year Ended June 30, 2016
Last 10 Years*

	<u>2015**</u>	<u>2016</u>
Miscellaneous		
Contractually required contribution (actuarially determined)	\$ 181,437	\$ 97,496
Contributions in relation to the actuarially determined contributions	<u>(181,437)</u>	<u>(166,038)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ (68,542)</u>
Covered employee payroll	\$ 862,176	\$ 995,977
Contributions as a percentage of covered employee payroll	21.04%	9.79%
Safety		
Contractually required contribution (actuarially determined)	\$ 215,552	\$ 168,034
Contributions in relation to the actuarially determined contributions	<u>(215,552)</u>	<u>(236,825)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ (68,791)</u>
Covered employee payroll	\$ 768,634	\$ 862,620
Contributions as a percentage of covered employee payroll	28.04%	19.48%

* The City implemented GASB 68 for fiscal year June 30, 2015, therefore only two years are shown.

**The June 30, 2015 balances have been restated to agree to the actual contributions per the City records.

CITY OF NEVADA CITY
Required Supplementary Information
Notes to City Pension Plans
For the Year Ended June 30, 2016

NOTE 1: SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

Change of assumptions: The discount rate was changed from 7.50 percent (net of administrative expense) to 7.65 percent to correct for an adjustment to exclude administrative expense.

NOTE 2: SCHEDULE OF CONTRIBUTIONS

Methods and assumptions used to determine the contribution rates were as follows:

Valuation date	June 30, 2012
Actuarial cost method	Entry Age Normal
Amortization method/period	For details, see June 30, 2012 Funding Valuation Report
Asset valuation method	Actuarial value of assets
Inflation	2.75%
Salary increases	Varies by entry age and service
Payroll growth	3.00%
Investment rate of return	7.50%, net of pension plan investment and administrative expense, including inflation
Retirement age	The probabilities of retirement are based on the 2010 CalPERS experience study for the period 1997 to 2007

CITY OF NEVADA CITY
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2016

	Original Budget	Final Budget	Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
REVENUES				
Taxes and assessments	\$ 2,538,670	\$ 2,538,670	\$ 2,653,035	\$ 114,365
Licenses and permits	229,100	229,100	235,794	6,694
Fines and forfeitures	182,400	182,400	194,518	12,118
Intergovernmental revenues	64,886	64,886	86,425	21,539
Use of money and property	88,000	88,000	86,108	(1,892)
Charges for services	309,180	309,180	269,432	(39,748)
Other revenues	7,750	7,750	118,304	110,554
Total Revenues	3,419,986	3,419,986	3,643,616	223,630
EXPENDITURES				
Current:				
General government	631,238	631,238	968,451	(337,213)
Public protection	2,007,618	2,007,618	2,014,932	(7,314)
Public ways and facilities	337,771	337,771	265,551	72,220
Recreation and culture	321,585	321,585	262,058	59,527
Debt service:				
Principal	15,467	15,467	14,598	869
Interest and other charges	869	869	869	-
Capital outlay	45,000	45,000	104,528	(59,528)
Total Expenditures	3,359,548	3,359,548	3,630,987	(271,439)
Excess of Revenues Over (Under) Expenditures	60,438	60,438	12,629	(47,809)
OTHER FINANCING SOURCES (USES)				
Transfers in	185,720	185,720	370,343	184,623
Transfers out	-	-	(9,851)	(9,851)
Total Other Financing Sources (Uses)	185,720	185,720	360,492	174,772
Net Change in Fund Balance	246,158	246,158	373,121	126,963
Fund Balance - Beginning	1,195,091	1,195,091	1,195,091	-
Fund Balance - Ending	\$ 1,441,249	\$ 1,441,249	\$ 1,568,212	\$ 126,963

CITY OF NEVADA CITY
Required Supplementary Information
Budgetary Comparison Schedule
CABY Misc Agency - Major Special Revenue Fund
For the Year Ended June 30, 2016

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES				
Intergovernmental revenues	\$ 727,000	\$ 727,000	\$ 275,394	\$ (451,606)
Total Revenues	<u>727,000</u>	<u>727,000</u>	<u>275,394</u>	<u>(451,606)</u>
EXPENDITURES				
Current:				
General government	<u>727,000</u>	<u>727,000</u>	<u>476,506</u>	<u>250,494</u>
Total Expenditures	<u>727,000</u>	<u>727,000</u>	<u>476,506</u>	<u>250,494</u>
Excess of Revenues Over (Under) Expenditures	<u>-</u>	<u>-</u>	<u>(201,112)</u>	<u>(201,112)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	-
Transfers out	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balance	<u>-</u>	<u>-</u>	<u>(201,112)</u>	<u>(201,112)</u>
Fund Balance - Beginning	<u>(267,466)</u>	<u>(267,466)</u>	<u>(267,466)</u>	<u>-</u>
Fund Balance - Ending	<u><u>\$ (267,466)</u></u>	<u><u>\$ (267,466)</u></u>	<u><u>\$ (468,578)</u></u>	<u><u>\$ (201,112)</u></u>

CITY OF NEVADA CITY
Required Supplementary Information
Budgetary Comparison Schedule
Measure "S" - Major Special Revenue Fund
For the Year Ended June 30, 2016

	Original Budget	Final Budget	Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
REVENUES				
Taxes and assessments	\$ 558,000	\$ 558,000	\$ 557,609	\$ (391)
Use of money and property	850	850	1,942	1,092
Other revenues	-	-	500	500
Total Revenues	<u>558,850</u>	<u>558,850</u>	<u>560,051</u>	<u>1,201</u>
EXPENDITURES				
Current:				
Public ways and facilities	96,927	96,927	61,156	35,771
Capital outlay	460,000	780,000	782,367	(2,367)
Total Expenditures	<u>556,927</u>	<u>876,927</u>	<u>843,523</u>	<u>33,404</u>
Excess of Revenues Over (Under) Expenditures	<u>1,923</u>	<u>(318,077)</u>	<u>(283,472)</u>	<u>34,605</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	-	-	(43,426)	(43,426)
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>(43,426)</u>	<u>(43,426)</u>
Net Change in Fund Balance	1,923	(318,077)	(326,898)	(8,821)
Fund Balance - Beginning	<u>447,950</u>	<u>447,950</u>	<u>447,950</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 449,873</u>	<u>\$ 129,873</u>	<u>\$ 121,052</u>	<u>\$ (8,821)</u>

CITY OF NEVADA CITY
Required Supplementary Information
Note to Budgetary Comparison Schedules
For the Year Ended June 30, 2016

NOTE 1: BUDGETARY BASIS OF ACCOUNTING

Formal budgetary integration is employed as a management control device during the year. The City presents a comparison of annual budgets to actual results for the General fund and major special revenue funds. The amounts reported on the budgetary basis are generally on a basis consistent with accounting principles generally accepted in the United States of America (GAAP) with the exception of short-term debt proceeds and payments which were budgeted as other financing sources and debt service expenditures.

The following procedures are performed by the City in establishing the budgetary data reflected in the financial statements:

- (1) The City Manager submits to the City Council a recommended draft budget for the fiscal year commencing the following July 1. The budget includes recommended expenditures and the means of financing them.
- (2) The City Council reviews the recommended budget at regularly scheduled meetings, which are open to the public. The Council also conducts a public hearing on the recommended budget to obtain comments from interested persons.
- (3) Prior to July 1, the budget is adopted through the passage of a resolution.
- (4) From the effective date of the budget, which is adopted and controlled at the department level, the amounts stated therein, as recommended expenditures become appropriations to the various City departments. The City Council may amend the budget by motion during the fiscal year. The City Manager may authorize transfers from one object or purpose to another within the same department.

The City does not use encumbrance accounting under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation.

NOTE 2: EXPENDITURES IN EXCESS OF APPROPRIATIONS

For the fiscal year ended June 30, 2016, the City incurred expenditures in excess of appropriations as follows:

	<u>Appropriations</u>	<u>Expenditures</u>	Excess of Expenditures Over <u>Appropriations</u>
General fund	\$ 3,359,548	\$ 3,630,987	\$ 271,439

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Combining Nonmajor Fund Statements

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Nonmajor Governmental Funds

- **Special Revenue Funds**

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CITY OF NEVADA CITY
Combining Balance Sheet
Nonmajor Special Revenue Funds
June 30, 2016

	<u>AB 1600</u>	<u>P & R Quimby</u>	<u>Donation Project</u>	<u>Nevada Main Project</u>
ASSETS				
Cash and investments	\$ 191,126	\$ 29,165	\$ 14,232	\$ -
Receivables:				
Interest	592	90	42	-
Taxes	-	-	-	-
Intergovernmental	20	-	-	23,246
Prepaid costs	-	-	-	-
Loans receivable	-	-	-	-
Total Assets	<u>\$ 191,738</u>	<u>\$ 29,255</u>	<u>\$ 14,274</u>	<u>\$ 23,246</u>
LIABILITIES				
Accounts payable	\$ 20	\$ -	\$ 50	\$ 5,276
Salaries and benefits payable	-	-	-	-
Interest payable	-	-	-	84
Due to State of California	-	-	-	-
Due to other funds	-	-	-	28,970
Total Liabilities	<u>20</u>	<u>-</u>	<u>50</u>	<u>34,330</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue	-	-	-	23,246
Deferred business loan payments	-	-	-	-
Total Deferred Inflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>23,246</u>
FUND BALANCES				
Nonspendable	-	-	-	-
Restricted	191,718	29,255	-	-
Committed	-	-	-	-
Assigned	-	-	14,224	-
Unassigned	-	-	-	(34,330)
Total Fund Balances	<u>191,718</u>	<u>29,255</u>	<u>14,224</u>	<u>(34,330)</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 191,738</u>	<u>\$ 29,255</u>	<u>\$ 14,274</u>	<u>\$ 23,246</u>

<u>Gas Tax Streets</u>	<u>TDA Funds</u>	<u>CMAQ ST & RD</u>	<u>Regional Traffic Mitigation</u>	<u>FEMA</u>	<u>CEC Grant</u>	<u>Indian Trails</u>	<u>UST Project</u>
\$ 36,042	\$ -	\$ -	\$ 1	\$ 116	\$ -	\$ 47,776	\$ -
305	-	-	-	-	-	148	-
7,233	-	-	-	-	-	-	-
-	-	105,242	-	2,918	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>\$ 43,580</u>	<u>\$ -</u>	<u>\$ 105,242</u>	<u>\$ 1</u>	<u>\$ 3,034</u>	<u>\$ -</u>	<u>\$ 47,924</u>	<u>\$ -</u>
\$ 49,793	\$ -	\$ 45	\$ -	\$ 3,428	\$ -	\$ 517	\$ -
-	-	2,209	-	-	-	-	-
-	-	796	-	-	-	-	-
-	-	-	-	-	-	-	-
-	605	127,569	-	-	3,333	-	11,025
<u>49,793</u>	<u>605</u>	<u>130,619</u>	<u>-</u>	<u>3,428</u>	<u>3,333</u>	<u>517</u>	<u>11,025</u>
-	-	105,242	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	105,242	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	1	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	47,407	-
<u>(6,213)</u>	<u>(605)</u>	<u>(130,619)</u>	<u>-</u>	<u>(394)</u>	<u>(3,333)</u>	<u>-</u>	<u>(11,025)</u>
<u>(6,213)</u>	<u>(605)</u>	<u>(130,619)</u>	<u>1</u>	<u>(394)</u>	<u>(3,333)</u>	<u>47,407</u>	<u>(11,025)</u>
<u>\$ 43,580</u>	<u>\$ -</u>	<u>\$ 105,242</u>	<u>\$ 1</u>	<u>\$ 3,034</u>	<u>\$ -</u>	<u>\$ 47,924</u>	<u>\$ -</u>

CITY OF NEVADA CITY
Combining Balance Sheet
Nonmajor Special Revenue Funds
June 30, 2015

	LWCF Pool Rehab	Little Deer Creek	Brownsfield 10	Tax - Fire Dept.
ASSETS				
Cash and investments	\$ -	\$ -	\$ 2,728	\$ -
Receivables:				
Interest	-	-	-	-
Taxes	-	-	-	1,708
Intergovernmental	-	35,614	-	-
Prepaid costs	-	400	-	-
Loans receivable	-	-	-	-
Total Assets	\$ -	\$ 36,014	\$ 2,728	\$ 1,708
LIABILITIES				
Accounts payable	\$ -	\$ 5,454	\$ -	\$ -
Salaries and benefits payable	-	-	-	-
Interest payable	-	-	-	-
Due to State of California	-	-	-	-
Due to other funds	7,026	30,160	-	-
Total Liabilities	7,026	35,614	-	-
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue	-	35,614	-	-
Deferred business loan payments	-	-	-	-
Total Deferred Inflows of Resources	-	35,614	-	-
FUND BALANCES				
Nonspendable	-	400	-	-
Restricted	-	-	2,728	1,708
Committed	-	-	-	-
Assigned	-	-	-	-
Unassigned	(7,026)	(35,614)	-	-
Total Fund Balances	(7,026)	(35,214)	2,728	1,708
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ -	\$ 36,014	\$ 2,728	\$ 1,708

2003 Fire Tax	NC Recreation	CDBG Enterprise	CABY Nevada City	Prop 172	MATHIVET	SLESF	Measure "L"
\$ -	\$ -	\$ -	\$ -	\$ 59,272	\$ 72,690	\$ 57,027	\$ 208,094
-	-	-	-	204	225	326	1,188
3,269	-	-	-	-	-	-	70,700
-	-	124,775	12,723	3,030	-	-	-
-	-	-	-	-	-	-	-
-	-	69,801	-	-	-	-	-
<u>\$ 3,269</u>	<u>\$ -</u>	<u>\$ 194,576</u>	<u>\$ 12,723</u>	<u>\$ 62,506</u>	<u>\$ 72,915</u>	<u>\$ 57,353</u>	<u>\$ 279,982</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,949
-	-	-	-	-	-	-	3,619
-	10	384	-	-	-	-	-
-	-	50,000	-	-	-	-	-
-	3,244	126,480	8,915	-	-	-	-
-	3,254	176,864	8,915	-	-	-	5,568
-	-	124,775	12,723	-	-	-	-
-	-	69,801	-	-	-	-	-
-	-	194,576	12,723	-	-	-	-
-	-	-	-	-	-	-	-
3,269	-	-	-	-	-	57,353	274,414
-	-	-	-	62,506	-	-	-
-	-	-	-	-	72,915	-	-
-	(3,254)	(176,864)	(8,915)	-	-	-	-
<u>3,269</u>	<u>(3,254)</u>	<u>(176,864)</u>	<u>(8,915)</u>	<u>62,506</u>	<u>72,915</u>	<u>57,353</u>	<u>274,414</u>
<u>\$ 3,269</u>	<u>\$ -</u>	<u>\$ 194,576</u>	<u>\$ 12,723</u>	<u>\$ 62,506</u>	<u>\$ 72,915</u>	<u>\$ 57,353</u>	<u>\$ 279,982</u>

CITY OF NEVADA CITY
Combining Balance Sheet
Nonmajor Special Revenue Funds
June 30, 2015

	Bicentennial	Becker	Total
ASSETS			
Cash and investments	\$ 1,195	\$ 18,168	\$ 737,632
Receivables:			
Interest	-	56	3,176
Taxes	-	-	82,910
Intergovernmental	-	-	307,568
Prepaid costs	-	-	400
Loans receivable	-	-	69,801
Total Assets	\$ 1,195	\$ 18,224	\$ 1,201,487
LIABILITIES			
Accounts payable	\$ -	\$ -	\$ 66,532
Salaries and benefits payable	-	-	5,828
Interest payable	-	-	1,274
Due to State of California	-	-	50,000
Due to other funds	-	-	347,327
Total Liabilities	-	-	470,961
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue	-	-	301,600
Deferred business loan payments	-	-	69,801
Total Deferred Inflows of Resources	-	-	371,401
FUND BALANCES			
Nonspendable	-	-	400
Restricted	-	-	560,446
Committed	-	-	62,506
Assigned	1,195	18,224	153,965
Unassigned	-	-	(418,192)
Total Fund Balances	1,195	18,224	359,125
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 1,195	\$ 18,224	\$ 1,201,487

Continued (Page 3 of 3)

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CITY OF NEVADA CITY
Combining Statement of Revenues, Expenditures, and
Changes in Fund Balances
Nonmajor Special Revenue Funds
For the Year Ended June 30, 2016

	<u>AB 1600</u>	<u>P & R Quimby</u>	<u>Donation Project</u>	<u>Nevada Main Project</u>
REVENUES				
Taxes and assessments	\$ 5,048	\$ -	\$ -	\$ -
Intergovernmental revenues	-	-	-	-
Use of money and property	1,324	201	94	(119)
Other revenues	-	-	9,546	-
Total Revenues	<u>6,372</u>	<u>201</u>	<u>9,640</u>	<u>(119)</u>
EXPENDITURES				
Current:				
General government	-	-	-	-
Public protection	-	-	-	-
Public ways and facilities	7,740	-	-	2,527
Recreation and culture	-	-	4,700	-
Capital outlay	-	-	-	25,152
Total Expenditures	<u>7,740</u>	<u>-</u>	<u>4,700</u>	<u>27,679</u>
Excess of Revenues Over (Under) Expenditures	<u>(1,368)</u>	<u>201</u>	<u>4,940</u>	<u>(27,798)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	<u>(1,368)</u>	<u>201</u>	<u>4,940</u>	<u>(27,798)</u>
Fund Balances - Beginning	193,086	29,054	9,284	(6,532)
Prior period adjustment	-	-	-	-
Fund Balances - Beginning, Restated	<u>193,086</u>	<u>29,054</u>	<u>9,284</u>	<u>(6,532)</u>
Fund Balances - Ending	<u>\$ 191,718</u>	<u>\$ 29,255</u>	<u>\$ 14,224</u>	<u>\$ (34,330)</u>

<u>Gas Tax Streets</u>	<u>TDA Funds</u>	<u>CMAQ ST & RD</u>	<u>Regional Traffic Mitigation</u>	<u>FEMA</u>	<u>CEC Grant</u>	<u>Indian Trails</u>	<u>UST Project</u>
\$ 85,526	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	372,968	-	17,372	-	-	-
675	(3)	(1,329)	-	-	-	333	-
-	-	-	-	-	-	-	-
<u>86,201</u>	<u>(3)</u>	<u>371,639</u>	<u>-</u>	<u>17,372</u>	<u>-</u>	<u>333</u>	<u>-</u>
-	-	-	-	25,736	3,333	1,498	-
-	-	-	-	-	-	-	-
117,717	-	7,382	-	-	-	-	-
-	-	-	-	-	-	-	-
6,425	-	544,428	-	-	-	-	-
<u>124,142</u>	<u>-</u>	<u>551,810</u>	<u>-</u>	<u>25,736</u>	<u>3,333</u>	<u>1,498</u>	<u>-</u>
<u>(37,941)</u>	<u>(3)</u>	<u>(180,171)</u>	<u>-</u>	<u>(8,364)</u>	<u>(3,333)</u>	<u>(1,165)</u>	<u>-</u>
-	-	81,221	-	8,364	-	-	-
<u>(50,939)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>(50,939)</u>	<u>-</u>	<u>81,221</u>	<u>-</u>	<u>8,364</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>(88,880)</u>	<u>(3)</u>	<u>(98,950)</u>	<u>-</u>	<u>-</u>	<u>(3,333)</u>	<u>(1,165)</u>	<u>-</u>
82,667	(602)	(31,669)	1	(394)	-	48,572	(11,025)
-	-	-	-	-	-	-	-
<u>82,667</u>	<u>(602)</u>	<u>(31,669)</u>	<u>1</u>	<u>(394)</u>	<u>-</u>	<u>48,572</u>	<u>(11,025)</u>
<u>\$ (6,213)</u>	<u>\$ (605)</u>	<u>\$ (130,619)</u>	<u>\$ 1</u>	<u>\$ (394)</u>	<u>\$ (3,333)</u>	<u>\$ 47,407</u>	<u>\$ (11,025)</u>

CITY OF NEVADA CITY
Combining Statement of Revenues, Expenditures, and
Changes in Fund Balances
Nonmajor Special Revenue Funds
For the Year Ended June 30, 2016

	LWCF Pool Rehab	Little Deer Creek	Brownsfield 10	Tax - Fire Dept.
REVENUES				
Taxes and assessments	\$ -	\$ -	\$ -	\$ 34,163
Intergovernmental revenues	-	-	158,695	-
Use of money and property	-	-	-	-
Other revenues	-	-	-	-
Total Revenues	-	-	158,695	34,163
EXPENDITURES				
Current:				
General government	-	35,214	150,701	-
Public protection	-	-	-	34,171
Public ways and facilities	-	-	-	-
Recreation and culture	-	-	-	-
Capital outlay	7,026	-	-	-
Total Expenditures	7,026	35,214	150,701	34,171
Excess of Revenues Over (Under) Expenditures	(7,026)	(35,214)	7,994	(8)
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	1,161	-
Transfers out	-	-	-	-
Total Other Financing Sources (Uses)	-	-	1,161	-
Net Change in Fund Balances	(7,026)	(35,214)	9,155	(8)
Fund Balances - Beginning	-	-	(6,427)	1,716
Prior period adjustment	-	-	-	-
Fund Balances - Beginning, Restated	-	-	(6,427)	1,716
Fund Balances - Ending	\$ (7,026)	\$ (35,214)	\$ 2,728	\$ 1,708

2003 Fire Tax	NC Recreation	CDBG Enterprise	CABY Nevada City	Prop 172	MATHIVET	SLESF	Measure "L"
\$ 65,365	\$ -	\$ -	\$ -	\$ 37,419	\$ -	\$ 100,000	\$ 411,250
-	-	43,179	345,968	-	-	-	-
-	(22)	4,091	-	387	502	606	2,748
-	-	-	-	-	-	-	-
<u>65,365</u>	<u>(22)</u>	<u>47,270</u>	<u>345,968</u>	<u>37,806</u>	<u>502</u>	<u>100,606</u>	<u>413,998</u>
-	-	111,445	-	-	-	-	304,946
65,396	-	-	-	-	-	97,597	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	55,944
<u>65,396</u>	<u>-</u>	<u>111,445</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>97,597</u>	<u>360,890</u>
<u>(31)</u>	<u>(22)</u>	<u>(64,175)</u>	<u>345,968</u>	<u>37,806</u>	<u>502</u>	<u>3,009</u>	<u>53,108</u>
-	-	1,487	401,038	-	-	-	-
-	-	-	(294,379)	(14,965)	-	-	(181,824)
-	-	1,487	106,659	(14,965)	-	-	(181,824)
<u>(31)</u>	<u>(22)</u>	<u>(62,688)</u>	<u>452,627</u>	<u>22,841</u>	<u>502</u>	<u>3,009</u>	<u>(128,716)</u>
3,300	(3,232)	(44,176)	(461,542)	39,665	72,413	54,344	403,130
-	-	(70,000)	-	-	-	-	-
<u>3,300</u>	<u>(3,232)</u>	<u>(114,176)</u>	<u>(461,542)</u>	<u>39,665</u>	<u>72,413</u>	<u>54,344</u>	<u>403,130</u>
<u>\$ 3,269</u>	<u>\$ (3,254)</u>	<u>\$ (176,864)</u>	<u>\$ (8,915)</u>	<u>\$ 62,506</u>	<u>\$ 72,915</u>	<u>\$ 57,353</u>	<u>\$ 274,414</u>

CITY OF NEVADA CITY
Combining Statement of Revenues, Expenditures, and
Changes in Fund Balances
Nonmajor Special Revenue Funds
For the Year Ended June 30, 2016

	Bicentennial	Becker	Total
REVENUES			
Taxes and assessments	\$ -	\$ -	\$ 738,771
Intergovernmental revenues	-	-	938,182
Use of money and property	1	125	9,614
Other revenues	5,100	-	14,646
	5,101	125	1,701,213
Total Revenues			
EXPENDITURES			
Current:			
General government	5,004	-	637,877
Public protection	-	-	197,164
Public ways and facilities	-	-	135,366
Recreation and culture	-	-	4,700
Capital outlay	-	-	638,975
	5,004	-	1,614,082
Total Expenditures			
Excess of Revenues Over (Under) Expenditures	97	125	87,131
OTHER FINANCING SOURCES (USES)			
Transfers in	-	-	493,271
Transfers out	-	-	(542,107)
	-	-	(48,836)
Total Other Financing Sources (Uses)			
Net Change in Fund Balances	97	125	38,295
Fund Balances - Beginning	1,098	18,099	390,830
Prior period adjustment	-	-	(70,000)
Fund Balances - Beginning, Restated	1,098	18,099	320,830
Fund Balances - Ending	\$ 1,195	\$ 18,224	\$ 359,125

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OTHER REPORT AND SCHEDULES

- **Other Report**
- **Schedule of Findings and Recommendations**
- **Schedule of Prior Year Findings and Recommendations**
- **Management's Corrective Action Plan**

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**INDEPENDENT AUDITOR'S 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**

The Honorable Mayor and Members of the City Council
City of Nevada City
Nevada City, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Nevada City, California, (City) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated January 11, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City'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 a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and recommendations that we consider to be significant deficiencies (2016-001 and 2016-002).

The Honorable Mayor and Members of the City Council
City of Nevada City
Nevada City, California

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and recommendations as item 2016-003.

City's Responses to Findings

The City's responses to the findings identified in our audit are described in the accompanying Management's Corrective Action Plan. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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



Smith & Newell, CPAs
Yuba City, California
January 11, 2017

CITY OF NEVADA CITY
Schedule of Findings and Recommendations
For the Year Ended June 30, 2016

2016-001 AB 1600 Reconciliation (Significant Deficiency)

Condition

During our audit we noted that the City has collected AB 1600 fees, but has not complied with the AB 1600 reporting requirements. This is a repeat of a prior year finding.

Cause

The City has not prepared an annual report of AB 1600 fees and has not adopted a capital improvement plan.

Criteria

AB 1600 requires that the City account for every fee collected and that the following information be made available within 180 days after the last day of the fiscal year: a description of each fee, amount of each fee, beginning and ending balance, fees collected and interest earned, identification of each public improvement on which fees were expended and the amount of each expenditure, and approximate date by which construction of the public improvement will commence. In addition, every 5 years the City must make the following findings: identify the purpose for each fee, demonstrate a reasonable relationship between the fee and the purpose for which it is charged, identify all sources and amounts of funding anticipated to complete financing in incomplete improvements and designate the approximate dates on which the funding is expected to be deposited into the fund.

Effect of Condition

The City is not in compliance with AB 1600 requirements.

Recommendation

We recommend that the City review AB 1600 and prepare the necessary reports to be in compliance and make a determination if excess funds have been collected and need to be refunded.

2016-002 Expenditures in Excess of Appropriations (Significant Deficiency)

Condition

For the year ended June 30, 2016, we noted that the City incurred expenditures in excess of appropriations of \$271,439 in the General fund.

Cause

The City did not adequately amend the budget to account for changes in estimates of expenditures during the fiscal year.

Criteria

California Government Code requires that appropriate operating budgets be adopted and amended as needed and that expenditures not exceed the approved budget.

CITY OF NEVADA CITY
Schedule of Findings and Recommendations
For the Year Ended June 30, 2016

2016-002 Expenditures in Excess of Appropriations (Significant Deficiency) (Continued)

Effect of Condition

Expenditures exceeded appropriations by \$271,439 in the General fund.

Recommendation

We recommend that the City control and monitor expenditures so that they do not exceed the approved budget.

CITY OF NEVADA CITY
Schedule of Findings and Recommendations
For the Year Ended June 30, 2016

2016-003

Name: COMMUNITY DEVELOPMENT BLOCK GRANTS/STATE'S PROGRAM AND NON-ENTITLEMENT GRANTS IN HAWAII
CFDA #: 14.228
Federal Grantor: U.S. Department of Housing and Urban Development
Pass Through Entity: California Department of Housing and Community Development
Award No.: 12-CDBG-8402
Year: 2015/2016

Condition

During our audit, we noted the City did not submit the annual grantee performance report for the fiscal year ending June 30, 2016. This is a repeat of a prior year finding.

Perspective

The City did not adequately monitor the CDBG program to ensure that reports were timely filed.

Criteria

Per Exhibit D of the grant agreement, the annual grantee performance report is to be submitted by July 31.

Effect of Condition

The City did not submit all required reports by the due dates.

Questioned Costs

No costs are questioned.

Recommendation

We recommend that City staff review the grant agreement and develop a tracking system to ensure that all required reports are submitted by the due dates.

CITY OF NEVADA CITY
Schedule of Prior Year Findings and Recommendations
For the Year Ended June 30, 2016

<u>Audit Reference</u>	<u>Status of Prior Year Recommendation</u>
2015-001	AB 1600 Reconciliation Recommendation We recommend that the City review AB 1600 and prepare the necessary reports to be in compliance and make a determination if excess funds have been collected and need to be refunded. Status Not Implemented
2015-002	Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii Recommendation We recommend that City staff review the grant agreement and develop a tracking system to ensure that all required reports are submitted by the due dates. Status In Progress

**CITY OF NEVADA CITY
Management's Corrective Action Plan
For the Year Ended June 30, 2016**

Finding 2016-001 AB 1600 Reconciliation (Significant Deficiency)

We recommend that the City review AB 1600 and prepare the necessary reports to be in compliance and make a determination if excess funds have been collected and need to be refunded.

Responsible Individual: Catrina Olson, Assistant City Manager

Corrective Action Plan: The Assistant City Manager along with the City's Consulting City Attorney have reviewed the AB 1600 fees that have been collected and a reconciliation has been prepared. In reviewing the historical fee data, it has come to the attention of the Assistant City Manager and the Consulting City Attorney that on November 14, 2007, the City Council adopted Resolution 2007-30 that had a 5 year report of development and impact fees that included ending balances as of June 30, 2007. It was noted that upon review of the City's financial system data there were significant differences between the ending balances in the financial system versus the ending balances provided in the resolution that the City Council adopted. It was determined that the revenues were being reported to the correct fund; however, expenditures were being recorded in the General fund. The Assistant City Manager will be creating a journal entry that will transfer the appropriate funds from the AB 1600 to the General fund to accurately reflect the June 30, 2007 approved ending balances. Once this transfer is complete, the City will have significantly reduced the ending balance of the AB 1600 fund. The Assistant City Manager will be providing a 5 year revenue and expenditure report to the City Council with recommended actions to reduce the remaining funds from prior years. The remaining funds will be appropriated to assist in the completion of prior year projects that remain unfinished and are included in the City's adopted Capital improvement Plan.

Anticipated Completion Date: Most of the initial work has been done. The Assistant City Manager will have the remaining work complete and the updated review of AB 1600 fees with accompanying resolution to City Council by March 31, 2017.

CITY OF NEVADA CITY
Management's Corrective Action Plan
For the Year Ended June 30, 2016

Finding 2016-002 Expenditures in Excess of Appropriations (Significant Deficiency)

We recommend that the City control and monitor expenditures so that they do not exceed the approved budget.

Responsible Individual: Catrina Olson, Assistant City Manager

Corrective Action Plan: Currently, for presentation purposes, when the City develops the budget for the A-87 Cost Allocation Plan, General Government administrative expense is distributed to the individual departments within the General fund, Water fund and Wastewater fund with credit offsets to the General Government departments (Finance & Administration and the City Manager). This helps each department understand their associated cost for administrative support. In practice during year-end these administrative expenses are not posted to each General Fund Department due to the relationship of each of these departments all being in the same fund. This leaves each department favorable to the presented budget because the expenses do not include the actual A-87 cost allocation distribution. The only physically posted A-87 allocation apportionment is to the Water fund and the Wastewater fund and are handled through a transfer in of funds to the General fund and a transfer out of funds from the Water and Wastewater fund. This is the difference that the budget creating negative variances in the General Government and favorable variances in the Department of Public Works, Parks and Recreation, Safety and transfers in/out. In the future, the Assistant City Manager, through the year-end closing process, will physically make journal entries to an A-87 allocation line item for each department regardless of it being the General fund, Water fund and Sewer fund and no longer treat the distributions as transfer in and transfer out. In conjunction with changing the year-end process to mirror the budget as presented, the Assistant City Manager will do a quarterly review with each department head and discuss the budget versus actual expenditures and make modifications to their expenditure plan as necessary. If a budget adjustment is necessary, the Assistant City Manager will bring mid-year or year-end adjustments to the City Council for approval and modify the budget.

Anticipated Completion Date: Quarterly reviews will begin in January of 2017 and will continue with mid-year or year-end adjustments to come forward to Council by March of 2017 or June 2017. The adjustments to the distribution of the A-87 administrative support allocation will happen in August 2017 during the closing process.

CITY OF NEVADA CITY
Management's Corrective Action Plan
For the Year Ended June 30, 2016

Finding 2016-003 Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii

We recommend that City staff review the grant agreement and develop a tracking system to ensure that all required reports are submitted by the due dates.

Responsible Individual: Catrina Olson, Assistant City Manager

Corrective Action Plan: The Assistant City Manager in conjunction with input from CDBG has developed a CDBG tracking and reporting procedure. The procedure outlines that the Assistant City Manager will be responsible to review the award agreement and identify the required reports and the associated due dates unless the City has a consultant or another staff member that will be administering the grant which would shift responsibility of this task to that person with oversight from the Assistant City Manager. Also identified is that the required reports and due dates that are identified will be put into a spreadsheet that will be used to track the submission of the reports. Once the spreadsheet is created the procedure identifies that the responsible individual will put all of the reports and due dates as tasks in their outlook calendar for the entire grant period with reminder alters. Summarized in the procedure are the CDBG Program Policies and Procedure Updates that outline the City enrolling in Housing and Community Development (HCD) email updates and identifying staff (if other than the Assistant City Manager) that will attend workshops, webinars and review memorandums from HCD. The procedure identifies the Assistant City Manager as being responsible for providing and keeping current staff training concerning HCD/CDBG policies and procedures, as well as, keeping staff informed of available resources that provide information regarding the programs.

Anticipated Completion Date: The tracking and reporting policy will be complete and submitted to the CDBG by January 31, 2017.

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