

**CITY OF NEVADA CITY,
CALIFORNIA**



**FINANCIAL STATEMENTS
TOGETHER WITH
INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED
JUNE 30, 2017**

THIS PAGE INTENTIONALLY LEFT BLANK

CITY OF NEVADA CITY
Annual Financial Report
For the Year Ended June 30, 2017

Table of Contents

	Page
INTRODUCTORY SECTION	
List of Officials.	i
FINANCIAL SECTION	
Independent Auditor’s Report.	1-3
Management’s Discussion and Analysis (Unaudited).	4-13
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Position.	14-15
Statement of Activities.	16
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet.	17
Reconciliation of the Governmental Fund Balance Sheet to the Government- Wide Statement of Net Position - Governmental Activities.	18
Statement of Revenues, Expenditures, and Changes in Fund Balances.	19
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Government-Wide Statement of Activities - Governmental Activities.	20
Proprietary Funds:	
Statement of Net Position.	21-22
Statement of Revenues, Expenses, and Changes in Net Position.	23
Statement of Cash Flows.	24-25
Fiduciary Funds:	
Statement of Fiduciary Net Position.	26
Statement of Changes in Fiduciary Net Position.	27
Notes to Basic Financial Statements.	28-55
Required Supplementary Information (Unaudited):	
City Pension Plan - Schedule of Proportionate Share of the Net Pension Liability.	56
City Pension Plan - Schedule of Contributions.	57
City Pension Plan - Notes to City Pension Plan.	58
Budgetary Comparison Schedule - General Fund.	59
Budgetary Comparison Schedule - Nevada Main Project.	60
Budgetary Comparison Schedule - Measure “S”.	61
Notes to Budgetary Comparison Schedules.	62
Combining Nonmajor Fund Statements:	
Nonmajor Special Revenue Funds:	
Combining Balance Sheet.	63-65
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances.	66-68

**CITY OF NEVADA CITY
Annual Financial Report
For the Year Ended June 30, 2017**

Table of Contents

	Page
OTHER REPORT AND SCHEDULES	
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.....	69-70
Schedule of Findings and Recommendations.	71
Schedule of Prior Year Findings and Recommendations.	72
Management’s Corrective Action Plan.	73

INTRODUCTORY SECTION

- **List of Officials**

THIS PAGE INTENTIONALLY LEFT BLANK

CITY OF NEVADA CITY
List of Officials
For the Year Ended June 30, 2017

CITY COUNCIL

Evans Phelps, Mayor

Duane Strawser, Vice Mayor

Valerie Moberg

Reinette Senum

David Parker

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, Interim City Manager/Finance Director

Amy Wolfson, City Planner

THIS PAGE INTENTIONALLY LEFT BLANK

FINANCIAL SECTION

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

THIS PAGE INTENTIONALLY LEFT BLANK

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, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 1R to the financial statements, in 2016-17, the City implemented Governmental Accounting Standards Board (GASB) Statement Nos. 74, 77, 78, 80 and 82. Our opinion is not modified with respect to these matters.

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 Plan-Schedule of Proportionate Share of the Net Pension Liability, City Pension Plan-Schedule of Contributions, Notes to the City Pension Plan 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.

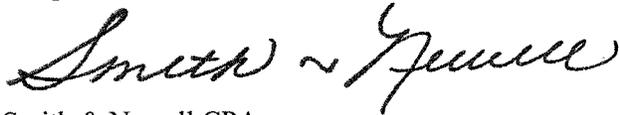
The combining nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the 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.

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

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 31, 2018 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.



Smith & Newell CPAs
Yuba City, California
January 31, 2018

THIS PAGE INTENTIONALLY LEFT BLANK

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

THIS PAGE INTENTIONALLY LEFT BLANK

**CITY OF NEVADA CITY, CALIFORNIA
MANAGEMENT DISCUSSION & ANALYSIS
Fiscal Year 2016/2017**

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, 2017. 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 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 which sunsets in March 2018. This last fiscal year voters approved Measure "C", a three-eighths cent safety personnel specific tax at the November 2016 ballot. The improvement in the financial and economic condition of the City, as well as, Measure "L" being in place and Measure "C" both have provided, and will continue to provide, 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 2017:

Entity-wide:

- ❑ The City's assets at the end of the year increased to \$32,491,134 up \$1,117,350 from the previous fiscal year. Of this total, \$17,514,567 is governmental assets up \$1,017,931 from the previous fiscal year, and \$14,976,567 is business-type assets up \$99,419 from the previous fiscal year.
- ❑ The City's liabilities at the end of the year increased to \$9,329,975 up \$957,838 from the previous fiscal year. Of this total, \$4,305,707 is governmental liabilities up \$876,217 from the previous fiscal year, and \$5,024,268 is business-type liabilities down \$81,621 from the previous fiscal year.
- ❑ The net effect of the changes in assets and liabilities left the City's net position at \$23,643,385 up \$884,971 from the previous fiscal year. Of this total, \$13,652,278 is governmental up \$812,689 from the previous fiscal year, and \$9,991,107 is business-type up \$72,282 from the previous fiscal year.
- ❑ Governmental revenues include program revenues of \$1,722,947 and general revenues of \$4,396,939 for a total revenues of \$6,119,886. Governmental expenses were \$5,775,775.
- ❑ Business-type revenues include program revenues of \$2,789,133 and general revenues of \$12,537 for total revenues of \$2,801,670. Business-type expenses were \$2,729,388.

Fund level:

- ❑ Governmental fund balances at the end of the fiscal year were \$1,585,872, an increase of \$6,061 from the previous fiscal year.
- ❑ Governmental fund revenues were \$5,943,623 in 2017 compared to \$6,180,274 in 2016, a decrease of \$236,651.
- ❑ Governmental fund expenditures were 6,406,140 in 2017 compared to \$6,565,098 in 2016, a decrease of \$158,958 from the previous fiscal year.

General Fund:

- ❑ The General fund revenues of \$3,910,024 represents an increase of \$266,408 from the previous fiscal year.
- ❑ General fund expenditures of \$4,256,876 represents an increase of \$625,889 from the previous fiscal year.
- ❑ General fund other financing sources for the fiscal year totaled \$259,279, a decrease of \$101,213 from the previous fiscal year.
- ❑ At the end of the fiscal year, the General fund balance was \$1,480,639 representing a decrease of \$87,573 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 tell 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 expenditures 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 the two 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 is 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 is 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, 2017 and 2016**

	2017	2016
Cash and investments	\$ 2,077,927	\$ 2,070,672
Other assets	848,818	612,786
Capital assets	14,587,822	13,813,178
Total Assets	17,514,567	16,496,636
Deferred pension adjustments	769,669	349,009
Total Deferred Outflows of Resources	769,669	349,009
Current liabilities	595,285	529,929
Long term liabilities	3,710,422	2,899,561
Total Liabilities	4,305,707	3,429,490
Deferred business loan payments	65,408	69,801
Deferred pension adjustments	260,843	506,765
Total Deferred Inflows of Resources	326,251	576,566
Net position:		
Net investment in capital assets	14,587,822	13,813,178
Restricted	1,792,954	1,651,012
Unrestricted	(2,728,498)	(2,624,601)
Total Net position	\$ 13,652,278	\$ 12,839,589

The City's governmental net position was \$13,652,278 as of June 30, 2017, an increase of \$812,689 from the prior fiscal year. This increase is the change in net position plus the prior period adjustment as shown in Table 2. The City's governmental net position as of June 30, 2017 was comprised of the net of the following:

- Cash of \$2,077,927 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 \$826,223 comprised of accrued revenues, loans and amounts due from other funds.
- Prepaid costs of \$22,595.
- Capital assets net of depreciation charges of \$14,587,822; 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 \$769,669.
- Current liabilities including accounts payable, accrued expenses, employee leave time earned but not yet used and amounts due to other funds totaling \$595,285.
- Long term debt of \$3,710,422 of which \$3,593,079 matures in future years and \$117,343 is due within one year. The increase in long term debt of \$810,861 is primarily associated to the reporting of future pension obligations and the increase in that net pension liability from fiscal year 2015/2016 to the current fiscal year 2016/2017. Notes 8 and 11 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 \$326,251.

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, 2017 and 2016

	2017	2016
Revenues:		
Program revenues:		
Charges for service	\$ 927,648	\$ 790,912
Grants and contributions	795,299	1,410,712
General Revenues:		
Property taxes	1,452,017	1,574,773
Other taxes	2,687,907	2,199,242
Interest and investment earnings	107,203	97,664
Other general revenues	149,812	136,348
Total Revenues	6,119,886	6,209,651
Program expenses:		
General government	1,262,006	2,282,319
Public protection	3,042,998	2,468,461
Public ways and facilities	1,011,453	945,099
Recreation and culture	459,318	342,833
Interest on long-term debt	-	869
Total Expenses	5,775,775	6,039,581
Net (Expense) Revenue Before Transfers	344,111	170,070
Transfers	-	(135,293)
Change in Net Position	344,111	34,777
Net Position – Beginning	12,839,589	12,874,812
Prior period adjustment	468,578	(70,000)
Net Position – Ending	\$ 13,652,278	\$ 12,839,589

Overall total governmental revenues are virtually flat from the prior fiscal year. Other taxes include sales and use tax, franchise tax and transient occupancy tax. Sales and use tax increased by 23% from the previous fiscal year. Included in this sales and use tax figures are Measure “S” collections of \$615,039, Measure “L” collections of \$459,779, Measure “C” of \$88,049 and sales tax of \$967,866. The combined franchise tax of \$155,558 and transient occupancy tax of \$401,616 increased 18.3% as compared to the previous fiscal year collections. The 2016/2017 assessed property valuations increased 3% over the fiscal year 2015/2016 assessed valuations. The City’s interest earnings declined 20% related to lower average daily cash balances in the local agency investment fund and reduced certificate of deposit portfolio.

Table 2 shows that 28% of the City’s governmental revenues were derived from fees for City services and grants, a slight decrease from the prior fiscal year at 35%. Charges for services increased 17% or \$136,736 from the previous fiscal year. Grants and contributions decreased 43% from the previous fiscal year and is associated to the completion of major grant related projects.

Total governmental expenses decreased 4% from the previous fiscal year. The overall decrease in program expense of \$263,806, or 4%, is the net result of a decrease in general government operational expenses of 45%, a 23% increase in public protection expenses, a 7% increase in public ways and facilities operational expenses and a 34% increase in recreation and culture operational expenses 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 2016/2017 CalPERS pension costs remained consistent with

the previous fiscal year. The City has a pass through fund for recording grant revenues and expenses for the Cosumnes, American, Bear and Yuba Integrated Regional Water Management Group Grant (CABY) projects paid with Proposition 84 funds for agencies that are not affiliated with the City of Nevada City. In accordance with Generally Accepted Accounting Principles (GAAP) the City of Nevada City audited financials reflect a reclassification of this fund balance and is now being presented in the fiscal year 2016/2017 financials as a Private Purpose Trust Fund. This reclassification resulted in a prior period adjustment of \$468,578.

Business-Type Activities:

**Table 3
Business-Type Net Position at June 30, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
Cash and investments	\$ 730,155	\$ 1,131,002
Other assets	1,985,943	1,705,934
Capital assets	12,260,469	12,040,212
Total Assets	14,976,567	14,877,148
Deferred pension adjustments	98,273	53,854
Total Deferred Outflows of Resources	98,273	53,854
Current liabilities	632,844	504,215
Long term liabilities	4,391,424	4,438,432
Total Liabilities	5,024,268	4,942,647
Deferred pension adjustments	59,465	69,530
Total Deferred Inflows of Resources	59,465	69,530
Net Position:		
Net investment in capital assets	8,280,982	7,887,675
Restriction	372,235	360,146
Unrestricted	1,337,890	1,671,004
Total Net Position	\$ 9,991,107	\$ 9,918,825

The City's business-type enterprises consist of Water and Wastewater services. Total net position increased by \$72,282 and is virtually flat to the previous fiscal year.

Table 4
Changes in Business-Type Net Position June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Revenues:		
Program revenues:		
Water	\$ 849,741	\$ 756,223
Wastewater	1,322,487	1,312,306
Capital contribution	616,905	504,787
General revenues	12,537	9,738
Total Revenues	2,801,670	2,583,054
Expenses:		
Water	901,386	813,397
Wastewater	1,828,002	1,593,769
Total Expenses	2,729,388	2,407,166
Net (Expense) Revenue Before Transfers	72,282	175,888
Transfers	-	135,293
Change in Net Position	72,282	311,181
Net Position – Beginning	9,918,825	9,607,644
Net Position – Ending	\$ 9,991,107	\$ 9,918,825

The City's business-type revenue increased by 3%. Of the 3% increase from the previous fiscal year water revenue collections increased 12% associated to an uptick in water use from the previous fiscal year in which there were significant community water conservation efforts that occurred and wastewater revenue collections were essentially flat as compared to the previous fiscal year.

There was an increase of 13% in total business-type activity expense from the previous fiscal year. Water operational expenses increased 11% and wastewater operation expenses increased 15%. Both primarily tied to significant increases in professional services and equipment repair and maintenance.

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, 2017 and 2016
Net (Expense) Revenues from Services

	<u>2017</u>	<u>2016</u>
Water Services	\$ 302,335	\$ 670,161
Wastewater Services	(230,053)	(358,980)
Totals	\$ 72,282	\$ 311,181

There was a decrease of \$238,899 to net position for business-type activities from the previous fiscal year. The change in net position for Water services was \$302,335 increased program revenues collected. The change in net position for Wastewater services was (\$230,053) associated to significant increases in expenses for professional outside services and equipment repair and maintenance.

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 shown below:

Table 6
Capital Assets at June 30, 2017
(Net of Depreciation)

	Government Activities	Business Activities	Total
Land	\$ 1,630,332	\$ 10	\$ 1,630,342
Structures & Improvements	17,819,141	20,486,942	38,306,083
Vehicles, machinery, equipment and software	2,418,434	2,909,276	5,327,710
Construction in Progress	576,522	-	576,522
Less accumulated depreciation	(7,856,607)	(11,135,759)	(18,992,366)
Totals	\$ 14,587,822	\$ 12,260,469	\$ 26,848,291

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 2016/2017 were in the area of land improvements and infrastructure. The City completed projects during fiscal year 2016/2017 such as purchasing a vehicle and miscellaneous machinery and equipment with Measure "L" funds and a Cal Fire Grant for \$120,000. The City also purchased 425 Nimrod, property in Pioneer Park for \$420,000, spent \$586,000 in Measure "S" funds for paving and put a new roof on Seaman's Lodge for \$100,000 with Measure "L" funds. The increase in capital assets for business activities is associated to completed projects such as major water line and sewer line repair at South Pine Street, Beckman Street and Grove Street totaling \$577,000, completing a Water Plant upgrade for \$142,000 and finishing the reclaimed water and gas line replacement projects for \$310,000; 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, 2017

	Government Activities	Business Activities	Total
Loans Payable	\$ -	\$ 491,487	\$ 491,487
Certificates of Participation	-	3,488,000	3,488,000
Compensated absences payable	167,631	20,328	187,959
Total Outstanding Debt	167,631	3,999,815	4,167,446
Net Pension Liability	3,542,791	533,767	4,076,558
Totals	\$ 3,710,422	\$ 4,533,582	\$ 8,244,004

At year-end, the City had \$8,244,004 in long term debt outstanding compared to \$7,529,900 at June 30, 2016. The City had an overall increase in debt of \$714,104. The increase in outstanding debt of \$714,104 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 \$173,050 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 second year in a row 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 2017/2018 was adopted by the City Council on June 14, 2017. The General fund budget approved by the City Council anticipates \$4.5 million in revenues, \$4.6 million in expenditures and \$172.5k in transfers from other funds, with Net (Expense)/Revenue being \$53k and operational reserve transfers from Measure "L" of \$142.5k. 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 6% (after removing one time revenues for the sale of City property) compared to the 2016/2017 year-end adjusted budget. The City projected an increase of 9% in sales tax and transient occupancy taxes and increase of 7% in property taxes as compared to the 2016/2017 year-end adjusted budget. The fiscal year 2017/2018 General fund budget has incorporated an increase in expenditures of 18% (not including the one-time purchase cost for the Pioneer Park property at 425 Nimrod as the transaction was completed in fiscal year 2016/2017) compared to the 2016/2017 year-end adjusted budget associated for the pool rehabilitation project. The City was faced with securing 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% and is now the funding source for the three new Fire Department personnel and one Police Officer.

Revenue collections for the special taxes, Measure "S" and Measure "C", significantly assist the City in maintaining streets and roads, as well as provide funding for the Fire Department and Police Department. Measure "L" that has been used for equipment replacement, infrastructure and building maintenance that were deferred during the economic decline, restoration of full time staffing and setting reserves will sunset March 2018.

The General fund has maintained a slow but improving economic financial position over the last four fiscal years, however in fiscal year 2016/2017 experienced a decline. Despite the decline in the General fund balance the City has maintained positive unassigned fund balance of \$395,818 ending fiscal year 2016/2017. 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**

THIS PAGE INTENTIONALLY LEFT BLANK

CITY OF NEVADA CITY
Statement of Net Position
June 30, 2017

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and investments	\$ 2,077,927	\$ 730,155	\$ 2,808,082
Receivables:			
Accounts	102,188	412,957	515,145
Interest	1,480	2,002	3,482
Taxes	541,272	-	541,272
Intergovernmental	762,616	440,135	1,202,751
Internal balances	(646,741)	646,741	-
Due from other agencies	-	475,096	475,096
Prepaid costs	15,531	4,231	19,762
Prepaid insurance	7,064	4,781	11,845
Loans receivable	65,408	-	65,408
Capital assets:			
Non-depreciable	2,206,854	10	2,206,864
Depreciable, net	12,380,968	12,260,459	24,641,427
Total capital assets	<u>14,587,822</u>	<u>12,260,469</u>	<u>26,848,291</u>
Total Assets	<u>17,514,567</u>	<u>14,976,567</u>	<u>32,491,134</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred pension adjustments	<u>769,669</u>	<u>98,273</u>	<u>867,942</u>
Total Deferred Outflows of Resources	<u>769,669</u>	<u>98,273</u>	<u>867,942</u>
LIABILITIES			
Accounts payable	378,859	397,886	776,745
Salaries and benefits payable	125,491	16,962	142,453
Interest payable	323	75,838	76,161
Due to State of California	37,149	-	37,149
Unearned revenue	53,463	-	53,463
Long-term liabilities:			
Due within one year	117,343	142,158	259,501
Due in more than one year	50,288	3,857,657	3,907,945
Net pension liability	<u>3,542,791</u>	<u>533,767</u>	<u>4,076,558</u>
Total Liabilities	<u>4,305,707</u>	<u>5,024,268</u>	<u>9,329,975</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred business loan payments	65,408	-	65,408
Deferred pension adjustments	<u>260,843</u>	<u>59,465</u>	<u>320,308</u>
Total Deferred Inflows of Resources	<u>326,251</u>	<u>59,465</u>	<u>385,716</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, 2017

	<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>	<u>Total</u>
NET POSITION			
Net investment in capital assets	14,587,822	8,280,982	22,868,804
Restricted for:			
General government	1,270,951	-	1,270,951
Public protection	257,883	-	257,883
Public ways and facilities	219,570	-	219,570
Recreation and culture	44,550	-	44,550
Capital projects	-	26,048	26,048
Debt service	-	346,187	346,187
Unrestricted	<u>(2,728,498)</u>	<u>1,337,890</u>	<u>(1,390,608)</u>
Total Net Position	<u>\$ 13,652,278</u>	<u>\$ 9,991,107</u>	<u>\$ 23,643,385</u>

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

Continued (Page 2 of 2)

THIS PAGE INTENTIONALLY LEFT BLANK

CITY OF NEVADA CITY
Statement of Activities
For the Year Ended June 30, 2017

<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	\$ 1,262,006	\$ 101,794	\$ 245,224	\$ 88,455
Public protection	3,042,998	141,709	183,335	-
Public ways and facilities	1,011,453	516,871	19,983	258,302
Recreation and culture	459,318	167,274	-	-
Total Governmental Activities	5,775,775	927,648	448,542	346,757
Business-type activities:				
Water	901,386	849,741	-	357,692
Sewer	1,828,002	1,322,487	-	259,213
Total Business-Type Activities	2,729,388	2,172,228	-	616,905
Total	\$ 8,505,163	\$ 3,099,876	\$ 448,542	\$ 963,662

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

Total General Revenues

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
\$ (826,533)	\$ -	\$ (826,533)
(2,717,954)	-	(2,717,954)
(216,297)	-	(216,297)
(292,044)	-	(292,044)
(4,052,828)	-	(4,052,828)
-	306,047	306,047
-	(246,302)	(246,302)
-	59,745	59,745
(4,052,828)	59,745	(3,993,083)
1,434,927	-	1,434,927
17,090	-	17,090
2,130,733	-	2,130,733
155,558	-	155,558
401,616	-	401,616
3,139	-	3,139
107,203	12,537	119,740
146,673	-	146,673
4,396,939	12,537	4,409,476
344,111	72,282	416,393
12,839,589	9,918,825	22,758,414
468,578	-	468,578
13,308,167	9,918,825	23,226,992
<u>\$ 13,652,278</u>	<u>\$ 9,991,107</u>	<u>\$ 23,643,385</u>

THIS PAGE INTENTIONALLY LEFT BLANK

Basic Financial Statements

- **Fund Financial Statements**

THIS PAGE INTENTIONALLY LEFT BLANK

CITY OF NEVADA CITY
Balance Sheet
Governmental Funds
June 30, 2017

	<u>General</u>	<u>Nevada Main Project</u>	<u>Measure "S"</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS					
Cash and investments	\$ 1,320,522	\$ -	\$ 225,243	\$ 532,162	\$ 2,077,927
Receivables:					
Accounts	102,188	-	-	-	102,188
Interest	583	-	179	718	1,480
Taxes	301,174	-	95,200	144,898	541,272
Intergovernmental	60,729	221,892	-	479,995	762,616
Prepaid costs	15,531	-	-	-	15,531
Prepaid insurance	7,025	-	39	-	7,064
Loans receivable	-	-	-	65,408	65,408
Total Assets	<u>\$ 1,807,752</u>	<u>\$ 221,892</u>	<u>\$ 320,661</u>	<u>\$ 1,223,181</u>	<u>\$ 3,573,486</u>
LIABILITIES					
Accounts payable	\$ 129,107	\$ 5,578	\$ 114,176	\$ 129,998	\$ 378,859
Salaries and benefits payable	113,165	-	1,124	11,202	125,491
Interest payable	-	226	-	97	323
Due to State of California	-	-	-	37,149	37,149
Unearned revenue	53,463	-	-	-	53,463
Due to other funds	-	280,064	-	366,677	646,741
Total Liabilities	<u>295,735</u>	<u>285,868</u>	<u>115,300</u>	<u>545,123</u>	<u>1,242,026</u>
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue	31,378	221,892	-	426,910	680,180
Deferred business loan payments	-	-	-	65,408	65,408
Total Deferred Inflows of Resources	<u>31,378</u>	<u>221,892</u>	<u>-</u>	<u>492,318</u>	<u>745,588</u>
FUND BALANCES					
Nonspendable	22,556	-	39	-	22,595
Restricted	827,246	-	205,322	506,773	1,539,341
Committed	213,638	-	-	79,032	292,670
Assigned	21,381	-	-	121,710	143,091
Unassigned	395,818	(285,868)	-	(521,775)	(411,825)
Total Fund Balances	<u>1,480,639</u>	<u>(285,868)</u>	<u>205,361</u>	<u>185,740</u>	<u>1,585,872</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 1,807,752</u>	<u>\$ 221,892</u>	<u>\$ 320,661</u>	<u>\$ 1,223,181</u>	<u>\$ 3,573,486</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, 2017

Total Fund Balance - Total Governmental Funds	\$ 1,585,872
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.	14,587,822
Other long term assets are not available to pay for current period expenditures and therefore, are reported as unavailable revenues in the governmental funds.	680,180
Deferred outflows of resources related to pensions are not reported in the governmental funds.	769,669
Deferred inflows of resources related to pensions are not reported in the governmental funds.	(260,843)
Certain liabilities are not due and payable in the current period and therefore, are not reported in the governmental funds.	
Compensated absences payable	(167,631)
Net pension liability	<u>(3,542,791)</u>
Net Position of Governmental Activities	<u>\$ 13,652,278</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, 2017

	<u>General</u>	<u>Nevada Main Project</u>	<u>Measure "S"</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES					
Taxes and assessments	\$ 2,818,398	\$ -	\$ 615,039	\$ 917,334	\$ 4,350,771
Licenses and permits	254,921	-	-	-	254,921
Fines and forfeitures	142,256	-	-	-	142,256
Intergovernmental revenues	179,176	-	-	476,208	655,384
Use of money and property	92,678	(899)	570	14,854	107,203
Charges for services	286,415	-	-	-	286,415
Other revenues	136,180	-	-	10,493	146,673
Total Revenues	<u>3,910,024</u>	<u>(899)</u>	<u>615,609</u>	<u>1,418,889</u>	<u>5,943,623</u>
EXPENDITURES					
Current:					
General government	659,717	-	-	476,238	1,135,955
Public protection	2,374,924	-	-	412,679	2,787,603
Public ways and facilities	338,240	1,499	112,852	86,758	539,349
Recreation and culture	395,596	-	-	278	395,874
Capital outlay	488,399	249,140	596,959	212,861	1,547,359
Total Expenditures	<u>4,256,876</u>	<u>250,639</u>	<u>709,811</u>	<u>1,188,814</u>	<u>6,406,140</u>
Excess of Revenues Over (Under) Expenditures	<u>(346,852)</u>	<u>(251,538)</u>	<u>(94,202)</u>	<u>230,075</u>	<u>(462,517)</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	262,612	-	179,120	7,217	448,949
Transfers out	(3,333)	-	(609)	(445,007)	(448,949)
Total Other Financing Sources (Uses)	<u>259,279</u>	<u>-</u>	<u>178,511</u>	<u>(437,790)</u>	<u>-</u>
Net Change in Fund Balances	<u>(87,573)</u>	<u>(251,538)</u>	<u>84,309</u>	<u>(207,715)</u>	<u>(462,517)</u>
Fund Balances - Beginning	1,568,212	(34,330)	121,052	(75,123)	1,579,811
Prior period adjustment	-	-	-	468,578	468,578
Fund Balances - Beginning, Restated	<u>1,568,212</u>	<u>(34,330)</u>	<u>121,052</u>	<u>393,455</u>	<u>2,048,389</u>
Fund Balances - Ending	<u>\$ 1,480,639</u>	<u>\$ (285,868)</u>	<u>\$ 205,361</u>	<u>\$ 185,740</u>	<u>\$ 1,585,872</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, 2017

Net Change in Fund Balances - Total Governmental Funds \$ (462,517)

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	1,547,359
Less current year depreciation	(772,715)

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	176,263
-------------------------------	---------

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	420,660
Change in deferred inflows of resources related to pensions	245,922

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	(21,374)
Change in net pension liability	(789,487)

Change in Net Position of Governmental Activities \$ 344,111

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, 2017

	Business-Type Activities		
	Enterprise Funds		
	Water	Sewer	Totals
ASSETS			
Current Assets:			
Cash and investments	\$ 26,025	\$ 704,130	\$ 730,155
Receivables:			
Accounts	140,633	272,324	412,957
Interest	22	1,980	2,002
Intergovernmental	418,901	21,234	440,135
Due from other funds	-	1,449,097	1,449,097
Prepaid costs	1,281	2,950	4,231
Prepaid insurance	1,358	3,423	4,781
Total Current Assets	588,220	2,455,138	3,043,358
Noncurrent Assets:			
Non-depreciable	-	10	10
Depreciable, net	2,857,922	9,402,537	12,260,459
Total Noncurrent Assets	2,857,922	9,402,547	12,260,469
Total Assets	3,446,142	11,857,685	15,303,827
DEFERRED OUTFLOWS OF RESOURCES			
Deferred pension adjustments	23,248	75,025	98,273
Total Deferred Outflows of Resources	23,248	75,025	98,273
LIABILITIES			
Current Liabilities:			
Accounts payable	257,644	140,242	397,886
Salaries and benefits payable	5,911	11,051	16,962
Interest payable	411	75,427	75,838
Due to other funds	327,260	-	327,260
Compensated absences	5,082	9,148	14,230
Loans payable	-	65,928	65,928
Certificates of participation	-	62,000	62,000
Total Current Liabilities	596,308	363,796	960,104
Noncurrent Liabilities:			
Compensated absences	2,177	3,921	6,098
Loans payable	-	425,559	425,559
Certificates of participation	-	3,426,000	3,426,000
Net pension liability	188,389	345,378	533,767
Total Noncurrent Liabilities	190,566	4,200,858	4,391,424
Total Liabilities	786,874	4,564,654	5,351,528

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, 2017

	Business-Type Activities Enterprise Funds		Totals
	Water	Sewer	
DEFERRED INFLOWS OF RESOURCES			
Deferred pension adjustments	22,536	36,929	59,465
Total Deferred Inflows of Resources	22,536	36,929	59,465
NET POSITION			
Net investment in capital assets	2,857,922	5,423,060	8,280,982
Restricted for capital projects	26,048	-	26,048
Restricted for debt service	50,000	296,187	346,187
Unrestricted	(273,990)	1,611,880	1,337,890
Total Net Position	\$ 2,659,980	\$ 7,331,127	\$ 9,991,107

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, 2017

	Business-Type Activities		Totals
	Enterprise Funds		
	Water	Sewer	
OPERATING REVENUES			
Charges for services	\$ 849,741	\$ 1,322,487	\$ 2,172,228
Total Operating Revenues	<u>849,741</u>	<u>1,322,487</u>	<u>2,172,228</u>
OPERATING EXPENSES			
Salaries and benefits	258,947	420,821	679,768
Supplies	46,923	66,767	113,690
Power	71,003	98,213	169,216
Repairs and maintenance	27,014	86,851	113,865
Professional services	172,253	279,909	452,162
Insurance	13,235	22,931	36,166
Depreciation	181,028	439,646	620,674
Other expenses	130,482	246,228	376,710
Total Operating Expenses	<u>900,885</u>	<u>1,661,366</u>	<u>2,562,251</u>
Operating Income (Loss)	<u>(51,144)</u>	<u>(338,879)</u>	<u>(390,023)</u>
NON-OPERATING REVENUES (EXPENSES)			
Intergovernmental revenues	358,485	259,213	617,698
Interest income	(3,712)	16,249	12,537
Interest expense	(501)	(166,636)	(167,137)
Total Non-Operating Revenues (Expenses)	<u>354,272</u>	<u>108,826</u>	<u>463,098</u>
Income (Loss) Before Contributions and Transfers	303,128	(230,053)	73,075
Capital contribution	(793)	-	(793)
Change in Net Position	302,335	(230,053)	72,282
Total Net Position - Beginning	<u>2,357,645</u>	<u>7,561,180</u>	<u>9,918,825</u>
Total Net Position - Ending	<u>\$ 2,659,980</u>	<u>\$ 7,331,127</u>	<u>\$ 9,991,107</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, 2017

	Business-Type Activities		
	Enterprise Funds		
	Water	Sewer	Totals
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 835,374	\$ 1,298,949	\$ 2,134,323
Payments to suppliers	(330,742)	(733,144)	(1,063,886)
Payments to employees	(251,635)	(404,402)	(656,037)
Net Cash Provided (Used) by Operating Activities	252,997	161,403	414,400
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Intergovernmental revenues received	444,371	238,070	682,441
Interfund loans made	-	(72,878)	(72,878)
Interfund loans received	327,260	-	327,260
Interfund loans repaid	(584,012)	-	(584,012)
Net Cash Provided (Used) by Noncapital Financing Activities	187,619	165,192	352,811
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchase of capital assets	(384,394)	(456,537)	(840,931)
Contribution of capital assets	(792)	-	(792)
Principal paid on debt	(48,844)	(124,206)	(173,050)
Interest paid on debt	(2,687)	(169,037)	(171,724)
Net Cash Provided (Used) by Capital and Related Financing Activities	(436,717)	(749,780)	(1,186,497)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest on investments	(3,658)	22,097	18,439
Net Cash Provided (Used) by Investing Activities	(3,658)	22,097	18,439
Net Increase (Decrease) in Cash and Cash Equivalents	241	(401,088)	(400,847)
Balances - Beginning	25,784	1,105,218	1,131,002
Balances - Ending	\$ 26,025	\$ 704,130	\$ 730,155

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, 2017

	Business-Type Activities		Totals
	Enterprise Funds		
	Water	Sewer	
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES			
Operating income (loss)	\$ (51,144)	\$ (338,879)	\$ (390,023)
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	181,028	439,646	620,674
Decrease (increase) in:			
Accounts receivable	(14,367)	(23,538)	(37,905)
Prepaid costs	(789)	(1,022)	(1,811)
Prepaid insurance	5,962	12,729	18,691
Pension adjustments - deferred outflows	(3,642)	(40,777)	(44,419)
Increase (decrease) in:			
Accounts payable	124,995	56,048	181,043
Salaries and benefits payable	940	982	1,922
Compensated absences	(1,279)	(5,334)	(6,613)
Net pension liability	17,208	65,698	82,906
Pension adjustments - deferred inflows	(5,915)	(4,150)	(10,065)
Net Cash Provided (Used) by Operating Activities	\$ 252,997	\$ 161,403	\$ 414,400

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 Fiduciary Net Position
Private Purpose Trust Fund
June 30, 2017

	<u>CABY Misc Agency</u>
ASSETS	
Receivables:	
Intergovernmental	\$ 192,251
Total Assets	<u>192,251</u>
LIABILITIES	
Accounts payable	46,644
Due to other funds	<u>475,096</u>
Total Liabilities	<u>521,740</u>
NET POSITION	
Net position held in trust	<u>(329,489)</u>
Total Net Position	<u><u>\$ (329,489)</u></u>

CITY OF NEVADA CITY
Statement of Changes in Fiduciary Net Position
Private Purpose Trust Fund
For the Year Ended June 30, 2016

	<u>CABY Misc Agency</u>
ADDITIONS	
Intergovernmental revenues	\$ 331,917
Total Additions	<u>331,917</u>
DEDUCTIONS	
Program expenses	<u>192,828</u>
Total Deductions	<u>192,828</u>
Change in Net Position	<u>139,089</u>
Net Position - Beginning	-
Prior period adjustment	<u>(468,578)</u>
Net Position - Beginning, Restated	<u>(468,578)</u>
Net Position - Ending	<u><u>\$ (329,489)</u></u>

THIS PAGE INTENTIONALLY LEFT BLANK

Basic Financial Statements

- **Notes to Basic Financial Statements**

THIS PAGE INTENTIONALLY LEFT BLANK

CITY OF NEVADA CITY
Notes to Basic Financial Statements
For the Year Ended June 30, 2017

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, 2017

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, 2017

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 three major categories: governmental, proprietary and fiduciary. 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 Nevada Main Project fund is a special revenue fund used to account for revenues and expenditures related to the Nevada Main Project. Funding comes primarily from 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.

The City reports the following additional fund type:

- Private Purpose Trust fund accounts for property held under a trust arrangement under which principal and income benefit individuals, private organizations or other governments. The Private Purpose Trust fund includes the CABY Misc Agency Fund.

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, 2017

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, 2017

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, 2017, 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 \$65,408 was recorded as loans receivable at June 30, 2017. 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 \$65,408 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, 2017

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.

CITY OF NEVADA CITY
Notes to Basic Financial Statements
For the Year Ended June 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Interfund Transactions (Continued)

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.

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, which will be paid to employees upon separation from City service. Employees accumulate sick leave during employment with the City, however, this benefit does not vest with the employee. 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, 2017

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. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans. This statement improves the usefulness of information about postemployment benefits other than pensions included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability.

Statement No. 77, Tax Abatement Disclosures. This statement requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenue.

Statement No. 78, Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans. This statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have certain characteristics.

Statement No. 80, Blending Requirements for Certain Component Units - An Amendment of GASB Statement No. 14. This statement amends the blending requirements for the financial statement presentation of component units of all state and local governments.

CITY OF NEVADA CITY
Notes to Basic Financial Statements
For the Year Ended June 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Statement No. 82, Pension Issues - An Amendment of GASB Statements No. 67, No. 68 and No. 73. This statement addresses certain issues that have been raised with respect to Statements No. 67, Financial Reporting for Pension Plans, No. 68, Accounting and Financial Reporting for Pensions, and No. 73, Accounting and Financial Reporting for Pensions 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 specifically addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

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 properly classify one special revenue fund as a trust fund.

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

	<u>Governmental Activities</u>
Net Position, June 30, 2016, as previously reported	\$ 12,839,589
Adjustment associated with:	
Reclassification of fund	<u>468,578</u>
Total Adjustments	<u>468,578</u>
Net Position, July 1, 2016, as restated	<u><u>\$ 13,308,167</u></u>
	<u>Other Governmental Funds</u>
Fund Balance, June 30, 2016, as previously reported	(\$ 75,123)
Adjustment associated with:	
Reclassification of fund	<u>468,578</u>
Total Adjustments	<u>468,578</u>
Fund Balance, July 1, 2016, as restated	<u><u>\$ 393,455</u></u>

CITY OF NEVADA CITY
Notes to Basic Financial Statements
For the Year Ended June 30, 2017

NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)

B. Deficit Fund Balance/Net Position

The following major governmental fund had a deficit fund balance:

The Nevada Main Project fund had a fund balance deficit of \$285,868, which is expected to be eliminated in the future through grant revenues.

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

The Gas Tax Streets fund had a fund balance deficit of \$6,539, which is expected to be eliminated in the future through increased revenues.

The TDA Funds fund had a fund balance deficit of \$1, which is expected to be eliminated in the future through increased revenues.

The CMAQ ST & RD fund had a fund balance deficit of \$46,348, which is expected to be eliminated in the future through increased revenues.

The FEMA fund had a fund balance deficit of \$62,681, 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 CalFire Grant fund had a fund balance deficit of \$192,658, which is expected to be eliminated in the future through grant reimbursements.

The LWCF Pool Rehab fund had a fund balance deficit of \$14,326, which is expected to be eliminated in the future through increased revenues.

The Little Deer Creek fund had a fund balance deficit of \$132,291, which is expected to be eliminated in the future through increased revenues.

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

The CDBG Enterprise fund had a fund balance deficit of \$45,448, 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.

The Bicentennial fund had a fund balance deficit of \$1,540, 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, 2017

NOTE 3: CASH AND INVESTMENTS

A. Financial Statement Presentation

As of June 30, 2017, the City's cash and investments are reported in the financial statements as follows:

Governmental activities	\$ 2,077,927
Business-Type activities	<u>730,155</u>
Total Cash and Investments	<u>\$ 2,808,082</u>

As of June 30, 2017, the City's cash and investments consisted of the following:

Cash:	
Cash on hand	\$ 875
Deposits (less outstanding checks)	<u>1,079,717</u>
Total Cash	<u>1,080,592</u>
Investments:	
Certificates of Deposit	1,239,000
Local Agency Investment Fund	<u>488,490</u>
Total Investments	<u>1,727,490</u>
Total Cash and Investments	<u>\$ 2,808,082</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 \$1,079,717 and the bank balance was \$949,912. 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 \$875.

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.

CITY OF NEVADA CITY
Notes to Basic Financial Statements
For the Year Ended June 30, 2017

NOTE 3: CASH AND INVESTMENTS (CONTINUED)

C. Investments (Continued)

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
- Securities of the US. Government or its Agencies
- Local Agency Investment Fund (LAIF)
- Certificates of Deposit

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 is not recognized in the three-tiered fair value hierarchy described above.

At June 30, 2017, the City had the following recurring fair value measurements.

		Fair Value Measurements Using		
Investment Type	Fair Value	Level 1	Level 2	Level 3
Investments by Fair Value Level				
Certificates of Deposit	\$ 1,239,000	\$ 1,239,000	\$ -	\$ -
Total Investments Measured at Fair Value	1,239,000	<u>\$ 1,239,000</u>	<u>\$ -</u>	<u>\$ -</u>
Investments in External Investment Pool				
Local Agency Investment Fund (LAIF)	488,490			
Total Investments	<u>\$ 1,727,490</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.

CITY OF NEVADA CITY
Notes to Basic Financial Statements
For the Year Ended June 30, 2017

NOTE 3: CASH AND INVESTMENTS (CONTINUED)

C. Investments (Continued)

As of June 30, 2017, 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	1.19
Local Agency Investment Fund (LAIF)	Variable	488,490	-	488,490	-
Total Investments		<u>\$ 736,490</u>	<u>\$ 991,000</u>	<u>\$ 1,727,490</u>	<u>0.85</u>

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	71.72%
LAIF	N/A	Unrated	Unrated	<u>28.28%</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, 2017, 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	71.72%

CITY OF NEVADA CITY
Notes to Basic Financial Statements
For the Year Ended June 30, 2017

NOTE 3: CASH AND INVESTMENTS (CONTINUED)

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, 2017, the City's investment in LAIF valued at amortized cost was \$488,490 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 \$77.5 billion. Of that amount, 97.11 percent is invested in non-derivative financial products and 2.89 percent in structured notes and asset-backed securities.

NOTE 4: CAPITAL ASSETS

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

	<u>Balance</u> <u>July 1, 2016</u>	<u>Additions</u>	<u>Transfers/ Retirements</u>	<u>Balance</u> <u>June 30, 2017</u>
Governmental Activities				
Capital Assets, Not Being Depreciated:				
Land	\$ 1,630,332	\$ -	\$ -	\$ 1,630,332
Construction in progress	<u>275,449</u>	<u>857,567</u>	<u>(556,494)</u>	<u>576,522</u>
Total Capital Assets, Not Being Depreciated	<u>1,905,781</u>	<u>857,567</u>	<u>(556,494)</u>	<u>2,206,854</u>
Capital Assets, Being Depreciated:				
Land improvements/infrastructure	12,294,606	30,292	556,494	12,881,392
Building and improvements	4,417,809	519,940	-	4,937,749
Equipment	717,787	66,152	-	783,939
Software	42,041	-	-	42,041
Vehicles	<u>1,519,046</u>	<u>73,408</u>	<u>-</u>	<u>1,592,454</u>
Total Capital Assets, Being Depreciated	<u>18,991,289</u>	<u>689,792</u>	<u>556,494</u>	<u>20,237,575</u>
Less Accumulated Depreciation for:				
Land improvements	(3,803,595)	(445,596)	-	(4,249,191)
Buildings and improvements	(1,712,332)	(113,782)	-	(1,826,114)
Equipment	(613,357)	(45,356)	-	(658,713)
Software	(42,041)	-	-	(42,041)
Vehicles	<u>(912,567)</u>	<u>(167,981)</u>	<u>-</u>	<u>(1,080,548)</u>
Total Accumulated Depreciation	<u>(7,083,892)</u>	<u>(772,715)</u>	<u>-</u>	<u>(7,856,607)</u>
Total Capital Assets, Being Depreciated, Net	<u>11,907,397</u>	<u>(82,923)</u>	<u>556,494</u>	<u>12,380,968</u>
Governmental Activities Capital Assets, Net	<u>\$ 13,813,178</u>	<u>\$ 774,644</u>	<u>\$ -</u>	<u>\$ 14,587,822</u>

CITY OF NEVADA CITY
Notes to Basic Financial Statements
For the Year Ended June 30, 2017

NOTE 4: CAPITAL ASSETS (CONTINUED)

	<u>Balance</u> <u>July 1, 2016</u>	<u>Additions</u>	<u>Transfers/ Retirements</u>	<u>Balance</u> <u>June 30, 2017</u>
Business-Type Activities				
Capital Assets, Not Being Depreciated:				
Land	\$ 10	\$ -	\$ -	\$ 10
Construction in progress	<u>320,910</u>	<u>446,263</u>	<u>(767,173)</u>	<u>-</u>
Total Capital Assets, Not Being Depreciated	<u>320,920</u>	<u>446,263</u>	<u>(767,173)</u>	<u>10</u>
Capital Assets, Being Depreciated:				
Structures and improvements	19,456,858	267,077	763,007	20,486,942
Equipment	2,689,664	127,591	(38,843)	2,778,412
Vehicles	<u>130,864</u>	<u>-</u>	<u>-</u>	<u>130,864</u>
Total Capital Assets, Being Depreciated	<u>22,277,386</u>	<u>394,668</u>	<u>724,164</u>	<u>23,396,218</u>
Less Accumulated Depreciation for:				
Structures and improvements	(8,896,645)	(536,219)	-	(9,432,864)
Equipment	(1,530,585)	(84,455)	43,009	(1,572,031)
Vehicles	<u>(130,864)</u>	<u>-</u>	<u>-</u>	<u>(130,864)</u>
Total Accumulated Depreciation	<u>(10,558,094)</u>	<u>(620,674)</u>	<u>43,009</u>	<u>(11,135,759)</u>
Total Capital Assets, Being Depreciated, Net	<u>11,719,292</u>	<u>(226,006)</u>	<u>767,173</u>	<u>12,260,459</u>
Business-Type Activities Capital Assets, Net	<u>\$ 12,040,212</u>	<u>\$ 220,257</u>	<u>\$ -</u>	<u>\$ 12,260,469</u>

Depreciation

Depreciation expense was charged to governmental functions as follows:

General government	\$ 60,243
Public safety	197,416
Public ways and facilities	458,909
Recreation and culture	<u>56,147</u>
Total Depreciation Expense - Governmental Functions	<u>\$ 772,715</u>

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

Water	\$ 181,028
Sewer	<u>439,646</u>
Total Depreciation Expense - Business-Type Functions	<u>\$ 620,674</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, 2017

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, 2017:

	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
Nevada Main Project	\$ -	\$ 280,064
Nonmajor Governmental Funds	-	366,677
Water	-	327,260
Sewer	1,449,097	-
Private Purpose Trust	<u>-</u>	<u>475,096</u>
Total	<u>\$ 1,449,097</u>	<u>\$ 1,449,097</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, 2017:

	<u>Transfer In</u>	<u>Transfer Out</u>
General Fund	\$ 262,612	\$ 3,333
Measure "S"	179,120	609
Nonmajor Governmental Funds	<u>7,217</u>	<u>445,007</u>
Total	<u>\$ 448,949</u>	<u>\$ 448,949</u>

NOTE 6: UNEARNED REVENUE

At June 30, 2017, components of unearned revenues were as follows:

	<u>Unearned</u>
General Fund	
July and August 2017 Swim Lessons	\$ 13,110
July 2017 Camp Revenues	7,816
July 2017 Park Fees	3,324
2017-2018 Business License Revenue	26,705
August 2017 Veteran's Building Rent	220
Downtown Employee Parking Permit Fees	162
Mandated Costs	<u>2,126</u>
Total Unearned	<u>\$ 53,463</u>

CITY OF NEVADA CITY
Notes to Basic Financial Statements
For the Year Ended June 30, 2017

NOTE 7: DUE TO STATE OF CALIFORNIA

At June 30, 2017, the City owed the State of California \$37,149 due to ineligible CDBG grants made by the City. The balance is due to be repaid July 1, 2017.

NOTE 8: LONG-TERM LIABILITIES

The following is a summary of changes in long-term liabilities for the year ended June 30, 2017:

<u>Type of Indebtedness</u>	<u>Balance July 1, 2016</u>	<u>Additions/ Adjustments</u>	<u>Retirements</u>	<u>Balance June 30, 2017</u>	<u>Amounts Due Within One Year</u>
Governmental Activities					
Compensated Absences	\$ 146,257	\$ 135,425	(\$ 114,051)	\$ 167,631	\$ 117,343
Total Governmental Activities	<u>\$ 146,257</u>	<u>\$ 135,425</u>	<u>(\$ 114,051)</u>	<u>\$ 167,631</u>	<u>\$ 117,343</u>
Business-Type Activities					
Compensated Absences	\$ 26,941	\$ 17,782	(\$ 24,395)	\$ 20,328	\$ 14,230
Loans	604,537	-	(113,050)	491,487	65,928
Certificates of Participation	<u>3,548,000</u>	<u>-</u>	<u>(60,000)</u>	<u>3,488,000</u>	<u>62,000</u>
Total Business-Type Activities	<u>\$ 4,179,478</u>	<u>\$ 17,782</u>	<u>(\$ 197,445)</u>	<u>\$ 3,999,815</u>	<u>\$ 142,158</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, 2017, are as follows:

Business-Type Activities

Loans:

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.	<u>\$ 491,487</u>
Total Loans	<u>491,487</u>

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.	1,895,000
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.	<u>1,593,000</u>
Total Certificates of Participation	<u>3,488,000</u>
Total Business-Type Activities	<u>\$ 3,979,487</u>

CITY OF NEVADA CITY
Notes to Basic Financial Statements
For the Year Ended June 30, 2017

NOTE 8: 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.

Business-Type Activities

Year Ended June 30	Loans Payable		
	Principal	Interest	Total
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	52,677	8,021	60,698
2023-2026	168,141	11,762	179,903
Total	<u>\$ 491,487</u>	<u>\$ 78,117</u>	<u>\$ 569,604</u>

Year Ended June 30	Certificates of Participation		
	Principal	Interest	Total
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	74,000	133,624	207,624
2023-2027	415,000	618,358	1,033,358
2028-2032	510,000	521,654	1,031,654
2033-2037	627,000	402,840	1,029,840
2038-2042	769,000	256,900	1,025,900
2043-2047	829,000	80,324	909,324
Total	<u>\$ 3,488,000</u>	<u>\$ 2,577,096</u>	<u>\$ 6,065,096</u>

NOTE 9: 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, 2017

NOTE 9: NET POSITION (CONTINUED)

Net Position Restricted by Enabling Legislation

The government-wide Statement of Net Position reports \$2,140,386 of restricted net position, of which \$620,837 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 10: 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, 2017, 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, 2017

NOTE 10: FUND BALANCES (CONTINUED)

The fund balances for all the major and nonmajor governmental funds as of June 30, 2017, were distributed as follows:

	General Fund	Nevada Main Project	Measure "S"	Other Governmental Funds	Total
Nonspendable:					
Prepaid costs	\$ 15,531	\$ -	\$ -	\$ -	\$ 15,531
Prepaid insurance	<u>7,025</u>	<u>-</u>	<u>39</u>	<u>-</u>	<u>7,064</u>
Subtotal	<u>22,556</u>	<u>-</u>	<u>39</u>	<u>-</u>	<u>22,595</u>
Restricted for:					
General reserve	827,246	-	-	-	827,246
Measure "S"	-	-	205,322	-	205,322
Measure "L"	-	-	-	251,351	251,351
Measure "C"	-	-	-	73,737	73,737
AB1600	-	-	-	90,388	90,388
P&R Quimby	-	-	-	26,193	26,193
Brownfields	-	-	-	2,645	2,645
Fire Dept	-	-	-	4,930	4,930
SLESF	<u>-</u>	<u>-</u>	<u>-</u>	<u>57,529</u>	<u>57,529</u>
Subtotal	<u>827,246</u>	<u>-</u>	<u>205,322</u>	<u>506,773</u>	<u>1,539,341</u>
Committed to:					
General reserve	213,638	-	-	-	213,638
Prop 172	<u>-</u>	<u>-</u>	<u>-</u>	<u>79,032</u>	<u>79,032</u>
Subtotal	<u>213,638</u>	<u>-</u>	<u>-</u>	<u>79,032</u>	<u>292,670</u>
Assigned to:					
Fire Department	21,381	-	-	-	21,381
Park & Rec Raffle	-	-	-	14,209	14,209
Indian Trail	-	-	-	46,489	46,489
MATHIVET	-	-	-	42,655	42,655
Becker	<u>-</u>	<u>-</u>	<u>-</u>	<u>18,357</u>	<u>18,357</u>
Subtotal	<u>21,381</u>	<u>-</u>	<u>-</u>	<u>121,710</u>	<u>143,091</u>
Unassigned	<u>395,818</u>	<u>(285,868)</u>	<u>-</u>	<u>(521,775)</u>	<u>(411,825)</u>
Total	<u>\$ 1,480,639</u>	<u>(\$ 285,868)</u>	<u>\$ 205,361</u>	<u>\$ 185,740</u>	<u>\$ 1,585,872</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, 2017

NOTE 10: 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 11: PENSION PLAN

A. General Information About the Pension Plan

Plan Description

All qualified permanent and probationary employees are eligible to participate in the City's Safety police, Safety fire, and Miscellaneous (all other) Employee Pension Plan, a cost-sharing multiple employer defined benefit pension plan administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plan are established by State statute and City resolution. CalPERS issues publicly available reports that include a full description of the pension plan 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 the Miscellaneous and Safety Rate Tiers 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 Rate Tiers 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 the 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, 2017

NOTE 11: PENSION PLAN (CONTINUED)

A. General Information About the Pension Plan (Continued)

Benefits Provided (Continued)

Each Rate Tier's specific provisions and benefits in effect at June 30, 2017, 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 Rate 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	10.069%	8.000%	4.000%
Miscellaneous Second Tier	7.612%	7.000%	4.000%
Miscellaneous PEPRA	6.555%	6.250%	0.000%
Safety First Tier	19.536%	9.000%	2.500%
Safety Second Tier	9.418%	9.500%	0.000%
Safety PEPRA	12.825%	7.000%	0.000%

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

	<u>Contributions-Employer</u>	<u>Contributions-Employee (Paid by Employer)</u>
Miscellaneous	\$ 166,038	\$ 24,400
Safety	236,825	23,049

CITY OF NEVADA CITY
Notes to Basic Financial Statements
For the Year Ended June 30, 2017

NOTE 11: PENSION PLAN (CONTINUED)

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

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

	<u>Proportionate Share of Net Pension Liability</u>
Miscellaneous	\$ 1,875,107
Safety	<u>2,201,451</u>
Total Net Pension Liability	<u>\$ 4,076,558</u>

The City's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability is measured as of June 30, 2016, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015 rolled forward to June 30, 2016 using standard update procedures. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. The City's proportionate share of the net pension liability for the Plan as of June 30, 2015 and 2016 was as follows:

	<u>Proportion June 30, 2015</u>	<u>Proportion June 30, 2016</u>	<u>Change - Increase (Decrease)</u>
Miscellaneous	.02177%	.02167%	(.00010%)
Safety	.02492%	.02544%	.00052%

For the year ended June 30, 2017, the City recognized pension expense of \$151,325. At June 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions subsequent to measurement date	\$ 255,600	\$ -
Changes of assumptions	-	(129,829)
Differences between expected and actual experience	-	(13,518)
Differences between projected and actual earnings on pension plan investments	612,342	-
Difference between City contributions and proportionate share of contributions	-	(10,572)
Adjustment due to differences in proportions	<u>-</u>	<u>(166,389)</u>
Total	<u>\$ 867,942</u>	<u>(\$ 320,308)</u>

CITY OF NEVADA CITY
Notes to Basic Financial Statements
For the Year Ended June 30, 2017

NOTE 11: PENSION PLAN (CONTINUED)

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

\$255,600 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, 2018. 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>	
2018	(\$ 96,002)
2019	(53,738)
2020	282,377
2021	159,397
Thereafter	<u>-</u>
Total	<u>\$ 292,034</u>

Actuarial Assumptions

The total pension liabilities in the June 30, 2015 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	June 30, 2015
Measurement Date	June 30, 2016
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, 2015 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

There were no changes in assumptions during the measurement period ended June 30, 2016. Deferred inflows for changes of assumptions presented represents the unamortized portion of the changes of assumptions related to prior measurement periods.

CITY OF NEVADA CITY
Notes to Basic Financial Statements
For the Year Ended June 30, 2017

NOTE 11: PENSION PLAN (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 the Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the 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	20.0%	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	1.0%	-0.55%	-1.05%
Total	<u>100.0%</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, 2017

NOTE 11: PENSION PLAN (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 the Plan as of the measurement date, calculated using the discount rate for the 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	\$ 2,804,344	\$ 1,875,107	\$ 1,107,139
Safety	3,361,235	2,201,451	1,249,382

Pension Plan Fiduciary Net Position

Detailed information about the pension plan’s fiduciary net position is available in the separately issued CalPERS financial reports.

NOTE 12: 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, 2017

NOTE 12: 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, 2017 were as follows:

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

The City's investment in the NCCSIF of \$11,845 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, 2017

NOTE 13: 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, 2017 through January 31, 2018, 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)**

THIS PAGE INTENTIONALLY LEFT BLANK

CITY OF NEVADA CITY
Required Supplementary Information
City Pension Plan
Schedule of Proportionate Share of the Net Pension Liability
For the Year Ended June 30, 2017
Last 10 Years*

Measurement Date	2013/14	2014/15	2015/16
Miscellaneous			
Proportion of the net pension liability	0.01804%	0.02177%	0.02167%
Proportionate share of the net pension liability	\$ 1,122,916	\$ 1,493,988	\$ 1,875,107
Covered employee payroll	862,176	862,176	995,977
Proportionate share of the net pension liability as a percentage of covered employee payroll	130.24%	173.28%	188.27%
Plan fiduciary net position as a percentage of the total pension liability	83.03%	77.85%	72.83%
Safety			
Proportion of the net pension liability	0.02352%	0.02492%	0.02544%
Proportionate share of the net pension liability	\$ 1,463,261	\$ 1,710,177	\$ 2,201,448
Covered employee payroll	768,634	768,634	862,620
Proportionate share of the net pension liability as a percentage of covered employee payroll	190.37%	222.50%	255.20%
Plan fiduciary net position as a percentage of the total pension liability	81.42%	79.35%	74.23%

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

CITY OF NEVADA CITY
Required Supplementary Information
City Pension Plan
Schedule of Contributions
For the Year Ended June 30, 2017
Last 10 Years*

Fiscal Year	2014/15**	2015/16	2016/17
Miscellaneous			
Contractually required contribution (actuarially determined)	\$ 181,437	\$ 97,496	\$ 90,566
Contributions in relation to the actuarially determined contributions	<u>(181,437)</u>	<u>(166,038)</u>	<u>(169,811)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ (68,542)</u>	<u>\$ (79,245)</u>
Covered employee payroll	\$ 862,176	\$ 995,977	\$ 1,099,996
Contributions as a percentage of covered employee payroll	21.04%	9.79%	8.23%
Safety			
Contractually required contribution (actuarially determined)	\$ 215,552	\$ 168,034	\$ 178,728
Contributions in relation to the actuarially determined contributions	<u>(215,552)</u>	<u>(236,825)</u>	<u>(261,455)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ (68,791)</u>	<u>\$ (82,727)</u>
Covered employee payroll	\$ 768,634	\$ 862,620	\$ 1,093,546
Contributions as a percentage of covered employee payroll	28.04%	19.48%	16.34%

* The City implemented GASB 68 for fiscal year June 30, 2015, therefore only three 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 Plan
For the Year Ended June 30, 2017

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

Change of assumptions: There were no changes in assumptions.

NOTE 2: SCHEDULE OF CONTRIBUTIONS

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

Valuation date	June 30, 2013
Actuarial cost method	Entry Age Normal
Amortization method/period	For details, see June 30, 2013 Funding Valuation Report
Asset valuation method	Market value
Inflation	2.75%
Salary increases	Varies by entry age and service
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, 2017

	Original Budget	Final Budget	Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
REVENUES				
Taxes and assessments	\$ 2,677,460	\$ 2,677,460	\$ 2,818,398	\$ 140,938
Licenses and permits	234,470	234,470	254,921	20,451
Fines and forfeitures	162,000	162,000	142,256	(19,744)
Intergovernmental revenues	59,400	59,400	179,176	119,776
Use of money and property	88,825	88,825	92,678	3,853
Charges for services	316,150	318,150	286,415	(31,735)
Other revenues	1,150	1,150	136,180	135,030
Total Revenues	3,539,455	3,541,455	3,910,024	368,569
EXPENDITURES				
Current:				
General government	666,328	661,328	659,717	1,611
Public protection	2,217,099	2,167,099	2,374,924	(207,825)
Public ways and facilities	306,296	306,296	338,240	(31,944)
Recreation and culture	345,687	345,687	395,596	(49,909)
Capital outlay	15,000	70,000	488,399	(418,399)
Total Expenditures	3,550,410	3,550,410	4,256,876	(706,466)
Excess of Revenues Over (Under) Expenditures	(10,955)	(8,955)	(346,852)	(337,897)
OTHER FINANCING SOURCES (USES)				
Transfers in	202,000	202,000	262,612	60,612
Transfers out	-	-	(3,333)	(3,333)
Total Other Financing Sources (Uses)	202,000	202,000	259,279	57,279
Net Change in Fund Balance	191,045	193,045	(87,573)	(280,618)
Fund Balance - Beginning	1,568,212	1,568,212	1,568,212	-
Fund Balance - Ending	\$ 1,759,257	\$ 1,761,257	\$ 1,480,639	\$ (280,618)

CITY OF NEVADA CITY
Required Supplementary Information
Budgetary Comparison Schedule
Nevada Main Project - Major Special Revenue Fund
For the Year Ended June 30, 2017

	<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	\$ 225,000	\$ 225,000	\$ -	\$ (225,000)
Use of money	-	-	(899)	(899)
Total Revenues	<u>225,000</u>	<u>225,000</u>	<u>(899)</u>	<u>(225,899)</u>
EXPENDITURES				
Current:				
Public ways and facilities	-	-	1,499	(1,499)
Capital outlay	<u>225,000</u>	<u>225,000</u>	<u>249,140</u>	<u>(24,140)</u>
Total Expenditures	<u>225,000</u>	<u>225,000</u>	<u>250,639</u>	<u>(25,639)</u>
Net Change in Fund Balance	-	-	(251,538)	(251,538)
Fund Balance - Beginning	<u>(34,330)</u>	<u>(34,330)</u>	<u>(34,330)</u>	<u>-</u>
Fund Balance - Ending	<u>\$ (34,330)</u>	<u>\$ (34,330)</u>	<u>\$ (285,868)</u>	<u>\$ (251,538)</u>

CITY OF NEVADA CITY
Required Supplementary Information
Budgetary Comparison Schedule
Measure "S" - Major Special Revenue Fund
For the Year Ended June 30, 2017

	Original Budget	Final Budget	Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
REVENUES				
Taxes and assessments	\$ 594,000	\$ 594,000	\$ 615,039	\$ 21,039
Use of money and property	850	850	570	(280)
Total Revenues	<u>594,850</u>	<u>594,850</u>	<u>615,609</u>	<u>20,759</u>
EXPENDITURES				
Current:				
Public ways and facilities	110,210	110,210	112,852	(2,642)
Capital outlay	400,000	400,000	596,959	(196,959)
Total Expenditures	<u>510,210</u>	<u>510,210</u>	<u>709,811</u>	<u>(199,601)</u>
Excess of Revenues Over (Under) Expenditures	<u>84,640</u>	<u>84,640</u>	<u>(94,202)</u>	<u>(178,842)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	179,120	179,120
Transfers out	-	-	(609)	(609)
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>178,511</u>	<u>178,511</u>
Net Change in Fund Balance	<u>84,640</u>	<u>84,640</u>	<u>84,309</u>	<u>(331)</u>
Fund Balance - Beginning	<u>121,052</u>	<u>121,052</u>	<u>121,052</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 205,692</u>	<u>\$ 205,692</u>	<u>\$ 205,361</u>	<u>\$ (331)</u>

CITY OF NEVADA CITY
Required Supplementary Information
Notes to Budgetary Comparison Schedules
For the Year Ended June 30, 2017

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, 2017, 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	\$ 3,550,410	\$ 4,256,876	\$ 706,466
Nevada Main Project	225,000	250,639	25,639
Measure "S"	510,210	709,811	199,601

THIS PAGE INTENTIONALLY LEFT BLANK

Combining Nonmajor Fund Statements

THIS PAGE INTENTIONALLY LEFT BLANK

Nonmajor Governmental Funds

- **Special Revenue Funds**

THIS PAGE INTENTIONALLY LEFT BLANK

THIS PAGE INTENTIONALLY LEFT BLANK

CITY OF NEVADA CITY
Combining Balance Sheet
Nonmajor Special Revenue Funds
June 30, 2017

	AB 1600	P & R Quimby	Donation Project	Gas Tax Streets
ASSETS				
Cash and investments	\$ 90,307	\$ 26,167	\$ 14,196	\$ -
Receivables:				
Interest	81	26	13	-
Taxes	-	-	-	7,268
Intergovernmental	-	-	-	-
Loans receivable	-	-	-	-
	\$ 90,388	\$ 26,193	\$ 14,209	\$ 7,268
LIABILITIES				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Salaries and benefits payable	-	-	-	-
Interest payable	-	-	-	8
Due to State of California	-	-	-	-
Due to other funds	-	-	-	13,799
	-	-	-	13,807
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue	-	-	-	-
Deferred business loan payments	-	-	-	-
	-	-	-	-
FUND BALANCES				
Restricted	90,388	26,193	-	-
Committed	-	-	-	-
Assigned	-	-	14,209	-
Unassigned	-	-	-	(6,539)
	90,388	26,193	14,209	(6,539)
Total Fund Balances	90,388	26,193	14,209	(6,539)
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 90,388	\$ 26,193	\$ 14,209	\$ 7,268

TDA Funds	Local Pedestrian & Bicycle	CMAQ ST & RD	Regional Traffic Mitigation	FEMA	CEC Grant	Indian Trails	UST Project
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 46,447	\$ -
-	-	-	-	-	-	42	-
-	-	-	-	-	-	-	-
-	-	42,480	-	71,046	-	-	-
-	-	-	-	-	-	-	-
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 42,480</u>	<u>\$ -</u>	<u>\$ 71,046</u>	<u>\$ -</u>	<u>\$ 46,489</u>	<u>\$ -</u>
\$ -	\$ -	\$ -	\$ -	\$ 2,233	\$ -	\$ -	\$ -
-	-	3,530	-	-	-	-	-
1	-	36	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	42,782	-	60,448	-	-	11,025
<u>1</u>	<u>-</u>	<u>46,348</u>	<u>-</u>	<u>62,681</u>	<u>-</u>	<u>-</u>	<u>11,025</u>
-	-	42,480	-	71,046	-	-	-
-	-	-	-	-	-	-	-
-	-	42,480	-	71,046	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	46,489	-
(1)	-	(46,348)	-	(62,681)	-	-	(11,025)
(1)	-	(46,348)	-	(62,681)	-	46,489	(11,025)
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 42,480</u>	<u>\$ -</u>	<u>\$ 71,046</u>	<u>\$ -</u>	<u>\$ 46,489</u>	<u>\$ -</u>

CITY OF NEVADA CITY
Combining Balance Sheet
Nonmajor Special Revenue Funds
June 30, 2017

	<u>Calfire Grant</u>	<u>LWCF Pool Rehab</u>	<u>Little Deer Creek</u>	<u>Brownsfield 10</u>
ASSETS				
Cash and investments	\$ -	\$ -	\$ -	\$ 4,193
Receivables:				
Interest	-	-	-	-
Taxes	-	-	-	-
Intergovernmental	144,856	17,410	144,852	6,266
Loans receivable	-	-	-	-
Total Assets	<u>\$ 144,856</u>	<u>\$ 17,410</u>	<u>\$ 144,852</u>	<u>\$ 10,459</u>
LIABILITIES				
Accounts payable	\$ 107,681	\$ -	\$ 11,566	\$ 1,548
Salaries and benefits payable	-	-	-	-
Interest payable	49	-	-	-
Due to State of California	-	-	-	-
Due to other funds	84,928	14,326	120,725	-
Total Liabilities	<u>192,658</u>	<u>14,326</u>	<u>132,291</u>	<u>1,548</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue	144,856	17,410	144,852	6,266
Deferred business loan payments	-	-	-	-
Total Deferred Inflows of Resources	<u>144,856</u>	<u>17,410</u>	<u>144,852</u>	<u>6,266</u>
FUND BALANCES				
Restricted	-	-	-	2,645
Committed	-	-	-	-
Assigned	-	-	-	-
Unassigned	(192,658)	(14,326)	(132,291)	-
Total Fund Balances	<u>(192,658)</u>	<u>(14,326)</u>	<u>(132,291)</u>	<u>2,645</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 144,856</u>	<u>\$ 17,410</u>	<u>\$ 144,852</u>	<u>\$ 10,459</u>

<u>Tax - Fire Dept.</u>	<u>2003 Fire Tax</u>	<u>NC Recreation</u>	<u>CDBG Enterprise</u>	<u>CABY Nevada City</u>	<u>CABY Misc Agency</u>	<u>Prop 172</u>	<u>MATHIVET</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 75,868	\$ 42,608
-	-	-	-	-	-	79	47
1,686	3,244	-	-	-	-	-	-
-	-	-	-	-	-	3,085	-
-	-	-	65,408	-	-	-	-
<u>\$ 1,686</u>	<u>\$ 3,244</u>	<u>\$ -</u>	<u>\$ 65,408</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 79,032</u>	<u>\$ 42,655</u>
\$ -	\$ -	\$ -	-	-	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-
-	-	3	-	-	-	-	-
-	-	-	37,149	-	-	-	-
-	-	-	8,299	8,915	-	-	-
-	-	3	45,448	8,915	-	-	-
-	-	-	-	-	-	-	-
-	-	-	65,408	-	-	-	-
-	-	-	65,408	-	-	-	-
1,686	3,244	-	-	-	-	-	-
-	-	-	-	-	-	79,032	-
-	-	-	-	-	-	-	42,655
-	-	(3)	(45,448)	(8,915)	-	-	-
<u>1,686</u>	<u>3,244</u>	<u>(3)</u>	<u>(45,448)</u>	<u>(8,915)</u>	<u>-</u>	<u>79,032</u>	<u>42,655</u>
<u>\$ 1,686</u>	<u>\$ 3,244</u>	<u>\$ -</u>	<u>\$ 65,408</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 79,032</u>	<u>\$ 42,655</u>

CITY OF NEVADA CITY
Combining Balance Sheet
Nonmajor Special Revenue Funds
June 30, 2017

	<u>SLESF</u>	<u>Measure "L"</u>	<u>Measure C</u>	<u>Bicentennial</u>
ASSETS				
Cash and investments	\$ 7,430	\$ 180,156	\$ 26,449	\$ -
Receivables:				
Interest	99	307	8	-
Taxes	-	71,100	61,600	-
Intergovernmental	50,000	-	-	-
Loans receivable	-	-	-	-
Total Assets	<u>\$ 57,529</u>	<u>\$ 251,563</u>	<u>\$ 88,057</u>	<u>\$ -</u>
LIABILITIES				
Accounts payable	\$ -	\$ 212	\$ 6,648	\$ 110
Salaries and benefits payable	-	-	7,672	-
Interest payable	-	-	-	-
Due to State of California	-	-	-	-
Due to other funds	-	-	-	1,430
Total Liabilities	<u>-</u>	<u>212</u>	<u>14,320</u>	<u>1,540</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue	-	-	-	-
Deferred business loan payments	-	-	-	-
Total Deferred Inflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES				
Restricted	57,529	251,351	73,737	-
Committed	-	-	-	-
Assigned	-	-	-	-
Unassigned	-	-	-	(1,540)
Total Fund Balances	<u>57,529</u>	<u>251,351</u>	<u>73,737</u>	<u>(1,540)</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 57,529</u>	<u>\$ 251,563</u>	<u>\$ 88,057</u>	<u>\$ -</u>

<u>Becker</u>	<u>Total</u>
\$ 18,341	\$ 532,162
16	718
-	144,898
-	479,995
-	65,408
\$ 18,357	\$ 1,223,181
\$ -	\$ 129,998
-	11,202
-	97
-	37,149
-	366,677
-	545,123
-	426,910
-	65,408
-	492,318
-	506,773
-	79,032
18,357	121,710
-	(521,775)
18,357	185,740
\$ 18,357	\$ 1,223,181

CITY OF NEVADA CITY
Combining Statement of Revenues, Expenditures, and
Changes in Fund Balances
Nonmajor Special Revenue Funds
For the Year Ended June 30, 2017

	AB 1600	P & R Quimby	Donation Project	Gas Tax Streets
REVENUES				
Taxes and assessments	\$ -	\$ -	\$ -	\$ 81,059
Intergovernmental revenues	-	-	-	-
Use of money and property	1,154	213	104	(179)
Other revenues	-	-	159	-
Total Revenues	<u>1,154</u>	<u>213</u>	<u>263</u>	<u>80,880</u>
EXPENDITURES				
Current:				
General government	-	-	-	-
Public protection	-	-	-	-
Public ways and facilities	6,871	-	-	81,206
Recreation and culture	-	-	278	-
Capital outlay	-	-	-	-
Total Expenditures	<u>6,871</u>	<u>-</u>	<u>278</u>	<u>81,206</u>
Excess of Revenues Over (Under) Expenditures	<u>(5,717)</u>	<u>213</u>	<u>(15)</u>	<u>(326)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	-
Transfers out	(95,613)	(3,275)	-	-
Total Other Financing Sources (Uses)	<u>(95,613)</u>	<u>(3,275)</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	<u>(101,330)</u>	<u>(3,062)</u>	<u>(15)</u>	<u>(326)</u>
Fund Balances - Beginning	191,718	29,255	14,224	(6,213)
Prior period adjustment	-	-	-	-
Fund Balances - Beginning, Restated	<u>191,718</u>	<u>29,255</u>	<u>14,224</u>	<u>(6,213)</u>
Fund Balances - Ending	<u>\$ 90,388</u>	<u>\$ 26,193</u>	<u>\$ 14,209</u>	<u>\$ (6,539)</u>

TDA Funds	Local Pedestrian & Bicycle	CMAQ ST & RD	Regional Traffic Mitigation	FEMA	CEC Grant	Indian Trails	UST Project
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
150,318	28,800	114,932	-	8,759	-	-	-
(5)	-	(571)	-	-	-	339	-
-	-	-	-	-	-	-	-
150,313	28,800	114,361	-	8,759	-	339	-
-	-	-	-	71,046	-	1,257	-
-	-	-	-	-	-	-	-
-	-	(1,319)	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	31,409	-	-	-	-	-
-	-	30,090	-	71,046	-	1,257	-
150,313	28,800	84,271	-	(62,287)	-	(918)	-
609	-	-	-	-	3,333	-	-
(150,318)	(28,800)	-	(1)	-	-	-	-
(149,709)	(28,800)	-	(1)	-	3,333	-	-
604	-	84,271	(1)	(62,287)	3,333	(918)	-
(605)	-	(130,619)	1	(394)	(3,333)	47,407	(11,025)
-	-	-	-	-	-	-	-
(605)	-	(130,619)	1	(394)	(3,333)	47,407	(11,025)
\$ (1)	\$ -	\$ (46,348)	\$ -	\$ (62,681)	\$ -	\$ 46,489	\$ (11,025)

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>Calfire Grant</u>	<u>LWCF Pool Rehab</u>	<u>Little Deer Creek</u>	<u>Brownsfield 10</u>
REVENUES				
Taxes and assessments	\$ -	\$ -	\$ -	\$ -
Intergovernmental revenues	-	6,117	33,833	11,625
Use of money and property	(49)	(1)	1	(1)
Other revenues	-	-	-	7,084
Total Revenues	<u>(49)</u>	<u>6,116</u>	<u>33,834</u>	<u>18,708</u>
EXPENDITURES				
Current:				
General government	-	3,414	130,911	18,791
Public protection	144,856	-	-	-
Public ways and facilities	-	-	-	-
Recreation and culture	-	-	-	-
Capital outlay	47,753	10,002	-	-
Total Expenditures	<u>192,609</u>	<u>13,416</u>	<u>130,911</u>	<u>18,791</u>
Excess of Revenues Over (Under) Expenditures	<u>(192,658)</u>	<u>(7,300)</u>	<u>(97,077)</u>	<u>(83)</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>(192,658)</u>	<u>(7,300)</u>	<u>(97,077)</u>	<u>(83)</u>
Fund Balances - Beginning	-	(7,026)	(35,214)	2,728
Prior period adjustment	-	-	-	-
Fund Balances - Beginning, Restated	<u>-</u>	<u>(7,026)</u>	<u>(35,214)</u>	<u>2,728</u>
Fund Balances - Ending	<u>\$ (192,658)</u>	<u>\$ (14,326)</u>	<u>\$ (132,291)</u>	<u>\$ 2,645</u>

Tax - Fire Dept.	2003 Fire Tax	NC Recreation	CDBG Enterprise	CABY Nevada City	CABY Misc Agency	Prop 172	MATHIVET
33,713	64,880	-	\$ -	\$ -	\$ -	\$ 35,530	\$ -
-	-	-	121,824	-	-	-	-
1	-	(24)	9,592	-	-	553	478
-	-	-	-	-	-	-	-
<u>33,714</u>	<u>64,880</u>	<u>(24)</u>	<u>131,416</u>	<u>-</u>	<u>-</u>	<u>36,083</u>	<u>478</u>
-	-	-	-	-	-	-	26,886
33,736	64,905	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	19,557	3,852
<u>33,736</u>	<u>64,905</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>19,557</u>	<u>30,738</u>
<u>(22)</u>	<u>(25)</u>	<u>(24)</u>	<u>131,416</u>	<u>-</u>	<u>-</u>	<u>16,526</u>	<u>(30,260)</u>
-	-	3,275	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	3,275	-	-	-	-	-
<u>(22)</u>	<u>(25)</u>	<u>3,251</u>	<u>131,416</u>	<u>-</u>	<u>-</u>	<u>16,526</u>	<u>(30,260)</u>
1,708	3,269	(3,254)	(176,864)	(8,915)	(468,578)	62,506	72,915
-	-	-	-	-	468,578	-	-
<u>1,708</u>	<u>3,269</u>	<u>(3,254)</u>	<u>(176,864)</u>	<u>(8,915)</u>	<u>-</u>	<u>62,506</u>	<u>72,915</u>
<u>\$ 1,686</u>	<u>\$ 3,244</u>	<u>\$ (3)</u>	<u>\$ (45,448)</u>	<u>\$ (8,915)</u>	<u>\$ -</u>	<u>\$ 79,032</u>	<u>\$ 42,655</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, 2017

	<u>SLESF</u>	<u>Measure "L"</u>	<u>Measure C</u>	<u>Bicentennial</u>
REVENUES				
Taxes and assessments	\$ 154,324	\$ 459,779	\$ 88,049	\$ -
Intergovernmental revenues	-	-	-	-
Use of money and property	713	2,395	9	(1)
Other revenues	-	-	-	3,250
Total Revenues	<u>155,037</u>	<u>462,174</u>	<u>88,058</u>	<u>3,249</u>
EXPENDITURES				
Current:				
General government	-	217,949	-	5,984
Public protection	154,861	-	14,321	-
Public ways and facilities	-	-	-	-
Recreation and culture	-	-	-	-
Capital outlay	-	100,288	-	-
Total Expenditures	<u>154,861</u>	<u>318,237</u>	<u>14,321</u>	<u>5,984</u>
Excess of Revenues Over (Under) Expenditures	<u>176</u>	<u>143,937</u>	<u>73,737</u>	<u>(2,735)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	-
Transfers out	-	(167,000)	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>(167,000)</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	<u>176</u>	<u>(23,063)</u>	<u>73,737</u>	<u>(2,735)</u>
Fund Balances - Beginning	57,353	274,414	-	1,195
Prior period adjustment	-	-	-	-
Fund Balances - Beginning, Restated	<u>57,353</u>	<u>274,414</u>	<u>-</u>	<u>1,195</u>
Fund Balances - Ending	<u>\$ 57,529</u>	<u>\$ 251,351</u>	<u>\$ 73,737</u>	<u>\$ (1,540)</u>

<u>Becker</u>	<u>Total</u>
\$ -	\$ 917,334
-	476,208
133	14,854
-	10,493
133	1,418,889
-	476,238
-	412,679
-	86,758
-	278
-	212,861
-	1,188,814
133	230,075
-	7,217
-	(445,007)
-	(437,790)
133	(207,715)
18,224	(75,123)
-	468,578
18,224	393,455
\$ 18,357	\$ 185,740

THIS PAGE INTENTIONALLY LEFT BLANK

OTHER REPORT AND SCHEDULES

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

THIS PAGE INTENTIONALLY LEFT BLANK

**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, 2017, 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 31, 2018.

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 a significant deficiency. (2017-001)

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 no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

City's Response to Finding

The City's response to the finding identified in our audit is described in the accompanying Management's Corrective Action Plan. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 31, 2018

CITY OF NEVADA CITY
Schedule of Findings and Recommendations
For the Year Ended June 30, 2017

2017-001 Expenditures in Excess of Appropriations (Significant Deficiency)

Condition

For the year ended June 30, 2017, we noted that the City incurred expenditures in excess of appropriations of \$706,466 in the General fund, \$25,639 in the Nevada Main Project fund and \$199,601 in the Measure "S" fund. This is a repeat of prior year finding 2016-001.

Cause

The City did not 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.

Effect of Condition

Expenditures exceeded appropriations by \$706,466 in the General fund, \$25,639 in the Nevada Main Project fund and \$199,601 in the Measure "S" 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 Prior Year Findings and Recommendations
For the Year Ended June 30, 2017

<u>Audit Reference</u>	<u>Status of Prior Year Recommendation</u>
2016-001	<p>AB 1600 Reconciliation</p> <p>Recommendation</p> <p>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.</p> <p>Status</p> <p>Implemented</p>
2016-002	<p>Expenditures in Excess of Appropriations</p> <p>Recommendation</p> <p>We recommend that the City control and monitor expenditures so that they do not exceed the approved budget.</p> <p>Status</p> <p>Not Implemented</p>
2016-003	<p>Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii</p> <p>Recommendation</p> <p>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.</p> <p>Status</p> <p>Implemented</p>

CITY OF NEVADA CITY
Management's Corrective Action Plan
For the Year Ended June 30, 2017

Finding 2017-001 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, Interim City Manager

Corrective Action Plan: The Interim 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 Interim 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 2018 and will continue with mid-year or year-end adjustments to come forward to Council by March of 2018 or June of 2018.

THIS PAGE INTENTIONALLY LEFT BLANK