

CITY OF NEVADA CITY
FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

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INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Nevada City
Nevada City, California

We have audited the accompanying basic financial statements of the City of Nevada City, as of and for the year ended June 30, 2005, as listed in the table of contents. These basic financial statements are the responsibility of the City of Nevada City's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the City of Nevada City, as of June 30, 2005, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the City of Nevada City has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments, as of June 30, 2005.

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The management's discussion and analysis and budgetary comparison information on pages 3 through 9 and 33, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.


McSWEENEY & ASSOCIATES
Certified Public Accountants

Grass Valley, California
September 29, 2006

**CITY OF NEVADA CITY, CALIFORNIA
MANAGEMENT DISCUSSION & ANALYSIS
Fiscal Year 2004/2005**

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 ended June 30, 2005. 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 tourism, local government employment and small businesses and industries. This allowed the City to provide a good level of service to its citizens and end the year in a strong financial position. Overall, general fund and business activity revenues increased and the City controlled spending to end the year with increases in net assets.

FINANCIAL HIGHLIGHTS

The following are some financial highlights for fiscal year 2005:

Entity-wide:

- ❑ The City's net assets at the end of the year totaled \$15,995,191. Of this total, \$8,985,045 are Governmental assets and \$7,010,146 are Business type assets.
- ❑ Governmental revenues include program revenues of \$737,193 and general revenues of \$3,650,413 for a total revenue amount of \$4,387,614. Governmental expenses were \$3,460,492.
- ❑ Business-type revenues include program revenues of \$1,434,201 and general revenues of \$181,372 for total revenues of \$ 1,615,573. Business-type expenses were \$1,337,178.

Fund level:

- ❑ Governmental Fund Balances increased to \$2,116,250, up \$489,606 from the prior fiscal year.
- ❑ Governmental Fund revenues were \$4,387,614 in 2005 compared to \$3,432,102 in 2004 for an increase of \$ 955,512.
- ❑ Governmental Fund expenditures of \$3,898,009 increased by \$738,381 over the prior year.

General Fund:

- ❑ The General Fund revenues were \$4,148,464, an increase of \$909,684 over the prior year.
- ❑ General Fund expenditures of \$3,834,010 represent an increase of \$690,517 over the prior year.
- ❑ General Fund other financing sources for the year totaled \$314,455 for an increase of \$219,168 over 2004.
- ❑ At the end of the fiscal year, the unreserved fund balance for the General Fund was \$625,446.

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 are comprised of three components: (1) Government-Wide Financial Statements, (2) Fund Financial Statements and (3) Notes to the Financial Statements. This report also contains required supplementary information in addition to the basic financial statements.

Reporting the City as a Whole

The government-wide financial statements are designed to provide the readers with a broad overview of the City's finances, presented in a format similar to a private-sector business.

The Statement of Net Assets presents information on all of the City's assets and liabilities, with differences between the two reported as net assets. Net assets increase or decrease each year based on

whether government-wide revenues exceeded the related expenditures (increase), or government-wide expenditures exceeded revenues (decrease). The change in net assets 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 what material types of revenues and expenditures transactions occurred during the fiscal year that created the increase (decrease) in net assets. All transactions are reported in the year in which they have been consummated, and not when the cash is received or paid. For example, uncollected taxes are accrued as revenue in these financial statements and earned but unused vacation pay are expensed in the period earned.

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

Reporting the City's Most Significant Funds

The fund financial statements provide detailed information about the most significant funds not the City as a whole. Some funds are required to be established by State law and by bond covenants. The City also establishes other funds to help it control and manage money for particular purposes or to show that it is meeting legal or contractual responsibilities. All of the funds of the City can be divided 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 so doing, 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.

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 sewer services provided by the City.

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

Notes to Financial Statements

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

FINANCIAL ACTIVITIES OF THE CITY AS A WHOLE.

This analysis focuses on the net assets and changes in net assets of the City as a whole. Tables 1 to 3 focus on the City's Governmental Statement of Net Assets and Statement of Activities and Tables 3 to 6 focus on the City's Business-type Statement of Net Assets and Statement of Activities.

Governmental Activities:

**Table 1
Governmental Net Assets at June 30**

	<u>2005</u>	<u>2004</u>
Cash and investments	\$1,872,327	\$1,364,002
Other assets	460,972	427,847
Capital assets	7,808,087	7,430,826
Total Assets	\$10,141,386	\$9,222,675
Current liabilities	462,523	\$381,073
Long term debt	693,818	783,671
Total Liabilities	\$1,156,341	\$1,164,744
Net Assets:		
Invested in Capital assets, net of related debt	\$7,024,416	\$6,834,259
Restricted	409,467	409,467
Reserved	227,767	238,177
Unrestricted	1,323,395	576,028
Total Net Assets	\$8,985,045	\$8,057,931

The City's Governmental net assets were \$8,985,045 as of June 30, 2005, an increase of \$927,114 over the prior year. This increase is the change in net assets shown in **Table 1**. The City's Governmental Net Assets as of June 30, 2005 were comprised of the net of the following:

- Cash of \$1,872,327 held in the State of California's Local Agency Investment Fund and the City's money market savings and general checking accounts.
- Receivables of \$331,908 comprised of accrued revenues and amounts due from other funds.
- Prepaid insurance of \$129,064.
- Capital assets net of depreciation charges of \$7,808,087, this includes all of the City's infrastructure as well as other capital assets used in government activities, see Notes 1 and 3 for additional information on capital assets.
- Current liabilities including accounts payable, accrued expenses, employee leave time earned but not yet used and amounts due to other funds totaling \$462,523.
- Long term debt of \$783,671 of which \$693,818 matures in fiscal years after 2006 and \$89,853 is due in fiscal year 2006, Note 7 provides additional detail on the City's long term debt.

The increase in Net Assets invested in Capital Assets is primarily due to the purchase of park property during the year, the "Hirschman's Pond" property. The funding for this large purchase came from the State of California Proposition 40 grant program. Note 3 provides more information on the changes in the City's capital assets during the year.

Table 2
Changes in Governmental Net Assets June 30

	<u>2005</u>	<u>2004</u>
Revenues:		
Program revenues:		
Charges for service	\$316,079	\$165,073
Grants and contributions	421,114	34,960
General Revenues:		
Property taxes	1,385,121	888,614
Mitigation fees	189,049	100,958
Other taxes	1,662,273	1,943,521
Other general revenues	413,970	298,973
Total Revenues	\$4,387,606	\$3,432,100
Program Expenses:		
General government	\$688,287	\$666,842
Public Safety	1,699,499	1,670,765
Public works	677,067	740,809
Parks and Recreation	357,443	348,213
Interest on Long-term debt	38,196	41,948
Total expenses	\$3,460,492	\$3,468,577
Excess (deficiency) before transfers	927,114	(36,477)
Transfers		
Increase (decrease) in net assets	\$927,114	\$(36,477)

Total Governmental revenues increased by 27.8% over the prior year. Sales tax revenue was down by 8% over the prior year but the City's sales tax revenue can fluctuate with the activity of several large businesses that generate a significant percentage of the City's sales tax. Property tax revenue increased due to increased assessed values related to property turnovers and new construction.

Total Governmental expenses decreased less than .5% when compared to the prior year reflecting normal fluctuations in costs with no significant changes in the City's service level.

Table 2 shows that a relatively small amount (16.8%) of City Governmental revenues were derived from fees for City services and grants with the balance from general taxes and other sources.

Business-Type Activities:

**Table 3
Business-Type Net Assets at June 30**

	<u>2005</u>	<u>2004</u>
Cash and investments	\$167,951	\$(115,449)
Other assets	637,863	677,838
Capital assets	8,371,027	8,361,377
Total Assets	\$9,176,841	\$8,923,766
Current liabilities	\$184,695	154,014
Long term debt	1,982,000	2,038,000
Total Liabilities	\$2,166,695	\$2,192,014
Net Assets:		
Contributed Capital	\$5,634,227	\$5,634,227
Reserved	376,259	376,259
Unrestricted	999,660	721,264
Total Net Assets	\$7,010,146	\$6,731,751

The City's Business-Type enterprises consist of water and sewer services. The cash position of the City's water and sewer enterprise funds improved substantially during the year. Accounts receivables decreased during the year, revenues increased and expenses were controlled to reasonable increases resulting in a strong net income for the year.

**Table 4
Changes in Business-Type Net Assets June 30**

	<u>2005</u>	<u>2004</u>
Revenues:		
Operating revenues:		
Water	\$432,687	\$470,672
Sewer	1,001,514	870,907
Total Operating Revenues	\$1,434,201	\$1,341,579
Operating Expenses:		
Water	\$434,375	\$469,186
Sewer	902,803	715,872
Total operating expenses	\$1,337,178	\$1,185,058
Operating income (loss)	\$97,023	\$156,521
Non-operating Income (expense)	181,372	74,192
Net Income (loss)	\$278,395	\$230,713

The City increased Sewer utility rates during the year and a water rate increase was implemented effective July 1, 2005. Both utilities saw an increase in development impact fees during the year, the proceeds of which are available to construct or improve facilities to serve new development.

The City started the design phase of a wastewater treatment plant upgrade early in fiscal year 2004/2005. The City was successful in receiving a combination of grants and loans from the United States Department of Agriculture, Rural Development to finance this project. This large project will continue into the following fiscal years with completion scheduled for spring of 2007.

Table 5
Changes in Business-Type Net Assets June 30
Net (Expense) Revenues From Services

	2005	2004
Water Services	\$96,075	\$49,332
Sewer Services	182,320	181,381
Totals	\$282,395	\$230,713

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 sewer facilities. The cost of infrastructure and other capital assets recorded on the City's financial statements was as shown below:

Table 6
Capital Assets at June 30, 2005
(Net of Depreciation)

	Government Activities	Business Activities	Total
Land	\$1,029,482	\$0	\$1,032,433
Structures & Improvements	8,017,224	11,245,943	19,263,167
Vehicles, machinery and equipment	1,912,352	2,395,539	4,307,881
Less accumulated depreciation	(3,150,971)	(5,266,457)	(8,417,428)
Totals	\$7,808,087	\$8,375,025	\$16,186,053

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 assets 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 increases in capital assets during the year were the acquisition of park property (Government Activities) and design costs for sewer system improvements (Business Activities), see Note 3 for additional detail on changes in capital assets during the year.

Debt Administration

At year-end, the City had \$2,988,335 in long term debt outstanding compared to \$3,092,537 at 06/30/04. The City incurred new debt amounting to \$36,718 relating to compensated absences during the year and reduced debt during the year by \$140,920 by making scheduled principal payments.

Table 7
Outstanding Debt at June 30, 2005

	Government Activities	Business Activities	Total
Water system debt		\$972,000	\$972,000
Sewer system debt		1,066,000	1,066,000
City Hall renovation loan	783,651		783,651
Compensated absences payable	155,622	11,062	166,684
Totals	\$939,273	\$2,049,062	\$2,988,335

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.

City of Nevada City
Statement of Net Assets
June 30, 2005

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and Cash Equivalents	\$ 1,872,327	\$ 167,951	\$ 2,040,278
Accounts Receivable (net)	178,155	285,716	463,871
Interest Receivable	9,469	2,966	12,435
Due From Other Governments	90,955	-	90,955
Due From Other Funds	53,329	31,395	84,724
Prepaid Expenses	129,064	85,316	214,380
Restricted Assets:			
Debt Services Cash	-	207,736	207,736
Bond Issue Costs - Net of Accumulated Amortization	-	24,734	24,734
Capital Assets:			
Land	5,325,508	-	5,325,508
Structures and Improvements	3,721,198	11,245,945	14,967,143
Vehicles	281,799	-	281,799
Furniture and Fixtures	70,014	-	70,014
Equipment	1,560,539	2,395,539	3,956,078
Accumulated Depreciation	(3,150,971)	(5,270,457)	(8,421,428)
Total Capital Assets	<u>7,808,087</u>	<u>8,371,027</u>	<u>16,179,114</u>
Total Assets	<u>10,141,386</u>	<u>9,176,841</u>	<u>19,318,227</u>
LIABILITIES			
Accounts Payable	152,302	67,832	220,134
Accrued Expenses	15,457	16,161	31,618
Compensated Absences	155,622	11,062	166,684
Due To Other Funds	49,289	33,640	82,929
Long-Term Liabilities:			
Due Within One Year	89,853	56,000	145,853
Due in More Than One Year	693,818	1,982,000	2,675,818
Total Liabilities	<u>1,156,341</u>	<u>2,166,695</u>	<u>3,323,036</u>
NET ASSETS			
Contributed Capital	-	5,634,227	5,634,227
Invested in Capital Assets, Net of Related Debt	7,024,416	-	7,024,416
Restricted Net Assets	409,467	-	409,467
Reserved for Specific Purposes	227,692	143,150	370,842
Reserved for Bond Retirement	-	233,109	233,109
Reserved for Petty Cash	75	-	75
Unrestricted Net Assets	1,323,395	999,660	2,323,055
Total Net Assets	<u>\$ 8,985,045</u>	<u>\$ 7,010,146</u>	<u>\$ 15,995,191</u>

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

City of Nevada City
Statement of Activities

For the Year Ended June 30, 2005

	Program Revenue			Net Revenue (Expenses)		Total
	Expenses	Charges for Services	Grants and Contributions	Governmental Activities	Business Type Activities	
Governmental Activities:						
General Government	\$ 688,287	\$ 172,126	\$ 421,114	\$ (95,047)	\$ -	\$ (95,047)
Public Safety	1,699,499	63,279	-	(1,636,220)	-	(1,636,220)
Public Works	677,067	-	-	(677,067)	-	(677,067)
Parks and Recreation	357,443	80,674	-	(276,769)	-	(276,769)
Interest on Long-Term Debt	38,196	-	-	(38,196)	-	(38,196)
Total Governmental Activities	<u>3,460,492</u>	<u>316,079</u>	<u>421,114</u>	<u>(2,723,299)</u>	<u>-</u>	<u>(2,723,299)</u>
Business-Type Activities:						
Water	434,375	432,687	-	-	(1,688)	(1,688)
Sewer	902,803	1,001,514	-	-	98,711	98,711
Total Business-Type Activities	<u>1,337,178</u>	<u>1,434,201</u>	<u>-</u>	<u>-</u>	<u>97,023</u>	<u>97,023</u>
Total	<u>\$ 4,797,670</u>	<u>\$ 1,750,280</u>	<u>\$ 421,114</u>	<u>(2,723,299)</u>	<u>97,023</u>	<u>(2,626,276)</u>
General Revenues:						
Taxes:						
Property Taxes				1,385,121	-	1,385,121
Mitigation Fees				189,049	144,034	333,083
Other Taxes				1,662,273	-	1,662,273
Interest				26,056	6,448	32,504
Licenses and Permits				38,660	-	38,660
Fines and Penalties				32,721	10,335	43,056
Intergovernmental Income				109,562	-	109,562
Miscellaneous				206,971	20,555	227,526
Total General Revenues				<u>3,650,413</u>	<u>181,372</u>	<u>3,831,785</u>
Change in Net Assets				927,114	278,395	1,205,509
Net Assets - Beginning				8,057,931	6,731,751	14,789,682
Net Assets - Ending				<u>\$ 8,985,045</u>	<u>\$ 7,010,146</u>	<u>\$ 15,995,191</u>

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

**City of Nevada City
Balance Sheet
Governmental Funds
June 30, 2005**

	General Fund	Other Governmental Funds	Total
	<u> </u>	<u> </u>	<u> </u>
ASSETS			
Cash	\$ 1,314,428	\$ 557,898	\$ 1,872,326
Accounts Receivable	178,155	-	178,155
Interest Receivable	5,423	4,046	9,469
Prepaid Expenses	129,064	-	129,064
Due From Other Funds	53,329	-	53,329
Due From Other Governments	86,354	4,601	90,955
Total Assets	<u>\$ 1,766,753</u>	<u>\$ 566,545</u>	<u>\$ 2,333,298</u>

LIABILITIES AND FUND BALANCES

Liabilities:

Accounts Payable	\$ 149,280	\$ 3,022	\$ 152,302
Salaries and Benefits Payable	15,457	-	15,457
Due to Other Funds	817	48,472	49,289
Total Liabilities	<u>165,554</u>	<u>51,494</u>	<u>217,048</u>

Fund Balances:

Unreserved	625,446	278,044	903,490
Reserved	661,298	61,856	723,154
Net Income	314,455	175,151	489,606
Total Fund Balance	<u>1,601,199</u>	<u>515,051</u>	<u>2,116,250</u>

Total Liabilities and Fund Balances	<u>\$ 1,766,753</u>	<u>\$ 566,545</u>	
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Amounts reported for governmental activities in the statement are different because:

Capital assets used in governmental activities are not financial resources and therefore not reported in the funds.	7,808,087
Compensated absences payable may not be due in the current period and therefore is not reported in the fund.	(155,622)
Total long-term liabilities applicable to the District's governmental activities are not reported as fund liabilities. All liabilities - both current and long-term - are reported in the statement of net assets.	(783,671)

Net Assets of Governmental Activity	<u>\$ 8,985,045</u>
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The accompanying notes are an integral part of these financial statements.

City of Nevada City
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2005

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES			
Property Taxes	\$ 1,385,121	\$ -	\$ 1,385,121
Mitigation Fees	189,049	-	189,049
Other Taxes	1,593,177	69,096	1,662,273
Charges For Services	234,571	81,509	316,080
Interest Income	17,577	8,479	26,056
Licenses and Permits	38,660	-	38,660
Fines and Penalties	32,721	-	32,721
Grant Revenue	405,145	15,968	421,113
Intergovernmental Income	109,562	-	109,562
Miscellaneous Revenue	142,880	64,098	206,978
Total Revenue	<u>4,148,464</u>	<u>239,150</u>	<u>4,387,614</u>
EXPENDITURES			
General Government	3,092,705	19,825	3,112,530
Debt Service:			
Principal	85,920	-	85,920
Interest	38,196	-	38,196
Capital Outlay	617,189	44,174	661,363
Total Expenditures	<u>3,834,010</u>	<u>63,999</u>	<u>3,898,009</u>
Change in Fund Balances Before			
Other Financing Sources (Uses)	314,455	175,151	489,606
OTHER FINANCING SOURCES (USES)			
Operating Transfers In	-	-	-
Operating Transfers Out	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	314,455	175,151	489,606
Fund Balance - Beginning of Year	<u>1,286,744</u>	<u>339,900</u>	<u>1,626,644</u>
Fund Balance - End of Year	<u>\$ 1,601,199</u>	<u>\$ 515,051</u>	<u>\$ 2,116,250</u>

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

City of Nevada City
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of
Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2005

Net Change in Fund Balance - Governmental Fund \$ 489,606

The change in net assets for governmental activities in the statement of activities is different because:

Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay (\$661,363) exceeded depreciation expense (\$284,122) in the current period. 377,241

Governmental funds report debt service payments as expenditures. However, in the statement of activities, repayments of principal of indebtedness reduces long-term liabilities in the statement of net assets. This is the amount of principal repayments in the current year. 85,920

Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. This adjustment contains the net change of compensated absences. (25,653)

Change in Net Assets - Governmental Activities \$ 927,114

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

**City of Nevada City
Statement of Net Assets
Proprietary Funds
June 30, 2005**

	ENTERPRISE FUNDS		
	Water	Sewer	Total
ASSETS			
Current Assets			
Cash and Cash Equivalents	\$ 71,808	\$ 96,142	\$ 167,950
Accounts Receivable (net)	85,969	199,747	285,716
Interest Receivable	1,357	1,609	2,966
Due From Other Governments	-	-	-
Due From Other Funds	-	31,395	31,395
Prepaid Expenses	11,770	73,546	85,316
Bond Issue Costs - Net of Accumulated Amortization	-	24,734	24,734
Total Current Assets	<u>170,904</u>	<u>427,173</u>	<u>598,077</u>
Noncurrent Assets			
Restricted Assets:			
Debt Services Cash	105,350	102,386	207,736
Capital Assets	3,856,091	9,785,393	13,641,484
Accumulated Depreciation	(1,859,187)	(3,411,270)	(5,270,457)
Total Noncurrent Assets	<u>2,102,254</u>	<u>6,476,509</u>	<u>8,578,763</u>
Total Assets	<u>2,273,158</u>	<u>6,903,682</u>	<u>9,176,840</u>
LIABILITIES			
Current Liabilities			
Accounts Payable	20,651	47,181	67,832
Accrued Expenses	15,467	694	16,161
Compensated Absences	5,906	5,156	11,062
Due To Other Funds	33,640	-	33,640
Total Current Liabilities	<u>75,664</u>	<u>53,031</u>	<u>128,695</u>
Noncurrent Liabilities			
Long-Term Liabilities:			
Due Within One Year	56,000	-	56,000
Due in More Than One Year	916,000	1,066,000	1,982,000
Total Noncurrent Liabilities	<u>972,000</u>	<u>1,066,000</u>	<u>2,038,000</u>
Total Liabilities	<u>1,047,664</u>	<u>1,119,031</u>	<u>2,166,695</u>
NET ASSETS			
Contributed Capital	913,231	4,720,996	5,634,227
Invested in Capital Assets, Net of Related Debt	-	-	-
Reserved for Specific Purposes	71,575	71,575	143,150
Reserved for Bond Retirement	105,350	127,759	233,109
Unrestricted Assets	39,263	682,001	721,264
Net Income	96,075	182,320	278,395
Total Net Assets	<u>\$ 1,225,494</u>	<u>\$ 5,784,651</u>	<u>\$ 7,010,145</u>

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

City of Nevada City
Statement of Revenues, Expenditures, and Changes in Net Assets
Proprietary Funds
For the Year Ended June 30, 2005

	ENTERPRISE FUNDS		
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
OPERATING REVENUES			
Charges For Services	\$ 433,529	\$ 1,020,402	\$ 1,453,931
Total Operating Revenue	<u>433,529</u>	<u>1,020,402</u>	<u>1,453,931</u>
OPERATING EXPENSES			
Salary Expense	114,928	196,648	311,576
Materials and Supplies	19,562	109,266	128,828
Telephone and Utilities	109,792	85,086	194,878
Repairs and Maintenance	3,387	29,257	32,644
Purchase of Services	5,870	24,506	30,376
Fringe Benefits	35,663	71,003	106,666
Insurance	9,954	11,754	21,708
Depreciation Expense	100,398	230,790	331,188
Amortization Expense	-	1,422	1,422
Other Expenses	16,220	71,014	87,234
Total Operating Expenses	<u>415,774</u>	<u>830,746</u>	<u>1,246,520</u>
Operating Income (Loss)	17,755	189,656	207,411
NON-OPERATING REVENUES (EXPENSES)			
Interest Income	2,954	3,494	6,448
Mitigation Fees	83,487	60,548	144,035
Interest Expense	(38,600)	(72,057)	(110,657)
Miscellaneous Income (Expense)	30,479	679	31,158
Total Non-operating Revenue (Expense)	<u>78,320</u>	<u>(7,336)</u>	<u>70,984</u>
Net Income (Loss) Before Contributions and Transfers	96,075	182,320	278,395
Capital Contributions	-	-	-
Transfers In	-	-	-
Transfers Out	-	-	-
Change in Net Assets	<u>96,075</u>	<u>182,320</u>	<u>278,395</u>
Total Net Assets - Beginning	<u>1,129,420</u>	<u>5,602,331</u>	<u>6,731,751</u>
Total Net Assets - Ending	<u>\$ 1,225,494</u>	<u>\$ 5,784,651</u>	<u>\$ 7,010,145</u>

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

City of Nevada City
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2005

Cash Flows From Operating Activities	
Operating Income (Loss)	\$ 278,395
Adjustments to Reconcile Operating Income to	
Cash Provided by Operating Activities:	
Depreciation Expense	331,188
Amortization Expense	1,422
Changes in Assets and Liabilities:	
Decrease in Accounts Receivable	50,860
(Increase) in Interest Receivable	(2,828)
(Increase) in Prepaid Expenses	(8,188)
(Increase) in Due From Other Funds	(475)
Increase in Accounts Payable	17,609
Increase in Accrued Liabilities	5,570
Increase in Compensated Absences	6,501
Net Cash Provided by Operating Activities	<u>680,054</u>
Cash Flows from Noncapital Financing Activities	
(Increase) in Due From Other Funds	(817)
Operating Subsidies and Transfers to Other Funds	<u>(817)</u>
Cash Flow from Capital and Related Financing Activities	
Acquisition of Fixed Assets	(340,838)
Principal Paid on Debt	<u>(55,000)</u>
Net Cash Used for Investing Activities	<u>(395,838)</u>
Increase in Cash and Cash Equivalents	283,399
Cash and Cash Equivalents June 30, 2004	(115,449)
Cash and Cash Equivalents June 30, 2005	<u><u>\$ 167,950</u></u>

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

**City of Nevada City
Statement of Fiduciary Funds
June 30, 2005**

	FIDUCIARY FUNDS		
	Expendable Trust	Non- Expendable Trust	Total
ASSETS			
Current Assets			
Cash and Cash Equivalents	\$ <u>(5,164)</u>	\$ <u>41,436</u>	\$ <u>36,272</u>
Total Assets	<u>(5,164)</u>	<u>41,436</u>	<u>36,272</u>
 NET ASSETS			
Net Assets Held in Trust	<u>(5,164)</u>	<u>41,436</u>	<u>36,272</u>
Total Net Assets	<u>\$ <u>(5,164)</u></u>	<u>\$ <u>41,436</u></u>	<u>\$ <u>36,272</u></u>

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

City of Nevada City
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Year Ended June 30, 2005

	FIDUCIARY FUNDS		
	Expendable Trust	Non- Expendable Trust	Total
REVENUES			
Other Income	\$ 8,589	\$ -	\$ 8,589
Interest Income	-	525	525
Total Revenue	8,589	525	9,114
EXPENSES			
Other Expenses	6,777	39	6,816
Total Expenses	6,777	39	6,816
Income (Loss)	\$ 1,812	\$ 486	\$ 2,298

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

CITY OF NEVADA CITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. The Reporting Entity

The City of Nevada City (the City) was incorporated April 19, 1856 under the provisions of the statutes of the State of California. The City operates under a Council-Manager form of government and provides the following services as authorized by its general laws: public safety (police and fire), streets, culture and recreation, public improvements, planning and zoning, water and sewer service, and general administrative services. There are no special districts or other entities over which the City has oversight responsibility as defined by the National Council on Governmental Accounting.

B. Basis of Accounting and Measurement Focus

Government-wide Financial Statements: The statement of net assets and the statement of activity are the two main government-wide financial statements. These financial statements report information on all of the nonfiduciary activities of the primary government and are reported using the accrual basis method of accounting. The accrual basis of accounting recognizes revenues when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Under this basis of accounting, revenues from property taxes are recognized in the fiscal year for which the taxes are levied. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues.

Fund Financial Statements: The governmental funds balance sheet and the statement of revenues, expenditures, and changes in fund balance are the two main fund financial statements. These financial statements are reported using the modified accrual basis of accounting and a flow of current resources measurement focus. The modified accrual basis of accounting recognizes revenues when they become measurable and available. Expenditures are generally recognized when the related fund liability is incurred, except for principal and interest on general long-term debt and compensated absences, which are recognized as expenditures to the extent they have matured. Flow of current resources measurement focus is a measure of available spendable resources and reflects the government practice of budgeting and appropriating resources based on the availability of cash or near-cash resources. Receivables are recorded when revenues are realized within sixty days from year-end. Liabilities are recorded when incurred by year-end. Fixed assets are recorded at acquisition cost, when known.

CITY OF NEVADA CITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The City reports the following major governmental funds:

The *General Fund* is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Debt Service Fund* is used to account for the servicing of general obligation debt.

The *Special Revenue Fund* represents legally restricted resources available for use for capital expenditures and operations, and mitigation fees available to the City for capital expenditures.

The City reports the following major proprietary fund:

The *Sewer Fund* is used to account for the operation and maintenance of the City's sewer treatment facility. Services are supported primarily by user charges.

The *Water Fund* is used to account for the operation and maintenance of the City's water department. Services are supported primarily by user charges.

Additionally, the City reports the following fund types:

Trust and Agency Funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. These include *expendable trust*, *nonexpendable trust*, and *agency funds*. Nonexpendable trust funds are accounted for in essentially the same manner as proprietary funds since capital maintenance is critical. Expendable trust funds are accounted for in essentially the same manner as governmental funds. Agency funds are custodial in nature and do not involve measurement of the results of operations.

The accompanying financial statements of the City as of June 30, 2005 have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Government Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial report principles.

CITY OF NEVADA CITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

C. Budget

The City procedures for establishing an annual budget are as follows:

By ordinance, the City Manager is required to submit the proposed budget to the City Council. The operating budget includes proposed expenditures and the means of financing them for the fiscal year commencing on July 1st of each year.

Public hearings are conducted prior to the adoption of the budget.

Any revisions to the adopted budget during the year are made a matter of record by actions of the City Council. Revisions to the adopted budget are authorized by the City Manager if they are within departments or between departments within the same function, provided the revisions do not constitute augmentation. In this case, Council approval is necessary to implement.

All budgets are adopted on a cash basis not consistent with generally accepted accounting principles (GAAP). Budgeting comparisons presented in this report are on the non-GAAP budgetary basis.

Unexpended budgetary balances lapse at June 30, and are not necessarily available to finance expenditures of the following year. However, the City Council may reappropriate unexpended budget balances by approving changes in the subsequent fiscal year.

The City Council of Nevada City approves formal budgets for the General and Special Revenue funds on the cash basis. For financial reporting purposes, revenues are recognized when measurable and available, and expenditures are recognized as incurred.

D. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

CITY OF NEVADA CITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

E. Cash and Cash Equivalents

The City considers all highly liquid investments purchased with maturities of three months or less to be cash equivalents. The City follows the practice of pooling cash and investments of all funds except funds required to be held by outside fiscal agents or otherwise restricted. Each fund's portion of this pool is displayed on the combined balance sheet as cash and investments. Investments are stated at cost, which approximates fair value, except for deferred compensation investments, which are stated at market value. Interest income generated from investments is allocated to the interest bearing accounts.

F. Prepaid Expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses.

Reported prepaid expenses in governmental funds are equally offset by a fund balance reserve, which indicates they are unavailable for appropriation.

G. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are recorded as expenditures at the time of purchase and the related assets are capitalized. All purchased capital assets are valued at cost where historical records are available and at an estimate of historical cost where no historical records exist. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (\$50,000 for infrastructure) and an estimated useful life in excess of two years. All land is recorded regardless of cost. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Property, plant, and equipment of the government are depreciated using the straight-line method over the following estimated useful lives:

**CITY OF NEVADA CITY
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2005**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

	<u>Years</u>
Land improvements	10-30
Buildings and structures	30-50
Equipment and vehicles	5-30
Sanitary sewers and lift stations	30-50
Infrastructure	5-50

General fund depreciation expense for the year ended June 30, 2005 was \$284,122.

Property, plant and equipment of the Water and Sewer plants is depreciated using the straight line method over the following estimated useful lives.

	<u>Years</u>
Plants, wells, and storage	10-40
Distribution property	50-99
Meters	10-20
Vehicles	5
Equipment	7-10

Depreciation expense for the year ended June 30, 2005 was \$100,398 for the water fund and \$230,790 for the sewer fund.

H. Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and compensatory time for subsequent use or for payment upon termination, death, or retirement. Accumulated unpaid vacation and compensatory time off are accrued when incurred in the government-wide and proprietary financial statements. The compensated absences liability has been computed based on rates of pay in effect as of June 30, 2005.

On January 1, 1994, an amendment to the policy regarding sick pay was passed which provides that employees meeting certain criteria would be paid a bonus based on their year end unused sick leave balance.

I. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as

**CITY OF NEVADA CITY
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2005**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

issuance costs, are deferred and amortized over the life of the bonds using the effective interest method.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

J. Property Taxes

Property Tax Receivables are recorded in the fiscal year for which the tax is levied. Revenue is recognized when measurable and available. The County of Nevada levies bills and collects property taxes for the City of Nevada City. Property taxes paid to the City by the County within 60 days of the end of the fiscal year are "available" and are, therefore, recognized as revenue.

The County of Nevada assesses, bills and collects property taxes based upon the following calendar:

	<u>Secured</u>	<u>Unsecured</u>
Valuation/Lien dates	January 1	January 1
Levy dates	July 1	July 1
Due dates	50% - November 1 50% - February 1	July 1
Delinquent dates	December 10 April 10	August 31

**CITY OF NEVADA CITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

NOTE 2: CASH AND INVESTMENTS

Cash and investments at June 30, 2005 consisted of the following:

General Fund	\$ 1,314,428
Special Revenue Fund	557,899
Enterprise Funds	375,687
Trust and Agency Funds	36,272
Total	<u>\$ 2,284,286</u>

The City restricts cash in the proprietary funds for the payment of interest and principal as required by the terms of the debt. At June 30, 2005, \$207,736 of restricted cash was held by the proprietary funds.

Interest income earned on pooled cash and investments is allocated to the various funds. All pooled cash is entirely insured or collateralized.

CITY OF NEVADA CITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 3: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2005, was as follows:

	July 1, 2004 Balance	Increases	Decreases	June 30, 2005 Balance
Governmental Activities:				
Capital assets, not being depreciated:				
Land and improvements	\$ 433,592	\$ 595,890	\$ -	\$ 1,029,482
Total capital assets, not being depreciated	<u>433,592</u>	<u>595,890</u>	<u>-</u>	<u>1,029,482</u>
Capital assets, being depreciated				
Land improvements	4,290,507	5,519	-	4,296,026
Structures and improvements	3,721,198	-	-	3,721,198
Vehicles	260,392	21,407	-	281,799
Furniture & fixtures	70,004	10	-	70,014
Equipment	1,521,982	38,557	-	1,560,539
Total capital assets, being depreciated	<u>9,864,083</u>	<u>65,493</u>	<u>-</u>	<u>9,929,576</u>
Government Activities Capital Assets, Net	<u>10,297,675</u>	<u>661,383</u>	<u>-</u>	<u>10,959,058</u>
Less accumulated depreciation for:				
Land improvements	(1,046,358)	(97,912)	-	(1,144,270)
Structures and improvements	(433,944)	(92,176)	-	(526,120)
Vehicles	(105,705)	(31,794)	-	(137,499)
Furniture & fixtures	(25,088)	(7,002)	-	(32,090)
Equipment	(1,255,754)	(55,238)	-	(1,310,992)
	<u>(2,866,849)</u>	<u>(284,122)</u>	<u>-</u>	<u>(3,150,971)</u>
Total capital assets, being depreciated, Net	<u>6,997,234</u>	<u>(218,629)</u>	<u>-</u>	<u>6,778,605</u>
Government Activities Capital Assets, Net	<u>\$ 7,430,826</u>	<u>\$ 377,261</u>	<u>\$ -</u>	<u>\$ 7,808,087</u>

CITY OF NEVADA CITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 3: CAPITAL ASSETS (CONT'D)

	July 1, 2004			June 30, 2005
	Balance	Increases	Decreases	Balance
Business-type Activities				
<i>Water Fund</i>				
Capital assets, being depreciated				
Structures and improvements	\$ 3,749,645	\$ -	\$ -	\$ 3,749,645
Equipment	105,292	1,154		106,445
Total water fund capital assets, being depreciated	<u>3,854,937</u>	<u>1,154</u>	<u>-</u>	<u>3,856,091</u>
<i>Sewer Fund</i>				
Capital assets, being depreciated				
Structures and improvements	7,157,767	338,532	-	7,496,298
Equipment	2,287,941	1,153	-	2,289,094
Total sewer fund capital assets, being depreciated	<u>9,445,708</u>	<u>339,685</u>	<u>-</u>	<u>9,785,393</u>
Total Capital Assets	<u>13,300,645</u>	<u>340,837</u>	<u>-</u>	<u>13,641,482</u>
Less accumulated depreciation for:				
<i>Water Fund</i>				
Structures and improvements	(1,681,738)	(93,750)	-	(1,775,488)
Equipment	(77,051)	(6,648)	-	(83,699)
Total water fund accumulated depreciation	<u>(1,758,789)</u>	<u>(103,032)</u>	<u>-</u>	<u>(1,859,187)</u>
<i>Sewer Fund</i>				
Structures and improvements	(2,458,342)	(183,882)	-	(2,642,224)
Equipment	(722,138)	(46,907)	-	(769,046)
Total sewer fund accumulated depreciation	<u>(3,180,480)</u>	<u>(230,790)</u>	<u>-</u>	<u>(3,411,270)</u>
Total Accumulated Depreciation	<u>(4,939,269)</u>	<u>(332,505)</u>	<u>-</u>	<u>(5,270,457)</u>
Business-type Activities Capital Assets, Net	<u>\$ 8,361,376</u>	<u>\$ 8,332</u>	<u>\$ -</u>	<u>\$ 8,371,027</u>

NOTE 4: RETIREMENT COMMITMENTS

A. Description of Plan

The City contributes to the California Public Employees' Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. PERS provides

**CITY OF NEVADA CITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

NOTE 4: RETIREMENT COMMITMENTS (CONT'D)

retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and city ordinance. Copies of PERS' annual financial report may be obtained from their Executive Office, 400 P Street, Sacramento, CA 95814.

B. Funding Policy

Participants are required to contribute 7% for non-safety employees and 9% for safety employees of their annual covered salary. The City makes the contributions required of City employees on their behalf and for their account. The City is required to contribute at an actuarially determined rate; the rate for fiscal year 04/05 was 3.709% for miscellaneous employees and 29.041% for safety employees, of annual covered payroll. The contribution requirements of plan members and the City are established by and may be amended by PERS.

C. Annual Pension Cost

For fiscal year 2004-2005, the City's annual pension cost of \$269,306 for PERS was equal to the City's required contribution. The required contribution was determined as part of the June 30, 2004 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses), (b) projected annual salary increases that vary by age, service and type of employment from 3.25% to 14.45% for both safety and miscellaneous, and (c) 3.25% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 3.00%. The actuarial value of PERS assets was determined using techniques that smoothes the effects of short term volatility in the market value of investments over a three year period (smoothed market value).

D. Three Year Trend Information

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
01/02	\$168,186	100%	-0-
02/03	\$198,802	100%	-0-
03/04	\$226,035	100%	-0-

**CITY OF NEVADA CITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

NOTE 4: RETIREMENT COMMITMENTS (CONT'D)

E. Funded Status of Plans

Safety

Valuation Date	Accrued Liabilities	Actuarial Assets	Unfunded Liabilities (UL)	Funded Ratio	Annual Covered Payroll	UL as a % of Payroll
6/30/2003	\$ 4,270,573,982	\$ 3,577,742,166	\$ 692,831,816	83.8%	\$ 476,089,674	145.5%
6/30/2004	\$ 5,383,921,942	\$ 4,424,586,846	\$ 959,335,096	82.2%	\$ 575,296,434	166.8%

Miscellaneous

Valuation Date	Accrued Liabilities	Actuarial Assets	Unfunded Liabilities (UL)	Funded Ratio	Annual Covered Payroll	UL as a % of Payroll
6/30/2003	\$ 2,596,966,545	\$ 2,372,879,034	\$ 224,087,511	91.4%	\$ 725,020,458	30.9%
6/30/2004	\$ 434,267,445	\$ 379,807,592	\$ 54,459,853	87.5%	\$ 97,227,479	56.0%

NOTE 5: CONTINGENT LIABILITIES

A. Litigation

In the opinion of the City Counsel, there is no pending or threatened litigation, which would have a material impact on these financial statements.

B. Grant and Loan Requirements

The City has not had compliance audits for the E.P.A. Federal and State Clean Water Grant. Accordingly, the City's compliance with applicable grant and loan requirements will be established at some future date. The amount of any expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

**CITY OF NEVADA CITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

NOTE 6: SELF-INSURANCE

The City participates in the following public entity risk pools:

Public Agency Risk Sharing Authority of California (PARSAC) provides the City with general liability protection. This protection is for bodily injury, property damage, personal injury, and public officials errors and omissions. It covers claims in an amount up to \$1,000,000. Losses above \$1,000,000 to \$3,000,000 are covered through PARSAC's participation in the California Affiliated Risk Management Authorities (CARMA) excess pool. The City has a SIR (Self Insured Retention) of \$500,000 per claim.

The City contracts with St. Paul Insurance, through the local Accordia office, for the first level of liability coverage up to \$500,000. The City has a deductive or uninsured liability up to \$2,500 per claim at this level.

Northern California Cities Self Insurance Fund (NCCSIF) covers workers' compensation claims up to the statutory limit. The city has no deductible for these claims.

A Board of Director consisting of representatives from each member municipality governs each risk pool. This insures that each member has direct input and control over the organization.

NOTE 7: LONG-TERM DEBT

The following is a summary of debt transactions of the City for the year ended June 30, 2005:

Payable at June 30, 2004	\$ 3,092,537
New debt	36,738
Debt retired	(140,920)
Payable at June 30, 2005	<u>\$ 2,988,355</u>

**CITY OF NEVADA CITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

NOTE 7: LONG-TERM DEBT (CONT'D)

Long-term debt payable at June 30, 2005 is comprised of the following:

	<u>Loan No.</u>	<u>Amount</u>
Farmers Home Loan, July 15, 1993. Original loan \$815,000 payable at 5% interest through June 30, 2027	92-11	\$ 675,000
City of Nevada City Emergency Drought Relief Promissory Notes of 1977-79, \$1,148,000, payable at 5% interest through 2018	91-03,05,06	637,000
City of Nevada City 1978 water bonds, \$600,000 payable at 5% interest through 2022	91-01	335,000
City of Nevada City 1982 Series A sewer bonds, \$150,000 payable at 5% interest through 2022	93-08	103,000
City of Nevada City 1982 Series B sewer bonds, \$446,000 payable at 5% interest through 2022	93-10	288,000
Loan payable to WestAmerica Bank for the purpose of expanding and renovating City Hall. \$1,100,000 payable at 4.55% through September 2012		783,671
Compensated absences		<u>166,684</u>
Total		2,988,355
Less current portion long term debt		<u>(145,853)</u>
Total long term debt at June 30, 2005	\$	<u><u>2,842,502</u></u>

**CITY OF NEVADA CITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

NOTE 7: LONG-TERM DEBT (CONT'D)

The annual requirements to amortize all debt outstanding as of June 30, 2005, are as follows:

Year Ending June 30,	<u>Water Fund</u>		<u>Sewer Fund</u>			<u>General Fund</u>
	#s 91-03,05,06 1977 Drought Relief Fund Notes	#91-01 1978 Nevada City Bonds	#93-08 1982 Sewer Series A Bonds	#93-10 1982 Sewer Series B Bonds	FmHA Loan	Facilities Lease
2006	\$ 36,000	\$ 20,000	\$ -	\$ -	\$ -	\$ 89,853
2007	38,000	20,000	3,000	13,000	20,000	93,988
2008	39,000	20,000	3,000	14,000	20,000	98,313
2009	42,000	20,000	3,000	16,000	20,000	102,837
2010	43,000	25,000	3,000	18,000	20,000	107,569
Thereafter	439,000	230,000	91,000	227,000	595,000	291,111
	<u>\$ 637,000</u>	<u>\$ 335,000</u>	<u>\$ 103,000</u>	<u>\$ 288,000</u>	<u>\$ 675,000</u>	<u>\$ 783,671</u>

The City is in compliance with all significant limitations and restrictions. The above debt is currently supported by the operations of the respective enterprise funds.

The city also had a line of credit in the amount of \$500,000 available to them at year-end from Citizen's Bank. At June 30, 2005 the amount of unused credit was \$499,750.

NOTE 8: SUBSEQUENT EVENTS

In October 2005, the United States Department of Agriculture approved the purchase of Nevada City wastewater treatment plant bonds in the amount of \$3,988,000 and approved federal wastewater treatment plant grants in the amounts of \$1,602,000 to finance components to Nevada City's wastewater treatment plant. The City began work on the project and received funding from the bonds and grants during the fiscal year ended June 30, 2006. The total amount of USDA financing for the project is \$5,590,000.

REQUIRED SUPPLEMENTARY INFORMATION

**City of Nevada City
General Fund
Budgetary Comparison Schedule
June 30, 2005**

	<u>Budgeted Amounts</u>			Variances with Final Budget Positive (Negative)
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	
REVENUES				
Property Taxes	\$ 750,000	\$ 750,000	\$ 1,285,121	\$ 535,121
Supplemental Law Enforcement	100,000	100,000	100,000	-
Other Taxes	129,000	129,000	270,403	141,403
Sales Taxes	1,050,000	1,050,000	1,066,793	16,793
Room Taxes	350,000	350,000	340,757	(9,243)
Motor Vehicle Fees	130,000	130,000	30,690	(99,310)
Franchise Fees	40,000	40,000	72,038	32,038
Charges For Services	35,000	35,000	140,351	105,351
Planning Fees	30,000	30,000	38,922	8,922
Parking Meter Revenue	30,000	30,000	41,874	11,874
Interest Income	3,000	3,000	17,577	14,577
Licenses and Permits	50,000	50,000	38,660	(11,340)
Fines and Penalties	34,000	34,000	32,701	(1,299)
Grant Revenue	56,000	56,000	405,145	349,145
Rental Income	58,000	58,000	68,085	10,085
Miscellaneous Revenue	50,000	50,000	199,347	149,347
Total Revenues	<u>2,895,000</u>	<u>2,895,000</u>	<u>4,148,464</u>	<u>1,253,464</u>
EXPENDITURES				
General and Administration	462,703	462,703	526,573	(63,870)
Police	1,045,000	1,045,000	1,217,407	(172,407)
Fire	342,225	342,225	409,702	(67,477)
Public Works	493,395	493,395	589,309	(95,914)
Parks and Recreation	255,888	255,888	341,277	(85,389)
Miscellaneous	-	-	9,172	(9,172)
Capital Outlay	157,775	157,775	616,454	(458,679)
Debt Service	127,297	127,297	124,116	3,181
Total Expenditures	<u>2,884,283</u>	<u>2,884,283</u>	<u>3,834,010</u>	<u>(949,727)</u>
OTHER FINANCING SOURCES (USES)				
Operating Transfers In	-	-	-	-
Operating Transfers Out	-	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	10,717	10,717	314,455	303,737
Budgetary Fund Balance - Beginning of Year	<u>1,191,456</u>	<u>1,191,456</u>	<u>1,191,456</u>	<u>-</u>
Budgetary Fund Balance - End of Year	<u>\$ 1,202,173</u>	<u>\$ 1,202,173</u>	<u>\$ 1,505,911</u>	<u>\$ 303,737</u>

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