

CITY OF NEVADA CITY
FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2006

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INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Nevada City, CA

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Nevada City, CA, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of Nevada City, CA's management. 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 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 the 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, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Nevada City, CA, as of June 30, 2006, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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In accordance with *Government Auditing Standards*, we have also issued our report dated February 16, 2007, on our consideration of the City of Nevada City, CA'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 3 through 9 and 36, 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Nevada City, CA's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of City of Nevada City, CA. The schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.



McSweeney & Associates
Certified Public Accountants

Grass Valley, CA
February 16, 2007

**CITY OF NEVADA CITY, CALIFORNIA
MANAGEMENT DISCUSSION & ANALYSIS
Fiscal Year 2005/2006**

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, 2006. 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 ending June 30, 2006:

Entity-wide:

- The City's net assets at the end of the year totaled \$16,390,091. Of this total, \$9,148,384 is Governmental assets and \$7,241,707 is Business type assets.
- Governmental revenues include program revenues of \$436,170 and general revenues of \$3,395,923 for a total revenue amount of \$3,832,093. Governmental expenses were \$3,668,753.
- Business-type revenues include program revenues of \$1,648,651 and general revenues of \$84,649 for total revenues of \$ 1,733,300. Business-type expenses were \$1,501,739.

Fund level:

- Governmental Fund Balances increased to \$2,389,043, up \$272,793 from the prior fiscal year.
- Governmental Fund revenues were \$3,832,091 in 2006 compared to \$4,387,614 in 2005 for a decrease of \$ 555,523.
- Governmental Fund expenditures of \$3,559,298 decreased by \$338,711 from the prior year.

General Fund:

- The General Fund revenues were \$3,429,577, a decrease of \$718,887 from the prior year.
- General Fund expenditures of \$3,484,756 represent a decrease of \$349,254 from the prior year.
- General Fund other financing sources for the year totaled (\$55,179) for a decrease of \$369,634 from 2005.
- At the end of the fiscal year, the unreserved fund balance for the General Fund was \$935,950.

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 focuses 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>2006</u>	<u>2005</u>
Cash and investments	\$2,021,818	\$1,872,327
Other assets	678,656	460,972
Capital assets	7,910,927	7,808,087
Total Assets	\$10,611,401	\$10,141,386
Current liabilities	578,058	462,523
Long term debt	884,959	693,818
Total Liabilities	\$1,463,017	\$1,156,341
Net Assets:		
Invested in Capital assets, net of related debt	\$6,897,679	\$7,024,416
Restricted	409,467	409,467
Reserved	317,640	227,767
Unrestricted	1,523,598	1,323,395
Total Net Assets	\$9,148,384	\$8,985,045

The City's Governmental net assets were \$9,148,384 as of June 30, 2006, an increase of \$163,339 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, 2006 were comprised of the net of the following:

- Cash of \$2,021,818 held in the State of California's Local Agency Investment Fund and the City's money market savings and general checking accounts.
- Receivables of \$678,656 comprised of accrued revenues and amounts due from other funds.
- Prepaid insurance of \$131,419.
- Capital assets net of depreciation charges of \$7,910,927, 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 \$578,058.
- Long term debt of \$1,013,248 of which \$884,959 matures in future years and \$128,289 is due currently. Note 7 provides additional detail on the City's long term debt.

Table 2
Changes in Governmental Net Assets June 30

	2006	2005
Revenues:		
Program revenues:		
Charges for service	\$239,483	\$316,079
Grants and contributions	196,687	421,114
General Revenues:		
Property taxes	1,485,502	1,385,121
Mitigation fees	60,196	189,049
Other taxes	1,465,157	1,662,273
Other general revenues	385,068	413,970
Total Revenues	\$3,832,093	\$4,387,606
Program Expenses:		
General government	\$890,196	\$688,287
Public Safety	1,713,648	1,699,499
Public works	720,834	677,067
Parks and Recreation	288,419	357,443
Interest on Long-term debt	55,656	38,196
Total expenses	\$3,668,753	\$3,460,492
Excess (deficiency) before transfers	163,339	927,114
Transfers		
Increase (decrease) in net assets	\$163,339	\$927,114

Total Governmental revenues decreased by 12.7% from the prior year. Other tax decreased by 11.9% from the prior year which included the decrease of sales tax from prior year of 10.9%. 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 increased by 7.2% from the prior year due to the continued increase in assessed values related to property turnovers and new construction.

Total Governmental expenses increased 6.0%.

Table 3
Governmental Activities
Net Revenue (Expense) from Services June 30

	2006	2005
General government	\$(598,111)	\$(95,047)
Public Safety	(1,666,235)	(1,636,220)
Public works	(720,834)	(677,067)
Parks and Recreation	(191,748)	(276,769)
Interest on Long-term debt	(55,656)	(38,196)
Totals	\$(3,232,584)	\$(2,723,299)

Table 3 shows that a relatively small amount (11.4%) 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 4
Business-Type Net Assets at June 30

	2006	2005
Cash and investments	\$705,788	\$167,951
Other assets	739,968	637,863
Capital assets	10,527,128	8,371,027
Total Assets	\$11,972,883	\$9,176,841
Current liabilities	\$882,825	\$184,695
Long term debt	3,848,352	1,982,000
Total Liabilities	\$4,731,176	\$2,166,695
Net Assets:		
Contributed Capital	\$5,634,227	\$5,634,227
Reserved	376,259	376,259
Unrestricted	1,231,221	999,660
Total Net Assets	\$7,241,707	\$7,010,146

The City's Business-Type enterprises consist of water and sewer services. Total assets increased 30.6%, mostly driven by the substantial increase in the cities cash position. The liabilities increased in the area of long term debt related to the Wastewater Promissory note payable to the US Department of Agriculture of the Wastewater Treatment Plant upgrade.

**Table 5
Changes in Business-Type Net Assets June 30**

	2006	2005
Revenues:		
Operating revenues:		
Water	\$472,106	\$432,687
Sewer	1,176,545	1,001,514
Total Operating Revenues	\$1,648,651	\$1,434,201
Operating Expenses:		
Water	\$500,606	\$434,375
Sewer	1,001,133	902,803
Total operating expenses	\$1,501,739	\$1,337,178
Operating income (loss)	\$146,912	\$97,023
Non-operating Income (expense)	84,649	181,372
Net Income (loss)	\$231,561	\$278,395

The increase in operating revenue was directly related to the increase in Sewer utility rates implemented on January 1, 2006, and the restructuring and improvement of the water and utility billing process with increased collections.

The City continued the construction of the wastewater treatment plant upgrade during the fiscal year 2005/2006. The City received an additional grant and loan from the United States Department of Agriculture, Rural Development to finance the project. This large project will continue into the following fiscal years with completion scheduled for spring of 2007.

**Table 6
Changes in Business-Type Net Assets June 30
Net (Expense) Revenues From Services**

	2006	2005
Water Services	\$30,498	\$96,075
Sewer Services	201,063	182,320
Totals	\$231,561	\$278,395

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 7
Capital Assets at June 30, 2006
(Net of Depreciation)**

	Government Activities	Business Activities	Total
Land	\$1,029,482	\$0	\$1,029,482
Structures & Improvements	8,026,079	13,724,043	21,750,122
Vehicles, machinery and equipment	2,272,387	2,395,539	4,667,926
Less accumulated depreciation	(3,417,021)	(5,592,454)	(9,009,475)
Totals	\$7,910,927	\$10,527,128	\$18,438,055

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 are associated to the continued 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 \$5,136,888 in long term debt outstanding compared to \$2,988,335 at 06/30/05. The City's long term debt increased by \$2,148,553 due mainly to new debt proceeds of \$2,495,297 of which \$2,150,123 were associated to the waste water treatment plant upgrade that began in fiscal year 2004/2005. Debt was reduced during the year by \$346,744 due to the City making scheduled principal payments.

**Table 8
Outstanding Debt at June 30, 2005**

	Government Activities	Business Activities	Total
Water system debt		\$844,059	\$844,059
Sewer system debt		3,131,123	3,131,123
City Hall renovation loan	\$693,797		693,797
Equipment purchases	319,450		319,450
Compensated absences payable	138,340	10,119	148,459
Totals	\$1,151,587	\$3,985,301	\$5,136,888

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, 2006

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and Cash Equivalents	\$ 2,021,818	\$ 705,788	\$ 2,727,606
Accounts Receivable (net)	242,827	300,378	543,205
Interest Receivable	1	-	1
Due From Other Governments	94,571	-	94,571
Due From Other Funds	209,838	234,830	444,668
Prepaid Expenses	131,419	27,441	158,860
Restricted Assets:			
Debt Services Cash	-	154,007	154,007
Bond Issue Costs - Net of Accumulated Amortization	-	23,312	23,312
Capital Assets:			
Land	5,325,508	-	5,325,508
Structures and Improvements	3,730,053	13,724,043	17,454,096
Vehicles	626,723	-	626,723
Furniture and Fixtures	71,199	-	71,199
Equipment	1,574,465	2,395,539	3,970,004
Accumulated Depreciation	(3,417,021)	(5,592,454)	(9,009,475)
Total Capital Assets	7,910,927	10,527,128	18,438,055
Total Assets	10,611,401	11,972,883	22,584,285
LIABILITIES			
Accounts Payable	131,940	434,195	566,135
Accrued Expenses	26,777	10,368	37,145
Compensated Absences	138,340	10,119	148,459
Due To Other Funds	152,712	301,313	454,025
Long-Term Liabilities:			
Due Within One Year	128,289	126,830	255,118
Due in More Than One Year	884,959	3,848,352	4,733,311
Total Liabilities	1,463,017	4,731,176	6,194,193
NET ASSETS			
Contributed Capital	-	5,634,227	5,634,227
Invested in Capital Assets, Net of Related Debt	6,897,679	-	6,897,679
Restricted Net Assets	409,467	-	409,467
Reserved for Specific Purposes	317,565	143,150	460,715
Reserved for Bond Retirement	-	233,109	233,109
Reserved for Petty Cash	75	-	75
Unrestricted Net Assets	1,523,598	1,231,221	2,754,819
Total Net Assets	\$ 9,148,384	\$ 7,241,707	\$ 16,390,091

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

City of Nevada City
Statement of Activities

For the Year Ended June 30, 2006

	Program Revenue			Net Revenue (Expenses)		
	Expenses	Charges for Services	Grants and Contributions	Governmental Activities	Business Type Activities	Total
Governmental Activities:						
General Government	\$ 890,196	\$ 95,398	\$ 196,687	\$ (598,111)	\$ -	\$ (598,111)
Public Safety	1,713,648	47,413	-	(1,666,235)	-	(1,666,235)
Public Works	720,834	-	-	(720,834)	-	(720,834)
Parks and Recreation	288,419	96,672	-	(191,748)	-	(191,748)
Interest on Long-Term Debt	55,656	-	-	(55,656)	-	(55,656)
Total Governmental Activities	<u>3,668,753</u>	<u>239,483</u>	<u>196,687</u>	<u>(3,232,584)</u>	<u>-</u>	<u>(3,232,584)</u>
Business-Type Activities:						
Water	500,606	472,106	-	-	(28,500)	(28,500)
Sewer	1,001,133	1,176,545	-	-	175,412	175,412
Total Business-Type Activities	<u>1,501,739</u>	<u>1,648,651</u>	<u>-</u>	<u>-</u>	<u>146,912</u>	<u>146,911</u>
Total	<u>\$ 5,170,492</u>	<u>\$ 1,888,134</u>	<u>\$ 196,687</u>	<u>(3,232,584)</u>	<u>146,912</u>	<u>(3,085,673)</u>
General Revenues:						
Taxes:						
Property Taxes				1,485,502	-	1,485,502
Mitigation Fees				60,196	32,442	92,638
Other Taxes				1,465,157	-	1,465,157
Interest				63,531	16,168	79,699
Licenses and Permits				67,648	-	67,648
Fines and Penalties				33,258	20,366	53,624
Intergovernmental Income				85,700	-	85,700
Miscellaneous				134,931	15,673	150,604
Total General Revenues				<u>3,395,923</u>	<u>84,649</u>	<u>3,480,573</u>
Change in Net Assets				163,339	231,561	394,900
Net Assets - Beginning				8,985,045	7,010,146	15,995,191
Net Assets - Ending				<u>\$ 9,148,384</u>	<u>\$ 7,241,707</u>	<u>\$ 16,390,091</u>

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

**City of Nevada City
Balance Sheet
Governmental Funds
June 30, 2006**

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>
ASSETS			
Cash	\$ 1,130,832	\$ 890,986	\$ 2,021,818
Accounts Receivable	240,292	2,535	242,827
Interest Receivable	-	1	1
Prepaid Expenses	131,419	-	131,419
Due From Other Funds	209,838	-	209,838
Due From Other Governments	85,214	9,357	94,571
Total Assets	<u>\$ 1,797,595</u>	<u>\$ 902,879</u>	<u>\$ 2,700,474</u>

LIABILITIES AND FUND BALANCES

Liabilities:

Accounts Payable	\$ 120,558	\$ 11,383	\$ 131,941
Salaries and Benefits Payable	26,777	-	26,777
Due to Other Funds	104,240	48,472	152,712
Total Liabilities	<u>251,575</u>	<u>59,855</u>	<u>311,430</u>

Fund Balances:

Unreserved	935,950	453,195	1,389,145
Reserved	665,250	61,856	727,106
Net Income	(55,179)	327,972	272,793
Total Fund Balance	<u>1,546,020</u>	<u>843,023</u>	<u>2,389,043</u>

Total Liabilities and Fund Balances	<u>\$ 1,797,595</u>	<u>\$ 902,879</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.	7,910,927
Compensated absences payable may not be due in the current period and therefore is not reported in the fund.	(138,340)
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.	(1,013,248)

Net Assets of Governmental Activity	<u>\$ 9,148,384</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, 2006

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES			
Property Taxes	\$ 1,485,502	\$ -	\$ 1,485,502
Mitigation Fees	36,437	23,759	60,196
Other Taxes	1,388,955	76,202	1,465,157
Charges For Services	188,826	50,656	239,482
Interest Income	37,377	26,154	63,531
Licenses and Permits	67,648	-	67,648
Fines and Penalties	33,258	-	33,258
Grant Revenue	71,988	124,699	196,687
Intergovernmental Income	85,699	-	85,699
Miscellaneous Revenue	33,887	101,044	134,931
Total Revenue	<u>3,429,577</u>	<u>402,514</u>	<u>3,832,091</u>
EXPENDITURES			
General Government	3,328,124	20,374	3,348,498
Debt Service:			
Principal	91,330	24,247	115,577
Interest	34,590	21,066	55,656
Capital Outlay	30,712	8,855	39,567
Total Expenditures	<u>3,484,756</u>	<u>74,542</u>	<u>3,559,298</u>
Change in Fund Balances Before Other Financing Sources (Uses)	(55,179)	327,972	272,793
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	(55,179)	327,972	272,793
Fund Balance - Beginning of Year	<u>1,601,199</u>	<u>515,051</u>	<u>2,116,250</u>
Fund Balance - End of Year	<u>\$ 1,546,020</u>	<u>\$ 843,023</u>	<u>\$ 2,389,043</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, 2006

Net Change in Fund Balance - Governmental Fund \$ 272,793

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 (\$39,567) exceeded depreciation expense (\$279,640) in the current period. (240,073)

In the statement of activities, only the loss from the disposal of fixed assets is reported (\$2,243), whereas in the governmental funds, the proceeds from any sale increase financial resources (\$0). (2,243)

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. 115,577

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. 17,285

Change in Net Assets - Governmental Activities \$ 163,339

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

City of Nevada City
Statement of Net Assets
Proprietary Funds
June 30, 2006

	ENTERPRISE FUNDS		
	Water	Sewer	Total
ASSETS			
Current Assets			
Cash and Cash Equivalents	\$ 159,744	\$ 546,044	\$ 705,788
Accounts Receivable (net)	94,566	205,812	300,378
Due From Other Funds	184,477	50,353	234,830
Prepaid Expenses	12,027	15,413	27,440
Bond Issue Costs - Net of Accumulated Amortization	-	23,312	23,312
Total Current Assets	<u>450,814</u>	<u>840,933</u>	<u>1,291,747</u>
Noncurrent Assets			
Restricted Assets:			
Debt Services Cash	-	154,007	154,007
Capital Assets	3,856,091	12,263,492	16,119,583
Accumulated Depreciation	<u>(1,959,633)</u>	<u>(3,632,821)</u>	<u>(5,592,454)</u>
Total Noncurrent Assets	<u>1,896,458</u>	<u>8,784,678</u>	<u>10,681,136</u>
Total Assets	<u>2,347,272</u>	<u>9,625,611</u>	<u>11,972,883</u>
LIABILITIES			
Current Liabilities			
Accounts Payable	12,336	421,859	434,195
Accrued Expenses	10,349	18	10,367
Compensated Absences	10,119	-	10,119
Due To Other Funds	<u>214,416</u>	<u>86,897</u>	<u>301,313</u>
Total Current Liabilities	<u>247,220</u>	<u>508,774</u>	<u>755,994</u>
Noncurrent Liabilities			
Long-Term Liabilities:			
Due Within One Year	65,830	61,000	126,830
Due in More Than One Year	<u>778,229</u>	<u>3,070,123</u>	<u>3,848,352</u>
Total Noncurrent Liabilities	<u>844,059</u>	<u>3,131,123</u>	<u>3,975,182</u>
Total Liabilities	<u>1,091,278</u>	<u>3,639,897</u>	<u>4,731,176</u>
NET ASSETS			
Contributed Capital	913,231	4,720,996	5,634,227
Reserved for Specific Purposes	71,575	71,575	143,150
Reserved for Bond Retirement	105,350	127,759	233,109
Unrestricted Assets	135,338	864,321	999,659
Net Income	30,498	201,063	231,561
Total Net Assets	<u>\$ 1,255,992</u>	<u>\$ 5,985,714</u>	<u>\$ 7,241,706</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, 2006

	ENTERPRISE FUNDS		
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
OPERATING REVENUES			
Charges For Services	\$ 472,106	\$ 1,176,545	\$ 1,648,651
Total Operating Revenue	<u>472,106</u>	<u>1,176,545</u>	<u>1,648,651</u>
OPERATING EXPENSES			
Salary Expense	132,597	110,553	243,150
Materials and Supplies	31,543	167,511	199,055
Telephone and Utilities	87,238	78,092	165,330
Repairs and Maintenance	9,443	24,717	34,160
Purchase of Services	23,181	189,967	213,148
Fringe Benefits	47,764	52,076	99,839
Insurance	10,772	14,458	25,230
Depreciation Expense	100,446	221,551	321,997
Amortization Expense	-	1,422	1,422
Other Expenses	19,116	30,429	49,545
Total Operating Expenses	<u>462,099</u>	<u>890,777</u>	<u>1,352,876</u>
Operating Income (Loss)	10,007	285,768	295,775
NON-OPERATING REVENUES (EXPENSES)			
Interest Income	7,920	8,249	16,168
Mitigation Fees	20,308	12,133	32,442
Interest Expense	(38,507)	(110,356)	(148,863)
Miscellaneous Income (Expense)	30,770	5,269	36,039
Total Non-operating Revenue (Expense)	<u>20,491</u>	<u>(84,706)</u>	<u>(64,214)</u>
Net Income (Loss) Before Contributions and Transfers	30,498	201,063	231,561
Capital Contributions	-	-	-
Transfers In	-	-	-
Transfers Out	-	-	-
Change in Net Assets	<u>30,498</u>	<u>201,063</u>	<u>231,561</u>
Total Net Assets - Beginning	<u>1,225,494</u>	<u>5,784,651</u>	<u>7,010,145</u>
Total Net Assets - Ending	<u>\$ 1,255,992</u>	<u>\$ 5,985,714</u>	<u>\$ 7,241,706</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, 2006

Cash Flows From Operating Activities	
Operating Income (Loss)	\$ 231,561
Adjustments to Reconcile Operating Income to Cash Provided by Operating Activities:	
Depreciation Expense	321,997
Amortization Expense	1,422
Changes in Assets and Liabilities:	
Decrease in Accounts Receivable	(14,662)
(Increase) in Interest Receivable	2,966
(Increase) in Prepaid Expenses	57,876
(Increase) in Due From Other Funds	53,729
Increase in Accounts Payable	366,364
Increase in Accrued Liabilities	(5,794)
Increase in Compensated Absences	(943)
Net Cash Provided by Operating Activities	<u>1,014,516</u>
Cash Flows from Noncapital Financing Activities	
(Increase) in Due From Other Funds	<u>64,238</u>
Operating Subsidies and Transfers to Other Funds	<u>64,238</u>
Cash Flow from Capital and Related Financing Activities	
Acquisition of Fixed Assets	(2,478,099)
Additions to Debt	2,150,123
Principal Paid on Debt	<u>(212,940)</u>
Net Cash Used for Investing Activities	<u>(540,916)</u>
Increase in Cash and Cash Equivalents	537,838
Cash and Cash Equivalents June 30, 2005	167,950
Cash and Cash Equivalents June 30, 2006	<u>\$ 705,788</u>

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

**City of Nevada City
Statement of Fiduciary Funds
June 30, 2006**

	FIDUCIARY FUNDS		
	Expendable Trust	Non- Expendable Trust	Total
ASSETS			
Current Assets			
Cash and Cash Equivalents	\$ (7,532)	\$ 99,729	\$ 92,197
Total Assets	(7,532)	99,729	92,197
 NET ASSETS			
Net Assets Held in Trust	(7,532)	99,729	92,197
Total Net Assets	(7,532)	99,729	92,197

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, 2006

	FIDUCIARY FUNDS		
	Expendable	Non-	Total
	Trust	Expendable Trust	
REVENUES			
Other Income	\$ 4,355	\$ -	\$ 4,355
Interest Income	-	58,292	58,292
Total Revenue	4,355	58,292	62,647
EXPENSES			
Other Expenses	6,723	-	6,723
Total Expenses	6,723	-	6,723
Income (Loss)	\$ (2,368)	\$ 58,292	\$ 55,924

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

CITY OF NEVADA CITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

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, 2006

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, 2006 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, 2006**

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, 2006**

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, 2006**

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, 2006 was \$279,640.

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, 2006 was \$100,446 for the water fund and \$221,551 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, 2006.

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, 2006**

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, 2006

NOTE 2: CASH AND INVESTMENTS

Cash and investments at June 30, 2006 consisted of the following:

General Fund	\$ 1,130,831
Special Revenue Fund	890,986
Enterprise Funds	859,795
Trust and Agency Funds	<u>92,197</u>
Total	<u>\$ 2,973,809</u>

The City is required by the United States Department of Agriculture to have 10% of their annual USDA debt payments set aside in a cash reserved fund. At June 30, 2006 the City was in compliance with this USDA requirement by having \$154,007 in debt service cash reserved.

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, 2006**

NOTE 3: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2006, was as follows:

	July 1, 2005 Balance	Increases	Decreases	June 30, 2006 Balance
Governmental Activities:				
Capital assets, not being depreciated:				
Land and improvements	\$ 1,029,482	\$ -	\$ -	\$ 1,029,482
Total capital assets, not being depreciated	<u>1,029,482</u>	<u>-</u>	<u>-</u>	<u>1,029,482</u>
Capital assets, being depreciated :				
Land improvements	4,296,026		-	4,296,026
Structures and improvements	3,721,198	8,855	-	3,730,053
Vehicles	281,799	344,924	-	626,723
Furniture & fixtures	70,014	1,185	-	71,199
Equipment	1,560,539	29,758	(15,832)	1,574,465
Total capital assets, being depreciated	<u>9,929,576</u>	<u>384,722</u>	<u>(15,832)</u>	<u>10,298,466</u>
Government Activities Capital Assets	<u>10,959,058</u>	<u>384,722</u>	<u>(15,832)</u>	<u>11,327,948</u>
Less accumulated depreciation for:				
Land improvements	(1,144,270)	(98,027)	-	(1,242,297)
Structures and improvements	(526,120)	(92,225)	-	(618,345)
Vehicles	(137,499)	(32,043)	-	(169,542)
Furniture & fixtures	(32,090)	(7,011)	-	(39,101)
Equipment	(1,310,992)	(50,334)	13,590	(1,347,736)
	<u>(3,150,971)</u>	<u>(279,640)</u>	<u>13,590</u>	<u>(3,417,021)</u>
Total capital assets, being depreciated, Net	<u>6,778,605</u>	<u>105,082</u>	<u>(2,242)</u>	<u>6,881,445</u>
Government Activities Capital Assets, Net	<u>\$ 7,808,087</u>	<u>\$ 105,082</u>	<u>\$ (2,242)</u>	<u>\$ 7,910,927</u>

**CITY OF NEVADA CITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

NOTE 3: CAPITAL ASSETS (CONT'D)

	July 1, 2005 Balance	Increases	Decreases	June 30, 2006 Balance
Business-type Activities:				
Water Fund				
Capital assets, being depreciated:				
Structures and improvements	\$ 3,749,645	\$ -	\$ -	\$ 3,749,645
Equipment	106,446	-	-	106,446
Total water fund capital assets, being depreciated	<u>3,856,091</u>	<u>-</u>	<u>-</u>	<u>3,856,091</u>
Sewer Fund				
Capital assets, being depreciated:				
Structures and improvements	7,496,298	2,478,099	-	9,974,397
Equipment	2,289,094	-	-	2,289,094
Total sewer fund capital assets, being depreciated	<u>9,785,392</u>	<u>2,478,099</u>	<u>-</u>	<u>12,263,491</u>
Total Business-type Capital Assets	<u>13,641,483</u>	<u>2,478,099</u>	<u>-</u>	<u>16,119,582</u>
Less accumulated depreciation for:				
Water Fund				
Structures and improvements	(1,775,488)	(93,750)	-	(1,869,238)
Equipment	(83,699)	(6,696)	-	(90,395)
Total water fund accumulated depreciation	<u>(1,859,187)</u>	<u>(100,446)</u>	<u>-</u>	<u>(1,959,633)</u>
Sewer Fund				
Structures and improvements	(2,642,224)	(161,398)	4,937	(2,798,685)
Equipment	(769,046)	(65,090)	-	(834,136)
Total sewer fund accumulated depreciation	<u>(3,411,270)</u>	<u>(226,488)</u>	<u>4,937</u>	<u>(3,632,821)</u>
Total Accumulated Depreciation	<u>(5,270,457)</u>	<u>(326,934)</u>	<u>4,937</u>	<u>(5,592,454)</u>
Business-type Activities Capital Assets, Net	<u>\$ 8,371,026</u>	<u>\$ 2,151,165</u>	<u>\$ 4,937</u>	<u>\$ 10,527,128</u>

CITY OF NEVADA CITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

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 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 2005-2006, the City's annual pension cost of \$288,416 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).

**CITY OF NEVADA CITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

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

	<u>Loan No.</u>	<u>Amount</u>
Farmers Home Loan, July 15, 1993, \$815,000 payable at 5% interest through June 30, 2037	92-11	\$ 640,000
City of Nevada City Wastewater Promissory Note, payable to the US Department of Agriculture, \$2,188,000, payable at 4.25% interest through July 2045	92-12	2,134,123
City of Nevada City Water System Promissory Note, payable to the US department of Agriculture, \$864,056, payable at 4.09% interest through October 2016		844,059
City of Nevada City 1982 Series A sewer bonds, \$150,000 payable at 5% interest through 2022	93-08	95,000
City of Nevada City 1982 Series B sewer bonds, \$446,000 payable at 5% interest through 2022	93-10	262,000
Loan payable to WestAmerica Bank for the purpose of expanding and renovating City Hall. \$1,100,000 payable at 4.55% through September 2012		693,798

**CITY OF NEVADA CITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

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

Loan payable to Oshkosh Capital for the purpose of purchasing fire equipment. \$296,428 payable at 4.39% through October 2014	272,181
Loan payable to Citizens Bank for the purpose of purchasing equipment. \$48,746 payable at 4.49% through April 2011	47,269
Compensated absences	<u>148,459</u>
Total	5,136,888
Less current portion long term debt	<u>(255,118)</u>
Total long term debt at June 30, 2006	\$ <u><u>4,881,770</u></u>

The five year increment requirements to amortize all debt outstanding as of June 30, 2006, are as follows:

CITY OF NEVADA CITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

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

Year Ending June 30,	Water Fund				Sewer Fund			
	#'s 92-12 Water Promissory Note		Water System Promissory Note		#93-08 1982 Sewer Series A Bonds		#93-10 1982 Sewer Series B Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 23,000	\$ 94,130	\$ 65,830	\$ 33,856	\$ 4,000	\$ 4,850	\$ 14,000	\$ 13,100
2008	24,000	93,133	68,550	31,136	4,000	4,700	16,000	12,400
2009	25,000	92,093	71,383	28,303	5,000	4,550	17,000	11,600
2010	26,000	91,009	74,332	25,354	5,000	4,400	18,000	10,750
2011	27,000	89,882	77,403	22,283	5,000	4,250	19,000	9,850
2012-2016	152,000	430,950	437,716	60,715	29,000	19,000	110,000	34,000
2017-2021	187,000	395,153	48,844	999	35,000	15,250	68,000	5,550
2022-2026	230,000	351,035	-	-	8,000	2,600	-	-
2027-2031	284,000	296,733	-	-	-	-	-	-
2032-2036	350,000	229,690	-	-	-	-	-	-
2037-2041	430,000	147,175	-	-	-	-	-	-
2042-2047	376,123	45,808	-	-	-	-	-	-
	<u>\$ 2,134,123</u>	<u>\$ 2,356,791</u>	<u>\$ 844,058</u>	<u>\$ 202,646</u>	<u>\$ 95,000</u>	<u>\$ 59,600</u>	<u>\$ 262,000</u>	<u>\$ 97,250</u>

Year Ending June 30,	Sewer Fund		General Fund				Special Revenue Fund	
	FmHA Loan		Facilities Lease		Equipment Loan		Equipment Loan	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 20,000	\$ 32,000	\$ 93,988	\$ 30,510	\$ 8,991	\$ 1,940	\$ 25,311	\$ 11,949
2008	20,000	31,000	98,313	26,185	9,403	1,528	26,422	10,838
2009	20,000	30,000	102,837	21,661	9,834	1,097	27,582	9,678
2010	20,000	29,000	107,569	16,929	10,284	646	28,793	8,467
2011	25,000	28,000	112,522	11,979	8,757	179	30,057	7,203
2012-2016	135,000	121,000	178,569	8,185	-	-	134,016	15,024
2017-2021	175,000	83,500	-	-	-	-	-	-
2022-2026	225,000	34,750	-	-	-	-	-	-
2027-2031	-	-	-	-	-	-	-	-
2032-2036	-	-	-	-	-	-	-	-
2037-2041	-	-	-	-	-	-	-	-
2042-2047	-	-	-	-	-	-	-	-
	<u>\$ 640,000</u>	<u>\$ 389,250</u>	<u>\$ 693,798</u>	<u>\$ 115,449</u>	<u>\$ 47,269</u>	<u>\$ 5,390</u>	<u>\$ 272,181</u>	<u>\$ 63,159</u>

**CITY OF NEVADA CITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

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

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, 2006 the amount of unused credit was \$500,000.

NOTE 8: INTERFUND TRANSACTIONS

During the course of normal operations, the City has numerous transactions between funds including expenditures and transfers of resources primarily to provide service. The government and proprietary fund financial statements generally reflect such transactions as transfers.

Interfund receivable and payable balances at June 30, 2006, arising from these transactions were as follows:

	Due From	Due To
General Fund	\$ 209,838	\$ 104,240
Special Revenue Fund	9,357	48,472
Water Fund	184,477	214,416
Sewer Fund	50,353	86,897
	\$ 454,025	\$ 454,025

NOTE 9: SUBSEQUENT EVENTS

On October 16, 2006, the City negotiated an increase in the line of credit with Citizens Bank. The new line available to the City was \$2,000,000. The City borrowed \$762,662 as of February 2, 2007.

REQUIRED SUPPLEMENTARY INFORMATION

**City of Nevada City
General Fund
Budgetary Comparison Schedule
June 30, 2006**

	<u>Budgeted Amounts</u>			Variances with Final Budget Positive (Negative)
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	
REVENUES				
Property Taxes	\$ 1,020,000	\$ 1,020,000	\$ 1,205,996	\$ 185,996
Supplemental Law Enforcement	100,000	100,000	109,545	9,545
Other Taxes	30,000	30,000	38,810	8,810
Sales Taxes	950,000	950,000	950,232	232
Room Taxes	360,000	360,000	<u>327,268</u>	(32,732)
Motor Vehicle Fees	210,000	210,000	187,074	(22,926)
Franchise Fees	72,000	72,000	71,525	(475)
Charges For Services	44,000	44,000	101,889	57,889
Planning Fees	40,000	40,000	31,932	(8,068)
Parking Meter Revenue	37,000	37,000	55,005	18,005
Interest Income	4,000	4,000	37,377	33,377
Licenses and Permits	50,000	50,000	67,648	17,648
Fines and Penalties	40,000	40,000	33,258	(6,742)
Grant Revenue	75,000	75,000	71,988	(3,012)
Rental Income	65,000	65,000	56,320	(8,680)
Miscellaneous Revenue	63,000	63,000	83,710	20,710
Total Revenues	<u>3,160,000</u>	<u>3,160,000</u>	<u>3,429,576</u>	<u>269,577</u>
EXPENDITURES				
General and Administration	697,187	697,187	683,957	13,230
Police	1,318,513	1,318,513	1,267,558	50,955
Fire	407,747	407,747	371,935	35,812
Public Works	606,031	606,031	677,020	(70,990)
Parks and Recreation	285,814	285,814	272,957	12,857
Miscellaneous	-	-	54,696	(54,696)
Capital Outlay	86,000	86,000	30,712	55,288
Debt Service	37,000	37,000	125,920	(88,920)
Total Expenditures	<u>3,438,292</u>	<u>3,438,292</u>	<u>3,484,755</u>	<u>(46,464)</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	(278,292)	(278,292)	(55,179)	223,113
Budgetary Fund Balance - Beginning of Year	<u>1,601,199</u>	<u>1,601,199</u>	<u>1,601,199</u>	<u>-</u>
Budgetary Fund Balance - End of Year	<u>\$ 1,322,907</u>	<u>\$ 1,322,907</u>	<u>\$ 1,546,020</u>	<u>\$ 223,113</u>

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

CITY OF NEVADA CITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2006

Federal Grantor/Pass-Through Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Revenue Accounts	Receipts or Revenues Recognized	Disbursements/ Expenditures
<u>WASTE WATER TREATMENT PLANT</u> A					
USDA Rural Development	04-029				
Loan - \$2,188,000		92-12	661-3500-148	\$ 2,150,123	\$ 2,188,000
Grant - \$1,000,000		00-13	661-3500-148	-	249,055
Loan - \$1,800,000		92-14	661-3500-148	-	-
Grant - \$ 602,000		00-15	661-3500-148	-	-
Subtotal 04-029				2,150,123	2,437,055

POLICE

OCJP B					
OCJP Drug Program			805-3500-149		
1st, 2nd, 3rd quarters, 2005-2006 FY				47,813	47,813
4th quarter, 2005-2006 FY				17,615	17,615
				65,428	65,428

A Nevada City police officer is assigned to the Drug Team. Funds are received for re-imburement of salary expenses.

FIRE DEPARTMENT

All federal grant activity is in 2004-05 or 2006-07.

PARK AND RECREATION DEPARTMENT

Environmental Protection Agency	06-359				
Nevada City Mines Open Space Assessment		68-818	815-8150		
Brownfields Grant: \$200,000					
Friends of Deer Creek					
Start Date: Aug. 1, 2006					
Ending Date: July 31, 2009					

No funds were received or disbursements made in the 2005-2006 FY.

Total Funds Received and Disbursed	\$ 2,215,551	\$ 2,502,483
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NOTES

The expenditures included herein are presented on the accrual basis of accounting, the same basis of accounting as the financial statements of the City of Nevada City, State of California. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-profit Organizations*.

The waste water treatment plant assets are adequately insured under the city's property casualty and other insurance policies.

See independent auditor's report

CITY OF NEVADA CITY
STATE OF CALIFORNIA
SINGLE AUDIT CONCERNING FEDERAL PROGRAMS
YEAR ENDED JUNE 30, 2006

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Nevada City, CA's financial statements are free of 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*.

This report is intended solely for the information and use of the audit committee, management, City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



McSweeney & Associates
Certified Public Accountants

Grass Valley, CA
February 16, 2007



**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133a**

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

Compliance

We have audited the compliance of the City of Nevada City, State of California, with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. The City of Nevada City, California's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Nevada City, State of California's management. Our responsibility is to express an opinion on the City of Nevada City, California's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about The City of Nevada City, California's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Nevada City, California's compliance with those requirements.

Edward J. McSweeney, CPA/ABV
Amanda E. Apple, CPA
Adria Green Corn, CPA, MBA (Tax)
Andrea Hamer, CPA
Zackary J. McSweeney, CPA, MBA

James C. Roberson, CPA/ABV, CVA
Robin Van Zee, CPA
Debra Wivholm, CPA, MBA (Tax)
Kathryn Whipple Wong, CPA

In our opinion, the City of Nevada City, State of California, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006

Internal Control Over Compliance

The management of the City of Nevada City, State of California, is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Nevada City, State of California's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the finance committee, management, City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.


McSWEENEY & ASSOCIATES
Certified Public Accountants

Grass Valley, California
March 23, 2007

**CITY OF NEVADA CITY, STATE OF CALIFORNIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2006**

1. The independent auditor's report expresses an unqualified opinion on the financial statements of the City of Nevada City, State of California for the year ended June 30, 2006.
2. There were no reportable conditions disclosed during the audit of the financial statements of the City of Nevada City, State of California for the year ended June 30, 2006.
3. There were no material weaknesses disclosed during the audit of the financial statements of the City of Nevada City, State of California for the year ended June 30, 2006.
4. No instances of noncompliance material to the financial statements of the City of Nevada City, State of California were disclosed during the audit.
5. The independent auditor's report on compliance for the major federal award programs for the City of Nevada City, State of California expresses an unqualified opinion on the major federal program.
6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this Schedule.
7. The program tested as a major program was the Waste Water Treatment Plant Renovation, Federal CFDA number 04-029. The threshold for distinguishing Types A and B programs was \$300,000.
8. The City of Nevada City, State of California did not qualify as a low-risk auditee.