

FORT BRAGG MUNICIPAL IMPROVEMENT DISTRICT NO. 1

FINANCIAL STATEMENTS

WITH INDEPENDENT AUDITOR'S REPORT

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JUNE 30, 2004

FORT BRAGG MUNICIPAL IMPROVEMENT DISTRICT NO. 1

FINANCIAL STATEMENTS

JUNE 30, 2004

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February 10, 2005

Board Members of the Fort Bragg
Municipal Improvement District No. 1
City of Fort Bragg
Fort Bragg, California

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the Fort Bragg Municipal Improvement District No. 1 ("District"), a component unit of the City of Fort Bragg, California, as of and for the years ended June 30, 2004 and 2003. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

Except as discussed in the following paragraph, we conducted our audits 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 significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The District has not maintained historical cost records of its capital assets as is required by accounting principles generally accepted in the United States of America. Due to the nature of the District's records, we were unable to satisfy ourselves as to the cost of recorded capital assets by means of other auditing procedures.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we audited capital assets, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2004 and 2003, the results of its operations, and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1 to the basic financial statements, the District adopted statements of the Governmental Accounting Standards Board No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*; No. 37, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments :Omnibus*; and No. 38, *Certain Financial Statement Note Disclosures*.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying Required Supplementary Information, such as management's discussion and analysis and budgetary comparison information as listed in the accompanying table of contents, are not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted primarily 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.

In accordance with *Government Auditing Standards*, we have also issued a report dated February 10, 2005 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

Odeberg Ullakko Murawski & Co LLP

**Fort Bragg Municipal Improvement District No. 1
Management's Discussion and Analysis
June 30, 2004**

As management of the Fort Bragg Municipal Improvement District No. 1 ("the District"), we offer readers of the District's financial statements this narrative overview and analysis of the financial statements of the District for the fiscal year ended June 30, 2004. We encourage readers to consider the information presented here and in our basic financial statements, which begin on page 7.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's financial statements. The District's financial statements are for a single proprietary fund and include the financial statements and notes to those financial statements.

Proprietary Fund Financial Statements

The District's operations are accounted for as a single proprietary fund using the full accrual basis of accounting. In this regard, the District operations are accounted for in a manner similar to a private business enterprise. Within this one proprietary fund, the District segregates revenues and expenses for various purposes such as operations, debt service and capital improvements, but that segregation does not create separate proprietary funds.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found beginning on page 10 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information and certain other supplementary information. Supplementary information can be found beginning on page 16 of this report.

Financial Highlights

- Total assets of the District exceeded total liabilities at the close of the fiscal year by \$4,972,385 (fund equity).
- Fund equity of the District decreased by \$(162,003) during the current fiscal year.
- Operating revenues increased by \$75,856.
- Capital assets net of accumulated depreciation decreased by \$(90,829).
- Operating expenses increased by \$208,714.

Table 1
Fund Equity

	<u>June 30,</u> <u>2004</u>	<u>June 30,</u> <u>2003</u>	<u>Increase/ (Decrease)</u>	<u>% Change</u>
Current and other assets	\$ 1,980,797	\$ 1,986,078	\$ (5,281)	-0.27%
Capital assets	4,159,997	4,250,826	(90,829)	-2.14%
Total assets	<u>6,140,794</u>	<u>6,236,904</u>	<u>(96,110)</u>	<u>-1.54%</u>
Current and other liabilities	338,633	184,386	154,247	83.65%
Long-term liabilities	829,776	918,130	(88,354)	-9.62%
Total liabilities	<u>1,168,409</u>	<u>1,102,516</u>	<u>65,893</u>	<u>5.98%</u>
Fund equity:				
Invested in capital assets, net of related debt	3,364,997	3,385,826	(20,829)	-0.62%
Restricted	35,000	35,000	-	0.00%
Unrestricted	1,572,388	1,713,562	(141,174)	-8.24%
Total fund equity	<u>\$ 4,972,385</u>	<u>\$ 5,134,388</u>	<u>\$ (162,003)</u>	<u>-3.16%</u>

Financial Condition

- The District's fund equity decreased by \$(162,003) during the fiscal year; (see Tables 1 and 2 for detail).
- The District's investment in capital assets represents the largest portion of fund equity (68%). The amount invested in capital assets, net of related debt, decreased by approximately \$(20,000).
- There was no change in restricted fund equity, which represents a reserve for legal fines.

Table 2
Results of Operations /Statement of Revenues, Expenses and Changes in Fund Equity

	Fiscal year ended		Increase/ (Decrease)	% Change
	June 30, 2004	June 30, 2003		
Operating revenues:				
Sewer service	\$ 1,073,103	\$ 997,247	\$ 75,856	7.61%
Operating expenses:				
Sewer collection	221,772	223,267	(1,495)	-0.67%
Sewer treatment	543,429	490,604	52,825	10.77%
General and administrative	332,685	168,175	164,510	97.82%
Depreciation and amortization	228,622	235,748	(7,126)	-3.02%
Total operating expenses	1,326,508	1,117,794	208,714	18.67%
Operating income (loss)	(253,405)	(120,547)	(132,858)	110.21%
Nonoperating revenues (expenses):				
Taxes	54,151	52,014	2,137	4.11%
Intergovernmental	47,031	-	47,031	100.00%
Sewer installation fees	87,730	47,741	39,989	83.76%
Interest	20,328	28,608	(8,280)	-28.94%
Interest expense	(48,986)	(44,203)	(4,783)	10.82%
Other	5,179	16,006	(10,827)	-67.64%
Net nonoperating revenues (expenses)	165,433	100,166	65,267	65.16%
Income before operating transfers	(87,972)	(20,381)	(67,591)	331.64%
Operating transfers in	217,413	459,672	(242,259)	-52.70%
Operating transfers out	(291,444)	(309,672)	18,228	-5.89%
	(74,031)	150,000	(224,031)	-149.35%
Net income (loss)	(162,003)	129,619	(291,622)	-224.98%
Fund equity at beginning of fiscal year	5,134,388	5,131,709	2,679	0.05%
Prior period adjustment	-	(126,940)	126,940	-100.00%
Fund equity at end of fiscal year	\$ 4,972,385	\$ 5,134,388	\$ (162,003)	-3.16%

Total operating revenue of \$1,073,103 increased by \$75,856 for the current year while operating expenses of \$1,326,508 increased by \$208,714, providing a decrease of net operating income of \$(162,003) when compared to the prior year.

The major changes in revenues and expenses from the prior fiscal year were due to the following:

- Sewer service charges increased by \$75,856 due to continuing increases in system use. FY03 sewer services charges had been \$40,000 higher than in FY02.
- Operating expense increased by \$208,714. The largest factors were increases in general and administrative expenses arising from internal organizational cost allocations and in sewer treatment expenses due to high chemical prices and increasing regulatory testing and analysis.
- Non-operating revenues increased by \$70,050 due to higher intergovernmental (grants) revenues and higher sewer installation fees.

Table 3
Capital assets net of accumulated depreciation (unaudited)

	June 30, 2004	(Restated) June 30, 2003	Increase/ (Decrease)	% Change
Land and easements	\$ 69,000	\$ 69,000	\$ -	0.00%
Buildings	2,098,721	2,147,367	(48,646)	-2.27%
Utility plant	1,716,139	1,691,924	24,215	1.43%
Equipment and improvements	276,137	342,535	(66,398)	-19.38%
Total	<u>\$ 4,159,997</u>	<u>\$ 4,250,826</u>	<u>\$ (90,829)</u>	<u>-2.14%</u>

The District had \$4,159,997 (net of accumulated depreciation) invested in wastewater utility capital assets as of June 30, 2004. The investment in capital assets includes land, buildings, improvements, wastewater treatment plants, pump stations, and machinery and equipment (see Table 3 above). This amount represents a decrease of \$(90,829) over the prior fiscal year.

As discussed in Note 8 of the Notes to Basic Financial Statements (page 17 of this report), the District's net assets as of July 1, 2003 were restated to correct the capital assets by reducing the net book value by \$126,940.

Table 4
Long Term Debt

	June 30, 2004	June 30, 2003	Increase/ (Decrease)	% Change
1970 Sewer Revenue Bonds	\$ 180,000	\$ 220,000	\$ (40,000)	-18.18%
1998 Wastewater Revenue Bonds	615,000	645,000	(30,000)	-4.65%
Unamortized costs of issuance	(48,970)	(55,499)	6,529	-11.76%
	<u>\$ 746,030</u>	<u>\$ 809,501</u>	<u>\$ (63,471)</u>	<u>-7.84%</u>

As of June 30, 2004 the District had total long-term debt outstanding of \$746,030, net of unamortized costs, which is a net decrease of \$(63,471) over the prior year.

The District is required by bond covenants to maintain principal, interest, and reserve funds for each bond issue outstanding.

Looking Forward

Subsequent to June 30, 2004, the City Council/Municipal Improvement District Board members approved increases in sewer service charges effective November 1, 2004. Rates for single family residences increased from \$35.00 bimonthly to \$45.24 bimonthly and, with corresponding increases in commercial rates, are expected to increase sewer service revenues by approximately \$200,000 in fiscal year 2004/05, and \$300,000 in fiscal year 2005/06.

City staff is evaluating a capital improvement plan for the entire wastewater collection and treatment system. Substantial multi-year expenditures are indicated.

Request for Information

This financial report is to provide interested parties with a general overview of the District's finances. If you have any questions about this report or need additional information, you may submit a request in writing to: Mark Johnson, Finance Director, Fort Bragg Municipal Improvement District No. 1, 416 North Franklin Street, Fort Bragg CA 95437.

FORT BRAGG MUNICIPAL IMPROVEMENT DISTRICT NO. 1

BALANCE SHEET

	June 30,	
	2004	2003 (Restated)
<u>ASSETS</u>		
Current assets:		
Cash and investments	\$ 877,573	\$ 918,145
Cash and investments with fiscal agent	843,249	838,010
Accounts receivable	206,079	174,424
Prepaid and other current assets	4,926	-
Total current assets	<u>1,931,827</u>	<u>1,930,579</u>
Capital assets:		
Land	69,000	69,000
Buildings	3,322,742	3,322,742
Utility plant in service	4,023,580	3,905,710
Equipment	882,523	869,129
Accumulated depreciation	(4,137,848)	(3,915,755)
Capital assets, net	<u>4,159,997</u>	<u>4,250,826</u>
Other assets:		
Unamortized costs of issuance	48,970	55,499
	<u>48,970</u>	<u>55,499</u>
 Total assets	 <u>\$ 6,140,794</u>	 <u>\$ 6,236,904</u>

LIABILITIES AND FUND EQUITY

Current liabilities:		
Accounts payable and accrued liabilities	\$ 196,808	\$ 41,196
Interest payable	12,002	8,600
Current portion of bonds payable	70,000	70,000
Leases payable - current	18,354	15,355
Deferred revenue	19,793	12,499
Compensated absences payable	21,676	36,736
Total current liabilities	<u>338,633</u>	<u>184,386</u>
Leases payable, net	104,776	123,130
Bonds payable, net	725,000	795,000
Total liabilities	<u>1,168,409</u>	<u>1,102,516</u>
Fund equity:		
Invested in capital assets, net of related debt	3,364,997	3,385,826
Restricted for wastewater fine	35,000	35,000
Unrestricted	1,572,388	1,713,562
Total fund equity	<u>4,972,385</u>	<u>5,134,388</u>
 Total liabilities and fund equity	 <u>\$ 6,140,794</u>	 <u>\$ 6,236,904</u>

See accompanying notes to financial statements.

FORT BRAGG MUNICIPAL IMPROVEMENT DISTRICT NO. 1

STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND EQUITY

	For the Fiscal Year Ended June 30,	
	2004	2003
Operating revenues:		
Sewer service	\$ 1,073,103	\$ 997,247
Operating expenses:		
Sewer collection	221,772	223,267
Sewer treatment	543,429	490,604
General and administrative	332,685	168,175
Depreciation and amortization	228,622	235,748
Total operating expenses	<u>1,326,508</u>	<u>1,117,794</u>
Operating income (loss)	<u>(253,405)</u>	<u>(120,547)</u>
Nonoperating revenues (expenses):		
Taxes	54,151	52,014
Intergovernmental	47,031	-
Sewer installation fees	87,730	47,741
Interest	20,328	28,608
Interest expense	(48,986)	(44,203)
Other	5,179	16,006
Net nonoperating revenues (expenses)	<u>165,433</u>	<u>100,166</u>
Income before operating transfers	<u>(87,972)</u>	<u>(20,381)</u>
Operating transfers in	217,413	459,672
Operating transfers out	<u>(291,444)</u>	<u>(309,672)</u>
	<u>(74,031)</u>	<u>150,000</u>
Net income (loss)	(162,003)	129,619
Fund equity at beginning of fiscal year	5,134,388	5,131,709
Prior period adjustment	-	(126,940)
Fund equity at end of fiscal year	<u>\$ 4,972,385</u>	<u>\$ 5,134,388</u>

See accompanying notes to financial statements.

FORT BRAGG MUNICIPAL IMPROVEMENT DISTRICT NO. 1

STATEMENT OF CASH FLOWS

	For the Fiscal Year Ended June 30,	
	<u>2004</u>	<u>2003</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	\$ 1,041,448	\$ 1,013,333
Cash received from other operating activities	-	
Cash paid to suppliers	(437,655)	(435,527)
Cash paid to employees	(517,311)	(495,289)
Net cash provided by operating activities	<u>86,482</u>	<u>82,517</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Transfers in from other funds	217,413	150,000
Transfers out to other funds	(291,444)	-
Net cash provided by (used for) noncapital financing activities	<u>(74,031)</u>	<u>150,000</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Bonds issued	-	
Principal payments - bonds	(70,000)	(60,000)
Interest payments/Debt costs/Lease payments	(60,938)	(44,203)
Proceeds from grants/other non-operating	194,091	52,015
Capital expenditures	(131,264)	(76,588)
Net cash used for capital and related financing activities	<u>(68,111)</u>	<u>(128,776)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	20,327	28,608
Change in restricted investments	-	
Net cash provided by investing activities	<u>20,327</u>	<u>28,608</u>
Net change in cash and cash equivalents	(35,333)	132,349
Cash and cash equivalents at beginning of year	1,756,155	1,623,806
Cash and cash equivalents at end of year	<u>\$ 1,720,822</u>	<u>\$ 1,756,155</u>
Reconciliation of operating income to net cash provided (used)		
by operating activities:		
Operating income (loss)	\$ (253,405)	\$ (120,547)
Adjustments to reconcile operating income to net cash provided (used)		
by operating activities:		
Depreciation and amortization expense	228,622	235,748
Changes in assets and liabilities:		
Decrease (increase) in accounts receivable	(31,655)	(863)
Decrease (increase) in other assets	(4,926)	
(Decrease) increase in accounts payable and accrued liabilities	155,612	(102,202)
(Decrease) increase in other liabilities	(7,766)	(12,912)
(Decrease) increase in other		83,293
Net cash provided by operating activities	<u>\$ 86,482</u>	<u>\$ 82,517</u>

See accompanying notes to financial statements

FORT BRAGG MUNICIPAL IMPROVEMENT DISTRICT NO. 1

NOTES TO BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 1 - Summary of significant accounting policies:

Description of component unit

The reporting entity for the Fort Bragg Municipal Improvement District No. 1 ("District") includes all the funds and operations under the jurisdiction of the District's Board of Directors. The City Council of the City of Fort Bragg ("City") operates as the Board of Directors of the District and the City Manager, Finance Director and Clerk function as the Executive Director, Fiscal Officer and Secretary of the District, respectively. These City employees receive no additional compensation for work performed in these capacities. The District's operations are also reported in the financial statements of the City, as an Enterprise Fund. As such, the City and the District have a relationship that meets the reporting entity definition criteria of GASB 14 for inclusion as a component unit of the City.

Basis of accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied. District revenues and expenses are recognized on the accrual basis. Revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred.

The District is organized on the basis of funds. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenses. District resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The District's funds are organized into a single Enterprise Fund for reporting purposes. Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises. The intent of the governing body is to finance, or recover through user charges, the costs, including depreciation, of providing goods or services to the general public.

Capital assets

All purchased capital assets are valued at historical cost. Utility Plant assets represent an accumulation of capital outlays at cost. These assets are depreciated using the straight-line method over the assets' useful lives, which range from 5 to 75 years.

Unamortized costs of issuance

Bond issuance costs are deferred and amortized over the term of the bonds using a method that approximates the interest method.

Compensated absences

Earned vacation and a portion of accumulated sick leave payable upon termination or retirement are accrued as a compensated absence liability. The accrual includes the City's share of payroll taxes. Regular employees earn vacation hours based on years of continuous service. No more than 240 hours, or 320 hours after 10 continuous years of services, may be accumulated. Also, regular employees are given credit for eight hours' sick leave each month of employment with unlimited accumulation. Each employee who has two or more years of service with the City and who separates from City service for any reason, except discharge for cause, is entitled to payment of the monetary equivalent of 30% of unused sick leave accrued to a maximum of 1,000 hours.

Property taxes

All property taxes are collected and allocated by the County of Mendocino ("County") to the various taxing entities. Property taxes are determined annually and attach as an enforceable lien on real property as of March 1. Taxes are due November 1 and February 1 and are delinquent if not paid by December 10 and April 10, respectively. The City and County have adopted the Alternative Method of Tax Apportionment known as the "Teeter Plan." Under the plan, the County allocates property taxes when levied.

Statement calculations and use of estimates

Due to rounding, column and row calculations may approximate actual figures. Approximations may result when decimal places are eliminated to present whole numbers.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 general purpose financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Implementation of New GASB Pronouncements

Effective July 1, 2003, the District adopted the provisions of GASB No. 34, issued in June 1999; GASB No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus* ("GASB No. 37") issued in June 2001 and GASB No. 38, *Certain Financial Statement Disclosures* ("GASB No. 38") issued in June 2001.

GASB No. 34 established new financial reporting requirements for state and local governments. GASB No. 37 amends GASB No. 21, *Accounting for Escheat Property* ("GASB No. 21"), and GASB No. 34. Escheat property that would have been reported in an expendable trust fund under GASB No. 21 generally should be reported in a private-purpose trust fund under GASB No. 34. GASB No. 38 modifies disclosure requirements.

Reclassification of financial statement presentation

Certain prior period amounts have been reclassified in order to conform to the fiscal 2004 financial statement presentation. Fund equity at June 30, 2003 was restructured to present three components as follows:

	<u>As Previously Reported</u>	<u>Reclass</u>	<u>As Currently Reported</u>
Contributions	\$ 2,097,394	\$ (2,097,394)	\$ -
Retained earnings-reserved	35,000	(35,000)	-
Retained earnings-unreserved	3,128,934	(3,128,934)	-
Invested in Capital Assets, Net of Related Debt		3,385,826	3,385,826
Restricted		35,000	35,000
Unrestricted	-	1,713,562	1,713,562
	<u>\$ 5,261,328</u>	<u>\$ (126,940)</u>	<u>\$ 5,134,388</u>

NOTE 2 - Cash and investments:

The City maintains a cash and investment pool that is available for use by all funds. Cash and investments shown on the balance sheet represent the District's share of the City's cash and investment pool. Refer to the City's basic financial statements for disclosures of cash and investments and related custodial risk categorization.

The District also maintains cash and investments with a fiscal agent, which represent proceeds from the 1998 Wastewater Revenue Bonds, which are held debt service requirements. The fiscal agent has invested such proceeds in institutional funds.

For purposes of the statement of cash flows, all highly liquid investments with an original maturity of three months or less are considered to be cash equivalents.

NOTE 3 – Capital assets:

The following is a summary of capital assets (unaudited) of the District as of June 30, 2004:

Capital assets not being depreciated:	
Land and easements	\$ 69,000
Construction in progress	-
	<u>69,000</u>
Depreciable capital assets:	
Building	3,322,742
Utility plant	4,023,580
Vehicles and equipment	882,523
Total	<u>8,228,845</u>
Less accumulated depreciation for:	
Building	1,224,021
Utility plant	2,307,441
Vehicles and equipment	606,386
	<u>4,137,848</u>
Depreciable capital assets, net	<u>4,090,997</u>
Total capital assets, net	<u>\$ 4,159,997</u>

The District's capital asset activity (unaudited) for the fiscal year was as follows:

	(restated) June 30, 2003	Increases	Decreases	June 30, 2004
Capital assets not being depreciated:				
Land and easements	\$ 69,000	\$ -	\$ -	\$ 69,000
Construction in progress	-	-	-	-
	<u>69,000</u>	<u>-</u>	<u>-</u>	<u>69,000</u>
Depreciable capital assets:				
Buildings	3,322,742	-	-	3,322,742
Utility plant	3,905,710	117,870	-	4,023,580
Equipment and improvements	869,129	13,394	-	882,523
Total	<u>8,097,581</u>	<u>131,264</u>	<u>-</u>	<u>8,228,845</u>
Less accumulated depreciation for:				
Buildings	1,175,375	48,646	-	1,224,021
Utility plant	2,213,786	93,655	-	2,307,441
Equipment and improvements	526,594	79,792	-	606,386
	<u>3,915,755</u>	<u>222,093</u>	<u>-</u>	<u>4,137,848</u>
Depreciable capital assets, net	<u>4,181,826</u>	<u>(90,829)</u>	<u>-</u>	<u>4,090,997</u>
Total capital assets, net	<u>\$ 4,250,826</u>	<u>\$ (90,829)</u>	<u>\$ -</u>	<u>\$ 4,159,997</u>

NOTE 4 - Long-term debt:

In 1970, the City issued Sewer Revenue Bonds on behalf of the District in the amount of \$585,000. The Bonds bear interest at rates ranging from 6.2% to 6.75% which is payable semi-annually on October 1 and April 1. The Bonds mature at varying amounts through the year 2007.

In 1998, the District issued Wastewater Revenue Bonds in the amount of \$770,000 with interest rates ranging from 3.75% to 4.40% which is payable semi-annually on October 1 and April 1. The Bonds mature through the year 2019.

Changes in long-term obligations and debt for the fiscal year ended June 30, 2004 are as follows:

	June 30, 2003	Additions	Payments	June 30, 2004	Due in one year
1970 Sewer Revenue Bonds	\$ 220,000	\$ -	\$ 40,000	\$ 180,000	\$ 40,000
1998 Wastewater Revenue Bonds	645,000	-	30,000	615,000	30,000
	<u>\$ 865,000</u>	<u>\$ -</u>	<u>\$ 70,000</u>	<u>\$ 795,000</u>	<u>\$ 70,000</u>

Aggregate maturities of the District's debt for the fiscal years ending June 30 are as follows:

Fiscal Year Ending June 30,	1970 Sewer Revenue Bonds	1998 Wastewater Revenue Bonds	Total
2005	\$ 41,340	\$ 60,855	\$ 102,195
2006	46,508	59,550	106,058
2007	46,519	58,140	104,659
2008	51,687	61,515	113,202
2009	-	59,765	59,765
2010-2014	-	294,903	294,903
2015-2019	-	290,112	290,112
2020-2024	-	-	-
Total debt service	<u>186,054</u>	<u>884,840</u>	<u>1,070,894</u>
Less - interest	<u>(6,054)</u>	<u>(269,840)</u>	<u>(275,894)</u>
Principal	180,000	615,000	795,000
Less - current portion	<u>(40,000)</u>	<u>(30,000)</u>	<u>(70,000)</u>
Long-term portion	<u>\$ 140,000</u>	<u>\$ 585,000</u>	<u>\$ 725,000</u>

NOTE 5 - Risk management:

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The District participates in the Redwood Empire Municipal Insurance Fund ("REMIF") as a component unit of the City. The purpose of REMIF is to spread the adverse effects of losses among the member agencies and to purchase excess insurance as a group, thereby reducing expenses. The District, through cost allocation from the City, contributes its pro rata share of anticipated losses to pools administered by REMIF.

For a description of the types of coverage, amount of deductibles and excess liability and explanation of the District's rights and responsibilities, see Note 8 of the City's basic financial statements.

NOTE 6 - Summary of assessed valuation (unaudited):

The following presents a summary of assessed valuation of taxable real and personal property in the Fort Bragg Municipal Improvement District No. 1 for the most recent five years:

<u>Fiscal Year</u>	<u>Real Property</u>	<u>Personal Property</u>	<u>Total</u>
2003-04	\$ 431,526,723	\$ 26,422,855	\$ 457,949,578
2002-03	418,215,912	23,315,854	441,531,766
2001-02	396,398,471	21,609,111	418,007,582
2000-01	375,187,603	22,067,564	397,255,167
1999-00	353,000,232	23,109,254	376,109,486

NOTE 7 - User fees:

The District generates its operating revenues through user fees charged to residential and commercial customers for sewer services. The following is a summary of applicable user fees in effect since July 1, 2001:

<u>Residential</u>	<u>Commercial</u>
\$16.50 per month	\$2.06 per 100 cubic feet

Effective November 1, 2004, user fees for both residential and commercial customers were increased by approximately 30% to bring operating revenue into closer correspondence with operating expenses.

NOTE 8 - Restatement:

The District's net assets as of July 1, 2003 were restated to correct the Capital assets by reducing the net book value by \$126,940 with a corresponding decrease to fund equity. As previously noted, the District has not maintained adequate historical cost records of capital assets as required by accounting principles generally accepted in the United States of America. Due to the nature of the District's records, we were unable to satisfy ourselves as to the cost of recorded fixed assets by means of other auditing procedures; therefore, there may be further adjustments recorded in the future related to capital assets.

OTHER REQUIRED SUPPLEMENTARY INFORMATION

FORT BRAGG MUNICIPAL IMPROVEMENT DISTRICT NO. 1

Required Supplementary Information
Budgetary Comparison Schedule
For Fiscal Year Ended June 30, 2004

	Budgeted Amounts		Actual	Variance with Final- Positive (Negative)
	Original	Final		
Operating revenues:				
Sewer service	\$ 1,012,800	\$ 1,012,800	\$ 1,073,103	\$ 60,303
Operating expenses:				
Sewer collection	207,005	224,505	221,772	2,733
Sewer treatment	537,504	542,449	543,429	(980)
General and administrative	320,150	372,303	332,685	39,618
Depreciation and amortization	-	-	228,622	(228,622)
Total operating expenses	<u>1,064,659</u>	<u>1,139,257</u>	<u>1,326,508</u>	<u>(187,251)</u>
Operating income (loss)	<u>(51,859)</u>	<u>(126,457)</u>	<u>(253,405)</u>	<u>(126,948)</u>
Nonoperating revenues (expenses):				
Taxes	45,575	45,575	54,151	8,576
Intergovernmental	-	-	47,031	47,031
Sewer installation fees	-	-	87,730	87,730
Interest	-	-	20,328	20,328
Interest expense	(46,878)	(46,878)	(48,986)	(2,108)
Other	(5,000)	(5,000)	5,179	10,179
Net nonoperating revenues (expenses)	<u>(6,303)</u>	<u>(6,303)</u>	<u>165,433</u>	<u>171,736</u>
Income before operating transfers	<u>(58,162)</u>	<u>(132,760)</u>	<u>(87,972)</u>	<u>44,788</u>
Operating transfers in	-	391,750	217,413	(174,337)
Operating transfers out	-	(193,667)	(291,444)	(97,777)
	<u>-</u>	<u>198,083</u>	<u>(74,031)</u>	<u>(272,114)</u>
Net loss	<u>(58,162)</u>	<u>65,323</u>	<u>\$ (162,003)</u>	<u>\$ (227,326)</u>

OTHER REPORTS

February 10, 2005

Board Members of the Fort Bragg

Municipal Improvement District No. 1

City of Fort Bragg, Fort Bragg, California

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF BASIC
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

We have audited the basic financial statements of the Fort Bragg Municipal Improvement District No. 1 ("District"), a component unit of the City of Fort Bragg, California as of and for the year ended June 30, 2004, and have issued our report thereon dated February 10, 2005 which was qualified, because we were unable to satisfy ourselves as to the cost of amounts recorded as fixed assets. Except as discussed in the preceding sentence, 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.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, 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 that area required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a 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 misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by District staff in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Directors and management and is not intended to be and should not be used by anyone other than these specified parties.

Odenberg Ullakko Muranishi & Co LLP