

**FORT BRAGG**  
**MUNICIPAL IMPROVEMENT DISTRICT NO. 1**  
**FINANCIAL STATEMENTS**

**JUNE 30, 2013**

**FORT BRAGG MUNICIPAL IMPROVEMENT DISTRICT NO. 1**  
**Financial Statements**  
**June 30, 2013**

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## INDEPENDENT AUDITOR'S REPORT

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

### Report on the Financial Statements

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 (City), California, as of and for the fiscal year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

## Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the District, as of June 30, 2013, and the respective changes in financial position and cash flows, for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

## Emphasis of Matter

As discussed in Note 1 to the basic financial statements effective July 1, 2012, the District adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 60, *Accounting and Financial Reporting for Service Concession Agreements*, Statement No. 61, *The Financial Reporting Entity: Omnibus*, Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, and Statement No. 63, *Financial Reporting of Deferred Outflows of Resource, Deferred Inflows of Resources, and Net Position*. Our opinion is not modified with respect to this matter.

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated February 4, 2014, 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

*Moss, Levy & Hartzheim*

Moss, Levy & Hartzheim LLP  
Culver City, CA  
February 4, 2014

**FORT BRAGG MUNICIPAL IMPROVEMENT DISTRICT NO. 1  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FISCAL YEAR ENDED JUNE 30, 2013**

As management of the Fort Bragg Municipal Improvement District No. 1 ("MID" or "the District"), we offer readers of the MID's financial statements this narrative overview and analysis of the financial statements for the MID for the fiscal year ended June 30, 2013. Please read this in conjunction with the District's financial statements which follow this discussion and analysis.

**Financial Highlights**

- The District's net position totals \$7.9 million, reflecting a \$193,156 increase from the prior fiscal year. Of this amount, \$1,050,525 was reported as unrestricted net position, an increase of \$184,830 from the prior fiscal year.
- Net investment in capital assets increased \$8,326. The increase was due to capital asset additions of \$272,049, principal payments of \$40,000 on debt related to capital asset acquisitions, amortization of debt issuance costs of \$3,214, and depreciation of capital assets of \$300,509.
- Operating revenues increased 8.6% over the prior fiscal year to \$3.2 million. Non-operating revenues increased by 57.8% to \$66,352 primarily due to an increase in "other revenues" related to leachate fees.
- Operating expenses excluding depreciation increased 4.7% to \$2.7 million when compared to the prior fiscal year. Non-operating expenses decreased to \$29,324 from \$72,507 in the prior fiscal year.
- The operating income for the District was \$163,728, an increase of \$129,974 from the prior fiscal year total of \$33,754 primarily due to scheduled rate increases.

**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 basic financial statements are comprised of two components: 1) the financial statements and 2) notes to the financial statements that explain in more detail some of the information in the financial statements. In addition to the basic financial statements and accompanying notes, this report also presents required and other supplementary information.

**Proprietary Fund Financial Statements**

Proprietary funds generally account for services for which customer fees are intended to finance the costs of operations. There are two types of proprietary funds: enterprise and internal service funds. Internal service funds accumulate and allocate costs for services provided internally among the functions of an entity. Enterprise funds provide goods or services to customers outside of the entity. The Fort Bragg Municipal Improvement District provides services to the citizens of the District, therefore it is considered to be an enterprise fund. The financial statements of the District report information using accounting methods similar to those used by private-sector companies. The following required financial statements provide both short-term and long-term information about the District's overall financial status.

The Statement of Net Position presents information on all of the District's assets and liabilities, with the difference between the two reported as net position. This statement provides information about the types and amounts of resources (assets) and the obligations to District creditors (liabilities) and may be used to measure the financial health of the District by providing the basis for evaluating the capital structure of the District and assessing liquidity and financial flexibility.

The Statement of Revenues, Expenses, and Changes in Net Position presents the current year's results of operations and can be used to determine how successful the District has been in collecting revenues, controlling expenses, and recovering costs through user fees and charges.

The Statement of Cash Flows reports cash receipts, cash payments, and net changes in cash resulting from operating, investing, and financing activities. This statement can be used to determine how cash originated, what that cash was used for, and how these activities resulted in the change to the cash balance during the fiscal year.

## Financial Analysis of the District

### Net Position

Net position may serve over time as one useful indicator of an entity's financial condition. The District's assets exceeded liabilities by \$7.9 million at June 30, 2013. Capital assets less any related debt outstanding totaled \$6.9 million, an increase of 0.12% or \$8,326 from the end of the prior fiscal year. Unrestricted net position increased from a total of \$865,695 to \$1,050,525. The following table presents a summary of the Statement of Net Position for the District as of June 30, 2013 and June 30, 2012:

**CITY OF FORT BRAGG MUNICIPAL IMPROVEMENT DISTRICT NO. 1**  
**SUMMARY OF NET POSITION**  
**June 30, 2013 and 2012**

	2013	2012
Current and Other Assets	\$1,253,947	\$1,056,784
Capital Assets, Net of Depreciation	7,173,151	7,201,611
<b>Total Assets</b>	<b>8,427,098</b>	<b>8,258,395</b>
Current Liabilities	216,012	180,019
Noncurrent Liabilities	270,532	330,978
<b>Total Liabilities</b>	<b>486,544</b>	<b>510,997</b>
Net position:		
Invested in Capital Assets,		
Net of Related Debt	6,890,029	6,881,703
Unrestricted	1,050,525	865,695
<b>Total Net Assets</b>	<b>\$7,940,554</b>	<b>\$7,747,398</b>

### Revenues

Business-type activities are primarily financed by fees charged to external parties. All activities of the District are considered business-type activities. District operating revenues increased 8.6% from the prior fiscal year to \$3.2 million. Wastewater rates were adjusted July 1, 2012 in accordance with rate schedules approved in July 2008 by the District's Board. The rate schedules include increases each year through fiscal year 2013 based on the District's projected revenue requirements as determined by a rate study conducted in 2008. Sewer service rates and fees are set by the Board of Directors to recover actual costs of operating and maintaining the system. The District's charges for residential wastewater service are tied to the amount of measured water usage during the winter months (November through February). Multi-family residential and nonresidential rates are proportionate to the single-family charge and are based on water consumption and strength of the discharge.

## Expenses

Operating expenses (not including depreciation) increased 4.7% to \$2.7 million. Personnel (particularly benefits), utility and maintenance costs continue to rise. Overall, net operating income increased from \$33,754 to \$163,728, an increase of 385%.

The Summary of Revenues, Expenses, and Changes in Net Position shown in the table below provides information concerning what contributed to the net changes reported in the Summary of Net Position:

<b>CITY OF FORT BRAGG MUNICIPAL IMPROVEMENT DISTRICT NO. 1</b>		
<b>STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION</b>		
<b>FOR THE FISCAL YEARS ENDED JUNE 30, 2013 and 2012</b>		
	2013	2012
Operating Revenues:		
Service Charges	\$3,196,968	\$2,944,612
Total Operating Revenues	3,196,968	2,944,612
Operating Expenses:		
Sewer Collection and Treatment	1,429,319	1,903,843
General and Administrative	1,303,412	705,624
Depreciation	300,509	301,391
Total Operating Expenditures	3,033,240	2,910,858
Operating Income (Loss)	163,728	33,754
Non-Operating Revenues (Expenses)		
Amortization Expense	(3,214)	(3,214)
Intergovernmental		33,294
Sewer Installation Fees		2,174
Investment Earnings	2,865	6,581
Other Revenues	63,487	(17,348)
Loss on Disposal of Capital Assets		(51,945)
Interest Expense and Other Charges	(26,110)	
Total Non- Operating Revenues (Expenses)	37,028	(30,458)
Income before Transfers	200,756	3,296
Transfers		
Transfers in from City of Fort Bragg		
Transfers out to City of Fort Bragg	(7,600)	(10,549)
Change in Net Position	193,156	(7,253)
Net Position, Beginning of Fiscal Year	7,747,398	7,754,651
Net Position, End of Fiscal Year	\$7,940,554	\$7,747,398

## Capital Asset and Debt Administration

The capital assets of the District are those assets that are used in the performance of the District's functions. At June 30, 2013, the District's net capital assets totaled \$7.2 million (net of depreciation). The investment in capital assets includes land, easements, buildings, improvements other than buildings, infrastructure, machinery and equipment, and construction in

progress. Net decrease to capital assets of the District was \$28,460, which was a result of capital asset additions of \$272,049, minus depreciation of \$300,509.

**CITY OF FORT BRAGG MUNICIPAL IMPROVEMENT DISTRICT NO. 1**  
**SCHEDULE OF CAPITAL ASSETS (net of accumulated depreciation)**  
**June 30, 2013 and 2012**

	2013	2012	% Increase (Decrease)
Land and Easements	\$69,000	\$69,000	0.00%
Buildings	1,781,026	1,709,556	4.18%
Utility Plant	4,816,949	4,973,061	▼ (3.14%)
Machinery and Equipment	304,461	337,259	▼ (9.72%)
Construction in Progress	201,715	112,735	78.93%
<b>Total Capital Assets, net</b>	<b>\$7,173,151</b>	<b>\$7,201,611</b>	<b>▼ (0.40%)</b>

### Long-Term Debt

At June 30, 2013, total District debt outstanding was \$353,260 (not including the payable of \$30,978 to the Successor Agency trust fund), a decrease of \$27,443 (7.2%). Further details on long-term debt are provided in Notes 4 and 5 to the financial statements.

**CITY OF FORT BRAGG MUNICIPAL IMPROVEMENT DISTRICT NO. 1**  
**SUMMARY OF LONG-TERM DEBT ACTIVITY**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

	Balance 07/01/12	Additions	Reductions	Balance 06/30/13	Due Within One Year
Revenue Bond:					
1998 Wastewater Revenue Bond	\$340,000	\$0	\$40,000	\$300,000	\$45,000
Compensated Absences	40,703	53,260	40,703	53,260	53,260
<b>Total</b>	<b>\$380,703</b>	<b>\$53,260</b>	<b>\$80,703</b>	<b>\$353,260</b>	<b>\$98,260</b>

### Economic Factors and Next Year's Budget

The primary economic challenge facing the District is the need for major capital expenditures necessary to maintain the current level of service and ensure compliance with regulatory requirements. The District's Wastewater Treatment Plant was constructed nearly 40 years ago and is in need of both upgrades and repairs. The capital improvements projects that are needed over the next 10 years in order to keep the City's wastewater treatment and collection system functional total over \$8 million. The District is exploring various funding sources including grants, bond issues, and low or no interest loan programs.

The District's FY 2013/14 adopted budget for operating expenses, excluding depreciation, is \$3 million.

### Request for Information

This financial report is designed to provide our citizens, taxpayers, creditors and government regulators with a general overview of the District's finances. Additional budgetary information may be found on our website at [www.fortbragg.com](http://www.fortbragg.com). For questions about this report or requests for additional financial information, please contact Finance Director Rosana Cimolino at 416 N. Franklin St, Fort Bragg, CA 95437 or call the Finance Department at 707-961-2825.



**FORT BRAGG MUNICIPAL IMPROVEMENT DISTRICT NO. 1**

**Statement of Net Position**  
**June 30, 2013**  
**With Comparative Totals at June 30, 2012**

<b>Assets</b>	<b>2013</b>	<b>2012</b>
<b>Current Assets:</b>		
Cash and investments	\$ 919,806	\$ 706,410
Accounts and interest receivable	303,726	313,750
Inventory	13,537	16,532
Total Current Assets	<u>1,237,069</u>	<u>1,036,692</u>
<b>Noncurrent Assets:</b>		
Debt issuance costs (net of accumulated amortization)	16,878	20,092
Capital assets, not being depreciated	270,716	181,735
Capital assets, being depreciated	13,668,337	13,486,526
Accumulated depreciation	<u>(6,765,902)</u>	<u>(6,466,650)</u>
Total Noncurrent Assets	<u>7,190,029</u>	<u>7,221,703</u>
Total Assets	<u>8,427,098</u>	<u>8,258,395</u>
<b>Liabilities</b>		
<b>Current Liabilities:</b>		
Accounts payable	72,213	47,110
Accrued payroll and benefits	23,528	30,611
Accrued interest payable	3,975	4,005
Unearned revenue	2,230	2,230
Payable to Successor Agency trust fund	15,446	15,360
Compensated absences	53,620	40,703
Current portion of long-term liabilities	<u>45,000</u>	<u>40,000</u>
Total Current Liabilities	<u>216,012</u>	<u>180,019</u>
<b>Noncurrent Liabilities:</b>		
Payable to Successor Agency trust fund	15,532	30,978
Revenue bonds payable	<u>255,000</u>	<u>300,000</u>
Total Long-term Liabilities	<u>270,532</u>	<u>330,978</u>
Total Liabilities	<u>486,544</u>	<u>510,997</u>
<b>Net Position</b>		
Net investment in capital assets	6,890,029	6,881,703
Unrestricted	<u>1,050,525</u>	<u>865,695</u>
Total Net Position	<u>\$ 7,940,554</u>	<u>\$ 7,747,398</u>

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

**FORT BRAGG MUNICIPAL IMPROVEMENT DISTRICT NO. 1****Statement of Revenues, Expenses, and Changes in Net Position  
For the Fiscal Year Ended June 30, 2013  
With Comparative Totals for the Fiscal Year Ended June 30, 2012**

	<u>2013</u>	<u>2012</u>
Operating Revenues		
Service charges	<u>\$ 3,196,968</u>	<u>\$ 2,944,612</u>
Total Operating Revenues	<u>3,196,968</u>	<u>2,944,612</u>
Operating Expenses		
Sewer collection and treatment	1,429,319	1,903,843
General and administrative	1,303,412	705,624
Depreciation	<u>300,509</u>	<u>301,391</u>
Total Operating Expenses	<u>3,033,240</u>	<u>2,910,858</u>
Operating Income (Loss)	<u>163,728</u>	<u>33,754</u>
Non-Operating Revenues (Expenses)		
Amortization expense	(3,214)	(3,214)
Sewer installation fees		33,294
Investment earnings	2,865	2,174
Other revenues	63,487	6,581
Loss on disposal of capital assets		(17,348)
Interest expense and other charges	<u>(26,110)</u>	<u>(51,945)</u>
Total Non-Operating Revenues (Expenses)	<u>37,028</u>	<u>(30,458)</u>
Income Before Transfers	200,756	3,296
Transfers		
Transfers out to City of Fort Bragg	<u>(7,600)</u>	<u>(10,549)</u>
Change in Net Position	193,156	(7,253)
Net Position, Beginning of the Fiscal Year	<u>7,747,398</u>	<u>7,754,651</u>
Net Position, End of the Fiscal Year	<u>\$ 7,940,554</u>	<u>\$ 7,747,398</u>

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

# FORT BRAGG MUNICIPAL IMPROVEMENT DISTRICT NO. 1

## Statement of Cash Flows For the Fiscal Year Ended June 30, 2013 With Comparative Totals for the Fiscal Year Ended June 30, 2012

	<u>2013</u>	<u>2012</u>
Cash Flows from Operating Activities		
Receipts from customers and users	\$ 3,206,922	\$ 2,929,326
Payments to employees	(1,434,864)	(1,323,782)
Payments to suppliers	(1,263,935)	(1,316,596)
Net Cash Provided (Used) by Operating Activities	<u>508,123</u>	<u>288,948</u>
Cash Flows from Noncapital Financing Activities		
Other revenue	63,487	6,581
Sewer installation fees		33,294
Advances from Successor Agency trust fund	(15,360)	(37,135)
Transfers out	(7,600)	(10,549)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>40,527</u>	<u>(7,809)</u>
Cash Flows from Capital and Related Financing Activities		
Principal paid	(40,000)	(40,000)
Purchase of capital assets	(272,049)	(18,956)
Interest and other charges	(26,140)	(52,975)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(338,189)</u>	<u>(111,931)</u>
Cash Flows from Investing Activities		
Interest on investments	2,935	2,104
Net Cash Provided by Investing Activities	<u>2,935</u>	<u>2,104</u>
Net Increase (Decrease) in Cash and Cash Equivalents	213,396	171,312
Cash and Cash Equivalents at the Beginning of the Fiscal Year	<u>706,410</u>	<u>535,098</u>
Cash and Cash Equivalents at the End of the Fiscal Year	<u><u>\$ 919,806</u></u>	<u><u>\$ 706,410</u></u>
Reconciliation of Cash and Cash Equivalents to Statement of Net Assets:		
Cash and investments	<u>\$ 919,806</u>	<u>\$ 706,410</u>
Total Cash and Cash Equivalents	<u><u>\$ 919,806</u></u>	<u><u>\$ 706,410</u></u>
Noncash Transactions		
Amortization of deferred charges	\$ 3,214	\$ 3,214

(continued)

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

**FORT BRAGG MUNICIPAL IMPROVEMENT DISTRICT NO. 1**

**Statement of Cash Flows (Continued)**  
**For the Fiscal Year Ended June 30, 2013**  
**With Comparative Totals for the Fiscal Year Ended June 30, 2012**

	<u>2013</u>	<u>2012</u>
Reconciliation of Operating Income (loss) to Net Cash Provided (Used) by		
Operating Activities:		
Operating income (loss)	\$ 163,728	\$ 33,754
Adjustments to Reconcile Operating Income (Loss) to Net Cash		
Provided (Used) by Operating Activities:		
Depreciation	300,509	301,391
(Increase) Decrease in Operating Assets:		
Accounts receivable	9,954	52,132
Inventory	2,995	(5,975)
Increase (Decrease) in Operating Liabilities:		
Accounts payable	25,103	(40,987)
Accrued payroll and benefits	(7,083)	10,074
Unearned revenue		(67,418)
Compensated absences	12,917	5,977
Net Cash Provided (Used) by Operating Activities	<u>\$ 508,123</u>	<u>\$ 288,948</u>

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

**FORT BRAGG MUNICIPAL IMPROVEMENT DISTRICT NO. 1**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

**Note 1:     Summary of Significant Accounting Policies**

**A. Reporting Entity**

The Fort Bragg Municipal Improvement District No. 1 (District) includes all of the funds and operations for the City of Fort Bragg (City) wastewater collection and treatment processes. The District is governed by a Board of Directors comprised of the members of the Fort Bragg City Council. The District, therefore, is considered a component unit of the City. The City exercises significant financial and management control over the District. The financial data of the District has also been included within the City's annual financial report for the fiscal year ended June 30, 2012.

The Fort Bragg City Manager, Finance Director, and City Clerk function as the District's Executive Director, Fiscal Officer, and Secretary, respectively. These City employees receive no additional compensation for work performed on behalf of the District.

The District does not have any component units as determined under criteria established by GASB.

The financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (USGAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

**B. Description of Funds**

The District's accounts are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a set of self-balancing accounts that comprise its assets, liabilities, retained earnings, revenues, and expenses. The District has one fund, which is presented in the accompanying financial statement as a Proprietary Fund category, Enterprise Fund type.

The District uses the accrual method of accounting. Revenues are recorded when earned and expenses are recorded when the related liability is incurred.

The District is required to apply the Governmental Accounting Standards Board (GASB) Statement No.34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* and Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, for periods beginning after June 15, 2003 and December 15, 2011, respectively. These GASBs require, among other things, that the difference between assets and liabilities be reported as net position, not equity; that a Management's Discussion and Analysis (MD&A) section precede the basic financial statements, that the statements of cash flows use the direct method, and that utility plant assets be capitalized and depreciated over their useful lives. As the District has historically capitalized its assets and recorded depreciation, the only significant changes made in order to comply with the requirements were the MD&A section and the reporting of the details of net position.

**FORT BRAGG MUNICIPAL IMPROVEMENT DISTRICT NO. 1**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

**Note 1: Summary of Significant Accounting Policies (Continued)**

**C. Proprietary Fund Accounting**

The District has one fund which is considered a proprietary fund.

Proprietary Fund Financial Statements include a Statement of Net Assets, a Statement of Revenues, Expenses, and Changes in Net Assets, and a Statement of Cash Flows for each proprietary fund.

In accordance with GASB Statements No. 20 and 62, the District has opted to apply all applicable GASB pronouncements and all Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB) issued on or before November 30, 1989, unless they conflict with or contradict GASB pronouncements.

Operating revenues in the proprietary fund are those revenues that are generated from the primary operations of the fund. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operation of the fund. All other expenses are reported as non-operating expenses.

**D. Budgetary Reporting**

Annual budgets are adopted on a budgetary basis. Annually, the District submits a request for appropriation to the Executive Director so that a budget may be prepared. The budget is prepared by fund, function, and activity and includes information on the past year, current year estimates, and requested appropriations for the next fiscal year. The proposed budget is presented to the Board for review. The Board holds public hearings and may add to, delete from, or change appropriations, but may not change the form of the budget. Any changes in the budget must be within the revenues and reserves estimated as available by the Executive Director or the revenue estimates must be changed by an affirmative vote of a majority of the Board.

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts, or other commitments for the expenditures of resources are recorded to reserve that portion of the applicable appropriation, is utilized in the governmental funds. Encumbrances outstanding at fiscal year-end are reported as reservations of fund balance and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored in the subsequent fiscal year.

**E. Cash and Cash Equivalents**

Investments for the District are reported at fair value. The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. The District's investments are held in the City of Fort Bragg's pooled investments.

**FORT BRAGG MUNICIPAL IMPROVEMENT DISTRICT NO. 1**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

**Note 1: Summary of Significant Accounting Policies (Continued)**

**F. Investments**

All investments are stated at fair value as required by GASB Statement No.31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Fair value is based on market price or contract amount.

**G. Inventory**

Inventories are valued at lower of cost (first-in, first-out) or market. Inventory for the fiscal year ended June 30, 2012, was \$13,537.

**H. Revenues and Receivables**

All trade receivables are shown net of an allowance for uncollectible accounts, if any. No allowances for uncollectible receivables were recorded, as amounts were deemed immaterial as determined based on an analysis of historical trends.

Property taxes – Property tax revenues represent property taxes collected for the repayment of the District's 1998 Wastewater Revenue Bonds. Property taxes for the prior year were attached as an enforceable lien as of January 1, 2011, and were levied on July 1, 2011. Taxes are due in two equal installments on November 1 and February 1. The District relies on the competency of the County of Mendocino Assessor's office to properly assess, collect, and distribute property taxes.

**I. Unamortized Cost of Issuance**

Costs associated with the issuance of bonds are deferred and amortized over the term of the bonds using the straight-line method which approximates the effective interest method.

**J. Capital Assets**

Capital assets, which include property, plant, and equipment, are reported in the financial statements. Capital assets are defined by the District as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. These assets are being depreciated using the straight-line method over the assets' useful lives as follows:

Buildings	40 to 75 years
Utility plant	10 to 50 years
Machinery and equipment	3 to 40 years

**FORT BRAGG MUNICIPAL IMPROVEMENT DISTRICT NO. 1**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

**Note 1: Summary of Significant Accounting Policies (Continued)**

**K. Net Position**

The District's financial statements report net assets consisting of the following components:

*Net Investment in Capital Assets* – This amount is comprised of total capital assets net of accumulated depreciation reduced by outstanding debt that is attributable to the acquisition, construction, or improvement of capital assets.

*Restricted Net Position* – This amount is restricted by external creditors, grantors, contributors, or laws or regulations of other governments.

*Unrestricted Net Position* – This amount is net position that does not meet the definition of "net investment in capital assets" or "restricted net position".

**L. Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA) 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.

**M. Compensated Absences**

Earned vacation and a portion of accumulated sick-leave payable upon termination or retirement are accrued as compensated absences. The accrual includes the District's share of payroll taxes. Regular employees earn vacation hours based on the number of years of continuous service. No more than 240 hours (340 hours after ten years of continuous service) may be accumulated. Also, regular employees are given credit for eight hours of sick leave for each month of employment with unlimited accumulation. Each employee who has two or more years of service with the District 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.

**N. Comparative Data**

Comparative total data for the prior fiscal year has been presented in the accompanying basic financial statements in order to provide an understanding of changes in the District's financial position, operations, and cash flows.



**FORT BRAGG MUNICIPAL IMPROVEMENT DISTRICT NO. 1**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

**Note 1: Summary of Significant Accounting Policies (Continued)**

**O. New Accounting Pronouncements**

The District has implemented the requirements of Governmental Accounting Standards Board (GASB) Statements No. 60, 61, 62, and 63 during the fiscal year ended June 30, 2013.

**Governmental Accounting Standards Board Statement No. 60**

For the fiscal year ended June 30, 2013, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 60, "Accounting and Financial Reporting for Service Concession Arrangements." This Statement is effective for periods beginning after December 15, 2011. The objective of this Statement is to improve financial reporting by addressing issues related to Service Concession Arrangements. This Statement improves consistency in reporting and enhances the comparability of the accounting and financial reporting of Service Concession Arrangements among state and local governments. Implementation of GASB Statement No. 60 did not have an impact on the District's financial statements for the fiscal year ended June 30, 2013.

**Governmental Accounting Standards Board Statement No. 61**

For the fiscal year ended June 30, 2013, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 61 "The Financial Reporting Entity: Omnibus." This Statement is effective for periods beginning after June 15, 2012. The objective of this Statement is to improve financial reporting for component units. The Statement modifies certain requirements for inclusion of component units in the financial reporting entity and clarifies the reporting of equity interests in legally separate organizations. Implementation of GASB Statement No. 61 did not have an impact on the District's financial statements for the fiscal year ended June 30, 2013.

**Governmental Accounting Standards Board Statement No. 62**

For the fiscal year ended June 30, 2013, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 62 "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements." This Statement is effective for periods beginning after December 15, 2011. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the FASB and AICPA pronouncements issued on or before November 30, 1989. This Statement specifically identifies and consolidates the accounting and financial reporting provisions that apply to state and local governments. Implementation of GASB Statement No. 62 did not have an impact on the District's financial statements for the fiscal year ended June 30, 2013.

**FORT BRAGG MUNICIPAL IMPROVEMENT DISTRICT NO. 1**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

**Note 1: Summary of Significant Accounting Policies (Continued)**

O. New Accounting Pronouncements (Continued)

Governmental Accounting Standards Board Statement No. 63

For the fiscal year ended June 30, 2013, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position." This Statement is effective for periods beginning after December 15, 2011. The objective of this Statement is to establish guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position. This Statement sets forth framework that specifies where deferred outflows of resources and deferred inflows of resources, as well as assets and liabilities should be displayed. This Statement also specifies how net position, no longer referred to as net assets, should be displayed. Implementation of the Statement and the impact of the District's financial statements are explained in Note 1K.

**Note 2: Cash and Investments**

Cash and investments as of June 30, 2013, as classified in the accompanying financial statements, are \$919,806.

A. Investments Authorized by the California Government Code and the District's Investment Policy

The table below identifies the investment types that are authorized for the District by the California Government Code (or the District's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the District's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustees that are governed by the provisions of debt agreements of the District, rather than the general provisions of the California Government Code or the District's investment policy.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
Local Agency Investment Fund (State Pool)	N/A	None	\$50 Million
U.S. Treasury Obligations	5 years	None	None
U.S. Government Agency Issues	5 years	None	None
Repurchase Agreements	90 days	None	None
Bankers Acceptance (must be dollar denominated)	9 months	40%	None
Commercial Paper A Rated Minimum	6 months	15%	None
Time Certificates of Deposit FDIC Insured	5 years	30%	None
General Obligations of any State or Political Subdivision rated AA at a minimum	5 years	30%	None
Money Market Mutual Funds holding cash and US Government Obligations	N/A	None	None

**FORT BRAGG MUNICIPAL IMPROVEMENT DISTRICT NO. 1**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

**Note 2: Cash and Investments (Continued)**

**B. Disclosures Relating to Interest Rate Risk**

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the District manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flows and liquidity needed for operations.

Refer to the City's Annual Financial Report Information about the sensitivity of the fair values of the District's investments held by bond trustees to market interest rate fluctuations.

**C. Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations**

The District's investments (including investments held by bond trustees) include investments that are highly sensitive to interest rate fluctuations. The District does not hold any specific investments that need to be reported here. See the City's Annual Financial Report for more information regarding these disclosures.

**Note 3: Capital Assets**

Capital asset activity for the fiscal year ended June 30, 2013, was as follows:

	<u>Balance</u> <u>July 1, 2012</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2013</u>
Capital assets, not being depreciated				
Land	\$ 69,000	\$ -	\$ -	\$ 69,000
Construction-in-progress	112,735	88,981		201,716
Total capital assets, not being depreciated	181,735	88,981		270,716
Capital assets, being depreciated				
Buildings	3,322,742	122,151		3,444,893
Machinery, equipment and vehicles	1,521,659	24,776	(1,258)	1,545,177
Infrastructure	8,642,126	36,141		8,678,267
Total capital assets, being depreciated	13,486,527	183,068	(1,258)	13,668,337
Less accumulated depreciation				
Buildings	(1,613,186)	(50,681)		(1,663,867)
Machinery, equipment and vehicles	(1,184,400)	(57,574)	1,258	(1,240,716)
Infrastructure	(3,669,065)	(192,254)		(3,861,319)
Total accumulated depreciation	(6,466,651)	(300,509)	1,258	(6,765,902)
Total capital assets being depreciated, net	7,019,876	(117,441)		6,902,435
Business-type activities capital assets, net				
Wastewater enterprise	\$ 7,201,611	\$ (28,460)	\$ -	\$ 7,173,151

**FORT BRAGG MUNICIPAL IMPROVEMENT DISTRICT NO. 1**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

**Note 4: Long-Term Debt**

The following is a summary of changes in long-term debt for the District for the fiscal year ended June 30, 2013:

	<u>Balance at July 1, 2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at June 30, 2013</u>	<u>Due within One year</u>
Bonds payable:					
1998 Revenue Bond	\$ 340,000	\$ -	\$ (40,000)	\$ 300,000	\$ 45,000
Compensated absences	40,703	53,620	(40,703)	53,620	53,620
Total long-term liabilities	<u>\$ 380,703</u>	<u>\$ 53,620</u>	<u>\$ (80,703)</u>	<u>\$ 353,620</u>	<u>\$ 98,620</u>

**1998 Wastewater Revenue Bonds**

In 1998, the City on behalf of the District entered into an agreement with the Association of Bay Area Governments (ABAG) whereby ABAG issued \$770,000 in revenue bonds to provide resources for the District to acquire and construct capital improvements to the District's wastewater system. The bonds are an obligation of ABAG and are payable solely from and secured by revenues that consist primarily of payments on an installment obligation of the District.

For the purposes of this report, the District has reported its liability under the terms of the installment agreement as 1998 Wastewater Revenue Bonds. Annual interest accrues at varying rates between 3.75% and 5.30%. Interest became payable commencing October 1, 1998, and semi-annually thereafter each October 1<sup>st</sup> and April 1<sup>st</sup>. Principal is paid in annual installments commencing October 1, 1998, through the year 2018 in amounts ranging from \$25,000 to \$55,000.

Debt service requirements to maturity for bonds payable by the Fort Bragg Municipal Improvement District No. 1 are presented on the following schedule.

<u>Fiscal Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 45,000	\$ 14,708	\$ 59,708
2015	45,000	12,322	57,322
2016	50,000	9,805	59,805
2017	50,000	7,155	57,155
2018	55,000	4,373	59,373
2019	55,000	1,458	56,458
Totals	<u>\$ 300,000</u>	<u>\$ 49,821</u>	<u>\$ 349,821</u>

**FORT BRAGG MUNICIPAL IMPROVEMENT DISTRICT NO. 1**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

**Note 5:     Advances from Governmental Agencies**

On June 30, 2010, the former City of Fort Bragg Redevelopment Agency (Agency) advanced \$76,800 from the Agency to the District. The term of the advance is five years with payments of interest due at 0.56% and any and all unencumbered Wastewater enterprise capital fees and revenue available each fiscal year shall be paid quarterly commencing September 30, 2011. Principal repayments of \$15,360 and interest of \$227 were made by the District during the fiscal year ended June 30, 2013. As of June 30, 2013 the balance of the advance was \$30,978 and was payable to the Fort Bragg Redevelopment Successor Agency Private-Purpose Trust Fund due to the dissolution of the Agency as of February 1, 2012.

**Note 6:     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; injuries to employees; and natural disaster. The District provides for property and liability insurance as a component unit of the City of Fort Bragg, which is a member of the Redwood Empire Municipal Insurance Fund (REMIF), a public entity risk pool currently operating as a common risk management and insurance program for several Northern California municipalities. The joint powers formation agreement of REMIF provides that REMIF will be self-sustaining through member premiums for liability insurance and will reinsure through commercial companies for other coverage.

The District's deductible is \$5,000 for property and liability loss, all per occurrence. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

**Note 7:     Commitments and Contingencies**

The District is subject to litigation arising in the normal course of business. In the opinion of the District's management and legal counsel, there is no pending litigation that is likely to have a material adverse effect on the financial position of the District.

**Note 8:     Transfers In/Out**

Following is a summary of transfers for the fiscal year ended June 30, 2013 and 2012.

	<u>Fiscal year ended</u> <u>June 30, 2013</u>	<u>Fiscal year ended</u> <u>June 30, 2012</u>
Transfers out to City of Fort Bragg	\$ (7,600)	\$ (10,549)

**Note 9:     Subsequent Events**

In preparing the accompanying financial statements, District management has reviewed all known events that have occurred after June 30, 2012, and through February 4, 2014, the date when this financial statement was available to be issued, for inclusion in the financial statement and footnotes.

## **SUPPLEMENTAL INFORMATION**

**FORT BRAGG MUNICIPAL IMPROVEMENT DISTRICT NO. 1**

**Schedule of Revenues, Expenses, and Changes in Net Assets - Budget and Actual  
For the Fiscal Year Ended June 30, 2013**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with</b>
	<b>Original</b>	<b>Final</b>	<b>(Budget basis)</b>	<b>Final Budget Positive (Negative)</b>
Operating Revenues				
Service charges	\$2,947,323	\$2,947,323	\$ 3,196,968	\$ 249,645
Total Operating Revenues	<u>2,947,323</u>	<u>2,947,323</u>	<u>3,196,968</u>	<u>249,645</u>
Operating Expenses				
Sewer collection and treatment	1,389,250	1,517,241	1,429,319	87,922
General and administrative	<u>1,254,492</u>	<u>1,287,345</u>	<u>1,303,412</u>	<u>(16,067)</u>
Total Operating Expenses	<u>2,643,742</u>	<u>2,804,586</u>	<u>2,732,731</u>	<u>71,855</u>
Operating Income (Loss)	<u>303,581</u>	<u>142,737</u>	<u>464,237</u>	<u>321,500</u>
Non-Operating Revenues (Expenses)				
Sewer installation fees	16,500	16,500		(16,500)
Investment earnings	5,475	5,475	2,865	(2,610)
Interest expense	(17,000)	(17,000)	(26,110)	(9,110)
Other	<u>6,000</u>	<u>6,000</u>	<u>63,487</u>	<u>57,487</u>
Total Non-Operating Revenues (Expenses)	<u>10,975</u>	<u>10,975</u>	<u>40,242</u>	<u>29,267</u>
Transfers in from City of Fort Bragg				
Transfers out to City of Fort Bragg	<u>(7,600)</u>	<u>(7,600)</u>	<u>(7,600)</u>	
Total Transfers	<u>(7,600)</u>	<u>(7,600)</u>	<u>(7,600)</u>	
Income (Loss) before other items	306,956	146,112	496,879	350,767
Capital Outlay	(843,000)	(855,077)	(272,049)	583,028
Debt Service Principal	<u>(40,000)</u>	<u>(40,000)</u>	<u>(55,360)</u>	<u>(15,360)</u>
Changes in Net Position (budget basis)	<u>\$ (576,044)</u>	<u>\$ (748,965)</u>	169,470	<u>\$ 918,435</u>
Adjustments to reconcile to GAAP basis:				
Capital outlay			272,049	
Debt service principal			55,360	
Depreciation and amortization			<u>(303,723)</u>	
Change in Net Position (GAAP basis)			<u>\$ 193,156</u>	