

**NEVADA COUNTY
SANITATION DISTRICT NO. 1
(A Component Unit of the
County of Nevada, California)**



**FINANCIAL STATEMENTS
TOGETHER WITH
INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED
JUNE 30, 2013**

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NEVADA COUNTY SANITATION DISTRICT NO. 1
(A Component Unit of the County of Nevada, California)
Annual Financial Report
For the Year Ended June 30, 2013

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FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Grand Jury
Nevada County Sanitation District No. 1
Nevada City, California

Report on the Financial Statements

We have audited the accompanying financial statements of the proprietary fund of Nevada County Sanitation District No. 1 (District), a component unit of the County of Nevada, California, as of and for the 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 and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

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

Emphasis of Matter

As described in Note 1K to the financial statements, in 2013, the District implemented Governmental Accounting Standards Board (GASB) Statements No. 60, 61, 62, 63 and 66 and implemented GASB 65 in advance during the fiscal year 2013. Among these new GASB Statements, GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position; and GASB Statement No. 65, Items Previously Reported as Assets and Liabilities, have significant impact over the Nevada County Sanitation District No. 1's financial statements. Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The combining fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining fund financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

The Board of Directors and Grand Jury
Nevada County Sanitation District No. 1
Nevada City, California

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated January 8, 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.

A handwritten signature in cursive script that reads "Smith & Newell". The signature is written in dark ink and is positioned above the printed name of the firm.

Smith & Newell CPAs
Yuba City, California
January 8, 2014

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

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") of the County of Nevada Sanitation District No. 1 (the "District") financial performance provides an introduction to the financial statements for the year ended June 30, 2013. The information contained in this MD&A should be considered in conjunction with the information contained in the District's financial statements.

OVERVIEW OF THE FINANCIAL STATEMENTS

The District's financial statements are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board. The District is structured as an enterprise operation with multiple funds to segregate the various geographical operations known as zones. The District's revenues are recognized when earned, not when received. Expenses are recognized when incurred, not when paid. Capital assets are capitalized and, with the exception of land, are depreciated over their useful lives. See the notes to the financial statements for a summary of the District's significant accounting policies.

Following this discussion and analysis are the basic financial statements of the District.

The District's basic financial statements are designed to provide readers with a broad overview of the District's 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. Over time, increases or decreases in net position may serve as a useful indicator of the District's financial position.

The Statement of Revenues, Expenses and Changes in Net Position presents information showing the change in the District's net position during the fiscal year. All changes in net position are reported as soon as the underlying event occurs, regardless of timing of related cash flows. Thus, revenues and expenses are recorded and reported in this statement for some items that will result in cash flows in future periods.

The Statement of Cash Flows relates to the flows of cash and cash equivalents. Consequently, only transactions that affect the District's cash accounts are recorded in this statement. A reconciliation of the Statement of Cash Flows is provided at the bottom of the statement to assist in understanding the difference between cash flows from operating activities and operating income.

The Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

FINANCIAL HIGHLIGHTS

On June 30, 2013, the assets of the District exceeded its liabilities by \$31,348,589 (net position). Of this amount, \$4,613,784 (unrestricted net position) may be used to meet the District's ongoing obligations to citizens and creditors and \$26,734,805 is the District's net investment in capital assets.

The District's capital assets (e.g., land, infrastructure and equipment) increased by \$311,981 as a result of an increase in construction in progress partially offset by annual depreciation of infrastructure assets.

Long-term liabilities decreased 5.9% or \$1,488,884 due to regularly scheduled principal payments on long-term debt.

Financial Position

Analysis of the District as a whole - Government Wide Financial Statements

Sanitation District's Net Position June 30, 2013 and 2012

	2013	2012	Variance	Change
Current and other assets	\$ 6,607,654	\$ 8,332,831	-20.70%	\$ (1,725,177)
Capital Assets	51,787,540	51,475,559	0.60%	311,981
Total Assets	58,395,194	59,808,390	-2.40%	(1,413,196)
Current liabilities	3,318,264	3,241,372	2.40%	76,892
Long-term liabilities	23,728,341	25,217,225	-5.90%	(1,488,884)
Total Liabilities	27,046,605	28,458,597	-5.00%	(1,411,992)
Net Position:				
Net investment in capital assets	26,734,805	24,951,519	7.10%	1,783,286
Unrestricted	4,613,784	6,398,274	-27.90%	(1,784,490)
Total Net Position	\$ 31,348,589	\$ 31,349,793	0.00%	\$ (1,204)

As shown in the schedule above, at June 30, 2013, the District's total assets are \$58,395,194. The total assets held decreased 1,413,196 or 2.4% from the June 30, 2012 balance of \$59,808,390. The decrease in total assets was due primarily to a reduction in cash and investments due to additions to capital assets and payments of loan principal.

The District's liabilities in the form of special assessment bonds; State loans; and bank loans decreased by \$1,411,992 during the current fiscal year to \$27,046,605. The decrease occurred predominantly in the long-term liabilities as loan balances were reduced by scheduled principal payments.

The District's total net position at June 30, 2013 decreased from the prior year by \$1,204. Unrestricted net position of the District at June 30, 2013 amounted to \$4,613,784. This was a 27.9% decrease from the prior year's amount of \$6,398,274. In relation, the net investment in capital assets increased by \$1,783,286 from the prior year due to a combination of \$2,351,890 in additions to capital assets, depreciation of capital assets and a reduction in related debt.

The largest portion of the District's net position reflects its investment in capital assets, less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate the liabilities.

**Changes in Net Position
For the Years Ended June 30, 2013 and 2012**

	2013	2012	Variance	Change
Revenues				
Operating	\$ 6,579,111	\$ 6,709,836	-1.90%	\$ (130,725)
Non-operating	35,541	107,047	-66.80%	(71,506)
Total Revenues	6,614,652	6,816,883	-3.00%	(202,231)
Expenses				
Operating Expenses	6,058,756	6,256,535	-3.20%	(197,779)
Non-Operating Expenses	557,100	589,965	-5.60%	(32,865)
Total Expenses	6,615,856	6,846,500	-3.40%	(230,644)
Income (loss)	(1,204)	(29,617)	-95.90%	28,413
Transfers In	-	-	NA	-
Transfers out	-	-	NA	-
Change in net position	(1,204)	(29,617)	-95.90%	28,413
Net Position – beginning	31,349,793	31,379,410	-0.10%	(29,617)
Net Position - ending	\$ 31,348,589	\$ 31,349,793	\$ -	\$ (1,204)

Revenues - The District's revenues for fiscal year 2012-13 decreased by 3% or \$202,231. Insurance proceeds in the prior year that did not occur in the current period, as well as a reduction in interest revenues was the major factor in the 66.8% decrease in non-operating revenues.

Expenses - The District's expenses for fiscal year 2012-13 decreased by 3.4% or \$230,644. Non-operating expenses decreased by 5.6% due to a decrease in interest expense. Operating expenses decreased by 3.2% from the prior fiscal year due to a decrease in temporary salaries, benefit costs and insurance premiums.

Capital Contribution and Transfers – The District did not receive any capital contributions or transfers in fiscal year 2012-13.

Capital Assets and Debt Administration

Capital Assets - The District's investment in capital assets as of June 30, 2013 amounted to \$26,734,805 (net of accumulated depreciation and related debt). This investment in capital assets includes land, land improvements, infrastructure and equipment. The \$1,783,286 increase is due to a \$2,341,428 increase in infrastructure construction in progress, offset by annual depreciation of infrastructure assets and reductions in related debt. Construction in progress as of the close of the fiscal year for the capital improvement projects increased to \$2,905,963. The increase resulted from costs for the Lake Wildwood UV Disinfection Improvement project.

Additional information on the District's capital assets can be found in Note 3 on page 19 of this report.

Long-term debt - At June 30, 2013, the District had total debt outstanding of \$25,085,090. Of this amount, \$1,506,689 is due within one year. The long-term debt consists of one voter-approved bond, four loans from the State of California, and two bank loans. The North San Juan Sewer Assessment bond is being repaid through a restricted revenue source. A special assessment charge is placed on the tax bills of the parcels within the specific zone that benefited from the borrowing. The four State Water Resources Control Board (SWRCB) loans are being repaid through a dedicated revenue source from the specific zones that received the loan proceeds. The two bank loans are scheduled to be repaid by August 2026. They are being repaid with operating revenues from the specific zones that received the loan proceeds.

Additional information on the District's long-term debt can be found in Note 5 on page 20-22 of this report.

Economic Factors and Next Year's Budget

The District operates and maintains sewage collection systems and treatment facilities for Nevada County Sanitation District No. 1. There are ten (10) zones within the District with facilities that collect and treat 1,245,000 gallons of wastewater each day. The Sanitation District provides sewer service to 5,230 accounts in western Nevada County with a population of approximately 14,000.

Wastewater treatment plants that discharge to surface waters are required to obtain a National Pollutant Discharge Elimination System (NPDES) permit. The permits are normally renewed every 5 years by the California Regional Water Quality Control Board (CRWQCB) and may contain new treatment objectives and discharge regulations. The Lake Wildwood treatment facility UV Disinfection Improvement Project was completed by the September 2013 CRWQCB Time Schedule Order deadline. The Penn Valley treatment facility has been issued a Cease and Desist Order by the CRWQCB to address problems related to a lack of storage capacity. The order requires improvements to address capacity issues to be completed by August 2014. Transporting the wastewater to the Lake Wildwood treatment facility via a pipeline has been determined to be the most cost effective alternative to address the Cease and Desist Order. The District has applied for a State Revolving Fund loan and a Community Development Block Grant to finance the project.

The operating costs of the Cascade Shores treatment plant are not being met with their current rate structure. The District is proposing to change the Cascade Shores treatment facility from a tertiary treatment plant to land application of effluent to reduce operating costs. The District is pursuing a State Revolving Fund loan for the project as well as requesting loan forgiveness for the existing loan.

The cost of many resources required by the District's treatment plants to meet permitting requirements continues to increase. The District has been able to absorb these costs utilizing available unrestricted net position in fiscal year 2013-14 without rate increases.

Request for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Nevada County Auditor-Controller, Marcia L. Salter, 950 Maidu Avenue, Nevada City CA 95959. This entire report is available online at <http://mynevadacounty.com/nc/auditor/>

Basic Financial Statements

- **Fund Financial Statements**

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NEVADA COUNTY SANITATION DISTRICT NO. 1
(A Component Unit of the County of Nevada, California)
Statement of Net Position
Enterprise Funds
June 30, 2013

	Sanitation District
ASSETS	
Current Assets:	
Cash and investments	\$ 5,589,233
Receivables:	
Accounts	170
Due from other funds	1,018,162
Due from County of Nevada	89
Total Current Assets	6,607,654
Noncurrent Assets:	
Capital assets:	
Non-depreciable	4,358,906
Depreciable, net	47,428,634
Total Noncurrent Assets	51,787,540
Total Assets	58,395,194
LIABILITIES	
Current Liabilities:	
Accounts payable	162,837
Accrued salaries and benefits	36,937
Accrued interest payable	385,199
Deposits payable	3,899
Due to other funds	1,018,162
Due to County of Nevada	90,181
Compensated absences payable	114,360
Bonds payable	2,000
Loans payable	1,504,689
Total Current Liabilities	3,318,264
Noncurrent Liabilities:	
Compensated absences payable	54,148
Bonds payable	15,000
Loans payable	23,563,401
Net OPEB obligation	95,792
Total Noncurrent Liabilities	23,728,341
Total Liabilities	27,046,605
NET POSITION	
Net investment in capital assets	26,734,805
Unrestricted	4,613,784
Total Net Position	\$ 31,348,589

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

NEVADA COUNTY SANITATION DISTRICT NO. 1
(A Component Unit of the County of Nevada, California)
Statement of Revenues, Expenses, and Changes in Net Position
Enterprise Funds
For the Year Ended June 30, 2013

	Sanitation District
OPERATING REVENUES	
Charges for services	\$ 6,579,111
Total Operating Revenues	6,579,111
OPERATING EXPENSES	
Salaries and benefits	1,899,863
Services and supplies	1,434,978
Benefit and claim expense	24,385
Other charges	172,164
Expense transfers	487,457
Depreciation	2,039,909
Total Operating Expenses	6,058,756
Operating Income (Loss)	520,355
NON-OPERATING REVENUE (EXPENSES)	
Interest income	27,757
Other revenues	7,784
Interest expense	(557,100)
Total Non-Operating Revenues (Expenses)	(521,559)
Income (Loss) before Transfers	(1,204)
Transfers in	-
Transfers out	-
Change in Net Position	(1,204)
Total Net Position - Beginning	31,349,793
Total Net Position - Ending	\$ 31,348,589

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

NEVADA COUNTY SANITATION DISTRICT NO. 1
(A Component Unit of the County of Nevada, California)
Statement of Cash Flows
Enterprise Funds
For the Year Ended June 30, 2013

	Sanitation District
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 6,801,385
Payments to suppliers	(2,014,795)
Payments to employees	(1,871,765)
	2,914,825
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Grants and other receipts	6,019
Interfund loans received	37,151
Interfund loans repaid	(85,254)
Interfund loan repayments received	89,112
	47,028
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition of capital assets	(2,351,890)
Proceeds from sale of capital assets	1,765
Principal paid on capital debt	(1,722,030)
Interest paid on capital debt	(331,252)
	(4,403,407)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest and dividends	27,758
	27,758
Net Increase (Decrease) in Cash and Cash Equivalents	(1,413,796)
Balances - Beginning	7,003,029
Balances - Ending	\$ 5,589,233

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

Continued (Page 1 of 2)

NEVADA COUNTY SANITATION DISTRICT NO. 1
(A Component Unit of the County of Nevada, California)
Statement of Cash Flows
Enterprise Funds
For the Year Ended June 30, 2013

	Sanitation District
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	
Operating income (loss)	\$ 520,355
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	2,039,909
Decrease (Increase) in:	
Accounts receivable	222,274
Increase (Decrease) in:	
Accounts payable	104,189
Accrued salaries and benefits	4,744
Compensated absences	14,052
Net OPEB obligation	9,302
	<u>2,914,825</u>
Net Cash Provided (Used) by Operating Activities	\$ 2,914,825
 NONCASH CAPITAL, INVESTING, AND FINANCING ACTIVITIES	
Amortization of discounts	\$ 240,581

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

Continued (Page 2 of 2)

Basic Financial Statements

- **Notes to Basic Financial Statements**

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NEVADA COUNTY SANITATION DISTRICT NO. 1
(A Component Unit of the County of Nevada, California)
Notes to Basic Financial Statements
For the Year Ended June 30, 2013

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Nevada County Sanitation District No. 1 (District) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental agencies. 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.

A. Reporting Entity

The District is a public agency formed on August 2, 1965, by order of the Nevada County Board of Supervisors pursuant to provisions of the California Health and Safety Code. As of June 30, 2013, the District is composed of ten zones and the Wastewater Management System.

The District, for financial purposes, includes all of the activity relevant to the operations of the District in eleven enterprise funds, as follows:

Wastewater Management System	Sanitation District Zone 6 - Penn Valley <ul style="list-style-type: none"> • O&M
Sanitation District Zone 1 - Lake Wildwood <ul style="list-style-type: none"> • O&M • Debt Assessment • Capital Improvement • LaSalle Project 	Sanitation District Zone 7 - Mountain Lake Estates <ul style="list-style-type: none"> • O&M
Sanitation District Zone 2 - Lake of the Pines <ul style="list-style-type: none"> • O&M • Debt Assessment • Capital Improvement • LaSalle Project 	Sanitation District Zone 8 - Cascade Shores <ul style="list-style-type: none"> • O&M • Capital Improvement • Debt Assessment
Sanitation District Zone 4 - North San Juan <ul style="list-style-type: none"> • O&M • Sewer Assessment 	Sanitation District Zone 9 - Eden Ranch <ul style="list-style-type: none"> • O&M
Sanitation District Zone 5 - Gold Creek <ul style="list-style-type: none"> • O&M 	Sanitation District Zone 11 - Higgins Village <ul style="list-style-type: none"> • O&M
	Sanitation District Zone 12 - Valley Oak <ul style="list-style-type: none"> • O&M

The financial statements included in this report are intended to present the financial position and results of operations of only the District. They are not intended to present the financial position or results of operations of the County of Nevada taken as a whole.

The District is considered to be a component unit of the County of Nevada. The Board of Supervisors is the governing body of the District. The District is a legally separate entity for which the County is considered to be financially accountable and for which the nature and significance of the District's relationship with the County is such that exclusion would cause the combined financial statements to be misleading.

The District is considered a blended component unit of the County of Nevada and is reported as a major enterprise fund in the County of Nevada's financial statements.

NEVADA COUNTY SANITATION DISTRICT NO. 1
(A Component Unit of the County of Nevada, California)
Notes to Basic Financial Statements
For the Year Ended June 30, 2013

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basis of Presentation

The fund financial statements provide information about the District's funds. Funds are organized into the proprietary category. An emphasis is placed on major funds within the proprietary category; each is displayed in a separate column. For presentation purposes all zones of the District are combined into one major fund.

The District reports the following major proprietary fund:

- The Sanitation District fund is an enterprise fund used to account for activity related to providing customers with sanitation management and billing for services provided by the District.

C. Basis of Accounting and Measurement Focus

The proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include revenues from grants, entitlements, and donations. Under the accrual basis, revenue from grants, entitlements, and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of proprietary funds are charges to customers for services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. Cash, Cash Equivalents and Investments

The District pools cash and investments of all funds with the County of Nevada. Each fund's share in this pool is displayed in the accompanying financial statements as cash and investments.

Participant's equity in the investment pool is determined by the dollar amount of participants deposits, adjusted for withdrawals and distributed investment income. Investment income is determined on the amortized cost basis. Amortized premiums and accreted discounts, accrued interest, and realized gains and losses, net of expenses, are apportioned to pool participants every quarter based on the participant's average daily cash balance at quarter end in relation to the total pool investments. This method differs from the fair value method used to value investments in these financial statements. In these financial statements, the fair value of the District's investments in the pool was based on unaudited quoted market values as provided by the County Treasurer. The pool has not provided or obtained any legally binding guarantees during the period to support the value of investments.

NEVADA COUNTY SANITATION DISTRICT NO. 1
(A Component Unit of the County of Nevada, California)
Notes to Basic Financial Statements
For the Year Ended June 30, 2013

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Cash, Cash Equivalents and Investments (Continued)

The County monitors and reviews the management of public funds maintained in the investment pool in accordance with the County investment policy and the California Government Code. The Board of Supervisors review and approve the investment policy annually. The County Treasurer prepares and submits a comprehensive investment report to the Board of Supervisors every month. The report covers the type of investments in the pool, maturity dates, par value, actual cost and fair value.

Required disclosure information regarding categorization of investments and other deposit and investment risk disclosures can be found in the County's financial statements. The County of Nevada's financial statements may be obtained by contacting the County of Nevada Auditor-Controller at 950 Maidu Avenue, Nevada City, CA 95959, www.mynevadacounty.com/nc/auditor/.

For purposes of the accompanying statement of cash flows, the District considers all highly liquid investments with a maturity of three months or less when purchased, and their equity in the County Treasurer's investment pool, to be cash equivalents.

E. Receivables

Management only accrues those revenues it deems collectible; as such, the District has no allowance for uncollectible accounts.

F. Capital Assets

Capital assets, including public domain (infrastructure assets such as water, sewer, and similar items) are defined by the District as assets with a cost of more than \$5,000 for equipment and \$50,000 for structures and infrastructure and an estimated useful life of more than one year. Capital assets are recorded at historical or estimated historical cost if actual historical cost is unavailable. Contributed capital assets are recorded at their estimated fair market value at the date of donation.

Capital assets used in operations are depreciated or amortized using the straight-line method over the assets estimated useful life. The range of estimated useful lives by type of asset is as follows:

<u>Depreciable Asset</u>	<u>Estimated Lives</u>
Equipment	2-25 years
Structures and Improvements	5-50 years
Infrastructure	20-75 years

Maintenance and repairs are charged to operations when incurred. Betterments and major improvements which significantly increase values, change capacities, or extend useful lives are capitalized. Upon sale or retirement of capital assets, the cost and related accumulated depreciation are removed from the respective accounts and any resulting gain or loss is included in the results of operations.

NEVADA COUNTY SANITATION DISTRICT NO. 1
(A Component Unit of the County of Nevada, California)
Notes to Basic Financial Statements
For the Year Ended June 30, 2013

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Interfund Transactions

Interfund transactions are reflected as either loans, services provided or used, reimbursements or transfers.

Loans reported as receivables and payables are referred to as either “due to/from other funds” (i.e. the current portion of interfund loans) or “advances to/from other funds” (i.e., the noncurrent portion of interfund loans) as appropriate and are subject to elimination upon consolidation.

Services provided or used, deemed to be at market or near market rates, are treated as revenues and expenses. These services provide information on the net cost of each government function and therefore are not eliminated in the process of preparing the government-wide statement of activities.

Reimbursements occur when the funds responsible for particular expenses repay the funds that initially paid for them. Such reimbursements are reflected as expenses in the reimbursing fund and reductions to expenses in the reimbursed fund.

All other interfund transactions are treated as transfers. Transfers between funds are netted as part of the reconciliation to the government-wide presentation.

H. Compensated Absences

It is the District’s policy to permit employees to accumulate a limited amount of earned but unused vacation or personal paid leave. An unlimited amount of sick leave may be accrued in accordance with the bargaining unit’s MOU and, upon separation from District’s service, will either be paid to the employee or converted to PERS service credit. In proprietary funds the accrued compensated absences is recorded as an expense and related liability in the year earned, with the current portion estimated based on historical trends. The District includes its share of social security and medicare taxes payable on behalf of the employees in the accrual for compensated absences.

I. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense) until then. At June 30, 2013, the District did not have any deferred outflows of resources.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. At June 30, 2013, the District did not have any deferred inflows of resources.

NEVADA COUNTY SANITATION DISTRICT NO. 1
(A Component Unit of the County of Nevada, California)
Notes to Basic Financial Statements
For the Year Ended June 30, 2013

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Estimates

The preparation of basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

K. Implementation of Governmental Accounting Standards Board Statements (GASB)

The following Governmental Accounting Standards Board (GASB) Statements have been implemented, if applicable to the Nevada County Sanitation District No. 1, in the current financial statements.

Statement No. 60, Accounting and Financial Reporting for Service Concession Arrangements. This statement improves financial reporting by addressing issues related to service concession arrangements.

Statement No. 61, The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and No. 34. The statement clarifies the reporting of equity interest in legally separate organizations and requires the primary government to report its equity interest in a component unit as an asset.

Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. This statement improves reporting by contributing to GASB's efforts to codify all sources of generally accepted accounting principles for state and local governments so that they derive from a single source.

Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position. This statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources.

Statement No. 65, Items Previously Reported as Assets and Liabilities. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

Statement No. 66, Technical Corrections - 2012 - an amendment of GASB Statements No. 10 and No. 62. This statement improved accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of GASB Statements No. 54 and No. 62.

NOTE 2: CASH AND INVESTMENTS

A. Financial Statement Presentation

At June 30, 2013, the District's cash and investments consisted of the following:

Investments:	
Nevada County Treasurer's Pool	\$ 5,589,233
Total Cash and Investments	<u>\$ 5,589,233</u>

NEVADA COUNTY SANITATION DISTRICT NO. 1
(A Component Unit of the County of Nevada, California)
Notes to Basic Financial Statements
For the Year Ended June 30, 2013

NOTE 2: CASH AND INVESTMENTS (CONTINUED)

B. Cash

Custodial Credit Risk for Deposits - Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the District will not be able to recover its deposits or collateral securities that are in the possession of an outside party. The County's investment policy requires that deposits in banks must meet the requirements of the California Government Code. Under this code, deposits of more than \$250,000 must be collateralized at 105 percent to 150 percent of the value of the deposit to guarantee the safety of the public funds. The first \$250,000 of the District's deposits are insured by the Federal Deposit Insurance Corporation (FDIC). Deposits more than the \$250,000 insured amount are collateralized.

At year end, the District had no deposits outside the Nevada County Treasury.

C. Investments

The investment policy provides the basis for the management of a prudent, conservative investment program. Funds are invested to provide the maximum security of principal with secondary emphasis on achieving the highest return, while meeting daily cash flow needs. All investments are made in accordance with the Government Code and, in general, the investment policy is more restrictive than state law. Under the provisions of the County's investment policy the County may invest or deposit in the following:

- Banker's Acceptances
- Commercial Paper
- Local Agency Investment Fund
- Medium Term Corporate Notes
- Money Market Funds
- Negotiable Certificates of Deposit
- Repurchase Agreements
- Reverse Repurchase Agreements
- Securities of the Federal Government or its Agencies
- California State Registered Warrants, Treasury Notes and Bonds
- Local Agency Obligations
- Certificates of Deposit
- Pass-Through Security

Interest Rate Risk - Interest rate risk is the risk of loss due to the fair value of an investment falling due to interest rates rising. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the County 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 flow and liquidity needed for operations. The County limits its exposure to interest rate risk inherent in its portfolio by limiting individual maturities to 5 years or less.

NEVADA COUNTY SANITATION DISTRICT NO. 1
(A Component Unit of the County of Nevada, California)
Notes to Basic Financial Statements
For the Year Ended June 30, 2013

NOTE 2: CASH AND INVESTMENTS (CONTINUED)

C. Investments (Continued)

Credit Risk - Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The County's investment policy sets specific parameters by type of investment to be met at the time of purchase. As of June 30, 2013, the District's investments were all pooled with the County Treasury which is not rated by a nationally recognized statistical rating organization.

Custodial Credit Risk for Investments- Custodial credit risk for investments is the risk that, in the event of the failure of a depository financial institution, the District will not be able to recover its deposits or collateral securities that are in the possession of an outside party. To mitigate the custodial credit risk the County's investment policy requires that all investments owned by the County with the exception of certificates of deposit shall be held in safekeeping by a third party under contract with the County. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to local government's indirect investments in securities through the use of mutual funds or government investment pools.

Concentration of Credit Risk - Concentration of credit risk is the risk of loss attributed to the magnitude of the District's investment in a single issuer of securities. When investments are concentrated in one issuer, this concentration presents a heightened risk of potential loss. State law and the investment policy of the County contain limitations on the amount that can be invested in any one issuer. All investments of the District are in the County investment pool which contains a diversification of investments.

NEVADA COUNTY SANITATION DISTRICT NO. 1
(A Component Unit of the County of Nevada, California)
Notes to Basic Financial Statements
For the Year Ended June 30, 2013

NOTE 3: CAPITAL ASSETS

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

	<u>Balance</u> <u>July 1, 2012</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2013</u>
Capital Assets, Not Being Depreciated:				
Land and Easements	\$ 1,452,943	\$ -	\$ -	\$ 1,452,943
Construction in progress	<u>564,535</u>	<u>2,341,428</u>	<u>-</u>	<u>2,905,963</u>
Total Capital Assets, Not Being Depreciated	<u>2,017,478</u>	<u>2,341,428</u>	<u>-</u>	<u>4,358,906</u>
Capital Assets, Being Depreciated:				
Infrastructure	66,958,714	-	-	66,958,714
Structures and Improvements	320,598	-	-	320,598
Equipment	<u>1,369,794</u>	<u>10,462</u>	<u>(15,972)</u>	<u>1,364,284</u>
Total Capital Assets, Being Depreciated	<u>68,649,106</u>	<u>10,462</u>	<u>(15,972)</u>	<u>68,643,596</u>
Less Accumulated Depreciation For:				
Infrastructure	(17,986,533)	(1,982,877)	-	(19,969,410)
Structures and Improvements	(54,852)	(10,687)	-	(65,539)
Equipment	<u>(1,149,640)</u>	<u>(46,345)</u>	<u>15,972</u>	<u>(1,180,013)</u>
Total Accumulated Depreciation	<u>(19,191,025)</u>	<u>(2,039,909)</u>	<u>15,972</u>	<u>(21,214,962)</u>
Total Capital Assets, Being Depreciated, Net	<u>49,458,081</u>	<u>(2,029,447)</u>	<u>-</u>	<u>47,428,634</u>
Total Capital Assets, Net	<u>\$ 51,475,559</u>	<u>\$ 311,981</u>	<u>\$ -</u>	<u>\$ 51,787,540</u>

Total depreciation expense of \$2,039,909 was charged to the proprietary fund.

Construction in Progress

Construction in progress related to work performed on Lake Wildwood treatment facility upgrade and Penn Valley pipeline.

NEVADA COUNTY SANITATION DISTRICT NO. 1
(A Component Unit of the County of Nevada, California)
Notes to Basic Financial Statements
For the Year Ended June 30, 2013

NOTE 4: INTERFUND TRANSACTIONS

Due To/From Other Funds

During the course of operations, transactions occur between funds to account for goods received or services rendered. These receivables and payables are classified as due from or due to other funds. The following are due from and due to balances by zone as of June 30, 2013:

	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
Wastewater Management System	\$ 412,236	\$ 605,925
Sanitation District Zone 1 - Lake Wildwood	285,094	212,708
Sanitation District Zone 2 - Lake of the Pines	205,987	129,561
Sanitation District Zone 4 - North San Juan	8,902	7,517
Sanitation District Zone 5 - Gold Creek	2,709	7,484
Sanitation District Zone 6 - Penn Valley	53,970	24,871
Sanitation District Zone 7 - Mountain Lake Estates	3,783	2,518
Sanitation District Zone 8 - Cascade Shores	31,876	19,023
Sanitation District Zone 9 - Eden Ranch	3,500	1,885
Sanitation District Zone 11 - Higgins Village	9,526	6,474
Sanitation District Zone 12 - Valley Oak	<u>579</u>	<u>196</u>
Total	<u>\$ 1,018,162</u>	<u>\$ 1,018,162</u>

NOTE 5: LONG-TERM LIABILITIES

The following is a summary of long-term liabilities transactions for the year ended June 30, 2013:

<u>Type of Indebtedness</u>	<u>Balance July 1, 2012</u>	<u>Additions/ Adjustments</u>	<u>Retirements/ Adjustments</u>	<u>Balance June 30, 2013</u>	<u>Amounts Due Within One Year</u>
Special Assessment Bonds with					
County Commitment	\$ 19,000	\$ -	(\$ 2,000)	\$ 17,000	\$ 2,000
Loans	28,686,217	-	(1,720,029)	26,966,188	1,732,181
Less: Unamortized Discount	<u>(2,138,679)</u>	<u>-</u>	<u>240,581</u>	<u>(1,898,098)</u>	<u>(227,492)</u>
Loans, Net	26,547,538	-	(1,479,448)	25,068,090	1,504,689
Compensated Absences	154,456	136,590	(122,538)	168,508	114,360
OPEB Obligation	<u>86,490</u>	<u>99,207</u>	<u>(89,905)</u>	<u>95,792</u>	<u>-</u>
Total Long Term Liabilities	<u>\$ 26,807,484</u>	<u>\$ 235,797</u>	<u>(\$ 1,693,891)</u>	<u>\$ 25,349,390</u>	<u>\$ 1,619,249</u>

Individual issues of debt payable outstanding at June 30, 2013, are as follows:

Business-Type Activities

Special Assessment Bonds with County Commitment:

USDA Rural Development Bond - North San Juan, issued July 19, 1988, in the amount of \$76,130 and payable in annual installments of \$1,000 to \$3,000 with an interest rate of 5.00% and maturity on September 2, 2018. Bond proceeds were used to construct improvements in the north San Juan Sewer Assessment District.

Total Special Assessment Bonds With County Commitment	<u>\$ 17,000</u>
	<u>17,000</u>

NEVADA COUNTY SANITATION DISTRICT NO. 1
(A Component Unit of the County of Nevada, California)
Notes to Basic Financial Statements
For the Year Ended June 30, 2013

NOTE 5: LONG-TERM LIABILITIES (CONTINUED)

Individual issues of debt payable outstanding at June 30, 2013, are as follows: (Continued)

Business-Type Activities (Continued)

Loans:

State Water Resources Control Board loan, issued November 13, 2010, in the amount of \$339,164 and payable in annual installments of \$16,958, with an interest rate of 0.0% and maturity on June 30, 2029. Loan proceeds were used for the acquisition and construction of improvements to the Cascade Shores Wastewater system. The loan includes a loan discount of \$56,528.	271,331
SWRCB Revolving loan, issued December 12, 2006, in the amount of \$170,367 and payable in annual installments of \$8,445 to \$11,116 with an interest rate of 3.10% and maturity on January 22, 2016. Loan proceeds were used to finance modifications to the Cascade Shores Wastewater collection system with upgrade and modification to the existing lift station. The lift station was impaired and removed from the capital assets schedule.	32,355
Banc of America Leasing and Capital, LLC loan, issued August 1, 2009, in the amount of \$2,500,000 and payable in annual installments of \$73,529, with an interest rate of 3.55% and maturity on August 1, 2026. Loan proceeds were used for interim financing for the acquisition and construction of improvements to the Lake of the Pines Zone 2 wastewater system.	1,985,295
Banc of America Leasing and Capital, LLC loan, issued August 1, 2009, in the amount of \$1,000,000 and payable in annual installments of \$29,412, with an interest rate of 3.55% and maturity on August 1, 2026. Loan proceeds were used for interim financing for the acquisition and construction of improvements to the Lake Wildwood Zone 1 wastewater system.	794,117
State Water Resources Control Board loan, issued September 13, 2010, in the amount of \$12,122,824 plus accrued interest of \$110,523 and payable in annual installments of \$492,213 to \$739,310 with an interest rate of 1.20% and maturity on November 23, 2027. Loan proceeds were used for the acquisition and construction of improvements to the Lake Wildwood Zone 1 wastewater system.	9,648,720
State Water Resources Control Board loan, issued September 13, 2010, in the amount of \$18,964,071 and payable in annual installments of \$948,204 with an interest rate of 0.00% and maturity on January 1, 2028. Loan proceeds were used for the acquisition and construction of improvements to the Lake of the Pines Zone 2 wastewater system. The loan includes a discount of \$3,160,742.	<u>14,234,370</u>
Total Loans	<u>26,966,188</u>
Total Business-Type Activities	<u>\$ 26,983,188</u>

NEVADA COUNTY SANITATION DISTRICT NO. 1
(A Component Unit of the County of Nevada, California)
Notes to Basic Financial Statements
For the Year Ended June 30, 2013

NOTE 5: LONG-TERM LIABILITIES (CONTINUED)

Following is a schedule of debt payment requirements to maturity for long-term debt excluding compensated absences that have indefinite maturities and net OPEB obligation which is reported in Note 7B.

Year Ended June 30	Special Assessment Bonds		
	Principal	Interest	Total
2014	\$ 2,000	\$ 800	\$ 2,800
2015	3,000	675	3,675
2016	3,000	525	3,525
2017	3,000	375	3,375
2018	3,000	225	3,225
2019	3,000	75	3,075
Total	<u>\$ 17,000</u>	<u>\$ 2,675</u>	<u>\$ 19,675</u>

Year Ended June 30	Loans			
	Principal	Interest	Service Charge	Total
2014	\$ 1,732,181	\$ 214,349	\$ 96,487	\$ 2,043,017
2015	1,744,604	200,062	90,988	2,035,654
2016	1,757,303	185,621	85,368	2,028,292
2017	1,758,824	171,020	79,624	2,009,468
2018	1,771,739	156,613	73,754	2,002,106
2019-2023	9,062,581	560,958	276,093	9,899,632
2024-2028	9,121,998	181,993	108,709	9,412,700
2029	16,958	-	-	16,958
Total	<u>\$ 26,966,188</u>	<u>\$ 1,670,616</u>	<u>\$ 811,023</u>	<u>\$ 29,447,827</u>

NOTE 6: NET POSITION

The proprietary fund financial statements utilize a net position presentation. Net position is categorized as net investment in capital assets, restricted, and unrestricted.

- Net investment in capital assets – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- Restricted net position – Consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- Unrestricted net position – All other net position that does not meet the definition of “restricted” or “net investment in capital assets”.

NEVADA COUNTY SANITATION DISTRICT NO. 1
(A Component Unit of the County of Nevada, California)
Notes to Basic Financial Statements
For the Year Ended June 30, 2013

NOTE 6: NET POSITION (CONTINUED)

Net Position Flow Assumption

When a government funds outlays for a particular purpose from both restricted and unrestricted resources, a flow assumption must be made about the order in which the resources are considered to be applied. When both restricted and unrestricted net position is available, it is considered that restricted resources are used first, followed by the unrestricted resources.

NOTE 7: EMPLOYEE BENEFITS

A. Employee's Retirement Plan

The District is a component unit of the County of Nevada and as such the District's employees are covered under the retirement plan of the County of Nevada.

The County contributes to the California Public Employees Retirement System (PERS), an agent multiple-employer public employee defined benefit 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 statute. Copies of PERS' annual financial report may be obtained from their executive office - 400 Q Street, Lincoln Plaza East, Sacramento, CA 95811 or www.calpers.ca.gov.

Required disclosure information regarding employee's retirement plan can be found in the County's audited financial statements.

B. Other Postemployment Benefits (OPEB)

The District is a component unit of the County of Nevada and as such the District's employees are covered under the postemployment benefit plan of the County of Nevada.

The County of Nevada provides, under a defined benefit plan, retiree healthcare benefits to qualifying employees retiring directly from the County. The benefit level is determined by date of hire and length of service. The County has contracted for medical coverage to be provided through an agent multiple-employer CalPERS Healthcare (PEMHCA) plan.

A portion of the County's postemployment benefit costs have been allocated to the District as follows;

Annual Required Contribution	\$ 100,738
Interest on Prior OPEB Obligation	5,637
Amortization of Prior Year Net OPEB Obligation	(7,168)
Annual OPEB Cost	99,207
Pay As You Go Contribution	(41,987)
Funding of Full ARC Contribution	(47,918)
Increase (Decrease) in Net OPEB Obligation	9,302
Net OPEB Obligation - Beginning of Year	<u>86,490</u>
Net OPEB Obligation - End of Year	<u><u>\$ 95,792</u></u>

NEVADA COUNTY SANITATION DISTRICT NO. 1
(A Component Unit of the County of Nevada, California)
Notes to Basic Financial Statements
For the Year Ended June 30, 2013

NOTE 7: EMPLOYEE BENEFITS (CONTINUED)

B. Other Postemployment Benefits (OPEB) (Continued)

Required disclosure information regarding OPEB can be found in the County's audited financial statements.

NOTE 8: 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 disasters.

Because of the close relationship the District has with the County of Nevada, the District's coverage is provided by the County of Nevada. Disclosure of complete information on risk management can be found in the County of Nevada's financial statements.

NOTE 9: RELATED PARTY TRANSACTIONS

The District has related party transactions with the County of Nevada.

The following is a summary of receivables from the County of Nevada by fund at June 30, 2013:

Wastewater Management System	\$ <u>89</u>
Total Due from County of Nevada	\$ <u><u>89</u></u>

The following is a summary of payables to the County of Nevada by fund at June 30, 2013:

Wastewater Management System	\$ 50,572
Sanitation District Zone 1 - Lake Wildwood	5,615
Sanitation District Zone 2 - Lake of the Pines	3,940
Sanitation District Zone 4 - North San Juan	162
Sanitation District Zone 5 - Gold Creek	83
Sanitation District Zone 6 - Penn Valley	1,804
Sanitation District Zone 7 - Mountain Lake Estates	75
Sanitation District Zone 8 - Cascade Shores	27,779
Sanitation District Zone 9 - Eden Ranch	51
Sanitation District Zone 11 - Higgins Village	90
Sanitation District Zone 12 - Valley Oak	<u>10</u>
Total Due to County of Nevada	\$ <u><u>90,181</u></u>

NOTE 10: OTHER INFORMATION

A. Commitments and Contingencies

The District had active construction projects as of June 30, 2013, including upgrades to existing wastewater treatment plants to comply with new regulatory requirements. At year end the District's commitments with contractors are as follows:

Project	Spent-to-date	Remaining Commitment
Wastewater treatment facility upgrade	\$ 1,089,238	\$ 27,522

NEVADA COUNTY SANITATION DISTRICT NO. 1
(A Component Unit of the County of Nevada, California)
Notes to Basic Financial Statements
For the Year Ended June 30, 2013

NOTE 10: OTHER INFORMATION (CONTINUED)

A. Commitments and Contingencies (Continued)

The wastewater treatment projects are financed with long-term debt to be repaid from special assessments.

The District had encumbrances of \$32,407 at June 30, 2013.

B. Subsequent Events

Management has evaluated events subsequent to June 30, 2013 through January 8, 2014, the date on which the financial statements were available for issuance. Management has determined no subsequent events requiring disclosure have occurred.

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Supplementary Information

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NEVADA COUNTY SANITATION DISTRICT NO. 1
(A Component Unit of the County of Nevada, California)
Combining Statement of Net Position
June 30, 2013

	<u>Wastewater Management System</u>	<u>Sanitation District Zone 1 - Lake Wildwood</u>	<u>Sanitation District Zone 2 - Lake of the Pines</u>	<u>Sanitation District Zone 4 - North San Juan</u>
ASSETS				
Current Assets:				
Cash and investments	\$ 505,852	\$ 1,094,739	\$ 3,090,470	\$ 143,394
Receivables:				
Accounts	-	-	170	-
Due from other funds	412,236	285,094	205,987	8,902
Due from County of Nevada	89	-	-	-
Total Current Assets	<u>918,177</u>	<u>1,379,833</u>	<u>3,296,627</u>	<u>152,296</u>
Noncurrent Assets:				
Capital assets:				
Non-depreciable	-	2,923,166	436,504	139,084
Depreciable, net	112,428	16,168,096	24,342,398	182,860
Total Noncurrent Assets	<u>112,428</u>	<u>19,091,262</u>	<u>24,778,902</u>	<u>321,944</u>
Total Assets	<u>1,030,605</u>	<u>20,471,095</u>	<u>28,075,529</u>	<u>474,240</u>
LIABILITIES				
Current Liabilities:				
Accounts payable	16,917	110,073	26,693	851
Accrued salaries and benefits	36,937	-	-	-
Accrued interest payable	-	135,659	122,615	283
Deposits payable	3,899	-	-	-
Due to other funds	605,925	212,708	129,561	7,517
Due to County of Nevada	50,572	5,615	3,940	162
Compensated absences payable	114,360	-	-	-
Bonds payable	-	-	-	2,000
Loans payable	-	608,750	872,741	-
Total Current Liabilities	<u>828,610</u>	<u>1,072,805</u>	<u>1,155,550</u>	<u>10,813</u>
Noncurrent Liabilities:				
Compensated absences payable	54,148	-	-	-
Bonds payable	-	-	-	15,000
Loans payable	-	9,834,088	13,486,268	-
Net OPEB obligation	95,792	-	-	-
Total Noncurrent Liabilities	<u>149,940</u>	<u>9,834,088</u>	<u>13,486,268</u>	<u>15,000</u>
Total Liabilities	<u>978,550</u>	<u>10,906,893</u>	<u>14,641,818</u>	<u>25,813</u>
NET POSITION				
Net investment in capital assets	112,428	8,648,424	10,419,893	304,944
Unrestricted	(60,373)	915,778	3,013,818	143,483
Total Net Position	<u>\$ 52,055</u>	<u>\$ 9,564,202</u>	<u>\$ 13,433,711</u>	<u>\$ 448,427</u>

Sanitation District Zone 5 - Gold Creek	Sanitation District Zone 6 - Penn Valley	Sanitation District Zone 7 - Mountain Lake Estates	Sanitation District Zone 8 - Cascade Shores	Sanitation District Zone 9 - Eden Ranch	Sanitation District Zone 11 - Higgins Village	Sanitation District Zone 12 - Valley Oak	Totals
\$ 39,930	\$ 348,879	\$ 30,975	\$ 144,446	\$ 47,789	\$ 107,427	\$ 35,332	\$ 5,589,233
-	-	-	-	-	-	-	170
2,709	53,970	3,783	31,876	3,500	9,526	579	1,018,162
-	-	-	-	-	-	-	89
<u>42,639</u>	<u>402,849</u>	<u>34,758</u>	<u>176,322</u>	<u>51,289</u>	<u>116,953</u>	<u>35,911</u>	<u>6,607,654</u>
5,950	542,539	45,231	236,439	29,993	-	-	4,358,906
25,886	943,405	329,022	4,770,621	105,293	372,208	76,417	47,428,634
<u>31,836</u>	<u>1,485,944</u>	<u>374,253</u>	<u>5,007,060</u>	<u>135,286</u>	<u>372,208</u>	<u>76,417</u>	<u>51,787,540</u>
<u>74,475</u>	<u>1,888,793</u>	<u>409,011</u>	<u>5,183,382</u>	<u>186,575</u>	<u>489,161</u>	<u>112,328</u>	<u>58,395,194</u>
-	3,559	-	4,550	194	-	-	162,837
-	-	-	-	-	-	-	36,937
-	-	-	126,642	-	-	-	385,199
-	-	-	-	-	-	-	3,899
7,484	24,871	2,518	19,023	1,885	6,474	196	1,018,162
83	1,804	75	27,779	51	90	10	90,181
-	-	-	-	-	-	-	114,360
-	-	-	-	-	-	-	2,000
-	-	-	23,198	-	-	-	1,504,689
<u>7,567</u>	<u>30,234</u>	<u>2,593</u>	<u>201,192</u>	<u>2,130</u>	<u>6,564</u>	<u>206</u>	<u>3,318,264</u>
-	-	-	-	-	-	-	54,148
-	-	-	-	-	-	-	15,000
-	-	-	243,045	-	-	-	23,563,401
-	-	-	-	-	-	-	95,792
-	-	-	243,045	-	-	-	23,728,341
<u>7,567</u>	<u>30,234</u>	<u>2,593</u>	<u>444,237</u>	<u>2,130</u>	<u>6,564</u>	<u>206</u>	<u>27,046,605</u>
31,836	1,485,944	374,253	4,773,172	135,286	372,208	76,417	26,734,805
35,072	372,615	32,165	(34,027)	49,159	110,389	35,705	4,613,784
<u>\$ 66,908</u>	<u>\$ 1,858,559</u>	<u>\$ 406,418</u>	<u>\$ 4,739,145</u>	<u>\$ 184,445</u>	<u>\$ 482,597</u>	<u>\$ 112,122</u>	<u>\$ 31,348,589</u>

NEVADA COUNTY SANITATION DISTRICT NO. 1
(A Component Unit of the County of Nevada, California)
Combining Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2013

	Wastewater Management System	Sanitation District Zone 1 - Lake Wildwood	Sanitation District Zone 2 - Lake of the Pines	Sanitation District Zone 4 - North San Juan
OPERATING REVENUES				
Charges for services	\$ 1,141	\$ 3,147,755	\$ 2,585,927	\$ 75,547
Total Operating Revenues	<u>1,141</u>	<u>3,147,755</u>	<u>2,585,927</u>	<u>75,547</u>
OPERATING EXPENSES				
Salaries and benefits	1,899,863	-	-	-
Services and supplies	302,896	432,118	447,938	10,466
Benefit and claim expense	-	7,146	17,239	-
Other charges	172,375	-	-	(211)
Expense transfers	(2,427,701)	1,446,951	945,156	36,497
Depreciation	41,326	751,705	968,512	9,103
Total Operating Expenses	<u>(11,241)</u>	<u>2,637,920</u>	<u>2,378,845</u>	<u>55,855</u>
Operating Income (Loss)	<u>12,382</u>	<u>509,835</u>	<u>207,082</u>	<u>19,692</u>
NON-OPERATING REVENUE (EXPENSES)				
Interest income	(938)	16,123	12,655	(64)
Other revenues	1,794	2,400	1,667	72
Interest expense	-	(246,306)	(303,533)	(866)
Total Non-Operating Revenues (Expenses)	<u>856</u>	<u>(227,783)</u>	<u>(289,211)</u>	<u>(858)</u>
Income (Loss) before Transfers	<u>13,238</u>	<u>282,052</u>	<u>(82,129)</u>	<u>18,834</u>
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Change in Net Position	<u>13,238</u>	<u>282,052</u>	<u>(82,129)</u>	<u>18,834</u>
Total Net Position - Beginning	<u>38,817</u>	<u>9,282,150</u>	<u>13,515,840</u>	<u>429,593</u>
Total Net Position - Ending	<u>\$ 52,055</u>	<u>\$ 9,564,202</u>	<u>\$ 13,433,711</u>	<u>\$ 448,427</u>

Sanitation District Zone 5 - Gold Creek	Sanitation District Zone 6 - Penn Valley	Sanitation District Zone 7 - Mountain Lake Estates	Sanitation District Zone 8 - Cascade Shores	Sanitation District Zone 9 - Eden Ranch	Sanitation District Zone 11 - Higgins Village	Sanitation District Zone 12 - Valley Oak	Totals
\$ 10,340	\$ 389,692	\$ 23,428	\$ 223,500	\$ 31,716	\$ 80,065	\$ 10,000	\$ 6,579,111
10,340	389,692	23,428	223,500	31,716	80,065	10,000	6,579,111
-	-	-	-	-	-	-	1,899,863
3,138	69,103	4,550	127,299	3,025	33,852	593	1,434,978
-	-	-	-	-	-	-	24,385
-	-	-	-	-	-	-	172,164
14,986	212,645	13,642	167,294	13,507	63,325	1,155	487,457
3,058	56,120	15,599	173,570	4,763	13,268	2,885	2,039,909
21,182	337,868	33,791	468,163	21,295	110,445	4,633	6,058,756
(10,842)	51,824	(10,363)	(244,663)	10,421	(30,380)	5,367	520,355
7	(272)	(12)	204	(40)	110	(16)	27,757
22	437	31	1,251	28	77	5	7,784
-	-	-	(6,395)	-	-	-	(557,100)
29	165	19	(4,940)	(12)	187	(11)	(521,559)
(10,813)	51,989	(10,344)	(249,603)	10,409	(30,193)	5,356	(1,204)
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
(10,813)	51,989	(10,344)	(249,603)	10,409	(30,193)	5,356	(1,204)
77,721	1,806,570	416,762	4,988,748	174,036	512,790	106,766	31,349,793
\$ 66,908	\$ 1,858,559	\$ 406,418	\$ 4,739,145	\$ 184,445	\$ 482,597	\$ 112,122	\$ 31,348,589

NEVADA COUNTY SANITATION DISTRICT NO. 1
(A Component Unit of the County of Nevada, California)
Combining Statement of Cash Flows
For the Year Ended June 30, 2013

	Wastewater Management System	Sanitation District Zone 1 - Lake Wildwood	Sanitation District Zone 2 - Lake of the Pines	Sanitation District Zone 4 - North San Juan
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ 1,141	\$ 3,147,755	\$ 2,808,201	\$ 75,547
Payments to suppliers	1,959,759	(1,796,709)	(1,403,151)	(46,251)
Payments to employees	(1,871,765)	-	-	-
	-	-	-	-
Net Cash Provided (Used) by Operating Activities	<u>89,135</u>	<u>1,351,046</u>	<u>1,405,050</u>	<u>29,296</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Grants and other receipts	29	2,400	1,667	72
Interfund loans received	-	-	-	4,142
Interfund loans repaid	(40,854)	(20,788)	(15,204)	-
Interfund loan repayments received	36,195	25,905	18,655	813
	-	-	-	-
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(4,630)</u>	<u>7,517</u>	<u>5,118</u>	<u>5,027</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition of capital assets	-	(2,329,828)	(10,461)	-
Proceeds from sale of capital assets	1,765	-	-	-
Principal paid on capital debt	-	(596,912)	(1,096,017)	(2,000)
Interest paid on capital debt	-	(254,088)	(74,946)	(900)
	-	-	-	-
Net Cash Provided (Used) for Capital and Related Financing Activities	<u>1,765</u>	<u>(3,180,828)</u>	<u>(1,181,424)</u>	<u>(2,900)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest and dividends	(939)	16,125	12,655	(64)
	-	-	-	-
Net Cash Provided (Used) by Investing Activities	<u>(939)</u>	<u>16,125</u>	<u>12,655</u>	<u>(64)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	85,331	(1,806,140)	241,399	31,359
Balances - Beginning	<u>420,521</u>	<u>2,900,879</u>	<u>2,849,071</u>	<u>112,035</u>
Balances - Ending	<u>\$ 505,852</u>	<u>\$ 1,094,739</u>	<u>\$ 3,090,470</u>	<u>\$ 143,394</u>

Sanitation District Zone 5 - Gold Creek	Sanitation District Zone 6 - Penn Valley	Sanitation District Zone 7 - Mountain Lake Estates	Sanitation District Zone 8 - Cascade Shores	Sanitation District Zone 9 - Eden Ranch	Sanitation District Zone 11 - Higgins Village	Sanitation District Zone 12 - Valley Oak	Totals
\$ 10,340 (18,124) -	\$ 389,692 (280,494) -	\$ 23,428 (18,192) -	\$ 223,500 (296,261) -	\$ 31,716 (16,447) -	\$ 80,065 (97,177) -	\$ 10,000 (1,748) -	\$ 6,801,385 (2,014,795) (1,871,765)
(7,784)	109,198	5,236	(72,761)	15,269	(17,112)	8,252	2,914,825
22 5,951 - 333	437 - (8,403) 3,979	31 50 - 371	1,251 24,932 - 1,881	28 872 - 300	77 1,143 - 680	5 61 (5) -	6,019 37,151 (85,254) 89,112
6,306	(3,987)	452	28,064	1,200	1,900	61	47,028
-	(11,601)	-	-	-	-	-	(2,351,890)
-	-	-	-	-	-	-	1,765
-	-	-	(27,101)	-	-	-	(1,722,030)
-	-	-	(1,318)	-	-	-	(331,252)
-	(11,601)	-	(28,419)	-	-	-	(4,403,407)
7	(272)	(12)	204	(40)	110	(16)	27,758
7	(272)	(12)	204	(40)	110	(16)	27,758
(1,471)	93,338	5,676	(72,912)	16,429	(15,102)	8,297	(1,413,796)
41,401	255,541	25,299	217,358	31,360	122,529	27,035	7,003,029
\$ 39,930	\$ 348,879	\$ 30,975	\$ 144,446	\$ 47,789	\$ 107,427	\$ 35,332	\$ 5,589,233

NEVADA COUNTY SANITATION DISTRICT NO. 1
(A Component Unit of the County of Nevada, California)
Combining Statement of Cash Flows
For the Year Ended June 30, 2013

	<u>Wastewater Management System</u>	<u>Sanitation District Zone 1 - Lake Wildwood</u>	<u>Sanitation District Zone 2 - Lake of the Pines</u>	<u>Sanitation District Zone 4 - North San Juan</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
Operating income (loss)	\$ 12,382	\$ 509,835	\$ 207,082	\$ 19,692
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	41,326	751,705	968,512	9,103
Decrease (Increase) in:				
Accounts receivable	-	-	222,274	-
Increase (Decrease) in:				
Accounts payable	7,329	89,506	7,182	501
Accrued salaries and benefits	4,744	-	-	-
Compensated absences	14,052	-	-	-
Net OPEB obligation	9,302	-	-	-
Net Cash Provided (Used) by Operating Activities	<u>\$ 89,135</u>	<u>\$ 1,351,046</u>	<u>\$ 1,405,050</u>	<u>\$ 29,296</u>

**NONCASH INVESTING, CAPITAL, AND
FINANCING ACTIVITIES**

Amortization of discounts	\$ -	\$ -	\$ 236,138	\$ -
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Sanitation District Zone 5 - Gold Creek	Sanitation District Zone 6 - Penn Valley	Sanitation District Zone 7 - Mountain Lake Estates	Sanitation District Zone 8 - Cascade Shores	Sanitation District Zone 9 - Eden Ranch	Sanitation District Zone 11 - Higgins Village	Sanitation District Zone 12 - Valley Oak	Totals
\$ (10,842)	\$ 51,824	\$ (10,363)	\$ (244,663)	\$ 10,421	\$ (30,380)	\$ 5,367	\$ 520,355
3,058	56,120	15,599	173,570	4,763	13,268	2,885	2,039,909
-	-	-	-	-	-	-	222,274
-	1,254	-	(1,668)	85	-	-	104,189
-	-	-	-	-	-	-	4,744
-	-	-	-	-	-	-	14,052
-	-	-	-	-	-	-	9,302
<u>\$ (7,784)</u>	<u>\$ 109,198</u>	<u>\$ 5,236</u>	<u>\$ (72,761)</u>	<u>\$ 15,269</u>	<u>\$ (17,112)</u>	<u>\$ 8,252</u>	<u>\$ 2,914,825</u>
\$ -	\$ -	\$ -	\$ 4,443	\$ -	\$ -	\$ -	\$ 240,581

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

The Board of Directors and Grand Jury
Nevada County Sanitation District No. 1
Nevada City, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the proprietary fund of Nevada County Sanitation District No. 1 (District), a component unit of the County of Nevada, California, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated January 8, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The Board of Directors and Grand Jury
Nevada County Sanitation District No. 1
Nevada City, California

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script, appearing to read "Smith & Newell", is written over the printed name.

Smith & Newell, CPAs
Yuba City, California
January 8, 2014