

**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, 2012**

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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, 2012

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FINANCIAL SECTION

- **Independent Auditor's Report**
- **Management's Discussion and Analysis**
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- **Supplementary Information**

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the proprietary fund of the 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, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

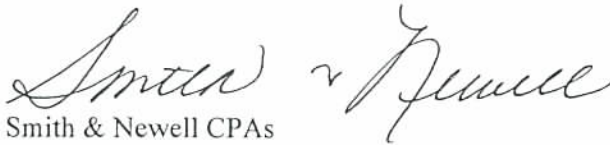
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the proprietary fund of the District as of June 30, 2012, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated January 3, 2013, 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 and should be considered in assessing the results of our audit.

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

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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements as a whole. The combining fund financial statements are presented for purposes of additional analysis and are not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

The block contains two handwritten signatures in cursive script. The first signature appears to be 'Smith' and the second appears to be 'Newell', separated by a small 'v' symbol. The ink is dark and the handwriting is fluid.

Smith & Newell CPAs
Yuba City, California
January 3, 2013

**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, 2012. 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 Assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of the District's financial position.

The Statement of Revenues, Expenses and Changes in Net Assets presents information showing the change in the District's net assets during the fiscal year. All changes in net assets 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, 2012, the assets of the District exceeded its liabilities by \$31,349,793 (net assets). Of this amount, \$6,398,274 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors and \$24,951,519 is invested in capital assets, net of related debt.

The District's capital assets (e.g., land, infrastructure and equipment) decreased by \$1,692,279 as a result of annual depreciation of infrastructure assets partially offset by an increase in construction in progress.

Long-term liabilities decreased 5.6% or \$1,483,052 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 Assets June 30, 2012 and 2011

	2012	2011	Variance	Change
Current and other assets	8,332,831	8,394,425	-0.7%	-61,594
Capital Assets	51,475,559	53,167,838	-3.2%	-1,692,279
Total Assets	59,808,390	61,562,263	-2.8%	-1,753,873
Current liabilities	3,241,372	3,482,576	-6.9%	-241,204
Long-term liabilities	25,217,225	26,700,277	-5.6%	-1,483,052
Total Liabilities	28,458,597	30,182,853	-5.7%	-1,724,256
Net Assets:				
Invested in capital assets, net of related debt	24,951,519	25,196,929	-1.0%	-245,410
Unrestricted	6,398,274	6,182,481	3.5%	215,793
Total Net Assets	31,349,793	31,379,410	-0.1%	-29,617

As shown in the schedule above, at June 30, 2012, the District's total assets are \$59,808,390. The total assets held decreased 1,753,873 or 2.8% from the June 30, 2011 balance of \$61,562,263. The decrease in total assets was due primarily to the decrease in capital assets.

The District's liabilities in the form of special assessment bonds; State and County loans; and bank loans decreased by \$1,724,256 during the current fiscal year to \$28,458,597. The decrease occurred predominantly in the long-term liabilities as loan balances were reduced by scheduled principal payments.

The District's total net assets at June 30, 2012 decreased from the prior year by .1% or \$29,617. Unrestricted net assets of the District at June 30, 2012 amounted to \$6,398,274. This was a 3.5% increase from the prior year's amount of \$6,182,481. In relation, the investment in capital assets, net of related debt, decreased from the prior year amount of \$25,196,929 due to the decrease in capital assets offset by the reduction of related debt balances.

The largest portion of the District's net assets 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 Assets
For the Years Ended June 30, 2012 and 2011

	2012	2011	Variance	Change
Revenues				
Operating	6,709,836	6,943,169	-3.4%	-233,333
Non-operating	107,047	453,435	-76.4%	-346,388
Total Revenues	6,816,883	7,396,604	-7.8%	-579,721
Expenses				
Operating Expenses	6,256,535	5,933,981	5.4%	322,554
Non-Operating Expenses	589,965	575,773	2.5%	14,192
Total Expenses	6,846,500	6,509,754	5.2%	336,746
Income (loss)	-29,617	886,850	-103.3%	-916,467
Capital contribution	0	963,000	NA	-963,000
Transfers In	0	1,709,990	NA	1,709,990
Transfers out	0	-39,551	NA	39,551
Change in net assets	-29,617	3,520,289	-100.8%	3,549,906
Net Assets – beginning	31,379,410	27,859,121	12.6%	3,520,289
Net Assets - ending	31,349,793	31,379,410	-0.1%	-29,617

Revenues - The District's revenues for fiscal year 2011-12 decreased by 7.8% or \$579,721. Operating revenues decreased by \$233,333 due to Darkhorse connection fees and service fees in the prior fiscal year that did not continue into the current fiscal year. Construction grant funding in the prior fiscal year of \$389,762 that did not occur in the current period was the major factor in the 76.4% decrease in non-operating revenues.

Expenses - The District's expenses for fiscal year 2011-12 increased by 5.2% or \$336,746. Non-operating expenses increased by 2.5% due to increased interest expense. Operating expenses increased by 5.4% from the prior fiscal year primarily due to changes in the allocation of overhead costs.

Capital Contribution and Transfers – The District did not receive any capital contributions or transfers in fiscal year 2011-12.

Capital Assets and Debt Administration

Capital Assets - The District's investment in capital assets as of June 30, 2012 amounted to \$24,951,519 (net of accumulated depreciation and related debt). This investment in capital assets includes land, land improvements, infrastructure and equipment. The \$245,410 decrease is due to annual depreciation of infrastructure assets largely offset by reductions in related debt. Construction in progress as of the close of the fiscal year for the capital improvement projects increased to \$564,535. The increase resulted from design costs for the Lake Wildwood treatment facility upgrade and the pipeline from the Penn Valley treatment facility to Lake Wildwood.

Additional information on the District's capital assets can be found in Note 3 on page 17 of this report.

Long-term debt - At June 30, 2012, the District had total debt outstanding of \$26,566,538. Of this amount, \$1,481,228 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 18-20 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 1,200,000 gallons of wastewater each day. The Sanitation District provides sewer service to 5,698 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 and may contain new treatment objectives and discharge regulations. The Lake Wildwood treatment facility has been issued a Time Schedule Order by the CRWQCB requiring upgrades to the existing plant to be completed by September 2013. The estimated construction cost for the UV Disinfection Improvement Project is \$2,100,000. The Penn Valley treatment facility has been issued a Cease and Desist Order by the CRWQCB. 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. Construction of the pipeline is scheduled to be completed by October 2014. The District has applied for a State Revolving Fund loan to finance the project.

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 assets in fiscal year 2012-13 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/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 Assets
Enterprise Funds
June 30, 2012

	Sanitation District
ASSETS	
Current Assets:	
Cash and investments	\$ 7,003,029
Accounts receivable (net of allowance)	222,444
Due from other funds	1,107,357
Due from County of Nevada	1
Total Current Assets	8,332,831
Noncurrent Assets:	
Capital assets:	
Non-depreciable	2,017,478
Depreciable, net	49,458,081
Total Noncurrent Assets	51,475,559
Total Assets	59,808,390
LIABILITIES	
Current Liabilities:	
Accounts payable	58,648
Accrued salaries and benefits	32,193
Accrued interest payable	399,932
Deposits payable	3,899
Due to other funds	1,107,357
Due to County of Nevada	49,084
Compensated absences payable	109,031
Bonds payable	2,000
Loans payable	1,479,228
Total Current Liabilities	3,241,372
Noncurrent Liabilities:	
Compensated absences payable	45,425
Bonds payable	17,000
Loans payable	25,068,310
Net OPEB obligation	86,490
Total Noncurrent Liabilities	25,217,225
Total Liabilities	28,458,597
NET ASSETS	
Invested in capital assets, net of related debt	24,951,519
Unrestricted	6,398,274
Total Net Assets	\$ 31,349,793

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 Assets
Enterprise Funds
For the Year Ended June 30, 2012

	Sanitation District
OPERATING REVENUES	
Charges for services	\$ 6,709,836
Total Operating Revenues	<u>6,709,836</u>
OPERATING EXPENSES	
Salaries and benefits	1,963,649
Services and supplies	1,550,594
Benefit and claim expense	17,512
Other charges	231,767
Expense transfers	444,970
Depreciation	2,048,043
Total Operating Expenses	<u>6,256,535</u>
Operating Income (Loss)	<u>453,301</u>
NON-OPERATING REVENUE (EXPENSES)	
Interest income	74,110
Other revenues	32,937
Interest expense	(589,965)
Total Non-Operating Revenues (Expenses)	<u>(482,918)</u>
Income (Loss) before Transfers	(29,617)
Transfers in	-
Transfers out	-
Change in Net Assets	<u>(29,617)</u>
Total Net Assets - Beginning	<u>31,379,410</u>
Total Net Assets - Ending	<u><u>\$ 31,349,793</u></u>

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, 2012

	Sanitation District
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 6,675,280
Payments to suppliers	(2,236,442)
Payments to employees	(1,941,926)
Net Cash Provided (Used) by Operating Activities	2,496,912
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Grants and other receipts	51,809
Transfers from other funds	2,703,416
Transfers to other funds	(2,703,416)
Interfund loans made	(33,708)
Interfund loans repaid	(283,596)
Interfund loan repayments received	323,608
Net Cash Provided (Used) by Noncapital Financing Activities	58,113
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition of capital assets	(376,829)
Proceeds from sale of capital assets	2,194
Principal paid on capital debt	(1,710,142)
Interest paid on capital debt	(350,606)
Net Cash Provided (Used) for Capital and Related Financing Activities	(2,435,383)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest and dividends	74,108
Net Cash Provided (Used) by Investing Activities	74,108
Net Increase (Decrease) in Cash and Cash Equivalents	193,750
Balances - Beginning of Year	6,809,279
Balances - End of Year	\$ 7,003,029

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, 2012

	<u>Sanitation District</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	
Operating income (loss)	\$ 453,301
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	2,048,043
Decrease (Increase) in:	
Accounts receivable	(34,556)
Increase (Decrease) in:	
Accounts payable	8,401
Accrued salaries and benefits	7,839
Compensated absences	7,905
Net OPEB obligation	5,979
Net Cash Provided (Used) by Operating Activities	<u><u>\$ 2,496,912</u></u>
 NONCASH CAPITAL, INVESTING, AND FINANCING ACTIVITIES	
Amortization of issuance costs and discounts	\$ 253,436

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, 2012

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 Nevada County Sanitation District No. 1 (District), a component unit of the County of Nevada, California, is a public agency. The District was 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, 2012, the Sanitation 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 • O&M
Sanitation District Zone 1 - Lake Wildwood • O&M • Debt Assessment • Capital Improvement • LaSalle Project	Sanitation District Zone 7 - Mountain Lake Estates • O&M
Sanitation District Zone 2 - Lake of the Pines • O&M • Debt Assessment • Capital Improvement • LaSalle Project	Sanitation District Zone 8 - Cascade Shores • O&M • Capital Improvement • Insurance Proceeds
Sanitation District Zone 4 - North San Juan • O&M • Sewer Assessment	Sanitation District Zone 9 - Eden Ranch • O&M
Sanitation District Zone 5 - Gold Creek • O&M	Sanitation District Zone 11 - Higgins Village • O&M
	Sanitation District Zone 12 - Valley Oak • 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.

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, 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Reporting Entity (Continued)

The District is considered to be a component unit of the County of Nevada. These entities are legally separate from each other. However, the County elected officials have a continuing full or partial oversight responsibility over and accountability for fiscal matters of the District. The criteria used to determine the scope of the reporting entity for financial reporting purposes are (1) exercise of oversight responsibility over such agencies by the governmental unit's elected officials, (2) selection of governing authority, (3) designation of management, (4) ability to significantly influence operations, and (5) accountability for fiscal matters.

Based on the application of these criteria, the Nevada County Sanitation District No. 1 is presented as a blended component unit within the County of Nevada's financial statements.

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. A fund is considered major if it is the primary operating fund of the District or meets the following criteria:

- Total assets, liabilities, revenues or expenses of that individual enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- Total assets, liabilities, revenues or expenses of the individual enterprise fund are at least 5 percent of the corresponding total for all enterprise funds combined.

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.

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, 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Accounting and Measurement Focus (Continued)

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board (GASB). Governments also have the option of following subsequent private-sector guidance for their enterprise fund, subject to the same limitation. The District has elected not to follow subsequent private-sector guidance.

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 enterprise 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. Interest from pooled investments is allocated to the various funds based on average balances of the funds entitled to receive interest.

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.

The County monitors and reviews the management of public funds maintained in the investment pool in accordance with Article 6 Section 27131 of 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/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.

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, 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Accounts Receivable

Accounts receivable consist mainly of user fees and interest earnings. Management believes its receivables are fully collectible and, accordingly, no allowance for doubtful accounts is required.

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.

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.

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, 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. 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.

NOTE 2: CASH AND INVESTMENTS

A. Financial Statement Presentation

At June 30, 2012, the District's cash and investments consisted of the following:

Investments	
Nevada County Treasurer's Pool	\$ 7,003,029
Total Cash and Investments	<u>\$ 7,003,029</u>

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 District and County comply with the requirements of the California Government Code. Under this code, interest bearing 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. The County's investment policy does not further limit its deposits.

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

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, 2012

NOTE 2: CASH AND INVESTMENTS (CONTINUED)

C. Investments

Under the provisions of the County's investment policy and the California Government Code, 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
Securities of the Federal Government or its Agencies.

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. At June 30, 2012, the weighted average maturity for all County investments was 2.61.

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. Presented below is the minimum rating required by (where applicable) the California Government Code or the County's investment policy, and the actual rating as of year end for each investment type.

<u>Investment Type</u>	<u>Minimum Legal Rating</u>	<u>Moody's Rating</u>	<u>Standard & Poor's Rating</u>	<u>% of Portfolio</u>
County of Nevada Investment Pool	N/A	Unrated	Unrated	<u>100%</u>
Total				<u><u>100%</u></u>

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. 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.

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, 2012

NOTE 2: CASH AND INVESTMENTS (CONTINUED)

C. Investments (Continued)

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.

NOTE 3: CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2012, was as follows:

	<u>Balance</u> <u>July 1, 2011</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2012</u>
Capital Assets, Not Being Depreciated:				
Land and Easements	\$ 1,452,943	\$ -	\$ -	\$ 1,452,943
Construction in progress	<u>187,706</u>	<u>376,829</u>	<u>-</u>	<u>564,535</u>
Total Capital Assets, Not Being Depreciated	<u>1,640,649</u>	<u>376,829</u>	<u>-</u>	<u>2,017,478</u>
Capital Assets, Being Depreciated:				
Infrastructure	66,958,714	-	-	66,958,714
Structures and Improvements	320,598	-	-	320,598
Equipment	<u>1,450,194</u>	<u>-</u>	<u>(80,400)</u>	<u>1,369,794</u>
Total Capital Assets, Being Depreciated	<u>68,729,506</u>	<u>-</u>	<u>(80,400)</u>	<u>68,649,106</u>
Less Accumulated Depreciation For:				
Infrastructure	(16,003,144)	(1,983,389)	-	(17,986,533)
Structures and Improvements	(44,165)	(10,687)	-	(54,852)
Equipment	<u>(1,155,008)</u>	<u>(53,967)</u>	<u>59,335</u>	<u>(1,149,640)</u>
Total Accumulated Depreciation	<u>(17,202,317)</u>	<u>(2,048,043)</u>	<u>59,335</u>	<u>(19,191,025)</u>
Total Capital Assets, Being Depreciated, Net	<u>51,527,189</u>	<u>(2,048,043)</u>	<u>(21,065)</u>	<u>49,458,081</u>
Total Capital Assets, Net	<u>\$ 53,167,838</u>	<u>(\$ 1,671,214)</u>	<u>(\$ 21,065)</u>	<u>\$ 51,475,559</u>

Total depreciation expense of \$2,048,043 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, 2012

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, 2012:

	Due From Other Funds	Due To Other Funds
Wastewater Management System	\$ 448,519	\$ 658,838
Sanitation District Zone 1 - Lake Wildwood	310,999	233,353
Sanitation District Zone 2 - Lake of the Pines	224,642	145,078
Sanitation District Zone 4 - North San Juan	9,715	3,387
Sanitation District Zone 5 - Gold Creek	3,042	1,539
Sanitation District Zone 6 - Penn Valley	57,949	34,477
Sanitation District Zone 7 - Mountain Lake Estates	4,154	2,473
Sanitation District Zone 8 - Cascade Shores	33,757	21,720
Sanitation District Zone 9 - Eden Ranch	3,800	1,017
Sanitation District Zone 11 - Higgins Village	10,206	5,337
Sanitation District Zone 12 - Valley Oak	574	138
Total	<u>\$ 1,107,357</u>	<u>\$ 1,107,357</u>

NOTE 5: LONG-TERM LIABILITIES

The following is a summary of long-term liabilities transactions for the year ended June 30, 2012:

Type of Indebtedness	Balance July 1, 2011	Additions/ Adjustments	Retirements/ Adjustments	Balance June 30, 2012	Amounts Due Within One Year
Special Assessment Bonds	\$ 21,000	\$ -	\$ 2,000	\$ 19,000	\$ 2,000
Loans	30,394,358	-	1,708,143	28,686,215	1,720,030
Less: Unamortized Discount	(2,392,113)	-	(253,436)	(2,138,677)	(240,802)
Loans, Net	28,002,245	-	1,454,707	26,547,538	1,479,228
Compensated Absences	146,551	139,421	131,516	154,456	109,031
OPEB Obligation	80,511	93,107	87,128	86,490	-
Total Long Term Liabilities	<u>\$ 28,250,307</u>	<u>\$ 232,528</u>	<u>\$ 1,675,351</u>	<u>\$ 26,807,484</u>	<u>\$ 1,590,259</u>

Individual issues of debt payable outstanding at June 30, 2012, 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.

\$ 19,000

Total Special Assessment Bonds With County Commitment

19,000

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, 2012

NOTE 5: LONG-TERM LIABILITIES (CONTINUED)

Individual issues of debt payable outstanding at June 30, 2012, 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. 288,289

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. 42,498

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. 2,132,353

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. 852,941

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. 10,186,808

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. 15,183,326

Total Loans 28,686,215

Total Business-Type Activities \$ 28,705,215

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, 2012

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
2013	\$ 2,000	\$ 900	\$ 2,900
2014	2,000	800	2,800
2015	3,000	675	3,675
2016	3,000	525	3,525
2017	3,000	375	3,375
2018-2022	6,000	300	6,300
Total	<u>\$ 19,000</u>	<u>\$ 3,575</u>	<u>\$ 22,575</u>

Year Ended June 30	Loans			
	Principal	Interest	Service Charge	Total
2013	\$ 1,720,029	\$ 228,483	\$ 101,868	\$ 2,050,380
2014	1,732,182	214,349	96,487	2,043,018
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
2018-2022	8,993,615	635,389	307,439	9,936,443
2023-2027	9,250,992	255,225	143,659	9,649,876
2028-2032	1,728,666	8,949	7,458	1,745,073
Total	<u>\$ 28,686,215</u>	<u>\$ 1,899,098</u>	<u>\$ 912,891</u>	<u>\$ 31,498,204</u>

NOTE 6: NET ASSETS

Equity is classified as net assets and displayed in three components:

- Invested in capital assets, net of related debt – 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 assets – Consists of net assets 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 assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

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, 2012

NOTE 6: NET ASSETS (CONTINUED)

Net Asset 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 assets are 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	\$ 94,592
Interest on Prior OPEB Obligation	5,963
Amortization of Prior Year Net OPEB Obligation	(7,448)
Annual OPEB Cost	93,107
Pay As You Go Contribution	(41,728)
Funding of Full ARC Contribution	(45,400)
Increase (Decrease) in Net OPEB Obligation	5,979
Net OPEB Obligation - Beginning of Year	80,511
Net OPEB Obligation - End of Year	<u>\$ 86,490</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, 2012

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, 2012:

Wastewater Management System	\$ <u>1</u>
Total Due from County of Nevada	\$ <u><u>1</u></u>

The following is a summary of payables to the County of Nevada by fund at June 30, 2012:

Wastewater Management System	\$ 38,513
Sanitation District Zone 1- Lake Wildwood	5,758
Sanitation District Zone 2 - Lake of the Pines	3,627
Sanitation District Zone 4 - North San Juan	150
Sanitation District Zone 5 - Gold Creek	77
Sanitation District Zone 6 - Penn Valley	601
Sanitation District Zone 7 - Mountain Lake Estates	70
Sanitation District Zone 8 - Cascade Shores	150
Sanitation District Zone 9 - Eden Ranch	47
Sanitation District Zone 11 - Higgins Village	84
Sanitation District Zone 12 - Valley Oak	<u>7</u>
Total Due to County of Nevada	\$ <u><u>49,084</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, 2012

NOTE 10: OTHER INFORMATION

A. Commitments and Contingencies

The District had active construction projects as of June 30, 2012, 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:

<u>Project</u>	<u>Spent-to-date</u>	<u>Remaining Commitment</u>
Wastewater treatment facility upgrade	\$ 406,847	\$ 2,804,313
Pipeline	192,167	53,217

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

The District had encumbrances of \$109,683 at June 30, 2012.

B. Subsequent Events

Management has evaluated events subsequent to June 30, 2012 through January 3, 2013, 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 Assets
June 30, 2012

	Wastewater Management System	Sanitation District Zone 1 - Lake Wildwood	Sanitation District Zone 2 - Lake of the Pines	Sanitation District Zone 4 - North San Juan
ASSETS				
Current Assets:				
Cash and investments	\$ 420,521	\$ 2,900,879	\$ 2,849,071	\$ 112,035
Accounts receivable	-	-	222,444	-
Due from other funds	448,519	310,999	224,642	9,715
Due from County of Nevada	1	-	-	-
Total Current Assets	869,041	3,211,878	3,296,157	121,750
Noncurrent Assets:				
Capital assets:				
Non-depreciable	-	593,339	436,504	139,084
Depreciable, net	153,753	16,919,801	25,300,449	191,963
Total Noncurrent Assets	153,753	17,513,140	25,736,953	331,047
Total Assets	1,022,794	20,725,018	29,033,110	452,797
LIABILITIES				
Current Liabilities:				
Accounts payable	9,588	20,567	19,511	350
Accrued salaries and benefits	32,193	-	-	-
Accrued interest payable	-	143,441	130,166	317
Deposits payable	3,899	-	-	-
Due to other funds	658,838	233,353	145,078	3,387
Due to County of Nevada	38,513	5,758	3,627	150
Compensated absences payable	109,031	-	-	-
Bonds payable	-	-	-	2,000
Loans payable	-	596,912	859,879	-
Total Current Liabilities	852,062	1,000,031	1,158,261	6,204
Noncurrent Liabilities:				
Compensated absences payable	45,425	-	-	-
Bonds payable	-	-	-	17,000
Loans payable	-	10,442,837	14,359,009	-
Net OPEB obligation	86,490	-	-	-
Total Noncurrent Liabilities	131,915	10,442,837	14,359,009	17,000
Total Liabilities	983,977	11,442,868	15,517,270	23,204
NET ASSETS				
Invested in capital assets, net of related debt	153,753	6,473,391	10,518,065	312,047
Unrestricted	(114,936)	2,808,759	2,997,775	117,546
Total Net Assets	\$ 38,817	\$ 9,282,150	\$13,515,840	\$ 429,593

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
\$ 41,401	\$ 255,541	\$ 25,299	\$ 217,358	\$ 31,360	\$ 122,529	\$ 27,035	\$ 7,003,029
-	-	-	-	-	-	-	222,444
3,042	57,949	4,154	33,757	3,800	10,206	574	1,107,357
-	-	-	-	-	-	-	1
44,443	313,490	29,453	251,115	35,160	132,735	27,609	8,332,831
5,950	530,938	45,231	236,439	29,993	-	-	2,017,478
28,944	999,525	344,621	4,944,191	110,056	385,476	79,302	49,458,081
34,894	1,530,463	389,852	5,180,630	140,049	385,476	79,302	51,475,559
79,337	1,843,953	419,305	5,431,745	175,209	518,211	106,911	59,808,390
-	2,305	-	6,218	109	-	-	58,648
-	-	-	-	-	-	-	32,193
-	-	-	126,008	-	-	-	399,932
-	-	-	-	-	-	-	3,899
1,539	34,477	2,473	21,720	1,017	5,337	138	1,107,357
77	601	70	150	47	84	7	49,084
-	-	-	-	-	-	-	109,031
-	-	-	-	-	-	-	2,000
-	-	-	22,437	-	-	-	1,479,228
1,616	37,383	2,543	176,533	1,173	5,421	145	3,241,372
-	-	-	-	-	-	-	45,425
-	-	-	-	-	-	-	17,000
-	-	-	266,464	-	-	-	25,068,310
-	-	-	-	-	-	-	86,490
-	-	-	266,464	-	-	-	25,217,225
1,616	37,383	2,543	442,997	1,173	5,421	145	28,458,597
34,894	1,530,463	389,852	4,934,227	140,049	385,476	79,302	24,951,519
42,827	276,107	26,910	54,521	33,987	127,314	27,464	6,398,274
\$ 77,721	\$ 1,806,570	\$ 416,762	\$ 4,988,748	\$ 174,036	\$ 512,790	\$ 106,766	\$31,349,793

NEVADA COUNTY SANITATION DISTRICT NO. 1
(A Component Unit of the County of Nevada, California)
Combining Statement of Revenues, Expenses, and Changes in Net Assets
For the Year Ended June 30, 2012

	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	\$ 2,562	\$ 3,152,383	\$ 2,736,467	\$ 73,855
Total Operating Revenues	<u>2,562</u>	<u>3,152,383</u>	<u>2,736,467</u>	<u>73,855</u>
OPERATING EXPENSES				
Salaries and benefits	1,963,649	-	-	-
Services and supplies	408,264	548,030	409,457	15,933
Benefit and claim expense	-	17,512	-	-
Other charges	231,398	-	-	369
Expense transfers	(2,664,826)	1,525,805	1,023,424	32,895
Depreciation	49,282	752,368	968,027	9,103
Total Operating Expenses	<u>(12,233)</u>	<u>2,843,715</u>	<u>2,400,908</u>	<u>58,300</u>
Operating Income (Loss)	<u>14,795</u>	<u>308,668</u>	<u>335,559</u>	<u>15,555</u>
NON-OPERATING REVENUE (EXPENSES)				
Interest income	2,040	30,442	36,946	595
Other revenues	1,680	(17,731)	48,271	59
Interest expense	-	(260,142)	(321,521)	(967)
Total Non-Operating Revenues (Expenses)	<u>3,720</u>	<u>(247,431)</u>	<u>(236,304)</u>	<u>(313)</u>
Income (Loss) before Transfers	<u>18,515</u>	<u>61,237</u>	<u>99,255</u>	<u>15,242</u>
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Change in Net Assets	<u>18,515</u>	<u>61,237</u>	<u>99,255</u>	<u>15,242</u>
Total Net Assets - Beginning	<u>20,302</u>	<u>9,220,913</u>	<u>13,416,585</u>	<u>414,351</u>
Total Net Assets - Ending	<u>\$ 38,817</u>	<u>\$ 9,282,150</u>	<u>\$ 13,515,840</u>	<u>\$ 429,593</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	\$ 364,615	\$ 23,428	\$ 225,945	\$ 32,176	\$ 80,065	\$ 8,000	\$ 6,709,836
10,340	364,615	23,428	225,945	32,176	80,065	8,000	6,709,836
-	-	-	-	-	-	-	1,963,649
1,405	65,983	6,012	84,412	3,255	7,257	586	1,550,594
-	-	-	-	-	-	-	17,512
-	-	-	-	-	-	-	231,767
15,357	278,233	15,664	157,071	15,488	44,569	1,290	444,970
3,058	56,120	15,599	173,570	4,763	13,268	2,885	2,048,043
19,820	400,336	37,275	415,053	23,506	65,094	4,761	6,256,535
(9,480)	(35,721)	(13,847)	(189,108)	8,670	14,971	3,239	453,301
256	1,506	136	1,259	145	640	145	74,110
20	339	26	188	23	59	3	32,937
-	-	-	(7,331)	(4)	-	-	(589,965)
276	1,845	162	(5,884)	164	699	148	(482,918)
(9,204)	(33,876)	(13,685)	(194,992)	8,834	15,670	3,387	(29,617)
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
(9,204)	(33,876)	(13,685)	(194,992)	8,834	15,670	3,387	(29,617)
86,925	1,840,446	430,447	5,183,740	165,202	497,120	103,379	31,379,410
\$ 77,721	\$ 1,806,570	\$ 416,762	\$ 4,988,748	\$ 174,036	\$ 512,790	\$ 106,766	\$31,349,793

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, 2012

	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	\$ 2,562	\$ 3,152,383	\$ 2,701,911	\$ 73,855
Payments to suppliers	2,029,044	(2,105,778)	(1,416,687)	(48,847)
Payments to employees	(1,941,926)	-	-	-
Net Cash Provided (Used) by Operating Activities	89,680	1,046,605	1,285,224	25,008
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Grants and other receipts	-	1,908	49,184	59
Transfers from other funds	-	1,413,718	1,271,043	-
Transfers to other funds	-	(1,413,718)	(1,271,043)	-
Interfund loans made	-	-	-	-
Interfund loans repaid	(10,589)	(233,538)	(15,324)	(3,559)
Interfund loan repayments received	59,146	239,354	14,257	1,601
Net Cash Provided (Used) by Noncapital Financing Activities	48,557	7,724	48,117	(1,899)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition of capital assets	-	(327,820)	-	-
Proceeds from sale of capital assets	2,194	-	-	-
Principal paid on capital debt	-	(585,329)	(1,096,017)	(2,000)
Interest paid on capital debt	-	(267,775)	(80,205)	(1,000)
Net Cash Provided (Used) for Capital and Related Financing Activities	2,194	(1,180,924)	(1,176,222)	(3,000)
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest and dividends	2,040	30,441	36,946	595
Net Cash Provided (Used) by Investing Activities	2,040	30,441	36,946	595
Net Increase (Decrease) in Cash and Cash Equivalents	142,471	(96,154)	194,065	20,704
Balances - Beginning of Year	278,050	2,997,033	2,655,006	91,331
Balances - End of Year	\$ 420,521	\$ 2,900,879	\$ 2,849,071	\$ 112,035

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 (16,762) -	\$ 364,615 (342,322) -	\$ 23,428 (21,872) -	\$ 225,945 (240,778) -	\$ 32,176 (18,738) -	\$ 80,065 (51,826) -	\$ 8,000 (1,876) -	\$ 6,675,280 (2,236,442) (1,941,926)
(6,422)	22,293	1,556	(14,833)	13,438	28,239	6,124	2,496,912
20 - - - (781) 1,098	339 - - - (9,026) 4,985	26 - - - (589) 764	188 18,655 (18,655) (33,708) (3,360) -	23 - - - (2,304) 327	59 - - - (3,958) 1,673	3 - - - (568) 403	51,809 2,703,416 (2,703,416) (33,708) (283,596) 323,608
337	(3,702)	201	(36,880)	(1,954)	(2,226)	(162)	58,113
- - - -	(49,009) - - -	- - - -	- - (26,796) (1,622)	- - - (4)	- - - -	- - - -	(376,829) 2,194 (1,710,142) (350,606)
-	(49,009)	-	(28,418)	(4)	-	-	(2,435,383)
256	1,506	136	1,259	144	640	145	74,108
256	1,506	136	1,259	144	640	145	74,108
(5,829) 47,230	(28,912) 284,453	1,893 23,406	(78,872) 296,230	11,624 19,736	26,653 95,876	6,107 20,928	193,750 6,809,279
\$ 41,401	\$ 255,541	\$ 25,299	\$ 217,358	\$ 31,360	\$ 122,529	\$ 27,035	\$ 7,003,029

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, 2012

	Wastewater Management System	Sanitation District Zone 1 - Lake Wildwood	Sanitation District Zone 2 - Lake of the Pines	Sanitation District Zone 4 - North San Juan
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
Operating income (loss)	\$ 14,795	\$ 308,668	\$ 335,559	\$ 15,555
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	49,282	752,368	968,027	9,103
Decrease (Increase) in:				
Accounts receivable	-	-	(34,556)	-
Increase (Decrease) in:				
Accounts payable	3,880	(14,431)	16,194	350
Accrued salaries and benefits	7,839	-	-	-
Compensated absences	7,905	-	-	-
Net OPEB obligation	5,979	-	-	-
Net Cash Provided (Used) by Operating Activities	<u><u>\$ 89,680</u></u>	<u><u>\$ 1,046,605</u></u>	<u><u>\$ 1,285,224</u></u>	<u><u>\$ 25,008</u></u>
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES				
Amortization of issuance costs and discounts	\$ -	\$ -	\$ 248,772	\$ -

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
\$ (9,480)	\$ (35,721)	\$ (13,847)	\$ (189,108)	\$ 8,670	\$ 14,971	\$ 3,239	\$ 453,301
3,058	56,120	15,599	173,570	4,763	13,268	2,885	2,048,043
-	-	-	-	-	-	-	(34,556)
-	1,894	(196)	705	5	-	-	8,401
-	-	-	-	-	-	-	7,839
-	-	-	-	-	-	-	7,905
-	-	-	-	-	-	-	5,979
<u>\$ (6,422)</u>	<u>\$ 22,293</u>	<u>\$ 1,556</u>	<u>\$ (14,833)</u>	<u>\$ 13,438</u>	<u>\$ 28,239</u>	<u>\$ 6,124</u>	<u>\$ 2,496,912</u>
\$ -	\$ -	\$ -	\$ 4,664	\$ -	\$ -	\$ -	\$ 253,436

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OTHER REPORT

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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 the financial statements of the proprietary fund of the 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, 2012, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 3, 2013. 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.

Internal Control Over Financial Reporting

Management of the District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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 District's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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

This report is intended solely for the information and use of management, Governing Board, others within the organization, and the State Controller's Office and is not intended to be and should not be used by anyone other than these specified parties.

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

Smith & Newell, CPAs
Yuba City, California
January 3, 2013