

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



**FINANCIAL STATEMENTS
TOGETHER WITH
INDEPENDENT AUDITORS' REPORT
FOR THE YEAR ENDED
JUNE 30, 2009**

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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, 2009

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FINANCIAL SECTION

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- Independent Auditor's Report
 - Management's Discussion and Analysis
 - Basic Financial Statements

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INDEPENDENT AUDITOR'S REPORT

The Board of Supervisors 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, 2009, 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, 2009, 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 December 30, 2009, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



Smith & Newell CPA's
Yuba City, California
December 30, 2009

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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, 2009. 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 to assist in the understanding of 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, 2009, the assets of the District exceeded its liabilities by \$28,235,791 (net assets). Of this amount, \$5,422,632 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors and \$22,813,159 is invested in capital assets, net of related debt.

The District's liabilities in the form of Special Assessment bonds; State and County loans; and bank loans decreased by \$1,482,080 during the current fiscal year to \$32,598,719.

Financial Position

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

Sanitation District's Net Assets June 30, 2009 and 2008

	2009	2008	Variance	Change
Current and other assets	7,706,434	9,506,592	-18.9%	-1,800,158
Capital Assets	53,128,076	49,707,154	6.9%	3,420,922
Total Assets	60,834,510	59,213,746	2.7%	1,620,764
Current liabilities	6,956,287	4,088,488	70.1%	2,867,799
Long-term liabilities	25,642,432	29,992,311	-14.5%	-4,349,879
Total Liabilities	32,598,719	34,080,799	-4.3%	-1,482,080
Net Assets:				
Invested in capital assets, net of related debt	22,813,159	18,203,212	25.3%	4,600,947
Restricted				
Unrestricted	5,422,632	6,929,735	-21.6%	(1,507,103)
Total net assets	28,235,791	25,132,947	12.3%	3,102,844

As shown in the schedule above, at June 30, 2009, the District's total assets are \$60,834,510. The total assets held increased 2.7% from the June 30, 2008 balance of \$59,213,746. The District's net assets at June 30, 2009 increased from the prior year by 12.3% or \$3,102,844. The increase in total assets was due primarily to capital improvements to upgrade two large treatment plants.

Unrestricted net assets of the District at June 30, 2009 amounted to \$5,422,632. This was a 21.6% decrease from the prior year's amount of \$6,929,735. In relation, the investment in capital assets, net of related debt, increased to \$22,813,159 from the prior year amount of \$18,203,212.

The largest portion of the District's net assets reflects its investment in capital assets (e.g., land, infrastructure and equipment), 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, 2009 and 2008**

	2009	2008	Variance	Change
Revenues				
Operating	6,462,994	5,969,966	8.3%	493,028
Non-operating	2,012,457	2,084,525	-3.5%	(72,068)
Total Revenues	8,475,451	8,054,491	5.2%	420,960
Expenses				
Operating Expenses	5,111,882	4,558,466	12.1%	553,416
Non Operating Expenses	211,084	622,692	-66.2%	(411,608)
Total Expenses	5,322,966	5,181,158	2.7%	141,808
Income (loss)	3,152,485	2,873,333	9.7%	279,152
Capital contributions	0	0	0.0%	0
Transfers In	10,407	614,211	100.0%	(603,804)
Change in net assets	3,152,485	3,487,544	-9.6%	(335,059)
Net Assets – restated beginning	25,083,306	21,645,403	15.9%	3,437,903
Net Assets - ending	28,235,791	25,132,947	12.3%	3,102,844

Revenues - The District's revenues for Fiscal Year 2008-09 increased by 5.2% or \$420,960. Operating revenues increased 8.3% or \$493,028 as a result of increased revenues for sanitation services, particularly from Lake of the Pines and Lake Wildwood zones.

Expenses - The District's expenses for Fiscal Year 2008-09 increased by 2.7% or \$141,808. The operating expenses increased by 12.1% from the prior fiscal year. This increase was primarily due to increases in depreciation costs associated with newly-completed plant improvements.

Capital Assets and Debt Administration

Capital Assets - The District's investment in capital assets as of June 30, 2009 amounted to \$22,813,159 (net of accumulated depreciation and debt). This investment in capital assets includes land, land improvements, infrastructure and equipment. The \$4,600,947 increase is due to the capital improvements being made to the treatment facilities of the Lake Wildwood, Lake of the Pines and Cascade Shores zones. Construction in progress as of the close of the fiscal year for the capital improvement projects decreased to \$3,325,649. The decrease resulted from the completion of capital improvement projects at Lake Wildwood and Lake of the Pines.

Additional information on the District's capital assets can be found in Note 3 on page 16 of this report.

Long-term debt - At June 30, 2009, the District had total debt outstanding of \$30,556,449. Of this amount, \$4,917,017 is due within one year. The long-term debt consists of two voter-approved bonds, three loans from the State of California, and two bank loans. The two bonds, North San Juan Sewer Assessment and Penn Valley Sewer Assessment, are 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 two State Water Resources Control Board loans are being repaid through a dedicated revenue source from the specific zones that received the loan proceeds. The Cascade Shores Rehabilitation Loan is being repaid with operating revenues from the specific zone that received the loan proceeds.

Additional information on the District's long-term debt can be found in Note 3 on page 16-18 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 eleven (11) zones within the District with facilities that collect and treat 1,247,000 gallons of wastewater each day. The Sanitation District provides sewer service to 5,632 accounts in western Nevada County with a population of 14,100. The Darkhorse zone has been annexed into the District, but their infrastructure assets have not been accepted into the District. It is anticipated that a pipeline will be constructed to connect the zone to the Lake of the Pines treatment facility in the 2009-10 fiscal year.

Two major treatment facility upgrade projects, Lake of the Pines and Lake Wildwood, were completed in the current fiscal year. The Cascade Shores facility upgrade is nearing completion.

The zone received a revised Cease and Desist Order extending the mandatory construction completion date to July 1, 2010. Planning to upgrade the Penn Valley treatment facility to conform to the new State Water Quality Control Board requirements began in fiscal year 2007-08 and will continue in fiscal year 2009-10, with upgrade completion required by September 1, 2014. Initial estimates for the upgrade are approximately three million dollars.

The District received multiple penalties as a result of violating discharge requirements. Cascade Shores received two penalties; one for \$3,000 due by October 14, 2009, and the second for \$450,000 will be suspended if new plant construction is completed by the deadline. Lake Wildwood received one penalty of \$246,350, due by August 24, 2009 with up to \$56,650 suspended to be applied to a supplemental environmental project. Lake of the Pines received one penalty of \$129,000, due by August 24, 2009 with up to \$47,000 suspended to be applied to a supplemental environmental project.

Request for Information

This financial report is designed to provide a general overview of the County's finances for all those with an interest in the County'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://new.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, 2009

	<u>Sanitation District</u>
<u>ASSETS</u>	
Current Assets	
Cash and investments	\$ 6,557,236
Restricted cash and investments	25,000
Accounts receivable (net of allowance)	4,632
Due from other funds	1,104,645
Due from County of Nevada	14,921
Total Current Assets	7,706,434
Noncurrent Assets	
Capital assets:	
Non-depreciable	4,778,592
Depreciable, net	48,349,484
Total Noncurrent Assets	53,128,076
Total Assets	60,834,510
<u>LIABILITIES</u>	
Current Liabilities	
Accounts payable	359,251
Accrued salaries and benefits	88,864
Accrued interest payable	454,844
Deposits payable	3,899
Due to other funds	1,104,645
Due to County of Nevada	27,767
Compensated absences payable	161,658
Bonds payable	77,000
Loans payable	4,678,359
Total Current Liabilities	6,956,287
Noncurrent Liabilities	
Advances from County of Nevada	3,000
Bonds payable	23,000
Loans payable	25,536,558
OPEB obligation	79,874
Total Noncurrent Liabilities	25,642,432
Total Liabilities	32,598,719
<u>NET ASSETS</u>	
Invested in capital assets, net of related debt	22,813,159
Unrestricted	5,422,632
Total Net Assets	\$ 28,235,791

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, 2009

	Sanitation District
<u>OPERATING REVENUES</u>	
Charges for services	\$ 6,462,994
Total Operating Revenues	6,462,994
<u>OPERATING EXPENSES</u>	
Salaries and benefits	2,099,371
Services and supplies	1,493,965
Other charges	302,830
Expenditure transfers	187,015
Depreciation	1,028,701
Total Operating Expenses	5,111,882
Operating Income (Loss)	1,351,112
<u>NONOPERATING REVENUE (EXPENSES)</u>	
Intergovernmental revenues	1,362,940
Interest income	138,651
Other revenues	510,866
Interest expense	(210,722)
Gain (loss) on sale of capital assets	(362)
Total Nonoperating Revenues (Expenses)	1,801,373
Income (Loss) before Transfers	3,152,485
Transfers in	10,407
Transfers out	(10,407)
Change in Net Assets	3,152,485
Total Net Assets - Beginning of Year	25,132,947
Prior period adjustment	(49,641)
Total Net Assets - Beginning of Year, Restated	25,083,306
Total Net Assets - End of Year	\$ 28,235,791

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, 2009

	Sanitation District
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>	
Receipts from customers	\$ 6,466,686
Payments to suppliers	(2,211,958)
Payments to employees	(2,062,234)
Net Cash Provided (Used) by Operating Activities	2,192,494
<u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</u>	
Grants and other receipts	1,873,806
Transfers from other funds	10,407
Transfers to other funds	(10,407)
Interfund loans received	205,638
Interfund loans made	(200,145)
Interfund loans repaid	(143,899)
Interfund loan repayments received	144,075
Net Cash Provided (used) by Noncapital Financing Activities	1,879,475
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>	
Acquisition of capital assets	(3,706,703)
Proceeds from debt	55,176
Principal paid on capital debt	(1,515,630)
Interest paid on capital debt	(439,727)
Net Cash Provided (Used) for Capital and Related Financing Activities	(5,606,884)
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>	
Interest and dividends	138,655
Net Cash Provided (Used) by Investing Activities	138,655
Net Increase (Decrease) in Cash and Cash Equivalents	(1,396,260)
Balances - Beginning of Year	7,978,496
Balances - End of Year	\$ 6,582,236

Continued (Page 1 of 2)

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, 2009

	<u>Sanitation District</u>
<u>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</u>	
Operating income (loss)	\$ 1,351,112
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	1,028,701
Decrease (Increase) in:	
Accounts receivable	3,692
Increase (Decrease) in:	
Accounts payable	(232,047)
Accrued salaries and benefits	12,081
Deposits payable	3,899
Compensated absences	(5,176)
OPEB obligation	30,232
Net Cash Provided (Used) by Operating Activities	<u>\$ 2,192,494</u>

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, 2009

NOTE 1: FINANCIAL REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Nevada County Sanitation District No. 1, a component unit of the County of Nevada, California (District), 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, 2009, the Sanitation District is composed of eleven zones and the Wastewater Management System.

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

Wastewater Management System	Sanitation District Zone 7 - Mountain Lake Estates
	• O&M
Sanitation District Zone 1 - Lake Wildwood	Sanitation District Zone 8 - Cascade Shores
• O&M	• O&M
• Debt Assessment	• Capital Improvement
• Capital Improvement	• Insurance Proceeds
• LaSalle Project	
Sanitation District Zone 2 - Lake of the Pines	Sanitation District Zone 9 - Eden Ranch
• O&M	• O&M
• Debt Assessment	
• Capital Improvement	Sanitation District Zone 10 - Darkhorse
• LaSalle Project	• O&M
Sanitation District Zone 4 - North San Juan	Sanitation District Zone 11 - Higgins Village
• O&M	• O&M
• Sewer Assessment	
Sanitation District Zone 5 - Gold Creek	Sanitation District Zone 12 - Valley Oak
• O&M	• O&M
Sanitation District Zone 6 - Penn Valley	
• O&M	
• Sewer Assessment	
• Sewer Special Reserve	

The District is considered to be a component unit of the County of Nevada under criteria set forth by Governmental Accounting Standards Board (GASB) Statement No. 14. 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.

The County of Nevada's financial statements may be obtained by contacting the County of Nevada's Auditor-Controller's office at 950 Maidu Avenue, Nevada City, CA.

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, 2009

NOTE 1: FINANCIAL REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

B. Basis of Presentation

Fund financial statements of the District are organized into one fund, which is considered to be a separate accounting entity. The fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, net assets, revenues, and expenses. The fund of the District is organized into the proprietary category. An emphasis is placed on major funds within the proprietary category. 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 expenditures/expenses of that individual governmental or 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 expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and 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 County.

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. On an accrual basis, revenue from grants, entitlements, and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

For its proprietary fund, the District has elected under Governmental Accounting Standards Board (GASB) Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting", to apply all applicable GASB pronouncements as well as any applicable pronouncements of the Financial Accounting Standards Board, the Accounting Principles Board or any Accounting Research Bulletins issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The District has elected not to follow subsequent private sector guidance. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements, statements and interpretations, constitutes accounting principles generally accepted in the United States of America (GAAP) for governmental units.

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 revenues of enterprise funds are charges to customers for sales and 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 and Cash Equivalents

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, 2009

NOTE 1: FINANCIAL REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

E. Cash and Investments

The District pools cash and investments, except for amounts held by fiscal agents, with cash and investments of the County of Nevada. The Treasurer invests on behalf of most funds of the County and external participants in accordance with the California State Government Code and the County's investment policy. State statutes authorize the District and County to invest its cash surplus in obligations of the U.S. Treasury, agencies and instrumentalities, corporate bonds, medium term notes, bankers' acceptances, certificates of deposit, commercial paper, repurchase agreements, and the State of California Local Agency Investment Fund. Income from pooled investments is allocated to the individual fund or participant based on the fund or participant's average daily cash balance at quarter end in relation to the total pool investments.

Participant's equity in the investment pool is determined by the dollar amount of participant 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. 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 entered into any legally binding guarantees to support the participant equity in the investment pool.

The County has established a treasury oversight committee to monitor and review the management of public funds maintained in the investment pool in accordance with Article 6 Section 27131 of the California Government Code. The oversight committee and the Board of Supervisors review and approve the investment policy annually. The County Treasurer prepares and submits a comprehensive investment report to the members of the oversight committee and the investment pool participants every month. The report covers the type of investments in the pool, maturity dates, par value, actual cost and fair value.

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's Auditor-Controller's office at 950 Maidu Avenue, Nevada City, CA 95959.

F. Receivables

Receivables consist of all revenues earned at year-end and not yet received. Proprietary funds report user fees and interest earnings as their major receivables. Management believes its receivables to be fully collectible, and accordingly, no allowance for doubtful accounts is required.

G. Due to/From Nevada County

During the course of operations, numerous transactions occur between the District and other funds within the County of Nevada that may result in amounts owed between funds. Those related to goods and services type transactions and short term loans are classified as "due to and from County of Nevada". Long-term interfund loans (non current portion) are reported as "advances from and to County of Nevada". See details on balances outstanding at June 30, 2009 in Note 3F.

H. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (water, sewer, and similar items) are reported in the proprietary fund financial statements. Capital assets are defined by the District as assets with a cost of more than \$5,000 for equipment and \$25,000 for structures and infrastructure and an estimated useful life of more than two years. Such assets are recorded at historical or estimated historical cost. Contributed capital assets are recorded at estimated fair market value at the date of donation.

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, 2009

NOTE 1: FINANCIAL REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

H. Capital Assets (Continued)

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

<u>Depreciable Asset</u>	<u>Estimated Lives</u>
Equipment	3-25 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.

I. Long-Term Debt

All long-term debt to be repaid from proprietary fund resources are reported as liabilities in the proprietary fund financial statements. The long-term debt consists primarily of bonds payable, loans payable, compensated absences and OPEB obligation.

J. 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 the government-wide financial statements the accrued compensated absences is recorded as an expense and related liability, with the current portion estimated based on historical trends. In the proprietary fund the accrued compensated absences is recorded as an expense and related liability in the year earned. The District includes its share of social security and medicare taxes payable on behalf of the employees in the accrual for compensated absences.

K. 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."

When both restricted and unrestricted net assets are available, unrestricted resources are depleted first before the restricted resources are used.

L. Expenses

In the proprietary fund financial statements, expenses are classified by operating and non-operating.

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, 2009

NOTE 1: FINANCIAL REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. Grant Revenues

Certain grant revenues are recognized when specific related expenditures have been incurred. In other grant programs, monies are virtually unrestricted as to purpose of expenditure and are only revocable for failure to comply with prescribed compliance requirements. These revenues are recognized at the time of receipt, or earlier if susceptible to accrual criteria is met. Cash received prior to incurrence of the related expenditure is recorded as unearned revenue.

N. Estimates

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

NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Restatement of Net Assets

Adjustments resulting from errors or a change to comply with provisions of the accounting standards are treated as adjustments to prior periods. Accordingly, the District reports these changes as restatements of beginning net assets. During the current year an adjustment to net assets was required to correct a prior year misstatement of the OPEB obligation. The OPEB obligation adjustment was to properly record the portion of the prior year OPEB obligation attributable to the District.

The impact of the restatements on the net assets on the fund financial statements as previously reported is presented below:

	<u>Sanitation District</u>
Net Assets, June 30, 2008, as previously reported	\$ 25,132,947
Adjustment associated with:	
Correction of OPEB obligation	(49,641)
Total Adjustments	(49,641)
Net Assets, July 1, 2009, as restated	<u>\$ 25,083,306</u>

B. Deficit Net Assets

The Sanitation District Zone 10 - Darkhorse had a net asset deficit of \$4,675, which is expected to be eliminated in future years through cost containment.

NOTE 3: DETAILED NOTES

A. Cash and Investments

At June 30, 2009, the District's cash and investments consisted of the following:

Cash	
Deposits with fiscal agents	\$ 25,000
Total Cash	<u>25,000</u>
Investments	
In County Treasurer's Pool	6,557,236
Total Investments	<u>6,557,236</u>
Total Cash and Investments	<u>\$ 6,582,236</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, 2009

NOTE 3: DETAILED NOTES (CONTINUED)

A. Cash and Investments (Continued)

Cash

At year end the carrying amount of the District's cash deposits (including amount in checking accounts, money market accounts and deposits with fiscal agents) was \$25,000 and the bank balance was \$25,000.

Custodial Credit Risk for Deposits - Custodial Credit Risk 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. Government Code requires that deposits in excess of the Federal Deposit Insurance Corporation coverage must be collateralized at 105 percent to 150 percent of the value of the deposit to guarantee the safety of the public funds. The District deposits are fully insured by the Federal Deposit Insurance Corporation.

Investments

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. All investments of the District are pooled with the County of Nevada investment pool. The District's investments are managed in accordance with the County of Nevada investment policy, the District does not have a formal investment policy that further limits investment maturities as a means of managing its exposure to fair value losses.

Credit Risk - Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. State law and County investment policy limit investments in commercial paper to the rating of A1 or better by Standards & Poor's or P-1 or better by Moody's Investors Service; and corporate bonds to the rating of A or better by both Standards and Poor's and Moody's Investors Service. No limits are placed on U.S. government agency securities and U. S. Treasuries. The District's investments are managed in accordance with the County of Nevada investment policy, the District does not have a formal investment policy that would further limit its investment choices.

Custodial Credit Risk - Custodial Credit Risk 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's investments are managed in accordance with the County of Nevada investment policy, the District does not have a formal investment policy that would further limit the exposure to custodial credit risk.

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. The District has invested all cash except deposits with fiscal agents in the County investment pool which contains a diversification of investments.

B. Restricted Cash and Investments

The District reflects cash held for payment of retention on the Lake Wildwood treatment plant project as restricted cash of \$25,000.

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, 2009

NOTE 3: DETAILED NOTES (CONTINUED)

C. Capital Assets

Capital assets activity for the year ended June 30, 2009, was as follows:

	Balance July 1, 2008	Additions	Retirements	Adjustments	Balance June 30, 2009
Capital Assets, Not Being Depreciated:					
Land	\$ 1,452,943	\$ -	\$ -	\$ -	\$ 1,452,943
Construction in progress	37,713,188	4,394,692	-	(38,782,231)	3,325,649
Total Capital Assets, Not Being Depreciated	39,166,131	4,394,692	-	(38,782,231)	4,778,592
Capital Assets, Being Depreciated:					
Infrastructure	22,130,454	-	-	38,782,231	60,912,685
Structures and Improvements	320,598	-	-	-	320,598
Equipment	1,346,507	55,296	(7,241)	-	1,394,562
Total Capital Assets, Being Depreciated	23,797,559	55,296	(7,241)	38,782,231	62,627,845
Less Accumulated Depreciation For:					
Infrastructure	(12,303,342)	(901,234)	-	-	(13,204,576)
Structures and Improvements	(12,104)	(10,687)	-	-	(22,791)
Equipment	(941,090)	(116,780)	6,876	-	(1,050,994)
Total Accumulated Depreciation	(13,256,536)	(1,028,701)	6,876	-	(14,278,361)
Total Capital Assets, Being Depreciated, Net	10,541,023	(973,405)	(365)	38,782,231	48,349,484
Total Capital Assets, Net	\$ 49,707,154	\$ 3,421,287	(\$ 365)	\$ -	\$ 53,128,076

Total depreciation expense of \$1,028,701 was charged to the proprietary fund.

Construction in Progress

Construction in progress related primarily to work performed on Cascade Shores treatment facility upgrade and Penn Valley treatment facility upgrade.

D. Long-Term Liabilities

Type of Indebtedness	Balance July 1, 2008	Additions/ Adjustments	Retirements/ Adjustments	Balance June 30, 2009	Amounts Due Within One Year
Special Assessment Bonds	\$ 172,000	\$ -	\$ 72,000	\$ 100,000	\$ 77,000
Loans	34,435,712	55,176	1,443,630	33,047,258	4,947,208
Less: Unamortized Discount	(3,103,771)	(9,196)	(280,626)	(2,832,341)	(268,849)
Loans, Net	31,331,941	45,980	1,163,004	30,214,917	4,678,359
Compensated Absences (Note 1J)	166,835	162,094	167,271	161,658	161,658
OPEB Obligation	-	80,016	142	79,874	-
Total Long Term Liabilities	\$ 31,670,776	\$ 288,090	\$ 1,402,417	\$ 30,556,449	\$ 4,917,017

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, 2009

NOTE 3: DETAILED NOTES (CONTINUED)

D. Long-Term Liabilities (Continued)

At June 30, 2009, Special Assessment Bonds consisted of the following:

USDA Rural Development Bond - North San Juan, issued 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 of September 2, 2018. The bond proceeds were used to construct improvements in the North San Juan Sewer Assessment District.	\$ 25,000
USDA Rural Development Bond - Penn Valley, issued in the amount of \$1,264,703 and payable in semi-annual installments of \$35,000 to \$75,000 and maturity of September 2, 2009. The bond proceeds were used for the construction of a wastewater collection, treatment, and disposal system in the Penn Valley Sewer Assessment District.	75,000
Total Special Assessment Bonds	<u>\$ 100,000</u>

At June 30, 2009, Loans consisted of the following:

SWRCB Revolving Loan, issued 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 of 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.	\$ 71,133
Banc of America Leasing and Capital, LLC. loan, issued in the amount of \$8,000,000 and payable in one installment of \$8,000,000, with an interest rate of 4.48% and maturity of August 1, 2009. The loan proceeds were used for interim financing for the acquisition and construction of improvements to the Lake of The Pines Zone 2 wastewater system.	2,500,000
Banc of America Leasing and Capital, LLC. loan, issued in the amount of \$8,500,000 and payable in one annual installment of \$8,500,000, with an interest rate of 4.48% and maturity of August 1, 2009. The loan proceeds were used for interim financing for the acquisition and construction of improvements to the Lake Wildwood Zone 1 wastewater system.	1,000,000
State Water Resources Control Board loan, issued 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 2.2% 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.	11,732,565
State Water Resources Control Board loan, issued in the amount of \$18,964,071 and payable in annual installments of \$948,204, with an interest rate of 0.0% and maturity on January 12, 2028. Loan proceeds were used for the acquisition and construction of improvements on the Lake of the Pines Zone 2 wastewater system. The loan includes a loan discount of \$3,160,742.	17,743,560
Total Loans Payable	<u>\$ 33,047,258</u>

At June 30, 2009, the annual debt service requirements were summarized as follows:

Special Assessment Bonds

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 77,000	\$ 3,863	\$ 80,863
2011	2,000	1,100	3,100
2012	2,000	1,000	3,000
2013	2,000	900	2,900
2014	2,000	800	2,800
2015-2019	15,000	1,875	16,875
Total	<u>\$ 100,000</u>	<u>\$ 9,538</u>	<u>\$ 109,538</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, 2009

NOTE 3: DETAILED NOTES (CONTINUED)

D. Long-Term Liabilities (Continued)

Loans

Year Ended June 30	Principal	Interest	Service Charge	Total
2010	\$ 4,947,208	\$ 221,396	\$ 117,326	\$ 5,285,930
2011	1,458,585	136,660	112,285	1,707,530
2012	1,470,215	130,182	107,133	1,707,530
2013	1,482,103	123,559	101,868	1,707,530
2014	1,494,255	116,788	96,487	1,707,530
2015-2019	7,627,773	478,008	397,487	8,503,268
2020-2024	7,943,421	292,869	244,057	8,480,347
2025-2029	6,623,698	87,589	72,991	6,784,278
Total	<u>\$ 33,047,258</u>	<u>\$ 1,587,051</u>	<u>\$ 1,249,634</u>	<u>\$ 35,883,943</u>

E. 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, 2009:

	Due From Other Funds	Due To Other Funds
Wastewater Management System	\$ 390,309	\$ 600,388
Sanitation District Zone 1 - Lake Wildwood	277,721	179,443
Sanitation District Zone 2 - Lake of the Pines	303,529	239,075
Sanitation District Zone 4 - North San Juan	10,555	4,795
Sanitation District Zone 5 - Gold Creek	2,823	1,110
Sanitation District Zone 6 - Penn Valley	57,012	32,161
Sanitation District Zone 7 - Mountain Lake Estates	3,522	3,293
Sanitation District Zone 8 - Cascade Shores	40,699	34,502
Sanitation District Zone 9 - Eden Ranch	3,077	2,448
Sanitation District Zone 11 - Higgins Village	14,091	6,625
Sanitation District Zone 12 - Valley Oak	1,307	805
Total	<u>\$ 1,104,645</u>	<u>\$ 1,104,645</u>

Transfers

Transfers are indicative of funding for capital projects, lease payments or debt service, reimbursement of various District operations and re-allocations of special revenues. The following are the interfund transfer balances as of June 30, 2009:

	Transfer In	Transfer Out
Wastewater Management System	\$ 10,407	\$ -
Sanitation District Zone 1 - Lake Wildwood	-	5,586
Sanitation District Zone 2 - Lake of the Pines	-	3,463
Sanitation District Zone 4 - North San Juan	-	196
Sanitation District Zone 5 - Gold Creek	-	69
Sanitation District Zone 6 - Penn Valley	-	717
Sanitation District Zone 7 - Mountain Lake Estates	-	72
Sanitation District Zone 8 - Cascade Shores	-	164
Sanitation District Zone 9 - Eden Ranch	-	49
Sanitation District Zone 11 - Higgins Village	-	75
Sanitation District Zone 12 - Valley Oak	-	16
Total	<u>\$ 10,407</u>	<u>\$ 10,407</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, 2009

NOTE 3: DETAILED NOTES (CONTINUED)

F. Related Party Transactions

The following is a summary of receivables from the County of Nevada by fund as of June 30, 2009:

Wastewater Management System	\$ 14,921
Total Due from County of Nevada	\$ <u>14,921</u>

The following is a summary of payables to the County of Nevada by fund at June 30, 2009:

Wastewater Management System	\$ 13,068
Sanitation District Zone 1- Lake Wildwood	2,910
Sanitation District Zone 2 - Lake of the Pines	2,005
Sanitation District Zone 4 - North San Juan	98
Sanitation District Zone 5 - Gold Creek	16
Sanitation District Zone 6 - Penn Valley	465
Sanitation District Zone 7 - Mountain Lake Estates	30
Sanitation District Zone 8 - Cascade Shores	393
Sanitation District Zone 9 - Eden Ranch	30
Sanitation District Zone 10 - Darkhorse	8,612
Sanitation District Zone 11 - Higgins Village	125
Sanitation District Zone 12 - Valley Oak	<u>15</u>
Total Due to County of Nevada	\$ <u>27,767</u>

The following is a summary of advances from the County of Nevada by fund as of June 30, 2009:

Sanitation District Zone 9 - Eden Ranch	\$ 3,000
Total Advances from County of Nevada	\$ <u>3,000</u>

G. Employee Benefits

Employee's Retirement Plan

The District employees are considered to be County employees for retirement purposes. Required disclosure information regarding employee's retirement plan can be found in the County's audited financial statements.

Post-Employment Benefits Other than Pensions

The District employees are considered to be County employees for retirement purposes. Required disclosure information regarding post employment benefits can be found in the County's audited financial statements.

H. Insurance

The District is exposed to risk of loss related to torts, theft of or damage to and destruction of assets, errors and omissions, injuries to employees, and natural disasters. The District maintains insurance coverage against these potential risks of loss.

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.

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, 2009

NOTE 4: OTHER INFORMATION

A. Construction Commitments

The District had active construction projects as of June 30, 2009, 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 upgrades	\$ 4,086,922	\$ 170,807

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

B. Subsequent Events

The District has two loans with Banc of America Leasing and Capital, LLC. On July 27, 2009, the payoff period for the two loans was extended to August 1, 2026, with decreasing payments and an interest rate of 3.55%.

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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, 2009

	Wastewater Management System	Sanitation District Zone 1 - Lake Wildwood	Sanitation District Zone 2 - Lake of the Pines	Sanitation District Zone 4 - North San Juan	Sanitation District Zone 5 - Gold Creek
<u>ASSETS</u>					
Current Assets					
Cash and investments	\$ 338,620	\$ 2,757,799	\$ 2,208,123	\$ 60,228	\$ 50,317
Restricted cash and investments	-	25,000	-	-	-
Accounts receivable	3,899	-	733	-	-
Due from other funds	390,309	277,721	303,529	10,555	2,823
Due from County of Nevada	14,921	-	-	-	-
Total Current Assets	747,749	3,060,520	2,512,385	70,783	53,140
Noncurrent Assets					
Capital assets:					
Non-depreciable	-	77,814	436,504	139,084	5,950
Depreciable, net	233,923	18,853,168	25,500,626	219,706	38,119
Total Noncurrent Assets	233,923	18,930,982	25,937,130	358,790	44,069
Total Assets	981,672	21,991,502	28,449,515	429,573	97,209
<u>LIABILITIES</u>					
Current Liabilities					
Accounts payable	17,472	42,272	32,572	342	-
Accrued salaries and benefits	88,864	-	-	-	-
Accrued interest payable	-	169,235	158,687	417	-
Deposits payable	3,899	-	-	-	-
Due to other funds	600,388	179,443	239,075	4,795	1,110
Due to County of Nevada	13,068	2,910	2,005	98	16
Compensated absences payable	161,658	-	-	-	-
Bonds payable	-	-	-	2,000	-
Loans payable	-	1,504,081	3,165,023	-	-
Total Current Liabilities	885,349	1,897,941	3,597,362	7,652	1,126
Noncurrent Liabilities					
Advances from County of Nevada	-	-	-	-	-
Bonds payable	-	-	-	23,000	-
Loans payable	-	11,228,484	14,246,196	-	-
OPEB obligation	79,874	-	-	-	-
Total Noncurrent Liabilities	79,874	11,228,484	14,246,196	23,000	-
Total Liabilities	965,223	13,126,425	17,843,558	30,652	1,126
<u>NET ASSETS</u>					
Invested in capital assets, net of related debt	233,923	6,198,417	8,525,911	333,790	44,069
Unrestricted	(217,474)	2,666,660	2,080,046	65,131	52,014
Total Net Assets	\$ 16,449	\$ 8,865,077	\$ 10,605,957	\$ 398,921	\$ 96,083

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 10 - Darkhorse	Sanitation District Zone 11 - Higgins Village	Sanitation District Zone 12 - Valley Oak	Totals
\$ 240,507	\$ 20,044	\$ 798,682	\$ 9,703	\$ 3,937	\$ 57,345	\$ 11,931	\$ 6,557,236
-	-	-	-	-	-	-	25,000
-	-	-	-	-	-	-	4,632
57,012	3,522	40,699	3,077	-	14,091	1,307	1,104,645
-	-	-	-	-	-	-	14,921
297,519	23,566	839,381	12,780	3,937	71,436	13,238	7,706,434
563,881	45,231	3,480,135	29,993	-	-	-	4,778,592
1,167,885	391,417	1,307,058	124,344	-	425,280	87,958	48,349,484
1,731,766	436,648	4,787,193	154,337	-	425,280	87,958	53,128,076
2,029,285	460,214	5,626,574	167,117	3,937	496,716	101,196	60,834,510
1,829	-	264,562	202	-	-	-	359,251
-	-	-	-	-	-	-	88,864
1,775	-	124,745	(15)	-	-	-	454,844
-	-	-	-	-	-	-	3,899
32,161	3,293	34,502	2,448	-	6,625	805	1,104,645
465	30	393	30	8,612	125	15	27,767
-	-	-	-	-	-	-	161,658
75,000	-	-	-	-	-	-	77,000
-	-	9,255	-	-	-	-	4,678,359
111,230	3,323	433,457	2,665	8,612	6,750	820	6,956,287
-	-	-	3,000	-	-	-	3,000
-	-	-	-	-	-	-	23,000
-	-	61,878	-	-	-	-	25,536,558
-	-	-	-	-	-	-	79,874
-	-	61,878	3,000	-	-	-	25,642,432
111,230	3,323	495,335	5,665	8,612	6,750	820	32,598,719
1,656,766	436,648	4,716,060	154,337	-	425,280	87,958	22,813,159
261,289	20,243	415,179	7,115	(4,675)	64,686	12,418	5,422,632
\$ 1,918,055	\$ 456,891	\$ 5,131,239	\$ 161,452	\$ (4,675)	\$ 489,966	\$ 100,376	\$ 28,235,791

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, 2009

	Wastewater Management System	Sanitation District Zone 1 - Lake Wildwood	Sanitation District Zone 2 - Lake of the Pines	Sanitation District Zone 4 - North San Juan	Sanitation District Zone 5 - Gold Creek
<u>OPERATING REVENUES</u>					
Charges for services	\$ 832	\$ 3,149,406	\$ 2,486,452	\$ 71,835	\$ 10,340
Total Operating Revenues	832	3,149,406	2,486,452	71,835	10,340
<u>OPERATING EXPENSES</u>					
Salaries and benefits	2,099,371	-	-	-	-
Services and supplies	434,275	495,869	423,674	9,200	960
Other charges	301,918	-	-	80	-
Expenditure transfers	(2,729,799)	1,250,556	989,141	33,204	8,118
Depreciation	93,845	485,657	286,956	9,320	3,058
Total Operating Expenses	199,610	2,232,082	1,699,771	51,804	12,136
Operating Income (Loss)	(198,778)	917,324	786,681	20,031	(1,796)
<u>NONOPERATING REVENUE (EXPENSES)</u>					
Intergovernmental revenues	-	-	-	-	-
Interest income	7,284	46,925	49,478	744	992
Other revenues	1,650	20,733	25,821	139	38
Interest expense	-	(154,153)	(44,740)	(1,267)	-
Gain (loss) on sale of capital assets	(362)	-	-	-	-
Total Nonoperating Revenues (Expenses)	8,572	(86,495)	30,559	(384)	1,030
Income (Loss) before Transfers	(190,206)	830,829	817,240	19,647	(766)
Transfers in	10,407	-	-	-	-
Transfers out	-	(5,586)	(3,463)	(196)	(69)
Change in Net Assets	(179,799)	825,243	813,777	19,451	(835)
Total Net Assets - Beginning of Year	245,889	8,039,834	9,792,180	379,470	96,918
Prior period adjustment	(49,641)	-	-	-	-
Total Net Assets - Beginning of Year, Restated	196,248	8,039,834	9,792,180	379,470	96,918
Total Net Assets - End of Year	\$ 16,449	\$ 8,865,077	\$ 10,605,957	\$ 398,921	\$ 96,083

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 10 - Darkhorse	Sanitation District Zone 11 - Higgins Village	Sanitation District Zone 12 - Valley Oak	Totals
\$ 425,318	\$ 23,001	\$ 185,535	\$ 24,210	\$ -	\$ 80,065	\$ 6,000	\$ 6,462,994
425,318	23,001	185,535	24,210	-	80,065	6,000	6,462,994
-	-	-	-	-	-	-	2,099,371
57,728	641	54,830	1,473	3,563	11,221	531	1,493,965
832	-	-	-	-	-	-	302,830
268,399	18,464	263,397	14,265	5,549	62,446	3,275	187,015
56,120	15,599	57,230	4,763	-	13,268	2,885	1,028,701
383,079	34,704	375,457	20,501	9,112	86,935	6,691	5,111,882
42,239	(11,703)	(189,922)	3,709	(9,112)	(6,870)	(691)	1,351,112
-	-	1,362,940	-	-	-	-	1,362,940
3,026	310	28,721	82	121	767	201	138,651
757	47	407,535	40	-	54,089	17	510,866
(6,153)	-	(4,327)	(82)	-	-	-	(210,722)
-	-	-	-	-	-	-	(362)
(2,370)	357	1,794,869	40	121	54,856	218	1,801,373
39,869	(11,346)	1,604,947	3,749	(8,991)	47,986	(473)	3,152,485
-	-	-	-	-	-	-	10,407
(717)	(72)	(164)	(49)	-	(75)	(16)	(10,407)
39,152	(11,418)	1,604,783	3,700	(8,991)	47,911	(489)	3,152,485
1,878,903	468,309	3,526,456	157,752	4,316	442,055	100,865	25,132,947
-	-	-	-	-	-	-	(49,641)
1,878,903	468,309	3,526,456	157,752	4,316	442,055	100,865	25,083,306
\$ 1,918,055	\$ 456,891	\$ 5,131,239	\$ 161,452	\$ (4,675)	\$ 489,966	\$ 100,376	\$ 28,235,791

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, 2009

	Wastewater Management System	Sanitation District Zone 1 - Lake Wildwood	Sanitation District Zone 2 - Lake of the Pines	Sanitation District Zone 4 - North San Juan	Sanitation District Zone 5 - Gold Creek
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>					
Receipts from customers	\$ (3,067)	\$ 3,149,406	\$ 2,493,744	\$ 71,835	\$ 10,340
Payments to suppliers	2,003,405	(1,796,296)	(1,594,338)	(42,849)	(9,078)
Payments to employees	(2,062,234)	-	-	-	-
Net Cash Provided (Used) by Operating Activities	(61,896)	1,353,110	899,406	28,986	1,262
<u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</u>					
Grants and other receipts	1,650	20,733	25,821	139	38
Transfers from other funds	10,407	-	-	-	-
Transfers to other funds	-	(5,586)	(3,463)	(196)	(69)
Interfund loans received	72,471	18,385	102,114	-	-
Interfund loans made	(22,167)	(32,383)	(126,625)	-	(697)
Interfund loans repaid	-	(124,801)	-	(1,018)	(130)
Interfund loan repayments received	-	124,410	-	94	-
Net Cash Provided (used) by Noncapital Financing Activities	62,361	758	(2,153)	(981)	(858)
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>					
Acquisition of capital assets	(11,019)	(397,744)	(412,868)	-	-
Proceeds from debt	-	-	55,176	-	-
Principal paid on capital debt	-	(500,781)	(933,872)	(2,000)	-
Interest paid on capital debt	-	(306,217)	(121,197)	(1,300)	-
Net Cash Provided (Used) for Capital and Related Financing Activities	(11,019)	(1,204,742)	(1,412,761)	(3,300)	-
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>					
Interest and dividends	7,285	46,925	49,478	744	992
Net Cash Provided (Used) by Investing Activities	7,285	46,925	49,478	744	992
Net Increase (Decrease) in Cash and Cash Equivalents	(3,269)	196,051	(466,030)	25,449	1,396
Balances - Beginning of Year	341,889	2,586,748	2,674,153	34,779	48,921
Balances - End of Year	\$ 338,620	\$ 2,782,799	\$ 2,208,123	\$ 60,228	\$ 50,317

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 10 - Darkhorse	Sanitation District Zone 11 - Higgins Village	Sanitation District Zone 12 - Valley Oak	Totals
\$ 425,318 (328,746) -	\$ 23,001 (19,105) -	\$ 185,834 (322,270) -	\$ 24,210 (15,638) -	\$ - (9,112) -	\$ 80,065 (74,125) -	\$ 6,000 (3,806) -	\$ 6,466,686 (2,211,958) (2,062,234)
96,572	3,896	(136,436)	8,572	(9,112)	5,940	2,194	2,192,494
757 - (717) - - (10,613) 19,047	47 - (72) 1,444 (58) - -	1,770,475 - (164) 9,576 (12,636) (120) -	40 - (49) 1,278 - (1,000) 247	- - - - (2,445) 277	54,089 - (75) - (5,548) (3,772) -	17 - (16) 370 (31) - -	1,873,806 10,407 (10,407) 205,638 (200,145) (143,899) 144,075
8,474	1,361	1,767,131	516	(2,168)	44,694	340	1,879,475
- - (70,000) (7,810)	- - - -	(2,885,072) - (8,977) (2,483)	- - - (720)	- - - -	- - - -	- - - -	(3,706,703) 55,176 (1,515,630) (439,727)
(77,810)	-	(2,896,532)	(720)	-	-	-	(5,606,884)
3,026	310	28,724	82	121	767	201	138,655
3,026	310	28,724	82	121	767	201	138,655
30,262 210,245	5,567 14,477	(1,237,113) 2,035,795	8,450 1,253	(11,159) 15,096	51,401 5,944	2,735 9,196	(1,396,260) 7,978,496
\$ 240,507	\$ 20,044	\$ 798,682	\$ 9,703	\$ 3,937	\$ 57,345	\$ 11,931	\$ 6,582,236

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, 2009

	Wastewater Management System	Sanitation District Zone 1 - Lake Wildwood	Sanitation District Zone 2 - Lake of the Pines	Sanitation District Zone 4 - North San Juan	Sanitation District Zone 5 - Gold Creek
<u>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET</u>					
<u>CASH PROVIDED (USED) BY OPERATING ACTIVITIES</u>					
Operating income (loss)	\$ (198,778)	\$ 917,324	\$ 786,681	\$ 20,031	\$ (1,796)
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation	93,845	485,657	286,956	9,320	3,058
Decrease (Increase) in:					
Accounts receivable	(3,899)	-	7,292	-	-
Increase (Decrease) in:					
Accounts payable	5,900	(49,871)	(181,523)	(365)	-
Accrued salaries and benefits	12,081	-	-	-	-
Deposits payable	3,899	-	-	-	-
Compensated absences	(5,176)	-	-	-	-
OPEB obligation	30,232	-	-	-	-
Net Cash Provided (Used) by Operating Activities	<u>\$ (61,896)</u>	<u>\$ 1,353,110</u>	<u>\$ 899,406</u>	<u>\$ 28,986</u>	<u>\$ 1,262</u>

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 10 - Darkhorse	Sanitation District Zone 11 - Higgins Village	Sanitation District Zone 12 - Valley Oak	Totals
\$ 42,239	\$ (11,703)	\$ (189,922)	\$ 3,709	\$ (9,112)	\$ (6,870)	\$ (691)	\$ 1,351,112
56,120	15,599	57,230	4,763	-	13,268	2,885	1,028,701
-	-	299	-	-	-	-	3,692
(1,787)	-	(4,043)	100	-	(458)	-	(232,047)
-	-	-	-	-	-	-	12,081
-	-	-	-	-	-	-	3,899
-	-	-	-	-	-	-	(5,176)
-	-	-	-	-	-	-	30,232
<u>\$ 96,572</u>	<u>\$ 3,896</u>	<u>\$ (136,436)</u>	<u>\$ 8,572</u>	<u>\$ (9,112)</u>	<u>\$ 5,940</u>	<u>\$ 2,194</u>	<u>\$ 2,192,494</u>

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OTHER REPORT AND SCHEDULES

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**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 Supervisors 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) and a component unit of the County of Nevada, California, as of and for the year ended June 30, 2009, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 30, 2009. 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

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 opinions 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiency described in the accompanying schedule of findings and recommendations to be a significant deficiency in internal control over financial reporting. (09-FS-01)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

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 statements 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.

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

The District's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Recommendations. We did not audit the District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, others within the organization, Governing Board, and the State Controller's Office and is not intended 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 text of the firm's name.

Smith & Newell, CPA's
Yuba City, California
December 30, 2009

NEVADA COUNTY SANITATION DISTRICT NO. 1
(A Component Unit of the County of Nevada, California)
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2009

09-FS-01 OPEB OBLIGATION (Financial Reporting: Significant Deficiency)

Condition

During our audit we noted the District had recorded adjustments to OPEB obligation to correct prior year activity.

Cause

At the time the June 30, 2008, financial statements were prepared, the OPEB obligation was not recorded in the Sanitation District fund. During the current year, the District identified the OPEB obligation at June 30, 2008 that was attributable to the Sanitation District and corrected the OPEB obligation balance in the affected fund.

Criteria

Good internal control over OPEB obligations requires that the balance be properly allocated to the various functions and activities and that accounts be reconciled at least annually.

Effect of Condition

OPEB obligations were materially misstated and required adjustment.

Recommendation

We recommend that the District thoroughly review the calculation of the OPEB obligation to ensure that all amounts are recorded in the proper fund.

Corrective Action Plan

GASB 45 requirements were early implemented in the prior fiscal year. The total OPEB obligation was calculated and allocated to the governmental functions, but was not reported in the business-type funds. The allocation of the OPEB obligation to the governmental functions and the business-type funds was completed for the June 2009 financial statements in accordance with GASB 45 requirements.

NEVADA COUNTY SANITATION DISTRICT NO. 1
(A Component Unit of the County of Nevada, California)
STATUS OF PRIOR YEAR RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2009

<u>Audit Reference</u>	<u>Status of Prior Year Recommendations</u>
08-FS-01	CAPITAL ASSETS Recommendation We recommend that the District thoroughly review the depreciation schedules at least annually to ensure that all items are properly included and that depreciation is calculated correctly. Status Implemented