

**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, 2011**

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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, 2011

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FINANCIAL SECTION

- **Independent Auditor's Report**
- **Management's Discussion and Analysis**
- **Basic Financial Statements**
- **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, 2011, 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.

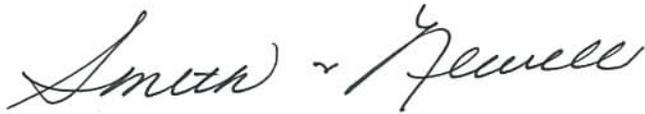
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the proprietary fund of the District as of June 30, 2011, and the respective changes in financial position and cash flows thereof for the year then ended in conformity 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, 2011, 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 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.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The combining fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script, appearing to read "Smith & Newell", written in dark ink.

Smith & Newell CPA's
Yuba City, California
December 30, 2011

**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, 2011. 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, 2011, the assets of the District exceeded its liabilities by \$31,379,410 (net assets). Of this amount, \$6,182,481 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors and \$25,196,929 is invested in capital assets, net of related debt.

The District's capital assets (e.g., land, infrastructure and equipment) increased by \$1,160,229 as a result of the acceptance of additional infrastructure assets into the District.

Financial Position

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

**Sanitation District's Net Assets
June 30, 2011 and 2010**

	2011	2010	Variance	Change
Current and other assets	8,394,425	7,559,865	11.0%	834,560
Capital Assets	53,167,838	52,007,609	2.2%	1,160,229
Total Assets	61,562,263	59,567,474	3.3%	1,994,789
Current liabilities	3,482,576	3,575,863	-2.6%	-93,287
Long-term liabilities	26,700,277	28,132,490	-5.1%	-1,432,213
Total Liabilities	30,182,853	31,708,353	-4.8%	-1,525,500
Net Assets:				
Invested in capital assets, net of related debt	25,196,929	22,613,792	11.4%	2,583,137
Unrestricted	6,182,481	5,245,329	17.9%	937,152
Total Net Assets	31,379,410	27,859,121	12.6%	3,520,289

As shown in the schedule above, at June 30, 2011, the District's total assets are \$61,562,263. The total assets held increased 1,994,789 or 3.3% from the June 30, 2010 balance of \$59,567,474. The increase in total assets was due primarily to the increase in capital assets and an increase in cash and investment reserves for future infrastructure improvements.

The District's liabilities in the form of special assessment bonds; State and County loans; and bank loans decreased by \$1,525,500 during the current fiscal year to \$30,182,853. The decrease occurred predominantly in the long-term liabilities as loan balances were reduced by scheduled principle payments.

The District's total net assets at June 30, 2011 increased from the prior year by 12.6% or \$3,520,289. Unrestricted net assets of the District at June 30, 2011 amounted to \$6,182,481. This was a 17.9% increase from the prior year's amount of \$5,245,329. In relation, the investment in capital assets, net of related debt, also increased from the prior year amount of \$22,613,792 due to the increase in capital assets and the reduction in related debt.

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, 2011 and 2010**

	2011	2010	Variance	Change
Revenues				
Operating	6,943,169	6,622,180	4.8%	320,989
Non-operating	453,435	100,888	349.4%	352,547
Total Revenues	7,396,604	6,723,068	10.0%	673,536
Expenses				
Operating Expenses	5,933,981	6,396,947	-7.2%	-462,966
Non Operating Expenses	575,773	702,791	-18.1%	-127,018
Total Expenses	6,509,754	7,099,738	-8.3%	-589,984
Income (loss)	886,850	-376,670	-335.4%	1,263,520
Capital contribution	963,000	0	NA	963,000
Transfers In	1,709,990	78,426	NA	1,709,990
Transfers out	-39,551	-78,426	NA	-39,551
Change in net assets	3,520,289	-376,670	-1034.6%	3,896,959
Net Assets – beginning	27,859,121	28,235,791	-1.3%	-376,670
Net Assets - ending	31,379,410	27,859,121	12.6%	3,520,289

Revenues - The District's revenues for fiscal year 2010-11 increased by 10% or \$673,536. Construction grant funding in the amount of \$389,762 was the major factor in the 349% increase in non-operating revenues.

Expenses - The District's expenses for fiscal year 2010-11 decreased by 8.3% or \$589,984. Non-operating expenses decreased by 18.1% due to completion of the supplemental environmental projects (SEPs) in lieu of fines owed to the State. Operating expenses decreased by 7.2% from the prior fiscal year primarily due to overall reductions in operating costs.

Capital Contribution and Transfers – The capital contribution represents the acceptance of developer constructed infrastructure assets. The majority of the transfer in was related to infrastructure assets transferring from the County to the District. The County constructed the assets with Improvement Security proceeds from default of a subdivision improvement agreement.

Capital Assets and Debt Administration

Capital Assets - The District's investment in capital assets as of June 30, 2011 amounted to \$25,196,929 (net of accumulated depreciation and related debt). This investment in capital assets includes land, land improvements, infrastructure and equipment. The \$1,160,229 increase is due to acceptance of the Darkhorse development infrastructure assets into the Lake of the Pines zone. Construction in progress as of the close of the fiscal year for the capital improvement projects decreased to \$187,706. The decrease resulted from the completion of the Cascade Shores Treatment Facility.

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, 2011, the District had total debt outstanding of \$28,023,245. Of this amount, \$1,456,710 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. Cascade Shores received additional construction financing in the form of a State Water Resources Control Board (SWRCB) Revolving Loan in the amount of \$170,367 to be fully repaid by 2016. The four SWRCB loans are being repaid through a dedicated revenue source from the specific zones that received the loan proceeds. The two bank loans, originally intended for short term financing of capital projects, have been extended to be fully 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 19-20 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.

The Lake Wildwood facility must be upgraded to meet State mandated regulations by January 2013, with full compliance by September 2013. The design is scheduled to be completed in March 2012 and the construction in February 2013. The Penn Valley facility must be upgraded by September 2014. A study recommending a pipeline from Penn Valley to the Lake Wildwood facility has been completed. The District is investigating a State Revolving Fund loan with principle forgiveness as a possible funding source.

The new Cascade Shores treatment facility has received a five year Time Scheduled Order (TSO) to meet permit requirements for copper concentration. A fine of \$45,000 was issued by the State for non-compliance during the period prior to the issue of the TSO and may be applied towards a supplemental environment project (SEP) in lieu of the fine. The Lake Wildwood SEP project has been completed and is currently in the monitoring stage. The Lake of the Pines SEP project may be terminated and the balance of the fines paid to the State.

The cost of many resources required by the District's treatment plants continue to increase at a rate higher than average inflation. The District has been able to absorb these costs utilizing available unrestricted net assets in fiscal year 2011-12 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, 2011

	Sanitation District
ASSETS	
Current Assets:	
Cash and investments	\$ 6,809,279
Accounts receivable (net of allowance)	187,888
Due from other funds	1,392,145
Due from County of Nevada	5,113
Total Current Assets	8,394,425
Noncurrent Assets:	
Capital assets:	
Non-depreciable	1,640,649
Depreciable, net	51,527,189
Total Noncurrent Assets	53,167,838
Total Assets	61,562,263
LIABILITIES	
Current Liabilities:	
Accounts payable	50,247
Accrued salaries and benefits	24,354
Accrued interest payable	414,009
Deposits payable	3,899
Due to other funds	1,392,145
Due to County of Nevada	46,906
Compensated absences payable	94,306
Bonds payable	2,000
Loans payable	1,454,710
Total Current Liabilities	3,482,576
Noncurrent Liabilities:	
Advances from County of Nevada	986
Compensated absences payable	52,245
Bonds payable	19,000
Loans payable	26,547,535
Net OPEB obligation	80,511
Total Noncurrent Liabilities	26,700,277
Total Liabilities	30,182,853
NET ASSETS	
Invested in capital assets, net of related debt	25,196,929
Unrestricted	6,182,481
Total Net Assets	\$ 31,379,410

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, 2011

	Sanitation District
OPERATING REVENUES	
Charges for services	\$ 6,943,169
Total Operating Revenues	6,943,169
OPERATING EXPENSES	
Salaries and benefits	1,888,613
Services and supplies	1,528,579
Benefit and claim expense	14,837
Other charges	162,399
Expense transfers	298,033
Depreciation	2,041,520
Total Operating Expenses	5,933,981
Operating Income (Loss)	1,009,188
NON-OPERATING REVENUE (EXPENSES)	
Intergovernmental revenues	389,762
Interest income	53,143
Other revenues	10,530
Interest expense	(575,773)
Total Non-Operating Revenues (Expenses)	(122,338)
Income (Loss) before Contributions and Transfers	886,850
Capital contribution	963,000
Transfers from County of Nevada	1,677,154
Transfers to County of Nevada	(6,715)
Transfers in	32,836
Transfers out	(32,836)
Change in Net Assets	3,520,289
Total Net Assets - Beginning	27,859,121
Total Net Assets - Ending	\$ 31,379,410

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, 2011

	Sanitation District
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 6,794,508
Payments to suppliers	(2,071,360)
Payments to employees	(1,953,569)
	<u>2,769,579</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Grants and other receipts	400,292
Transfers from other funds	32,836
Transfers to other funds	(32,836)
Transfers to County of Nevada	(6,715)
Interfund loans received	274,797
Interfund loans made	(315,472)
Interfund loans repaid	(175,390)
Interfund loan repayments received	244,849
	<u>422,361</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition of capital assets	(561,864)
Proceeds from sale of capital assets	266
Principal paid on capital debt	(1,698,512)
Interest paid on capital debt	(369,693)
	<u>(2,629,803)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest and dividends	53,143
	<u>53,143</u>
Net Cash Provided (Used) by Investing Activities	<u>53,143</u>
Net Increase (Decrease) in Cash and Cash Equivalents	615,280
Balances - Beginning of Year	<u>6,193,999</u>
Balances - End of Year	<u>\$ 6,809,279</u>

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, 2011

	Sanitation District
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	
Operating income (loss)	\$ 1,009,188
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	2,041,520
Decrease (Increase) in:	
Accounts receivable	(148,661)
Increase (Decrease) in:	
Accounts payable	(67,512)
Accrued salaries and benefits	(74,030)
Compensated absences	4,065
Net OPEB obligation	5,009
	<u>\$ 2,769,579</u>
Net Cash Provided (Used) by Operating Activities	
 NONCASH CAPITAL, INVESTING, AND FINANCING ACTIVITIES	
Contribution of capital assets	\$ 2,640,154
Amortization of issuance costs and discounts	266,061

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, 2011

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, 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, 2011, the Sanitation District is composed of ten zones, the Wastewater Management System and the Darkhorse Project.

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

The accounting methods and procedures adopted by the District conform to generally accepted accounting principles as applied to governmental entities. 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, 2011

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. All remaining proprietary funds are separately aggregated and reported as nonmajor funds. 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 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, 2011

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.

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. Interest is allocated on the basis of average daily cash balance amounts for each fund as a percentage of the total balance.

The District has stated required investments at fair values as required by GASB Statement No. 31. Fair value is based on published market prices and quotations from major investment brokers.

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.

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.

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, 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Capital Assets (Continued)

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 expenditures or 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 expenditures or expenses repay the funds that initially paid for them. Such reimbursements are reflected as expenditures or expenses in the reimbursing fund and reductions to expenditures or expenses in the reimbursed fund.

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

H. Compensated Absences

It is the District’s policy to permit employees to accumulate a limited amount of earned but unused vacation or personal paid leave. An unlimited amount of sick leave may be accrued in accordance with the bargaining unit’s MOU and, upon separation from District’s service, will either be paid to the employee or converted to PERS service credit. In the proprietary fund 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.

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, 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2011, the District's cash and investments consisted of the following:

Investments	
In County Treasurer's Pool	\$ 6,809,279
Total Cash and Investments	<u>\$ 6,809,279</u>

The Authority adheres to the County's investment policy in addressing specific types of risk for both cash and investments.

B. Cash

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

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

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.

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, 2011

NOTE 2: CASH AND INVESTMENTS (CONTINUED)

C. Investments (Continued)

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, 2011, the weighted average maturity for all County investments was .73.

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>Standards & 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.

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

NEVADA COUNTY SANITATION DISTRICT NO. 1
(A Component Unit of the County of Nevada, California)
Notes to Basic Financial Statements
For the Year Ended June 30, 2011

NOTE 3: CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2011, was as follows:

	<u>Balance</u> <u>July 1, 2010</u>	<u>Additions</u>	<u>Retirements</u>	<u>Adjustments</u>	<u>Balance</u> <u>June 30, 2011</u>
Capital Assets, Not Being Depreciated:					
Land and Easements	\$ 1,452,943	\$ -	\$ -	\$ -	\$ 1,452,943
Construction in progress	<u>4,006,082</u>	<u>111,959</u>	<u>-</u>	<u>(3,930,335)</u>	<u>187,706</u>
Total Capital Assets, Not Being Depreciated	<u>5,459,025</u>	<u>111,959</u>	<u>-</u>	<u>(3,930,335)</u>	<u>1,640,649</u>
Capital Assets, Being Depreciated:					
Infrastructure	59,956,845	3,071,534	-	3,930,335	66,958,714
Structures and Improvements	320,598	-	-	-	320,598
Equipment	<u>1,472,989</u>	<u>18,525</u>	<u>(41,320)</u>	<u>-</u>	<u>1,450,194</u>
Total Capital Assets, Being Depreciated	<u>61,750,432</u>	<u>3,090,059</u>	<u>(41,320)</u>	<u>3,930,335</u>	<u>68,729,506</u>
Less Accumulated Depreciation For:					
Infrastructure	(14,035,067)	(1,968,077)	-	-	(16,003,144)
Structures and Improvements	(33,478)	(10,687)	-	-	(44,165)
Equipment	<u>(1,133,303)</u>	<u>(62,756)</u>	<u>41,051</u>	<u>-</u>	<u>(1,155,008)</u>
Total Accumulated Depreciation	<u>(15,201,848)</u>	<u>(2,041,520)</u>	<u>41,051</u>	<u>-</u>	<u>(17,202,317)</u>
Total Capital Assets, Being Depreciated, Net	<u>46,548,584</u>	<u>1,048,539</u>	<u>(269)</u>	<u>3,930,335</u>	<u>51,527,189</u>
Total Capital Assets, Net	<u>\$ 52,007,609</u>	<u>\$ 1,160,498</u>	<u>(\$ 269)</u>	<u>\$ -</u>	<u>\$ 53,167,838</u>

Total depreciation expense of \$2,041,520 was charged to the proprietary fund.

Construction in Progress

Construction in progress related to work performed on Lake Wildwood treatment facility upgrade.

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, 2011

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, 2011:

	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
Wastewater Management System	\$ 502,553	\$ 667,914
Sanitation District Zone 1 - Lake Wildwood	550,353	469,256
Sanitation District Zone 2 - Lake of the Pines	238,899	162,681
Sanitation District Zone 4 - North San Juan	11,316	6,810
Sanitation District Zone 5 - Gold Creek	4,140	2,384
Sanitation District Zone 6 - Penn Valley	62,934	42,681
Sanitation District Zone 7 - Mountain Lake Estates	4,918	3,107
Sanitation District Zone 8 - Cascade Shores	49	24,960
Sanitation District Zone 9 - Eden Ranch	4,127	2,357
Sanitation District Zone 11 - Higgins Village	11,879	9,290
Sanitation District Zone 12 - Valley Oak	977	705
	<u>\$ 1,392,145</u>	<u>\$ 1,392,145</u>
Total		

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, 2011:

	<u>Transfer In</u>	<u>Transfer Out</u>
Wastewater Management System	\$ 18,525	\$ -
Sanitation District Zone 1 - Lake Wildwood	-	9,944
Sanitation District Zone 2 - Lake of the Pines	14,311	-
Sanitation District Zone 4 - North San Juan	-	348
Sanitation District Zone 5 - Gold Creek	-	122
Sanitation District Zone 6 - Penn Valley	-	1,276
Sanitation District Zone 7 - Mountain Lake Estates	-	128
Sanitation District Zone 8 - Cascade Shores	-	293
Sanitation District Zone 9 - Eden Ranch	-	87
Sanitation District - Darkhorse Project	-	20,477
Sanitation District Zone 11 - Higgins Village	-	133
Sanitation District Zone 12 - Valley Oak	-	28
	<u>\$ 32,836</u>	<u>\$ 32,836</u>
Total		

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, 2011

NOTE 5: LONG-TERM LIABILITIES

The following is a summary of long-term liabilities transactions for the year ended June 30, 2011:

Type of Indebtedness	Balance July 1, 2010	Additions/ Adjustments	Retirements/ Adjustments	Balance June 30, 2011	Amounts Due Within One Year
Special Assessment Bonds	\$ 23,000	\$ -	\$ 2,000	\$ 21,000	\$ 2,000
Loans	32,090,867	-	1,696,509	30,394,358	1,708,141
Less: Unamortized Discount	(2,658,172)	-	(266,059)	(2,392,113)	(253,431)
Loans, Net	29,432,695	-	1,430,450	28,002,245	1,454,710
Compensated Absences	142,486	199,583	195,518	146,551	94,306
OPEB Obligation	75,502	70,462	65,453	80,511	-
Total Long Term Liabilities	<u>\$ 29,673,683</u>	<u>\$ 270,045</u>	<u>\$ 1,693,421</u>	<u>\$ 28,250,307</u>	<u>\$ 1,551,016</u>

Individual issues of debt payable outstanding at June 30, 2011, are as follows:

Type of Indebtedness	Maturity	Interest Rates	Annual Principal Installments	Original Issue Amount	Outstanding June 30, 2011
Business-Type Activities					
Special Assessment Bonds with County Commitment:					
USDA Rural Development Bond					
Construct improvements in the North San Juan Sewer Assessment District	2018	5.00%	\$1,000 - \$3,000	76,130	21,000
Total Special Assessment Bonds With County Commitment				<u>76,130</u>	<u>21,000</u>
Loans:					
State Water Resources Control Board Finance the acquisition and construction of Cascade Shores Wastewater system improvements.					
	2029	0.00%	\$16,958	339,164	305,248
SWRCB Revolving Loan					
Finance modifications to the Cascade Shores Wastewater collection system	2016	3.10%	\$8,445 - \$11,116	170,367	52,336
Banc of America Leasing and Capital, LLC Finance acquisition and construction of the Lake of the Pines Zone 2 wastewater system improvements					
	2026	3.55%	\$73,529	2,500,000	2,279,412
Banc of America Leasing and Capital, LLC Finance acquisition and construction of the Lake Wildwood Zone 1 wastewater system improvements					
	2026	3.55%	\$29,412	1,000,000	911,765

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, 2011

NOTE 5: LONG-TERM LIABILITIES (CONTINUED)

Individual issues of debt payable outstanding at June 30, 2011, are as follows: (Continued)

<u>Type of Indebtedness</u>	<u>Maturity</u>	<u>Interest Rates</u>	<u>Annual Principal Installments</u>	<u>Original Issue Amount</u>	<u>Outstanding June 30, 2011</u>
State Water Resources Control Board Finance acquisition and construction of the Lake Wildwood Zone 1 wastewater system improvements	2027	2.20%	\$492,213 - \$739,310	12,122,824	10,713,313
State Water Resources Control Board Finance acquisition and construction of the Lake of the Pines Zone 2 wastewater system improvements	2028	0.00%	\$948,204	<u>18,964,071</u>	<u>16,132,284</u>
Total Loans				<u>35,096,426</u>	<u>30,394,358</u>
Total Business-Type Activities				<u>\$35,172,556</u>	<u>\$ 30,415,358</u>

Following is a schedule of debt payment requirements to maturity for long-term debt:

<u>Year Ended June 30</u>	<u>Special Assessment Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 2,000	\$ 1,000	\$ 3,000
2013	2,000	900	2,900
2014	2,000	800	2,800
2015	3,000	675	3,675
2016	3,000	525	3,525
2017-2021	<u>9,000</u>	<u>675</u>	<u>9,675</u>
Total	<u>\$ 21,000</u>	<u>\$ 4,575</u>	<u>\$ 25,575</u>

<u>Year Ended June 30</u>	<u>Loans</u>			
	<u>Principal</u>	<u>Interest</u>	<u>Service Charge</u>	<u>Total</u>
2012	\$ 1,708,141	\$ 242,469	\$ 107,133	\$ 2,057,743
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
2017-2021	8,926,138	709,010	338,111	9,973,259
2022-2026	9,278,699	333,077	177,856	9,789,632
2027-2031	<u>3,527,262</u>	<u>28,496</u>	<u>22,213</u>	<u>3,577,971</u>
Total	<u>\$ 30,394,358</u>	<u>\$ 2,141,567</u>	<u>\$ 1,020,024</u>	<u>\$ 33,555,949</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, 2011

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.”

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.

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.

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, 2011

NOTE 7: EMPLOYEE BENEFITS (CONTINUED)

B. Other Postemployment Benefits (OPEB) (Continued)

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

Annual Required Contribution	\$ 69,970
Interest on Prior OPEB Obligation	4,687
Amortization of Prior Year Net OPEB Obligation	(4,161)
Annual OPEB Cost	70,496
Pay As You Go Contribution	(36,465)
Funding of Full ARC Contribution	(29,022)
Increase (Decrease) in Net OPEB Obligation	5,009
Net OPEB Obligation - Beginning of Year	<u>75,502</u>
Net OPEB Obligation - End of Year	<u>\$ 80,511</u>

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, 2011:

Wastewater Management System	<u>\$ 5,113</u>
Total Due from County of Nevada	<u>\$ 5,113</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, 2011

NOTE 9: RELATED PARTY TRANSACTIONS (CONTINUED)

The following is a summary of payables to the County of Nevada by fund at June 30, 2011:

Wastewater Management System	\$ 40,026
Sanitation District Zone 1 - Lake Wildwood	3,393
Sanitation District Zone 2 - Lake of the Pines	1,348
Sanitation District Zone 4 - North San Juan	286
Sanitation District Zone 5 - Gold Creek	13
Sanitation District Zone 6 - Penn Valley	1,423
Sanitation District Zone 7 - Mountain Lake Estates	25
Sanitation District Zone 8 - Cascade Shores	270
Sanitation District Zone 9 - Eden Ranch	25
Sanitation District Zone 11 - Higgins Village	89
Sanitation District Zone 12 - Valley Oak	<u>8</u>
Total Due to County of Nevada	<u>\$ 46,906</u>

The following is a summary of advances from the County of Nevada by fund at June 30, 2011:

Sanitation District Zone 9 - Eden Ranch	<u>\$ 986</u>
Total Advances from County of Nevada	<u>\$ 986</u>

The following is a summary of transfers from the County of Nevada by fund at June 30, 2011:

Sanitation District Zone 2 - Lake of the Pines	<u>\$ 1,677,154</u>
Total Transfers from County of Nevada	<u>\$ 1,677,154</u>

The following is a summary of transfers to the County of Nevada by fund at June 30, 2011:

Sanitation District - Darkhorse Project	<u>\$ 6,715</u>
Total Transfers to County of Nevada	<u>\$ 6,715</u>

NOTE 10: OTHER INFORMATION

A. Construction Commitments

The District had active construction projects as of June 30, 2011, 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	\$ 582,860	\$ 450,934

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

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, 2011

NOTE 10: OTHER INFORMATION (CONTINUED)

B. Subsequent Events

Management has evaluated events subsequent to June 30, 2011 through December 30, 2011, the date on which the financial statements were available for issuance. Management has determined no subsequent events requiring disclosure have occurred.

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, 2011

	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
ASSETS					
Current Assets:					
Cash and investments	\$ 278,050	\$ 2,997,033	\$ 2,655,006	\$ 91,331	\$ 47,230
Accounts receivable	-	-	187,888	-	-
Due from other funds	502,553	550,353	238,899	11,316	4,140
Due from County of Nevada	5,113	-	-	-	-
Total Current Assets	785,716	3,547,386	3,081,793	102,647	51,370
Noncurrent Assets:					
Capital assets:					
Non-depreciable	-	265,519	436,504	139,084	5,950
Depreciable, net	203,549	17,691,807	26,269,389	201,066	32,002
Total Noncurrent Assets	203,549	17,957,326	26,705,893	340,150	37,952
Total Assets	989,265	21,504,712	29,787,686	442,797	89,322
LIABILITIES					
Current Liabilities:					
Accounts payable	5,708	34,998	3,317	-	-
Accrued salaries and benefits	24,354	-	-	-	-
Accrued interest payable	-	151,074	137,622	350	-
Deposits payable	3,899	-	-	-	-
Due to other funds	667,914	469,256	162,681	6,810	2,384
Due to County of Nevada	40,026	3,393	1,348	286	13
Compensated absences payable	94,306	-	-	-	-
Bonds payable	-	-	-	2,000	-
Loans payable	-	585,329	847,249	-	-
Total Current Liabilities	836,207	1,244,050	1,152,217	9,446	2,397
Noncurrent Liabilities:					
Advances from County of Nevada	-	-	-	-	-
Compensated absences payable	52,245	-	-	-	-
Bonds payable	-	-	-	19,000	-
Loans payable	-	11,039,749	15,218,884	-	-
Net OPEB obligation	80,511	-	-	-	-
Total Noncurrent Liabilities	132,756	11,039,749	15,218,884	19,000	-
Total Liabilities	968,963	12,283,799	16,371,101	28,446	2,397
NET ASSETS					
Invested in capital assets, net of related debt	203,549	6,332,248	10,639,760	319,150	37,952
Unrestricted	(183,247)	2,888,665	2,776,825	95,201	48,973
Total Net Assets	\$ 20,302	\$ 9,220,913	\$ 13,416,585	\$ 414,351	\$ 86,925

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 - Darkhorse Project	Sanitation District Zone 11 - Higgins Village	Sanitation District Zone 12 - Valley Oak	Totals
\$ 284,453	\$ 23,406	\$ 296,230	\$ 19,736	\$ -	\$ 95,876	\$ 20,928	\$ 6,809,279
-	-	-	-	-	-	-	187,888
62,934	4,918	49	4,127	-	11,879	977	1,392,145
-	-	-	-	-	-	-	5,113
<u>347,387</u>	<u>28,324</u>	<u>296,279</u>	<u>23,863</u>	<u>-</u>	<u>107,755</u>	<u>21,905</u>	<u>8,394,425</u>
481,929	45,231	236,439	29,993	-	-	-	1,640,649
<u>1,055,645</u>	<u>360,220</u>	<u>5,117,762</u>	<u>114,818</u>	<u>-</u>	<u>398,744</u>	<u>82,187</u>	<u>51,527,189</u>
<u>1,537,574</u>	<u>405,451</u>	<u>5,354,201</u>	<u>144,811</u>	<u>-</u>	<u>398,744</u>	<u>82,187</u>	<u>53,167,838</u>
<u>1,884,961</u>	<u>433,775</u>	<u>5,650,480</u>	<u>168,674</u>	<u>-</u>	<u>506,499</u>	<u>104,092</u>	<u>61,562,263</u>
411	196	5,513	104	-	-	-	50,247
-	-	-	-	-	-	-	24,354
-	-	124,963	-	-	-	-	414,009
-	-	-	-	-	-	-	3,899
42,681	3,107	24,960	2,357	-	9,290	705	1,392,145
1,423	25	270	25	-	89	8	46,906
-	-	-	-	-	-	-	94,306
-	-	-	-	-	-	-	2,000
-	-	22,132	-	-	-	-	1,454,710
<u>44,515</u>	<u>3,328</u>	<u>177,838</u>	<u>2,486</u>	<u>-</u>	<u>9,379</u>	<u>713</u>	<u>3,482,576</u>
-	-	-	986	-	-	-	986
-	-	-	-	-	-	-	52,245
-	-	-	-	-	-	-	19,000
-	-	288,902	-	-	-	-	26,547,535
-	-	-	-	-	-	-	80,511
-	-	288,902	986	-	-	-	26,700,277
<u>44,515</u>	<u>3,328</u>	<u>466,740</u>	<u>3,472</u>	<u>-</u>	<u>9,379</u>	<u>713</u>	<u>30,182,853</u>
1,537,574	405,451	5,095,503	144,811	-	398,744	82,187	25,196,929
<u>302,872</u>	<u>24,996</u>	<u>88,237</u>	<u>20,391</u>	<u>-</u>	<u>98,376</u>	<u>21,192</u>	<u>6,182,481</u>
<u>\$ 1,840,446</u>	<u>\$ 430,447</u>	<u>\$ 5,183,740</u>	<u>\$ 165,202</u>	<u>\$ -</u>	<u>\$ 497,120</u>	<u>\$ 103,379</u>	<u>\$ 31,379,410</u>

NEVADA COUNTY SANITATION DISTRICT NO. 1
(A Component Unit of the County of Nevada, California)
Combining Statement of Revenues, Expenses, and Changes in Net Assets
For the Year Ended June 30, 2011

	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
OPERATING REVENUES					
Charges for services	\$ 27,031	\$ 3,151,216	\$ 2,943,448	\$ 73,942	\$ 10,340
Total Operating Revenues	<u>27,031</u>	<u>3,151,216</u>	<u>2,943,448</u>	<u>73,942</u>	<u>10,340</u>
OPERATING EXPENSES					
Salaries and benefits	1,888,613	-	-	-	-
Services and supplies	360,319	542,663	421,014	14,920	1,369
Benefit and claim expense	149	14,688	-	-	-
Other charges	161,506	-	-	893	-
Expense transfers	(2,405,343)	1,239,562	884,001	38,404	11,681
Depreciation	53,753	753,936	955,248	9,320	3,058
Total Operating Expenses	<u>58,997</u>	<u>2,550,849</u>	<u>2,260,263</u>	<u>63,537</u>	<u>16,108</u>
Operating Income (Loss)	<u>(31,966)</u>	<u>600,367</u>	<u>683,185</u>	<u>10,405</u>	<u>(5,768)</u>
NON-OPERATING REVENUE (EXPENSES)					
Intergovernmental revenues	-	-	-	-	-
Interest income	1,190	25,688	21,673	419	241
Other revenues	6,611	2,061	1,338	70	26
Interest expense	-	(226,940)	(341,082)	(1,067)	-
Total Non-Operating Revenues (Expenses)	<u>7,801</u>	<u>(199,191)</u>	<u>(318,071)</u>	<u>(578)</u>	<u>267</u>
Income (Loss) before Contributions and Transfers	<u>(24,165)</u>	<u>401,176</u>	<u>365,114</u>	<u>9,827</u>	<u>(5,501)</u>
Capital contribution	-	-	963,000	-	-
Transfers from County of Nevada	-	-	1,677,154	-	-
Transfers to County of Nevada	-	-	-	-	-
Transfers in	18,525	-	14,311	-	-
Transfers out	-	(9,944)	-	(348)	(122)
Change in Net Assets	<u>(5,640)</u>	<u>391,232</u>	<u>3,019,579</u>	<u>9,479</u>	<u>(5,623)</u>
Total Net Assets - Beginning	<u>25,942</u>	<u>8,829,681</u>	<u>10,397,006</u>	<u>404,872</u>	<u>92,548</u>
Total Net Assets - Ending	<u>\$ 20,302</u>	<u>\$ 9,220,913</u>	<u>\$ 13,416,585</u>	<u>\$ 414,351</u>	<u>\$ 86,925</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 - Darkhorse Project	Sanitation District Zone 11 - Higgins Village	Sanitation District Zone 12 - Valley Oak	Totals
\$ 369,748	\$ 23,428	\$ 224,235	\$ 31,716	\$ -	\$ 80,065	\$ 8,000	\$ 6,943,169
369,748	23,428	224,235	31,716	-	80,065	8,000	6,943,169
-	-	-	-	-	-	-	1,888,613
70,450	8,135	102,535	3,705	-	2,701	768	1,528,579
-	-	-	-	-	-	-	14,837
-	-	-	-	-	-	-	162,399
269,087	15,687	174,740	15,123	-	52,434	2,657	298,033
56,120	15,599	173,570	4,763	-	13,268	2,885	2,041,520
395,657	39,421	450,845	23,591	-	68,403	6,310	5,933,981
(25,909)	(15,993)	(226,610)	8,125	-	11,662	1,690	1,009,188
-	-	389,762	-	-	-	-	389,762
1,324	119	1,842	69	76	408	94	53,143
285	28	49	20	-	37	5	10,530
-	-	(6,677)	(7)	-	-	-	(575,773)
1,609	147	384,976	82	76	445	99	(122,338)
(24,300)	(15,846)	158,366	8,207	76	12,107	1,789	886,850
-	-	-	-	-	-	-	963,000
-	-	-	-	-	-	-	1,677,154
-	-	-	-	(6,715)	-	-	(6,715)
-	-	-	-	-	-	-	32,836
(1,276)	(128)	(293)	(87)	(20,477)	(133)	(28)	(32,836)
(25,576)	(15,974)	158,073	8,120	(27,116)	11,974	1,761	3,520,289
1,866,022	446,421	5,025,667	157,082	27,116	485,146	101,618	27,859,121
\$ 1,840,446	\$ 430,447	\$ 5,183,740	\$ 165,202	\$ -	\$ 497,120	\$ 103,379	\$ 31,379,410

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, 2011

	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
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	\$ 27,031	\$ 3,151,420	\$ 2,756,399	\$ 73,942	\$ 10,340
Payments to suppliers	1,882,627	(1,798,092)	(1,328,849)	(54,296)	(13,050)
Payments to employees	(1,953,569)	-	-	-	-
Net Cash Provided (Used) by Operating Activities	<u>(43,911)</u>	<u>1,353,328</u>	<u>1,427,550</u>	<u>19,646</u>	<u>(2,710)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Grants and other receipts	6,611	2,061	1,338	70	26
Transfers from other funds	18,525	-	14,311	-	-
Transfers to other funds	-	(9,944)	-	(348)	(122)
Transfers to County of Nevada	-	-	-	-	-
Interfund loans received	-	253,407	8,712	-	316
Interfund loans made	-	(267,502)	(34,845)	(2,113)	(1,346)
Interfund loans repaid	(4,410)	(7,235)	(1,330)	(2,342)	-
Interfund loan repayments received	135,914	-	380	-	-
Net Cash Provided (Used) by Noncapital Financing Activities	<u>156,640</u>	<u>(29,213)</u>	<u>(11,434)</u>	<u>(4,733)</u>	<u>(1,126)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Acquisition of capital assets	(18,525)	(210,954)	-	-	-
Proceeds from sale of capital assets	266	-	-	-	-
Principal paid on capital debt	-	(573,995)	(1,096,017)	(2,000)	-
Interest paid on capital debt	-	(281,212)	(85,464)	(1,100)	-
Net Cash Provided (Used) for Capital and Related Financing Activities	<u>(18,259)</u>	<u>(1,066,161)</u>	<u>(1,181,481)</u>	<u>(3,100)</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest and dividends	1,190	25,688	21,673	419	241
Net Cash Provided (Used) by Investing Activities	<u>1,190</u>	<u>25,688</u>	<u>21,673</u>	<u>419</u>	<u>241</u>
Net Increase (Decrease) in Cash and Cash Equivalents	95,660	283,642	256,308	12,232	(3,595)
Balances - Beginning of Year	<u>182,390</u>	<u>2,713,391</u>	<u>2,398,698</u>	<u>79,099</u>	<u>50,825</u>
Balances - End of Year	<u>\$ 278,050</u>	<u>\$ 2,997,033</u>	<u>\$ 2,655,006</u>	<u>\$ 91,331</u>	<u>\$ 47,230</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 - Darkhorse Project	Sanitation District Zone 11 - Higgins Village	Sanitation District Zone 12 - Valley Oak	Totals
\$ 407,932 (379,580) -	\$ 23,428 (23,626) -	\$ 224,235 (278,796) -	\$ 31,716 (18,842) -	\$ - - -	\$ 80,065 (55,431) -	\$ 8,000 (3,425) -	\$ 6,794,508 (2,071,360) (1,953,569)
28,352	(198)	(54,561)	12,874	-	24,634	4,575	2,769,579
285 - (1,276) - 9,667 (6,358) (1,118) -	28 - (128) - 776 (1,051) - -	389,811 - (293) - - - (156,787) 108,555	20 - (87) - - (703) (2,168) -	- - (20,477) (6,715) - - - -	37 - (133) - 1,545 (1,463) - -	5 - (28) - 374 (91) - -	400,292 32,836 (32,836) (6,715) 274,797 (315,472) (175,390) 244,849
1,200	(375)	341,286	(2,938)	(27,192)	(14)	260	422,361
-	-	(332,385)	-	-	-	-	(561,864)
-	-	-	-	-	-	-	266
-	-	(26,500)	-	-	-	-	(1,698,512)
-	-	(1,917)	-	-	-	-	(369,693)
-	-	(360,802)	-	-	-	-	(2,629,803)
1,324	119	1,842	69	76	408	94	53,143
1,324	119	1,842	69	76	408	94	53,143
30,876	(454)	(72,235)	10,005	(27,116)	25,028	4,929	615,280
253,577	23,860	368,465	9,731	27,116	70,848	15,999	6,193,999
\$ 284,453	\$ 23,406	\$ 296,230	\$ 19,736	\$ -	\$ 95,876	\$ 20,928	\$ 6,809,279

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, 2011

	<u>Wastewater Management System</u>	<u>Sanitation District Zone 1 - Lake Wildwood</u>	<u>Sanitation District Zone 2 - Lake of the Pines</u>	<u>Sanitation District Zone 4 - North San Juan</u>	<u>Sanitation District Zone 5 - Gold Creek</u>
RECONCILIATION OF OPERATING INCOME					
(LOSS) TO NET CASH PROVIDED (USED) BY					
OPERATING ACTIVITIES					
Operating income (loss)	\$ (31,966)	\$ 600,367	\$ 683,185	\$ 10,405	\$ (5,768)
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation	53,753	753,936	955,248	9,320	3,058
Decrease (Increase) in:					
Accounts receivable	-	204	(187,049)	-	-
Increase (Decrease) in:					
Accounts payable	(742)	(1,179)	(23,834)	(79)	-
Accrued salaries and benefits	(74,030)	-	-	-	-
Compensated absences	4,065	-	-	-	-
Net OPEB obligation	5,009	-	-	-	-
Net Cash Provided (Used) by Operating Activities	<u>\$ (43,911)</u>	<u>\$ 1,353,328</u>	<u>\$ 1,427,550</u>	<u>\$ 19,646</u>	<u>\$ (2,710)</u>
NONCASH INVESTING, CAPITAL, AND					
FINANCING ACTIVITIES					
Contribution of capital assets	\$ -	\$ -	\$ 2,640,154	\$ -	\$ -
Amortization of issuance costs and discounts	-	-	261,179	-	-

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 - Darkhorse Project	Sanitation District Zone 11 - Higgins Village	Sanitation District Zone 12 - Valley Oak	Totals
\$ (25,909)	\$ (15,993)	\$ (226,610)	\$ 8,125	\$ -	\$ 11,662	\$ 1,690	\$ 1,009,188
56,120	15,599	173,570	4,763	-	13,268	2,885	2,041,520
38,184	-	-	-	-	-	-	(148,661)
(40,043)	196	(1,521)	(14)	-	(296)	-	(67,512)
-	-	-	-	-	-	-	(74,030)
-	-	-	-	-	-	-	4,065
-	-	-	-	-	-	-	5,009
<u>\$ 28,352</u>	<u>\$ (198)</u>	<u>\$ (54,561)</u>	<u>\$ 12,874</u>	<u>\$ -</u>	<u>\$ 24,634</u>	<u>\$ 4,575</u>	<u>\$ 2,769,579</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,640,154
-	-	4,882	-	-	-	-	266,061

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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, 2011, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 30, 2011. 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.

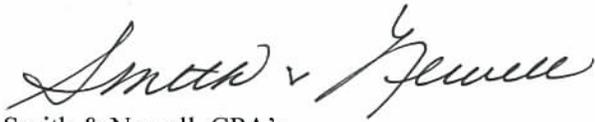
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material 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 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.

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", written in dark ink.

Smith & Newell, CPA's
Yuba City, California
December 30, 2011