

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

Financial Statements
June 30, 2014

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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, 2014

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Grand Jury
Nevada County
Sanitation District #1
Nevada City, California

Report on the Financial Statements

We have audited the accompanying financial statements of the proprietary fund of Nevada County Sanitation District No. 1 (District), a component unit of the County of Nevada, California, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2014, and the changes in financial position, and where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 23, 2015 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Roseville, California
January 23, 2015

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, 2014. The information contained in this MD&A should be considered in conjunction with the information contained in the District's financial statements.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Following this discussion and analysis are the basic financial statements of the District. The District's basic financial statements are designed to provide readers with a broad overview of the District's financial status.

The Statement of Net Position presents information on all of the District's assets and deferred outflows of resources and liabilities and deferred inflows of resources with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of the District's financial position.

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

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

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

FINANCIAL HIGHLIGHTS

On June 30, 2014, the assets of the District exceeded its liabilities by \$31,839,511 (net position). Of this amount, \$5,598,012 (unrestricted net position) may be used to meet the District's ongoing obligations to citizens and creditors and \$26,241,499 is the District's net investment in capital assets.

The District's capital assets (e.g., land, infrastructure and equipment) decreased by \$1,989,540 as a result of annual depreciation of infrastructure assets.

Long-term liabilities decreased 6.4% or \$1,523,123 due to regularly scheduled principal payments on long-term debt.

Financial Position

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

Sanitation District's Net Position June 30, 2014 and 2013

	2014	2013	Variance	Change
Current assets	\$ 6,356,233	\$ 6,607,654	-3.80%	\$ (251,421)
Capital assets	49,798,000	51,787,540	-3.84%	(1,989,540)
Total Assets	<u>56,154,233</u>	<u>58,395,194</u>	<u>-3.84%</u>	<u>(2,240,961)</u>
Current liabilities	2,109,504	3,318,264	-36.43%	(1,208,760)
Long term liabilities	22,205,218	23,728,341	-6.42%	(1,523,123)
Total Liabilities	<u>24,314,722</u>	<u>27,046,605</u>	<u>-10.10%</u>	<u>(2,731,883)</u>
Net investment in capital assets	26,241,499	26,734,805	-1.85%	(493,306)
Unrestricted	5,598,012	4,613,784	21.33%	984,228
Total Net Position	<u>\$ 31,839,511</u>	<u>\$ 31,348,589</u>	<u>1.57%</u>	<u>\$ 490,922</u>

As shown in the schedule above, at June 30, 2014, the District's total assets are \$57,529,336. The total assets held decreased \$865,858 or 1.48% from the June 30, 2013 balance of \$58,395,194. The decrease in total assets was due primarily to the depreciation of capital assets offset by an increase in cash and investments.

The District's total liabilities decreased by \$1,356,780 during the current fiscal year to \$25,689,825. The decrease occurred predominantly in the long-term liabilities as loan balances were reduced by scheduled principal payments.

The District's total net position at June 30, 2014 increased from the prior year by \$490,922. Unrestricted net position of the District at June 30, 2014 amounted to \$5,598,012. The 21.33% increase from the prior year's amount of \$4,613,784 reflects the District's accumulation of resources to meet the needs of upcoming capital projects. In relation, the net investment in capital assets decreased by \$493,306 from the prior year due to a combination of depreciation of capital assets and a reduction in related debt.

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

**Changes in Net Position
For the Years Ended June 30, 2014 and 2013**

	2014	2013	Variance	Change
Revenues:				
Operating	\$ 6,978,013	\$ 6,579,111	6.06%	\$ 398,902
Non-operating	76,358	35,541	114.84%	40,817
Total Revenues	<u>7,054,371</u>	<u>6,614,652</u>	<u>6.65%</u>	<u>439,719</u>
Expenses:				
Operating expenses	6,038,895	6,058,756	-0.33%	(19,861)
Non-operating expenses	523,991	557,100	-5.94%	(33,109)
Total Expenses	<u>6,562,886</u>	<u>6,615,856</u>	<u>-0.80%</u>	<u>(52,970)</u>
Change in net position	491,485	(1,204)	-40921.01%	492,689
Net Position - beginning, restated	31,348,026	31,349,793	-0.01%	(1,767)
Net Position - ending	<u>\$ 31,839,511</u>	<u>\$ 31,348,589</u>	<u>1.57%</u>	<u>\$ 490,922</u>

Revenues – The District's revenues for fiscal year 2013-14 increased by 6.65% or \$439,719. Connection fees received by the Lake of the Pines zone from a new development was the major factor in the increase.

Expenses – The District's expenses for fiscal year 2013-14 decreased by .8% or \$52,970. Non-operating expenses decreased by 5.94% due to a decrease in interest expense. Operating expenses decreased by .3% from the prior fiscal year due to a decrease in salary and benefit costs.

Capital Assets and Debt Administration

Capital Assets – The District's investment in capital assets as of June 30, 2014 amounted to \$26,241,499 (net of accumulated depreciation and related debt). This investment in capital assets includes land, land improvements, infrastructure and equipment. The \$1,989,540 decrease is due to depreciation of \$2,057,392 offset by reductions in related debt. Construction in progress for the Lake Wildwood UV Disinfection Improvement project was completed during the fiscal year and design of the Penn Valley pipeline was in progress.

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, 2014, the District had total debt outstanding of \$23,578,400 net of unamortized discounts. Of this amount, \$1,533,436 is due within one year. The long-term debt consists of one voter-approved bond, four loans from the State of California, and two bank loans. The North San Juan Sewer Assessment bond is being repaid through a restricted revenue source. A special assessment charge is placed on the tax bills of the parcels within the specific zone that benefited from the borrowing. The four State Water Resources Control Board (SWRCB) loans are being repaid through a dedicated revenue source from the specific zones that received the loan proceeds. The two bank loans are scheduled to be repaid by August 2026. They are being repaid with operating revenues from the specific zones that received the loan proceeds.

Additional information on the District's long-term debt can be found in Note 5 on page 18-20 of this report.

Economic Factors and Next Year's Budget

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

Wastewater treatment plants that discharge to surface waters are required to obtain a National Pollutant Discharge Elimination System (NPDES) permit. The permits are normally renewed every 5 years by the California Regional Water Quality Control Board (CRWQCB) and may contain new treatment objectives and discharge regulations. The Penn Valley treatment facility has been issued a Cease and Desist Order by the CRWQCB to address problems related to a lack of storage capacity. The order requires improvements to address capacity issues to be completed by August 2014. Transporting the wastewater to the Lake Wildwood treatment facility via a pipeline has been determined to be the most cost effective alternative to address the Cease and Desist Order. The District has been awarded a State Revolving Fund grant with 100% loan forgiveness and a Community Development Block Grant to finance the project. The project is currently in the design and engineering phase with construction expected to begin in 2016.

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

The cost of many resources required by the District's treatment plants to meet permitting requirements continues to increase. The District has been able to absorb these costs utilizing available unrestricted net position in fiscal year 2014-15 without rate increases.

Request for Information

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

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

Statement of Net Position
Enterprise Funds
June 30, 2014

ASSETS

Current Assets:

Cash and investments	\$ 6,356,231
Accounts receivable	<u>2</u>
Total Current Assets	<u>6,356,233</u>

Noncurrent Assets:

Capital assets:	
Non-depreciable	1,521,421
Depreciable, net	<u>48,276,579</u>
Total Noncurrent Assets	<u>49,798,000</u>
Total Assets	<u>56,154,233</u>

LIABILITIES

Current Liabilities:

Accounts payable	47,344
Salaries and benefits payable	34,375
Interest payable	370,061
Due to County	37,597
Compensated absences	86,691
Special assessment bonds	3,000
Loan payable	<u>1,530,436</u>
Total Current Liabilities	<u>2,109,504</u>

Noncurrent Liabilities:

Compensated absences	47,903
Special assessment bonds	12,000
Loan payable	22,032,964
Net OPEB obligation	<u>112,351</u>
Total Noncurrent Liabilities	<u>22,205,218</u>
Total Liabilities	<u>24,314,722</u>

NET POSITION

Net investment in capital assets	26,241,499
Unrestricted	<u>5,598,012</u>
Total Net Position	<u><u>\$ 31,839,511</u></u>

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

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

Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Funds
For the Year Ended June 30, 2014

Operating Revenues:	
Charges for services	\$ 6,740,058
Other revenues	<u>237,955</u>
Total Operating Revenues	<u>6,978,013</u>
Operating Expenses:	
Salaries and benefits	1,734,152
Services and supplies	1,660,873
Benefit and claim expenses	15,000
Other charges	113,293
Expense transfers	458,185
Depreciation	<u>2,057,392</u>
Total Operating Expenses	<u>6,038,895</u>
Operating Income (Loss)	<u>939,118</u>
Non-Operating Revenue (Expenses):	
Interest income	76,358
Interest expense	<u>(523,991)</u>
Total Non-Operating Revenue (Expenses)	<u>(447,633)</u>
Change in Net Position	491,485
Net Position - Beginning of Year, restated	<u>31,348,026</u>
Net Position - End of Year	<u>\$ 31,839,511</u>

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

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

Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2014

CASH FLOWS FROM OPERATING ACTIVITIES:

Receipts from customers	\$6,978,181
Payments to suppliers	(2,366,744)
Payments to employees	<u>(1,754,632)</u>
Net Cash Provided (Used) by Operating Activities	<u>2,856,805</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:

Interfund loans made	(391,369)
Interfund loans repaid	<u>338,874</u>
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(52,495)</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Acquisition of capital assets	(67,852)
Principal paid on capital debt	(1,506,689)
Interest paid on capital debt	<u>(539,129)</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(2,113,670)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest received (paid)	<u>76,358</u>
Net Cash Provided (Used) by Investing Activities	<u>76,358</u>

Net Increase (Decrease) in Cash and Cash Equivalents	766,998
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Cash and Cash Equivalents, Beginning of Year	<u>5,589,233</u>
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Cash and Cash Equivalents, End of Year	<u><u>\$6,356,231</u></u>
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The accompanying notes are an integral part of these financial statements.

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

Statement of Cash Flows (continued)
Proprietary Funds
For the Year Ended June 30, 2014

Reconciliation of Operating Income (Loss)
to Net Cash Provided (Used) by

Operating Activities:

Operating income (loss)	\$ 939,118
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	2,057,392
Changes in assets and liabilities:	
(Increase) decrease in:	
Receivables	168
Increase (decrease) in:	
Accounts payable	(115,494)
Accrued salaries and benefits	(2,562)
Compensated absences payable	(33,914)
Deposits payable	(3,899)
Net OPEB obligation	<u>15,996</u>

Net Cash Provided (Used) by Operating Activities	<u><u>\$ 2,856,805</u></u>
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The accompanying notes are an integral part of these 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, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Nevada County Sanitation District No. 1 (District) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental agencies. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

A. Reporting Entity

The District is a public agency formed on August 2, 1965, by order of the Nevada County Board of Supervisors pursuant to provisions of the California Health and Safety Code. As of June 30, 2014, the District is composed of ten zones and the Wastewater Management System.

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

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

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

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

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

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

Notes to Basic Financial Statements
For the Year Ended June 30, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basis of Presentation

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

The District reports the following major proprietary fund:

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

C. Basis of Accounting and Measurement Focus

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

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

D. Cash, Cash Equivalents and Investments

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

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

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

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, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Cash, Cash Equivalents and Investments (Continued)

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

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

E. Receivables

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

F. Capital Assets

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

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

<u>Depreciable Asset</u>	<u>Estimated Life</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.

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, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Interfund Transactions (Continued)

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

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

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

H. Compensated Absences

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

I. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense) until then. At June 30, 2014, the District did not have any deferred outflows of resources.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. At June 30, 2014, the District did not have any deferred inflows of resources.

J. Estimates

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

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, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. New Accounting Pronouncements – Future Years

Governmental Accounting Standards Board Statement No. 68

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, is effective for periods beginning after June 15, 2014. The principal objective of this statement is to improve the usefulness of information for decisions made by the various users of the general purpose external financial reports of governments whose employees – both active employees and inactive employees – are provided with pensions. An additional objective is to improve the information provided in government financial reports about pension-related financial support provided by certain nonemployer entities that make contributions to pension plans that are used to provide benefits to the employees of other entities.

NOTE 2: CASH AND INVESTMENTS

A. Financial Statement Presentation

At June 30, 2014, the District's cash and investments consisted of the following:

Investments:

Nevada County Treasurer's Pool	<u>\$ 6,356,231</u>
Total Cash and Investments	<u><u>\$ 6,356,231</u></u>

B. Cash

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

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

C. Investments

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

Banker's Acceptances
Commercial Paper
Local Agency Investment Fund
Medium Term Corporate Notes

NEVADA COUNTY SANITATION DISTRICT NO. 1
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Notes to Basic Financial Statements
For the Year Ended June 30, 2014

NOTE 2: CASH AND INVESTMENTS (CONTINUED)

C. Investments (Continued)

- Money Market Funds
- Negotiable Certificates of Deposit
- Repurchase Agreements
- Reverse Repurchase Agreements
- Securities of the Federal Government or its Agencies
- California State Registered Warrants, Treasury Notes and Bonds
- Local Agency Obligations
- Certificates of Deposit
- Pass-Through Security

Interest Rate Risk – Interest rate risk is the risk of loss due to the fair value of an investment falling due to interest rates rising. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the County manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations. The County limits its exposure to interest rate risk inherent in its portfolio by limiting individual maturities to 5 years or less.

Credit Risk – Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The County's investment policy sets specific parameters by type of investment to be met at the time of purchase. As of June 30, 2014, the District's investments were all pooled with the County Treasury which is not rated by a nationally recognized statistical rating organization.

Custodial Credit Risk for Investments – Custodial credit risk for investments is the risk that, in the event of the failure of a depository financial institution, the District will not be able to recover its deposits or collateral securities that are in the possession of an outside party. To mitigate the custodial credit risk the County's investment policy requires that all investments owned by the County with the exception of certificates of deposit shall be held in safekeeping by a third party under contract with the County.

With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to local government's indirect investments in securities through the use of mutual funds or government investment pools.

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

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

Notes to Basic Financial Statements
For the Year Ended June 30, 2014

NOTE 3: CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2014, was as follows:

	Balance July 1, 2013	Additions	Retirements	Transfers & Adjustments	Balance June 30, 2014
Capital Assets, Not Being Depreciated:					
Land and easements	\$ 1,452,943	\$ --	\$ --	\$ --	\$ 1,452,943
Construction in progress	2,905,963	7,867	--	(2,845,352)	68,478
Total Capital Assets, Not Being Depreciated	<u>4,358,906</u>	<u>7,867</u>	<u>--</u>	<u>(2,845,352)</u>	<u>1,521,421</u>
Capital Assets, Being Depreciated:					
Infrastructures	66,958,714	28,078	--	2,845,352	69,832,144
Structures and Improvements	320,598	--	--	--	320,598
Equipment	1,364,284	31,907	--	--	1,396,191
Total Capital Assets, Being Depreciated	<u>68,643,596</u>	<u>59,985</u>	<u>--</u>	<u>2,845,352</u>	<u>71,548,933</u>
Less Accumulated Depreciation for:					
Infrastructure	(19,969,410)	(1,999,178)	--	--	(21,968,588)
Structures and improvements	(65,539)	(10,686)	--	--	(76,225)
Equipment	(1,180,013)	(47,528)	--	--	(1,227,541)
Total Accumulated Depreciation	<u>(21,214,962)</u>	<u>(2,057,392)</u>	<u>--</u>	<u>--</u>	<u>(23,272,354)</u>
Total Capital Assets, Being Depreciated, Net	<u>47,428,634</u>	<u>(1,997,407)</u>	<u>--</u>	<u>2,845,352</u>	<u>48,276,579</u>
Total Capital Assets, Net	<u>\$51,787,540</u>	<u>\$ (1,989,540)</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 49,798,000</u>

Total depreciation expense of \$2,057,392 was charged to the proprietary fund.

Construction in Progress

Construction in progress is related to work performed on the Penn Valley pipeline design.

NEVADA COUNTY SANITATION DISTRICT NO. 1
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Notes to Basic Financial Statements
For the Year Ended June 30, 2014

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, 2014:

	Due From Other Funds	Due To Other Funds
Wastewater Management System	\$ 611,056	\$ 761,302
Sanitation District Zone 1 - Lake Wildwood	379,210	283,219
Sanitation District Zone 2 - Lake of the Pines	266,423	248,949
Sanitation District Zone 4 - North San Juan	8,740	7,113
Sanitation District Zone 5 - Gold Creek	3,704	3,273
Sanitation District Zone 6 - Penn Valley	55,250	38,972
Sanitation District Zone 7 - Mountain Lake Estates	4,331	2,982
Sanitation District Zone 8 - Cascade Shores	31,093	16,854
Sanitation District Zone 9 - Eden Ranch	4,806	2,464
Sanitation District Zone 11 - Higgins Village	10,131	9,604
Sanitation District Zone 12 - Valley Oak	359	371
Total	<u>\$ 1,375,103</u>	<u>\$ 1,375,103</u>

NOTE 5: LONG-TERM LIABILITIES

The following is a summary of long-term liabilities transactions for the year ended June 30, 2014:

Types of Indebtedness	Balance July 1, 2013	Additions/ Adjustments	Retirements/ Adjustments	Balance June 30, 2014	Amounts Due Within One Year
Special Assessment Bonds with County Commitment	\$ 17,000	\$ --	\$ (2,000)	\$ 15,000	\$ 3,000
Loans	26,966,188	--	(1,732,182)	25,234,006	1,744,604
Less: Unamortized discount	(1,898,098)	--	227,492	(1,670,606)	(214,168)
Loans, Net	25,068,090	--	(1,504,690)	23,563,400	1,530,436
Compensated Absences	168,508	117,341	(151,255)	134,594	86,691
OPEB Obligation	95,792	95,026	(78,467)	112,351	--
Total Long-Term Liabilities	<u>\$ 25,349,390</u>	<u>\$ 212,367</u>	<u>\$ (1,736,412)</u>	<u>\$ 23,825,345</u>	<u>\$ 1,620,127</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, 2014

NOTE 5: LONG-TERM LIABILITIES (CONTINUED)

Individual issues of debt payable outstanding at June 30, 2014, are as follows:

Business-Type Activities

Special Assessment Bonds with County Commitment:

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

\$ 15,000

Total Special Assessment Bonds With County Commitment 15,000

Loans:

State Water Resources Control Board loan, issued November 13, 2010, in the amount of \$339,164 and payable in annual installments of \$16,958, with an interest rate of 0.0% and maturity on June 30, 2029. Loan proceeds were used for the acquisition and construction of improvements to the Cascade Shores Wastewater system. The loan includes a loan discount of \$56,528.

254,373

SWRCB Revolving loan, issued December 12, 2006, in the amount of \$170,367 and payable in annual installments of \$8,445 to \$11,116 with an interest rate of 3.10% and maturity on January 22, 2016. Loan proceeds were used to finance modifications to the Cascade Shores Wastewater collection system with upgrade and modification to the existing lift station. The lift station was impaired and removed from the capital assets schedule.

21,898

Banc of America Leasing and Capital, LLC loan, issued August 1, 2009, in the amount of \$2,500,000 and payable in annual installments of \$73,529, with an interest rate of 3.55% and maturity on August 1, 2026. Loan proceeds were used for interim financing for the acquisition and construction of improvements to the Lake of the Pines Zone 2 wastewater system.

1,838,236

Banc of America Leasing and Capital, LLC loan, issued August 1, 2009, in the amount of \$1,000,000 and payable in annual installments of \$29,412, with an interest rate of 3.55% and maturity on August 1, 2026. Loan proceeds were used for interim financing for the acquisition and construction of improvements to the Lake Wildwood Zone 1 wastewater system.

735,294

State Water Resources Control Board loan, issued September 13, 2010, in the amount of \$12,122,824 plus accrued interest of \$110,523 and payable in annual installments of \$492,213 to \$739,310 with an interest rate of 1.20% and maturity on November 23, 2027. Loan proceeds were used for the acquisition and construction of improvements to the Lake Wildwood Zone 1 wastewater system.

9,098,793

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, 2014

NOTE 5: LONG-TERM LIABILITIES (CONTINUED)

Individual issues of debt payable outstanding at June 30, 2014, are as follows:

Business-Type Activities (continued)

State Water Resources Control Board loan, issued September 13, 2010, in the amount of \$18,964,071 and payable in annual installments of \$948,204 with an interest rate of 0.00% and maturity on January 1, 2028. Loan proceeds were used for the acquisition and construction of improvements to the Lake of the Pines Zone 2 wastewater system. The loan includes a discount of \$3,160,742.

13,285,412

Total Loans

25,234,006

Total Business-Type Activities

\$ 25,249,006

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

Year Ended June 30	Special Assessment Bonds		
	Principal	Interest	Total
2015	\$ 3,000	\$ 675	\$ 3,675
2016	3,000	525	3,525
2017	3,000	375	3,375
2018	3,000	225	3,225
2019	3,000	75	3,075
Total	<u>\$ 15,000</u>	<u>\$ 1,875</u>	<u>\$ 16,875</u>

Year Ended June 30	Loans			
	Principal	Interest	Service Charge	Total
2015	\$ 1,744,604	\$ 200,062	\$ 90,988	\$ 2,035,654
2016	1,757,303	185,621	85,368	2,028,292
2017	1,758,824	171,020	79,624	2,009,468
2018	1,771,739	156,613	73,754	2,002,106
2019	1,784,936	141,600	67,754	1,994,290
2020-2024	9,133,063	486,150	244,057	9,863,270
2025-2029	7,283,537	115,201	72,991	7,471,729
Total	<u>\$ 25,234,006</u>	<u>\$ 1,456,267</u>	<u>\$ 714,536</u>	<u>\$ 27,404,809</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, 2014

NOTE 6: NET POSITION

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

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

Net Position Flow Assumption

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

NOTE 7: EMPLOYEE BENEFITS

A. Employee's Retirement Plan

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

The County contributes to the California Public Employees Retirement System (PERS), an agent multiple-employer public employee defined benefit plan. PERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by statute. Copies of PERS' annual financial report may be obtained from their executive office – 400 Q Street, Lincoln Plaza East, Sacramento, CA 95811 or www.calpers.ca.gov.

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

B. Other Postemployment Benefits (OPEB)

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

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

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, 2014

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	\$ 97,692
Interest on Prior OPEB Obligations	5,298
Amortization of Prior Year Net OPEB Obligation	<u>(6,737)</u>
Annual OPEB Cost	96,253
Pay As You Go Contribution	(39,845)
Funding of Full ARC Contribution	<u>(39,849)</u>
Increase (Decrease) in Net OPEB Obligation	16,559
Net OPEB Obligation - Beginning of Year	95,792
Net OPEB Obligation - End of Year	<u><u>\$ 112,351</u></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 payables to the County of Nevada by fund at June 30, 2014:

Wastewater Management System	\$ 36,072
Sanitation District Zone 1- Lake Wildwood	68
Sanitation District Zone 8 - Cascade Shores	<u>1,457</u>
Total Due to County of Nevada	<u><u>\$ 37,597</u></u>

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

Notes to Basic Financial Statements
For the Year Ended June 30, 2014

NOTE 10: OTHER INFORMATION

A. Commitments and Contingencies

The wastewater treatment projects are financed with long-term debt to be repaid from special assessments. The District had encumbrances of \$1,980 at June 30, 2014.

B. Subsequent Events

Management has evaluated events subsequent to June 30, 2014 through January 23, 2015, the date on which the financial statements were available for issuance. Management has determined no subsequent events requiring disclosure have occurred.

NOTE 11: PRIOR PERIOD ADJUSTMENT

Adjustments resulting from errors or a change to comply with provisions of the accounting standards are treated as adjustments to prior periods. Accordingly, the County reports these changes as restatements of beginning net position. During the fiscal year ending June 30, 2014, the County restated the beginning balance in the OPEB liability by \$563.

The impact of the restatement on the net position on the governmental activities financial statements as previously reported is presented below:

	<u>Sanitation District</u>
Net Position, June 30, 2013, as previously reported	\$ 31,348,589
Adjustment associated with: Change in OPEB liability	<u>(563)</u>
Net Position, July 1, 2013, as restated	<u><u>\$ 31,348,026</u></u>

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SUPPLEMENTARY INFORMATION

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

Combining Statement of Net Position
June 30, 2014

	Wastewater Management System	Sanitation District Zone 1 - Lake Wildwood	Sanitation District Zone 2 - Lake of the Pines	Sanitation District Zone 4 - North San Juan
ASSETS				
Current Assets:				
Cash and investments	\$ 154,383	\$ 1,711,665	\$ 3,383,343	\$ 175,879
Accounts receivable	--	--	2	--
Due from other funds	611,056	379,210	266,423	8,740
Total Current Assets	<u>765,439</u>	<u>2,090,875</u>	<u>3,649,768</u>	<u>184,619</u>
Noncurrent Assets:				
Capital assets:				
Non-depreciable	--	77,814	436,504	139,084
Depreciable, net	102,103	18,218,843	23,426,522	173,758
Total Noncurrent Assets	<u>102,103</u>	<u>18,296,657</u>	<u>23,863,026</u>	<u>312,842</u>
Total Assets	<u>867,542</u>	<u>20,387,532</u>	<u>27,512,794</u>	<u>497,461</u>
LIABILITIES				
Current Liabilities:				
Accounts payable	8,954	11,381	18,128	--
Salaries and benefits payable	34,375	--	--	--
Interest payable	--	127,725	114,968	250
Due to other funds	761,302	283,219	248,949	7,113
Due to County	36,071	70	--	--
Compensated absences	86,691	--	--	--
Bonds payable	--	--	--	3,000
Loan payable	--	620,848	885,836	--
Total Current Liabilities	<u>927,393</u>	<u>1,043,243</u>	<u>1,267,881</u>	<u>10,363</u>
Noncurrent Liabilities:				
Compensated absences	47,903	--	--	--
Bonds payable	--	--	--	12,000
Loan payable	--	9,213,240	12,600,432	--
Net OPEB obligation	112,351	--	--	--
Total Noncurrent Liabilities	<u>160,254</u>	<u>9,213,240</u>	<u>12,600,432</u>	<u>12,000</u>
Total Liabilities	<u>1,087,647</u>	<u>10,256,483</u>	<u>13,868,313</u>	<u>22,363</u>
NET POSITION				
Net investment in capital assets	102,103	8,462,569	10,376,758	297,842
Unrestricted	(322,208)	1,668,480	3,267,723	177,256
Total Net Position	<u>\$ (220,105)</u>	<u>\$10,131,049</u>	<u>\$13,644,481</u>	<u>\$ 475,098</u>

NEVADA COUNTY SANITATION DISTRICT NO. 1
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Combining Statement of Net Position
June 30, 2014

	Sanitation District Zone 5 - Gold Creek	Sanitation District Zone 6 - Penn Valley	Sanitation District Zone 7 - Mountain Lake Estates	Sanitation District Zone 8 - Cascade Shores
ASSETS				
Current Assets:				
Cash and investments	\$ 38,093	\$ 507,075	\$ 37,892	\$ 118,502
Accounts receivable	--	--	--	--
Due from other funds	3,704	55,250	4,331	31,093
Total Current Assets	<u>41,797</u>	<u>562,325</u>	<u>42,223</u>	<u>149,595</u>
Noncurrent Assets:				
Capital assets:				
Non-depreciable	5,950	550,406	45,231	236,439
Depreciable, net	24,591	887,285	313,424	4,597,051
Total Noncurrent Assets	<u>30,541</u>	<u>1,437,691</u>	<u>358,655</u>	<u>4,833,490</u>
Total Assets	<u>72,338</u>	<u>2,000,016</u>	<u>400,878</u>	<u>4,983,085</u>
LIABILITIES				
Current Liabilities:				
Accounts payable	--	2,215	773	5,399
Salaries and benefits payable	--	--	--	--
Interest payable	--	--	--	127,118
Due to other funds	3,273	38,972	2,982	16,854
Due to County	--	--	--	1,456
Compensated absences	--	--	--	--
Bonds payable	--	--	--	--
Loan payable	--	--	--	23,752
Total Current Liabilities	<u>3,273</u>	<u>41,187</u>	<u>3,755</u>	<u>174,579</u>
Noncurrent Liabilities:				
Compensated absences	--	--	--	--
Bonds payable	--	--	--	--
Loan payable	--	--	--	219,292
Net OPEB obligation	--	--	--	--
Total Noncurrent Liabilities	<u>--</u>	<u>--</u>	<u>--</u>	<u>219,292</u>
Total Liabilities	<u>3,273</u>	<u>41,187</u>	<u>3,755</u>	<u>393,871</u>
NET POSITION				
Net investment in capital assets	30,541	1,437,691	358,655	4,612,345
Unrestricted	38,524	521,138	38,468	(23,131)
Total Net Position	<u>\$ 69,065</u>	<u>\$1,958,829</u>	<u>\$ 397,123</u>	<u>\$4,589,214</u>

NEVADA COUNTY SANITATION DISTRICT NO. 1
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Combining Statement of Net Position
June 30, 2014

	Sanitation District Zone 9 - Eden Ranch	Sanitation District Zone 11 - Higgins Village	Sanitation District Zone 12 - Valley Oak	Totals
ASSETS				
Current Assets:				
Cash and investments	\$ 68,745	\$ 116,133	\$ 44,521	\$ 6,356,231
Accounts receivable	--	--	--	2
Due from other funds	4,806	10,131	359	1,375,103
Total Current Assets	<u>73,551</u>	<u>126,264</u>	<u>44,880</u>	<u>7,731,336</u>
Noncurrent Assets:				
Capital assets:				
Non-depreciable	29,993	--	--	1,521,421
Depreciable, net	100,530	358,940	73,532	48,276,579
Total Noncurrent Assets	<u>130,523</u>	<u>358,940</u>	<u>73,532</u>	<u>49,798,000</u>
Total Assets	<u>204,074</u>	<u>485,204</u>	<u>118,412</u>	<u>57,529,336</u>
LIABILITIES				
Current Liabilities:				
Accounts payable	75	419	--	\$ 47,344
Salaries and benefits payable	--	--	--	34,375
Interest payable	--	--	--	370,061
Due to other funds	2,464	9,604	371	1,375,103
Due to County	--	--	--	37,597
Compensated absences	--	--	--	86,691
Bonds payable	--	--	--	3,000
Loan payable	--	--	--	1,530,436
Total Current Liabilities	<u>2,539</u>	<u>10,023</u>	<u>371</u>	<u>3,484,607</u>
Noncurrent Liabilities:				
Compensated absences	--	--	--	47,903
Bonds payable	--	--	--	12,000
Loan payable	--	--	--	22,032,964
Net OPEB obligation	--	--	--	112,351
Total Noncurrent Liabilities	<u>--</u>	<u>--</u>	<u>--</u>	<u>22,205,218</u>
Total Liabilities	<u>2,539</u>	<u>10,023</u>	<u>371</u>	<u>25,689,825</u>
NET POSITION				
Net investment in capital assets	130,523	358,940	73,532	26,241,499
Unrestricted	71,012	116,241	44,509	5,598,012
Total Net Position	<u>\$ 201,535</u>	<u>\$ 475,181</u>	<u>\$ 118,041</u>	<u>\$31,839,511</u>

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

Combining Statement of Revenues, Expenses and
Changes in Fund Net Position
For the Year Ended June 30, 2014

	Wastewater Management System	Sanitation District Zone 1 - Lake Wildwood	Sanitation District Zone 2 - Lake of the Pines	Sanitation District Zone 4 - North San Juan
Operating Revenues:				
Charges for services	\$ --	\$ 3,147,060	\$ 2,751,064	\$ 74,022
Other revenues	4,644	111,274	82,650	3,480
Total Operating Revenues	<u>4,644</u>	<u>3,258,334</u>	<u>2,833,714</u>	<u>77,502</u>
Operating Expenses:				
Salaries and benefits	1,734,152	--	--	--
Services and supplies	521,757	457,111	483,775	13,932
Benefit and claim expenses	--	15,000	--	--
Other charges	113,128	--	--	165
Expense transfers	(2,099,380)	1,170,102	968,635	27,659
Depreciation and amortization	42,232	822,683	915,876	9,102
Total Operating Expenses	<u>311,889</u>	<u>2,464,896</u>	<u>2,368,286</u>	<u>50,858</u>
Operating Income (Loss)	<u>(307,245)</u>	<u>793,438</u>	<u>465,428</u>	<u>26,644</u>
Non-Operating Revenue (Expenses):				
Interest income	3,741	22,652	41,388	1,392
Interest expense	--	(232,215)	(285,316)	(765)
Total Non-Operating Revenue (Expenses)	<u>3,741</u>	<u>(209,563)</u>	<u>(243,928)</u>	<u>627</u>
Income (Loss) Before Transfers and Contributions	(303,504)	583,875	221,500	27,271
Transfers in	31,907	3,754,862	1,260,523	--
Transfers out	<u>--</u>	<u>(3,771,890)</u>	<u>(1,271,253)</u>	<u>(600)</u>
Change in Net Position	(271,597)	566,847	210,770	26,671
Net Position - Beginning of Year, restated	<u>51,492</u>	<u>9,564,202</u>	<u>13,433,711</u>	<u>448,427</u>
Net Position - End of Year	<u>\$ (220,105)</u>	<u>\$ 10,131,049</u>	<u>\$ 13,644,481</u>	<u>\$ 475,098</u>

continued

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

Combining Statement of Revenues, Expenses and
Changes in Fund Net Position
For the Year Ended June 30, 2014

	Sanitation District Zone 5 - Gold Creek	Sanitation District Zone 6 - Penn Valley	Sanitation District Zone 7 - Mountain Lake Estates	Sanitation District Zone 8 - Cascade Shores
Operating Revenues:				
Charges for services	\$ 10,340	\$ 383,448	\$ 23,428	\$ 228,915
Other revenues	1,268	18,781	1,513	9,519
Total Operating Revenues	<u>11,608</u>	<u>402,229</u>	<u>24,941</u>	<u>238,434</u>
Operating Expenses:				
Salaries and benefits	--	--	--	--
Services and supplies	1,588	64,997	10,088	95,795
Benefit and claim expenses	--	--	--	--
Other charges	--	--	--	--
Expense transfers	6,710	182,174	8,625	113,997
Depreciation and amortization	1,295	56,120	15,598	173,570
Total Operating Expenses	<u>9,593</u>	<u>303,291</u>	<u>34,311</u>	<u>383,362</u>
Operating Income (Loss)	<u>2,015</u>	<u>98,938</u>	<u>(9,370)</u>	<u>(144,928)</u>
Non-Operating Revenue (Expenses):				
Interest income	353	3,518	295	1,196
Interest expense	--	--	--	(5,695)
Total Non-Operating Revenue (Expenses)	<u>353</u>	<u>3,518</u>	<u>295</u>	<u>(4,499)</u>
Income (Loss) Before Transfers and Contributions	2,368	102,456	(9,075)	(149,427)
Transfers in	--	--	--	18,654
Transfers out	<u>(211)</u>	<u>(2,186)</u>	<u>(220)</u>	<u>(19,158)</u>
Change in Net Position	2,157	100,270	(9,295)	(149,931)
Net Position - Beginning of Year, restated	<u>66,908</u>	<u>1,858,559</u>	<u>406,418</u>	<u>4,739,145</u>
Net Position - End of Year	<u>\$ 69,065</u>	<u>\$ 1,958,829</u>	<u>\$ 397,123</u>	<u>\$ 4,589,214</u>

continued

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

Combining Statement of Revenues, Expenses and
Changes in Fund Net Position
For the Year Ended June 30, 2014

	Sanitation District Zone 9 - Eden Ranch	Sanitation District Zone 11 - Higgins Village	Sanitation District Zone 12 - Valley Oak	Totals
Operating Revenues:				
Charges for services	\$ 31,716	\$ 80,065	\$ 10,000	\$ 6,740,058
Other revenues	1,272	3,272	282	237,955
Total Operating Revenues	<u>32,988</u>	<u>83,337</u>	<u>10,282</u>	<u>6,978,013</u>
Operating Expenses:				
Salaries and benefits	--	--	--	1,734,152
Services and supplies	2,203	8,942	685	1,660,873
Benefit and claim expenses	--	--	--	15,000
Other charges	--	--	--	113,293
Expense transfers	9,258	69,312	1,093	458,185
Depreciation and amortization	4,763	13,268	2,885	2,057,392
Total Operating Expenses	<u>16,224</u>	<u>91,522</u>	<u>4,663</u>	<u>6,038,895</u>
Operating Income (Loss)	<u>16,764</u>	<u>(8,185)</u>	<u>5,619</u>	<u>939,118</u>
Non-Operating Revenue (Expenses):				
Interest income	476	999	348	76,358
Interest expense	--	--	--	(523,991)
Total Non-Operating Revenue (Expenses)	<u>476</u>	<u>999</u>	<u>348</u>	<u>(447,633)</u>
Income (Loss) Before Transfers and Contributions	17,240	(7,186)	5,967	491,485
Transfers in	--	--	--	5,065,946
Transfers out	<u>(150)</u>	<u>(230)</u>	<u>(48)</u>	<u>(5,065,946)</u>
Change in Net Position	17,090	(7,416)	5,919	491,485
Net Position - Beginning of Year, restated	<u>184,445</u>	<u>482,597</u>	<u>112,122</u>	<u>31,348,026</u>
Net Position - End of Year	<u>\$ 201,535</u>	<u>\$ 475,181</u>	<u>\$ 118,041</u>	<u>\$ 31,839,511</u>

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, 2014

	Wastewater Management System	Sanitation District Zone 1 - Lake Wildwood	Sanitation District Zone 2 - Lake of the Pines	Sanitation District Zone 4 - North San Juan
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ 4,644	\$ 3,258,334	\$ 2,833,882	\$ 77,502
Payments to suppliers	1,452,633	(1,740,906)	(1,460,975)	(42,607)
Payments to employees	(1,754,632)	--	--	--
Net Cash Provided (Used) by Operating Activities	(297,355)	1,517,428	1,372,907	34,895
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Interfund loans made	(198,731)	(94,116)	(60,436)	(566)
Interfund loans repaid	140,876	64,966	115,448	162
Transfers in	31,907	3,754,862	1,260,523	--
Transfers out	--	(3,771,890)	(1,271,253)	(600)
Net Cash Provided (Used) for Noncapital Financing Activities	(25,948)	(46,178)	44,282	(1,004)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition of capital assets	(31,907)	(28,078)	--	--
Principal paid on capital debt	--	(608,749)	(872,741)	(2,000)
Interest paid on capital debt	--	(240,149)	(292,963)	(798)
Net Cash Provided (Used) by Capital and Related Financing Activities	(31,907)	(876,976)	(1,165,704)	(2,798)
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received (paid)	3,741	22,652	41,388	1,392
Net Cash Provided (Used) by Investing Activities	3,741	22,652	41,388	1,392
Net Increase (Decrease) in Cash and Cash Equivalents	(351,469)	616,926	292,873	32,485
Cash and Cash Equivalents, Beginning of Year	505,852	1,094,739	3,090,470	143,394
Cash and Cash Equivalents, End of Year	<u>\$ 154,383</u>	<u>\$ 1,711,665</u>	<u>\$ 3,383,343</u>	<u>\$ 175,879</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Operating income (loss)	\$ (307,245)	\$ 793,438	\$ 465,428	\$ 26,644
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation	42,232	822,683	915,876	9,102
Decrease (Increase) in:				
Accounts receivable	--	--	168	--
Increase (decrease) in:				
Accounts payable	(7,963)	(98,693)	(8,565)	(851)
Accrued salaries and benefits	(2,562)	--	--	--
Compensated absences payable	(33,914)	--	--	--
Deposits payable	(3,899)	--	--	--
Net OPEB obligation	15,996	--	--	--
Net Cash Provided (Used) by Operating Activities	<u>\$ (297,355)</u>	<u>\$ 1,517,428</u>	<u>\$ 1,372,907</u>	<u>\$ 34,895</u>

continued

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, 2014

	Sanitation District Zone 5 - Gold Creek	Sanitation District Zone 6 - Penn Valley	Sanitation District Zone 7 - Mountain Lake Estates	Sanitation District Zone 8 - Cascade Shores
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ 11,608	\$ 402,229	\$ 24,941	\$ 238,434
Payments to suppliers	(8,298)	(248,515)	(17,940)	(208,943)
Payments to employees	--	--	--	--
Net Cash Provided (Used) by Operating Activities	3,310	153,714	7,001	29,491
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Interfund loans received	(5,289)	(1,280)	(548)	(28,492)
Interfund loans repaid	--	12,297	389	783
Transfers in	--	--	--	18,654
Transfers out	(211)	(2,186)	(220)	(19,158)
Net Cash Provided (Used) for Noncapital Financing Activities	(5,500)	8,831	(379)	(28,213)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition of capital assets	--	(7,867)	--	--
Principal paid on capital debt	--	--	--	(23,199)
Interest paid on capital debt	--	--	--	(5,219)
Net Cash Provided (Used) by Capital and Related Financing Activities	--	(7,867)	--	(28,418)
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received (paid)	353	3,518	295	1,196
Net Cash Provided (Used) by Investing Activities	353	3,518	295	1,196
Net Increase (Decrease) in Cash and Cash Equivalents	(1,837)	158,196	6,917	(25,944)
Cash and Cash Equivalents, Beginning of Year	39,930	348,879	30,975	144,446
Cash and Cash Equivalents, End of Year	<u>\$ 38,093</u>	<u>\$ 507,075</u>	<u>\$ 37,892</u>	<u>\$ 118,502</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Operating income (loss)	\$ 2,015	\$ 98,938	\$ (9,370)	\$ (144,928)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation	1,295	56,120	15,598	173,570
Decrease (Increase) in:				
Accounts receivable	--	--	--	--
Increase (decrease) in:				
Accounts payable	--	(1,344)	773	849
Accrued salaries and benefits	--	--	--	--
Compensated absences payable	--	--	--	--
Deposits payable	--	--	--	--
Net OPEB obligation	--	--	--	--
Net Cash Provided (Used) by Operating Activities	<u>\$ 3,310</u>	<u>\$ 153,714</u>	<u>\$ 7,001</u>	<u>\$ 29,491</u>

continued

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, 2014

	Sanitation District Zone 9 - Eden Ranch	Sanitation District Zone 11 - Higgins Village	Sanitation District Zone 12 - Valley Oak	Totals
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ 32,988	\$ 83,337	\$ 10,282	\$ 6,978,181
Payments to suppliers	(11,580)	(77,835)	(1,778)	(2,366,744)
Payments to employees	--	--	--	(1,754,632)
Net Cash Provided (Used) by Operating Activities	21,408	5,502	8,504	2,856,805
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Interfund loans received	(1,306)	(605)	--	(391,369)
Interfund loans repaid	528	3,040	385	338,874
Transfers in	--	--	--	5,065,946
Transfers out	(150)	(230)	(48)	(5,065,946)
Net Cash Provided (Used) for Noncapital Financing Activities	(928)	2,205	337	(52,495)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition of capital assets	--	--	--	(67,852)
Principal paid on capital debt	--	--	--	(1,506,689)
Interest paid on capital debt	--	--	--	(539,129)
Net Cash Provided (Used) by Capital and Related Financing Activities	--	--	--	(2,113,670)
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received (paid)	476	999	348	76,358
Net Cash Provided (Used) by Investing Activities	476	999	348	76,358
Net Increase (Decrease) in Cash and Cash Equivalents	20,956	8,706	9,189	766,998
Cash and Cash Equivalents, Beginning of Year	47,789	107,427	35,332	5,589,233
Cash and Cash Equivalents, End of Year	<u>\$ 68,745</u>	<u>\$ 116,133</u>	<u>\$ 44,521</u>	<u>\$ 6,356,231</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Operating income (loss)	\$ 16,764	\$ (8,185)	\$ 5,619	\$ 939,118
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation	4,763	13,268	2,885	2,057,392
Decrease (Increase) in:				
Accounts receivable	--	--	--	168
Increase (decrease) in:				
Accounts payable	(119)	419	--	(115,494)
Accrued salaries and benefits	--	--	--	(2,562)
Compensated absences payable	--	--	--	(33,914)
Deposits payable	--	--	--	(3,899)
Net OPEB obligation	--	--	--	15,996
Net Cash Provided (Used) by Operating Activities	<u>\$ 21,408</u>	<u>\$ 5,502</u>	<u>\$ 8,504</u>	<u>\$ 2,856,805</u>

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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 #1
Nevada City, California

We have audited the accompanying financial statements of the proprietary fund of Nevada County Sanitation District No. 1 (District), a component unit of the County of Nevada, California, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated January 23, 2015.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

The Board of Directors and Grand Jury
Nevada County Sanitation District #1

Purpose of this Report

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

A handwritten signature in cursive script that reads "Gallina LLP".

Roseville, California
January 23, 2015