

---

**NEVADA COUNTY  
SANITATION DISTRICT NO. 1  
(A COMPONENT UNIT OF THE COUNTY OF  
NEVADA, CALIFORNIA)  
ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED JUNE 30, 2007**

---

**SMITH AND NEWELL  
CERTIFIED PUBLIC ACCOUNTANTS  
1425 BUTTE HOUSE ROAD, SUITE B  
YUBA CITY, CALIFORNIA 95993**

**NEVADA COUNTY**  
**SANITATION DISTRICT NO. 1**  
(A Component Unit of the County of Nevada, California)  
**ANNUAL FINANCIAL REPORT**  
**FOR THE YEAR ENDED JUNE 30, 2007**

**TABLE OF CONTENTS**

	Page
<b>FINANCIAL SECTION</b>	
<b>Independent Auditor's Report</b> .....	1
<b>Management's Discussion and Analysis (Required Supplementary Information - Unaudited)</b> .....	2-5
<b>Financial Statements:</b>	
<b>Fund Financial Statements:</b>	
Enterprise Funds:	
Statement of Net Assets .....	6
Statement of Revenues, Expenses, and Changes in Net Assets .....	7
Statement of Cash Flows .....	8
<b>Notes to Financial Statements:</b>	
1 Financial Reporting Entity and Summary of Significant Accounting Policies .....	9-13
2 Stewardship, Compliance, and Accountability .....	13
3 Detailed Notes .....	13-18
<b>Supplementary Information:</b>	
Enterprise Funds:	
Combining Statement of Net Assets .....	19
Combining Statement of Revenues, Expenses, and Changes in Net Assets .....	20
Combining Statement of Cash Flows .....	21
<b>Other Report</b>	
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 .....	22

---

# FINANCIAL SECTION

---

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

**INDEPENDENT AUDITOR'S REPORT**

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

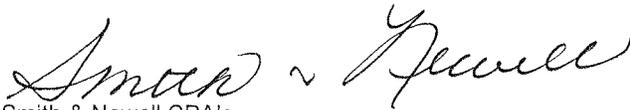
We have audited the accompanying financial statements of the proprietary fund of the Nevada County Sanitation District No. 1 (District), a component unit of the County of Nevada, California, as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements 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, 2007, 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 November 29, 2007, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis, as listed in the table of contents, is not a required part of the 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 supplementary information. However, we did not audit the information and express no opinion on it.



Smith & Newell CPA's  
Yuba City, California  
November 29, 2007

---

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**(Unaudited)**

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") of the Nevada County Sanitation District No. 1 (the "District") financial performance provides an introduction to the financial statements for the year ended June 30, 2007. 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

Nevada County Sanitation District No. 1 is regarded as a component unit of the County of Nevada. 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 financial statements of the District.

The District's financial statements are designed to provide readers with a broad overview of the District's financial status.

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

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

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

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

### FINANCIAL HIGHLIGHTS

On June 30, 2007, the assets of the District exceeded its liabilities by \$19,655,762 (net assets). Of this amount, \$8,940,463 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors and \$10,715,299 is invested in capital assets, net of related debt.

The District's long-term liabilities in the form of Special Assessment bonds; State loans; and bank loans increased by \$22,870,078 during the current fiscal year to \$23,853,222. This net increase was the difference between new borrowing for capital projects and the paying down of existing debt of scheduled principal payments. Other long-term obligations included interfund loans (advances from County of Nevada) of \$618,211.

## Financial Position

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

### Sanitation District's Net Assets June 30, 2007 and 2006

	2007	2006	Variance	Change
Current and other assets	15,834,149	2,207,762	617.2%	13,626,387
Capital Assets	32,589,389	14,678,380	122.0%	17,911,009
Total Assets	48,423,538	16,886,142	186.8%	31,537,396
Current liabilities	4,946,932	1,287,712	284.2%	3,659,220
Long-term liabilities	23,820,844	941,028	2431.4%	22,879,816
Total Liabilities	28,767,776	2,228,740	1190.8%	26,539,036
Net Assets:				
Invested in capital assets, net of related debt	10,715,299	13,981,118	-23.4%	-3,265,819
Restricted	-	-	-	-
Unrestricted	8,940,463	676,284	1222.0%	8,264,179
Total net assets	19,655,762	14,657,402	34.1%	4,998,360

As shown in the schedule above, at June 30, 2007, the District's total assets are \$48,423,538. The total assets held increased 187% from the June 30, 2006 balance of \$16,886,142. The total liabilities increased by \$26,539,036 or 1191% from the prior year. The District's net assets at June 30, 2007 increased from the prior year by 34.1% or \$4,998,360. The increase in total assets and total liabilities was due primarily to the securing of capital improvement loans in the amount of \$23,530,405 to fund two large plant upgrade projects.

Unrestricted net assets of the District at June 30, 2007 amounted to \$8,940,463. This was a 1222% increase from the prior year's amount of \$676,284. In relation, the investment in capital assets, net of related debt, decreased to \$10,715,299 from the prior year amount of \$13,981,118.

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

Changes in Net Assets  
For the Years Ended June 30, 2007 and 2006

	2007	2006	Variance	Change
<b>Revenues</b>				
Operating	6,551,985	3,509,905	86.7%	3,042,080
Non-operating	1,710,653	685,190	149.7%	1,025,463
<b>Total Revenues</b>	<b>8,262,638</b>	<b>4,195,095</b>	<b>97.0%</b>	<b>4,067,543</b>
<b>Expenses</b>				
Operating Expenses	3,931,774	4,007,487	-1.9%	(75,713)
Non Operating Expenses	632,671	33,993	1761.2%	598,678
<b>Total Expenses</b>	<b>4,564,445</b>	<b>4,041,480</b>	<b>12.9%</b>	<b>522,965</b>
<b>Income (loss)</b>	<b>3,698,193</b>	<b>153,615</b>	<b>2307.4%</b>	<b>3,544,578</b>
<b>Capital contributions</b>				
Transfers In	555,448	1,462,435	-62.0%	(906,987)
Change in net assets	309,786	0	100.0%	309,786
<b>Net Assets – restated beginning</b>	<b>4,563,427</b>	<b>1,616,050</b>	<b>182.4%</b>	<b>2,947,377</b>
<b>Net Assets - ending</b>	<b>15,092,335</b>	<b>13,041,352</b>	<b>15.7%</b>	<b>2,050,983</b>
	<b>19,655,762</b>	<b>14,657,402</b>	<b>34.1%</b>	<b>4,998,360</b>

*Revenues* - The District's revenues for Fiscal Year 2006-07 increased by 97% or \$4,067,543. The increase is primarily due to increases in special assessment charges related to the Lake Wildwood, Lake of the Pines and Cascade Shores' capital improvement projects. Non-operating revenues increased 149.7% or \$1,025,463. Insurance reimbursements related to the emergency repairs at the Cascade Shores plant contributed to this increase. The increasing market interest rates and increased cash on-hand balances from capital loan proceeds and special assessment fee revenue held for capital project expenses also contributed to the increase.

*Expenses* - The District's expenses for Fiscal Year 2006-07 increased by 12.9% or \$522,965. The non-operating expenses increased by 1762% from the prior fiscal year. This increase was primarily due to impairment of the Cascade Shores facility due to the May 2005 landslide and changes in regulations from the California Regional Water Quality Control Board.

### Capital Assets and Debt Administration

*Capital Assets* - The District's investment in capital assets as of June 30, 2007 amounted to \$10,715,299 (net of accumulated depreciation and debt). This investment in capital assets includes land, land improvements, infrastructure and equipment. The \$3,265,819 decrease is due to the financing of capital improvements being made to the facilities of the Lake Wildwood and Lake of the Pines zones and the impairment of the Cascade Shores facility. Construction in progress as of the close of the fiscal year for the capital improvement projects had reached \$22,151,108. Capital facilities valued at \$555,448 were donated to the District as part of the annexation of the Higgins Village and Valley Oaks zones.

*Additional information on the District's capital assets can be found in Note 3 on page 14 of this report.*

*Long-term debt* - At June 30, 2007, the District had total debt outstanding of \$23,273,340. Of this amount, \$70,707 is due within one year. The long-term debt consists of two voter-approved bonds, three loans from the State of California, and two bank loans. The two bonds, North San Juan Sewer Assessment and Penn Valley Sewer Assessment, are being repaid through a restricted revenue source. A special assessment charge is placed on the tax bills of the parcels within the specific zone that benefited from the borrowing. The two State Water Resources Control Board loans are being repaid through a dedicated revenue source from the specific zones that received the loan proceeds. The Cascade Shores Rehabilitation Loan is being repaid with operating revenues from the specific zone that received the loan proceeds. In addition, the District had interfund loans payable (advances from County of Nevada) of \$618,211 at June 30, 2007.

*Additional information on the District's long-term debt can be found in Note 3 on page 15-16 of this report.*

### **Economic Factors and Next Year's Budget**

The District operates and maintains sewage collections 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 1,247,000 gallons of wastewater each day. The Sanitation District provides sewer service to 5,640 accounts in western Nevada County with a population of 14,100. Higgins Village, recently annexed into the District, is the first solely commercial zone in the District.

Two major improvement projects will continue for the Lake Wildwood (LWW) and Lake of the Pines (LOP) facilities. The multi-year capital improvement projects have estimated costs of \$15,500,000 and \$23,250,000 respectively. Of these total amounts, approximately \$18,000,000 will be expended on the LWW and the LOP projects during the next phase in the 2007-08 fiscal year. Rate payers of each zone will bear the majority share of the cost through their annual sewer charges. The Cascade Shores facilities upgrade was delayed due to the plant undergoing emergency repairs and analysis due to a May 2005 landslide. The necessary repair work and slope analysis has been estimated at a cost of \$950,000. All but \$25,000 of the cost is to be reimbursed from insurance proceeds. The revised cost for the facilities upgrade and relocation is estimated at \$4,000,000. Additional insurance proceeds are being negotiated to cover the cost of relocation. Grants and other government sponsored funding are also being sought. The California Regional Water Quality Control Board has extended the expiration of the Cascade Shores permit to operate to December of 2008.

### **Request for Information**

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

---

**FINANCIAL STATEMENTS**  
Government Wide Financial Statements

**NEVADA COUNTY SANITATION DISTRICT NO. 1**  
(A Component Unit of the County of Nevada, California)  
**STATEMENT OF NET ASSETS**  
**ENTERPRISE FUNDS**  
**JUNE 30, 2007**

	<u>Sanitation District</u>
<b><u>ASSETS</u></b>	
Current Assets	
Cash and investments	\$ 12,431,614
Restricted cash and investments	765,404
Accounts receivable	73
Due from other governmental agencies	195,047
Due from other funds	2,243,881
Due from County of Nevada	<u>198,130</u>
<b>Total Current Assets</b>	<b>15,834,149</b>
Noncurrent Assets	
Capital assets (net)	<u>32,589,389</u>
<b>Total Noncurrent Assets</b>	<b>32,589,389</b>
<b>Total Assets</b>	<b><u>48,423,538</u></b>
<b><u>LIABILITIES</u></b>	
Current Liabilities	
Accounts payable	2,276,911
Accrued salaries and benefits	67,052
Accrued interest payable	105,383
Due to other funds	2,243,881
Due to County of Nevada	44,026
Compensated absences payable	138,972
Bonds payable	62,000
Loans payable	<u>8,707</u>
<b>Total Current Liabilities</b>	<b>4,946,932</b>
Noncurrent Liabilities	
Advances from County of Nevada	618,211
Bonds payable	172,000
Loans payable	<u>23,030,633</u>
<b>Total Noncurrent Liabilities</b>	<b>23,820,844</b>
<b>Total Liabilities</b>	<b><u>28,767,776</u></b>
<b><u>NET ASSETS</u></b>	
Invested in capital assets, net of related debt	10,715,299
Unrestricted	<u>8,940,463</u>
<b>Total Net Assets</b>	<b><u>\$ 19,655,762</u></b>

The notes to the 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, 2007**

	<u>Sanitation District</u>
<b><u>OPERATING REVENUES</u></b>	
Charges for services	\$ 6,551,985
<b>Total Operating Revenues</b>	<u>6,551,985</u>
<b><u>OPERATING EXPENSES</u></b>	
Salaries and benefits	1,814,012
Maintenance and repairs	284,804
Parts and supplies	27,280
Outside services	374,242
Administration and office	535,379
Utilities	314,430
Insurance	6,514
Depreciation	448,620
Rental and lease payments	116,062
Miscellaneous expense	10,431
<b>Total Operating Expenses</b>	<u>3,931,774</u>
<b>Operating Income (Loss)</b>	<u>2,620,211</u>
<b><u>NON-OPERATING REVENUES (EXPENSES)</u></b>	
Intergovernmental revenues	250,361
Interest income	533,034
Other revenues	927,258
Interest expense	(47,351)
Impairment loss	(541,675)
Gain (loss) on disposition of capital assets	(43,645)
<b>Total Non-Operating Revenues (Expenses)</b>	<u>1,077,982</u>
<b>Income (Loss) Before Contributions and Transfers</b>	3,698,193
Capital contribution	555,448
Transfers from County of Nevada	309,786
<b>Change in Net Assets</b>	<u>4,563,427</u>
<b>Total Net Assets - Beginning</b>	14,657,402
Prior period adjustment	434,933
<b>Total Net Assets - Beginning, Restated</b>	<u>15,092,335</u>
<b>Total Net Assets - Ending</b>	<u>\$ 19,655,762</u>

The notes to the 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, 2007**

	<u>Sanitation District</u>
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES</u></b>	
Receipts from customers	\$ 6,552,264
Payments to suppliers	(1,548,467)
Payments to employees	(1,784,866)
	<u>3,218,931</u>
<b>Net Cash Provided (Used) by Operating Activities</b>	
<b><u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</u></b>	
Grants and other receipts	1,074,208
Subsidies, loans, and transfers from (to) Nevada County	98,749
	<u>1,172,957</u>
<b>Net Cash Provided (Used) by Noncapital Financing Activities</b>	
<b><u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u></b>	
Acquisition of capital assets	(16,043,309)
Proceeds from issuance of debt	26,407,338
Principal paid on capital debt	(4,180,445)
Interest paid on capital debt	(21,461)
	<u>6,162,123</u>
<b>Net Cash Provided (Used) for Capital and Related Financing Activities</b>	
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES</u></b>	
Interest and dividends	533,033
	<u>533,033</u>
<b>Net Cash Provided (Used) by Investing Activities</b>	
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	
	11,087,044
<b>Balances - Beginning of the Year</b>	
	<u>2,109,974</u>
<b>Balances - End of the Year</b>	
	<u>\$ 13,197,018</u>
<b><u>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</u></b>	
Operating income (loss)	\$ 2,620,211
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	448,620
Decrease (increase) in:	
Accounts receivable	279
Increase (decrease) in:	
Accounts payable	120,675
Accrued salaries and benefits	13,944
Compensated absences payable	15,202
	<u>3,218,931</u>
<b>Net Cash Provided (Used) by Operating Activities</b>	
<b><u>NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES</u></b>	
Capital asset impairment	\$ (541,675)
Capital asset donated by developer	555,488

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

---

**FINANCIAL STATEMENTS**  
Notes to the Financial Statements

**NEVADA COUNTY SANITATION DISTRICT NO. 1**  
 (A Component Unit of the County of Nevada, California)  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2007**

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

**A. Reporting Entity**

The Nevada County Sanitation District No. 1, a component unit of the County of Nevada, California (District), is a public agency. The District was formed on August 2, 1965, by order of the Nevada County Board of Supervisors pursuant to provisions of the California Health and Safety Code. As of June 30, 2007, the Sanitation District is composed of ten zones, Wastewater Management System, and Dark Horse Project. Dark Horse Project has not yet been annexed into the District. The District is a public entity, separate and distinct from the County of Nevada (County), its primary government.

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

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

The District is considered to be a component unit of the County of Nevada under criteria set by Governmental Accounting Standards Board (GASB) Statement No. 14. These entities are legally separate from each other. The County elected officials have a continuing full or partial oversight responsibility over and accountability for fiscal matters of this entity. The criteria used to determine the scope of the reporting entity for financial reporting purpose are (1) exercise of oversight responsibility over such agencies by the governmental units elected officials, (2) selection of governing authority, (3) designation of management, (4) ability to significantly influence operations, and (5) accountability for fiscal matters.

Reporting component units on the County's financial statements can be blended or discretely presented. Blended component units, although legally separate entities, are in substance, part of the government's operations. Blended component units are an extension of the County and so data from these units are combined with data of the primary government. Discretely presented component units, on the other hand, are reported in a separate column in the government-wide financial statements to emphasize they are legally separate from the County.

The District is treated as a blended component unit of the County of Nevada.

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

**NEVADA COUNTY SANITATION DISTRICT NO. 1**  
(A Component Unit of the County of Nevada, California)  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2007**

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

**B. Basis of Presentation**

Fund financial statements of the reporting entity are organized into one fund, which is considered to be a separate accounting entity. The fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, net assets, revenues, and expenses. The fund of the District is organized into the proprietary category. An emphasis is placed on major funds within the proprietary category. A fund is considered major if it is the primary operating fund of the District or meets the following criteria:

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

The District reports the following major proprietary fund:

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

**C. Basis of Accounting and Measurement Focus**

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

For its proprietary fund, the District has elected under Governmental Accounting Standards Board (GASB) Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting", to apply all applicable GASB pronouncements as well as any applicable pronouncements of the Financial Accounting Standards Board, the Accounting Principles Board or any Accounting Research Bulletins issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. Governments also have the option of following subsequent private-sector guidance for their proprietary funds, subject to the same limitations. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements, statements and interpretations, constitutes accounting principles generally accepted in the United States of America (GAAP) for governmental units.

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

**D. Cash and Cash Equivalents**

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

**NEVADA COUNTY SANITATION DISTRICT NO. 1**  
**(A Component Unit of the County of Nevada, California)**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2007**

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

**E. Cash and Investments**

The District pools cash and investments with cash and investments of the County of Nevada. The County sponsors an investment pool that is managed by the County Treasurer. The Treasurer invests on behalf of most funds of the County and external participants in accordance with the California State Government Code and the County's investment policy. State statutes authorize the County to invest its cash surplus in obligations of the U.S. Treasury, agencies and instrumentalities, corporate bonds, medium term notes, bankers' acceptances, certificates of deposit, commercial paper, repurchase agreements, and the State of California Local Agency Investment Fund.

Investment transactions are recorded on the trade date. Investments are reported at fair value which is determined using selected bases annually. The fair value represents the amount the County could reasonably expect to receive for an investment in a current sale between a willing buyer and seller. Short term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Cash deposits are reported at carrying amount which reasonably estimates fair value. Managed funds not listed on an established market are reported at the estimated fair value as determined by the respective fund managers based on quoted sales prices of the underlying securities.

Participant's equity in the investment pool is determined by the dollar amount of participant deposits, adjusted for withdrawals and distributed investment income. Investment income is determined on an amortized cost basis. Amortized premiums and accreted discounts, accrued interest, and realized gains and losses, net of expenses, are apportioned to pool participants every quarter. This method differs from the fair value method used to value investments in these financial statements as unrealized gains or losses are not apportioned to pool participants. During the fiscal year ended June 30, 2007, the County Treasurer has not entered into any legally binding guarantees to support the value of participant equity in the investment pool.

Income from pooled investments is allocated to the individual funds or external participants based on the fund or participant's average daily cash balance at quarter end in relation to the total pool investments.

**F. Receivables**

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

**G. Due to/From Nevada County**

During the course of operations, numerous transactions occur between the District and other funds within the County of Nevada that may result in amounts owed between funds. These related to goods and services type transactions and short term loans are classified as "due to and from County of Nevada". Long-term interfund loans (non current portion) are reported as "advances from and to County of Nevada". See details on balances outstanding at June 30, 2007 in Note 3F.

**H. Capital Assets**

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

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized.

**NEVADA COUNTY SANITATION DISTRICT NO. 1**  
 (A Component Unit of the County of Nevada, California)  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2007**

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

**H. Capital Assets (Continued)**

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

<u>Depreciable Asset</u>	<u>Estimated Lives</u>
Equipment	3-25 years
Structures and Improvements	5-50 years
Infrastructure (except for the maintained road system)	20-75 years

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

**I. Long-Term Debt**

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

**J. Compensated Absences**

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

**K. Fund Balances/Net Assets**

The government-wide and business-type fund financial statements utilize a net asset presentation. Equity is classified as net assets and displayed in three components:

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

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

**L. Expenses**

In the proprietary fund financial statements, expenses are classified by function.

**NEVADA COUNTY SANITATION DISTRICT NO. 1**  
(A Component Unit of the County of Nevada, California)  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2007**

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

**M. Grant Revenues**

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

**N. Estimates**

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

**NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

**A. Restatement of Net Assets**

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

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

	<u>Sanitation District</u>
Net Assets, June 30, 2006, as previously reported	\$ 14,657,402
Adjustment associated with: Correction of capital assets	<u>434,933</u>
Total Adjustments	<u>434,933</u>
Net Assets, July 1, 2006, as restated	<u>\$ 15,092,335</u>

**NOTE 3: DETAILED NOTES**

**A. Cash and Investments**

The District follows the practice of pooling all cash and investments with the County of Nevada. Complete disclosure of County of Nevada investment policies can be found in the County audited financial statements.

Total District cash and investments are reported as follows:

Investments	
In County Treasurer's Pool	<u>\$ 13,197,018</u>
Total Cash and Investments	<u>\$ 13,197,018</u>

**Interest Rate Risk** - Interest rate risk is the risk of loss due to the fair value of an investment falling due to interest rates rising. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. All investments of the District are pooled with the County of Nevada investment pool. The District does not have a formal investment policy that further limits investment maturities as a means of managing its exposure to fair value losses.

**Credit Risk** - Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. State law and County investment pool policy limit investments in commercial paper to the rating of A1 by Standards & Poor's or P-1 by Moodys' Investors Service. The District does not have a formal investment policy that would further limit its investment choices.

**NEVADA COUNTY SANITATION DISTRICT NO. 1**  
(A Component Unit of the County of Nevada, California)  
**NOTES TO FINANCIAL STATEMENTS**  
FOR THE YEAR ENDED JUNE 30, 2007

**NOTE 3: DETAILED NOTES (CONTINUED)**

**A. Cash and Investments (Continued)**

Custodial Credit Risk - Custodial Credit Risk is the risk that, in the event of the failure of a depository financial institution, the District will not be able to recover its deposits or collateral securities that are in the possession of an outside party. The District does not have a formal investment policy that would limit the exposure to custodial credit risk.

Concentration of Credit Risk - When investments are concentrated in one issuer, this concentration presents a heightened risk of potential loss. The District has invested all cash in the County investment pool which contains a diversification of investments.

**B. Restricted Cash and Investments**

The County reflects cash held for payment of retention on the Lake Wildwood treatment plan project as restricted cash in the Sanitation District fund.

**C. Capital Assets**

Capital assets activity for the year ended June 30, 2007, was as follows:

	<u>Balance</u> <u>July 1, 2006</u>	<u>Additions</u>	<u>Retirements</u>	<u>Adjustments</u>	<u>Balance</u> <u>June 30, 2007</u>
Capital Assets, Not Being Depreciated:					
Land	\$ 1,304,187	\$ 4,800	\$ -	\$ 143,956	\$ 1,452,943
Construction in progress	4,549,034	17,607,559	-	( 5,485)	22,151,108
Total Capital Assets, Not Being Depreciated	<u>5,853,221</u>	<u>17,612,359</u>	<u>-</u>	<u>138,471</u>	<u>23,604,051</u>
Capital Assets, Being Depreciated:					
Infrastructure	16,388,500	802,332	-	-	17,190,832
Structures and Improvements	-	203,659	-	-	203,659
Equipment	931,696	1,814	( 12,284)	325,388	1,246,614
Total Capital Assets, Being Depreciated	<u>17,320,196</u>	<u>1,007,805</u>	<u>( 12,284)</u>	<u>325,388</u>	<u>18,641,105</u>
Less Accumulated Depreciation For:					
Infrastructure	( 7,885,012)	( 338,415)	-	( 541,676)	( 8,765,103)
Structures and Improvements	-	( 3,381)	-	-	( 3,381)
Equipment	( 610,025)	( 106,824)	12,284	( 182,718)	( 887,283)
Total Accumulated Depreciation	<u>( 8,495,037)</u>	<u>( 448,620)</u>	<u>12,284</u>	<u>( 724,394)</u>	<u>( 9,655,767)</u>
Total Capital Assets, Being Depreciated, Net	<u>8,825,159</u>	<u>559,185</u>	<u>-</u>	<u>( 399,006)</u>	<u>8,985,338</u>
Total Capital Assets, Net	<u>\$ 14,678,380</u>	<u>\$ 18,171,544</u>	<u>\$ -</u>	<u>( \$ 260,535)</u>	<u>\$ 32,589,389</u>

Total depreciation expense of \$448,620 was charged to the proprietary fund.

**Construction in Progress**

Construction in progress related primarily to work performed on Cascade Shores treatment facility upgrade, Lake Wildwood wastewater treatment plant upgrade and Lake of the Pines wastewater treatment plant upgrade.

**Impairment Loss**

During the current year, the District recorded an asset impairment loss of \$541,675 for the Cascade Shores Wastewater Treatment Plant. The impairment is due to a change in the State Water Quality Control standards required for permit renewal which resulted in a reduced useful life for the plant infrastructure. The State Water Quality Control Board has extended the use of the existing plant to December 2008.

**NEVADA COUNTY SANITATION DISTRICT NO. 1**  
(A Component Unit of the County of Nevada, California)  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2007**

**NOTE 3: DETAILED NOTES (CONTINUED)**

**D. Long-Term Liabilities**

<u>Type of Indebtedness</u>	<u>Balance July 1, 2006</u>	<u>Additions/ Adjustments</u>	<u>Retirements/ Adjustments</u>	<u>Balance June 30, 2007</u>	<u>Amounts Due Within One Year</u>
Special Assessment Bonds	\$ 306,000	\$ -	\$ 72,000	\$ 234,000	\$ 62,000
Loans	97,262	27,030,405	3,508,445	23,619,222	8,707
Less: Unamortized Discount	-	( 579,882)	-	( 579,882)	-
Loans, Net	97,262	26,450,523	3,508,445	23,039,340	8,707
Compensated Absences (Note 1J)	123,770	146,774	131,572	138,972	138,972
Total Long Term Liabilities	<u>\$ 527,032</u>	<u>\$ 26,597,297</u>	<u>\$ 3,712,017</u>	<u>\$ 23,412,312</u>	<u>\$ 209,679</u>

At June 30, 2007, long term liabilities consisted of the following:

**Special Assessment Bonds Payable**

USDA Rural Development Bond - North San Juan, issued in the amount of \$76,130 and payable in annual installments of \$1,000 to \$3,000 with an interest rate of 5.00% and maturity of September 2, 2018. The bond proceeds were used to construct improvements in the North San Juan Sewer Assessment District.	\$ 29,000
USDA Rural Development Bond - Penn Valley, issued in the amount of \$1,264,703 and payable in semi-annual installments of \$35,000 to \$75,000 and maturity of September 2, 2009. The bond proceeds were used for the construction of a wastewater collection, treatment, and disposal system in the Penn Valley Sewer Assessment District.	205,000
Total Special Assessment Bonds	<u>\$ 234,000</u>

**Loans Payable**

SWRCB Revolving Loan, issued in the amount of \$170,367 and payable in annual installments of \$8,445 to \$11,116 with an interest rate of 3.10% and maturity of January 22, 2016. Loan proceeds were used to finance modifications to the Cascade Shores Wastewater collection system with upgrade and modification to the existing lift station.	\$ 88,817
LaSalle Bank National Association loan, issued in the amount of \$8,000,000 and payable in one installment of \$8,000,000, with an interest rate of 4.48% and maturity of August 1, 2009. The loan proceeds are to be used for interim financing for the acquisition and construction of improvements to the Lake of The Pines Zone 2 wastewater system.	8,000,000
LaSalle Bank National Association loan, issued in the amount of \$8,500,000 and payable in one annual installment of \$8,500,000, with an interest rate of 4.48% and maturity of August 1, 2009. The loan proceeds are to be used for interim financing for the acquisition and construction of improvements to the Lake Wildwood Zone 1 wastewater system.	5,000,000
State Water Resources Control Board loan, issued in the amount of \$12,122,824 and payable in annual installments of \$492,213 to \$739,310, with an interest rate of 2.2% and maturity on November 23, 2027. Loan proceeds are to be used for the acquisition and construction of improvements to the Lake Wildwood Zone 1 wastewater system. Loan proceeds are being drawdown as the project is constructed. At June 30, 2007, \$7,051,183 of the loan had been drawdown and \$6,940,483 had been used for the acquisition of capital assets.	7,051,183
State Water Resources Control Board loan, issued in the amount of \$18,964,071 and payable in annual installments of \$948,204, with an interest rate of 0.0% and maturity on January 12, 2028. Loan proceeds are to be used for the acquisition and construction of improvements on the Lake of the Pines Zone 2 wastewater system. The loan includes imputed interest of \$3,160,742. Loan proceeds are being drawdown as the project is constructed. At June 30, 2007, \$3,479,222 of the loan had been drawdown, a loan discount of \$579,882 had been incurred. Of the balance \$1,610,791 had been used for the acquisition of capital assets.	3,479,222
Total Loans Payable	<u>\$ 23,619,222</u>

**NEVADA COUNTY SANITATION DISTRICT NO. 1**  
(A Component Unit of the County of Nevada, California)  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2007**

**NOTE 3: DETAILED NOTES (CONTINUED)**

**D. Long-Term Liabilities (Continued)**

At June 30, 2007, the annual debt service requirements were summarized as follows:

**Special Assessment Bonds**

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 62,000	\$ 13,795	\$ 75,795
2009	72,000	9,110	81,110
2010	77,000	3,863	80,863
2011	2,000	1,100	3,100
2012	2,000	1,000	3,000
2013-2017	13,000	3,275	16,275
2018-2022	6,000	300	6,300
Total	<u>\$ 234,000</u>	<u>\$ 32,443</u>	<u>\$ 266,443</u>

**Loans**

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 8,707	\$ 493,075	\$ 501,782
2009	407,860	803,425	1,211,285
2010	13,476,502	443,583	13,920,085
2011	483,241	145,644	628,885
2012	490,131	138,754	628,885
2013-2017	2,548,068	584,895	3,132,963
2018-2022	2,693,597	393,525	3,087,122
2023-2027	2,903,238	183,884	3,087,122
2028-2032	607,878	9,546	617,424
Total	<u>\$ 23,619,222</u>	<u>\$ 3,196,331</u>	<u>\$ 26,815,553</u>

**E. Short-Term Liabilities**

The following is a summary of changes in short-term liabilities for the year ended June 30, 2007:

	<u>Balance July 1, 2006</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2007</u>
Line of Credit	\$ 600,000	\$ -	\$ 600,000	\$ -
Total	<u>\$ 600,000</u>	<u>\$ -</u>	<u>\$ 600,000</u>	<u>\$ -</u>

**Description of Debt**

The District entered into a line of credit agreement with Bank of the West for the purpose of financing project costs for the Lake Wildwood Wastewater Treatment and Disposal Facility in October 2004. The line of credit caps at \$2,500,000, and is payable solely from Lake Wildwood Zone 1 enterprise revenues, and no other funds or revenues of the District, its other zones, or the County. The Agreement includes a covenant by the District to institute proceedings for the issuance and sale of revenue bonds, certificates of participation, other short-term notes or interim financing in an amount sufficient to pay the principal and interest on the loan. Advance requests must be for \$100,000 or more. Interest is payable semi-annually on each re-payment date and shall accrue on the unpaid principal balance at a rate of 2.90% per annum. Repayment dates for January 1 and July 1 of each year, through October 1, 2007, whereupon the term of the agreement ends and any unpaid principal and interest will be due at that time. For the year ended June 30, 2007, the District had no balance outstanding.

**NEVADA COUNTY SANITATION DISTRICT NO. 1**  
(A Component Unit of the County of Nevada, California)  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2007**

**NOTE 3: DETAILED NOTES (CONTINUED)**

**F. Interfund Transactions**

**Due To/From Other Funds**

Operating receivables and payables between funds 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, 2007:

	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
Wastewater Management System	\$ 386,623	\$ 456,800
Sanitation District Zone 1 - Lake Wildwood	238,245	165,587
Sanitation District Zone 2 - Lake of the Pines	1,424,052	1,379,671
Sanitation District Zone 4 - North San Juan	8,199	4,072
Sanitation District Zone 5 - Gold Creek	1,199	1,037
Sanitation District Zone 6 - Penn Valley	42,664	27,318
Sanitation District Zone 7 - Mountain Lake Estates	4,276	1,826
Sanitation District Zone 8 - Cascade Shores	127,225	202,069
Sanitation District Zone 9 - Eden Ranch	1,652	933
Sanitation District Zone 11 - Higgins Village	6,487	2,699
Sanitation District Zone 12 - Valley Oak	1,210	260
Dark Horse Project	2,049	1,609
Total	<u>\$ 2,243,881</u>	<u>\$ 2,243,881</u>

**G. Related Party Transactions**

The following is a summary of receivables from the County of Nevada as of June 30, 2007:

Due from County of Nevada	\$ 198,130
Total Due from County of Nevada	<u>\$ 198,130</u>

The following is a summary of payables to the County of Nevada at June 30, 2007:

Due to County of Nevada	\$ 44,026
Total Due to County of Nevada	<u>\$ 44,026</u>

The following is a summary of advances from the County of Nevada by zone as of June 30, 2007:

Sanitation District Zone 6 - Penn Valley	\$ 55,000
Sanitation District Zone 8 - Cascade Shores	559,211
Sanitation District Zone 9 - Eden Ranch	4,000
Total Advances from County of Nevada	<u>\$ 618,211</u>

**H. Employee Benefits**

**Post-Employment Benefits**

The District employees are considered to be County employees for retirement purposes. Complete information on the County retiree benefits can be found in the County of Nevada's audited financial statements.

**457 Plan**

The District employees are considered to be County employees for purposes of the 457 Plan. Information on the County 457 Plan can be found in the County of Nevada's audited financial statements.

**NEVADA COUNTY SANITATION DISTRICT NO. 1**  
(A Component Unit of the County of Nevada, California)  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2007**

**NOTE 3: DETAILED NOTES (CONTINUED)**

**I. Insurance**

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

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

---

**SUPPLEMENTARY INFORMATION**

**NEVADA COUNTY SANITATION DISTRICT NO. 1**  
(A Component Unit of the County of Nevada, California)  
**COMBINING STATEMENT OF NET ASSETS**  
**JUNE 30, 2007**

	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
<b>ASSETS</b>					
Current Assets					
Cash and investments	\$ 154,193	\$ 2,925,098	\$ 8,102,603	\$ 33,144	\$ 57,789
Restricted cash and investments	-	765,404	-	-	-
Accounts receivable	-	-	73	-	-
Due from other governmental agencies	-	-	-	-	-
Due from other funds	386,623	238,245	1,424,052	8,199	1,199
Due from County of Nevada	178,064	-	5	-	-
<b>Total Current Assets</b>	<b>718,880</b>	<b>3,928,747</b>	<b>9,526,733</b>	<b>41,343</b>	<b>58,988</b>
Noncurrent Assets					
Capital assets (net)	251,712	15,164,597	11,661,941	377,430	50,185
<b>Total Noncurrent Assets</b>	<b>251,712</b>	<b>15,164,597</b>	<b>11,661,941</b>	<b>377,430</b>	<b>50,185</b>
<b>Total Assets</b>	<b>970,592</b>	<b>19,093,344</b>	<b>21,188,674</b>	<b>418,773</b>	<b>109,173</b>
<b>LIABILITIES</b>					
Current Liabilities					
Accounts payable	20,644	636,240	1,405,873	2,937	2,200
Accrued salaries and benefits	67,052	-	-	-	-
Accrued interest payable	-	-	-	-	-
Due to other funds	456,800	165,587	1,379,671	4,072	1,037
Due to County of Nevada	10,536	15,994	11,074	359	33
Compensated absences payable	138,972	-	-	-	-
Bonds payable	-	-	-	2,000	-
Loans payable	-	-	-	-	-
<b>Total Current Liabilities</b>	<b>694,004</b>	<b>817,821</b>	<b>2,796,618</b>	<b>9,368</b>	<b>3,270</b>
Noncurrent Liabilities					
Advances from County of Nevada	-	-	-	-	-
Bonds payable	-	-	-	27,000	-
Loans payable	-	12,051,183	10,899,340	-	-
<b>Total Noncurrent Liabilities</b>	<b>-</b>	<b>12,051,183</b>	<b>10,899,340</b>	<b>27,000</b>	<b>-</b>
<b>Total Liabilities</b>	<b>694,004</b>	<b>12,869,004</b>	<b>13,695,958</b>	<b>36,368</b>	<b>3,270</b>
<b>NET ASSETS</b>					
Invested in capital assets, net of related debt	251,712	3,224,114	2,051,150	348,429	50,186
Unrestricted	24,876	3,000,226	5,441,566	33,976	55,717
<b>Total Net Assets</b>	<b>\$ 276,588</b>	<b>\$ 6,224,340</b>	<b>\$ 7,492,716</b>	<b>\$ 382,405</b>	<b>\$ 105,903</b>

Sanitation District Zone 6 - Penn Valley	Sanitation District Zone 7 - Mountain Lake Estates	Sanitation District Zone 8 - Cascade Shores	Sanitation District Zone 9 - Eden Ranch	Sanitation District Zone 11 - Higgins Village	Sanitation District Zone 12 - Valley Oak	Dark Horse Project	Totals
\$ 174,584	\$ 17,235	\$ 908,284	\$ 2,659	\$ 28,867	\$ 10,355	\$ 16,803	\$ 12,431,614
-	-	-	-	-	-	-	765,404
-	-	-	-	-	-	-	73
-	-	195,047	-	-	-	-	195,047
42,664	4,276	127,225	1,652	6,487	1,210	2,049	2,243,881
-	-	20,061	-	-	-	-	198,130
<u>217,248</u>	<u>21,511</u>	<u>1,250,617</u>	<u>4,311</u>	<u>35,354</u>	<u>11,565</u>	<u>18,852</u>	<u>15,834,149</u>
<u>1,762,054</u>	<u>467,845</u>	<u>2,144,219</u>	<u>163,862</u>	<u>451,816</u>	<u>93,728</u>	<u>-</u>	<u>32,589,389</u>
<u>1,762,054</u>	<u>467,845</u>	<u>2,144,219</u>	<u>163,862</u>	<u>451,816</u>	<u>93,728</u>	<u>-</u>	<u>32,589,389</u>
<u>1,979,302</u>	<u>489,356</u>	<u>3,394,836</u>	<u>168,173</u>	<u>487,170</u>	<u>105,293</u>	<u>18,852</u>	<u>48,423,538</u>
6,748	-	198,464	66	3,739	-	-	2,276,911
-	-	-	-	-	-	-	67,052
-	-	104,953	430	-	-	-	105,383
27,318	1,826	202,069	933	2,699	260	1,609	2,243,881
2,011	206	3,337	69	321	64	22	44,026
-	-	-	-	-	-	-	138,972
60,000	-	-	-	-	-	-	62,000
-	-	8,707	-	-	-	-	8,707
<u>96,077</u>	<u>2,032</u>	<u>517,530</u>	<u>1,498</u>	<u>6,759</u>	<u>324</u>	<u>1,631</u>	<u>4,946,932</u>
55,000	-	559,211	4,000	-	-	-	618,211
145,000	-	-	-	-	-	-	172,000
-	-	80,110	-	-	-	-	23,030,633
<u>200,000</u>	<u>-</u>	<u>639,321</u>	<u>4,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>23,820,844</u>
<u>296,077</u>	<u>2,032</u>	<u>1,156,851</u>	<u>5,498</u>	<u>6,759</u>	<u>324</u>	<u>1,631</u>	<u>28,767,776</u>
1,557,054	467,845	2,055,403	163,862	451,816	93,728	-	10,715,299
126,171	19,479	182,582	(1,187)	28,595	11,241	17,221	8,940,463
<u>\$ 1,683,225</u>	<u>\$ 487,324</u>	<u>\$ 2,237,985</u>	<u>\$ 162,675</u>	<u>\$ 480,411</u>	<u>\$ 104,969</u>	<u>\$ 17,221</u>	<u>\$ 19,655,762</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, 2007**

	<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>
<b><u>OPERATING REVENUES</u></b>					
Charges for services	\$ 508	\$ 2,879,718	\$ 2,849,555	\$ 60,362	\$ 6,380
<b>Total Operating Revenues</b>	<b>508</b>	<b>2,879,718</b>	<b>2,849,555</b>	<b>60,362</b>	<b>6,380</b>
<b><u>OPERATING EXPENSES</u></b>					
Salaries and benefits	1,814,012	-	-	-	-
Maintenance and repairs	93,046	108,699	29,433	10,090	2,200
Parts and supplies	13,897	12,315	930	-	-
Outside services	52,535	42,397	31,153	619	124
Administration and office	(2,083,268)	1,344,436	750,296	42,428	6,058
Utilities	4,876	161,244	114,413	2,958	-
Insurance	6,514	-	-	-	-
Depreciation	82,908	148,889	90,446	9,320	3,058
Rental and lease payments	113,336	2,059	7	660	-
Miscellaneous expense	2,851	29	-	561	-
<b>Total Operating Expenses</b>	<b>100,707</b>	<b>1,820,068</b>	<b>1,016,678</b>	<b>66,636</b>	<b>11,440</b>
<b>Operating Income (Loss)</b>	<b>(100,199)</b>	<b>1,059,650</b>	<b>1,832,877</b>	<b>(6,274)</b>	<b>(5,060)</b>
<b><u>NON-OPERATING REVENUES (EXPENSES)</u></b>					
Intergovernmental revenues	-	-	-	-	-
Interest income	3,637	201,269	293,647	1,241	2,599
Other revenues	505	1,561	6,385	51	7
Interest expense	-	-	-	(1,500)	-
Impairment loss	-	-	-	-	-
Gain (loss) on disposition of capital assets	(460)	-	-	-	-
<b>Total Non-Operating Revenues (Expenses)</b>	<b>3,682</b>	<b>202,830</b>	<b>300,032</b>	<b>(208)</b>	<b>2,606</b>
<b>Income (Loss) Before Contributions and Transfers</b>	<b>(96,517)</b>	<b>1,262,480</b>	<b>2,132,909</b>	<b>(6,482)</b>	<b>(2,454)</b>
Capital contribution	-	-	-	-	-
Transfers from County of Nevada	309,786	-	-	-	-
Transfers in	-	-	-	-	-
Transfers out	-	-	-	-	-
<b>Change in Net Assets</b>	<b>213,269</b>	<b>1,262,480</b>	<b>2,132,909</b>	<b>(6,482)</b>	<b>(2,454)</b>
<b>Total Net Assets - Beginning</b>	<b>63,319</b>	<b>4,961,860</b>	<b>5,359,807</b>	<b>388,887</b>	<b>108,357</b>
Prior period adjustment	-	-	-	-	-
<b>Total Net Assets - Beginning, Restated</b>	<b>63,319</b>	<b>4,961,860</b>	<b>5,359,807</b>	<b>388,887</b>	<b>108,357</b>
<b>Total Net Assets - Ending</b>	<b>\$ 276,588</b>	<b>\$ 6,224,340</b>	<b>\$ 7,492,716</b>	<b>\$ 382,405</b>	<b>\$ 105,903</b>

Sanitation District Zone 6 - Penn Valley	Sanitation District Zone 7 - Mountain Lake Estates	Sanitation District Zone 8 - Cascade Shores	Sanitation District Zone 9 - Eden Ranch	Sanitation District Zone 11 - Higgins Village	Sanitation District Zone 12 - Valley Oak	Dark Horse Project	Totals
\$ 443,758	\$ 18,882	\$ 184,905	\$ 14,060	\$ 80,065	\$ 11,792	\$ 2,000	\$ 6,551,985
443,758	18,882	184,905	14,060	80,065	11,792	2,000	6,551,985
-	-	-	-	-	-	-	1,814,012
4,729	4,164	26,688	2,319	3,428	8	-	284,804
87	-	51	-	-	-	-	27,280
24,796	670	105,968	180	115,731	69	-	374,242
206,414	21,830	187,569	9,542	37,098	2,806	10,170	535,379
14,709	-	15,591	639	-	-	-	314,430
-	-	-	-	-	-	-	6,514
56,120	15,599	27,613	4,763	7,740	2,164	-	448,620
-	-	-	-	-	-	-	116,062
6,990	-	-	-	-	-	-	10,431
313,845	42,263	363,480	17,443	163,997	5,047	10,170	3,931,774
129,913	(23,381)	(178,575)	(3,383)	(83,932)	6,745	(8,170)	2,620,211
-	-	250,361	-	-	-	-	250,361
3,167	971	21,384	69	4,065	324	661	533,034
30,588	26	888,029	10	40	7	49	927,258
(16,945)	-	(28,734)	(172)	-	-	-	(47,351)
-	-	(541,675)	-	-	-	-	(541,675)
-	-	(43,185)	-	-	-	-	(43,645)
16,810	997	546,180	(93)	4,105	331	710	1,077,982
146,723	(22,384)	367,605	(3,476)	(79,827)	7,076	(7,460)	3,698,193
-	-	-	-	459,556	95,892	-	555,448
-	-	-	-	-	-	-	309,786
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
146,723	(22,384)	367,605	(3,476)	379,729	102,968	(7,460)	4,563,427
1,536,502	509,708	1,435,447	166,151	100,682	2,001	24,681	14,657,402
-	-	434,933	-	-	-	-	434,933
1,536,502	509,708	1,870,380	166,151	100,682	2,001	24,681	15,092,335
\$ 1,683,225	\$ 487,324	\$ 2,237,985	\$ 162,675	\$ 480,411	\$ 104,969	\$ 17,221	\$ 19,655,762

**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, 2007**

	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
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES</u></b>					
Receipts from customers	\$ 832	\$ 2,879,718	\$ 2,849,482	\$ 60,390	\$ 6,380
Payments to suppliers	1,804,909	(1,647,444)	(940,264)	(54,408)	(6,182)
Payments to employees	(1,784,866)	-	-	-	-
<b>Net Cash Provided (Used) by Operating Activities</b>	<b>20,875</b>	<b>1,232,274</b>	<b>1,909,218</b>	<b>5,982</b>	<b>198</b>
<b><u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</u></b>					
Grants and other receipts	45	1,561	6,385	51	7
Subsidies, loans, and transfers from (to) Nevada County	143,574	(16,194)	(16,867)	(2,508)	98
<b>Net Cash Provided (Used) by Noncapital Financing Activities</b>	<b>143,619</b>	<b>(14,633)</b>	<b>(10,482)</b>	<b>(2,457)</b>	<b>105</b>
<b><u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u></b>					
Acquisition of capital assets	(134,796)	(9,768,654)	(5,912,283)	-	-
Proceeds from issuance of debt	-	15,551,183	10,899,340	-	-
Principal paid on capital debt	-	(4,100,000)	-	(2,000)	-
Interest paid on capital debt	-	-	-	(1,500)	-
<b>Net Cash Provided (Used) for Capital and Related Financing Activities</b>	<b>(134,796)</b>	<b>1,682,529</b>	<b>4,987,057</b>	<b>(3,500)</b>	<b>-</b>
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES</u></b>					
Interest and dividends	3,635	201,270	293,647	1,239	2,600
<b>Net Cash Provided (Used) by Investing Activities</b>	<b>3,635</b>	<b>201,270</b>	<b>293,647</b>	<b>1,239</b>	<b>2,600</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>33,333</b>	<b>3,101,440</b>	<b>7,179,440</b>	<b>1,264</b>	<b>2,903</b>
<b>Balances - Beginning of the Year</b>	<b>120,860</b>	<b>589,062</b>	<b>923,163</b>	<b>31,880</b>	<b>54,886</b>
<b>Balances - End of the Year</b>	<b>\$ 154,193</b>	<b>\$ 3,690,502</b>	<b>\$ 8,102,603</b>	<b>\$ 33,144</b>	<b>\$ 57,789</b>
<b><u>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</u></b>					
Operating income (loss)	\$ (100,199)	\$ 1,059,650	\$ 1,832,877	\$ (6,274)	\$ (5,060)
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation	82,908	148,889	90,446	9,320	3,058
Decrease (increase) in:					
Accounts receivable	324	-	(73)	28	-
Increase (decrease) in:					
Accounts payable	8,696	23,735	(14,032)	2,908	2,200
Accrued salaries and benefits	13,944	-	-	-	-
Compensated absences payable	15,202	-	-	-	-
<b>Net Cash Provided (Used) by Operating Activities</b>	<b>\$ 20,875</b>	<b>\$ 1,232,274</b>	<b>\$ 1,909,218</b>	<b>\$ 5,982</b>	<b>\$ 198</b>
<b><u>NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES</u></b>					
Capital asset impairment	\$ -	\$ -	\$ -	\$ -	\$ -
Capital asset donated by developer	-	-	-	-	-

Sanitation District Zone 6 - Penn Valley	Sanitation District Zone 7 - Mountain Lake Estates	Sanitation District Zone 8 - Cascade Shores	Sanitation District Zone 9 - Eden Ranch	Sanitation District Zone 11 - Higgins Village	Sanitation District Zone 12 - Valley Oak	Dark Horse Project	Totals
\$ 443,758 (255,801)	\$ 18,882 (26,664)	\$ 184,905 (244,348)	\$ 14,060 (12,694)	\$ 80,065 (152,518)	\$ 11,792 (2,883)	\$ 2,000 (10,170)	\$ 6,552,264 (1,548,467) (1,784,866)
187,957	(7,782)	(59,443)	1,366	(72,453)	8,909	(8,170)	3,218,931
30,588 (49,554)	26 (1,229)	1,035,439 32,444	10 (89)	40 380	7 (886)	49 9,580	1,074,208 98,749
(18,966)	(1,203)	1,067,883	(79)	420	(879)	9,629	1,172,957
-	-	(227,576)	-	-	-	-	(16,043,309)
-	-	(43,185)	-	-	-	-	26,407,338
(70,000)	-	(8,445)	-	-	-	-	(4,180,445)
(16,945)	-	(3,015)	(1)	-	-	-	(21,461)
(86,945)	-	(282,221)	(1)	-	-	-	6,162,123
3,168	971	21,385	69	4,064	324	661	533,033
3,168	971	21,385	69	4,064	324	661	533,033
85,214	(8,014)	747,604	1,355	(67,969)	8,354	2,120	11,087,044
89,370	25,249	160,680	1,304	96,836	2,001	14,683	2,109,974
<u>\$ 174,584</u>	<u>\$ 17,235</u>	<u>\$ 908,284</u>	<u>\$ 2,659</u>	<u>\$ 28,867</u>	<u>\$ 10,355</u>	<u>\$ 16,803</u>	<u>\$ 13,197,018</u>
\$ 129,913	\$ (23,381)	\$ (178,575)	\$ (3,383)	\$ (83,932)	\$ 6,745	\$ (8,170)	\$ 2,620,211
56,120	15,599	27,613	4,763	7,740	2,164	-	448,620
-	-	-	-	-	-	-	279
1,924	-	91,519	(14)	3,739	-	-	120,675
-	-	-	-	-	-	-	13,944
-	-	-	-	-	-	-	15,202
<u>\$ 187,957</u>	<u>\$ (7,782)</u>	<u>\$ (59,443)</u>	<u>\$ 1,366</u>	<u>\$ (72,453)</u>	<u>\$ 8,909</u>	<u>\$ (8,170)</u>	<u>\$ 3,218,931</u>
\$ -	\$ -	\$ (541,675)	\$ -	\$ -	\$ -	\$ -	\$ (541,675)
-	-	-	-	459,596	95,892	-	555,488

---

**OTHER REPORT**

**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**

To the Governing Board  
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) and a component unit of the County of Nevada, California, as of and for the year ended June 30, 2007, which collectively comprise the District's financial statements and have issued our report thereon dated November 29, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

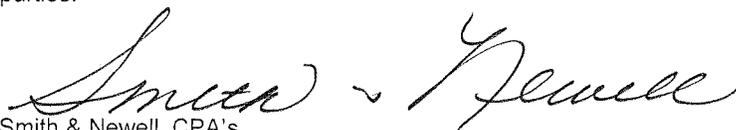
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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.

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, others within the organization, Governing Board, and the State Controller's Office and is not intended and should not be used by anyone other than these specified parties.



Smith & Newell, CPA's  
Yuba City, California  
November 29, 2007