

**NEVADA COUNTY
SANITATION DISTRICT NO. 1
(A COMPONENT UNIT OF THE
COUNTY OF NEVADA, CALIFORNIA)**



**FINANCIAL STATEMENTS
TOGETHER WITH
INDEPENDENT AUDITORS' REPORT
FOR THE YEAR ENDED
JUNE 30, 2008**

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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, 2008

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FINANCIAL SECTION

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

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INDEPENDENT AUDITOR'S REPORT

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

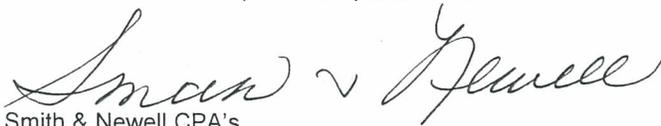
We have audited the accompanying financial statements of the proprietary fund of the Nevada County Sanitation District No. 1 (District), a component unit of the County of Nevada, California, as of and for the year ended June 30, 2008, which collectively comprise the District's financial statements as 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, 2008, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated January 16, 2009, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and important for 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
January 16, 2009

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MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") of the County of Nevada Sanitation District No. 1 (the "District") financial performance provides an introduction to the financial statements for the year ended June 30, 2008. The information contained in this MD&A should be considered in conjunction with the information contained in the District's financial statements.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

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

FINANCIAL HIGHLIGHTS

On June 30, 2008, the assets of the District exceeded its liabilities by \$25,132,947 (net assets). Of this amount, \$6,929,735 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors and \$18,203,212 is invested in capital assets, net of related debt.

The District's liabilities in the form of Special Assessment bonds; State and County loans; and bank loans increased by \$5,313,023 during the current fiscal year to \$34,607,712. This net increase was the difference between new borrowing for capital projects and the paying down of existing debt of scheduled principal payments.

Financial Position

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

Sanitation District's Net Assets June 30, 2008 and 2007

	2008	2007	Variance	Change
Current and other assets	9,506,592	15,834,149	-40.0%	-6,327,557
Capital Assets	49,707,154	32,589,389	52.5%	17,117,765
Total Assets	59,213,746	48,423,538	22.3%	10,790,208
Current liabilities	4,088,488	4,946,932	-17.4%	-858,444
Long-term liabilities	29,992,311	23,820,844	25.9%	6,171,467
Total Liabilities	34,080,799	28,767,776	18.5%	5,313,023
Net Assets:				
Invested in capital assets, net of related debt	18,203,212	10,715,299	69.9%	7,487,913
Restricted				
Unrestricted	6,929,735	8,940,463	-22.5%	(2,010,728)
Total net assets	25,132,947	19,655,762	27.9%	5,477,185

As shown in the schedule above, at June 30, 2008, the District's total assets are \$59,213,746. The total assets held increased 22.3% from the June 30, 2007 balance of \$48,423,538. The District's net assets at June 30, 2008 increased from the prior year by 27.9% or \$5,477,185. The increase in total assets and total liabilities was due primarily to the drawdown of capital improvement loans in the amount of \$10,816,490 to fund two large plant upgrade projects.

Unrestricted net assets of the District at June 30, 2008 amounted to \$6,929,735. This was a 22.5% decrease from the prior year's amount of \$8,940,463. In relation, the investment in capital assets, net of related debt, increased to \$18,203,212 from the prior year amount of \$10,715,299.

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, 2008 and 2007**

	2008	2007	Variance	Change
Revenues				
Operating	5,969,966	6,551,985	-8.9%	(582,019)
Non-operating	2,084,525	1,710,653	21.9%	373,872
Total Revenues	8,054,491	8,262,638	-2.5%	(208,147)
Expenses				
Operating Expenses	4,558,466	3,931,774	15.9%	626,692
Non Operating Expenses	622,692	632,671	-1.6%	(9,979)
Total Expenses	5,181,158	4,564,445	13.5%	616,713
Income (loss)	2,873,333	3,698,193	-22.3%	(824,860)
Capital contributions				
Capital contributions	0	555,448	-100.0%	(555,448)
Transfers In	614,211	309,786	100.0%	304,425
Change in net assets	3,487,544	4,563,427	-23.6%	(1,075,883)
Net Assets – restated beginning	21,645,403	15,092,335	43.4%	6,553,068
Net Assets - ending	25,132,947	19,655,762	27.9%	5,477,185

Revenues - The District's revenues for Fiscal Year 2007-08 decreased by 2.5% or \$208,147. The decrease is due to the one-time prepayment of debt service and purchases of new connections to the Lake of the Pines facility in the prior fiscal year by schools in the zone. Non-operating revenues increased 21.9% or \$373,872. An insurance settlement of \$1,417,736 related to the emergency repairs at the Cascade Shores plant contributed to this increase.

Expenses - The District's expenses for Fiscal Year 2007-08 increased by 13.5% or \$616,713. The operating expenses increased by 15.9% from the prior fiscal year. This increase was primarily due to negotiated increases in salary and benefits and fiscal year 2007-08 was the first year the County implemented its funding plan for its Other Post Employment Benefits (OPEB) obligations.

Capital Assets and Debt Administration

Capital Assets - The District's investment in capital assets as of June 30, 2008 amounted to \$18,203,212 (net of accumulated depreciation and debt). This investment in capital assets includes land, land improvements, infrastructure and equipment. The \$7,487,913 increase is due to the capital improvements being made to the treatment facilities of the Lake Wildwood, Lake of the Pines and Cascade Shores zones and an adjustment to the historical cost of the Lake Wildwood and Lake of the Pines facilities. Construction in progress as of the close of the fiscal year for the capital improvement projects had reached \$37,713,188. Construction in progress costs of \$584,122 for the Cascade Shores treatment facility upgrade were impaired due to design changes necessary as a result of the 2005 landslide.

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

Long-term debt - At June 30, 2008, the District had total debt outstanding of \$31,331,941. Of this amount, \$1,443,630 is due within one year. The long-term debt consists of two voter-approved bonds, three loans from the State of California, and two bank loans. The two bonds, North San Juan Sewer Assessment and Penn Valley Sewer Assessment, are being repaid through a restricted revenue source. A special assessment charge is placed on the tax bills of the parcels within the specific zone that benefited from the borrowing. The two State Water Resources Control Board loans are being repaid through a dedicated revenue source from the specific zones that received the loan proceeds. The Cascade Shores Rehabilitation Loan is being repaid with operating revenues from the specific zone that received the loan proceeds.

Additional information on the District's long-term debt can be found in Note 3 on page 16-18 of this report.

Economic Factors and Next Year's Budget

The District operates and maintains sewage collection systems and treatment facilities for Nevada County Sanitation District No. 1. There are eleven (11) zones within the District with facilities that collect and treat 1,247,000 gallons of wastewater each day. The Sanitation District provides sewer service to 5,632 accounts in western Nevada County with a population of 14,100. The Darkhorse zone has been annexed into the District, but their infrastructure assets have not been accepted into the District.

Two major treatment facility upgrade projects are nearing completion. At the end of the fiscal year, the construction costs totaled \$14,970,789 for the Lake Wildwood facility upgrade and \$22,289,366 for the Lake of the Pines facility upgrade. Rate payers of each zone will bear the majority share of the cost through their annual sewer charges. The Cascade Shores facility upgrade was delayed due to a May 2005 landslide. Design costs of \$584,122 were impaired due to the need to move the plant to a new location. As a result, the County abated \$559,211 in outstanding advances to the zone. The revised cost for the facilities upgrade and relocation is estimated at \$4,000,000. The zone received a final insurance settlement in the amount of \$1,417,736 that will be used toward the cost of the new facility. Grants and other government sponsored funding are also being sought. The zone has received a revised Cease and Desist Order that requires the construction to be completed by July 1, 2009. Planning to upgrade the Penn Valley treatment facility to conform to the new State Water Quality Control Board requirements began in fiscal year 2007-08 and will continue in fiscal year 2008-09.

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
Fund Financial Statements

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NEVADA COUNTY SANITATION DISTRICT NO. 1
(A Component Unit of the County of Nevada, California)
STATEMENT OF NET ASSETS
ENTERPRISE FUNDS
JUNE 30, 2008

	Sanitation District
<u>ASSETS</u>	
Current Assets	
Cash and investments	\$ 7,953,496
Restricted cash and investments	25,000
Accounts receivable (net of allowance)	8,324
Due from other funds	1,483,162
Due from County of Nevada	36,610
	9,506,592
Total Current Assets	9,506,592
Noncurrent Assets	
Capital assets:	
Non-depreciable	39,166,131
Depreciable (net)	10,541,023
	49,707,154
Total Noncurrent Assets	49,707,154
Total Assets	59,213,746
<u>LIABILITIES</u>	
Current Liabilities	
Accounts payable	591,298
Accrued salaries and benefits	76,783
Accrued interest payable	211,993
Due to other funds	1,483,162
Due to County of Nevada	42,787
Compensated absences payable	166,835
Bonds payable	72,000
Loans payable	1,443,630
	4,088,488
Total Current Liabilities	4,088,488
Noncurrent Liabilities	
Advances from County of Nevada	4,000
Bonds payable	100,000
Loans payable	29,888,311
	29,992,311
Total Noncurrent Liabilities	29,992,311
Total Liabilities	34,080,799
<u>NET ASSETS</u>	
Invested in capital assets, net of related debt	18,203,212
Unrestricted	6,929,735
	25,132,947
Total Net Assets	\$ 25,132,947

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, 2008

	Sanitation District
<u>OPERATING REVENUES</u>	
Charges for services	\$ 5,969,966
Total Operating Revenues	5,969,966
<u>OPERATING EXPENSES</u>	
Salaries and benefits	2,074,616
Services and supplies	1,366,157
Other charges	304,789
Expenditure transfers	155,137
Depreciation	657,767
Total Operating Expenses	4,558,466
Operating Income (Loss)	1,411,500
<u>NONOPERATING REVENUE (EXPENSES)</u>	
Interest income	608,435
Other revenues	1,471,315
Interest expense	(38,570)
Impairment loss	(584,122)
Gain (loss) on sale of capital assets	4,775
Total Nonoperating Revenues (Expenses)	1,461,833
Income (Loss) before Transfers	2,873,333
Transfers from County of Nevada	614,211
Transfers in	90,705
Transfers out	(90,705)
Change in Net Assets	3,487,544
Total Net Assets - Beginning of Year	19,655,762
Prior period adjustment	1,989,641
Total Net Assets - Beginning of Year, Restated	21,645,403
Total Net Assets - End of Year	\$ 25,132,947

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, 2008

	<u>Sanitation District</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>	
Receipts from customers	\$ 5,961,715
Payments to suppliers	(3,055,420)
Payments to employees	(2,037,022)
Net Cash Provided (Used) by Operating Activities	869,273
<u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</u>	
Grants and other receipts	1,671,137
Transfers from other funds	40,873,221
Transfers to other funds	(40,548,708)
Interfund loans received	518,549
Interfund loans made	(384,620)
Interfund loans repaid	(1,280,508)
Interfund loan repayments received	1,306,859
Net Cash Provided (used) by Noncapital Financing Activities	2,155,930
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>	
Acquisition of capital assets	(16,422,278)
Proceeds from debt	17,801,308
Principal paid on capital debt	(9,570,707)
Interest paid on capital debt	(660,485)
Net Cash Provided (Used) for Capital and Related Financing Activities	(8,852,162)
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>	
Interest and dividends	608,437
Net Cash Provided (Used) by Investing Activities	608,437
Net Increase (Decrease) in Cash and Cash Equivalents	(5,218,522)
Balances - Beginning of Year	13,197,018
Balances - End of Year	\$ 7,978,496

Continued (Page 1 of 2)

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, 2008

	Sanitation District
<u>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</u>	
Operating income (loss)	\$ 1,411,500
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	657,767
Decrease (Increase) in:	
Accounts receivable	(8,251)
Increase (Decrease) in:	
Accounts payable	(1,685,613)
Accrued salaries and benefits	9,731
Compensated absences	27,863
	<u>412,997</u>
Net Cash Provided (Used) by Operating Activities	\$ 412,997
 <u>NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:</u>	
Capital asset impairment	(584,122)
Debt abatement	614,211

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

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FINANCIAL STATEMENTS
Notes to Financial Statements

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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, 2008

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, 2008, the Sanitation District is composed of eleven zones and Wastewater Management System.

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

<p>Wastewater Management System</p> <p>Sanitation District Zone 1 - Lake Wildwood</p> <ul style="list-style-type: none"> • O&M • Debt Assessment • Capital Improvement • LaSalle Project <p>Sanitation District Zone 2 - Lake of the Pines</p> <ul style="list-style-type: none"> • O&M • Debt Assessment • Capital Improvement • LaSalle Project <p>Sanitation District Zone 4 - North San Juan</p> <ul style="list-style-type: none"> • O&M • Sewer Assessment <p>Sanitation District Zone 5 - Gold Creek</p> <ul style="list-style-type: none"> • O&M <p>Sanitation District Zone 6 - Penn Valley</p> <ul style="list-style-type: none"> • O&M • Sewer Assessment • Sewer Special Reserve 	<p>Sanitation District Zone 7 - Mountain Lake Estates</p> <ul style="list-style-type: none"> • O&M <p>Sanitation District Zone 8 - Cascade Shores</p> <ul style="list-style-type: none"> • O&M • Capital Improvement • Insurance Proceeds <p>Sanitation District Zone 9 - Eden Ranch</p> <ul style="list-style-type: none"> • O&M <p>Sanitation District Zone 10 - Darkhorse</p> <ul style="list-style-type: none"> • O&M <p>Sanitation District Zone 11 - Higgins Village</p> <ul style="list-style-type: none"> • O&M <p>Sanitation District Zone 12 - Valley Oak</p> <ul style="list-style-type: none"> • O&M
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The District is considered to be a component unit of the County of Nevada under criteria set forth by Governmental Accounting Standards Board (GASB) Statement No. 14. These entities are legally separate from each other. 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 unit's elected officials, (2) selection of governing authority, (3) designation of management, (4) ability to significantly influence operations, and (5) accountability for fiscal matters.

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

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

NEVADA COUNTY SANITATION DISTRICT NO. 1
(A Component Unit of the County of Nevada, California)
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008

**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 limitation. The District has elected not to follow subsequent private sector guidance. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements, statements and interpretations, constitutes accounting principles generally accepted in the United States of America (GAAP) for governmental units.

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

D. Cash and Cash Equivalents

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

NEVADA COUNTY SANITATION DISTRICT NO. 1
(A Component Unit of the County of Nevada, California)
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008

**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, 2008, 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.

Required disclosure information regarding categorization of investments and other deposit and investment risk disclosures can be found in the County of Nevada's financial statements.

F. Receivables

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

G. Due to/From Nevada County

During the course of operations, numerous transactions occur between the District and other funds within the County of Nevada that may result in amounts owed between funds. Those related to goods and services type transactions and short term loans are classified as "due to and from County of Nevada". Long-term interfund loans (non current portion) are reported as "advances from and to County of Nevada". See details on balances outstanding at June 30, 2008 in Note 3E.

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, 2008

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, loans payable, and compensated absences.

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 are 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

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

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

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

L. Expenses

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

NEVADA COUNTY SANITATION DISTRICT NO. 1
(A Component Unit of the County of Nevada, California)
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008

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 the County analyzed one agency fund and determined that it should be more correctly classified as an enterprise fund. In addition, an adjustment to net assets was required to add capital assets acquired in a prior year that had not previously been capitalized or depreciated.

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

	Sanitation District
Net Assets, June 30, 2007, as previously reported	\$ 19,655,762
Adjustment associated with:	
Reclassification of funds	52,264
Correction of capital assets	1,937,377
Total Adjustments	1,989,641
Net Assets, July 1, 2008, as restated	\$ 21,645,403

B. Implementation of Governmental Accounting Standards Board Statements

GASB Statement No. 45

For fiscal year ended June 30, 2008, the County of Nevada has elected to early implement GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions. This statement addresses how state and local governments should account for and report their costs and obligations related to postemployment healthcare and other nonpension benefits. These benefits are collectively referred to as other postemployment benefits (OPEB). Complete disclosure can be found in the County of Nevada's financial statements.

GASB Statement No. 50

The County implemented GASB Statement No. 50, Pension Disclosures. This statement, an amendment of GASB Statement No. 25 and No. 27, enhances the information disclosed in the notes to the financial statements or presented as required supplementary information (RSI). Statement No. 50 is intended to improve the transparency and decision usefulness of reported information about pensions by state and local governmental plans and employers, and conforms to the applicable changes adopted in Statement No. 45. Complete disclosure can be found in the County of Nevada's financial statements.

NEVADA COUNTY SANITATION DISTRICT NO. 1
(A Component Unit of the County of Nevada, California)
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008

NOTE 3: DETAILED NOTES

A. Cash and Investments

At June 30, 2008, the District's cash and investments consisted of the following:

Cash		
Deposits with fiscal agents		\$ 25,000
Total Cash		25,000
Investments		
In County Treasurer's Pool		7,953,496
Total Investments		7,953,496
Total Cash and Investments		\$ 7,978,496

Cash

The California Government Code requires California banks and savings and loan associations to collateralize a District's deposits by pledging government securities. The market value of pledged securities must equal at least 110 percent of a District's deposits. California law also allows financial institutions to collateralize District deposits by pledging first trust deed mortgage notes having a value of 150 percent of a District's total deposits. The District may waive collateral requirements for deposits which are fully insured up to \$100,000 by Federal Depository insurance. District deposits in excess of the Federal Deposit Insurance Corporation's coverage are fully collateralized.

At year end, the carrying amount of the District's cash deposits (including amount in checking accounts, money market accounts and deposits with fiscal agents) was \$25,000 and the bank balance was \$25,000. Of the bank balance, \$25,000 was covered by federal depository insurance and \$0 was uninsured and collateralized (i.e., collateralized with securities held by the pledging financial institution at 110 percent of the deposits, in accordance with the State of California Government Code, deemed to be held in the District's name).

Investments

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

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

Custodial Credit Risk - Custodial Credit Risk is the risk that, in the event of the failure of a depository financial institution, the District will not be able to recover its deposits or collateral securities that are in the possession of an outside party. The District follows California Government Code which requires that deposits of more than \$100,000 must be collateralized. The District does not have a formal investment policy that would further limit the exposure to custodial credit risk.

Concentration of Credit Risk - Concentration of credit risk is the risk of loss attributed to the magnitude of the District's investment in a single issuer of securities. When investments are concentrated in one issuer, this concentration presents a heightened risk of potential loss. The District has invested all cash except deposits with fiscal agents in the County investment pool which contains a diversification of investments.

B. Restricted Cash and Investments

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

NEVADA COUNTY SANITATION DISTRICT NO. 1
(A Component Unit of the County of Nevada, California)
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008

NOTE 3: DETAILED NOTES (CONTINUED)

C. Capital Assets

Capital assets activity for the year ended June 30, 2008, was as follows:

	Balance July 1, 2007	Additions	Retirements	Adjustments	Balance June 30, 2008
Capital Assets, Not Being Depreciated:					
Land	\$ 1,452,943	\$ -	\$ -	\$ -	\$ 1,452,943
Construction in progress	22,151,108	16,146,202	-	(584,122)	37,713,188
Total Capital Assets, Not Being Depreciated	<u>23,604,051</u>	<u>16,146,202</u>	<u>-</u>	<u>(584,122)</u>	<u>39,166,131</u>
Capital Assets, Being Depreciated:					
Infrastructure	17,190,832	-	-	4,939,622	22,130,454
Structures and Improvements	203,659	116,939	-	-	320,598
Equipment	1,246,614	163,414	(63,521)	-	1,346,507
Total Capital Assets, Being Depreciated	<u>18,641,105</u>	<u>280,353</u>	<u>(63,521)</u>	<u>4,939,622</u>	<u>23,797,559</u>
Less Accumulated Depreciation For:					
Infrastructure	(8,765,103)	(535,994)	-	(3,002,245)	(12,303,342)
Structures and Improvements	(3,381)	(8,723)	-	-	(12,104)
Equipment	(887,283)	(113,050)	59,243	-	(941,090)
Total Accumulated Depreciation	<u>(9,655,767)</u>	<u>(657,767)</u>	<u>59,243</u>	<u>(3,002,245)</u>	<u>(13,256,536)</u>
Total Capital Assets, Being Depreciated, Net	<u>8,985,338</u>	<u>(377,414)</u>	<u>(4,278)</u>	<u>1,937,377</u>	<u>10,541,023</u>
Total Capital Assets, Net	<u>\$ 32,589,389</u>	<u>\$ 15,768,788</u>	<u>(\$ 4,278)</u>	<u>\$ 1,353,255</u>	<u>\$ 49,707,154</u>

Total depreciation expense of \$657,767 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, and Penn Valley treatment facility upgrade.

Impairment Loss

During the current year, the District recorded an asset impairment loss of \$584,122 for the Cascade Shores Wastewater Treatment Plant. The impairment is due to a change in facility construction. Due to increasing costs the facility design that had been capitalized as construction in progress was scrapped and a prefab structure is replacing it.

D. Long-Term Liabilities

Type of Indebtedness	Balance July 1, 2007	Additions/ Adjustments	Retirements/ Adjustments	Balance June 30, 2008	Amounts Due Within One Year
Special Assessment Bonds	\$ 234,000	\$ -	\$ 62,000	\$ 172,000	\$ 72,000
Loans	23,619,222	20,325,197	9,508,707	34,435,712	1,443,630
Less: Unamortized Discount	(579,882)	(2,523,889)	-	(3,103,771)	-
Loans, Net	23,039,340	17,801,308	9,508,707	31,331,941	1,443,630
Compensated Absences (Note 1J)	138,972	153,352	125,489	166,835	166,835
Total Long Term Liabilities	<u>\$ 23,412,312</u>	<u>\$ 17,954,660</u>	<u>\$ 9,696,196</u>	<u>\$ 31,670,776</u>	<u>\$ 1,682,465</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, 2008

NOTE 3: DETAILED NOTES (CONTINUED)

D. Long-Term Liabilities (Continued)

At June 30, 2008, Special Assessment Bonds consisted of the following:

USDA Rural Development Bond - North San Juan, issued in the amount of \$76,130 and payable in annual installments of \$1,000 to \$3,000 with an interest rate of 5.00% and maturity of September 2, 2018. The bond proceeds were used to construct improvements in the North San Juan Sewer Assessment District.	\$ 27,000
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.	<u>145,000</u>
Total Special Assessment Bonds	<u>\$ 172,000</u>

At June 30, 2008, Loans consisted of the following:

SWRCB Revolving Loan, issued in the amount of \$170,367 and payable in annual installments of \$8,445 to \$11,116 with an interest rate of 3.10% and maturity of January 22, 2016. Loan proceeds were used to finance modifications to the Cascade Shores Wastewater collection system with upgrade and modification to the existing lift station.	\$ 80,110
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 were used for interim financing for the acquisition and construction of improvements to the Lake of The Pines Zone 2 wastewater system.	2,500,000
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 were used for interim financing for the acquisition and construction of improvements to the Lake Wildwood Zone 1 wastewater system.	1,000,000
State Water Resources Control Board loan, issued in the amount of \$12,122,824, plus accrued interest of \$110,523, and payable in annual installments of \$492,213 to \$739,310, with an interest rate of 2.2% and maturity on November 23, 2027. Loan proceeds were used for the acquisition and construction of improvements to the Lake Wildwood Zone 1 wastewater system.	12,233,347
State Water Resources Control Board loan, issued in the amount of \$18,964,071 and payable in annual installments of \$948,204, with an interest rate of 0.0% and maturity on January 12, 2028. Loan proceeds were used for the acquisition and construction of improvements on the Lake of the Pines Zone 2 wastewater system. The loan includes a loan discount of \$3,160,742. Loan proceeds are being drawdown as the project is constructed. At June 30, 2008, \$18,622,255 of the loan had been drawdown, a loan discount of \$3,103,771 had been incurred.	<u>18,622,255</u>
Total Loans Payable	<u>\$ 34,435,712</u>

At June 30, 2008, the annual debt service requirements were summarized as follows:

Special Assessment Bonds

Year Ended June 30	Principal	Interest	Total
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	2,000	900	2,900
2014-2018	14,000	2,600	16,600
2019-2023	<u>3,000</u>	<u>75</u>	<u>3,075</u>
Total	<u>\$ 172,000</u>	<u>\$ 18,648</u>	<u>\$ 190,648</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, 2008

NOTE 3: DETAILED NOTES (CONTINUED)

D. Long-Term Liabilities (Continued)

Loans

Year Ended June 30	Principal	Interest	Service Charge	Total
2009	\$ 1,443,630	\$ 285,937	\$ 118,826	\$ 1,848,393
2010	4,947,208	221,396	117,326	5,285,930
2011	1,458,585	136,660	112,285	1,707,530
2012	1,470,215	130,182	107,133	1,707,530
2013	1,482,103	123,559	101,868	1,707,530
2014-2018	7,575,018	513,491	426,220	8,514,729
2019-2023	7,872,943	331,312	276,093	8,480,348
2024-2028	8,186,010	130,451	108,709	8,425,170
Total	<u>\$ 34,435,712</u>	<u>\$ 1,872,988</u>	<u>\$ 1,368,460</u>	<u>\$ 37,677,160</u>

E. Interfund Transactions

Due To/From Other Funds

During the course of operations, transactions occur between funds to account for goods received or services rendered. These receivables and payables are classified as due from or due to other funds. The following are due from and due to balances by Zone as of June 30, 2008:

	Due From Other Funds	Due To Other Funds
Wastewater Management System	\$ 377,895	\$ 523,166
Sanitation District Zone 1 - Lake Wildwood	369,748	281,232
Sanitation District Zone 2 - Lake of the Pines	633,180	588,376
Sanitation District Zone 4 - North San Juan	10,649	5,534
Sanitation District Zone 5 - Gold Creek	2,126	1,211
Sanitation District Zone 6 - Penn Valley	44,617	41,741
Sanitation District Zone 7 - Mountain Lake Estates	3,464	1,778
Sanitation District Zone 8 - Cascade Shores	28,063	24,296
Sanitation District Zone 9 - Eden Ranch	3,324	1,085
Sanitation District Zone 10 - Darkhorse	277	4,152
Sanitation District Zone 11 - Higgins Village	8,543	10,196
Sanitation District Zone 12 - Valley Oak	1,276	395
Total	<u>\$ 1,483,162</u>	<u>\$ 1,483,162</u>

Transfers

Transfers are indicative of funding for capital projects, lease payments or debt service, reimbursement of various District operations and re-allocations of special revenues. The following are the interfund transfer balances as of June 30, 2008:

	Transfer In	Transfer Out
Wastewater Management System	\$ 90,705	\$ -
Sanitation District Zone 1 - Lake Wildwood	-	48,681
Sanitation District Zone 2 - Lake of the Pines	-	30,196
Sanitation District Zone 4 - North San Juan	-	1,705
Sanitation District Zone 5 - Gold Creek	-	599
Sanitation District Zone 6 - Penn Valley	-	6,250
Sanitation District Zone 7 - Mountain Lake Estates	-	626
Sanitation District Zone 8 - Cascade Shores	-	1,433
Sanitation District Zone 9 - Eden Ranch	-	426
Sanitation District Zone 11 - Higgins Village	-	653
Sanitation District Zone 12 - Valley Oak	-	136
Total	<u>\$ 90,705</u>	<u>\$ 90,705</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, 2008

NOTE 3: DETAILED NOTES (CONTINUED)

F. Related Party Transactions

The following is a summary of receivables from the County of Nevada as of June 30, 2008:

Due from County of Nevada	\$ 36,610
Total Due from County of Nevada	<u>\$ 36,610</u>

The following is a summary of payables to the County of Nevada at June 30, 2008:

Due to County of Nevada	\$ 42,787
Total Due to County of Nevada	<u>\$ 42,787</u>

The following is a summary of advances from the County of Nevada by zone as of June 30, 2008:

Sanitation District Zone 9 - Eden Ranch	\$ 4,000
Total Advances from County of Nevada	<u>\$ 4,000</u>

G. 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.

H. Insurance

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

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

NOTE 4: OTHER INFORMATION

A. Construction Commitments

The District had active construction projects as of June 30, 2008, including upgrades to existing wastewater treatment plants to comply with new regulatory requirements. At year end the District's commitments with contractors are as follows:

Project	Spent-to-date	Remaining Commitment
Wastewater treatment facility upgrades	\$ 32,012,144	\$ 9,545,879

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

NEVADA COUNTY SANITATION DISTRICT NO. 1
(A Component Unit of the County of Nevada, California)
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008

NOTE 4: OTHER INFORMATION

B. New Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) has released the following new standards:

Statement No. 49, Accounting and Financial Reporting for Pollution Remediation Obligations, issued in November 2006. This Statement establishes accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The Statement establishes once any of five specified obligating events occurs, that a government is required to estimate the components of the expected pollution remediation outlays and determine whether the outlays for those components should be recorded as a liability or, if appropriate, capitalized when goods and services are acquired. GASB Statement No. 49 is effective for financial statements for years beginning after December 15, 2007.

Statement No. 51, Accounting and Financial Reporting for Intangible Assets requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable. This Statement also provides authoritative guidance that specifically addresses the nature of these intangible assets. Such guidance should be applied in addition to the existing authoritative guidance for capital assets. GASB Statement No. 51 is effective for financial statements for years beginning after June 15, 2009.

Statement No. 52, Land and Other Real Estate Held as Investments by Endowments improves the quality of financial reporting by requiring endowments to report their land and other real estate investments at fair value, creating consistency in reporting among similar entities that exist to invest resources for the purpose of generating income. GASB Statement No. 52 is effective for financial statements for years beginning after June 15, 2008.

Statement No. 53, Accounting and Financial Reporting for Derivative Instruments addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. Derivative instruments are often complex financial arrangements used by governments to manage specific risks or to make investments. By entering into these arrangements governments receive and make payments based on market prices without actually entering into the related financial or commodity transactions. Derivative instruments associated with changing financial and commodity prices result in changing cash flows and fair values that can be used as effective risk management or investment tools. Derivative instruments, however, also can expose governments to significant risks and liabilities. Common types of derivative instruments used by governments include interest rate and commodity swaps, interest rate locks, options (caps, floors, and collars), swaptions, forward contracts and futures contracts. GASB Statement No. 53 is effective for financial statements for years beginning after June 15, 2009.

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SUPPLEMENTARY INFORMATION

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NEVADA COUNTY SANITATION DISTRICT NO. 1
(A Component Unit of the County of Nevada, California)
COMBINING STATEMENT OF NET ASSETS
JUNE 30, 2008

	Wastewater Management System	Sanitation District Zone 1 - Lake Wildwood	Sanitation District Zone 2 - Lake of the Pines	Sanitation District Zone 4 - North San Juan	Sanitation District Zone 5 - Gold Creek
<u>ASSETS</u>					
Current Assets					
Cash and investments	\$ 341,889	\$ 2,561,748	\$ 2,674,153	\$ 34,779	\$ 48,921
Restricted cash and investments	-	25,000	-	-	-
Accounts receivable	-	-	8,025	-	-
Due from other funds	377,895	369,748	633,180	10,649	2,126
Due from County of Nevada	5,168	-	-	-	-
Total Current Assets	724,952	2,956,496	3,315,358	45,428	51,047
Noncurrent Assets					
Capital assets:					
Non-depreciable	-	15,048,602	22,725,870	139,084	5,950
Depreciable (net)	317,112	3,733,583	2,578,773	229,026	41,177
Total Noncurrent Assets	317,112	18,782,185	25,304,643	368,110	47,127
Total Assets	1,042,064	21,738,681	28,620,001	413,538	98,174
<u>LIABILITIES</u>					
Current Liabilities					
Accounts payable	11,572	92,143	214,095	707	-
Accrued salaries and benefits	76,783	-	-	-	-
Accrued interest payable	-	84,588	-	450	-
Due to other funds	523,166	281,232	588,376	5,534	1,211
Due to County of Nevada	17,819	7,537	6,866	377	45
Compensated absences payable	166,835	-	-	-	-
Bonds payable	-	-	-	2,000	-
Loans payable	-	500,781	933,872	-	-
Total Current Liabilities	796,175	966,281	1,743,209	9,068	1,256
Noncurrent Liabilities					
Advances from County of Nevada	-	-	-	-	-
Bonds payable	-	-	-	25,000	-
Loans payable	-	12,732,566	17,084,612	-	-
Total Noncurrent Liabilities	-	12,732,566	17,084,612	25,000	-
Total Liabilities	796,175	13,698,847	18,827,821	34,068	1,256
<u>NET ASSETS</u>					
Invested in capital assets, net of related debt	317,112	5,548,838	7,286,159	341,110	47,127
Unrestricted	(71,223)	2,490,996	2,506,021	38,360	49,791
Total Net Assets	\$ 245,889	\$ 8,039,834	\$ 9,792,180	\$ 379,470	\$ 96,918

Sanitation District Zone 6 - Penn Valley	Sanitation District Zone 7 - Mountain Lake Estates	Sanitation District Zone 8 - Cascade Shores	Sanitation District Zone 9 - Eden Ranch	Sanitation District Zone 10 - Darkhorse	Sanitation District Zone 11 - Higgins Village	Sanitation District Zone 12 - Valley Oak	Totals
\$ 210,245	\$ 14,477	\$ 2,035,795	\$ 1,253	\$ 15,096	\$ 5,944	\$ 9,196	\$ 7,953,496
-	-	-	-	-	-	-	25,000
-	-	299	-	-	-	-	8,324
44,617	3,464	28,063	3,324	277	8,543	1,276	1,483,162
31,442	-	-	-	-	-	-	36,610
<u>286,304</u>	<u>17,941</u>	<u>2,064,157</u>	<u>4,577</u>	<u>15,373</u>	<u>14,487</u>	<u>10,472</u>	<u>9,506,592</u>
563,881	45,231	607,520	29,993	-	-	-	39,166,131
1,224,005	407,016	1,351,834	129,106	-	438,548	90,843	10,541,023
1,787,886	452,247	1,959,354	159,099	-	438,548	90,843	49,707,154
2,074,190	470,188	4,023,511	163,676	15,373	453,035	101,315	59,213,746
3,616	-	268,605	102	-	458	-	591,298
-	-	-	-	-	-	-	76,783
3,432	-	122,901	622	-	-	-	211,993
41,741	1,778	24,296	1,085	4,152	10,196	395	1,483,162
1,498	101	1,143	115	6,905	326	55	42,787
-	-	-	-	-	-	-	166,835
70,000	-	-	-	-	-	-	72,000
-	-	8,977	-	-	-	-	1,443,630
<u>120,287</u>	<u>1,879</u>	<u>425,922</u>	<u>1,924</u>	<u>11,057</u>	<u>10,980</u>	<u>450</u>	<u>4,088,488</u>
-	-	-	4,000	-	-	-	4,000
75,000	-	-	-	-	-	-	100,000
-	-	71,133	-	-	-	-	29,888,311
75,000	-	71,133	4,000	-	-	-	29,992,311
<u>195,287</u>	<u>1,879</u>	<u>497,055</u>	<u>5,924</u>	<u>11,057</u>	<u>10,980</u>	<u>450</u>	<u>34,080,799</u>
1,642,886	452,246	1,879,244	159,099	-	438,548	90,843	18,203,212
236,017	16,063	1,647,212	(1,347)	4,316	3,507	10,022	6,929,735
<u>\$ 1,878,903</u>	<u>\$ 468,309</u>	<u>\$ 3,526,456</u>	<u>\$ 157,752</u>	<u>\$ 4,316</u>	<u>\$ 442,055</u>	<u>\$ 100,865</u>	<u>\$ 25,132,947</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, 2008

	Wastewater Management System	Sanitation District Zone 1 - Lake Wildwood	Sanitation District Zone 2 - Lake of the Pines	Sanitation District Zone 4 - North San Juan	Sanitation District Zone 5 - Gold Creek
<u>OPERATING REVENUES</u>					
Charges for services	\$ 214	\$ 2,882,896	\$ 2,281,305	\$ 60,630	\$ 10,340
Total Operating Revenues	214	2,882,896	2,281,305	60,630	10,340
<u>OPERATING EXPENSES</u>					
Salaries and benefits	2,074,616	-	-	-	-
Services and supplies	445,765	496,313	266,234	6,354	897
Other charges	303,093	-	-	848	-
Expenditure transfers	(2,776,099)	1,314,479	984,197	44,925	17,001
Depreciation	93,733	222,673	163,295	9,320	3,058
Total Operating Expenses	141,108	2,033,465	1,413,726	61,447	20,956
Operating Income (Loss)	(140,894)	849,431	867,579	(817)	(10,616)
<u>NONOPERATING REVENUE (EXPENSES)</u>					
Interest income	8,484	198,001	328,517	1,157	2,177
Other revenues	6,231	6,788	6,142	280	53
Interest expense	-	-	-	(1,850)	-
Impairment loss	-	-	-	-	-
Gain (loss) on sale of capital assets	4,775	-	-	-	-
Total Nonoperating Revenues (Expenses)	19,490	204,789	334,659	(413)	2,230
Income (Loss) before Transfers	(121,404)	1,054,220	1,202,238	(1,230)	(8,386)
Transfers from County of Nevada	-	-	-	-	-
Transfers in	90,705	-	-	-	-
Transfers out	-	(48,681)	(30,196)	(1,705)	(599)
Change in Net Assets	(30,699)	1,005,539	1,172,042	(2,935)	(8,985)
Total Net Assets - Beginning of Year	276,588	6,224,340	7,492,716	382,405	105,903
Prior period adjustment	-	809,955	1,127,422	-	-
Total Net Assets - Beginning of Year, Restated	276,588	7,034,295	8,620,138	382,405	105,903
Total Net Assets - End of Year	\$ 245,889	\$ 8,039,834	\$ 9,792,180	\$ 379,470	\$ 96,918

Sanitation District Zone 6 - Penn Valley	Sanitation District Zone 7 - Mountain Lake Estates	Sanitation District Zone 8 - Cascade Shores	Sanitation District Zone 9 - Eden Ranch	Sanitation District Zone 10 - Darkhorse	Sanitation District Zone 11 - Higgins Village	Sanitation District Zone 12 - Valley Oak	Totals
\$ 424,717	\$ 21,251	\$ 185,535	\$ 19,080	\$ 1,000	\$ 80,065	\$ 2,933	\$ 5,969,966
424,717	21,251	185,535	19,080	1,000	80,065	2,933	5,969,966
-	-	-	-	-	-	-	2,074,616
47,721	4,391	41,424	3,257	-	53,303	498	1,366,157
848	-	-	-	-	-	-	304,789
249,022	20,357	215,243	15,392	14,623	52,035	3,962	155,137
56,120	15,599	73,053	4,763	-	13,268	2,885	657,767
353,711	40,347	329,720	23,412	14,623	118,606	7,345	4,558,466
71,006	(19,096)	(144,185)	(4,332)	(13,623)	(38,541)	(4,412)	1,411,500
6,811	612	61,011	(66)	688	630	413	608,435
32,674	95	1,418,690	93	30	208	31	1,471,315
(15,827)	-	(20,701)	(192)	-	-	-	(38,570)
-	-	(584,122)	-	-	-	-	(584,122)
-	-	-	-	-	-	-	4,775
23,658	707	874,878	(165)	718	838	444	1,461,833
94,664	(18,389)	730,693	(4,497)	(12,905)	(37,703)	(3,968)	2,873,333
55,000	-	559,211	-	-	-	-	614,211
-	-	-	-	-	-	-	90,705
(6,250)	(626)	(1,433)	(426)	-	(653)	(136)	(90,705)
143,414	(19,015)	1,288,471	(4,923)	(12,905)	(38,356)	(4,104)	3,487,544
1,683,225	487,324	2,237,985	162,675	17,221	480,411	104,969	19,655,762
52,264	-	-	-	-	-	-	1,989,641
1,735,489	487,324	2,237,985	162,675	17,221	480,411	104,969	21,645,403
\$ 1,878,903	\$ 468,309	\$ 3,526,456	\$ 157,752	\$ 4,316	\$ 442,055	\$ 100,865	\$ 25,132,947

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, 2008

	Wastewater Management System	Sanitation District Zone 1 - Lake Wildwood	Sanitation District Zone 2 - Lake of the Pines	Sanitation District Zone 4 - North San Juan	Sanitation District Zone 5 - Gold Creek
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>					
Receipts from customers	\$ 214	\$ 2,882,896	\$ 2,273,353	\$ 60,630	\$ 10,340
Payments to suppliers	2,018,169	(2,354,889)	(1,985,933)	(54,357)	(20,098)
Payments to employees	(2,037,022)	-	-	-	-
Net Cash Provided (Used) by Operating Activities	<u>(18,639)</u>	<u>528,007</u>	<u>287,420</u>	<u>6,273</u>	<u>(9,758)</u>
<u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</u>					
Grants and other receipts	11,006	6,788	6,142	280	53
Transfers from other funds	90,705	11,137,323	28,755,193	-	-
Transfers to other funds	-	(10,913,755)	(28,785,389)	(1,705)	(599)
Interfund loans received	73,649	107,188	304,885	1,479	186
Interfund loans made	-	(131,503)	(212,551)	(2,450)	(927)
Interfund loans repaid	-	-	(1,100,388)	-	-
Interfund loan repayments received	181,624	-	1,003,428	-	-
Net Cash Provided (used) by Noncapital Financing Activities	<u>356,984</u>	<u>206,041</u>	<u>(28,680)</u>	<u>(2,396)</u>	<u>(1,287)</u>
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>					
Acquisition of capital assets	(159,135)	(3,030,307)	(12,678,575)	-	-
Proceeds from debt	-	5,182,164	12,619,144	-	-
Principal paid on capital debt	-	(4,000,000)	(5,500,000)	(2,000)	-
Interest paid on capital debt	-	(187,661)	(456,276)	(1,400)	-
Net Cash Provided (Used) for Capital and Related Financing Activities	<u>(159,135)</u>	<u>(2,035,804)</u>	<u>(6,015,707)</u>	<u>(3,400)</u>	<u>-</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>					
Interest and dividends	8,486	198,002	328,517	1,158	2,177
Net Cash Provided (Used) by Investing Activities	<u>8,486</u>	<u>198,002</u>	<u>328,517</u>	<u>1,158</u>	<u>2,177</u>
Net Increase (Decrease) in Cash and Cash Equivalents	187,696	(1,103,754)	(5,428,450)	1,635	(8,868)
Balances - Beginning of Year	154,193	3,690,502	8,102,603	33,144	57,789
Balances - End of Year	<u>\$ 341,889</u>	<u>\$ 2,586,748</u>	<u>\$ 2,674,153</u>	<u>\$ 34,779</u>	<u>\$ 48,921</u>

Sanitation District Zone 6 - Penn Valley	Sanitation District Zone 7 - Mountain Lake Estates	Sanitation District Zone 8 - Cascade Shores	Sanitation District Zone 9 - Eden Ranch	Sanitation District Zone 10 - Darkhorse	Sanitation District Zone 11 - Higgins Village	Sanitation District Zone 12 - Valley Oak	Totals
\$ 424,717 (300,723) -	\$ 21,251 (24,748) -	\$ 185,236 (186,526) -	\$ 19,080 (18,613) -	\$ 1,000 (14,623) -	\$ 80,065 (108,619) -	\$ 2,933 (4,460) -	\$ 5,961,715 (3,055,420) (2,037,022)
123,994	(3,497)	(1,290)	467	(13,623)	(28,554)	(1,527)	869,273
32,674	95	1,613,737	93	30	208	31	1,671,137
52,264	-	837,736	-	-	-	-	40,873,221
(6,250)	(626)	(839,169)	(426)	-	(653)	(136)	(40,548,708)
13,910	-	-	198	9,426	7,502	126	518,549
(33,395)	-	-	(1,672)	-	(2,056)	(66)	(384,620)
-	(153)	(179,967)	-	-	-	-	(1,280,508)
-	812	119,223	-	1,772	-	-	1,306,859
59,203	128	1,551,560	(1,807)	11,228	5,001	(45)	2,155,930
(81,952)	-	(472,309)	-	-	-	-	(16,422,278)
-	-	-	-	-	-	-	17,801,308
(60,000)	-	(8,707)	-	-	-	-	(9,570,707)
(12,395)	-	(2,753)	-	-	-	-	(660,485)
(154,347)	-	(483,769)	-	-	-	-	(8,852,162)
6,811	611	61,010	(66)	688	630	413	608,437
6,811	611	61,010	(66)	688	630	413	608,437
35,661	(2,758)	1,127,511	(1,406)	(1,707)	(22,923)	(1,159)	(5,218,522)
174,584	17,235	908,284	2,659	16,803	28,867	10,355	13,197,018
\$ 210,245	\$ 14,477	\$ 2,035,795	\$ 1,253	\$ 15,096	\$ 5,944	\$ 9,196	\$ 7,978,496

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, 2008

	<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>
<u>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</u>					
Operating income (loss)	\$ (140,894)	\$ 849,431	\$ 867,579	\$ (817)	\$ (10,616)
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation	93,733	222,673	163,295	9,320	3,058
Decrease (Increase) in:					
Accounts receivable	-	-	(7,952)	-	-
Increase (Decrease) in:					
Accounts payable	(9,072)	(544,097)	(1,191,778)	(2,230)	(2,200)
Accrued salaries and benefits	9,731	-	-	-	-
Compensated absences	27,863	-	-	-	-
Net Cash Provided (Used) by Operating Activities	\$ (18,639)	\$ 528,007	\$ (168,856)	\$ 6,273	\$ (9,758)
<u>NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:</u>					
Capital asset impairment	-	-	-	-	-
Debt abatement	-	-	-	-	-

Sanitation District Zone 6 - Penn Valley	Sanitation District Zone 7 - Mountain Lake Estates	Sanitation District Zone 8 - Cascade Shores	Sanitation District Zone 9 - Eden Ranch	Sanitation District Zone 10 - Darkhorse	Sanitation District Zone 11 - Higgins Village	Sanitation District Zone 12 - Valley Oak	Totals
\$ 71,006	\$ (19,096)	\$ (144,185)	\$ (4,332)	\$ (13,623)	\$ (38,541)	\$ (4,412)	\$ 1,411,500
56,120	15,599	73,053	4,763	-	13,268	2,885	657,767
-	-	(299)	-	-	-	-	(8,251)
(3,132)	-	70,141	36	-	(3,281)	-	(1,685,613)
-	-	-	-	-	-	-	9,731
-	-	-	-	-	-	-	27,863
<u>\$ 123,994</u>	<u>\$ (3,497)</u>	<u>\$ (1,290)</u>	<u>\$ 467</u>	<u>\$ (13,623)</u>	<u>\$ (28,554)</u>	<u>\$ (1,527)</u>	<u>\$ 412,997</u>
-	-	(584,122)	-	-	-	-	(584,122)
55,000	-	559,211	-	-	-	-	614,211

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

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, 2008, which collectively comprise the District's financial statements and have issued our report thereon dated January 16, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiency described in the accompanying schedule of findings and recommendations as 08-FS-01 to be a significant deficiency in internal control over financial reporting.

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 the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider item 08-FS-01 to be a material weakness.

Compliance and Other Matters

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

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

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.

Handwritten signature in cursive script, appearing to read "Smith & Newell".

Smith & Newell, CPA's
Yuba City, California
January 16, 2009

NEVADA COUNTY SANITATION DISTRICT NO. 1
(A Component Unit of the County of Nevada, California)
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2008

08-FS-01 CAPITAL ASSETS (Financial Reporting: Material Weakness)

Condition

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

Cause

The District noted that infrastructure assets purchased in 1987 for the Sanitation District had not previously been capitalized. The District noted that some of these assets had recently been removed with the upgrades to the Lake of the Pines and Lake Wildwood treatment plants. The District recorded a net adjustment of \$1,989,641 to the business-type activities for the assets acquired less those disposed and the related accumulated depreciation.

Criteria

Good internal control over capital assets requires that an accurate, current detail listing of all capital assets be maintained, that current year depreciation and accumulated depreciation be accurately calculated and recorded and that all assets meeting the capitalization policy be capitalized and depreciated.

Effect of Condition

Capital assets and related accumulated depreciation in prior years were materially misstated and required adjustment.

Recommendation

We recommend that the District thoroughly review the depreciation schedules at least annually to ensure that all items are properly included and that depreciation is calculated correctly.

Corrective Action Plan

The 1987 treatment plant upgrades had not been included in the historical cost compilation to record the value of the treatment plants. The District's assets are currently being accounted for in the fixed asset module of the accounting system which provides detailed listings of capital assets and depreciation schedules. These reports are reviewed annually for completeness and accuracy. District expenses are reviewed on an ongoing basis for potential capitalization.

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