

**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, 2010**

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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, 2010

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# FINANCIAL SECTION

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

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**INDEPENDENT AUDITOR'S REPORT**

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

We have audited the accompanying financial statements of the proprietary fund of the Nevada County Sanitation District No. 1 (District), a component unit of the County of Nevada, California, as of and for the year ended June 30, 2010, 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.

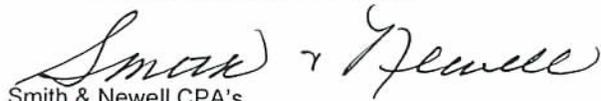
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the proprietary fund of the District as of June 30, 2010, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated December 16, 2010, 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.

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

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements as a whole. The combining fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The combining fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

  
Smith & Newell CPA's  
Yuba City, California  
December 16, 2010

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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, 2010. 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, 2010, the assets of the District exceeded its liabilities by \$27,859,121 (net assets). Of this amount, \$5,245,329 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors and \$22,613,792 is invested in capital assets, net of related debt.

The District's liabilities in the form of Special Assessment bonds; State and County loans; and bank loans decreased by \$890,366 during the current fiscal year to \$31,708,353

## Financial Position

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

### Sanitation District's Net Assets June 30, 2010 and 2009

	2010	2009	Variance	Change
Current and other assets	\$ 7,559,865	\$ 7,706,434	-1.9%	\$ -146,569
Capital Assets	52,007,609	53,128,076	-2.1%	-1,120,467
<b>Total Assets</b>	<b>59,567,474</b>	<b>60,834,510</b>	<b>-2.1%</b>	<b>-1,267,036</b>
Current liabilities	3,575,863	6,956,287	-48.6%	-3,380,424
Long-term liabilities	28,132,490	25,642,432	9.7%	2,490,058
<b>Total Liabilities</b>	<b>31,708,353</b>	<b>32,598,719</b>	<b>-2.7%</b>	<b>-890,366</b>
Net Assets:				
Invested in capital assets, net of related debt	22,613,792	22,813,159	-0.9%	-199,367
Restricted				
Unrestricted	5,245,329	5,422,632	-3.3%	-177,303
<b>Total net assets</b>	<b>\$ 27,859,121</b>	<b>\$ 28,235,791</b>	<b>-1.3%</b>	<b>\$ -376,670</b>

As shown in the schedule above, at June 30, 2010, the District's total assets are \$59,567,474. The total assets held decreased 2.1% from the June 30, 2009 balance of \$60,834,510. The decrease in total assets was due primarily to depreciation of infrastructure assets.

Two short term bank loans originally due within one year were extended to be fully repaid by August 2026. The extended term accounts for the 48.6% decrease in current liabilities and the 9.7% increase in long-term liabilities.

The District's total net assets at June 30, 2010 decreased from the prior year by 1.3% or \$376,670. Unrestricted net assets of the District at June 30, 2010 amounted to \$5,245,329. This was a 3.3% decrease from the prior year's amount of \$5,422,632. In relation, the investment in capital assets, net of related debt, decreased to \$22,613,792 from the prior year amount of \$22,813,159 due to annual depreciation of the assets.

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, 2010 and 2009**

	2010	2009	Variance	Change
<b>Revenues</b>				
Operating	\$ 6,622,180	\$ 6,462,994	2.4%	\$ 159,186
Non-operating	100,888	2,012,457	-95.0%	-1,911,569
<b>Total Revenues</b>	<b>6,723,068</b>	<b>8,475,451</b>	<b>-20.7%</b>	<b>-1,752,383</b>
<b>Expenses</b>				
Operating Expenses	6,396,947	5,111,882	25.1%	1,285,065
Non Operating Expenses	702,791	211,084	232.9%	491,707
<b>Total Expenses</b>	<b>7,099,738</b>	<b>5,322,966</b>	<b>33.4%</b>	<b>1,776,772</b>
<b>Income (loss)</b>	<b>(376,670)</b>	<b>3,152,485</b>	<b>-111.9%</b>	<b>-3,529,155</b>
Transfers In	78,426	10,407	6.5%	68,019
Transfers Out	(78,426)	(10,407)	-6.5%	-68,019
<b>Change in net assets</b>	<b>(376,670)</b>	<b>3,152,485</b>	<b>-111.9%</b>	<b>-3,529,155</b>
<b>Net Assets – beginning</b>	<b>28,235,791</b>	<b>25,083,306</b>	<b>12.6%</b>	<b>3,152,485</b>
<b>Net Assets - ending</b>	<b>\$ 27,859,121</b>	<b>\$ 28,235,791</b>	<b>-1.3%</b>	<b>\$ -376,670</b>

*Revenues* - The District's revenues for Fiscal Year 2009-10 decreased by 20.7% or \$1,752,383. Construction grant funding received in the prior fiscal year in the amount of \$1,362,940 and not in the current fiscal year was the major factor in the 95% decline in non-operating revenues.

*Expenses* - The District's expenses for fiscal year 2009-10 increased by 33.4% or \$1,776,772. The operating expenses increased by 25.1% from the prior fiscal year. This increase was primarily due to increases in depreciation expense. Consistent with the accrual basis of accounting, the District's capital improvement expenses are shown as assets when acquired or constructed and expensed over their useful life as depreciation. The higher cost of the newer treatment plants has resulted in higher annual depreciation expense.

**Capital Assets and Debt Administration**

*Capital Assets* - The District's investment in capital assets as of June 30, 2010 amounted to \$22,613,792 (net of accumulated depreciation and debt). This investment in capital assets includes land, land improvements, infrastructure and equipment. The \$199,367 decrease is due to depreciation of the assets. Construction in progress as of the close of the fiscal year for the capital improvement projects increased to \$4,006,082. The increase resulted from improvements to the Cascade Shores and Lake Wildwood treatment facilities.

*Additional information on the District's capital assets can be found in Note 3 on page 15 of this report.*

*Long-term debt* - At June 30, 2010, the District had total debt outstanding of \$29,455,695. Of this amount, \$1,432,447 is due within one year. The long-term debt consists of one voter-approved bond, three loans from the State of California, and two bank loans. The North San Juan Sewer Assessment bond is being repaid through a restricted revenue source. A special assessment charge is placed on the tax bills of the parcels within the specific zone that benefited from the borrowing. The 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. The two bank loans, originally intended for short term financing of capital projects, have been extended to be fully repaid by August 2026. They are being repaid with operating revenues from the specific zones that received the loan proceeds.

*Additional information on the District's long-term debt can be found in Note 3 on page 15-17 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 1,200,000 gallons of wastewater each day. The Sanitation District provides sewer service to 5,698 accounts in western Nevada County with a population of 14,000.

The Darkhorse zone had been annexed into the District, but their infrastructure assets had not been accepted into the District since the treatment facility did not meet State requirements. It was decided to connect Darkhorse to the Lake of the Pines treatment facility as it had available capacity. The pipeline to connect the zone to the Lake of the Pines treatment facility is expected to be completed in the 2010-11 fiscal year and the Darkhorse zone will be combined with the Lake of the Pines zone.

The Cascade Shores facility upgrade was near completion at the end of fiscal year 2009-10. The District is currently evaluating the most cost effective methods for upgrading the Lake Wildwood and Penn Valley treatment facilities to meet State mandated regulations. Lake Wildwood must be upgraded by September 2013 and Penn Valley by September 2014.

The new Cascade Shores treatment facility is meeting permit requirements except for copper concentration which will result in the issuance of an Administrative Civil Liability Order (ACLO). Related fines may be used to upgrade the facility to meet the requirements. Both the Lake Wildwood and Lake of the Pines zones were participating in supplemental environmental projects (SEPs) in lieu of fines owed to the State. The Lake of the Pines project may be cancelled due to difficulties with the project and the residual fines would need to be paid to the State.

The long-term budget plan for the repayment of the Lake of the Pines construction loans required additional connections to the treatment facility. New connections have been much slower than expected due to the economy and additional financial planning efforts for this zone may be needed.

Despite the downturn in the economy, the cost of many resources required by the District's treatment plants continue to go up in cost. These increased operating costs will need to be addressed in the District's budget for fiscal year 2010-11.

### **Request for Information**

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

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**BASIC FINANCIAL STATEMENTS**  
**Fund Financial Statements**

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**NEVADA COUNTY SANITATION DISTRICT NO. 1**  
(A Component Unit of the County of Nevada, California)  
**STATEMENT OF NET ASSETS**  
**ENTERPRISE FUNDS**  
**JUNE 30, 2010**

	<b>Sanitation District</b>
<b><u>ASSETS</u></b>	
Current Assets	
Cash and investments	\$ 6,193,999
Accounts receivable (net of allowance)	39,227
Due from other funds	1,299,765
Due from County of Nevada	26,874
<b>Total Current Assets</b>	<b>7,559,865</b>
Noncurrent Assets	
Capital assets:	
Non-depreciable	5,459,025
Depreciable, net	46,548,584
<b>Total Noncurrent Assets</b>	<b>52,007,609</b>
<b>Total Assets</b>	<b>59,567,474</b>
<b><u>LIABILITIES</u></b>	
Current Liabilities	
Accounts payable	117,759
Accrued salaries and benefits	98,384
Accrued interest payable	473,998
Deposits payable	3,899
Due to other funds	1,299,765
Due to County of Nevada	38,880
Compensated absences payable	110,731
Bonds payable	2,000
Loans payable	1,430,447
<b>Total Current Liabilities</b>	<b>3,575,863</b>
Noncurrent Liabilities	
Advances from County of Nevada	1,985
Compensated absences payable	31,755
Bonds payable	21,000
Loans payable	28,002,248
Net OPEB obligation	75,502
<b>Total Noncurrent Liabilities</b>	<b>28,132,490</b>
<b>Total Liabilities</b>	<b>31,708,353</b>
<b><u>NET ASSETS</u></b>	
Invested in capital assets, net of related debt	22,613,792
Unrestricted	5,245,329
<b>Total Net Assets</b>	<b>\$ 27,859,121</b>

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

**NEVADA COUNTY SANITATION DISTRICT NO. 1**  
(A Component Unit of the County of Nevada, California)  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**  
**ENTERPRISE FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2010**

	<b>Sanitation District</b>
<b><u>OPERATING REVENUES</u></b>	
Charges for services	\$ 6,622,180
<b>Total Operating Revenues</b>	6,622,180
<b><u>OPERATING EXPENSES</u></b>	
Salaries and benefits	2,132,936
Services and supplies	1,778,722
Benefit and claim expense	348,909
Other charges	172,543
Expenditure transfers	84,510
Depreciation	1,879,327
<b>Total Operating Expenses</b>	6,396,947
<b>Operating Income (Loss)</b>	225,233
<b><u>NON-OPERATING REVENUE (EXPENSES)</u></b>	
Interest income	35,543
Other revenues	65,345
Interest expense	(702,791)
<b>Total Non-Operating Revenues (Expenses)</b>	(601,903)
<b>Income (Loss) before Transfers</b>	(376,670)
Transfers in	78,426
Transfers out	(78,426)
<b>Change in Net Assets</b>	(376,670)
<b>Total Net Assets - Beginning</b>	28,235,791
<b>Total Net Assets - Ending</b>	\$ 27,859,121

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

**NEVADA COUNTY SANITATION DISTRICT NO. 1**  
(A Component Unit of the County of Nevada, California)  
**STATEMENT OF CASH FLOWS**  
**ENTERPRISE FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2010**

	<b>Sanitation District</b>
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES</u></b>	
Receipts from customers	\$ 6,587,585
Payments to suppliers	(2,544,224)
Payments to employees	(2,146,960)
	1,896,401
<b><u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</u></b>	
Grants and other receipts	65,345
Transfers from other funds	78,426
Transfers to other funds	(78,426)
Interfund loans received	302,051
Interfund loans made	(326,936)
Interfund loans repaid	(96,835)
Interfund loan repayments received	119,863
	63,488
<b><u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u></b>	
Acquisition of capital assets	(840,810)
Proceeds from issuance of debt	521,502
Principal paid on capital debt	(1,659,193)
Interest paid on capital debt	(405,168)
	(2,383,669)
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES</u></b>	
Interest and dividends	35,543
	35,543
<b>Net Cash Provided (Used) by Investing Activities</b>	<b>35,543</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>(388,237)</b>
<b>Balances - Beginning of Year</b>	<b>6,582,236</b>
<b>Balances - End of Year</b>	<b>\$ 6,193,999</b>
<b><u>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</u></b>	
Operating income (loss)	\$ 225,233
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	1,879,327
Write off of preacquisition costs	81,952
Decrease (Increase) in:	
Accounts receivable	(34,595)
Increase (Decrease) in:	
Accounts payable	(241,492)
Accrued salaries and benefits	9,520
Compensated absences	(19,172)
Net OPEB obligation	(4,372)
	1,896,401
<b>Net Cash Provided (Used) by Operating Activities</b>	<b>\$ 1,896,401</b>

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

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**BASIC FINANCIAL STATEMENTS**  
Notes to Basic Financial Statements

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**NEVADA COUNTY SANITATION DISTRICT NO. 1**  
 (A Component Unit of the County of Nevada, California)  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2010**

**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, 2010, the Sanitation District is composed of eleven zones and the Wastewater Management System.

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

Wastewater Management System	Sanitation District Zone 7 - Mountain Lake Estates <ul style="list-style-type: none"> <li>• O&amp;M</li> </ul>
Sanitation District Zone 1 - Lake Wildwood <ul style="list-style-type: none"> <li>• O&amp;M</li> <li>• Debt Assessment</li> <li>• Capital Improvement</li> <li>• LaSalle Project</li> </ul>	Sanitation District Zone 8 - Cascade Shores <ul style="list-style-type: none"> <li>• O&amp;M</li> <li>• Capital Improvement</li> <li>• Insurance Proceeds</li> </ul>
Sanitation District Zone 2 - Lake of the Pines <ul style="list-style-type: none"> <li>• O&amp;M</li> <li>• Debt Assessment</li> <li>• Capital Improvement</li> <li>• LaSalle Project</li> </ul>	Sanitation District Zone 9 - Eden Ranch <ul style="list-style-type: none"> <li>• O&amp;M</li> </ul>
Sanitation District Zone 4 - North San Juan <ul style="list-style-type: none"> <li>• O&amp;M</li> <li>• Sewer Assessment</li> </ul>	Sanitation District Zone 10 - Darkhorse <ul style="list-style-type: none"> <li>• O&amp;M</li> </ul>
Sanitation District Zone 5 - Gold Creek <ul style="list-style-type: none"> <li>• O&amp;M</li> </ul>	Sanitation District Zone 11 - Higgins Village <ul style="list-style-type: none"> <li>• O&amp;M</li> </ul>
Sanitation District Zone 6 - Penn Valley <ul style="list-style-type: none"> <li>• O&amp;M</li> <li>• Sewer Assessment</li> <li>• Sewer Special Reserve</li> </ul>	Sanitation District Zone 12 - Valley Oak <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. These entities are legally separate from each other. However, the County elected officials have a continuing full or partial oversight responsibility over and accountability for fiscal matters of the District. The criteria used to determine the scope of the reporting entity for financial reporting purposes are (1) exercise of oversight responsibility over such agencies by the governmental unit's elected officials, (2) selection of governing authority, (3) designation of management, (4) ability to significantly influence operations, and (5) accountability for fiscal matters.

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

**B. Basis of Presentation**

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

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

**NEVADA COUNTY SANITATION DISTRICT NO. 1**  
(A Component Unit of the County of Nevada, California)  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2010**

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

**B. Basis of Presentation (Continued)**

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.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board (GASB). Governments also have the option of following subsequent private-sector guidance for their enterprise fund, subject to the same limitation. The District has elected not to follow subsequent private-sector guidance.

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.

**E. Cash and Investments**

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

Participant's equity in the investment pool is determined by the dollar amount of participant deposits, adjusted for withdrawals and distributed investment income. Investment income is determined on the amortized cost basis. Amortized premiums and accreted discounts, accrued interest, and realized gains and losses, net of expenses, are apportioned to pool participants each quarter. This method differs from the fair value method used to value investments in these financial statements. In these financial statements, the fair value of the District's investments in the pool was based on unaudited quoted market values as provided by the County Treasurer. The pool has not provided or obtained any legally binding guarantees to support the participant equity in the investment pool.

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

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

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

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

**F. Receivables**

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

**G. Interfund Transactions**

Interfund transactions are reflected as either loans, services provided or used, reimbursements or transfers.

Loans reported as receivables and payables are referred to as either "due to/from other funds" (i.e. the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans) as appropriate and are subject to elimination upon consolidation. Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not available financial resources.

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

Reimbursements occur when the funds responsible for particular expenditures or expenses repay the funds that initially paid for them. Such reimbursements are treated as an adjustment to expenditures or expenses; that is, a corresponding increase in expenditures or expenses in the reimbursing fund and a corresponding decrease in expenditures or expenses in the reimbursed fund.

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

See Note 3 for details of interfund transactions, including receivables and payables at year end.

**H. Capital Assets**

Capital assets, which include property, plant, equipment, and infrastructure assets (water, sewer, and similar items) are reported in the proprietary fund financial statements. Capital assets are defined by the District as assets with a cost of more than \$5,000 for equipment and \$50,000 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.

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

<u>Depreciable Asset</u>	<u>Estimated Lives</u>
Equipment	3-25 years
Structures and Improvements	5-50 years
Infrastructure	20-75 years

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

**NEVADA COUNTY SANITATION DISTRICT NO. 1**  
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**NOTE 1: FINANCIAL REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**I. Long-Term Debt**

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

**J. Compensated Absences**

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

**K. Net Assets**

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

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

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

**L. Expenses**

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

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

**NEVADA COUNTY SANITATION DISTRICT NO. 1**  
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**NOTES TO BASIC FINANCIAL STATEMENTS**  
FOR THE YEAR ENDED JUNE 30, 2010

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

**A. Implementation of Governmental Accounting Standards Board Statements**

**GASB Statement No. 51**

GASB has issued Statement No. 51, Accounting and Financial Reporting for Intangible Assets. The objective of this Statement is to establish accounting and financial reporting requirements for intangible assets to reduce prior inconsistencies in accounting for these assets. This statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. The District has evaluated the requirements of GASB 51 and has determined that it does not hold any intangible assets which would require restatement in the financial statements. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2009.

**NOTE 3: DETAILED NOTES**

**A. Cash and Investments**

At June 30, 2010, the District's cash and investments consisted of the following:

Investments	
In County Treasurer's Pool	\$ 6,193,999
Total Cash and Investments	<u>\$ 6,193,999</u>

**Cash**

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

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

**Investments**

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

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

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

Concentration of Credit Risk - Concentration of credit risk is the risk of loss attributed to the magnitude of the District's investment in a single issuer of securities. When investments are concentrated in one issuer, this concentration presents a heightened risk of potential loss. The District's investments are managed in accordance with the County of Nevada investment policy. The District does not have a formal investment policy that limits concentration of credit risk.

**NEVADA COUNTY SANITATION DISTRICT NO. 1**  
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**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2010**

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

**B. Capital Assets**

Capital assets activity for the year ended June 30, 2010, was as follows:

	<u>Balance</u> <u>July 1, 2009</u>	<u>Additions</u>	<u>Retirements</u>	<u>Adjustments</u>	<u>Balance</u> <u>June 30, 2010</u>
Capital Assets, Not Being Depreciated:					
Land and Easements	\$ 1,452,943	\$ -	\$ -	\$ -	\$ 1,452,943
Construction in progress	3,325,649	762,385	-	( 81,952)	4,006,082
Total Capital Assets, Not Being Depreciated	<u>4,778,592</u>	<u>762,385</u>	<u>-</u>	<u>( 81,952)</u>	<u>5,459,025</u>
Capital Assets, Being Depreciated:					
Infrastructure	60,912,685	-	( 955,840)	-	59,956,845
Structures and Improvements	320,598	-	-	-	320,598
Equipment	1,394,562	78,427	-	-	1,472,989
Total Capital Assets, Being Depreciated	<u>62,627,845</u>	<u>78,427</u>	<u>( 955,840)</u>	<u>-</u>	<u>61,750,432</u>
Less Accumulated Depreciation For:					
Infrastructure	( 13,204,576)	( 1,786,331)	955,840	-	( 14,035,067)
Structures and Improvements	( 22,791)	( 10,687)	-	-	( 33,478)
Equipment	( 1,050,994)	( 82,309)	-	-	( 1,133,303)
Total Accumulated Depreciation	<u>( 14,278,361)</u>	<u>( 1,879,327)</u>	<u>955,840</u>	<u>-</u>	<u>( 15,201,848)</u>
Total Capital Assets, Being Depreciated, Net	<u>48,349,484</u>	<u>( 1,800,900)</u>	<u>-</u>	<u>-</u>	<u>46,548,584</u>
Total Capital Assets, Net	<u>\$ 53,128,076</u>	<u>( \$ 1,038,515)</u>	<u>\$ -</u>	<u>( \$ 81,952)</u>	<u>\$ 52,007,609</u>

Total depreciation expense of \$1,879,327 was charged to the proprietary fund.

**Construction in Progress**

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

**C. Long-Term Liabilities**

The following is a summary of long-term liabilities transactions for the year ended June 30, 2010:

<u>Type of Indebtedness</u>	<u>Balance</u> <u>July 1, 2009</u>	<u>Additions/</u> <u>Adjustments</u>	<u>Retirements/</u> <u>Adjustments</u>	<u>Balance</u> <u>June 30, 2010</u>	<u>Amounts</u> <u>Due Within</u> <u>One Year</u>
Special Assessment Bonds	\$ 100,000	\$ -	\$ 77,000	\$ 23,000	\$ 2,000
Loans	33,047,258	625,804	1,582,195	32,090,867	1,696,512
Less: Unamortized Discount	( 2,832,341)	( 104,303)	( 278,472)	( 2,658,172)	( 266,065)
Loans, Net	30,214,917	521,501	1,303,723	29,432,695	1,430,447
Compensated Absences (Note 1J)	161,658	139,463	158,635	142,486	110,731
OPEB Obligation (Note 4B)	79,874	75,385	79,757	75,502	-
Total Long Term Liabilities	<u>\$ 30,556,449</u>	<u>\$ 736,349</u>	<u>\$ 1,619,115</u>	<u>\$ 29,673,683</u>	<u>\$ 1,543,178</u>

At June 30, 2010, 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.	<u>\$ 23,000</u>
Total Special Assessment Bonds	<u>\$ 23,000</u>

**NEVADA COUNTY SANITATION DISTRICT NO. 1**  
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**NOTE 3: DETAILED NOTES (CONTINUED)**

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

At June 30, 2010, Loans consisted of the following:

State Water Resources Control Board loan, issued in the amount of \$339,164 and payable in annual installments of \$16,958, with an interest rate of 0.0% and maturity on June 30, 2029. Loan proceeds were used for the acquisition and construction of improvements to the Cascade Shores Wastewater System. The loan includes a loan discount of \$56,528.	\$ 322,206
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. The lift station was impaired and removed from the capital assets schedule.	\$ 61,878
Banc of America Leasing and Capital, LLC. loan, issued in the amount of \$8,000,000 and payable in one installment of \$8,000,000, with an interest rate of 4.48% and maturity of August 1, 2009. On August 18, 2009, the due date for the remaining loan balance of \$2,500,000 was extended to August 1, 2026. During the extended period the loan has an interest rate of 3.55% with semi-annual payments of \$73,529, beginning February 1, 2010. 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.	2,426,471
Banc of America Leasing and Capital, LLC. loan, issued in the amount of \$8,500,000 and payable in one annual installment of \$8,500,000, with an interest rate of 4.48% and maturity of August 1, 2009. On August 18, 2009, the due date for the remaining loan balance of \$1,000,000 was extended to August 1, 2026. During the extended period the loan has an interest rate of 3.55% with semi-annual payments of \$29,412 beginning February 1, 2010. The loan proceeds were used for interim financing for the acquisition and construction of improvements to the Lake Wildwood Zone 1 wastewater system.	970,588
State Water Resources Control Board loan, issued in the amount of \$12,122,824, plus accrued interest of \$110,523, and payable in annual installments of \$492,213 to \$739,310, with an interest rate of 2.2% and maturity on November 23, 2027. Loan proceeds were used for the acquisition and construction of improvements to the Lake Wildwood Zone 1 wastewater system.	11,228,483
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.	<u>17,081,241</u>
Total Loans Payable	<u>\$ 32,090,867</u>

At June 30, 2010, the annual debt service requirements were summarized as follows:

**Special Assessment Bonds**

Year Ended June 30	Principal	Interest	Total
2011	\$ 2,000	\$ 1,100	\$ 3,100
2012	2,000	1,000	3,000
2013	2,000	900	2,900
2014	2,000	800	2,800
2015	3,000	675	3,675
2016-2020	12,000	1,200	13,200
Total	\$ 23,000	\$ 5,675	\$ 28,675

**NEVADA COUNTY SANITATION DISTRICT NO. 1**  
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**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2010**

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

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

Loans

Year Ended June 30	Principal	Interest	Service Charge	Total
2011	\$ 1,696,512	\$ 256,310	\$ 112,285	\$ 2,065,107
2012	1,708,141	242,469	107,133	2,057,743
2013	1,720,029	228,483	101,868	2,050,380
2014	1,732,182	214,349	96,487	2,043,018
2015	1,744,604	200,062	90,988	2,035,654
2016-2020	8,871,229	782,184	368,122	10,021,535
2021-2025	9,205,085	410,046	211,317	9,826,448
2026-2030	5,413,085	63,975	44,109	5,521,169
Total	<u>\$ 32,090,867</u>	<u>\$ 2,397,878</u>	<u>\$ 1,132,309</u>	<u>\$ 35,621,054</u>

**D. 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, 2010:

	Due From Other Funds	Due To Other Funds
Wastewater Management System	\$ 616,724	\$ 679,881
Sanitation District Zone 1 - Lake Wildwood	282,844	224,953
Sanitation District Zone 2 - Lake of the Pines	204,425	154,508
Sanitation District Zone 4 - North San Juan	9,203	8,527
Sanitation District Zone 5 - Gold Creek	2,793	2,076
Sanitation District Zone 6 - Penn Valley	56,576	35,240
Sanitation District Zone 7 - Mountain Lake Estates	3,871	2,349
Sanitation District Zone 8 - Cascade Shores	108,604	180,562
Sanitation District Zone 9 - Eden Ranch	3,424	3,534
Sanitation District Zone 11 - Higgins Village	10,416	7,799
Sanitation District Zone 12 - Valley Oak	885	336
Total	<u>\$ 1,299,765</u>	<u>\$ 1,299,765</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, 2010:

	Transfer In	Transfer Out
Wastewater Management System	\$ 78,426	\$ -
Sanitation District Zone 1 - Lake Wildwood	-	42,099
Sanitation District Zone 2 - Lake of the Pines	-	26,100
Sanitation District Zone 4 - North San Juan	-	1,474
Sanitation District Zone 5 - Gold Creek	-	518
Sanitation District Zone 6 - Penn Valley	-	5,403
Sanitation District Zone 7 - Mountain Lake Estates	-	541
Sanitation District Zone 8 - Cascade Shores	-	1,239
Sanitation District Zone 9 - Eden Ranch	-	369
Sanitation District Zone 11 - Higgins Village	-	565
Sanitation District Zone 12 - Valley Oak	-	118
Total	<u>\$ 78,426</u>	<u>\$ 78,426</u>

**NEVADA COUNTY SANITATION DISTRICT NO. 1**  
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**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2010**

**NOTE 4: EMPLOYEE BENEFITS**

**A. Employee's Retirement Plan**

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

The County contributes to the California Public Employees Retirement System (PERS), an agent multiple-employer public employee defined benefit plan. PERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by statute. Copies of PERS' annual financial report may be obtained from their executive office - 400 P Street, Sacramento, CA 95814.

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

**B. Other Post-Employment Benefits (OPEB)**

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

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

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

Annual Required Contribution	\$ 75,142
Interest on Prior OPEB Obligation	4,957
Amortization of Prior Year Net OPEB Obligation	<u>( 4,714)</u>
Annual OPEB Cost	75,385
Pay As You Go Contribution	( 34,802)
Funding of Full ARC Contribution	<u>( 44,955)</u>
Increase (Decrease) in Net OPEB Obligation	( 4,372)
Net OPEB Obligation - Beginning of Year	<u>79,874</u>
Net OPEB Obligation - End of Year	<u><u>\$ 75,502</u></u>

Required disclosure information regarding post employment benefits can be found in the County's audited financial statements.

**NOTE 5: RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

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

**NEVADA COUNTY SANITATION DISTRICT NO. 1**  
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**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2010**

**NOTE 6: RELATED PARTY TRANSACTIONS**

The District has related party transactions with the County of Nevada.

The following is a summary of receivables from the County of Nevada by fund as of June 30, 2010:

Wastewater Management System	\$ 26,856
Sanitation District Zone 1 - Lake Wildwood	9
Sanitation District Zone 2 - Lake of the Pines	9
	<hr/>
Total Due from County of Nevada	<u>\$ 26,874</u>

The following is a summary of payables to the County of Nevada by fund at June 30, 2010:

Wastewater Management System	\$ 32,469
Sanitation District Zone 1- Lake Wildwood	1,527
Sanitation District Zone 2 - Lake of the Pines	2,139
Sanitation District Zone 4 - North San Juan	911
Sanitation District Zone 5 - Gold Creek	5
Sanitation District Zone 6 - Penn Valley	315
Sanitation District Zone 7 - Mountain Lake Estates	10
Sanitation District Zone 8 - Cascade Shores	1,456
Sanitation District Zone 9 - Eden Ranch	10
Sanitation District Zone 11 - Higgins Village	35
Sanitation District Zone 12 - Valley Oak	3
	<hr/>
Total Due to County of Nevada	<u>\$ 38,880</u>

The following is a summary of advances from the County of Nevada by fund as of June 30, 2010:

Sanitation District Zone 9 - Eden Ranch	\$ 1,985
Total Advances from County of Nevada	<u>\$ 1,985</u>

**NOTE 7: OTHER INFORMATION**

**A. Construction Commitments**

The District had active construction projects as of June 30, 2010, including upgrades to existing wastewater treatment plants to comply with new regulatory requirements. At year end the District's commitments with contractors are as follows:

<u>Project</u>	<u>Spent-to-date</u>	<u>Remaining Commitment</u>
Wastewater treatment facility upgrades	\$ 96,286	\$ 310,561

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

**B. Subsequent Events**

Management has evaluated events subsequent to June 30, 2010 through December 16, 2010, the date on which the financial statements were available for issuance. Management has determined no subsequent events requiring disclosure have occurred.

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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, 2010**

	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	\$ 182,390	\$ 2,713,391	\$ 2,398,698	\$ 79,099	\$ 50,825
Accounts receivable	-	204	839	-	-
Due from other funds	616,724	282,844	204,425	9,203	2,793
Due from County of Nevada	26,856	9	9	-	-
<b>Total Current Assets</b>	<b>825,970</b>	<b>2,996,448</b>	<b>2,603,971</b>	<b>88,302</b>	<b>53,618</b>
Noncurrent Assets					
Capital assets:					
Non-depreciable	-	392,560	436,504	139,084	5,950
Depreciable, net	239,043	18,107,749	24,584,483	210,386	35,061
<b>Total Noncurrent Assets</b>	<b>239,043</b>	<b>18,500,309</b>	<b>25,020,987</b>	<b>349,470</b>	<b>41,011</b>
<b>Total Assets</b>	<b>1,065,013</b>	<b>21,496,757</b>	<b>27,624,958</b>	<b>437,772</b>	<b>94,629</b>
<b>LIABILITIES</b>					
Current Liabilities					
Accounts payable	6,450	36,177	27,151	79	-
Accrued salaries and benefits	98,384	-	-	-	-
Accrued interest payable	-	205,347	143,183	383	-
Deposits payable	3,899	-	-	-	-
Due to other funds	679,881	224,953	154,508	8,527	2,076
Due to County of Nevada	32,469	1,527	2,139	911	5
Compensated absences payable	110,731	-	-	-	-
Bonds payable	-	-	-	2,000	-
Loans payable	-	573,995	834,834	-	-
<b>Total Current Liabilities</b>	<b>931,814</b>	<b>1,041,999</b>	<b>1,161,815</b>	<b>11,900</b>	<b>2,081</b>
Noncurrent Liabilities					
Advances from County of Nevada	-	-	-	-	-
Compensated absences payable	31,755	-	-	-	-
Bonds payable	-	-	-	21,000	-
Loans payable	-	11,625,077	16,066,137	-	-
Net OPEB obligation	75,502	-	-	-	-
<b>Total Noncurrent Liabilities</b>	<b>107,257</b>	<b>11,625,077</b>	<b>16,066,137</b>	<b>21,000</b>	<b>-</b>
<b>Total Liabilities</b>	<b>1,039,071</b>	<b>12,667,076</b>	<b>17,227,952</b>	<b>32,900</b>	<b>2,081</b>
<b>NET ASSETS</b>					
Invested in capital assets, net of related debt	239,043	6,301,237	8,120,016	326,470	41,011
Unrestricted	(213,101)	2,528,444	2,276,990	78,402	51,537
<b>Total Net Assets</b>	<b>\$ 25,942</b>	<b>\$ 8,829,681</b>	<b>\$ 10,397,006</b>	<b>\$ 404,872</b>	<b>\$ 92,548</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 10 - Darkhorse	Sanitation District Zone 11 - Higgins Village	Sanitation District Zone 12 - Valley Oak	Totals
\$ 253,577	\$ 23,860	\$ 368,465	\$ 9,731	\$ 27,116	\$ 70,848	\$ 15,999	\$ 6,193,999
38,184	-	-	-	-	-	-	39,227
56,576	3,871	108,604	3,424	-	10,416	885	1,299,765
-	-	-	-	-	-	-	26,874
<u>348,337</u>	<u>27,731</u>	<u>477,069</u>	<u>13,155</u>	<u>27,116</u>	<u>81,264</u>	<u>16,884</u>	<u>7,559,865</u>
481,929	45,231	3,927,774	29,993	-	-	-	5,459,025
1,111,765	375,818	1,267,613	119,581	-	412,012	85,073	46,548,584
<u>1,593,694</u>	<u>421,049</u>	<u>5,195,387</u>	<u>149,574</u>	<u>-</u>	<u>412,012</u>	<u>85,073</u>	<u>52,007,609</u>
<u>1,942,031</u>	<u>448,780</u>	<u>5,672,456</u>	<u>162,729</u>	<u>27,116</u>	<u>493,276</u>	<u>101,957</u>	<u>59,567,474</u>
40,454	-	7,034	118	-	296	-	117,759
-	-	-	-	-	-	-	98,384
-	-	125,085	-	-	-	-	473,998
-	-	-	-	-	-	-	3,899
35,240	2,349	180,562	3,534	-	7,799	336	1,299,765
315	10	1,456	10	-	35	3	38,880
-	-	-	-	-	-	-	110,731
-	-	-	-	-	-	-	2,000
-	-	21,618	-	-	-	-	1,430,447
<u>76,009</u>	<u>2,359</u>	<u>335,755</u>	<u>3,662</u>	<u>-</u>	<u>8,130</u>	<u>339</u>	<u>3,575,863</u>
-	-	-	1,985	-	-	-	1,985
-	-	-	-	-	-	-	31,755
-	-	-	-	-	-	-	21,000
-	-	311,034	-	-	-	-	28,002,248
-	-	-	-	-	-	-	75,502
<u>-</u>	<u>-</u>	<u>311,034</u>	<u>1,985</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>28,132,490</u>
<u>76,009</u>	<u>2,359</u>	<u>646,789</u>	<u>5,647</u>	<u>-</u>	<u>8,130</u>	<u>339</u>	<u>31,708,353</u>
1,593,694	421,049	4,924,613	149,574	-	412,012	85,073	22,613,792
272,328	25,372	101,054	7,508	27,116	73,134	16,545	5,245,329
<u>\$ 1,866,022</u>	<u>\$ 446,421</u>	<u>\$ 5,025,667</u>	<u>\$ 157,082</u>	<u>\$ 27,116</u>	<u>\$ 485,146</u>	<u>\$ 101,618</u>	<u>\$ 27,859,121</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, 2010**

	<b>Wastewater Management System</b>	<b>Sanitation District Zone 1 - Lake Wildwood</b>	<b>Sanitation District Zone 2 - Lake of the Pines</b>	<b>Sanitation District Zone 4 - North San Juan</b>	<b>Sanitation District Zone 5 - Gold Creek</b>
<b><u>OPERATING REVENUES</u></b>					
Charges for services	\$ 164,318	\$ 3,149,203	\$ 2,494,509	\$ 72,198	\$ 10,340
<b>Total Operating Revenues</b>	<b>164,318</b>	<b>3,149,203</b>	<b>2,494,509</b>	<b>72,198</b>	<b>10,340</b>
<b><u>OPERATING EXPENSES</u></b>					
Salaries and benefits	2,132,936	-	-	-	-
Services and supplies	411,792	612,700	421,130	16,646	1,479
Benefit and claim expense	-	266,909	82,000	-	-
Other charges	171,901	-	-	410	-
Expenditure transfers	(2,536,265)	1,206,219	921,923	37,453	8,973
Depreciation	73,305	745,420	916,143	9,320	3,058
<b>Total Operating Expenses</b>	<b>253,669</b>	<b>2,831,248</b>	<b>2,341,196</b>	<b>63,829</b>	<b>13,510</b>
<b>Operating Income (Loss)</b>	<b>(89,351)</b>	<b>317,955</b>	<b>153,313</b>	<b>8,369</b>	<b>(3,170)</b>
<b><u>NON-OPERATING REVENUE (EXPENSES)</u></b>					
Interest income	778	17,802	15,310	186	144
Other revenues	19,640	5,456	7,099	36	9
Interest expense	-	(334,510)	(358,573)	(1,166)	-
<b>Total Non-Operating Revenues (Expenses)</b>	<b>20,418</b>	<b>(311,252)</b>	<b>(336,164)</b>	<b>(944)</b>	<b>153</b>
<b>Income (Loss) before Transfers</b>	<b>(68,933)</b>	<b>6,703</b>	<b>(182,851)</b>	<b>7,425</b>	<b>(3,017)</b>
Transfers in	78,426	-	-	-	-
Transfers out	-	(42,099)	(26,100)	(1,474)	(518)
<b>Change in Net Assets</b>	<b>9,493</b>	<b>(35,396)</b>	<b>(208,951)</b>	<b>5,951</b>	<b>(3,535)</b>
<b>Total Net Assets - Beginning</b>	<b>16,449</b>	<b>8,865,077</b>	<b>10,605,957</b>	<b>398,921</b>	<b>96,083</b>
<b>Total Net Assets - Ending</b>	<b>\$ 25,942</b>	<b>\$ 8,829,681</b>	<b>\$ 10,397,006</b>	<b>\$ 404,872</b>	<b>\$ 92,548</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 10 - Darkhorse	Sanitation District Zone 11 - Higgins Village	Sanitation District Zone 12 - Valley Oak	Totals
\$ 371,581	\$ 23,428	\$ 224,238	\$ 24,300	\$ -	\$ 80,065	\$ 8,000	\$ 6,622,180
371,581	23,428	224,238	24,300	-	80,065	8,000	6,622,180
-	-	-	-	-	-	-	2,132,936
187,026	3,546	94,673	8,848	-	20,211	671	1,778,722
-	-	-	-	-	-	-	348,909
232	-	-	-	-	-	-	172,543
174,660	14,276	188,353	14,710	-	51,071	3,137	84,510
56,120	15,599	39,446	4,763	-	13,268	2,885	1,879,327
418,038	33,421	322,472	28,321	-	84,550	6,693	6,396,947
(46,457)	(9,993)	(98,234)	(4,021)	-	(4,485)	1,307	225,233
486	49	494	17	55	185	37	35,543
229	15	1,050	14	31,736	45	16	65,345
(888)	-	(7,643)	(11)	-	-	-	(702,791)
(173)	64	(6,099)	20	31,791	230	53	(601,903)
(46,630)	(9,929)	(104,333)	(4,001)	31,791	(4,255)	1,360	(376,670)
-	-	-	-	-	-	-	78,426
(5,403)	(541)	(1,239)	(369)	-	(565)	(118)	(78,426)
(52,033)	(10,470)	(105,572)	(4,370)	31,791	(4,820)	1,242	(376,670)
1,918,055	456,891	5,131,239	161,452	(4,675)	489,966	100,376	28,235,791
\$ 1,866,022	\$ 446,421	\$ 5,025,667	\$ 157,082	\$ 27,116	\$ 485,146	\$ 101,618	\$ 27,859,121

**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, 2010

	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	\$ 168,217	\$ 3,148,999	\$ 2,494,403	\$ 72,198	\$ 10,340
Payments to suppliers	1,941,550	(2,091,923)	(1,430,474)	(54,772)	(10,452)
Payments to employees	(2,146,960)	-	-	-	-
<b>Net Cash Provided (Used) by Operating Activities</b>	<u>(37,193)</u>	<u>1,057,076</u>	<u>1,063,929</u>	<u>17,426</u>	<u>(112)</u>
<b><u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</u></b>					
Grants and other receipts	19,640	5,456	7,099	36	9
Transfers from other funds	78,426	-	-	-	-
Transfers to other funds	-	(42,099)	(26,100)	(1,474)	(518)
Interfund loans received	98,894	44,126	1,330	4,545	955
Interfund loans made	(238,350)	(5,132)	(14,853)	-	-
Interfund loans repaid	-	-	(85,763)	-	-
Interfund loan repayments received	-	-	113,948	1,352	30
<b>Net Cash Provided (Used) by Noncapital Financing Activities</b>	<u>(41,390)</u>	<u>2,351</u>	<u>(4,339)</u>	<u>4,459</u>	<u>476</u>
<b><u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u></b>					
Acquisition of capital assets	(78,425)	(314,746)	-	-	-
Proceeds from issuance of debt	-	-	238,866	-	-
Principal paid on capital debt	-	(533,493)	(1,022,487)	(2,000)	-
Interest paid on capital debt	-	(298,398)	(100,704)	(1,200)	-
<b>Net Cash Provided (Used) for Capital and Related Financing Activities</b>	<u>(78,425)</u>	<u>(1,146,637)</u>	<u>(884,325)</u>	<u>(3,200)</u>	<u>-</u>
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES</u></b>					
Interest and dividends	778	17,802	15,310	186	144
<b>Net Cash Provided (Used) by Investing Activities</b>	<u>778</u>	<u>17,802</u>	<u>15,310</u>	<u>186</u>	<u>144</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	(156,230)	(69,408)	190,575	18,871	508
<b>Balances - Beginning of Year</b>	338,620	2,782,799	2,208,123	60,228	50,317
<b>Balances - End of Year</b>	<u>\$ 182,390</u>	<u>\$ 2,713,391</u>	<u>\$ 2,398,698</u>	<u>\$ 79,099</u>	<u>\$ 50,825</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
\$ 333,397 (241,341) -	\$ 23,428 (17,822) -	\$ 224,238 (540,554) -	\$ 24,300 (23,642) -	\$ - - -	\$ 80,065 (70,986) -	\$ 8,000 (3,808) -	\$ 6,587,585 (2,544,224) (2,146,960)
92,056	5,606	(316,316)	658	-	9,079	4,192	1,896,401
229 - (5,403) 2,929 - - 436	15 - (541) - (349) (964) -	1,050 - (1,239) 147,122 (67,905) - -	14 - (369) 1,066 (347) (1,015) -	31,736 - - - - (8,612) -	45 - (565) 1,084 - - 3,675	16 - (118) - - (481) 422	65,345 78,426 (78,426) 302,051 (326,936) (96,835) 119,863
(1,809)	(1,839)	79,028	(651)	23,124	4,239	(161)	63,488
- - (75,000) (2,663)	- - - -	(447,639) 282,636 (26,213) (2,207)	- - - 4	- - - -	- - - -	- - - -	(840,810) 521,502 (1,659,193) (405,168)
(77,663)	-	(193,423)	4	-	-	-	(2,383,669)
486	49	494	17	55	185	37	35,543
486	49	494	17	55	185	37	35,543
13,070	3,816	(430,217)	28	23,179	13,503	4,068	(388,237)
240,507	20,044	798,682	9,703	3,937	57,345	11,931	6,582,236
\$ 253,577	\$ 23,860	\$ 368,465	\$ 9,731	\$ 27,116	\$ 70,848	\$ 15,999	\$ 6,193,999

**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, 2010

	<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>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET</u></b>					
<b><u>CASH PROVIDED (USED) BY OPERATING ACTIVITIES</u></b>					
Operating income (loss)	\$ (89,351)	\$ 317,955	\$ 153,313	\$ 8,369	\$ (3,170)
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation	73,305	745,420	916,143	9,320	3,058
Write off of preacquisition costs	-	-	-	-	-
Decrease (Increase) in:					
Accounts receivable	3,899	(204)	(106)	-	-
Increase (Decrease) in:					
Accounts payable	(11,022)	(6,095)	(5,421)	(263)	-
Accrued salaries and benefits	9,520	-	-	-	-
Compensated absences	(19,172)	-	-	-	-
Net OPEB obligation	(4,372)	-	-	-	-
<b>Net Cash Provided (Used) by Operating Activities</b>	<b><u>\$ (37,193)</u></b>	<b><u>\$ 1,057,076</u></b>	<b><u>\$ 1,063,929</u></b>	<b><u>\$ 17,426</u></b>	<b><u>\$ (112)</u></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 10 - Darkhorse	Sanitation District Zone 11 - Higgins Village	Sanitation District Zone 12 - Valley Oak	Totals
\$ (46,457)	\$ (9,993)	\$ (98,234)	\$ (4,021)	\$ -	\$ (4,485)	\$ 1,307	\$ 225,233
56,120	15,599	39,446	4,763	-	13,268	2,885	1,879,327
81,952	-	-	-	-	-	-	81,952
(38,184)	-	-	-	-	-	-	(34,595)
38,625	-	(257,528)	(84)	-	296	-	(241,492)
-	-	-	-	-	-	-	9,520
-	-	-	-	-	-	-	(19,172)
-	-	-	-	-	-	-	(4,372)
<u>\$ 92,056</u>	<u>\$ 5,606</u>	<u>\$ (316,316)</u>	<u>\$ 658</u>	<u>\$ -</u>	<u>\$ 9,079</u>	<u>\$ 4,192</u>	<u>\$ 1,896,401</u>

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**OTHER REPORT AND SCHEDULES**

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

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

We have audited the financial statements of the proprietary fund of the Nevada County Sanitation District No. 1 (District), a component unit of the County of Nevada, California, as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 16, 2010. 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.

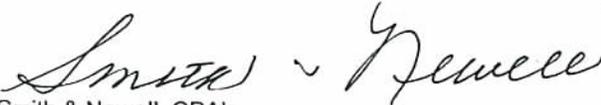
A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

This report is intended solely for the information and use of management, Governing Board, others within the organization, and the State Controller's Office and is not intended to be and should not be used by anyone other than these specified parties.

  
Smith & Newell, CPA's  
Yuba City, California  
December 16, 2010

**NEVADA COUNTY SANITATION DISTRICT NO. 1**  
(A Component Unit of the County of Nevada, California)  
**STATUS OF PRIOR YEAR RECOMMENDATIONS**  
**FOR THE YEAR ENDED JUNE 30, 2010**

<u>Audit Reference</u>	<u>Status of Prior Year Recommendations</u>
09-FS-01	<p><b>OPEB OBLIGATION</b></p> <p><b>Recommendation</b></p> <p>We recommend that the District thoroughly review the calculation of the OPEB obligation to ensure that all amounts are recorded in the proper fund.</p> <p><b>Status</b></p> <p>Implemented</p>