

**CITY OF NEVADA CITY,  
CALIFORNIA**



**FINANCIAL STATEMENTS  
TOGETHER WITH  
INDEPENDENT AUDITORS' REPORTS  
FOR THE YEAR ENDED  
JUNE 30, 2010**

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**CITY OF NEVADA CITY, CALIFORNIA  
ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED JUNE, 2010**

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**ANNUAL FINANCIAL REPORT**  
**FOR THE YEAR ENDED JUNE 30, 2010**

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# INTRODUCTORY SECTION

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- **List of Officials**

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**CITY OF NEVADA CITY, CALIFORNIA**  
**CITY OFFICIALS**  
**FOR THE YEAR ENDED JUNE 30, 2010**

**CITY COUNCIL**

Reinette Senum, Mayor

Robert Bergman, Vice Mayor

David McKay

Barbara Coffman

Sally Harris

**CITY STAFF**

Gene Albaugh, City Manager

Neil Locke, City Clerk

Harold DeGraw, City Attorney

Sam Goodspeed, Fire Chief

Lou Trovato, Chief of Police

William J. Falconi, City Engineer

Verne Taylor, Director of Public Works

Catrina Andes, Finance Director

Cindy Siegfried, City Planner

Andy Howard, Treasurer

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# FINANCIAL SECTION

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- **Independent Auditor's Report**
  - **Management's Discussion and Analysis**
  - **Basic Financial Statements**
  - **Required Supplementary Information**
  - **Combining Nonmajor Fund Statements**

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**INDEPENDENT AUDITOR'S REPORT**

To The Honorable Mayor and  
Members of the City Council  
City of Nevada City  
Nevada City, California

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Nevada City, California (City), as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City'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.

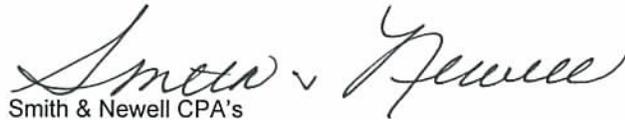
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of June 30, 2010, and the respective changes in financial position, and cash flows where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated November 24, 2010, on our consideration of the City'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 and budgetary comparison information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing information and comparing the information for consistency with managements 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.

To The Honorable Mayor and  
Members of the City Council  
City of Nevada City  
Nevada City, California

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements taken as a whole. The introductory section and combining nonmajor fund statements are presented for purposes of additional analysis and are not a required part of the financial statements. The combining nonmajor 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. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and, accordingly, we do not express an opinion or provide any assurance on it.

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

Smith & Newell CPA's  
Yuba City, California  
November 24, 2010

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

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**CITY OF NEVADA CITY, CALIFORNIA  
MANAGEMENT DISCUSSION & ANALYSIS  
Fiscal Year 2009/2010**

The following discussion provides users of the City of Nevada City's financial statements a narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2010. Please read this document in conjunction with the basic financial statements and the accompanying notes to those financial statements.

The City has a diverse local economy based on business and industry, local government employment, and tourism. This allows the City to provide a variety of services to all citizens. There continues to be an overall slowing in the local economy, general fund and business activity revenues have decreased which has warranted controlled City spending throughout the fiscal year.

**FINANCIAL HIGHLIGHTS**

The following are some financial highlights for fiscal year 2010:

Entity-wide:

- ❑ The City's assets at the end of the year decreased to \$25,625,359 down \$253,551 from the previous fiscal year. Of this total, \$11,630,578 is Governmental assets up \$77,931 from the previous fiscal year, and \$13,994,781 is Business type assets down \$331,482 from the previous fiscal year.
- ❑ The City's liabilities at the end of the year decreased to \$6,448,927 down \$418,921 from the previous fiscal year. Of this total, \$889,941 is Governmental liabilities down \$224,922 from the previous fiscal year, and \$5,558,986 is Business type liabilities down \$193,999 from the previous fiscal year.
- ❑ The net affect of the changes in assets and liabilities left the City's net assets at \$19,176,432 up \$165,370 from the previous fiscal year. Of this total, \$10,740,637 is Governmental up \$302,853 from the previous fiscal year, and \$8,435,795 is Business type down \$137,483 from the previous fiscal year.
- ❑ Governmental revenues include program revenues of \$965,496 and general revenues of \$3,211,865 for a total revenue amount of \$4,177,361 less transfers out of \$15,817. Governmental expenses were \$3,863,736.
- ❑ Business-type revenues include program revenues of \$1,857,327 and general revenues of \$83,453 for total revenues of \$1,940,780 plus transfers in of \$15,817. Business-type expenses were \$2,094,080.

Fund level:

- ❑ Governmental Fund Balances at the end of the fiscal year were \$599,560 up \$185,970 from the prior fiscal year.
- ❑ Governmental Fund revenues were \$4,123,158 in 2010 compared to \$4,551,192 in 2009 for a decrease of \$428,034.
- ❑ Governmental Fund expenditures of \$3,921,371 decreased by \$1,826,534 from the prior year.

General Fund:

- ❑ The General Fund revenues were \$3,110,898, a decrease of \$368,720 from the prior year.
- ❑ General Fund expenditures of \$3,447,338 represent a decrease of \$1,351,030 from the prior year.

- ❑ General Fund other financing sources for the year totaled \$230,573 for a decrease of \$135,902 from 2009.
- ❑ At the end of the fiscal year, the unassigned fund balance for the General Fund was (\$620,985).

## **OVERVIEW OF THE CITY'S ANNUAL FINANCIAL REPORT**

The discussion and analysis that follows is intended to serve as an introduction to the City's basic financial statements. These statements are comprised of three components: (1) Government-Wide Financial Statements, (2) Fund Financial Statements and (3) Notes to the Financial Statements. This report also contains required supplementary information in addition to the basic financial statements.

### **Reporting the City as a Whole**

The government-wide financial statements are designed to provide the readers with a broad overview of the City's finances, presented in a format similar to a private-sector business.

The Statement of Net Assets presents information on all of the City's assets and liabilities, with differences between the two reported as net assets. Net assets increase or decrease each year based on whether government-wide revenues exceeded the related expenditures (increase), or government-wide expenditures exceeded revenues (decrease). The change in net assets over time may provide a useful tool in measuring whether or not the financial position of the City is improving or deteriorating.

The Statement of Activities presents financial information on what material types of revenues and expenditures transactions occurred during the fiscal year that created the increase (decrease) in net assets. All transactions are reported in the year in which they have been consummated, and not when the cash is received or paid. For example, uncollected taxes are accrued as revenue in these financial statements and earned but unused vacation pay are expensed in the period earned.

Both of these government-wide financial statements distinguish functions of the City that are principally supported by taxes and inter-governmental revenues (government activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include public safety (police & fire), public works streets and facilities maintenance, engineering, parks and recreation, land use planning and general city administration responsibilities. The business-type activities of the City include water and sewer utility operations.

The government-wide financial statements include the City only (known as the primary government). There are no component or blended component units that are part of the City's operations.

### **Reporting the City's Most Significant Funds**

The fund financial statements provide detailed information about the most significant funds, not the City as a whole. Some funds are required to be established by State law and by bond covenants. The City also establishes other funds to help it control and manage money for particular purposes or to show that it is meeting legal or contractual responsibilities. All of the funds of the City can be divided into the following categories: governmental funds, proprietary funds, and fiduciary funds.

**Governmental Funds.** Most of the City's basic services are reported in governmental funds. These funds focus on how money flows into and out of these funds and balances left at year end that are available for subsequent expenditure. These funds are reported using an accounting method called modified accrual which measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the City's general governmental operations and the basic services it provides.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By so doing, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate the comparison between governmental funds and governmental activities.

**Proprietary Funds.** Proprietary funds are generally used to account for services for which the City charges customers. Proprietary funds are meant to be financially self-supporting. Proprietary funds provide the same type of information as shown in the government-wide financial statements, only in more detail. The City's proprietary funds are used to account for the water and sewer services provided by the City.

**Fiduciary Funds.** Fiduciary funds are used to account for resources held for the benefit of parties other than the City. The accounting used for fiduciary funds is much like that of the proprietary funds. The fiduciary fund activity is excluded from the City's other financial statements, because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

### **Notes to Financial Statements**

The notes to the financial statements provide additional information for readers that are essential for a full understanding of the data provided in the government-wide and fund financial statements.

### **FINANCIAL ACTIVITIES OF THE CITY AS A WHOLE.**

This analysis focuses on the net assets and changes in net assets of the City as a whole. Tables 1 and 2 focus on the City's Governmental Statement of Net Assets and Statement of Activities and Tables 3 through 5 focus on the City's Business-type Statement of Net Assets and Statement of Activities.

## Governmental Activities:

**Table 1**  
**Governmental Net Assets at June 30**

	<u>2010</u>	<u>2009</u>
Cash and investments	\$751,952	\$530,284
Other assets	395,317	486,226
Capital assets	10,483,309	10,536,137
<b>Total Assets</b>	<b>\$11,630,578</b>	<b>\$11,552,647</b>
Current liabilities	526,292	612,268
Long term debt	363,649	502,595
<b>Total Liabilities</b>	<b>\$889,941</b>	<b>\$1,114,863</b>
<b>Net Assets:</b>		
Invested in Capital assets, net of related debt	\$10,019,000	\$9,925,238
Restricted	989,490	397,183
Unrestricted	(267,853)	115,363
<b>Total Net Assets</b>	<b>\$10,740,637</b>	<b>\$10,437,784</b>

The City's Governmental net assets were \$10,740,637 as of June 30, 2010, an increase of \$302,853 over the prior year. This increase is the change in net assets shown in Table 1. The City's Governmental Net Assets as of June 30, 2010 were comprised of the net of the following:

- Cash of \$751,952 held in the State of California's Local Agency Investment Fund and the City's money market savings and general checking accounts.
- Receivables of \$394,079 comprised of accrued revenues and amounts due from other funds.
- Prepaid costs of \$1,238.
- Capital assets net of depreciation charges of \$10,483,309, this includes all of the City's infrastructure as well as other capital assets used in government activities, see Notes 1 and 3 for additional information on capital assets.
- Current liabilities including accounts payable, accrued expenses, employee leave time earned but not yet used and amounts due to other funds totaling \$256,265
- Long term debt of \$633,676 of which \$363,649 matures in future years and \$270,027 is due currently. Note 3 provides additional detail on the City's long term debt.

**Table 2  
Changes in Governmental Net Assets June 30**

	<b>2010</b>	<b>2009</b>
Revenues:		
Program revenues:		
Charges for service	\$506,812	\$482,555
Grants and contributions	458,684	641,399
General Revenues:		
Property taxes	1,700,566	1,675,537
Other taxes	1,294,947	1,662,993
Unrestricted grants and contributions	9,100	0
Interest and Investment Earnings	68,354	73,015
Other general revenues and transfers	123,081	214,040
<b>Total Revenues</b>	<b>\$4,161,544</b>	<b>\$4,749,539</b>
Program Expenses:		
General Government	\$989,968	\$1,158,850
Public Safety	1,824,540	2,334,655
Public Works	702,771	735,771
Parks and Recreation	312,645	364,167
Interest on Long-term debt	33,812	61,565
<b>Total expenses</b>	<b>\$3,863,736</b>	<b>\$4,655,008</b>
<b>Net (Expense) Revenue</b>	<b>297,808</b>	<b>94,531</b>
Prior Period Adjustment	5,045	0
<b>Change in Net Assets</b>	<b>\$302,853</b>	<b>\$94,531</b>

Total Governmental revenues decreased by 12.4% from the prior year. Other tax (includes sales and use tax, franchise tax, and transient occupancy tax) decreased 22% from the previous fiscal year. Sales and use tax decreased 24% from the previous fiscal year with Measure "S" collections being \$495,131 and sales tax being \$501,908. The combined franchise tax and transient occupancy tax declined 14.6% from the previous fiscal year collections. The City's sales tax revenue can fluctuate with the activity of several large businesses that generate a significant percentage of the City's sales tax. The 2009/2010 assessed property valuations were approximately 1% greater than that of the fiscal year 2008/2009. The City experienced a decrease in interest earnings related to a decrease in cash and investment balances and a declining interest rate environment during the 2009/2010 fiscal year.

Total Governmental expenses decreased 17% from the previous fiscal year. The decreases in program expenses were associated to a decline in all departmental governmental activities. The City took out a Tax Revenue Anticipation Note (TRAN) in the fiscal year 2008/2009 from the Nevada County Treasurer, and used \$626,781 to payoff Nevada City's CalPERS side fund debt at a reduced interest rate of 2.78% versus the 7.75% that was being charged by CalPERS. This payoff increased the benefit expense of each governmental department in the fiscal year 2008/2009 creating a significant decline in benefit expense in 2009/2010. Also to continue controlled operational expenses during the fiscal year 2009/2010 a one day a month furlough for miscellaneous employees was continued which had been implemented Citywide in the fiscal year 2008/2009.

Table 2 shows that 23.2% of the City's Governmental revenues were derived from fees for City services and grants which is a minimal decline from the previous fiscal year where City services and grants constituted 23.7% of the City's Governmental revenues. Overall, the City experienced a slight up tick in all governmental activities charges for services from the previous fiscal year, with the largest increases associated to public protection and public ways and facilities.

**Business-Type Activities:**

**Table 3  
Business-Type Net Assets at June 30**

	<u>2010</u>	<u>2009</u>
Cash and investments	\$215,599	\$193,457
Other assets	616,084	619,923
Capital assets	13,163,098	13,512,883
<b>Total Assets</b>	<b>\$13,994,781</b>	<b>\$14,326,263</b>
Current liabilities	\$413,234	\$440,312
Long term debt	5,145,752	5,312,673
<b>Total Liabilities</b>	<b>\$5,558,986</b>	<b>\$5,752,985</b>
Net Assets:		
Contributed Capital	\$7,859,766	\$8,049,718
Reserved	209,458	188,675
Unrestricted	366,571	334,885
<b>Total Net Assets</b>	<b>\$8,435,795</b>	<b>\$8,573,278</b>

The City's Business-Type enterprises consist of water and sewer services. Total net assets decreased 1.6%, being driven by a decrease in the depreciable assets in the Wastewater Treatment Plant coupled with a decrease in non current liabilities associated to scheduled principal payments on the Loans Payable and Certificates of Participation for the Water and Wastewater Treatment Plants.

**Table 4  
Changes in Business-Type Net Assets June 30**

	<b>2010</b>	<b>2009</b>
Revenues:		
Program revenues:		
Water	\$530,334	\$487,334
Sewer	1,310,568	1,312,572
Other Enterprise Funds	16,425	17,374
General Revenues	99,270	106,618
<b>Total Revenues</b>	<b>\$1,956,597</b>	<b>\$1,923,898</b>
Expenses:		
Water	\$687,668	\$784,600
Sewer	1,376,275	1,424,105
Other Enterprise Funds	30,137	34,776
<b>Total Expenses</b>	<b>\$2,094,080</b>	<b>\$2,243,481</b>
<b>Change in Net Assets</b>	<b>\$(137,483)</b>	<b>\$(319,583)</b>

The City's Business-type revenues increased by 1.7% in whole due to the increase in water rates which led to increased revenue collection; this was offset by a slight decrease in the remaining Business-type program revenues.

There was an overall decrease of 6.6% in total business type activity expense. There were decreases in operational expenses in each of the Water, Wastewater, and Veterans Building operations for the fiscal year 2009/2010. The decrease in expenses in the Water, Wastewater, and Veterans Building Departments are associated to a reduction in operational costs for services being provided.

**Table 5  
Changes in Business-Type Net Assets June 30  
Net (Expense) Revenues From Services**

	<b>2010</b>	<b>2009</b>
Water Services	\$(75,643)	\$(59,511)
Sewer Services	\$(48,128)	\$(242,670)
Other Enterprise Funds	\$(13,712)	\$(17,402)
<b>Totals</b>	<b>\$(137,483)</b>	<b>\$(319,583)</b>

The overall improvement in Net Income for fiscal year 2009/2010 in wastewater services from the prior year relates to transfers out to other funds in the fiscal year 2008/2009 in an effort to clean up old capital fund balances associated to the Wastewater Plant upgrade. The actual Water Services Net Income prior to transfers for the fiscal year 2009/2010 was \$(89,084) versus the Water Services Net Income for the fiscal year 2008/2009 of \$(262,052). This was an improvement of 66% associated to a \$43,000 increase in revenue collections, and a decrease of \$96,932 in operational expenses for the fiscal year 2009/2010. The Wastewater Services Net Income prior to transfers for the fiscal year 2009/2010 was \$(50,504) versus the Wastewater Services Net Income for the fiscal year 2008/2009 of \$(47,331).

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital assets

In fiscal year 2003/2004 the City started recording the cost of its infrastructure assets and expensing them over time (depreciation expense). Infrastructure assets include streets, bridges, storm drains and similar assets used by the general population. Other capital assets include police and fire equipment, buildings, park facilities and water and sewer facilities. The cost of infrastructure and other capital assets recorded on the City's financial statements was as shown below:

**Table 6**  
**Capital Assets at June 30, 2010**  
**(Net of Depreciation)**

	<b>Government Activities</b>	<b>Business Activities</b>	<b>Total</b>
Land	\$1,178,782	\$0	\$1,178,782
Structures & Improvements	11,209,583	17,836,337	29,045,920
Vehicles, machinery and equipment	1,608,514	2,611,504	4,220,018
Software	42,041	0	42,041
Construction in Progress	426,314	11,599	437,913
Less: Accumulated Depreciation	(3,981,925)	(7,296,342)	(11,278,267)
<b>Totals</b>	<b>\$10,483,309</b>	<b>\$13,163,098</b>	<b>\$23,646,407</b>

The City depreciates capital assets over their estimated useful lives. The purpose of depreciation is to match the expense of capital assets to revenue sources over the assets useful life so that the cost is borne by the users of the asset. Note 1 to the financial statements provides additional information on capital assets, depreciation methods and useful lives.

The major changes in capital assets in governmental activities for the fiscal year 2009/2010 were in the governmental activities construction in progress additions and land improvements and infrastructure. The City began work in many areas in the fiscal year 2009/2010 such as the Gold Flat and Zion Road Interchange funded by Congestion Mitigation and Air Quality Funds (CMAQ), and the City made an installment payment for a new fire engine that is being funded by a grant given by the Federal Emergency Management Agency. The additions in land improvements and infrastructure were associated to a few large capital improvements such as; paving on South Pine Street funded by Gas Tax revenues, a large realignment and striping project on Ridge, Zion, and Coyote Streets with funds provided to the City through the Nevada County Transportation Commission, and continued citywide paving work supported by Measure "S" tax funding. The change in capital assets associated to business activities was primarily associated to the completion of the Hydro Electric Plant at the Wastewater Treatment facility. This project began in the fiscal year 2002/2003 with the majority of the of the project construction being done in the last three fiscal years, the balance of the project was moved from construction in progress from fiscal year 2008/2009 to structures and improvements for fiscal year 2009/2010 with a half year of depreciation being taken in fiscal year 2009/2010; see Note 3 for additional detail on changes in capital assets during the year.

## Debt Administration

At year-end, the City had \$5,999,489 in long term debt outstanding compared to \$6,248,803 at 06/30/09. The City had a decrease in long term debt of \$249,314 associated to principal payments to the United States Department of Agriculture (USDA) for Certificates of Participation Series 2005 and 2007 for the Wastewater Treatment Plant upgrade that began fiscal year 2004/2005. The City also refinanced USDA Sewer Bonds Series A and B and USDA Sewer Fund Promissory note in fiscal year 2007/2008, totaling \$1,016,542 for a reduced interest rate of 4.1% and made scheduled principal payments on the new loan during fiscal year 2009/2010. The City also issued a Tax Revenue Anticipation Note for .74%, leveraging anticipated property tax. This note was used to fund the payoff of the CalPERS side fund for \$626,781 that had an interest rate of 7.75%, the purchase of the DPW Vactron, 500 new water meter replacement, and the Solar Project installation at City Hall, Corp Yard, and the Swimming Pool. The Tax Revenue Anticipation Note was paid off on June 30, 2010.

**Table 7**  
**Outstanding Debt at June 30, 2010**

	Government Activities	Business Activities	Total
Loans Payable	\$8,894	\$1,442,332	\$1,451,226
Certificates of Participation	-	3,861,000	3,861,000
Capital Leases	455,415	-	455,415
Compensated absences payable	169,367	62,481	231,848
Totals	<b>\$633,676</b>	<b>\$5,365,813</b>	<b>\$5,999,489</b>

## Contacting the City

This financial report is designed to provide the citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, contact the City at 317 Broad Street, Nevada City, Ca. 95959, or by phone - 530-265-2496.

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**BASIC FINANCIAL STATEMENTS**  
Government-Wide Financial Statements

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**CITY OF NEVADA CITY, CALIFORNIA**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2010**

	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b><u>ASSETS</u></b>			
Cash and investments	\$ 751,952	\$ 215,599	\$ 967,551
Accounts receivable	393,619	339,451	733,070
Interest receivable	1,226	1,676	2,902
Taxes receivable	272,601	-	272,601
Internal balances	(273,367)	273,367	-
Prepaid costs	1,238	1,590	2,828
Capital assets:			
Non depreciable assets	1,605,096	11,599	1,616,695
Depreciable assets, net of depreciation	8,878,213	13,151,499	22,029,712
Total capital assets	<u>10,483,309</u>	<u>13,163,098</u>	<u>23,646,407</u>
<b>Total Assets</b>	<u>11,630,578</u>	<u>13,994,781</u>	<u>25,625,359</u>
<b><u>LIABILITIES</u></b>			
Accounts payable	119,944	57,745	177,689
Salaries and benefits payable	106,355	26,350	132,705
Interest payable	291	109,078	109,369
Unearned revenue	29,675	-	29,675
Long-term liabilities:			
Due within one year	270,027	220,061	490,088
Due in more than one year	363,649	5,145,752	5,509,401
<b>Total Liabilities</b>	<u>889,941</u>	<u>5,558,986</u>	<u>6,448,927</u>
<b><u>NET ASSETS</u></b>			
Invested in capital assets, net of related debt	10,019,000	7,859,766	17,878,766
Restricted for:			
General government	139,348	-	139,348
Public protection	362,827	-	362,827
Public ways and facilities	440,305	-	440,305
Recreation and culture	47,010	-	47,010
Debt service	-	209,458	209,458
Unrestricted	(267,853)	366,571	98,718
<b>Total Net Assets</b>	<u>\$ 10,740,637</u>	<u>\$ 8,435,795</u>	<u>\$ 19,176,432</u>

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

**CITY OF NEVADA CITY, CALIFORNIA**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2010**

<b>FUNCTIONS/PROGRAMS</b>	<b>Program Revenues</b>			
	<b>Expenses</b>	<b>Charges for Services</b>	<b>Operating Grants and Contributions</b>	<b>Capital Grants and Contributions</b>
Governmental activities:				
General government	\$ 989,968	\$ 59,716	\$ 187,305	\$ -
Public protection	1,824,540	48,989	99,697	-
Public ways and facilities	702,771	297,595	68,469	103,213
Recreation and culture	312,645	100,512	-	-
Interest on long-term debt	33,812	-	-	-
<b>Total Governmental Activities</b>	<b>3,863,736</b>	<b>506,812</b>	<b>355,471</b>	<b>103,213</b>
Business-type activities:				
Water	687,668	530,334	-	-
Sewer	1,376,275	1,310,568	-	-
Veteran's building	30,137	16,425	-	-
<b>Total Business-type Activities</b>	<b>2,094,080</b>	<b>1,857,327</b>	<b>-</b>	<b>-</b>
<b>Total</b>	<b>\$ 5,957,816</b>	<b>\$ 2,364,139</b>	<b>\$ 355,471</b>	<b>\$ 103,213</b>

**General revenues:**

Taxes:

Property taxes

Property transfer tax

Sales and use taxes

Franchise taxes

Transient occupancy taxes

Grants and contributions unrestricted

Interest and investment earnings

Miscellaneous

**Transfers**

**Total General Revenues and Transfers**

**Change in Net Assets**

**Net Assets - Beginning**

Cummulative Effect of Change in Accounting Principle

**Net Assets - Beginning, Restated**

**Net Assets - Ending**

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

**Net (Expense) Revenue and  
Changes in Net Assets**

<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
\$ (742,947)	\$ -	\$ (742,947)
(1,675,854)	-	(1,675,854)
(233,494)	-	(233,494)
(212,133)	-	(212,133)
(33,812)	-	(33,812)
<u>(2,898,240)</u>	<u>-</u>	<u>(2,898,240)</u>
-	(157,334)	(157,334)
-	(65,707)	(65,707)
-	(13,712)	(13,712)
<u>-</u>	<u>(236,753)</u>	<u>(236,753)</u>
<u>(2,898,240)</u>	<u>(236,753)</u>	<u>(3,134,993)</u>
1,688,971	-	1,688,971
11,595	-	11,595
997,039	-	997,039
83,925	-	83,925
213,983	-	213,983
9,100	-	9,100
68,354	3,283	71,637
138,898	80,170	219,068
(15,817)	15,817	-
<u>3,196,048</u>	<u>99,270</u>	<u>3,295,318</u>
<u>297,808</u>	<u>(137,483)</u>	<u>160,325</u>
10,437,784	8,573,278	19,011,062
<u>5,045</u>	<u>-</u>	<u>5,045</u>
<u>10,442,829</u>	<u>8,573,278</u>	<u>19,016,107</u>
<u>\$ 10,740,637</u>	<u>\$ 8,435,795</u>	<u>\$ 19,176,432</u>

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**BASIC FINANCIAL STATEMENTS**  
Fund Financial Statements

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**CITY OF NEVADA CITY, CALIFORNIA**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**JUNE 30, 2010**

	<u>General</u>	<u>Measure "S"</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b><u>ASSETS</u></b>				
Cash and investments	\$ 275	\$ 2,167	\$ 749,510	\$ 751,952
Accounts receivable	33,544	-	68,631	102,175
Interest receivable	-	-	1,226	1,226
Taxes receivable	180,507	81,900	10,194	272,601
Prepaid costs	1,238	-	-	1,238
<b>Total Assets</b>	<b>\$ 215,564</b>	<b>\$ 84,067</b>	<b>\$ 829,561</b>	<b>\$ 1,129,192</b>
<b><u>LIABILITIES AND FUND BALANCES</u></b>				
<b><u>LIABILITIES</u></b>				
Accounts payable	\$ 75,639	\$ 13,847	\$ 30,458	\$ 119,944
Salaries and benefits payable	97,401	-	8,954	106,355
Interest payable	39	40	212	291
Unearned revenue	29,675	-	-	29,675
Due to other funds	102,270	-	171,097	273,367
<b>Total Liabilities</b>	<b>305,024</b>	<b>13,887</b>	<b>210,721</b>	<b>529,632</b>
<b><u>FUND BALANCES</u></b>				
Nonspendable	1,238	-	-	1,238
Restricted	357,971	-	631,519	989,490
Committed	172,316	70,180	171,988	414,484
Assigned	-	-	-	-
Unassigned	(620,985)	-	(184,667)	(805,652)
<b>Total Fund Balances</b>	<b>(89,460)</b>	<b>70,180</b>	<b>618,840</b>	<b>599,560</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 215,564</b>	<b>\$ 84,067</b>	<b>\$ 829,561</b>	<b>\$ 1,129,192</b>

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

**CITY OF NEVADA CITY, CALIFORNIA**  
**RECONCILIATION OF THE GOVERNMENTAL FUND BALANCES**  
**TO THE GOVERNMENT-WIDE STATEMENT OF**  
**NET ASSETS - GOVERNMENTAL ACTIVITIES**  
**JUNE 30, 2010**

<b>Total Fund Balance - Total Governmental Funds</b>	\$ 599,560
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds balance sheet.	10,483,309
Other long term assets are not available to pay for current period expenditures and therefore, are not reported in the funds or are deferred in the governmental funds.	
Accounts receivable	291,444
Certain liabilities are not due and payable in the current period and therefore, are not reported in the governmental funds.	
Loans payable	(8,894)
Capital leases payable	(455,415)
Compensated absences payable	(169,367)
	(623,676)
<b>Net Assets of Governmental Activities</b>	<b>\$ 10,740,637</b>

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

**CITY OF NEVADA CITY, CALIFORNIA**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2010**

	<u>General</u>	<u>Measure "S"</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b><u>REVENUES</u></b>				
Taxes and assessments	\$ 2,392,122	\$ 495,131	\$ 169,907	\$ 3,057,160
Licenses and permits	155,861	-	-	155,861
Fines and forfeitures	124,763	-	27,511	152,274
Intergovernmental revenues	146,933	-	256,856	403,789
Use of money and property	65,038	(440)	3,756	68,354
Charges for services	146,822	-	-	146,822
Other revenues	79,359	-	59,539	138,898
<b>Total Revenues</b>	<b>3,110,898</b>	<b>494,691</b>	<b>517,569</b>	<b>4,123,158</b>
<b><u>EXPENDITURES</u></b>				
Current:				
General government	764,697	-	134,730	899,427
Public protection	1,700,521	-	-	1,700,521
Public ways and facilities	376,456	26,579	39,989	443,024
Recreation and culture	263,766	-	-	263,766
Debt service				
Principal	146,590	-	-	146,590
Interest and other charges	33,812	-	-	33,812
Capital outlay	161,496	46,360	226,375	434,231
<b>Total Expenditures</b>	<b>3,447,338</b>	<b>72,939</b>	<b>401,094</b>	<b>3,921,371</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>(336,440)</b>	<b>421,752</b>	<b>116,475</b>	<b>201,787</b>
<b><u>OTHER FINANCING SOURCES (USES)</u></b>				
Transfers in	883,933	-	616,504	1,500,437
Transfers out	(653,360)	-	(862,894)	(1,516,254)
<b>Total Other Financing Sources (Uses)</b>	<b>230,573</b>	<b>-</b>	<b>(246,390)</b>	<b>(15,817)</b>
<b>Net Change in Fund Balances</b>	<b>(105,867)</b>	<b>421,752</b>	<b>(129,915)</b>	<b>185,970</b>
<b>Fund Balances - Beginning</b>	<b>16,407</b>	<b>(351,572)</b>	<b>748,755</b>	<b>413,590</b>
<b>Fund Balances - Ending</b>	<b>\$ (89,460)</b>	<b>\$ 70,180</b>	<b>\$ 618,840</b>	<b>\$ 599,560</b>

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

**CITY OF NEVADA CITY, CALIFORNIA**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE**  
**GOVERNMENT-WIDE STATEMENT OF ACTIVITIES - GOVERNMENTAL ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2010**

<b>Net Change in Fund Balances - Total Governmental Funds</b>	\$ 185,970
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Expenditures for capital outlay	434,231
Depreciation expense	(493,423)
Other adjustments	1,319
Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	
Principal retirements	146,590
Some revenues reported in the statement of activities will not be collected for several months after the City's year end and do not provide current financial resources and therefore are not reported as revenue in the governmental funds.	
Change in accounts receivable	54,203
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.	
Change in accounts payable	10,484
Change in compensated absences	(41,566)
<b>Change in Net Assets of Governmental Activities</b>	<u>\$ 297,808</u>

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

**CITY OF NEVADA CITY, CALIFORNIA**  
**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUNDS**  
**JUNE 30, 2010**

	<b>Business-type Activities - Enterprise Funds</b>			<b>Totals</b>
	<b>Water</b>	<b>Sewer</b>	<b>Other Enterprise Funds</b>	
<b><u>ASSETS</u></b>				
Current Assets				
Cash and investments	\$ -	\$ 215,599	\$ -	\$ 215,599
Accounts receivable (net of allowance)	101,917	236,665	869	339,451
Interest receivable	242	1,434	-	1,676
Due from other funds	-	1,029,580	-	1,029,580
Prepaid costs	314	1,138	138	1,590
<b>Total Current Assets</b>	<b>102,473</b>	<b>1,484,416</b>	<b>1,007</b>	<b>1,587,896</b>
Noncurrent Assets:				
Non depreciable assets	11,599	-	-	11,599
Depreciable assets, net of accumulated depreciation	2,203,724	10,947,775	-	13,151,499
<b>Total Noncurrent Assets</b>	<b>2,215,323</b>	<b>10,947,775</b>	<b>-</b>	<b>13,163,098</b>
<b>Total Assets</b>	<b>2,317,796</b>	<b>12,432,191</b>	<b>1,007</b>	<b>14,750,994</b>
<b><u>LIABILITIES</u></b>				
Current Liabilities				
Accounts payable	15,083	39,274	3,388	57,745
Salaries and benefits payable	11,555	14,146	649	26,350
Interest payable	6,662	102,342	74	109,078
Due to other funds	695,707	-	60,506	756,213
Compensated absences	26,701	17,036	-	43,737
Certificates of participation	-	47,000	-	47,000
Loans payable	77,403	51,921	-	129,324
<b>Total Current Liabilities</b>	<b>833,111</b>	<b>271,719</b>	<b>64,617</b>	<b>1,169,447</b>
Noncurrent Liabilities				
Compensated absences, net of current portion	11,444	7,300	-	18,744
Certificates of participation, net of current portion	-	3,814,000	-	3,814,000
Loans payable, net of current portion	486,560	826,448	-	1,313,008
<b>Total Noncurrent Liabilities</b>	<b>498,004</b>	<b>4,647,748</b>	<b>-</b>	<b>5,145,752</b>
<b>Total Liabilities</b>	<b>1,331,115</b>	<b>4,919,467</b>	<b>64,617</b>	<b>6,315,199</b>
<b><u>NET ASSETS</u></b>				
Invested in capital assets, net of related debt	1,651,360	6,208,406	-	7,859,766
Restricted for debt service	50,000	159,458	-	209,458
Unrestricted	(714,679)	1,144,860	(63,610)	366,571
<b>Total Net Assets</b>	<b>\$ 986,681</b>	<b>\$ 7,512,724</b>	<b>\$ (63,610)</b>	<b>\$ 8,435,795</b>

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

**CITY OF NEVADA CITY, CALIFORNIA**  
**STATEMENT OF REVENUES, EXPENSES AND**  
**CHANGES IN NET ASSETS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2010**

	<u>Business-type Activities - Enterprise Funds</u>			<u>Totals</u>
	<u>Water</u>	<u>Sewer</u>	<u>Other Enterprise Funds</u>	
<b><u>OPERATING REVENUES</u></b>				
Charges for services	\$ 527,523	\$ 1,308,915	\$ 16,425	\$ 1,852,863
Other revenues	70,401	9,769	-	80,170
<b>Total Operating Revenues</b>	<u>597,924</u>	<u>1,318,684</u>	<u>16,425</u>	<u>1,933,033</u>
<b><u>OPERATING EXPENSES</u></b>				
Salaries and benefits	305,050	428,164	16,472	749,686
Supplies	31,361	41,661	345	73,367
Power	133,665	78,500	3,824	215,989
Repairs and maintenance	5,955	27,116	1,248	34,319
Professional services	14,272	70,082	-	84,354
Insurance	16,975	21,740	-	38,715
Depreciation	127,096	393,417	-	520,513
Amortization	-	1,059	-	1,059
Other expenses	31,630	114,452	7,964	154,046
<b>Total Operating Expenses</b>	<u>666,004</u>	<u>1,176,191</u>	<u>29,853</u>	<u>1,872,048</u>
<b>Operating Income (Loss)</b>	<u>(68,080)</u>	<u>142,493</u>	<u>(13,428)</u>	<u>60,985</u>
<b><u>NON-OPERATING REVENUES (EXPENSES)</u></b>				
Mitigation fees	2,811	1,653	-	4,464
Interest income	(2,151)	5,434	-	3,283
Interest expense	(21,664)	(200,084)	(284)	(222,032)
<b>Total Non-Operating Revenues (Expenses)</b>	<u>(21,004)</u>	<u>(192,997)</u>	<u>(284)</u>	<u>(214,285)</u>
<b>Income (loss) Before Transfers</b>	<u>(89,084)</u>	<u>(50,504)</u>	<u>(13,712)</u>	<u>(153,300)</u>
Transfers in	329,897	194,011	-	523,908
Transfers out	(316,456)	(191,635)	-	(508,091)
<b>Change in Net Assets</b>	<u>(75,643)</u>	<u>(48,128)</u>	<u>(13,712)</u>	<u>(137,483)</u>
<b>Total Net Assets - Beginning</b>	<u>1,062,324</u>	<u>7,560,852</u>	<u>(49,898)</u>	<u>8,573,278</u>
<b>Total Net Assets - Ending</b>	<u>\$ 986,681</u>	<u>\$ 7,512,724</u>	<u>\$ (63,610)</u>	<u>\$ 8,435,795</u>

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

**CITY OF NEVADA CITY, CALIFORNIA**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2010**

	<u>Business-type Activities - Enterprise Funds</u>			<u>Totals</u>
	<u>Water</u>	<u>Sewer</u>	<u>Other Enterprise Funds</u>	
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES</u></b>				
Receipts from customers	\$ 534,189	\$ 1,300,478	\$ 16,724	\$ 1,851,391
Payments to suppliers	(287,156)	(347,862)	(13,595)	(648,613)
Payments to employees	(295,531)	(417,249)	(16,400)	(729,180)
<b>Net Cash Provided (Used) by Operating Activities</b>	<u>(48,498)</u>	<u>535,367</u>	<u>(13,271)</u>	<u>473,598</u>
<b><u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</u></b>				
Mitigation fee revenue	2,811	1,653	-	4,464
Transfers from other funds	329,897	194,011	-	523,908
Transfers to other funds	(316,456)	(191,635)	-	(508,091)
Interfund loans received	199,484	(162,404)	60,506	97,586
Interfund loans repaid	-	(12,472)	(47,025)	(59,497)
<b>Net Cash Provided (Used) by Noncapital Financing Activities</b>	<u>215,736</u>	<u>(170,847)</u>	<u>13,481</u>	<u>58,370</u>
<b><u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u></b>				
Purchase of capital assets	(64,011)	(63,708)	-	(127,719)
Principal paid on debt	(74,332)	(86,559)	-	(160,891)
Interest paid on debt	(25,353)	(200,351)	(210)	(225,914)
<b>Net Cash Provided (Used) by Capital and Related Financing Activities</b>	<u>(163,696)</u>	<u>(350,618)</u>	<u>(210)</u>	<u>(514,524)</u>
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES</u></b>				
Interest on investments	(3,542)	8,240	-	4,698
<b>Net Cash Provided (Used) by Investing Activities</b>	<u>(3,542)</u>	<u>8,240</u>	<u>-</u>	<u>4,698</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<u>-</u>	<u>22,142</u>	<u>-</u>	<u>22,142</u>
<b>Balances - Beginning of the Year</b>	<u>-</u>	<u>193,457</u>	<u>-</u>	<u>193,457</u>
<b>Balances - End of the Year</b>	<u>\$ -</u>	<u>\$ 215,599</u>	<u>\$ -</u>	<u>\$ 215,599</u>
<b><u>ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</u></b>				
Operating income (loss)	\$ (68,080)	\$ 142,493	\$ (13,428)	\$ 60,985
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	127,096	393,417	-	520,513
Amortization	-	1,059	-	1,059
Decrease (increase) in:				
Accounts receivable	(20,726)	(18,206)	299	(38,633)
Prepaid costs	15	857	(43)	829
Increase (decrease) in:				
Accounts payable	(53,313)	4,832	(171)	(48,652)
Salaries and benefits payable	1,885	3,006	72	4,963
Deposits payable	-	7,909	-	7,909
Compensated absences	7,634	-	-	7,634
<b>Net Cash Provided (Used) by Operating Activities</b>	<u>\$ (5,489)</u>	<u>\$ 535,367</u>	<u>\$ (13,271)</u>	<u>\$ 516,607</u>

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

**CITY OF NEVADA CITY, CALIFORNIA**  
**STATEMENT OF FIDUCIARY NET ASSETS**  
**FIDUCIARY FUNDS**  
**JUNE 30, 2010**

	<u>Agency Funds</u>
<b><u>ASSETS</u></b>	
Cash and investments	\$       16
<b>Total Assets</b>	<u>\$       16</u>
<b><u>LIABILITIES</u></b>	
Agency obligations	\$       16
<b>Total Liabilities</b>	<u>\$       16</u>

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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**CITY OF NEVADA CITY, 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 City was incorporated April 19, 1856 under the provisions of the statutes of the State of California. The City operates under a Council form of government and provides the following services: public safety, highways and streets, culture-recreation, public improvements, planning and zoning, general administrative services, and water and sewer.

The accounting methods and procedures adopted by the City conform to generally accepted accounting principles as applied to governmental entities. These financial statements present the government and its component units, entities for which the government is considered to be financially accountable under the criteria set by Governmental Accounting Standards Board (GASB) Statement No. 14.

The governmental reporting entity consists of the City (Primary Government) and its component units. Component units are legally separate organizations for which the Council is financially accountable or other organizations whose component units nature and significant relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. Financial accountability is defined as the appointment of a voting majority of the component unit's Council, and (i) either the City's ability to impose its will on the organization or (ii) there is potential for the organization to provide a benefit to or impose a financial burden on the City.

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

Based on the application of the criteria set forth by the Governmental Standards Board, management has determined that there are no component units of the City.

**B. Basis of Presentation**

**Government-Wide Financial Statements**

The statement of net assets and statement of activities display information on all of the nonfiduciary activities of the City, and its component units. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the governmental and business-type activities of the City. Governmental activities, which are normally supported by taxes and inter-governmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for each different identifiable activity of the City's business-type activities and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and; therefore, are clearly identifiable to a particular function. Program revenues include 1) charges paid by the recipients of goods and services offered by the program, 2) operating grants and contributions and 3) capital grants and contributions. Taxes and other items not properly included among program revenues are reported instead as general revenues.

**Fund Financial Statements**

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City 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.

**CITY OF NEVADA CITY, 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)**

**Fund Financial Statements (Continued)**

The City reports the following major governmental funds:

- The General Fund is used to account for all revenues and expenditures necessary to carry out basic governmental activities of the City that are not accounted for through other funds. For the City, the General Fund includes such activities as public protection, public ways and facilities, community development, and recreation and culture services.
- The Measure "S" Fund is a special revenue fund used to account for revenue and expenditures related to Measure "S".

The City reports the following major proprietary funds:

- The Water Fund is an enterprise fund used to account for activity related to providing customers with water service and billing for service provided by the City.
- The Sewer Fund is an enterprise fund used to account for activity related to providing customers with sewer service and billing for service provided by the City.

The City reports the following additional fund types:

- Agency Funds account for assets held by the City as an agent for various local governments and for individuals.

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

The government-wide, proprietary funds and fiduciary funds financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. However, because agency funds only report assets and liabilities, they do not have a measurement focus. 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 City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property and sales tax, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenues from sales tax are recognized when the underlying transactions take place. Revenues 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 business-type activities and enterprise fund, subject to the same limitation. The City has elected not to follow subsequent private-sector guidance.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. The City considers revenues reported in the governmental funds to be available if they are collected within sixty days after the end of the current fiscal year. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures as well as expenditures related to claims and judgments are recorded only when payment is due. Governmental capital assets acquisitions are reported as expenditures in the various functions of the governmental funds. Proceeds of governmental long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, sales taxes, franchise taxes, grants, entitlements, special assessments and investment earnings associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues in the current fiscal period when they meet the measurable and available criteria. Fines, licenses and permits, and charges for services are considered to be measurable and available only when the City receives cash.

**CITY OF NEVADA CITY, 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)**

**C. Basis of Accounting and Measurement Focus (Continued)**

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 the enterprise funds are charges to customers for sales and services. Operating expenses for enterprise 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 City considers all highly liquid investments with a maturity of three months or less when purchased, to be cash equivalents. All cash and investments of the proprietary fund types are pooled with the City's pooled cash and investments.

**E. Cash and Investments**

The City pools cash and investments of all funds except for amounts held by fiscal agent. Each fund's share in this pool is displayed in the accompanying financial statements as cash and investments. State statutes authorize the City to invest its cash surplus in obligations of the U.S. treasury, agencies and instrumentalities, corporate bonds, medium term notes, banker's acceptances, certificates of deposit, commercial paper, repurchase agreements, and the State of California Local Agency Investment Fund. Investment income from pooled investments is allocated to all funds in the pool. Interest is allocated on the basis of average month end cash balance amounts for each fund as a percentage of the total balance.

Investments are reported in the accompanying balance sheet at fair value which is determined using selected bases annually. 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.

**F. Receivables**

In the government-wide and proprietary fund financial statements, receivables consist of all revenues earned at year-end and not yet received. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable. Major receivable balances for the governmental activities include taxes, grants, and interest. Business-type activities report user fees and interest earnings as their major receivables. The water and sewer fund revenues are recognized based on cycle billings rendered to customers.

In the fund financial statements, material receivables in governmental funds include revenue accruals such as taxes, grants, interest, and other similar intergovernmental revenues since they are usually both measurable and available. Nonexchange transactions collectible but not available are deferred in the fund financial statements in accordance with modified accrual, but not deferred in the government-wide financial statements in accordance with the accrual basis.

**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. Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances". 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.

**CITY OF NEVADA CITY, 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)**

**G. Interfund Transactions (Continued)**

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

Reimbursements occur when the funds responsible for particular expenditures or expenses repay the funds that initially paid for them. Such reimbursements are 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 governmental and proprietary 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. Inventory and Prepaid Costs**

Governmental fund inventories are recorded as expenditures at the time the inventory is purchased. Records are not maintained of inventory and supplies on hand, although these amounts are not considered material.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid costs.

**I. Capital Assets**

The accounting treatment over property, plant, and equipment (capital assets) depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

**Government-Wide Financial Statements and Proprietary Fund Financial Statements**

In the government-wide financial statements, property, plant, and equipment are accounted for as capital assets in the governmental or business type activities column. Capital assets, which include property, plant, equipment, and infrastructure assets (roads, bridges, sidewalks and similar items) are defined by the City as an asset with a cost greater than \$5,000 and 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	5-30 years
Structures and improvements	30-50 years
Infrastructure	5-99 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.

**Governmental Fund Financial Statements**

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition.

**CITY OF NEVADA CITY, 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)**

**J. Unearned Revenue/Deferred Revenue**

Unearned revenue is recorded for assets recognized in connection with a transaction before the earnings process is complete, those assets are offset by a corresponding liability for unearned revenue.

Deferred revenue is recorded under the modified accrual basis of accounting when revenue which has been earned during the current period has met the measurable criteria but has not met the available criteria.

See Note 3 for details of unearned/deferred revenue at year end.

**K. Long-Term Debt**

The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term debt consists primarily of loans payable, accrued compensated absences, certificates of participation, and capital leases payable.

Long-term debt for governmental funds is not reported as a liability in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as expenditures. The accounting for proprietary funds is the same in the fund statements as it is in the government-wide statements.

**L. Compensated Absences and Post-Employment Benefits**

Compensated absences comprise unused vacation leave, vested sick pay and certain compensated time off, which is paid at the date of termination from City employment. On January 1, 1994, an amendment to the policy regarding sick pay was passed which provides that employees meeting certain criteria would be paid a bonus based on their year end unused sick leave balance. All compensated pay is accrued when incurred in the government-wide and proprietary fund financial statements. For all governmental funds, termination pay-outs expected to be paid out of current financial resources are recorded as fund liabilities. Compensated absences liability is typically liquidated by the General fund for all non proprietary fund compensated absences.

The City does not currently provide any post-employment healthcare or other nonpension benefits.

**M. Net Assets/Fund Balances**

**Government-Wide Financial Statements and Proprietary Fund Financial Statements**

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. These principally include restrictions for capital projects, debt service requirements, and other special revenue fund purposes.
- Unrestricted net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

**CITY OF NEVADA CITY, 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)**

**M. Net Assets/Fund Balances (Continued)**

**Governmental Fund Financial Statements**

Beginning with fiscal year June 30, 2010, the City implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions". This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

- Nonspendable fund balance - includes amounts that are (a) not in spendable form, or (b) legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash, for example: inventories, prepaid amounts, and long-term notes receivable.
- Restricted fund balance - includes amounts that can be spent for specific purposes stipulated by external resource providers, constitutionally or through enabling legislation. Restrictions may effectively be changed or lifted only with the consent of resource providers.
- Committed fund balance - includes amounts that can only be used for the specific purposes determined by a formal action of the City's highest level of decision-making authority, the City's Council. Commitments may be changed or lifted only by the City taking the same formal action that imposed the constraint originally (for example: resolution and ordinance).
- Assigned fund balance - comprises amounts intended to be used by the City for specific purposes that are neither restricted nor committed. Intent is expressed by (1) the City's Council or (b) a body (for example: a budget or finance committee) or official to which the City's Council has delegated the authority to assign amounts to be used for specific purposes.
- Unassigned fund balance - is the residual classification for the General Fund and includes all amounts not contained in the other classifications. Unassigned amounts are technically available for any purpose. In other governmental funds, if expenditures incurred for specific purposes exceeded the amounts restricted, committed, or assigned to those purposes, that fund would report a negative unassigned fund balance.

Fund balances for all the major and nonmajor governmental funds as of June 30, 2010, were distributed as follows:

	<u>General Fund</u>	<u>Measure "S"</u>	<u>Nonmajor Funds</u>	<u>Total</u>
<b>Nonspendable:</b>				
Prepaid	\$ 1,238	\$ -	\$ -	\$ 1,238
<b>Restricted for:</b>				
General government	-	-	139,348	139,348
Public protection	357,971	-	4,856	362,827
Public ways and facilities	-	-	440,305	440,305
Recreation and culture	-	-	47,010	47,010
Subtotal	<u>357,971</u>	<u>-</u>	<u>631,519</u>	<u>989,490</u>
<b>Committed to:</b>				
General government	51,473	-	119,095	170,568
Public protection	95,733	-	-	95,733
Public ways and facilities	12,555	70,180	-	82,735
Recreation and culture	12,555	-	52,893	65,448
Subtotal	<u>172,316</u>	<u>70,180</u>	<u>171,988</u>	<u>414,484</u>
<b>Unassigned</b>	( 620,985)	-	( 184,667)	( 805,652)
Total	<u>(\$ 89,460)</u>	<u>\$ 70,180</u>	<u>\$ 618,840</u>	<u>\$ 599,560</u>

**CITY OF NEVADA CITY, 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)**

**M. Net Assets/Fund Balances (Continued)**

**Governmental Fund Financial Statements (Continued)**

City Council has not established fund balance commitments by passage of an ordinance or resolution. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund. Assigned fund balance is established by City Council through adoption or amendment of the budget as intended for specific purpose (such as the purchase of capital assets, construction, debt service, or for other purposes).

The City has not adopted a policy regarding whether it considers restricted or unrestricted amounts to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) amounts are available. In accordance with GASB 54 since the City has not adopted a policy committed funds would be reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which unrestricted fund balance is available.

**N. Property Tax**

Nevada County assesses properties, bills, collects, and distributes property taxes to the City. The County remits the entire amount levied and handles all delinquencies, retaining interest and penalties. Secured and unsecured property taxes are levied on July 1. Secured property taxes become a lien on real property on January 1 of the preceding fiscal year.

Secured property tax is due in two installments, on November 1 and March 1. Property taxes become delinquent after December 10 and April 10, respectively. Unsecured property tax is due on July 1, and becomes delinquent on August 31.

The term "unsecured" refers to taxes on personal property other than real estate, land and buildings. These taxes are secured by liens on the property being taxed.

**O. 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 deferred revenue.

**P. Expenditures/Expenses**

In the government-wide financial statements, expenses are classified by function for both governmental and business type activities.

In the fund financial statements, expenditures are classified as follows:

- Government Funds - By Character
  - Current (further classified by function)
  - Debt Service
  - Capital Outlay
  
- Proprietary Funds - By Operating and Non-operating

**Q. 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.

**CITY OF NEVADA CITY, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2010**

**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 City reports these changes as restatements of beginning net assets. During the current year the City implemented GASB Statement No. 51. The City recorded a cumulative change in accounting principle for the amount of the software acquired prior to July 1, 2009.

The impact of the restatement on the net assets on the government-wide financial statements as previously reported is presented below:

	Governmental Activities
Net Assets, June 30, 2009, as previously reported	\$ 10,437,784
Adjustment associated with:	
Cumulative effect of change in accounting principle	5,045
Total Adjustments	5,045
Net Assets, July 1, 2010, as restated	\$ 10,442,829

**B. Deficit Fund Balance/Net Assets**

The following governmental funds had a deficit fund balance at June 30, 2010:

The General fund had a fund balance deficit of \$89,640, which is expected to be eliminated in the future through subsequent revenues.

The following non-major governmental funds had deficit fund balances at June 30, 2010:

The Nevada Main Project special revenue fund had a fund balance deficit of \$7,094, which is expected to be eliminated in the future through increased revenues.

The STIP special revenue fund had a fund balance deficit of \$14,156, which is expected to be eliminated in the future through increased revenues.

The UST Project special revenue fund had a fund balance deficit of \$9,625, which is expected to be eliminated in the future through increased revenues.

The Sugarloaf P40 special revenue fund had a fund balance deficit of \$1,551, which is expected to be eliminated in the future through increased revenues.

The Brownsfield 10 special revenue fund had a fund balance deficit of \$22, which is expected to be eliminated in the future through increased revenues.

The CDBG Water special revenue fund had a fund balance deficit of \$1,977, which is expected to be eliminated in the future through increased revenues.

The CMAC Grant special revenue fund had a fund balance deficit of \$843, which is expected to be eliminated in the future through increased revenues.

The Safe Routes to School special revenue fund had a fund deficit balance of \$24,363, which is expected to be eliminated in the future through increased revenues.

The CDBG Enterprise special revenue fund had a fund deficit balance of \$3,085, which is expected to be eliminated in the future through increased revenues.

The Solar Farm special revenue fund had a fund deficit balance of \$4,375, which is expected to be eliminated in the future through increased revenues.

The Stimulus Broad special revenue fund had a fund deficit balance of \$8,870, which is expected to be eliminated in the future through increased revenues.

**CITY OF NEVADA CITY, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2010**

**NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)**

**B. Deficit Fund Balance/Net Assets (Continued)**

The RTP Grant special revenue fund had a fund deficit balance of \$53,047, which is expected to be eliminated in the future through increased revenues.

The Recovery Act 09 special revenue fund had a fund deficit balance of \$55,659, which is expected to be eliminated in the future through increased revenues.

The following non-major enterprise funds had deficit net assets at June 30, 2010:

The Veterans Building fund had deficit net assets of \$63,610, which is expected to be eliminated in the future through increased revenues.

**C. Implementation of Governmental Accounting Standards Board (GASB) Statement**

**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. This change is reported as a cumulative effect of a change in accounting principle in the amount of \$5,405 and is reflected as a restatement of beginning net assets invested in capital assets and an increase in capital assets in the governmental activities of the government-wide financial statements. As permitted by GASB Statement No. 51, the financial statements have not been restated for prior year costs associated with internally generated computer software or for assets such as easements which are considered to have an indefinite useful life. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2009.

**GASB Statement No. 54**

In February 2009, GASB released Statement No. 54 - Fund Balance Reporting and Governmental Fund Type Definitions. The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in the governmental funds. The initial distinction in reporting fund balance information is identifying amounts that are considered nonspendable, such as fund balance associated with inventories and prepaids. This Statement provides for additional classification as restricted, committed, assigned and unassigned based on the relative strength of the constraints that control how specific amounts can be spent. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2010. The City has elected to early implement this Statement in the current fiscal year, and the details for the fund balance classifications prescribed under this Statement are separately discussed in Note 1M.

**NOTE 3: DETAILED NOTES**

**A. Cash and Investments**

As of June 30, 2010, the City's cash and investments consisted of the following:

Cash:	
Cash on hand	\$ 275
Deposits (less outstanding checks)	<u>361,319</u>
Total Cash	<u>361,594</u>
Investments:	
Local Agency Investment Fund	<u>605,973</u>
Total Investments	<u>605,973</u>
Total Cash and Investments	<u>\$ 967,567</u>

**CITY OF NEVADA CITY, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2010**

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

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

**Cash**

At year end, the carrying amount of the City's cash deposits (including amount in checking accounts and money market accounts) was \$361,319 and the bank balance was \$1,590,490. The difference between the bank balance and the carrying amount represents outstanding checks and deposits in transit.

Custodial Credit Risk for Deposits - Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, the City will not be able to recover its deposits or collateral securities that are in the possession of an outside party. The City's investment policy requires that deposits in banks must meet the requirements of California Government Code. Under this code, deposits in excess of Federal Deposit Insurance Corporation coverage 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 City's deposits are insured by the Federal Deposit Insurance Corporation and the balance in excess of \$250,000 is fully collateralized.

**Investments**

As of June 30, 2010, the City had the following investments:

	Interest Rates	Maturities			Fair Value	Weighted Average Maturity (Years)
		0-1 year	1-5 years	Over 5 years		
<b>Pooled Investments</b>						
Local Agency Investment Fund (LAIF)	Variable	\$ 605,973	\$ -	\$ -	\$ 605,973	\$ -
Total Pooled Investments		<u>\$ 605,973</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 605,973</u>	<u>\$ -</u>

Interest Rate Risk - Interest rate risk is the risk of loss due to the fair value of an investment falling due to interest rates rising. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. All investments of the City are pooled with the State of California Local Agency Investment Fund. The City 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 City 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 & Poor's and Moody's Investors Service. No limits are placed on U.S. government agency securities and U.S. Treasuries. The City 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 City will not be able to recover its deposits or collateral securities that are in the possession of an outside party. To mitigate the custodial credit risk the City requires that all of its managed investments be held in the name of the City. The City 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 City'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 City has invested all cash, other than deposits and imprest cash in the California Local Agency Investment Fund (LAIF).

Investment in Local Agency Investment Fund - The City of Nevada City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. At June 30, 2010, the City's investment position in the State of California Local Agency Investment Fund (LAIF) was \$605,973, which approximates fair value and is the same as the value of the pool shares. The total amount invested by all public agencies in LAIF on that day was \$69,555,776,591. Of that amount, 94.58% is invested in non-derivative financial products and 5.42% in structured notes and asset-backed securities. The value of the pool shares in LAIF is determined on an amortized cost basis, which approximates fair value. The Local Investment Advisory Board, which consists of five members designated by the State statutes, has oversight responsibility for LAIF.

**CITY OF NEVADA CITY, CALIFORNIA**  
**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:

	Balance July 1, 2009	Additions	Retirements	Adjustments	Balance June 30, 2010
<b>Governmental Activities</b>					
Capital Assets, Not Being Depreciated:					
Land	\$ 1,178,782	\$ -	\$ -	\$ -	\$ 1,178,782
Construction in progress	<u>160,614</u>	<u>265,700</u>	<u>-</u>	<u>-</u>	<u>426,314</u>
Total Capital Assets, Not Being Depreciated	<u>1,339,396</u>	<u>265,700</u>	<u>-</u>	<u>-</u>	<u>1,605,096</u>
Capital Assets, Being Depreciated:					
Land improvements/infrastructure	6,737,467	143,337	-	-	6,880,804
Building and improvements	4,318,819	9,960	-	-	4,328,779
Equipment	894,355	1,068	-	-	895,423
Software	-	-	-	42,041	42,041
Vehicles	<u>698,925</u>	<u>14,166</u>	<u>-</u>	<u>-</u>	<u>713,091</u>
Total Capital Assets, Being Depreciated	<u>12,649,566</u>	<u>168,531</u>	<u>-</u>	<u>42,041</u>	<u>12,860,138</u>
Less Accumulated Depreciation for:					
Land improvements	( 1,655,181)	( 221,612)	-	-	( 1,876,793)
Buildings and improvements	( 919,091)	( 114,760)	-	-	( 1,033,851)
Equipment	( 557,521)	( 88,295)	-	1,319	( 644,497)
Software	-	( 1,682)	-	( 36,996)	( 38,678)
Vehicles	<u>( 321,032)</u>	<u>( 67,074)</u>	<u>-</u>	<u>-</u>	<u>( 388,106)</u>
Total Accumulated Depreciation	<u>( 3,452,825)</u>	<u>( 493,423)</u>	<u>-</u>	<u>( 35,677)</u>	<u>( 3,981,925)</u>
Total Capital Assets, Being Depreciated, Net	<u>9,196,741</u>	<u>( 324,892)</u>	<u>-</u>	<u>6,364</u>	<u>8,878,213</u>
Governmental Activities Capital Assets, Net	<u>\$ 10,536,137</u>	<u>(\$ 59,192)</u>	<u>\$ -</u>	<u>\$ 6,364</u>	<u>\$ 10,483,309</u>
	Balance July 1, 2009	Additions	Retirements	Adjustments	Balance June 30, 2010
<b>Business-Type Activities</b>					
Capital Assets, Not Being Depreciated:					
Construction in progress	\$ 128,326	\$ 63,708	\$ -	(\$ 180,435)	\$ 11,599
Total Capital Assets, Not Being Depreciated	<u>128,326</u>	<u>63,708</u>	<u>-</u>	<u>( 180,435)</u>	<u>11,599</u>
Capital Assets, Being Depreciated:					
Structures and improvements	17,591,891	64,011	-	180,435	17,836,337
Equipment	2,486,075	43,009	-	-	2,529,084
Vehicles	<u>82,420</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>82,420</u>
Total Capital Assets, Being Depreciated	<u>20,160,386</u>	<u>107,020</u>	<u>-</u>	<u>180,435</u>	<u>20,447,841</u>
Less Accumulated Depreciation for:					
Structures and improvements	( 5,678,403)	( 442,062)	-	-	( 6,120,465)
Equipment	( 1,085,327)	( 63,896)	-	-	( 1,149,223)
Vehicles	<u>( 12,099)</u>	<u>( 14,555)</u>	<u>-</u>	<u>-</u>	<u>( 26,654)</u>
Total Accumulated Depreciation	<u>( 6,775,829)</u>	<u>( 520,513)</u>	<u>-</u>	<u>-</u>	<u>( 7,296,342)</u>
Total Capital Assets, Being Depreciated, Net	<u>13,384,557</u>	<u>( 413,493)</u>	<u>-</u>	<u>180,435</u>	<u>13,151,499</u>
Business-Type Activities Capital Assets, Net	<u>\$ 13,512,883</u>	<u>(\$ 349,785)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,163,098</u>

**Depreciation**

Depreciation expense was charged to governmental functions as follows:

General government	\$ 82,598
Public safety	102,810
Public ways and facilities	261,450
Recreation and culture	<u>46,565</u>
Total Depreciation Expense - Governmental Functions	<u>\$ 493,423</u>

**CITY OF NEVADA CITY, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2010**

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

**B. Capital Assets (Continued)**

**Depreciation (Continued)**

Depreciation expense was charged to the business-type functions as follows:

Water	\$ 127,096
Sewer	<u>393,417</u>
Total Depreciation Expense - Business-Type Functions	<u>\$ 520,513</u>

**Construction in Progress**

Construction in progress for governmental activities relates primarily to work performed on street and sidewalk reconstruction.

Construction in progress for business-type activities relates primarily to water and sewer plant upgrades.

**C. Unearned/Deferred Revenue**

At June 30, 2010, components of unearned revenues were as follows:

	<u>Unearned</u>
General Fund	
July 2010 Science Camp Revenues	\$ 5,720
2010-2011 Business License Revenue	<u>23,955</u>
Total Unearned Revenue	<u>\$ 29,675</u>

**D. Long-Term Liabilities**

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

	Balance July 1, 2009	Additions/ Adjustments	Retirements	Balance June 30, 2010	Amounts Due Within One Year
<b>Governmental Activities</b>					
Loans	\$ 19,152	\$ -	\$ 10,258	\$ 8,894	\$ 8,894
Capital Leases (Note 3F)	591,747	-	136,332	455,415	142,576
Compensated Absences (Note 1L)	<u>127,801</u>	<u>98,904</u>	<u>57,338</u>	<u>169,367</u>	<u>118,557</u>
Total Governmental Activities					
- Long-Term Liabilities	<u>\$ 738,700</u>	<u>\$ 98,904</u>	<u>\$ 203,928</u>	<u>\$ 633,676</u>	<u>\$ 270,027</u>
<b>Business-Type Activities</b>					
Loans	\$ 1,574,636	\$ 9,481	\$ 125,373	\$ 1,458,744	\$ 130,383
Less: Issue Costs	( 17,471)	-	( 1,059)	( 16,412)	( 1,059)
Loans (Net)	<u>1,557,165</u>	<u>9,481</u>	<u>124,314</u>	<u>1,442,332</u>	<u>129,324</u>
Certificates of Participation	3,906,000	-	45,000	3,861,000	47,000
Compensated Absences (Note 1L)	<u>46,938</u>	<u>28,269</u>	<u>12,726</u>	<u>62,481</u>	<u>43,737</u>
Total Business-Type Activities					
- Long-Term Liabilities	<u>\$ 5,510,103</u>	<u>\$ 37,750</u>	<u>\$ 182,040</u>	<u>\$ 5,365,813</u>	<u>\$ 220,061</u>

**CITY OF NEVADA CITY, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2010**

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

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

	Governmental Activities	Business-type Activities
At June 30, 2010, loans payable consisted of the following:		
All Points Capital Corp. Water Plant Bond Refinance dated September 1, 2005, payable in annual installments of \$49,843 to \$67,877, with an interest rate of 5% and maturity of October 1, 2016.	\$ -	\$ 563,964
USDA loan dated XXX, payable in quarterly installments of \$2,310.61, with an interest rate of 0.00%, and a maturity of November 1, 2010.	-	4,740
Citizens Bank Dump Truck Loan, dated April 16, 2006, payable in annual installments of \$911, with an interest rate of 4.49% and a maturity of April 25, 2011.	8,894	-
Citizens Bank USDA Refunding Loan dated June 1, 2008, payable in semiannual installments of \$2,369 to \$77,556 with an interest rate of 4.1% and maturity of August 1, 2025.	-	890,040
Total Loans Payable	\$ 8,894	\$ 1,458,744

At June 30, 2010, Certificates of Participation consisted of the following:

Series 2005 Wastewater Certificates of Participation, dated October 1, 2005, payable in annual principal installments of \$16,000 to 48,000, plus interest at a rate of 4.25%, and a maturity of July 15, 2005.	2,100,000
Series 2007 Wastewater Certificates of Participation, dated March 1, 2007, payable in annual principal installments of \$19,000 to \$90,000, plus interest at a rate of 4.125%, and a maturity of July 15, 2046.	1,761,000
Total Certificates of Participation	\$ 3,861,000

The annual aggregate maturities for the years subsequent to June 30, 2010, are as follows:

Loans	Governmental Activities		Business-Type Activities		Total
	Principal	Interest	Principal	Interest	
	Year Ended June 30				
2011	\$ 8,894	\$ 266	\$ 130,382	\$ 57,860	\$ 197,402
2012	-	-	134,731	52,562	187,293
2013	-	-	138,928	46,993	185,921
2014	-	-	143,248	41,251	184,499
2015	-	-	148,690	35,311	184,001
2016-2020	-	-	481,027	99,575	580,602
2021-2025	-	-	264,238	29,777	294,015
2026-2030	-	-	17,500	359	17,859
Total	\$ 8,894	\$ 266	\$ 1,458,744	\$ 363,688	\$ 1,831,592

**CITY OF NEVADA CITY, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2010**

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

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

<u>Certificates of Participation</u>	<u>Business-Type Activities</u>		
<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 47,000	\$ 160,907	\$ 207,907
2012	49,000	158,893	207,893
2013	51,000	156,795	207,795
2014	53,000	154,614	207,614
2015	55,000	152,351	207,351
2016-2020	312,000	728,741	1,040,741
2021-2025	382,000	651,806	1,033,806
2026-2030	470,000	562,721	1,032,721
2031-2035	577,000	453,343	1,030,343
2036-2040	709,000	318,902	1,027,902
2041-2045	870,000	153,894	1,023,894
2046-2050	<u>286,000</u>	<u>9,679</u>	<u>295,679</u>
Total	<u>\$ 3,861,000</u>	<u>\$ 3,662,646</u>	<u>\$ 7,523,646</u>

**E. Leases**

**Operating Leases**

Rental expenses incurred under operating leases are not considered material.

**Capital Leases**

The City has entered into certain capital lease agreements under which the related buildings and equipment will become the property of the City when all terms of the lease agreements are met.

	<u>Stated Interest Rate</u>	<u>Present Value of Remaining Payments at June 30, 2010</u>
Governmental fund activities	4.39-4.55	\$ 455,415
Total Capital Lease Obligations		<u>\$ 455,415</u>

Buildings and equipment and related accumulated depreciation under capital lease are as follows:

	<u>Governmental Activities</u>
Buildings	\$ 1,919,764
Equipment	296,428
Less: accumulated depreciation	( 540,638)
Net Value	<u>\$ 1,675,554</u>

As of June 30, 2010, capital lease annual amortization was as follows:

<u>Year Ending June 30:</u>	<u>Governmental Activities</u>
2011	\$ 161,758
2012	161,758
2013	99,581
2014	37,260
2015	<u>37,260</u>
Total Requirements	497,617
Less Interest	( 42,202)
Present Value of Remaining Payments	<u>\$ 455,415</u>

**CITY OF NEVADA CITY, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2010**

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

**F. Short-Term Debt**

The City issued tax anticipation notes in anticipation of property tax collections. These notes are necessary to fund current expenditure requirements. Short-term debt activity for the year ended June 30, 2010, was as follows:

	<u>Beginning Balance</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Ending Balance</u>
Tax Anticipation Notes	\$ -	\$ 1,017,183	\$ 1,017,183	\$ -

**G. 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. In addition, when funds overdraw their share of pooled cash, the receivables and payables are also classified as due from or due to other funds. The following are due to and due from balances as of June 30, 2010:

	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General Fund	\$ -	\$ 102,270
Nonmajor Governmental Funds	-	171,097
Water	-	695,707
Sewer	1,029,580	-
Nonmajor Enterprise Fund	-	60,506
Total	<u>\$ 1,029,580</u>	<u>\$ 1,029,580</u>

**Transfers**

Transfers are indicative of funding for capital projects, lease payments or debt service, subsidies of various City operations and re-allocations of special revenues. The following are the interfund transfers for fiscal year ended June 30, 2010:

	<u>Transfer In</u>	<u>Transfer Out</u>
General Fund	\$ 883,933	\$ 653,360
Nonmajor Governmental Funds	616,504	862,894
Water	329,897	316,456
Sewer	194,011	191,635
Total	<u>\$ 2,024,345</u>	<u>\$ 2,024,345</u>

**NOTE 4: EMPLOYEES' RETIREMENT PLAN**

**Plan Description**

The City 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.

**CITY OF NEVADA CITY, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2010**

**NOTE 4: EMPLOYEES' RETIREMENT PLAN (CONTINUED)**

**Funding Policy**

Active plan members in PERS have their 7 percent (9 percent for safety employees) of their annual covered salary paid by the City. The City also contributes the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the PERS Board of Administration. The required employer contribution rate for fiscal year 2009/2010 was 9.747 percent for miscellaneous employees and 18.873 percent for safety employees. The contribution requirements of the plan are established by State statute and the employer contribution rate is established and may be amended by PERS.

**Annual Pension Cost**

For fiscal year 2009/2010, the City's annual pension cost of \$220,730 for PERS was equal to the City's actual contributions. The required contributions for fiscal year 2009/2010 were determined as part of the June 30, 2007, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.75 percent investment rate of return (net of administrative expenses), (b) projected annual salary increases of 3.25 percent to 14.45 percent depending on age, service, and type of employment, and 3.25 percent per year cost of living adjustment. Both (a) and (b) included an inflation component of 3.00 percent. The actuarial value of PERS assets were determined using techniques that smooth the effect of short term volatility in the market value of investments over a two to five year period (smoothed market value). PERS unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. Initial unfunded liabilities are amortized over a closed period that depends on the plan's date of entry into PERS. Subsequent plan amendments are amortized as a level percent of pay over a closed-20-year period. The table below presents three-year trend information.

**Three Year Trend Information for PERS**

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2008	\$ 257,391	100%	-
June 30, 2009	224,460	100%	-
June 30, 2010	220,730	100%	-

**Funded Status and Funding Progress**

Since the City has less than 100 active members in at least one valuation since June 30, 2003, it is required to participate in a risk pool and does not present individual plan funded status.

**NOTE 5: RISK MANAGEMENT**

The City 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. The City has joined together with other municipalities to participate in the Public Agency Risk Sharing Authority of California (PARSAC) for general liability, vehicle liability, and errors and omissions purposes. PARSAC is a public entity risk pool which serves as a common risk management and insurance program for 37 member cities. The City pays an annual premium to PARSAC for its insurance coverage. The agreements with PARSAC provide that they will be self sustaining through member premiums and will reinsure through commercial companies for excess coverage.

The City continues to carry commercial insurance for all other risks of loss. Settled claims resulting from their risks have not exceeded commercial insurance in any of the past three fiscal years. There is no claims liability to be reported based on the requirements of Governmental Accounting Standards Board Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

**NOTE 6: OTHER INFORMATION**

**A. Subsequent Event**

Management has evaluated events subsequent to June 30, 2010 through November 24, 2010, the date on which the financial statements were available for issuance. Management has determined no subsequent events requiring disclosure have occurred.

**CITY OF NEVADA CITY, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2010**

**NOTE 6: OTHER INFORMATION (CONTINUED)**

**B. Contingent Liabilities**

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the appreciable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the government expects such amounts, if any, to be immaterial.

**C. Construction Commitments**

At June 30, 2010, the City had construction commitments of approximately \$57,649.

**D. Joint Agencies**

Public Agency Risk Sharing Authority of California (PARSAC) is a joint powers agent organized for the purpose of pooled joint-protection coverage to member entities. PARSAC operates public entity pools for auto and general liability coverage, plus workers compensation and errors and omissions coverage and pool purchases excess insurance for members. PARSAC is under the control and direction of a 9 member executive committee consisting of representatives of the 37 member cities. Complete audited financial statements of PARSAC can be obtained at 1525 Response Road, Suite One, Sacramento, California 95815-4805.

Nevada County Service Authority of the Abatement of Abandoned Vehicle was created pursuant to California Vehicle Code Section 22710 in order for the County of Nevada and City of Grass Valley to join together and establish a service authority for the abatement of abandoned vehicles. The County or City abatement ordinances that are realized by the County or City less the respective administrative costs are deposited in the Authority trust account. Complete financial activity of this trust account can be obtained at County of Nevada, Auditor-Controller, 950 Maidu Avenue, Nevada City, California 95959-8617.

The City is a participant in Western Nevada Public Transportation Authority, the purpose of which is to provide transportation services to the citizens of Nevada County including Grass Valley. Complete financial activity can be obtained at County of Nevada, Auditor-Controller, 950 Maidu Avenue, Nevada City, California 95959-8617.

The City is a participant in Nevada County Fire and Emergency Services Joint Powers Agency, the purpose of which is to provide emergency dispatch and other services. The City participates in the Air Filling Station Services offered. Complete financial information can be obtained from the JPA's office at P.O. Box 3043, Grass Valley, CA 95945.

**E. Proposition 1A Borrowing by the State of California**

Under the provisions of Proposition 1A and as part of the 2009-10 budget package passed by the California state legislature on July 28, 2009, the State of California borrowed 8% of the amount of property tax revenue, including those property taxes associated with the in-lieu motor vehicle license fee, the triple flip in lieu sales tax, and supplemental property tax, apportioned to cities, counties and special districts (excluding redevelopment agencies). The state is required to repay this borrowing plus interest by June 30, 2013. After repayment of this initial borrowing, the California legislature may consider only one additional borrowing within a ten-year period. The amount of this borrowing pertaining to the City of Nevada City was \$128,373.

Authorized with the 2009-10 State budget package, the Proposition 1A Securitization Program was instituted by the California Statewide Communities Development Authority ("California Communities"), a joint powers authority sponsored by the California State Association of Counties and the League of California Cities, to enable local governments to sell their Proposition 1A receivables to California Communities. Under the Securitization Program, California Communities simultaneously purchased the Proposition 1A receivables and issued bonds ("Prop 1A Bonds") to provide local agencies with cash proceeds in two equal installments, on January 15, 2010 and May 3, 2010. The purchase price paid to the local agencies equaled 100% of the amount of the property tax reduction. All transaction costs of issuance and interest were paid to the State of California. Participating local agencies have no obligation on the bonds and no credit exposure to the State. The City participated in the securitization program and accordingly property taxes have been recorded in the same manner as if the State had not exercised its rights under Proposition 1A. The receivable sale proceeds were equal to the book value and, as a result, no gain or loss was recorded.

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**REQUIRED SUPPLEMENTARY INFORMATION**  
**(Unaudited)**

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**CITY OF NEVADA CITY, CALIFORNIA**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE**  
**GENERAL FUND - BUDGETARY BASIS**  
**FOR THE YEAR ENDED JUNE 30, 2010**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance with Final Budget Positive Negative</u>
<b><u>REVENUES</u></b>				
Taxes and assessments	\$ 2,471,729	\$ 2,759,729	\$ 2,392,122	\$ (367,607)
Licenses and permits	167,400	167,400	155,861	(11,539)
Fines and forfeitures	75,000	75,000	124,763	49,763
Intergovernmental revenues	50,120	50,120	146,933	96,813
Use of money and property	81,400	81,400	65,038	(16,362)
Charges for services	296,900	274,900	146,822	(128,078)
Other revenues	36,500	47,370	79,359	31,989
<b>Total Revenues</b>	<u>3,179,049</u>	<u>3,455,919</u>	<u>3,110,898</u>	<u>(345,021)</u>
<b><u>EXPENDITURES</u></b>				
Current:				
General government	830,196	948,770	764,697	184,073
Public protection	1,802,068	1,897,928	1,700,521	197,407
Public ways and facilities	284,279	284,279	376,456	(92,177)
Recreation and culture	322,349	322,349	263,766	58,583
Debt service				
Principal	1,262,952	1,262,952	1,163,773	99,179
Interest and other charges	49,702	49,702	33,812	15,890
Capital outlay	220,000	190,000	161,496	28,504
<b>Total Expenditures</b>	<u>4,771,546</u>	<u>4,955,980</u>	<u>4,464,521</u>	<u>491,459</u>
<b>Excess of Revenues Over (Under) Expenditures</b>	<u>(1,592,497)</u>	<u>(1,500,061)</u>	<u>(1,353,623)</u>	<u>146,438</u>
<b><u>OTHER FINANCING SOURCES (USES)</u></b>				
Transfers in	209,385	191,485	883,933	692,448
Transfers out	-	-	(653,360)	(653,360)
Debt proceeds	1,017,183	1,017,183	1,017,183	-
<b>Total Other Financing Sources (Uses)</b>	<u>1,226,568</u>	<u>1,208,668</u>	<u>1,247,756</u>	<u>39,088</u>
<b>Net Change in Fund Balance</b>	<u>(365,929)</u>	<u>(291,393)</u>	<u>(105,867)</u>	<u>185,526</u>
<b>Fund Balance - Beginning</b>	<u>16,407</u>	<u>16,407</u>	<u>16,407</u>	<u>-</u>
<b>Fund Balance - Ending</b>	<u>\$ (349,522)</u>	<u>\$ (274,986)</u>	<u>\$ (89,460)</u>	<u>\$ 185,526</u>

The City budgets for short term debt proceeds and payments as other financing sources and debt service expenditures. For purposes of the budgetary comparison schedule, the short term debt proceeds and payments were included in other financing sources and debt service expenditures.

See accompanying note to the required supplementary information.

**CITY OF NEVADA CITY, CALIFORNIA**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE**  
**MEASURE "S" - MAJOR SPECIAL REVENUE FUND**  
**FOR THE YEAR ENDED JUNE 30, 2010**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance with Final Budget Positive (Negative)</u>
<b><u>REVENUES</u></b>				
Taxes and assessments	\$ 517,000	\$ 546,000	\$ 495,131	\$ (50,869)
Use of money and property	-	-	(440)	(440)
<b>Total Revenues</b>	<u>517,000</u>	<u>546,000</u>	<u>494,691</u>	<u>(51,309)</u>
<b><u>EXPENDITURES</u></b>				
Current:				
Public ways and facilities	-	-	26,579	(26,579)
Capital outlay	525,000	525,000	46,360	478,640
<b>Total Expenditures</b>	<u>525,000</u>	<u>525,000</u>	<u>72,939</u>	<u>452,061</u>
<b>Net Change in Fund Balance</b>	(8,000)	21,000	421,752	400,752
<b>Fund Balance - Beginning</b>	<u>(351,572)</u>	<u>(351,572)</u>	<u>(351,572)</u>	<u>-</u>
<b>Fund Balance - Ending</b>	<u>\$ (359,572)</u>	<u>\$ (330,572)</u>	<u>\$ 70,180</u>	<u>\$ 400,752</u>

See accompanying note to the required supplementary information.

**CITY OF NEVADA CITY, CALIFORNIA**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**FOR THE YEAR ENDED JUNE 30, 2010**

**A. BUDGETARY BASIS OF ACCOUNTING**

The City follows these procedures annually in establishing the budgetary data reflected in the financial statements:

1. The City Administrator submits to the City Council a proposed draft budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing them.
2. The City Council reviews the proposed budget at regularly scheduled meetings, which are open to the public. The Council also conducts a public hearing on the proposed budget to obtain comments from interested persons.
3. Prior to July 1, the budget is adopted through the passage of a resolution.
4. From the effective date of the budget, which is adopted and controlled at the department level, the amounts stated therein, as proposed expenditures become appropriations to the various City departments. The City Council may amend the budget by motion during the fiscal year. The City Administrator may authorize transfers from one object or purpose to another within the same department.

Formal budgetary integration is employed as a management control device during the year. The City presents a comparison of annual budgets to actual results for the General fund and major special revenue funds. The amounts reported on the budgetary basis are generally on a basis consistent with accounting principles generally accepted in the United States of America (GAAP) with the exception of TRAN proceeds which were budgeted as other financing sources. Principal repayment of TRAN were not budgeted.

**B. ENCUMBRANCES**

The City does not use encumbrance accounting under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation.

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**COMBINING NONMAJOR FUND STATEMENTS**

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**NONMAJOR GOVERNMENTAL FUNDS**  
Special Revenue Funds

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**CITY OF NEVADA CITY, CALIFORNIA**  
**COMBINING BALANCE SHEET**  
**NONMAJOR SPECIAL REVENUE FUNDS**  
**JUNE 30, 2010**

	<u>AB 1600</u>	<u>P &amp; R Quimby</u>	<u>Nevada Main Project</u>	<u>Gas Tax Streets</u>	<u>TDA Funds</u>
<b><u>ASSETS</u></b>					
Cash and investments	\$ 248,000	\$ 28,589	\$ -	\$ 73,724	\$ -
Accounts receivable	-	-	-	-	6,792
Interest receivable	507	35	-	117	-
Taxes receivable	-	-	-	-	-
<b>Total Assets</b>	<b>\$ 248,507</b>	<b>\$ 28,624</b>	<b>\$ -</b>	<b>\$ 73,841</b>	<b>\$ 6,792</b>
<b><u>LIABILITIES AND FUND BALANCES</u></b>					
<b><u>LIABILITIES</u></b>					
Accounts payable	\$ -	\$ -	\$ 600	\$ 1,080	\$ -
Salaries and benefits payable	-	-	-	-	-
Interest payable	-	-	8	-	51
Due to other funds	-	-	6,486	-	-
<b>Total Liabilities</b>	<b>-</b>	<b>-</b>	<b>7,094</b>	<b>1,080</b>	<b>51</b>
<b><u>FUND BALANCES</u></b>					
Restricted	248,507	28,624	-	72,761	6,741
Committed	-	-	-	-	-
Unassigned	-	-	(7,094)	-	-
<b>Total Fund Balances</b>	<b>248,507</b>	<b>28,624</b>	<b>(7,094)</b>	<b>72,761</b>	<b>6,741</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 248,507</b>	<b>\$ 28,624</b>	<b>\$ -</b>	<b>\$ 73,841</b>	<b>\$ 6,792</b>

<u>TDA Sidewalks</u>	<u>STIP</u>	<u>Traffic Relief</u>	<u>Reg. Traffic Mit</u>	<u>Indian Trails</u>	<u>UST Project</u>	<u>Sugarloaf P40</u>	<u>Brownsfield 10</u>
\$ -	\$ -	\$ 103,950	\$ 599	\$ 52,829	\$ -	\$ -	\$ -
-	-	7,613	-	-	21,456	-	-
17	-	116	1	64	-	-	-
-	-	-	-	-	-	-	-
<u>\$ 17</u>	<u>\$ -</u>	<u>\$ 111,679</u>	<u>\$ 600</u>	<u>\$ 52,893</u>	<u>\$ 21,456</u>	<u>\$ -</u>	<u>\$ -</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-
-	17	-	-	-	-	-	-
-	14,139	-	-	-	31,081	1,551	22
-	14,156	-	-	-	31,081	1,551	22
17	-	111,679	600	-	-	-	-
-	-	-	-	52,893	-	-	-
-	(14,156)	-	-	-	(9,625)	(1,551)	(22)
17	(14,156)	111,679	600	52,893	(9,625)	(1,551)	(22)
<u>\$ 17</u>	<u>\$ -</u>	<u>\$ 111,679</u>	<u>\$ 600</u>	<u>\$ 52,893</u>	<u>\$ 21,456</u>	<u>\$ -</u>	<u>\$ -</u>

**CITY OF NEVADA CITY, CALIFORNIA**  
**COMBINING BALANCE SHEET**  
**NONMAJOR SPECIAL REVENUE FUNDS**  
**JUNE 30, 2010**

	<u>Tax - Fire Dept.</u>	<u>2003 Fire Tax</u>	<u>NC Recreation</u>	<u>Prop 1B</u>	<u>CDBG Water</u>
<b><u>ASSETS</u></b>					
Cash and investments	\$ -	\$ -	\$ -	\$ -	\$ -
Accounts receivable	-	-	18,386	-	-
Interest receivable	-	-	-	-	-
Taxes receivable	3,221	1,635	-	-	-
<b>Total Assets</b>	<u>\$ 3,221</u>	<u>\$ 1,635</u>	<u>\$ 18,386</u>	<u>\$ -</u>	<u>\$ -</u>
<b><u>LIABILITIES AND FUND BALANCES</u></b>					
<b><u>LIABILITIES</u></b>					
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -
Salaries and benefits payable	-	-	-	-	-
Interest payable	-	-	-	-	2
Due to other funds	-	-	-	-	1,975
<b>Total Liabilities</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,977</u>
<b><u>FUND BALANCES</u></b>					
Restricted	3,221	1,635	18,386	-	-
Committed	-	-	-	-	-
Unassigned	-	-	-	-	(1,977)
<b>Total Fund Balances</b>	<u>3,221</u>	<u>1,635</u>	<u>18,386</u>	<u>-</u>	<u>(1,977)</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$ 3,221</u>	<u>\$ 1,635</u>	<u>\$ 18,386</u>	<u>\$ -</u>	<u>\$ -</u>

<u>CMAC Grant</u>	<u>Safe Routes to School</u>	<u>CDBG Enterprise</u>	<u>Solar Farm</u>	<u>Stimulus Broad</u>	<u>RTP Grant</u>	<u>Comcast Tech</u>	<u>Prop 271</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
3,466	-	-	-	-	-	-	-
-	-	-	1	-	-	-	-
-	-	-	-	-	-	-	5,338
<u>\$ 3,466</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,338</u>
\$ 1,950	\$ 2,470	\$ -	\$ -	\$ 2,100	\$ 21,233	\$ -	\$ -
-	-	-	-	-	-	-	-
40	26	4	-	8	21	-	-
2,319	21,867	3,081	4,376	6,762	31,793	-	-
<u>4,309</u>	<u>24,363</u>	<u>3,085</u>	<u>4,376</u>	<u>8,870</u>	<u>53,047</u>	<u>-</u>	<u>-</u>
-	-	-	-	-	-	-	5,338
-	-	-	-	-	-	-	-
(843)	(24,363)	(3,085)	(4,375)	(8,870)	(53,047)	-	-
<u>(843)</u>	<u>(24,363)</u>	<u>(3,085)</u>	<u>(4,375)</u>	<u>(8,870)</u>	<u>(53,047)</u>	<u>-</u>	<u>5,338</u>
<u>\$ 3,466</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,338</u>

**CITY OF NEVADA CITY, CALIFORNIA**  
**COMBINING BALANCE SHEET**  
**NONMAJOR SPECIAL REVENUE FUNDS**  
**JUNE 30, 2010**

	<u>MATHIVET</u>	<u>SLESF</u>	<u>Recovery Act 09</u>	<u>Bicentennial</u>	<u>Becker</u>
<b><u>ASSETS</u></b>					
Cash and investments	\$ 97,928	\$ 118,905	\$ -	\$ 3,216	\$ 17,810
Accounts receivable	-	10,918	-	-	-
Interest receivable	119	227	-	-	22
Taxes receivable	-	-	-	-	-
<b>Total Assets</b>	<b>\$ 98,047</b>	<b>\$ 130,050</b>	<b>\$ -</b>	<b>\$ 3,216</b>	<b>\$ 17,832</b>
<b><u>LIABILITIES AND FUND BALANCES</u></b>					
<b><u>LIABILITIES</u></b>					
Accounts payable	\$ -	\$ -	\$ 1,025	\$ -	\$ -
Salaries and benefits payable	-	-	8,954	-	-
Interest payable	-	-	35	-	-
Due to other funds	-	-	45,645	-	-
<b>Total Liabilities</b>	<b>-</b>	<b>-</b>	<b>55,659</b>	<b>-</b>	<b>-</b>
<b><u>FUND BALANCES</u></b>					
Restricted	-	130,050	-	-	-
Committed	98,047	-	-	3,216	17,832
Unassigned	-	-	(55,659)	-	-
<b>Total Fund Balances</b>	<b>98,047</b>	<b>130,050</b>	<b>(55,659)</b>	<b>3,216</b>	<b>17,832</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 98,047</b>	<b>\$ 130,050</b>	<b>\$ -</b>	<b>\$ 3,216</b>	<b>\$ 17,832</b>

<u>USPEA Grant</u>	<u>Total</u>
\$ 3,960	\$ 749,510
-	68,631
-	1,226
-	10,194
<u>\$ 3,960</u>	<u>\$ 829,561</u>
\$ -	\$ 30,458
-	8,954
-	212
-	171,097
<u>-</u>	<u>210,721</u>
3,960	631,519
-	171,988
-	(184,667)
<u>3,960</u>	<u>618,840</u>
<u>\$ 3,960</u>	<u>\$ 829,561</u>

**CITY OF NEVADA CITY, CALIFORNIA**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES**  
**NONMAJOR SPECIAL REVENUE FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2010**

	<u>AB 1600</u>	<u>P &amp; R Quimby</u>	<u>Nevada Main Project</u>	<u>Gas Tax Streets</u>	<u>TDA Funds</u>
<b><u>REVENUES</u></b>					
Taxes and assessments	\$ 5,872	\$ -	\$ -	\$ 68,469	\$ -
Fines and forfeitures	-	-	-	-	-
Intergovernmental revenues	-	-	-	-	92,809
Use of money and property	2,459	35	(25)	694	(444)
Other revenues	-	-	-	-	-
<b>Total Revenues</b>	<u>8,331</u>	<u>35</u>	<u>(25)</u>	<u>69,163</u>	<u>92,365</u>
<b><u>EXPENDITURES</u></b>					
Current:					
General government	-	-	-	-	-
Public ways and facilities	3,144	-	-	36,127	-
Capital outlay	-	-	3,900	54,692	47,125
<b>Total Expenditures</b>	<u>3,144</u>	<u>-</u>	<u>3,900</u>	<u>90,819</u>	<u>47,125</u>
<b>Excess of Revenues Over (Under) Expenditures</b>	<u>5,187</u>	<u>35</u>	<u>(3,925)</u>	<u>(21,656)</u>	<u>45,240</u>
<b><u>OTHER FINANCING SOURCES (USES)</u></b>					
Transfers in	-	28,589	-	-	62,819
Transfers out	(253,504)	-	-	(61,563)	(8,100)
<b>Total Other Financing Sources (Uses)</b>	<u>(253,504)</u>	<u>28,589</u>	<u>-</u>	<u>(61,563)</u>	<u>54,719</u>
<b>Net Change in Fund Balances</b>	<u>(248,317)</u>	<u>28,624</u>	<u>(3,925)</u>	<u>(83,219)</u>	<u>99,959</u>
<b>Fund Balances - Beginning</b>	<u>496,824</u>	<u>-</u>	<u>(3,169)</u>	<u>155,980</u>	<u>(93,218)</u>
<b>Fund Balances - Ending</b>	<u>\$ 248,507</u>	<u>\$ 28,624</u>	<u>\$ (7,094)</u>	<u>\$ 72,761</u>	<u>\$ 6,741</u>

<u>TDA Sidewalks</u>	<u>STIP</u>	<u>Traffic Relief</u>	<u>Reg. Traffic Mit</u>	<u>Indian Trails</u>	<u>UST Project</u>	<u>Sugarloaf P40</u>	<u>Brownsfield 10</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	27,511	-	-	-	-	-
-	-	-	-	-	-	-	-
67	(72)	444	3	271	-	-	-
14,000	-	-	-	-	21,456	-	-
<u>14,067</u>	<u>(72)</u>	<u>27,955</u>	<u>3</u>	<u>271</u>	<u>21,456</u>	<u>-</u>	<u>-</u>
-	-	-	-	-	-	-	22
430	288	-	-	-	-	-	-
-	-	-	-	-	-	1,551	-
<u>430</u>	<u>288</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,551</u>	<u>22</u>
<u>13,637</u>	<u>(360)</u>	<u>27,955</u>	<u>3</u>	<u>271</u>	<u>21,456</u>	<u>(1,551)</u>	<u>(22)</u>
-	-	-	-	-	-	-	-
(20,590)	-	-	-	-	(31,081)	-	-
<u>(20,590)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(31,081)</u>	<u>-</u>	<u>-</u>
(6,953)	(360)	27,955	3	271	(9,625)	(1,551)	(22)
6,970	(13,796)	83,724	597	52,622	-	-	-
<u>\$ 17</u>	<u>\$ (14,156)</u>	<u>\$ 111,679</u>	<u>\$ 600</u>	<u>\$ 52,893</u>	<u>\$ (9,625)</u>	<u>\$ (1,551)</u>	<u>\$ (22)</u>

**CITY OF NEVADA CITY, CALIFORNIA**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES**  
**NONMAJOR SPECIAL REVENUE FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2010**

	<u>Tax - Fire Dept.</u>	<u>2003 Fire Tax</u>	<u>NC Recreation</u>	<u>Prop 1B</u>	<u>CDBG Water</u>
<b><u>REVENUES</u></b>					
Taxes and assessments	\$ 34,287	\$ 61,279	\$ -	\$ -	\$ -
Fines and forfeitures	-	-	-	-	-
Intergovernmental revenues	-	-	-	-	-
Use of money and property	24	48	-	(96)	(10)
Other revenues	-	-	18,386	-	-
<b>Total Revenues</b>	<u>34,311</u>	<u>61,327</u>	<u>18,386</u>	<u>(96)</u>	<u>(10)</u>
<b><u>EXPENDITURES</u></b>					
Current:					
General government	-	-	-	-	-
Public ways and facilities	-	-	-	-	-
Capital outlay	-	-	-	-	-
<b>Total Expenditures</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Excess of Revenues Over (Under) Expenditures</b>	<u>34,311</u>	<u>61,327</u>	<u>18,386</u>	<u>(96)</u>	<u>(10)</u>
<b><u>OTHER FINANCING SOURCES (USES)</u></b>					
Transfers in	-	-	-	31,430	-
Transfers out	(32,939)	(63,761)	-	(11,303)	-
<b>Total Other Financing Sources (Uses)</b>	<u>(32,939)</u>	<u>(63,761)</u>	<u>-</u>	<u>20,127</u>	<u>-</u>
<b>Net Change in Fund Balances</b>	1,372	(2,434)	18,386	20,031	(10)
<b>Fund Balances - Beginning</b>	<u>1,849</u>	<u>4,069</u>	<u>-</u>	<u>(20,031)</u>	<u>(1,967)</u>
<b>Fund Balances - Ending</b>	<u>\$ 3,221</u>	<u>\$ 1,635</u>	<u>\$ 18,386</u>	<u>\$ -</u>	<u>\$ (1,977)</u>

<u>CMAC Grant</u>	<u>Safe Routes to School</u>	<u>CDBG Enterprise</u>	<u>Solar Farm</u>	<u>Stimulus Broad</u>	<u>RTP Grant</u>	<u>Comcast Tech</u>	<u>Prop 271</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-
72,354	14,288	-	-	-	-	-	-
(268)	(117)	(16)	-	(10)	(21)	-	-
-	-	-	-	-	-	-	-
<u>72,086</u>	<u>14,171</u>	<u>(16)</u>	<u>-</u>	<u>(10)</u>	<u>(21)</u>	<u>-</u>	<u>-</u>
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>33,843</u>	<u>19,003</u>	<u>-</u>	<u>4,375</u>	<u>8,860</u>	<u>53,026</u>	<u>-</u>	<u>-</u>
<u>33,843</u>	<u>19,003</u>	<u>-</u>	<u>4,375</u>	<u>8,860</u>	<u>53,026</u>	<u>-</u>	<u>-</u>
<u>38,243</u>	<u>(4,832)</u>	<u>(16)</u>	<u>(4,375)</u>	<u>(8,870)</u>	<u>(53,047)</u>	<u>-</u>	<u>-</u>
-	8,100	-	-	-	-	-	239,481
<u>(29,258)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(3)</u>	<u>(234,143)</u>
<u>(29,258)</u>	<u>8,100</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(3)</u>	<u>5,338</u>
8,985	3,268	(16)	(4,375)	(8,870)	(53,047)	(3)	5,338
<u>(9,828)</u>	<u>(27,631)</u>	<u>(3,069)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3</u>	<u>-</u>
<u>\$ (843)</u>	<u>\$ (24,363)</u>	<u>\$ (3,085)</u>	<u>\$ (4,375)</u>	<u>\$ (8,870)</u>	<u>\$ (53,047)</u>	<u>\$ -</u>	<u>\$ 5,338</u>

**CITY OF NEVADA CITY, CALIFORNIA**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES**  
**NONMAJOR SPECIAL REVENUE FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2010**

	<u>MATHIVET</u>	<u>SLESF</u>	<u>Recovery Act 09</u>	<u>Bicentennial</u>	<u>Becker</u>
<b><u>REVENUES</u></b>					
Taxes and assessments	\$ -	\$ -	\$ -	\$ -	\$ -
Fines and forfeitures	-	-	-	-	-
Intergovernmental revenues	-	-	31,519	-	-
Use of money and property	502	227	(42)	10	93
Other revenues	-	-	-	5,697	-
<b>Total Revenues</b>	<u>502</u>	<u>227</u>	<u>31,477</u>	<u>5,707</u>	<u>93</u>
<b><u>EXPENDITURES</u></b>					
Current:					
General government	-	-	86,749	6,033	-
Public ways and facilities	-	-	-	-	-
Capital outlay	-	-	-	-	-
<b>Total Expenditures</b>	<u>-</u>	<u>-</u>	<u>86,749</u>	<u>6,033</u>	<u>-</u>
<b>Excess of Revenues Over (Under) Expenditures</b>	<u>502</u>	<u>227</u>	<u>(55,272)</u>	<u>(326)</u>	<u>93</u>
<b><u>OTHER FINANCING SOURCES (USES)</u></b>					
Transfers in	-	246,085	-	-	-
Transfers out	-	(116,262)	(387)	-	-
<b>Total Other Financing Sources (Uses)</b>	<u>-</u>	<u>129,823</u>	<u>(387)</u>	<u>-</u>	<u>-</u>
<b>Net Change in Fund Balances</b>	<u>502</u>	<u>130,050</u>	<u>(55,659)</u>	<u>(326)</u>	<u>93</u>
<b>Fund Balances - Beginning</b>	<u>97,545</u>	<u>-</u>	<u>-</u>	<u>3,542</u>	<u>17,739</u>
<b>Fund Balances - Ending</b>	<u>\$ 98,047</u>	<u>\$ 130,050</u>	<u>\$ (55,659)</u>	<u>\$ 3,216</u>	<u>\$ 17,832</u>

<u>USPEA Grant</u>	<u>Total</u>
\$ -	\$ 169,907
-	27,511
45,886	256,856
-	3,756
-	59,539
45,886	517,569
41,926	134,730
-	39,989
-	226,375
41,926	401,094
3,960	116,475
-	616,504
-	(862,894)
-	(246,390)
3,960	(129,915)
-	748,755
\$ 3,960	\$ 618,840

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**NON-MAJOR PROPRIETARY FUNDS**  
Enterprise Funds

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**CITY OF NEVADA CITY, CALIFORNIA**  
**COMBINING STATEMENT OF NET ASSETS**  
**NONMAJOR ENTERPRISE FUNDS**  
**JUNE 30, 2010**

	<b>Veteran's Building</b>	<b>Totals</b>
<b><u>ASSETS</u></b>		
Current Assets		
Accounts receivable (net of allowance)	\$ 869	\$ 869
Prepaid costs	138	138
	1,007	1,007
<b><u>LIABILITIES</u></b>		
Current Liabilities		
Accounts payable	3,388	3,388
Salaries and benefits payable	649	649
Interest payable	74	74
Due to other funds	60,506	60,506
	64,617	64,617
<b><u>NET ASSETS</u></b>		
Unrestricted	(63,610)	(63,610)
	\$ (63,610)	\$ (63,610)

**CITY OF NEVADA CITY, CALIFORNIA**  
**COMBINING STATEMENT OF REVENUES, EXPENSES AND**  
**CHANGES IN NET ASSETS**  
**NONMAJOR ENTERPRISE FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2010**

	<b>Veteran's Building</b>	<b>Totals</b>
<b><u>OPERATING REVENUES</u></b>		
Charges for services	\$ 16,425	\$ 16,425
<b>Total Operating Revenues</b>	16,425	16,425
<b><u>OPERATING EXPENSES</u></b>		
Salaries and benefits	16,472	16,472
Supplies	345	345
Power	3,824	3,824
Repairs and maintenance	1,248	1,248
Other expenses	7,964	7,964
<b>Total Operating Expenses</b>	29,853	29,853
<b>Operating Income (Loss)</b>	(13,428)	(13,428)
<b><u>NON-OPERATING REVENUES (EXPENSES)</u></b>		
Interest expense	(284)	(284)
<b>Total Non-Operating Revenues (Expenses)</b>	(284)	(284)
<b>Change in Net Assets</b>	(13,712)	(13,712)
<b>Total Net Assets - Beginning</b>	(49,898)	(49,898)
<b>Total Net Assets - Ending</b>	\$ (63,610)	\$ (63,610)

**CITY OF NEVADA CITY, CALIFORNIA**  
**COMBINING STATEMENT OF CASH FLOWS**  
**NONMAJOR ENTERPRISE FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2010**

	<b>Veteran's Building</b>	<b>Totals</b>
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES</u></b>		
Receipts from customers	\$ 16,724	\$ 16,724
Payments to suppliers	(13,595)	(13,595)
Payments to employees	(16,400)	(16,400)
	<hr/>	<hr/>
<b>Net Cash Provided (Used) by Operating Activities</b>	(13,271)	(13,271)
<b><u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</u></b>		
Interfund loans received	60,506	60,506
Interfund loans repaid	(47,025)	(47,025)
	<hr/>	<hr/>
<b>Net Cash Provided (Used) by Noncapital Financing Activities</b>	13,481	13,481
<b><u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u></b>		
Interest paid on debt	(210)	(210)
	<hr/>	<hr/>
<b>Net Cash Provided (Used) by Capital and Related Financing Activities</b>	(210)	(210)
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	-	-
<b>Balances - Beginning of the Year</b>	-	-
	<hr/>	<hr/>
<b>Balances - End of the Year</b>	\$ -	\$ -
	<hr/> <hr/>	<hr/> <hr/>
<b><u>ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</u></b>		
Operating income (loss)	\$ (13,428)	\$ (13,428)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Decrease (increase) in:		
Accounts receivable	299	299
Prepaid costs	(43)	(43)
Increase (decrease) in:		
Accounts payable	(171)	(171)
Salaries and benefits payable	72	72
	<hr/>	<hr/>
<b>Net Cash Provided (Used) by Operating Activities</b>	\$ (13,271)	\$ (13,271)
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**FIDUCIARY FUNDS**  
Agency Funds

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**CITY OF NEVADA CITY, CALIFORNIA**  
**COMBINING STATEMENT OF ASSETS AND LIABILITIES**  
**AGENCY FUNDS**  
**JUNE 30, 2010**

	B.I.D	Total Agency Funds
<b><u>ASSETS</u></b>		
Cash and investments	\$ 16	\$ 16
<b>Total Assets</b>	\$ 16	\$ 16
<b><u>LIABILITIES</u></b>		
Agency obligations	\$ 16	\$ 16
<b>Total Liabilities</b>	\$ 16	\$ 16

**CITY OF NEVADA CITY, CALIFORNIA**  
**COMBINING STATEMENT OF CHANGES**  
**IN ASSETS AND LIABILITIES**  
**AGENCY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2010**

	<b>Balance</b> <b>July 1, 2009</b>	<b>Contributions</b>	<b>Withdrawals</b>	<b>Balance</b> <b>June 30, 2010</b>
<b>B.I.D</b>				
<b><u>ASSETS</u></b>				
Cash and investments	\$ 3,676	\$ 461	\$ 4,121	\$ 16
<b>Total Assets</b>	\$ 3,676	\$ 461	\$ 4,121	\$ 16
<b><u>LIABILITIES</u></b>				
Due to agency recipients	\$ -	\$ -	\$ -	\$ -
Agency obligations	3,676	461	4,121	16
<b>Total Liabilities</b>	\$ 3,676	\$ 461	\$ 4,121	\$ 16
 <b>TOTAL AGENCY FUNDS</b>				
<b><u>ASSETS</u></b>				
Cash and investments	\$ 3,676	\$ 461	\$ 4,121	\$ 16
<b>Total Assets</b>	\$ 3,676	\$ 461	\$ 4,121	\$ 16
<b><u>LIABILITIES</u></b>				
Due to agency recipients	\$ -	\$ -	\$ -	\$ -
Agency obligations	3,676	461	4,121	16
<b>Total Liabilities</b>	\$ 3,676	\$ 461	\$ 4,121	\$ 16

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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 Honorable Mayor and Members of the City Council  
City of Nevada City  
Nevada City, California

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Nevada City, California (City), as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements and have issued our report thereon dated November 24, 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 City'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 City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City'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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the 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. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and recommendations that we consider to be significant deficiencies in internal control over financial reporting. (10-FS-01) A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City'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 statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The City's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Recommendations. We did not audit the City's responses and, accordingly, we express no opinion on them.

We noted certain other matters that we reported to management of the City in a separate report dated November 24, 2010.

The Honorable Mayor and Members of the City Council  
City of Nevada City  
Nevada City, California

This report is intended solely for the information and use of the City Council, management, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

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

Smith & Newell, CPAs  
Yuba City, California  
November 24, 2010

**CITY OF NEVADA CITY, CALIFORNIA**  
**SCHEDULE OF FINDINGS AND RECOMMENDATIONS**  
**FOR THE YEAR ENDED JUNE 30, 2010**

**10-FS-01 DEFICIT UNASSIGNED FUND BALANCE (Reporting Requirement: Significant Deficiency)**

**Condition**

During our audit we noted that the General fund and numerous special revenue funds had deficit unassigned fund balances. The balance in unassigned fund balance is the amount of current net assets available to finance future operations. In particular, an adequate level of unassigned fund balance in the general fund is essential to mitigate current and future risks and to ensure stable service levels. This is a repeat of a prior year finding.

**Cause**

The City has not been able to maintain adequate levels of unreserved fund balance in the general fund and numerous special revenue funds.

**Criteria**

The Governmental Accounting, Auditing and Financial Reporting (Blue Book) recommends that local governments regardless of size, maintain unrestricted fund balance in their general fund of no less than two months of regular general fund operating revenues or regular general fund operating expenditures.

**Effect of Condition**

The City may not be in a position to adequately fund required future operations.

**Recommendation**

We recommend that the City establish a formal policy on the level of unreserved fund balance to be maintained in the General fund. This policy should provide both a temporal framework and specific plans for increasing the level of unreserved fund balance to bring it in compliance with that policy. In addition the City should review all special revenue funds with negative unreserved fund balance and determine what action is appropriate.

**Corrective Action Plan**

The Finance Director will bring the policy forward to the City Council for approval by the third quarter 2010-11.

**CITY OF NEVADA CITY, CALIFORNIA**  
**STATUS OF PRIOR YEAR RECOMMENDATIONS**  
**FOR THE YEAR ENDED JUNE 30, 2010**

<u>Audit Reference</u>	<u>Status of Prior Year Audit Recommendations</u>
<b>09-FS-01</b>	<p><b>BUDGET</b></p> <p><b>Recommendation</b></p> <p>We recommend that budget policies be adopted that require appropriate monitoring of budget to actual variances so that spending can be curtailed or budgets can be modified as needed to ensure expenditures do not exceed the legally adopted budget.</p> <p><b>Status</b></p> <p>Implemented</p>
<b>09-FS-02</b>	<p><b>DEFICIT UNRESERVED FUND BALANCE</b></p> <p><b>Recommendation</b></p> <p>We recommend that the City establish a formal policy on the level of unreserved fund balance to be maintained in the General fund. This policy should provide both a temporal framework and specific plans for increasing the level of unreserved fund balance to bring it in compliance with that policy. In addition the City should review all special revenue funds with negative unreserved fund balance and determine what action is appropriate.</p> <p><b>Status</b></p> <p>In Progress</p>