

**CITY OF NEVADA CITY,
CALIFORNIA**



**FINANCIAL STATEMENTS
TOGETHER WITH
INDEPENDENT AUDITORS' REPORTS
FOR THE YEAR ENDED
JUNE 30, 2009**

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CITY OF NEVADA CITY, CALIFORNIA
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE, 2009

TABLE OF CONTENTS

	Page
INTRODUCTORY SECTION	
List of Officials	i
FINANCIAL SECTION	
Independent Auditor's Report	1
Management's Discussion and Analysis (Required Supplementary Information - Unaudited)	2-10
Basic Financial Statements	
Government-Wide Financial Statements:	
Statement of Net Assets	11
Statement of Activities	12
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	13
Reconciliation of Total Governmental Fund Balances to the Government-Wide Statement of Net Assets - Governmental Activities	14
Statement of Revenues, Expenditures, and Changes in Fund Balance	15
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Government-Wide Statement of Activities - Governmental Activities	16
Proprietary Funds:	
Statement of Fund Net Assets	17
Statement of Revenues, Expenses, and Changes in Net Assets	18
Statement of Cash Flows	19
Fiduciary Funds:	
Statement of Fiduciary Net Assets	20
Notes to Basic Financial Statements:	
1 Financial Reporting Entity and Summary of Significant Accounting Policies	21-27
2 Stewardship, Compliance, and Accountability	27-28
3 Detailed Notes	28-33
4 Employees' Retirement Plan and Post Employment Benefits	34
5 Other Post Employment Benefits	34
6 Risk Management	35
7 Other Information	35
Required Supplementary Information (other than MD&A - Unaudited)	
Schedule of Funding Progress	36
Budgetary Comparison Schedule - General Fund	37
Budgetary Comparison Schedule - Measure "S" - Major Special Revenue Fund	38
Note to Required Supplementary Information	39

**CITY OF NEVADA CITY, CALIFORNIA
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2009**

TABLE OF CONTENTS

	Page
Combining Nonmajor Fund Statements:	
Nonmajor Special Revenue Funds:	
Combining Balance Sheet	40-41
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	42-43
Nonmajor Proprietary Funds:	
Enterprise Funds:	
Combining Statement of Net Assets	44
Combining Statement of Revenues, Expenses and Changes in Net Assets	45
Combining Statement of Cash Flows	46
Fiduciary Funds:	
Agency Funds:	
Combining Statement of Assets and Liabilities	47
Combining Statement of Changes in Assets and Liabilities	48
Other Report and Schedules:	
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	49-50
Schedule of Findings and Recommendations	51-52
Schedule of Prior Year Recommendations	53

INTRODUCTORY SECTION

-
- **List of Officials**

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CITY OF NEVADA CITY, CALIFORNIA
CITY OFFICIALS
FOR THE YEAR ENDED JUNE 30, 2009

CITY COUNCIL

Barbara Coffman, Mayor

Reinette Senum, Vice Mayor

David McKay

Sally Harris

Robert Bergman

CITY STAFF

Gene Albaugh, City Manager

Neil Locke, City Clerk

Jeff Massey, 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 Smith, Treasurer

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FINANCIAL SECTION

-
- **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, 2009, 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, 2009, 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 5, 2009, 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.

The Management's Discussion and Analysis, Schedule of Funding Progress, and Budgetary Comparison Schedules as listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurements and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section and combining nonmajor fund statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining fund statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken 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 express no opinion on it.



Smith & Newell CPA's
Yuba City, California
November 5, 2009

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MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

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**CITY OF NEVADA CITY, CALIFORNIA
MANAGEMENT DISCUSSION & ANALYSIS
Fiscal Year 2008/2009**

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, 2009. 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 has been 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 contributing to a decrease in net assets.

FINANCIAL HIGHLIGHTS

The following are some financial highlights for fiscal year 2009:

Entity-wide:

- ❑ The City's assets at the end of the year decreased to \$25,878,910 down \$361,126 from the previous fiscal year. Of this total, \$11,552,647 is Governmental assets up \$98,486 from the previous fiscal year, and \$14,326,263 is Business type assets down \$459,612 from the previous fiscal year.
- ❑ The City's liabilities at the end of the year decreased to \$6,867,848 down \$136,074 from the previous fiscal year. Of this total, \$1,114,863 is Governmental liabilities up \$3,955 from the previous fiscal year, and \$5,752,985 is Business type liabilities down \$140,029 from the previous fiscal year.
- ❑ The net affect of the changes in assets and liabilities left the City's net assets at \$19,011,062 down \$225,052 from the previous fiscal year. Of this total, \$10,437,784 is Governmental up \$94,531 from the previous fiscal year, and \$8,573,278 is Business type down \$319,583 from the previous fiscal year.
- ❑ Governmental revenues include program revenues of \$1,123,954 and general revenues of \$3,625,585 for a total revenue amount of \$4,749,539. Governmental expenses were \$4,655,008.
- ❑ Business-type revenues include program revenues of \$1,817,280 and general revenues of \$106,618 for total revenues of \$1,923,898. Business-type expenses were \$2,243,481.

Fund level:

- ❑ Governmental Fund Balances at the end of the fiscal year were \$413,590 down \$1,203,915 from the prior fiscal year.
- ❑ Governmental Fund revenues were \$4,551,192 in 2009 compared to \$5,306,750 in 2008 for a decrease of \$755,558.
- ❑ Governmental Fund expenditures of \$5,747,905 decreased by \$183,516 from the prior year.

General Fund:

- ❑ The General Fund revenues were \$3,479,618, a decrease of \$282,091 from the prior year.
- ❑ General Fund expenditures of \$4,798,368 represent an increase of \$291,133 from the prior year.
- ❑ General Fund other financing sources for the year totaled \$366,475 for an increase of \$198,303 from 2008.
- ❑ At the end of the fiscal year, the unreserved fund balance for the General Fund was (\$58,593).

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 Basic 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 doing so, 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 to 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>2009</u>	<u>2008</u>
Cash and investments	\$530,284	\$1,281,350
Other assets	486,226	620,237
Capital assets	10,536,137	9,552,574
Total Assets	\$11,552,647	\$11,454,161
Current liabilities	612,268	457,252
Long term debt	502,595	653,656
Total Liabilities	\$1,114,863	\$1,110,908
Net Assets:		
Invested in Capital assets, net of related debt	\$9,925,238	\$8,801,488
Restricted	397,183	530,524
Unrestricted	115,363	1,011,241
Total Net Assets	\$10,437,784	\$10,343,253

The City's Governmental net assets were \$10,437,784 as of June 30, 2009, an increase of \$94,531 over the prior year. This increase is the change in net assets shown in Table 2. The City's Governmental Net Assets as of June 30, 2009 were comprised of the net of the following:

- Cash of \$530,284 held in the State of California's Local Agency Investment Fund and the City's money market savings and general checking accounts.
- Receivables of \$484,713 comprised of accrued revenues and amounts due from other funds.
- Prepaid insurance of \$1,513.
- Capital assets net of depreciation charges of \$10,536,137, this includes all of the City's infrastructure as well as other capital assets used in government activities, see Notes 1 and 3 in the notes to the basic financial statements for additional information on capital assets.
- Current liabilities including accounts payable, accrued expenses, employee leave time earned but not yet used, and unearned revenues totaling \$376,163.
- Long term debt of \$738,700 of which \$502,595 matures in future years and \$236,105 is due within one year. Note 3 in the notes to the basic financial statements provides additional detail on the City's long term debt.

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

	2009	2008
Revenues:		
Program revenues:		
Charges for service	\$482,555	\$608,981
Grants and contributions	641,399	874,033
General Revenues:		
Property taxes	1,675,537	1,818,430
Other taxes	1,662,993	1,787,675
Interest and Investment Earnings	73,015	126,275
Other general revenues	214,040	28,993
Total Revenues	\$4,749,539	\$5,244,387
Program Expenses:		
General government	\$1,158,850	\$1,287,076
Public Safety	2,334,655	1,988,724
Public works	735,771	816,471
Parks and Recreation	364,167	316,607
Interest on Long-term debt	61,565	38,614
Total expenses	\$4,655,008	\$4,447,492
Net (Expense) Revenue	94,531	796,895
Change in Net Assets	\$94,531	\$796,895

Total Governmental revenues decreased by 9.0% from the prior year. Other tax (includes sales and use tax, franchise tax, and transient occupancy tax) decreased 7% from the previous fiscal year. Sales and use tax decreased 6.5% from the previous fiscal year with Measure "S" collections being \$585,797, while the combined franchise tax and transient occupancy tax declined 8.7% 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 2008/2009 assessed property valuations were flat to the fiscal year 2007/2008. 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 08/09 fiscal year.

Total Governmental expenses increased 4.6% over the prior fiscal year. The increase in program expenses were mostly associated to the public safety programs. The City was charged with bringing current past fiscal years revenues owed to the County for City ticket collections. To control operational expenses during the fiscal year 2008/2009 a one day a month furlough was implemented Citywide, and vacant positions throughout the City were being left open.

Table 2 shows that 23.7% of the City's Governmental revenues were derived from fees for City services and grants which is a slight decline from the previous fiscal year where City services and grants constituted 28.3% of the City's Governmental revenues. Overall, the City experienced a decline in all governmental activities charges for services from the previous fiscal year, with the largest decline associated to public protection.

Business-Type Activities:

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

	<u>2009</u>	<u>2008</u>
Cash and investments	\$193,457	\$962,269
Other assets	619,923	253,939
Capital assets	13,512,883	13,569,667
Total Assets	\$14,326,263	\$14,785,875
Current liabilities	\$440,312	\$417,184
Long term debt	5,312,673	5,475,830
Total Liabilities	\$5,752,985	\$5,893,014
Net Assets:		
Invested in Capital Assets, Net of Related Debt	\$8,049,718	\$7,931,506
Restricted	188,675	167,867
Unrestricted	334,885	793,488
Total Net Assets	\$8,573,278	\$8,892,861

The City's Business-Type enterprises consist of water and sewer services. Total assets decreased 3.1%, being driven by a decrease in the cash for the Wastewater Treatment Plant offset by a decrease in liabilities associated to scheduled principal payments on the Loans Payable and Certificates of Participation.

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

	<u>2009</u>	<u>2008</u>
Revenues:		
Program revenues:		
Water	\$487,334	\$487,770
Sewer	1,312,572	1,311,787
Other Enterprise Funds	17,374	14,391
General Revenues	106,618	218,811
Total Revenues	\$1,923,898	\$2,032,759
Expenses:		
Water	\$784,600	\$660,203
Sewer	1,424,105	1,225,106
Other Enterprise Funds	34,776	31,850
Total Expenses	\$2,243,481	\$1,917,159
Net (Expense) Revenue	(319,583)	115,600
Change in Net Assets	\$(319,583)	\$115,600

The City's Business-type revenues decreased by 5% in whole due to the reduction in general revenues associated to the waste water program income. The City was working with Button Transportation in previous fiscal years; however, with the City of Grass Valley certifying their sewer plant during the fiscal year 2008/2009, the City of Grass Valley was able to take the County's effluent, eliminating the necessity to haul it to Nevada City's sewer plant.

There were overall increases in water and sewer service operational expenses. These increases are mainly associated to further allocations of salaries and benefits for general government services that are being provided to the water and sewer departments.

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

	2009	2008
Water Services	\$(59,511)	\$(123,147)
Sewer Services	\$(242,670)	255,921
Other Enterprise Funds	\$(17,402)	(17,174)
Totals	\$(319,583)	\$115,600

The overall improvement in Net Income for fiscal year 2008/2009 in water services from the prior year relates to transfers in from other funds. These transfers were made in an effort to clean up old fund balances associated to the water fund. The actual Net Income prior to transfers was \$(262,052) which is a continuation in increased losses in the water fund. The operating expenses increased 23% from the fiscal year 2007/2008 mostly associated to salaries and benefits allocations and the increased volume in raw water purchased from the NID during the fiscal year 2008/2009 versus the fiscal year 2007/2008. The decline in Net Income for fiscal year 2008/2009 in sewer services is associated to the continued decline in program revenues and a 21% increase in operational expenses in the areas of salaries and benefits allocations and depreciation.

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, 2009
(Net of Depreciation)

	Government Activities	Business Activities	Total
Land	\$1,178,782	\$0	\$1,178,782
Structures & Improvements	11,056,286	17,591,891	28,648,177
Vehicles, machinery and equipment	1,593,280	2,568,495	4,161,775
Construction in Progress	160,614	128,326	288,940
Less accumulated depreciation	(3,452,825)	(6,775,829)	(10,228,654)
Totals	\$10,536,137	\$13,512,883	\$24,049,020

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 2008/2009 were in the structures and improvements. The City completed a major storm drain project and street improvements associated to Measure "S". The change in capital assets associated to business activities was the completion of the sewer system upgrade, the balance of the project was moved from Construction in Progress from fiscal year 2007/2008 to structures and improvements for fiscal year 2008/2009 with the first year of depreciation being taken in fiscal year 2008/2009; see Note 3 for additional detail on changes in capital assets during the year.

Debt Administration

At year-end, the City had \$6,248,803 in long term debt outstanding compared to \$6,528,266 at 06/30/08. The City had a decrease in long term debt of \$279,463 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 04/05. 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 2008/2009. The City also issued a tax revenue anticipation note for 2.78%, 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, 2009.

Table 7
Outstanding Debt at June 30, 2009

	Government Activities	Business Activities	Total
Loans Payable	\$19,152	\$1,557,165	\$1,576,317
Certificates of Participation	-	3,906,000	3,906,000
Capital Leases	591,747	-	591,747
Compensated absences payable	127,801	46,938	174,739
Totals	\$738,700	\$5,510,103	\$6,248,803

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, 2009

	Governmental Activities	Business-type Activities	Total
<u>ASSETS</u>			
Cash and investments	\$ 530,284	\$ 193,457	\$ 723,741
Accounts receivable	443,476	300,818	744,294
Interest receivable	4,315	5,230	9,545
Taxes receivable	348,378	-	348,378
Internal balances	(311,456)	311,456	-
Prepaid costs	1,513	2,419	3,932
Capital assets:			
Non depreciable assets	1,339,396	128,326	1,467,722
Depreciable assets, net of depreciation	9,196,741	13,384,557	22,581,298
Total capital assets	10,536,137	13,512,883	24,049,020
Total Assets	11,552,647	14,326,263	25,878,910
<u>LIABILITIES</u>			
Accounts payable	241,462	106,397	347,859
Salaries and benefits payable	82,794	21,387	104,181
Interest payable	786	115,098	115,884
Unearned revenue	51,121	-	51,121
Long-term liabilities:			
Due within one year	236,105	197,430	433,535
Due in more than one year	502,595	5,312,673	5,815,268
Total Liabilities	1,114,863	5,752,985	6,867,848
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	9,925,238	8,049,718	17,974,956
Restricted for:			
Debt service	-	188,675	188,675
Grants, taxes and fees	397,183	-	397,183
Unrestricted	115,363	334,885	450,248
Total Net Assets	\$ 10,437,784	\$ 8,573,278	\$ 19,011,062

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, 2009

FUNCTIONS/PROGRAMS	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities:				
General government	\$ 1,158,850	58,640	188,635	\$ -
Public protection	2,334,655	29,483	204,968	-
Public ways and facilities	735,771	270,262	67,687	180,109
Recreation and culture	364,167	124,170	-	-
Interest on long-term debt	61,565	-	-	-
Total Governmental Activities	4,655,008	482,555	461,290	180,109
Business-type activities:				
Water	784,600	487,334	-	-
Sewer	1,424,105	1,312,572	-	-
Veteran's building	34,776	17,374	-	-
Total Business-type Activities	2,243,481	1,817,280	-	-
Total	\$ 6,898,489	\$ 2,299,835	\$ 461,290	\$ 180,109

General revenues:

Taxes:

- Property taxes
- Property transfer tax
- Sales and use taxes
- Franchise taxes
- Transient occupancy taxes
- Interest and investment earnings
- Miscellaneous

Transfers

Total General Revenues and Transfers

Change in Net Assets

Net Assets - Beginning

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**

Governmental Activities	Business-type Activities	Total
\$ (911,575)	\$ -	\$ (911,575)
(2,100,204)	-	(2,100,204)
(217,713)	-	(217,713)
(239,997)	-	(239,997)
(61,565)	-	(61,565)
<u>(3,531,054)</u>	<u>-</u>	<u>(3,531,054)</u>
-	(297,266)	(297,266)
-	(111,533)	(111,533)
-	(17,402)	(17,402)
<u>-</u>	<u>(426,201)</u>	<u>(426,201)</u>
<u>(3,531,054)</u>	<u>(426,201)</u>	<u>(3,957,255)</u>
1,656,801	-	1,656,801
18,736	-	18,736
1,314,131	-	1,314,131
91,451	-	91,451
257,411	-	257,411
73,015	11,969	84,984
221,242	87,447	308,689
(7,202)	7,202	-
<u>3,625,585</u>	<u>106,618</u>	<u>3,732,203</u>
94,531	(319,583)	(225,052)
<u>10,343,253</u>	<u>8,892,861</u>	<u>19,236,114</u>
<u>\$ 10,437,784</u>	<u>\$ 8,573,278</u>	<u>\$ 19,011,062</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, 2009

	General	Measure "S"	Other Governmental Funds	Total Governmental Funds
<u>ASSETS</u>				
Cash and investments	\$ 275	\$ -	\$ 530,009	\$ 530,284
Accounts receivable	189,269	750	16,216	206,235
Interest receivable	1,297	-	3,018	4,315
Taxes receivable	245,984	86,800	15,594	348,378
Due from other funds	224,994	-	450,171	675,165
Prepaid costs	1,513	-	-	1,513
Total Assets	\$ 663,332	\$ 87,550	\$ 1,015,008	\$ 1,765,890
<u>LIABILITIES AND FUND BALANCES</u>				
LIABILITIES				
Accounts payable	\$ 98,848	\$ 62,387	\$ 69,743	\$ 230,978
Salaries and benefits payable	82,794	-	-	82,794
Interest payable	-	-	786	786
Unearned revenue	51,121	-	-	51,121
Due to other funds	414,162	376,735	195,724	986,621
Total Liabilities	646,925	439,122	266,253	1,352,300
FUND BALANCES				
Reserved for:				
Specific purpose	75,000	-	-	75,000
Unreserved, reported in:				
General				
Designated	-	-	-	-
Undesignated	(58,593)	-	-	(58,593)
Special Revenue				
Undesignated	-	(351,572)	748,755	397,183
Total Fund Balances	16,407	(351,572)	748,755	413,590
Total Liabilities and Fund Balances	\$ 663,332	\$ 87,550	\$ 1,015,008	\$ 1,765,890

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

CITY OF NEVADA CITY, CALIFORNIA
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO THE GOVERNMENT-WIDE STATEMENT OF
NET ASSETS - GOVERNMENTAL ACTIVITIES
JUNE 30, 2009

Total Fund Balance - Total Governmental Funds	\$ 413,590
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.	10,536,137
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	237,241
Certain liabilities are not due and payable in the current period and therefore, are not reported in the governmental funds.	
Accounts payable	(10,484)
Loans payable	<u>(738,700)</u>
Net Assets of Governmental Activities	<u>\$ 10,437,784</u>

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, 2009

	<u>General</u>	<u>Measure "S"</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>REVENUES</u>				
Taxes and assessments	\$ 2,607,892	\$ 588,073	\$ 180,961	\$ 3,376,926
Licenses and permits	165,473	-	-	165,473
Fines and forfeitures	128,025	-	-	128,025
Intergovernmental revenues	251,866	-	175,072	426,938
Use of money and property	61,873	(2,716)	13,858	73,015
Charges for services	159,573	-	-	159,573
Other revenues	104,916	440	115,886	221,242
Total Revenues	3,479,618	585,797	485,777	4,551,192
<u>EXPENDITURES</u>				
Current:				
General government	941,261	43,106	88,302	1,072,669
Public protection	2,219,780	-	-	2,219,780
Public ways and facilities	444,552	-	59,668	504,220
Recreation and culture	316,376	-	-	316,376
Debt service				
Principal	140,187	-	-	140,187
Interest and other charges	61,565	-	-	61,565
Capital outlay	674,647	610,027	148,434	1,433,108
Total Expenditures	4,798,368	653,133	296,404	5,747,905
Excess of Revenues Over (Under) Expenditures	(1,318,750)	(67,336)	189,373	(1,196,713)
<u>OTHER FINANCING SOURCES (USES)</u>				
Transfers in	1,162,997	-	220,477	1,383,474
Transfers out	(796,522)	-	(594,154)	(1,390,676)
Total Other Financing Sources (Uses)	366,475	-	(373,677)	(7,202)
Net Change in Fund Balances	(952,275)	(67,336)	(184,304)	(1,203,915)
Fund Balances - Beginning	968,682	(284,236)	933,059	1,617,505
Fund Balances - Ending	\$ 16,407	\$ (351,572)	\$ 748,755	\$ 413,590

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, 2009

Net Change in Fund Balances - Total Governmental Funds	\$ (1,203,915)
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	1,433,108
Depreciation expense	(449,545)
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	1,270,391
Debt proceeds	(1,130,204)
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	205,549
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	(20,369)
Change in Net Assets of Governmental Activities	\$ 94,531

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, 2009

	<u>Business-type Activities - Enterprise Funds</u>			<u>Totals</u>
	<u>Water</u>	<u>Sewer</u>	<u>Other Enterprise Funds</u>	
<u>ASSETS</u>				
Current Assets				
Cash and investments	\$ -	\$ 193,457	\$ -	\$ 193,457
Accounts receivable (net of allowance)	81,191	218,459	1,168	300,818
Interest receivable	989	4,241	-	5,230
Due from other funds	-	867,176	-	867,176
Prepaid costs	329	1,995	95	2,419
Total Current Assets	<u>82,509</u>	<u>1,285,328</u>	<u>1,263</u>	<u>1,369,100</u>
Noncurrent Assets:				
Non depreciable assets	11,599	116,727	-	128,326
Depreciable assets, net of accumulated depreciation	2,223,801	11,160,756	-	13,384,557
Total Noncurrent Assets	<u>2,235,400</u>	<u>11,277,483</u>	<u>-</u>	<u>13,512,883</u>
Total Assets	<u>2,317,909</u>	<u>12,562,811</u>	<u>1,263</u>	<u>14,881,983</u>
<u>LIABILITIES</u>				
Current Liabilities				
Accounts payable	68,396	34,442	3,559	106,397
Salaries and benefits payable	9,670	11,140	577	21,387
Interest payable	12,489	102,609	-	115,098
Due to other funds	496,223	12,472	47,025	555,720
Compensated absences	21,358	11,499	-	32,857
Certificates of participation	-	45,000	-	45,000
Loans payable	74,332	45,241	-	119,573
Total Current Liabilities	<u>682,468</u>	<u>262,403</u>	<u>51,161</u>	<u>996,032</u>
Noncurrent Liabilities				
Compensated absences, net of current portion	9,153	4,928	-	14,081
Certificates of participation, net of current portion	-	3,861,000	-	3,861,000
Loans payable, net of current portion	563,964	873,628	-	1,437,592
Total Noncurrent Liabilities	<u>573,117</u>	<u>4,739,556</u>	<u>-</u>	<u>5,312,673</u>
Total Liabilities	<u>1,255,585</u>	<u>5,001,959</u>	<u>51,161</u>	<u>6,308,705</u>
<u>NET ASSETS</u>				
Invested in capital assets, net of related debt	1,597,104	6,452,614	-	8,049,718
Restricted for debt service	50,000	138,675	-	188,675
Unrestricted	(584,780)	969,563	(49,898)	334,885
Total Net Assets	<u>\$ 1,062,324</u>	<u>\$ 7,560,852</u>	<u>\$ (49,898)</u>	<u>\$ 8,573,278</u>

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, 2009

	Business-type Activities - Enterprise Funds			Totals
	Water	Sewer	Other Enterprise Funds	
<u>OPERATING REVENUES</u>				
Charges for services	\$ 487,334	\$ 1,312,572	\$ 17,374	\$ 1,817,280
Other revenues	43,366	44,081	-	87,447
Total Operating Revenues	530,700	1,356,653	17,374	1,904,727
<u>OPERATING EXPENSES</u>				
Salaries and benefits	317,111	447,845	18,817	783,773
Supplies	36,397	58,013	1,110	95,520
Power	142,069	85,290	4,246	231,605
Repairs and maintenance	3,237	20,790	1,627	25,654
Professional services	84,993	99,906	-	184,899
Insurance	13,454	15,724	-	29,178
Depreciation	114,235	388,613	-	502,848
Amortization	-	1,059	-	1,059
Other expenses	42,580	101,490	8,421	152,491
Total Operating Expenses	754,076	1,218,730	34,221	2,007,027
Operating Income (Loss)	(223,376)	137,923	(16,847)	(102,300)
<u>NON-OPERATING REVENUES (EXPENSES)</u>				
Mitigation fees	(2,084)	(1,225)	-	(3,309)
Interest income	(8,152)	20,121	-	11,969
Interest expense	(28,440)	(204,150)	(555)	(233,145)
Total Non-Operating Revenues (Expenses)	(38,676)	(185,254)	(555)	(224,485)
Income (loss) Before Transfers	(262,052)	(47,331)	(17,402)	(326,785)
Transfers in	433,945	3,417,215	-	3,851,160
Transfers out	(231,785)	(3,612,173)	-	(3,843,958)
Change in Net Assets	(59,892)	(242,289)	(17,402)	(319,583)
Total Net Assets - Beginning	1,121,835	7,803,522	(32,496)	8,892,861
Total Net Assets - Ending	\$ 1,061,943	\$ 7,561,233	\$ (49,898)	\$ 8,573,278

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, 2009

	<u>Business-type Activities - Enterprise Funds</u>			<u>Totals</u>
	<u>Water</u>	<u>Sewer</u>	<u>Other Enterprise Funds</u>	
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>				
Receipts from customers	\$ 548,830	\$ 1,370,041	\$ 16,432	\$ 1,935,303
Payments to suppliers	(276,556)	(419,684)	(16,973)	(713,213)
Payments to employees	(307,672)	(439,755)	(18,955)	(766,382)
Net Cash Provided (Used) by Operating Activities	<u>(35,398)</u>	<u>510,602</u>	<u>(19,496)</u>	<u>455,708</u>
<u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</u>				
Mitigation fee revenue	(2,084)	(1,225)	-	(3,309)
Transfers from other funds	434,326	3,416,834	-	3,851,160
Transfers to other funds	(231,785)	(3,612,173)	-	(3,843,958)
Interfund loans received	788,230	594,493	47,025	1,429,748
Interfund loans repaid	(567,690)	(1,239,999)	(26,781)	(1,834,470)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>420,997</u>	<u>(842,070)</u>	<u>20,244</u>	<u>(400,829)</u>
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>				
Purchase of capital assets	(278,037)	(168,027)	-	(446,064)
Principal paid on debt	(71,383)	(104,672)	-	(176,055)
Interest paid on debt	(28,303)	(189,106)	(748)	(218,157)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(377,723)</u>	<u>(461,805)</u>	<u>(748)</u>	<u>(840,276)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>				
Interest on investments	(7,876)	24,461	-	16,585
Net Cash Provided (Used) by Investing Activities	<u>(7,876)</u>	<u>24,461</u>	<u>-</u>	<u>16,585</u>
Net Increase (Decrease) in Cash and Cash Equivalents	-	(768,812)	-	(768,812)
Balances - Beginning of the Year	-	962,269	-	962,269
Balances - End of the Year	<u>\$ -</u>	<u>\$ 193,457</u>	<u>\$ -</u>	<u>\$ 193,457</u>
<u>ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</u>				
Operating income (loss)	\$ (223,376)	\$ 137,923	\$ (16,847)	\$ (102,300)
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	114,235	388,613	-	502,848
Amortization	-	1,059	-	1,059
Decrease (increase) in:				
Accounts receivable	18,130	13,388	(552)	30,966
Prepaid costs	(5)	(350)	32	(323)
Increase (decrease) in:				
Accounts payable	46,179	(38,121)	(1,601)	6,457
Salaries and benefits payable	1,604	574	(138)	2,040
Deposits payable	-	7,516	(390)	7,126
Compensated absences	7,835	-	-	7,835
Net Cash Provided (Used) by Operating Activities	<u>\$ (35,398)</u>	<u>\$ 510,602</u>	<u>\$ (19,496)</u>	<u>\$ 455,708</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, 2009

	<u>Agency Funds</u>
<u>ASSETS</u>	
Cash and investments	\$ 3,676
Total Assets	<u>\$ 3,676</u>
<u>LIABILITIES</u>	
Agency obligations	\$ 3,676
Total Liabilities	<u>\$ 3,676</u>

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

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, 2009

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, 2009

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.

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, 2009

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

C. Basis of Accounting and Measurement Focus (Continued)

For its business-type activities and enterprise funds, the City has elected under Governmental Accounting Standards Board (GASB) Statement No. 20, "Accounting and Financial Reporting For Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting", to apply all applicable GASB pronouncements as well as any applicable pronouncements of the Financial Accounting Standards Board, the Accounting Principles Board or any Accounting Research Bulletins issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes accounting principles generally accepted in the United States of America (GAAP) for governmental units.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of 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.

CITY OF NEVADA CITY, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009

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

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.

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

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.

CITY OF NEVADA CITY, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009

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

I. Capital Assets (Continued)

Government-Wide Financial Statements (Continued)

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

<u>Depreciable Asset</u>	<u>Estimated Lives</u>
Equipment	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.

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. Capital assets used in proprietary fund operations are accounted for the same as in the government-wide statements.

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

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.

CITY OF NEVADA CITY, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009

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

M. Net Assets/Fund Balances

Government-Wide 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.”

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

Fund Financial Statements

In the governmental fund financial statements, reserves and designations segregate portions of fund balance. Reservations of fund balance are for amounts that are not available or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance are established by action of management and represent tentative plans that are subject to change. The City’s reserves and designations at June 30, 2009, are comprised of the following:

	General
Reserved for:	
Specific Purposes	\$ 115,870
Total Reserved	\$ 115,870
Designated for:	
Workers Comp Insurance	\$ 40,870
Total Designated	\$ 40,870

Reserves are described as follows:

Reserved for Specific Purposes - to reflect the funds the City has set aside to fund subsequent year expenditures and projects not yet approved.

Designations are described as follows:

Workers Comp Insurance - to reflect funds the City has set aside for workers compensation insurance.

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.

CITY OF NEVADA CITY, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009

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

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.

NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Deficit Fund Balance/Net Assets

The following major special revenue funds had a deficit fund balance at June 30, 2009:

The Measure "S" fund had a fund balance deficit of \$351,572, 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, 2009:

The Nevada Main Project special revenue fund had a fund balance deficit of \$3,169, which is expected to be eliminated in the future through increased revenues.

The TDA Fund special revenue fund had a fund balance deficit of \$93,218 which is expected to be eliminated in the future through increased revenues.

The STIP special revenue fund had a fund balance deficit of \$13,796, which is expected to be eliminated in the future through increased revenues.

The Prop 1B fund had a fund balance deficit of \$20,031, which is expected to be eliminated in the future through increased revenues.

The CDBG Water special revenue fund had a fund balance deficit of \$1,967, which is expected to be eliminated in the future through increased revenues.

The CMAC Grant special revenue fund had a fund balance deficit of \$9,828, 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 \$27,631, 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, 2009

NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)

A. Deficit Fund Balance/Net Assets (Continued)

The following non-major governmental funds had deficit fund balances at June 30, 2009: (Continued)

The CDBG Enterprise special revenue fund had a fund deficit balance of \$3,069, 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, 2009:

The Veterans Building fund had deficit net assets of \$49,898, which is expected to be eliminated in the future through increased revenues.

NOTE 3: DETAILED NOTES

A. Cash and Investments

As of June 30, 2009, the City's cash and investments consisted of the following:

Cash:		
Cash on hand		\$ 275
Deposits (less outstanding checks)		<u>381,196</u>
Total Cash		<u>381,471</u>
Investments:		
In City's pool		<u>345,946</u>
Total Investments		<u>345,946</u>
Total Cash and Investments		<u>\$ 727,417</u>

Cash

At year end, the carrying amount of the City's cash deposits (including amount in checking accounts and money market accounts) was \$381,196 and the bank balance was \$1,953,502. 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, 2009, the City had the following investments:

	Interest Rates	Maturities			Fair Value	Weighted Average Maturity (Years)
		0-1 year	1-5 years	Over 5 years		
Pooled Investments						
Local Agency Investment Fund (LAIF)	Variable	\$ 345,946	\$ -	\$ -	\$ 345,946	\$ -
Total Pooled Investments		<u>\$ 345,946</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 345,946</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.

CITY OF NEVADA CITY, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009

NOTE 3: DETAILED NOTES (CONTINUED)

A. Cash and Investments (Continued)

Investments (Continued)

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, 2009, the City's investment position in the State of California Local Agency Investment Fund (LAIF) was \$345,946, 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 \$50,850,687,766. Of that amount, 85.29% is invested in non-derivative financial products and 14.71% 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.

B. Capital Assets

Capital assets activity for the year ended June 30, 2009, was as follows:

	<u>Balance</u> <u>July 1, 2008</u>	<u>Additions</u>	<u>Retirements</u>	<u>Adjustments</u>	<u>Balance</u> <u>June 30, 2009</u>
Governmental Activities					
Capital Assets, Not Being Depreciated:					
Land	\$ 1,178,782	\$ -	\$ -	\$ -	\$ 1,178,782
Construction in progress	80,477	90,993	-	(10,856)	160,614
Total Capital Assets, Not Being Depreciated	<u>1,259,259</u>	<u>90,993</u>	<u>-</u>	<u>(10,856)</u>	<u>1,339,396</u>
Capital Assets, Being Depreciated:					
Land improvements/infrastructure	5,677,765	1,050,175	-	9,527	6,737,467
Building and improvements	4,113,882	203,608	-	1,329	4,318,819
Equipment	1,915,404	47,608	(1,068,657)	-	894,355
Vehicles	658,201	40,724	-	-	698,925
Total Capital Assets, Being Depreciated	<u>12,365,252</u>	<u>1,342,115</u>	<u>(1,068,657)</u>	<u>10,856</u>	<u>12,649,566</u>
Less Accumulated Depreciation for:					
Land improvements	(1,478,550)	(176,631)	-	-	(1,655,181)
Buildings and improvements	(805,181)	(113,910)	-	-	(919,091)
Equipment	(1,529,290)	(96,888)	1,068,657	-	(557,521)
Vehicles	(258,916)	(62,116)	-	-	(321,032)
Total Accumulated Depreciation	<u>(4,071,937)</u>	<u>(449,545)</u>	<u>1,068,657</u>	<u>-</u>	<u>(3,452,825)</u>
Total Capital Assets, Being Depreciated, Net	<u>8,293,315</u>	<u>892,570</u>	<u>-</u>	<u>-</u>	<u>9,196,741</u>
Governmental Activities Capital Assets, Net	<u>\$ 9,552,574</u>	<u>\$ 983,563</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,536,137</u>

CITY OF NEVADA CITY, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009

NOTE 3: DETAILED NOTES (CONTINUED)

B. Capital Assets (Continued)

	Balance July 1, 2008	Additions	Retirements	Adjustments	Balance June 30, 2009
Business-Type Activities					
Capital Assets, Not Being Depreciated:					
Construction in progress	\$ 6,009,282	\$ 67,192	\$ -	(\$ 5,948,148)	\$ 128,326
Total Capital Assets, Not Being Depreciated	<u>6,009,282</u>	<u>67,192</u>	<u>-</u>	<u>(5,948,148)</u>	<u>128,326</u>
Capital Assets, Being Depreciated:					
Structures and improvements	11,363,945	279,798	-	5,948,148	17,591,891
Equipment	2,450,132	35,943	-	-	2,486,075
Vehicles	<u>19,289</u>	<u>63,131</u>	<u>-</u>	<u>-</u>	<u>82,420</u>
Total Capital Assets, Being Depreciated	<u>13,833,366</u>	<u>378,872</u>	<u>-</u>	<u>5,948,148</u>	<u>20,160,386</u>
Less Accumulated Depreciation for:					
Structures and improvements	(5,244,222)	(434,181)	-	-	(5,678,403)
Equipment	(1,024,903)	(60,424)	-	-	(1,085,327)
Vehicles	<u>(3,856)</u>	<u>(8,243)</u>	<u>-</u>	<u>-</u>	<u>(12,099)</u>
Total Accumulated Depreciation	<u>(6,272,981)</u>	<u>(502,848)</u>	<u>-</u>	<u>-</u>	<u>(6,775,829)</u>
Total Capital Assets, Being Depreciated, Net	<u>7,560,385</u>	<u>(123,976)</u>	<u>-</u>	<u>5,948,148</u>	<u>13,384,557</u>
Business-Type Activities Capital Assets, Net	<u>\$ 13,569,667</u>	<u>(\$ 56,784)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,512,883</u>

Depreciation

Depreciation expense was charged to governmental functions as follows:

General government	\$ 80,560
Public safety	101,076
Public ways and facilities	221,153
Recreation and culture	<u>46,756</u>
Total Depreciation Expense - Governmental Functions	<u>\$ 449,545</u>

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

Water	\$ 114,235
Sewer	<u>388,613</u>
Total Depreciation Expense - Business-Type Functions	<u>\$ 502,848</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, 2009, components of unearned revenues were as follows:

	<u>Unearned</u>
General Fund	
Planning deposits	\$ 14,955
2009-2010 Business License Revenue	<u>36,166</u>
Total Unearned Revenue	<u>\$ 51,121</u>

CITY OF NEVADA CITY, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009

NOTE 3: DETAILED NOTES (CONTINUED)

D. Long-Term Liabilities

The following is a summary of all long-term liabilities transactions for the year ended June 30, 2009:

	Balance July 1, 2008	Additions/ Adjustments	Retirements	Balance June 30, 2009	Amounts Due Within One Year
Governmental Activities					
Loans	\$ 28,961	\$ -	\$ 9,809	\$ 19,152	\$ 10,284
Capital Leases (Note 3F)	722,125	-	130,378	591,747	136,361
Compensated Absences (Note 1L)	<u>107,432</u>	<u>87,087</u>	<u>66,718</u>	<u>127,801</u>	<u>89,460</u>
Total Governmental Activities					
- Long-Term Liabilities	<u>\$ 858,518</u>	<u>\$ 87,087</u>	<u>\$ 206,905</u>	<u>\$ 738,700</u>	<u>\$ 236,105</u>
Business-Type Activities					
Loans	\$ 1,707,691	\$ -	\$ 133,055	\$ 1,574,636	\$ 120,632
Less: Issue Costs	(18,530)	-	(1,059)	(17,471)	(1,059)
Loans (Net)	<u>1,689,161</u>	<u>-</u>	<u>131,996</u>	<u>1,557,165</u>	<u>119,573</u>
Certificates of Participation	3,949,000	-	43,000	3,906,000	45,000
Compensated Absences (Note 1L)	<u>31,587</u>	<u>23,042</u>	<u>7,691</u>	<u>46,938</u>	<u>32,857</u>
Total Business-Type Activities					
- Long-Term Liabilities	<u>\$ 5,669,748</u>	<u>\$ 23,042</u>	<u>\$ 182,687</u>	<u>\$ 5,510,103</u>	<u>\$ 197,430</u>
				<u>Governmental</u>	<u>Business-type</u>
				<u>Activities</u>	<u>Activities</u>

At June 30, 2009, 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.	\$ -	\$ 638,296
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.	19,152	-
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.	-	936,340
Total Loans Payable	<u>\$ 19,152</u>	<u>\$ 1,574,636</u>

At June 30, 2009, Certificates of Participation consisted of the following:

Series 2005 Wastewater Certificates of Participation, dated October 1, 2005, payable in annual installments of \$16,000 to 48,000, with an interest rate of 4.25%, and a maturity of July 15, 2005.	-	2,125,000
Series 2007 Wastewater Certificates of Participation, dated March 1, 2007, payable in annual installments of \$19,000 to \$90,000, with an interest rate of 4.125%, and a maturity of July 15, 2046.	-	1,781,000
Total Certificates of Participation	<u>\$ -</u>	<u>\$ 3,906,000</u>

CITY OF NEVADA CITY, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009

NOTE 3: DETAILED NOTES (CONTINUED)

D. Long-Term Liabilities (Continued)

The annual aggregate maturities for the years subsequent to June 30, 2009, are as follows:

<u>Loans</u>	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
Year Ended June 30					
2010	\$ 10,284	\$ 1,288	\$ 120,632	\$ 62,870	\$ 195,074
2011	8,868	266	125,642	57,860	192,636
2012	-	-	134,731	52,562	187,293
2013	-	-	138,928	46,993	185,921
2014	-	-	143,248	41,251	184,499
2015-2019	-	-	557,489	121,801	679,290
2020-2024	-	-	287,479	41,100	328,579
2025-2029	-	-	66,487	2,121	68,608
Total	<u>\$ 19,152</u>	<u>\$ 1,554</u>	<u>\$ 1,574,636</u>	<u>\$ 426,558</u>	<u>\$ 2,021,900</u>

<u>Certificates of Participation</u>	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
Year Ended June 30					
2010	\$ -	\$ -	\$ 45,000	\$ 162,835	\$ 207,835
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
2015-2019	-	-	300,000	737,075	1,037,075
2020-2024	-	-	366,000	671,992	1,037,992
2025-2029	-	-	451,000	582,036	1,033,036
2030-2034	-	-	554,000	477,065	1,031,065
2035-2039	-	-	680,000	348,035	1,028,035
2040-2044	-	-	835,000	189,655	1,024,655
2045-2049	-	-	475,000	25,579	500,579
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,906,000</u>	<u>\$ 3,825,481</u>	<u>\$ 7,731,481</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, 2009</u>
Governmental fund activities	4.39-4.55	\$ 591,747
Total Capital Lease Obligations		<u>\$ 591,747</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	(472,882)
Net Value	<u>\$ 1,743,310</u>

CITY OF NEVADA CITY, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009

NOTE 3: DETAILED NOTES (CONTINUED)

E. Leases (Continued)

As of June 30, 2009, capital lease annual amortization was as follows:

Year Ending June 30:	<u>Governmental Activities</u>
2010	\$ 161,758
2011	161,758
2012	161,758
2013	99,509
2014	37,260
2015	<u>37,300</u>
Total Requirements	659,343
Less Interest	(67,596)
Present Value of Remaining Payments	<u>\$ 591,747</u>

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, 2009, was as follows:

	<u>Beginning Balance</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Ending Balance</u>
Tax Anticipation Notes	\$ -	\$ 1,130,204	\$ 1,130,204	\$ -

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, 2009:

	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General Fund	\$ 224,994	\$ 414,162
Measure "S"	-	376,735
Nonmajor Governmental Funds	450,171	195,724
Water	-	496,223
Sewer	867,176	12,472
Nonmajor Enterprise Fund	-	<u>47,025</u>
Total	<u>\$ 1,542,341</u>	<u>\$ 1,542,341</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, 2009:

	<u>Transfer In</u>	<u>Transfer Out</u>
General Fund	\$ 1,162,997	\$ 796,522
Nonmajor Governmental Funds	220,477	594,154
Water	434,326	231,785
Sewer	<u>3,416,834</u>	<u>3,612,173</u>
Total	<u>\$ 5,234,634</u>	<u>\$ 5,234,634</u>

CITY OF NEVADA CITY, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009

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.

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 2008/2009 was 9.616 percent for miscellaneous employees and 19.389 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 2008/2009, the City's annual pension cost of \$224,460 for PERS was equal to the City's actual contributions. The required contributions for fiscal year 2008/2009 were determined as part of the June 30, 2006, 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, 2007	\$ 222,639	100%	-
June 30, 2008	257,391	100%	-
June 30, 2009	224,460	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.

The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets for the risk pool is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

NOTE 5: OTHER POST EMPLOYMENT BENEFITS

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

CITY OF NEVADA CITY, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009

NOTE 6: 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 7: OTHER INFORMATION

A. Subsequent Event

On July 1, 2009, the City invested in a Tax Revenue Anticipation Note (TRAN) for \$1,017,183. The interest rate on the Tax Revenue Anticipation Note is .75 percent and is to be repaid by June 30, 2010.

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, 2009, the City had construction commitments of approximately \$69,767.

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.

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REQUIRED SUPPLEMENTARY INFORMATION
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CITY OF NEVADA CITY, CALIFORNIA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS - UNAUDITED
FOR THE YEAR ENDED JUNE 30, 2009

SCHEDULE OF FUNDING PROGRESS - PENSION

The table below shows a three-year analysis of the actuarial value of assets as a percentage of the actuarial accrued liability and the unfunded actuarial accrued liability as a percentage of the annual covered payroll as of June 30, 2009, for the risk pool which includes the City Miscellaneous Plan and the Safety Police Plan.

Miscellaneous Plan:

Valuation Date	Entry Age Normal Accrued Liability	Unfunded Actuarial Value of Assets	Liability (Excess Assets)	Funded Ratios		Annual Covered Payroll	UAAL as a % of Payroll
				Actuarial Value	Market Value		
June 30, 2005	\$ 579,276,103	\$ 500,388,523	\$ 78,887,580	86.4%	88.6%	\$129,379,492	61.0%
June 30, 2006	912,988,585	787,758,909	125,229,676	86.3%	91.1%	200,320,145	62.5%
June 30, 2007	1,315,454,361	1,149,247,298	166,207,063	87.4%	100.6%	289,090,187	57.5%

Safety Police Plan:

Valuation Date	Entry Age Normal Accrued Liability	Unfunded Actuarial Value of Assets	Liability (Excess Assets)	Funded Ratios		Annual Covered Payroll	UAAL as a % of Payroll
				Actuarial Value	Market Value		
June 30, 2005	\$6,367,049,264	\$5,295,150,375	\$1,071,898,889	83.2%	88.6%	\$664,147,796	161.4%
June 30, 2006	7,278,049,834	6,102,615,567	1,175,434,267	83.9%	88.9%	754,730,438	155.7%
June 30, 2007	7,986,055,176	6,826,599,459	1,159,455,717	85.5%	99.0%	831,607,658	139.4%

See accompanying note to the required supplementary information.

CITY OF NEVADA CITY, CALIFORNIA
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND - BUDGETARY BASIS
FOR THE YEAR ENDED JUNE 30, 2009

	Original Budget	Final Budget	Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
<u>REVENUES</u>				
Taxes and assessments	\$ 3,085,662	\$ 2,746,021	\$ 2,607,892	\$ (138,129)
Licenses and permits	166,500	166,500	165,473	(1,027)
Fines and forfeitures	84,000	131,000	128,025	(2,975)
Intergovernmental revenues	52,600	52,600	251,866	199,266
Use of money and property	93,500	80,800	61,873	(18,927)
Charges for services	171,375	171,375	159,573	(11,802)
Other revenues	5,000	5,000	104,916	99,916
Total Revenues	3,658,637	3,353,296	3,479,618	126,322
<u>EXPENDITURES</u>				
Current:				
General government	939,659	1,018,873	941,261	77,612
Public protection	1,904,722	2,472,231	2,219,780	252,451
Public ways and facilities	453,770	481,141	444,552	36,589
Recreation and culture	344,086	346,191	316,376	29,815
Debt service				
Principal	149,936	262,956	140,187	122,769
Interest and other charges	22,761	51,408	61,565	(10,157)
Capital outlay	215,000	305,269	674,647	(369,378)
Total Expenditures	4,029,934	4,938,069	4,798,368	139,701
Excess of Revenues Over (Under) Expenditures	(371,297)	(1,584,773)	(1,318,750)	266,023
<u>OTHER FINANCING SOURCES (USES)</u>				
Transfers in	-	650,370	1,162,997	512,627
Transfers out	-	139,257	(796,522)	(935,779)
Debt proceeds	-	1,130,204	1,130,204	-
Total Other Financing Sources (Uses)	-	1,919,831	1,496,679	(423,152)
Net Change in Fund Balance	(371,297)	335,058	177,929	(157,129)
Fund Balance - Beginning	968,682	968,682	968,682	-
Fund Balance - Ending	\$ 597,385	\$ 1,303,740	\$ 1,146,611	\$ (157,129)
Reconciliation of Net Change in Fund Balance - Budgetary to GAAP Basis				
Net Change in Fund Balance - Budgetary Basis				\$ 177,929
The amount reported in the Governmental Funds Statements of Revenues, Expenditures, and Changes in Fund Balance was different because:				
Debt proceeds of TRAN were budgeted for as other financing sources, however, principal repayments of TRAN were not budgeted for.				
				(1,130,204)
Net Change in Fund Balance - Statement of Revenues, Expenditures, and Changes in Fund Balance				\$ (952,275)

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, 2009

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance with Final Budget Positive (Negative)</u>
<u>REVENUES</u>				
Taxes and assessments	\$ 460,000	\$ 590,000	\$ 588,073	\$ (1,927)
Use of money and property	-	-	(2,716)	(2,716)
Other revenues	-	-	440	440
Total Revenues	<u>460,000</u>	<u>590,000</u>	<u>585,797</u>	<u>(4,203)</u>
<u>EXPENDITURES</u>				
Current:				
General government	88,550	88,550	43,106	45,444
Capital outlay	314,000	319,135	610,027	(290,892)
Total Expenditures	<u>402,550</u>	<u>407,685</u>	<u>653,133</u>	<u>(245,448)</u>
Excess of Revenues Over (Under) Expenditures	<u>57,450</u>	<u>182,315</u>	<u>(67,336)</u>	<u>(249,651)</u>
<u>OTHER FINANCING SOURCES (USES)</u>				
Transfers out	-	(32,874)	-	32,874
Total Other Financing Sources (Uses)	<u>-</u>	<u>(32,874)</u>	<u>-</u>	<u>32,874</u>
Net Change in Fund Balance	57,450	149,441	(67,336)	(216,777)
Fund Balance - Beginning	<u>(284,236)</u>	<u>(284,236)</u>	<u>(284,236)</u>	<u>-</u>
Fund Balance - Ending	<u>\$ (226,786)</u>	<u>\$ (134,795)</u>	<u>\$ (351,572)</u>	<u>\$ (216,777)</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, 2009

A. SCHEDULE OF FUNDING PROGRESS - PENSION

The Schedule of Funding Progress - Pension presents a consolidated snapshot of the City's ability to meet current and future liabilities with the plan assets. Of particular interest to most is the funded status ratio. This ratio conveys a plan's level of assets to liabilities, an important indicator to determine the financial health of the pension plan. The closer the plan is to a 100% funded status, the better position it will be in to meet all of its future liabilities.

B. 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.

C. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

The Measure "S" special revenue fund had expenditures in excess of appropriations of \$245,448. This was caused by excess capital outlay expenditures.

D. 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.

COMBINING NONMAJOR FUND STATEMENTS

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NONMAJOR GOVERNMENTAL FUNDS

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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, 2009

	<u>AB 1600</u>	<u>Nevada Main Project</u>	<u>Gas Tax Streets</u>	<u>TDA Funds</u>	<u>TDA Sidewalks</u>
<u>ASSETS</u>					
Cash and investments	\$ 331,935	\$ -	\$ 155,674	\$ -	\$ 7,216
Accounts receivable	-	-	-	-	-
Interest receivable	1,380	-	306	-	-
Taxes receivable	-	-	-	-	-
Due from other funds	163,509	-	-	-	-
Total Assets	<u>\$ 496,824</u>	<u>\$ -</u>	<u>\$ 155,980</u>	<u>\$ -</u>	<u>\$ 7,216</u>
<u>LIABILITIES AND FUND BALANCES</u>					
<u>LIABILITIES</u>					
Accounts payable	\$ -	\$ -	\$ -	\$ 645	\$ -
Interest payable	-	8	-	69	246
Due to other funds	-	3,161	-	92,504	-
Total Liabilities	<u>-</u>	<u>3,169</u>	<u>-</u>	<u>93,218</u>	<u>246</u>
<u>FUND BALANCES</u>					
Unreserved					
Undesignated	496,824	(3,169)	155,980	(93,218)	6,970
Total Fund Balances	<u>496,824</u>	<u>(3,169)</u>	<u>155,980</u>	<u>(93,218)</u>	<u>6,970</u>
Total Liabilities and Fund Balances	<u>\$ 496,824</u>	<u>\$ -</u>	<u>\$ 155,980</u>	<u>\$ -</u>	<u>\$ 7,216</u>

<u>STIP</u>	<u>Traffic Relief</u>	<u>Reg. Traffic Mit</u>	<u>Indian Trails</u>	<u>Tax - Fire Dept.</u>	<u>2003 Fire Tax</u>	<u>Fire - Old Tx Cap</u>	<u>Prop 1B</u>
\$ 87	\$ -	\$ -	\$ -	\$ -	\$ 695	\$ -	\$ -
10,683	-	-	-	-	-	-	5,533
-	256	-	173	228	181	-	218
-	6,132	4,648	-	1,621	3,193	-	-
-	77,336	-	52,449	-	-	-	-
<u>\$ 10,770</u>	<u>\$ 83,724</u>	<u>\$ 4,648</u>	<u>\$ 52,622</u>	<u>\$ 1,849</u>	<u>\$ 4,069</u>	<u>\$ -</u>	<u>\$ 5,751</u>
\$ 24,488	\$ -	\$ 2,499	\$ -	\$ -	\$ -	\$ -	\$ 25,782
78	-	5	-	-	-	-	-
-	-	1,547	-	-	-	-	-
<u>24,566</u>	<u>-</u>	<u>4,051</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>25,782</u>
<u>(13,796)</u>	<u>83,724</u>	<u>597</u>	<u>52,622</u>	<u>1,849</u>	<u>4,069</u>	<u>-</u>	<u>(20,031)</u>
<u>(13,796)</u>	<u>83,724</u>	<u>597</u>	<u>52,622</u>	<u>1,849</u>	<u>4,069</u>	<u>-</u>	<u>(20,031)</u>
<u>\$ 10,770</u>	<u>\$ 83,724</u>	<u>\$ 4,648</u>	<u>\$ 52,622</u>	<u>\$ 1,849</u>	<u>\$ 4,069</u>	<u>\$ -</u>	<u>\$ 5,751</u>

CITY OF NEVADA CITY, CALIFORNIA
COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
JUNE 30, 2009

	<u>CDBG Water</u>	<u>CMAC Grant</u>	<u>Safe Routes to School</u>	<u>CDBG Enterprise</u>	<u>Solar Project</u>
<u>ASSETS</u>					
Cash and investments	\$ -	\$ -	\$ -	\$ -	\$ -
Accounts receivable	-	-	-	-	-
Interest receivable	-	-	-	-	-
Taxes receivable	-	-	-	-	-
Due from other funds	-	59,547	-	-	-
Total Assets	\$ -	\$ 59,547	\$ -	\$ -	\$ -
<u>LIABILITIES AND FUND BALANCES</u>					
<u>LIABILITIES</u>					
Accounts payable	\$ -	\$ 2,250	\$ 900	\$ -	\$ -
Interest payable	6	299	65	10	-
Due to other funds	1,961	66,826	26,666	3,059	-
Total Liabilities	1,967	69,375	27,631	3,069	-
<u>FUND BALANCES</u>					
Unreserved:					
Undesignated	(1,967)	(9,828)	(27,631)	(3,069)	-
Total Fund Balances	(1,967)	(9,828)	(27,631)	(3,069)	-
Total Liabilities and Fund Balances	\$ -	\$ 59,547	\$ -	\$ -	\$ -

<u>Comcast Tech</u>	<u>Youth Center Grant</u>	<u>MATHIVET</u>	<u>Bicentennial</u>	<u>Becker</u>	<u>USPEA Grant</u>	<u>Total</u>
\$ -	\$ -	\$ -	\$ 3,542	\$ 17,681	\$ 13,179	\$ 530,009
-	-	-	-	-	-	16,216
3	-	215	-	58	-	3,018
-	-	-	-	-	-	15,594
-	-	97,330	-	-	-	450,171
<u>\$ 3</u>	<u>\$ -</u>	<u>\$ 97,545</u>	<u>\$ 3,542</u>	<u>\$ 17,739</u>	<u>\$ 13,179</u>	<u>\$ 1,015,008</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 13,179	\$ 69,743
-	-	-	-	-	-	786
-	-	-	-	-	-	195,724
-	-	-	-	-	13,179	266,253
3	-	97,545	3,542	17,739	-	748,755
3	-	97,545	3,542	17,739	-	748,755
<u>\$ 3</u>	<u>\$ -</u>	<u>\$ 97,545</u>	<u>\$ 3,542</u>	<u>\$ 17,739</u>	<u>\$ 13,179</u>	<u>\$ 1,015,008</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, 2009

	<u>AB 1600</u>	<u>Nevada Main Project</u>	<u>Gas Tax Streets</u>	<u>TDA Funds</u>	<u>TDA Sidewalks</u>
<u>REVENUES</u>					
Taxes and assessments	\$ (3,696)	\$ -	\$ 86,251	\$ -	\$ -
Intergovernmental revenues	-	-	-	9,688	-
Use of money and property	7,283	(17)	1,302	(232)	(1,171)
Other revenues	-	-	-	-	-
Total Revenues	<u>3,587</u>	<u>(17)</u>	<u>87,553</u>	<u>9,456</u>	<u>(1,171)</u>
<u>EXPENDITURES</u>					
Current:					
General government	-	-	-	-	-
Public ways and facilities	475	-	57,243	-	-
Capital outlay	-	2,625	-	59,779	26,442
Total Expenditures	<u>475</u>	<u>2,625</u>	<u>57,243</u>	<u>59,779</u>	<u>26,442</u>
Excess of Revenues Over (Under) Expenditures	<u>3,112</u>	<u>(2,642)</u>	<u>30,310</u>	<u>(50,323)</u>	<u>(27,613)</u>
<u>OTHER FINANCING SOURCES (USES)</u>					
Transfers in	78,170	-	42,327	-	98,348
Transfers out	-	-	-	(39,941)	-
Total Other Financing Sources (Uses)	<u>78,170</u>	<u>-</u>	<u>42,327</u>	<u>(39,941)</u>	<u>98,348</u>
Net Change in Fund Balances	<u>81,282</u>	<u>(2,642)</u>	<u>72,637</u>	<u>(90,264)</u>	<u>70,735</u>
Fund Balances - Beginning	<u>415,542</u>	<u>(527)</u>	<u>83,343</u>	<u>(2,954)</u>	<u>(63,765)</u>
Fund Balances - Ending	<u>\$ 496,824</u>	<u>\$ (3,169)</u>	<u>\$ 155,980</u>	<u>\$ (93,218)</u>	<u>\$ 6,970</u>

<u>STIP</u>	<u>Traffic Relief</u>	<u>Reg. Traffic Mit</u>	<u>Indian Trails</u>	<u>Tax - Fire Dept.</u>	<u>2003 Fire Tax</u>	<u>Fire - Old Tx Cap</u>	<u>Prop 1B</u>
\$ -	\$ -	\$ 3,444	\$ -	\$ 32,427	\$ 62,535	\$ -	\$ -
27,094	25,947	-	-	-	-	-	-
(364)	1,162	(9)	916	588	355	-	4,094
-	-	-	-	-	-	-	-
<u>26,730</u>	<u>27,109</u>	<u>3,435</u>	<u>916</u>	<u>33,015</u>	<u>62,890</u>	<u>-</u>	<u>4,094</u>
-	-	2,499	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>26,103</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>26,103</u>	<u>-</u>	<u>2,499</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>627</u>	<u>27,109</u>	<u>936</u>	<u>916</u>	<u>33,015</u>	<u>62,890</u>	<u>-</u>	<u>4,094</u>
-	-	-	-	262	-	-	-
-	-	-	-	(27,840)	(59,424)	(262)	(426,660)
-	-	-	-	(27,578)	(59,424)	(262)	(426,660)
<u>627</u>	<u>27,109</u>	<u>936</u>	<u>916</u>	<u>5,437</u>	<u>3,466</u>	<u>(262)</u>	<u>(422,566)</u>
<u>(14,423)</u>	<u>56,615</u>	<u>(339)</u>	<u>51,706</u>	<u>(3,588)</u>	<u>603</u>	<u>262</u>	<u>402,535</u>
<u>\$ (13,796)</u>	<u>\$ 83,724</u>	<u>\$ 597</u>	<u>\$ 52,622</u>	<u>\$ 1,849</u>	<u>\$ 4,069</u>	<u>\$ -</u>	<u>\$ (20,031)</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, 2009

	CDBG Water	CMAC Grant	Safe Routes to School	CDBG Enterprise	Solar Project
<u>REVENUES</u>					
Taxes and assessments	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental revenues	-	30,289	-	-	-
Use of money and property	(17)	(453)	(138)	(19)	-
Other revenues	-	-	-	-	-
Total Revenues	(17)	29,836	(138)	(19)	-
<u>EXPENDITURES</u>					
Current:					
General government	-	-	-	3,050	-
Public ways and facilities	1,950	-	-	-	-
Capital outlay	-	9,375	24,110	-	-
Total Expenditures	1,950	9,375	24,110	3,050	-
Excess of Revenues Over (Under) Expenditures	(1,967)	20,461	(24,248)	(3,069)	-
<u>OTHER FINANCING SOURCES (USES)</u>					
Transfers in	-	-	-	-	1,370
Transfers out	-	(30,289)	-	-	-
Total Other Financing Sources (Uses)	-	(30,289)	-	-	1,370
Net Change in Fund Balances	(1,967)	(9,828)	(24,248)	(3,069)	1,370
Fund Balances - Beginning	-	-	(3,383)	-	(1,370)
Fund Balances - Ending	\$ (1,967)	\$ (9,828)	\$ (27,631)	\$ (3,069)	\$ -

<u>Comcast Tech</u>	<u>Youth Center Grant</u>	<u>MATHIVET</u>	<u>Bicentennial</u>	<u>Becker</u>	<u>USPEA Grant</u>	<u>Total</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 180,961
-	-	-	-	-	82,054	175,072
18	101	215	-	244	-	13,858
-	4,000	97,330	14,556	-	-	115,886
<u>18</u>	<u>4,101</u>	<u>97,545</u>	<u>14,556</u>	<u>244</u>	<u>82,054</u>	<u>485,777</u>
-	1,409	-	8,925	-	72,419	88,302
-	-	-	-	-	-	59,668
-	-	-	-	-	-	148,434
-	1,409	-	8,925	-	72,419	296,404
<u>18</u>	<u>2,692</u>	<u>97,545</u>	<u>5,631</u>	<u>244</u>	<u>9,635</u>	<u>189,373</u>
-	-	-	-	-	-	220,477
(1,008)	(7,545)	-	-	-	(1,185)	(594,154)
(1,008)	(7,545)	-	-	-	(1,185)	(373,677)
(990)	(4,853)	97,545	5,631	244	8,450	(184,304)
993	4,853	-	(2,089)	17,495	(8,450)	933,059
<u>\$ 3</u>	<u>\$ -</u>	<u>\$ 97,545</u>	<u>\$ 3,542</u>	<u>\$ 17,739</u>	<u>\$ -</u>	<u>\$ 748,755</u>

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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, 2009

	Veteran's Building	Totals
<u>ASSETS</u>		
Current Assets		
Accounts receivable (net of allowance)	\$ 1,168	\$ 1,168
Prepaid costs	95	95
Total Assets	1,263	1,263
<u>LIABILITIES</u>		
Current Liabilities		
Accounts payable	3,559	3,559
Salaries and benefits payable	577	577
Due to other funds	47,025	47,025
Total Liabilities	51,161	51,161
<u>NET ASSETS</u>		
Unrestricted	(49,898)	(49,898)
Total Net Assets	\$ (49,898)	\$ (49,898)

CITY OF NEVADA CITY, CALIFORNIA
COMBINING STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
NONMAJOR ENTERPRISE FUNDS
FOR THE YEAR ENDED JUNE 30, 2009

	Veteran's Building	Totals
<u>OPERATING REVENUES</u>		
Charges for services	\$ 17,374	\$ 17,374
Total Operating Revenues	17,374	17,374
<u>OPERATING EXPENSES</u>		
Salaries and benefits	18,817	18,817
Supplies	1,110	1,110
Power	4,246	4,246
Repairs and maintenance	1,627	1,627
Other expenses	8,421	8,421
Total Operating Expenses	34,221	34,221
Operating Income (Loss)	(16,847)	(16,847)
<u>NON-OPERATING REVENUES (EXPENSES)</u>		
Interest expense	(555)	(555)
Total Non-Operating Revenues (Expenses)	(555)	(555)
Change in Net Assets	(17,402)	(17,402)
Total Net Assets - Beginning	(32,496)	(32,496)
Total Net Assets - Ending	\$ (49,898)	\$ (49,898)

CITY OF NEVADA CITY, CALIFORNIA
COMBINING STATEMENT OF CASH FLOWS
NONMAJOR ENTERPRISE FUNDS
FOR THE YEAR ENDED JUNE 30, 2009

	Veteran's Building	Totals
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Receipts from customers	\$ 16,432	\$ 16,432
Payments to suppliers	(16,973)	(16,973)
Payments to employees	(18,955)	(18,955)
	<u>(19,496)</u>	<u>(19,496)</u>
<u>Net Cash Provided (Used) by Operating Activities</u>		
<u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</u>		
Interfund loans received	47,025	47,025
Interfund loans repaid	(26,781)	(26,781)
	<u>20,244</u>	<u>20,244</u>
<u>Net Cash Provided (Used) by Noncapital Financing Activities</u>		
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>		
Interest paid on debt	(748)	(748)
	<u>(748)</u>	<u>(748)</u>
<u>Net Cash Provided (Used) by Capital and Related Financing Activities</u>		
Net Increase (Decrease) in Cash and Cash Equivalents	-	-
Balances - Beginning of the Year	-	-
Balances - End of the Year	<u>\$ -</u>	<u>\$ -</u>
<u>ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</u>		
Operating income (loss)	\$ (16,847)	\$ (16,847)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Decrease (increase) in:		
Accounts receivable	(552)	(552)
Prepaid costs	32	32
Increase (decrease) in:		
Accounts payable	(1,601)	(1,601)
Salaries and benefits payable	(138)	(138)
Deposits payable	(390)	(390)
	<u>(19,496)</u>	<u>(19,496)</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ (19,496)</u>	<u>\$ (19,496)</u>

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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, 2009

	B.I.D	Total Agency Funds
<u>ASSETS</u>		
Cash and investments	\$ 3,676	\$ 3,676
Total Assets	\$ 3,676	\$ 3,676
<u>LIABILITIES</u>		
Agency obligations	\$ 3,676	\$ 3,676
Total Liabilities	\$ 3,676	\$ 3,676

CITY OF NEVADA CITY, CALIFORNIA
COMBINING STATEMENT OF CHANGES
IN ASSETS AND LIABILITIES
AGENCY FUNDS
FOR THE YEAR ENDED JUNE 30, 2009

	<u>Balance</u> <u>July 1, 2008</u>	<u>Contributions</u>	<u>Withdrawals</u>	<u>Balance</u> <u>June 30, 2009</u>
B.I.D				
<u>ASSETS</u>				
Cash and investments	\$ 25,529	\$ 9,147	\$ 31,000	\$ 3,676
Total Assets	<u>\$ 25,529</u>	<u>\$ 9,147</u>	<u>\$ 31,000</u>	<u>\$ 3,676</u>
<u>LIABILITIES</u>				
Due to agency recipients	\$ 17,000	\$ -	\$ 17,000	\$ -
Agency obligations	8,529	-	4,853	3,676
Total Liabilities	<u>\$ 25,529</u>	<u>\$ -</u>	<u>\$ 21,853</u>	<u>\$ 3,676</u>
TOTAL AGENCY FUNDS				
<u>ASSETS</u>				
Cash and investments	\$ 25,529	\$ 9,147	\$ 31,000	\$ 3,676
Total Assets	<u>\$ 25,529</u>	<u>\$ 9,147</u>	<u>\$ 31,000</u>	<u>\$ 3,676</u>
<u>LIABILITIES</u>				
Due to agency recipients	\$ 17,000	\$ -	\$ 17,000	\$ -
Agency obligations	8,529	-	4,853	3,676
Total Liabilities	<u>\$ 25,529</u>	<u>\$ -</u>	<u>\$ 21,853</u>	<u>\$ 3,676</u>

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, 2009, which collectively comprise the City's basic financial statements and have issued our report thereon dated November 5, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the 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.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiencies described in the accompanying Schedule of Findings and Recommendations to be significant deficiencies in internal control over financial reporting. (09-FS-01 and 09-FS-02)

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

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.

We noted certain matters that we reported to management of the City in the accompanying Schedule of Findings and Recommendations.

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

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.

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", is written in black ink.

Smith & Newell, CPAs
Yuba City, California
November 5, 2009

CITY OF NEVADA CITY, CALIFORNIA
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2009

09-FS-01 BUDGET (Reporting Requirement: Significant Deficiency)

Condition

We noted that the major special revenue fund Measure "S" had expenditures in excess of appropriations of \$245,448 because of excess capital outlay expenditures.

Cause

The City spent \$245,448 more in capital outlay expenditures than it budgeted.

Criteria

Governmental accounting requires the use of budgets to serve as a financial planning tool.

Effect of Condition

The City had expenditures in excess of appropriations.

Recommendation

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.

Corrective Action Plan

The City will monitor expenditures and the budget more closely.

09-FS-02 DEFICIT UNRESERVED FUND BALANCE (Reporting Requirement: Significant Deficiency)

Condition

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

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 unreserved fund balance in their general fund of either 1) no less than 5 to 15 percent of regular general fund operating revenues, or 2) no less than one to two months of 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.

CITY OF NEVADA CITY, CALIFORNIA
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2009

09-FS-02 DEFICIT UNRESERVED FUND BALANCE (Reporting Requirement: Significant Deficiency)
(CONTINUED)

Corrective Action Plan

The City will continue to consolidate and eliminate funds.

CITY OF NEVADA CITY, CALIFORNIA
STATUS OF PRIOR YEAR RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2009

Audit Reference

Status of Prior Year Audit Recommendations

None

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