

**NEVADA COUNTY FINANCE AUTHORITY
(A Component Unit of the
County of Nevada, California)**

**FINANCIAL STATEMENTS TOGETHER WITH
INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED JUNE 30, 2015**

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NEVADA COUNTY FINANCE AUTHORITY
(A Component Unit of the County of Nevada, California)

Annual Financial Report
For the Year Ended June 30, 2015

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Grand Jury
Nevada County Finance Authority
Nevada City, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of Nevada County Finance Authority (Authority), a component unit of the County of Nevada, California as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Authority as of June 30, 2015, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

To the Board of Directors and Grand Jury
Nevada County Finance Authority

Other Matters

Required Supplementary Information

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 2, 2016, on our consideration of the Authority'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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

A handwritten signature in cursive script, appearing to read "Gallina" followed by a flourish.

Roseville, California
March 2, 2016

NEVADA COUNTY FINANCE AUTHORITY
(A Component Unit of the County of Nevada, California)

Management's Discussion and Analysis
For the Year Ended June 30, 2015

The following Management's Discussion and Analysis ("MD&A") of the County of Nevada Finance Authority's (the "Authority") financial performance provides an introduction to the financial statements for the year ended June 30, 2015. The information contained in this MD&A should be considered in conjunction with the information contained in the Authority's financial statements.

Overview of the Financial Statements

The Nevada County Finance Authority is regarded as a component unit of the County of Nevada. Following this discussion and analysis are the basic financial statements of the Authority, together with the notes, which are essential to a full understanding of the data contained in the financial statements. The basic financial statements are designed to provide readers with a broad overview of the Authority's financial status.

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

The Statement of Activities presents information showing how the Authority's net position has changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in a future fiscal period (e.g., uncollected taxes and earned but unused vacation leave).

Fund Financial Statements are prepared on the modified basis of accounting in accordance with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board. The Authority is structured with one governmental fund with revenues recognized in the accounting period in which they become available and measurable and expenditures recognized in the accounting period in which the fund liability is incurred, if measurable. Interest on general long-term debt and certain similar accrued obligations are recognized when due.

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

FINANCIAL POSITION

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

At June 30, 2015, the Authority's total assets of \$8,144,810 exceeded its total liabilities of \$7,679,504 by \$465,306 for a total increase in net position from the prior year of \$74,342.

NEVADA COUNTY FINANCE AUTHORITY
(A Component Unit of the County of Nevada, California)

Management's Discussion and Analysis
For the Year Ended June 30, 2015

Authority's Net Position
June 30, 2015 and 2014

	2015	2014	Variance	Change
ASSETS				
Total Current Assets	13,443	19,349	-30.5%	(5,906)
Restricted Assets	8,131,367	9,395,631	-13.5%	(1,264,264)
Total Assets	<u>8,144,810</u>	<u>9,414,980</u>	-13.5%	<u>(1,270,170)</u>
LIABILITIES				
Current Liabilities	80,854	93,196	-13.2%	(12,342)
Long-Term Liabilities	7,598,650	8,930,820	-14.9%	(1,332,170)
Total Liabilities	<u>7,679,504</u>	<u>9,024,016</u>	-14.9%	<u>(1,344,512)</u>
NET POSITION				
Restricted for debt service	465,306	390,964	19.0%	74,342
Total Net Position	<u><u>465,306</u></u>	<u><u>390,964</u></u>	19.0%	<u><u>74,342</u></u>

The Authority's net position at June 30, 2015 increased 19.0% to \$465,306 from the prior year. The net position is restricted for the payment of the debt services obligation.

Changes in Net Position
For The Years Ended June 30, 2015 and 2014

	2015	2014	Variance	Change
Revenues				
Program Revenues	362,465	391,875	-7.5%	(29,410)
General Revenues	22,658	22,793	-0.6%	(135)
Total Revenues	<u>385,123</u>	<u>414,668</u>	-7.1%	<u>(29,545)</u>
Expenses				
Governmental activities	310,781	363,438	0.0%	(52,657)
Total Expenses	<u>310,781</u>	<u>363,438</u>	-14.5%	<u>(52,657)</u>
Change in net position	74,342	51,230	45.1%	23,112
Net Position – beginning	<u>390,964</u>	<u>339,734</u>	13.1%	51,230
Net Position - ending	<u><u>465,306</u></u>	<u><u>390,964</u></u>	19.0%	<u><u>74,342</u></u>

NEVADA COUNTY FINANCE AUTHORITY
(A Component Unit of the County of Nevada, California)

Management's Discussion and Analysis
For the Year Ended June 30, 2015

Revenues - The Authority's Program revenues for Fiscal Year 2014-15 consisted of interest payments on long-term debt from the County of Nevada for the 2011 Governmental Refunding Certificates of Participation and the Crown Point Loan Payable in the amount of \$362,465. General Revenues were interest and investment earnings in the amount of \$22,658.

Expenses - The total expenses for the Authority were \$310,781 for the debt service interest payments, amortized premium and related administrative charges in 2014-15. This was a 14.5% decrease from the Fiscal Year 2013-14 total of \$363,438.

Analysis of the Fund Financial Statements

The Authority uses fund accounting to assure and demonstrate compliance with the finance-related legal requirements. The debt service fund provides information on the inflows and outflows of resources necessary to meet the annual debt obligations.

Capital Asset and Debt Administration

Capital Assets & Infrastructure - The Authority is strictly used to account for debt activity and does not have any capital assets or infrastructure to report.

Long-term Debt - At June 30, 2015, the Authority had \$7,598,650 in long term debt. This was a net decrease of \$1,332,169. The decrease is related to scheduled principal payments on the 2011 Governmental Refunding Certificates of Participation and the Crown Point Loan Payable. The 2011 Governmental Refunding Certificate of Participation will be extinguished in 2019 and the Crown Point Loan Payable will be extinguished in 2025. Details of the debt are presented in Note 5.

Request for Information

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

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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NEVADA COUNTY FINANCE AUTHORITY
(A Component Unit of the County of Nevada, California)

Statement of Net Position
June 30, 2015

	<u>Total Governmental Activities</u>
ASSETS	
Cash and investments	\$ 13,443
Restricted cash and investments	872,245
Investment in lease to County of Nevada	<u>7,259,122</u>
Total Assets	<u>8,144,810</u>
 LIABILITIES	
Accrued Interest Payable	80,854
Long-Term Liabilities:	
Due within one year	1,384,103
Due in more than one year	<u>6,214,547</u>
Total Liabilities	<u>7,679,504</u>
 NET POSITION	
Restricted for:	
Debt service	<u>465,306</u>
Total Net Position	<u><u>\$ 465,306</u></u>

The accompanying notes are an integral part of these financial statements.

NEVADA COUNTY FINANCE AUTHORITY
(A Component Unit of the County of Nevada, California)

Statement of Activities
For the Year Ended June 30, 2015

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Total Governmental Activities
Governmental Activities:					
General government	\$ 8,324	\$ 362,465	\$ --	\$ --	\$ 354,141
Interest on long-term debt	302,457	--	--	--	(302,457)
Total Governmental Activities	\$ 310,781	\$ 362,465	\$ --	\$ --	51,684
General Revenues:					
Interest and investment earnings					22,658
Total General Revenues					22,658
Change in Net Position					74,342
Net Position - Beginning of Year					390,964
Net Position - End of Year					\$ 465,306

The accompanying notes are an integral part of these financial statements.

FUND FINANCIAL STATEMENTS

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NEVADA COUNTY FINANCE AUTHORITY
(A Component Unit of the County of Nevada, California)

Balance Sheet
Governmental Funds
June 30, 2015

Assets		
Cash and investments		\$ 13,443
Restricted cash and investments		<u>872,245</u>
Total Assets		<u><u>\$ 885,688</u></u>
Fund Balances		
Restricted		<u>885,688</u>
Total Fund Balances		<u><u>885,688</u></u>
Total Liabilities and Fund Balances		<u><u>\$ 885,688</u></u>

The accompanying notes are an integral part of these financial statements.

NEVADA COUNTY FINANCE AUTHORITY
(A Component Unit of the County of Nevada, California)

Reconciliation of the Governmental Funds Balance Sheet
to the Government-Wide Statement of Net Position - Governmental Activities
June 30, 2015

Total Fund Balance - Total Governmental Funds	\$ 885,688
Amounts reported for governmental activities in the statement of net position are different because:	
The investment in lease to County of Nevada is not an available financial resource and, therefore, is not reported in the governmental funds	7,259,122
Interest payable on long-term debt does not require the use of current financial resources and, therefore, is not accrued as a liability in the governmental funds balance sheets.	(80,854)
Certain liabilities are not due and payable in the current period and therefore, are not reported in the governmental funds.	
Certificates of participation	(5,594,528)
Loans payable	<u>(2,004,122)</u>
Net position of governmental activities (page 7)	<u><u>\$ 465,306</u></u>

The accompanying notes are an integral part of these financial statements.

NEVADA COUNTY FINANCE AUTHORITY
(A Component Unit of the County of Nevada, California)

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2015

Revenues:	
Use of money and property	\$ 22,658
Lease repayments	1,626,729
Total Revenues	<u>1,649,387</u>
Expenditures:	
Current:	
General government	8,324
Debt Service:	
Principal	1,264,264
Interest and other charges	382,705
Total Expenditures	<u>1,655,293</u>
Net Changes in Fund Balances	(5,906)
Fund Balances, Beginning of Year	<u>891,594</u>
Fund Balances, End of Year	<u>\$ 885,688</u>

The accompanying notes are an integral part of these financial statements.

NEVADA COUNTY FINANCE AUTHORITY
(A Component Unit of the County of Nevada, 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, 2015

Net change to fund balance - total governmental funds	\$ (5,906)
Amounts reported for governmental activities in the statement of activities are different because:	
Lease repayments received from the County of Nevada provide current financial resources to governmental funds, but reduce the investment in lease to County of Nevada in the statement of net position.	1,264,264
Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. Principal retirements	(1,264,264)
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 governmental funds.	
Amortization of premium	67,906
Change in accrued interest on long-term debt	<u>12,342</u>
Change in net position of governmental activities	<u>\$ 74,342</u>

The accompanying notes are an integral part of these financial statements.

NEVADA COUNTY FINANCE AUTHORITY
(A Component Unit of the County of Nevada, California)

Notes to Basic Financial Statements
For the Year Ended June 30, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Nevada County Finance Authority (Authority) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental agencies. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the Authority's accounting policies are described below.

A. Reporting Entity

The Authority is a public agency formed on January 19, 1993, pursuant to provisions of the California Health and Safety Code. The Authority was established to refinance any improved real or personal property which shall be used for the immediate benefit of either the County of Nevada or the Nevada County Finance Authority.

The Authority is considered to be a component unit of the County of Nevada. The Board of Supervisors is the governing body of the Authority. The Authority is a legally separate entity for which the County is considered to be financially accountable and for which the nature and significance of the Authority's relationship with the County is such that exclusion would cause the combined financial statements to be misleading.

The Authority is considered a blended component unit of the County of Nevada and is reported as a non-major debt service fund in the County of Nevada's financial statements.

B. Basis of Presentation

Government-Wide Financial Statements

The statement of net position and statement of activities display information on all of the activities of the Authority. These statements include only the financial activities of the Authority. These statements report the governmental activities of the Authority, which are normally supported by inter-governmental revenues. The Authority had no business-type activities at June 30, 2014.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the Authority'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. Other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements

The fund financial statements provide information about the Authority's funds. Funds are organized into the governmental category. The emphasis is placed on major funds within the governmental category; each is displayed in a separate column. All remaining governmental funds are separately aggregated and reported as nonmajor funds.

The Authority reports the following major governmental fund:

- The Nevada County Finance Authority Fund is a debt service fund used to account for lease revenues and debt service payments.

NEVADA COUNTY FINANCE AUTHORITY
(A Component Unit of the County of Nevada, California)

Notes to Basic Financial Statements
For the Year Ended June 30, 2015

C. Basis of Accounting and Measurement Focus

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the Authority gives (or receives) value without directly receiving (or giving) equal value in exchange, include grants, entitlements, and donations. Under the accrual basis, 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 susceptible to accrual and are accrued when their receipt occurs within sixty days after the end of the 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. General capital assets acquisitions are reported as expenditures in the governmental funds. Proceeds of governmental long-term debt and acquisitions under capital leases are reported as other financing sources.

D. Non-Current Governmental Assets/Liabilities

Non-current governmental assets and liabilities, such as capital assets and long-term liabilities, are reported in the governmental activities column in the government-wide statement of net position.

E. Cash and Investments

The Authority pools cash and investments of all funds, except cash and investments with fiscal agents, with the County of Nevada. Each fund's share in this pool is displayed in the accompanying financial statements as cash and investments.

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

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

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

NEVADA COUNTY FINANCE AUTHORITY
(A Component Unit of the County of Nevada, California)

Notes to Basic Financial Statements
For the Year Ended June 30, 2015

F. Restricted Cash and Investments

Restricted assets in the governmental funds represent cash and investments held for debt service of \$872,245.

G. Compensated Absences and Postemployment Benefits

The Authority has no employees. Services are provided by the County of Nevada. Therefore there is no liability for compensated absences or postemployment benefits.

H. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. At June 30, 2015, the Authority did not have any deferred outflows of resources.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. At June 30, 2015, the Authority did not have any deferred inflows of resources.

I. 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.

J. Net Position

The government-wide financial statements utilize a net position presentation. Net position is categorized as net investment in capital assets, restricted, and unrestricted.

- Net investment in capital assets – 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 position – Consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- Unrestricted net position – All other net position that does not meet the definition of “restricted” or “net investment in capital assets”.

NEVADA COUNTY FINANCE AUTHORITY
(A Component Unit of the County of Nevada, California)

Notes to Basic Financial Statements
For the Year Ended June 30, 2015

Net Position Flow Assumption

When a government funds outlays for a particular purpose from both restricted and unrestricted resources, a flow assumption must be made about the order in which the resources are considered to be applied. When both restricted and unrestricted net position is available, it is considered that restricted resources are used first, followed by the unrestricted resources.

K. Fund Balances

As prescribed by GASB Statement No. 54, governmental funds report fund balance in classifications based primarily on the extent to which the Authority is bound to honor constraints on the specific purposes for which amounts in the funds can be spent. As of June 30, 2015, fund balance for governmental funds is made up of the following:

- Nonspendable fund balance – amounts that cannot be spent because they are either (a) not in spendable form, or (b) legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash, for example: inventories and prepaid amounts.
- Restricted fund balance – amounts with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.
- Committed fund balance – amounts that can only be used for the specific purposes determined by formal action of the Authority’s highest level of decision-making authority. The Board of Directors is the highest level of decision making authority for the Authority that can, by adoption of an ordinance commit fund balance. Once adopted, the limitation imposed remains in place until a similar action is taken to remove or revise the limitation. The underlying action that imposed the limitation needs to occur no later than the close of the reporting period.
- Assigned fund balance – amounts that are constrained by the Authority’s intent to be used for specific purposes. The intent can be established at either the highest level of decision-making, or by a body or an official designated for that purpose.
- Unassigned fund balance – the residual classification for the Authority’s General fund that includes all amounts not contained in the other classifications. In other funds, the unassigned classification is used only if expenditures incurred for specific purposes exceed the amounts restricted, committed, or assigned to those purposes.

The fund balances for all major governmental funds as of June 30, 2015, were distributed as follows:

	Nevada County Finance Authority	Total
Restricted for:		
Debt service	\$ 885,688	\$ 885,688
Total	\$ 885,688	\$ 885,688

NEVADA COUNTY FINANCE AUTHORITY
(A Component Unit of the County of Nevada, California)

Notes to Basic Financial Statements
For the Year Ended June 30, 2015

Fund Balance Flow Assumption

When a government funds outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance), a flow assumption must be made about the order in which the resources are considered to be applied. When both restricted and unrestricted fund balance is available, it is considered that restricted fund balance is depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Fund Balance Policy

The Nevada County Board of Supervisors has adopted a fund balance policy for financial statement reporting. The policy establishes procedures for reporting fund balance classifications, establishes prudent reserve requirements and establishes a hierarchy of fund balance expenditures.

NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Rebatable Arbitrage

The Tax Reform Act of 1986 instituted certain arbitrage restrictions with respect to the issuance of tax-exempt bonds after August 31, 1986. Arbitrage regulations deal with the investment of all tax exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Generally, all interest paid to bondholders can be retroactively rendered taxable if applicable rebates are not reported and paid to the Internal Revenue Service (IRS) at least every five years. During the current year, the Authority performed calculations of excess investment earnings on various bonds and financing and at June 30, 2014, does not expect to incur a liability.

NOTE 3: CASH AND INVESTMENTS

A. Financial Statement Presentation

At June 30, 2015, the Authority's cash and investments consisted of the following:

Cash:	
Deposits with fiscal agents	<u>\$ 11,245</u>
Total Cash	<u>11,245</u>
Investments:	
In County Treasurer's Pool	13,443
With fiscal agents	<u>861,000</u>
Total Investments	<u>874,443</u>
Total Cash and Investments	<u><u>\$ 885,688</u></u>

NEVADA COUNTY FINANCE AUTHORITY
(A Component Unit of the County of Nevada, California)

Notes to Basic Financial Statements
For the Year Ended June 30, 2015

B. Cash

Cash consists primarily of money market accounts held with fiscal agents.

Custodial Credit Risk for Deposits – Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Authority will not be able to recover its deposits or collateral securities that are in the possession of an outside party. The County's investment policy requires that deposits in banks must meet the requirements of the California Government Code. Under this code, deposits of more than \$250,000 must be collateralized at 105 percent to 150 percent of the value of the deposit to guarantee the safety of the public funds. The first \$250,000 of the Authority's deposits are insured by the Federal Deposit Insurance Corporation (FDIC). Deposits more than the \$250,000 insured amount are collateralized.

C. Investments

The investment policy provides the basis for the management of a prudent, conservative investment program. Funds are invested to provide the maximum security of principal with secondary emphasis on achieving the highest return, while meeting daily cash flow needs. All investments are made in accordance with the Government Code and, in general, the investment policy is more restrictive than state law. Under the provisions of the County's investment policy the County may invest or deposit in the following:

- Banker's Acceptances
- Commercial Paper
- Local Agency Investment Fund
- Medium Term Corporate Notes
- Money Market Funds
- Negotiable Certificates of Deposit
- Repurchase Agreements
- Reverse Repurchase Agreements
- Securities of the Federal Government or its Agencies
- California State Registered Warrants, Treasury Notes and Bonds
- Local Agency Obligations
- Certificates of Deposit
- Pass-Through Security

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. One of the ways that the County manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations. The County limits its exposure to interest rate risk inherent in its portfolio by limiting individual maturities to 5 years or less.

NEVADA COUNTY FINANCE AUTHORITY
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Notes to Basic Financial Statements
For the Year Ended June 30, 2015

As of June 30, 2015, the Authority had the following investments, all of which had a maturity of 5 years or less:

Investment Type	Interest Rates	Maturities		Fair Value	Weighted Average Maturity (Years)
		0-1 Year	1-5 Years		
Pooled Investments					
Nevada County Investment Pool	Variable	\$ 13,443	\$ -	\$ 13,443	-
Total Pooled Investments		13,443	-	13,443	-
Investments Held by Fiscal Agents IXIS	5.91%	861,000	-	861,000	-
Total Investments Held by Fiscal Agent		\$ 874,443	\$ -	\$ 874,443	-

Credit Risk – Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code or the County's investment policy, and the actual rating as of year end for each investment type.

Investment Type	Minimum Legal Rating	Moody's Rating	Percentage of Portfolio
Nevada County Investment Pool	N/A	Unrated	2.2%
IXIS	N/A	A2	97.8%
			<u>100.0%</u>

Custodial Credit Risk for Investments – Custodial credit risk for investments is the risk that, in the event of the failure of a depository institution, the Authority 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 County requires that all of its managed investments be held in the safekeeping by a third party under contract with the County. At June 30, 2015, the County's investment pool had no securities exposed to custodial credit risk.

Concentration of Credit Risk – Concentration of credit risk is the risk of loss attributed to the magnitude of the County's investment in a single issuer of securities. When investments are concentrated in one issuer, this concentration presents a heightened risk of potential loss. State law and the investment policy of the County contain limitations on the amount that can be invested in any one issuer. Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) at June 30, 2015, that represent 5 percent or more of total Authority investments are as follows:

NEVADA COUNTY FINANCE AUTHORITY
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Notes to Basic Financial Statements
For the Year Ended June 30, 2015

Investment Type	Amount Invested	Percentage of Investments
IXIS	\$ 861,000	97.8%
		97.8%

NOTE 4: INVESTMENT IN LEASE TO COUNTY OF NEVADA

The Authority, pursuant to a Site Lease, dated March 1, 1993, has leased from the County certain real property and pursuant to a Project Lease, dated March 1, 1993, has leased the real property back to the County of Nevada, along with a leasehold interest in the leased property.

At June 30, 2015, investment in lease to County of Nevada consisted of the following:

Year Ended June 30	Certificates of Participation 2011 Refunding	Crown Point Loan	Total
2016	1,165,000	151,198	1,316,198
2017	1,230,000	158,465	1,388,465
2018	1,290,000	166,081	1,456,081
2019	1,290,000	174,063	1,464,063
2020	280,000	182,430	462,430
2021-2025	--	1,052,413	1,052,413
2026	--	119,472	119,472
	5,255,000	2,004,122	7,259,122
Total	5,255,000	2,004,122	7,259,122
Less: Cost of Investment and unearned income	(558,775)	(564,377)	(1,123,152)
Net Investment in Lease to County of Nevada	\$ 4,696,225	\$ 1,439,745	\$ 6,135,970

Certificates of Participation 2011 Refunding

The lease payments are structured to be sufficient in timing and amount to meet the debt service requirements. Interest earned on the lease payment account and any other monies held by the trustee are applied to the lease payment made by the County. Lease payments are due semi-annually on October 1 and April 1 through the fiscal year 2019. The interest rate on the lease varies from 2.00 to 5.00 percent.

Crown Point Loan

The lease payments are structured to be sufficient in timing and amount to meet the debt service

NEVADA COUNTY FINANCE AUTHORITY
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Notes to Basic Financial Statements
For the Year Ended June 30, 2015

requirements of the Crown Point office building leaseback arrangement. Lease payments are due semi-annually on May 1 and November 1 through the year 2025. The interest rate on the lease varies from 4.75 to 6.75 percent.

NOTE 5: LONG-TERM LIABILITIES

The following is a summary of changes in long-term liabilities for the year ended June 30, 2015:

<u>Type of Indebtedness</u>	<u>Balance July 1, 2014</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2015</u>	<u>Amounts Due Within One Year</u>
Certificates of Participation	\$ 6,375,000	\$ -	\$ (1,120,000)	\$ 5,255,000	\$ 1,165,000
Plus: premium	407,433	-	(67,905)	339,528	67,905
Certificates of Participation, Net	<u>6,782,433</u>	-	<u>(1,187,905)</u>	<u>5,594,528</u>	<u>1,232,905</u>
Loans	<u>2,148,386</u>	-	<u>(144,264)</u>	<u>2,004,122</u>	<u>151,198</u>
Total Long-Term Liabilities	<u>\$ 8,930,819</u>	<u>\$ -</u>	<u>\$ (1,332,169)</u>	<u>\$ 7,598,650</u>	<u>\$ 1,384,103</u>

Individual issues of debt payable outstanding at June 30, 2015, are as follows:

Governmental Activities

Certificates of Participation:

Certificates of Participation (2011 Refunding), issued July 5, 2011, in the amount of \$8,610,000 and payable in annual installments of \$105,000 to \$1,290,000, with an interest rate of 2.00% to 5.00% and maturity on October 1, 2019. These bonds were used to refinance the 2001 Certificates of Participation which were used to defease 1991 and 1993 Certificates of Participation financing the acquisition and construction of the County Administration building.

\$ 5,255,000

Loans:

Crown Point Building Loan, issued November 1, 2005, in the amount of \$3,210,000 and payable in annual installments of \$52,000 to \$120,000, with an interest rate of 4.75% to 6.75% and maturity on November 1, 2025. Loan proceeds were used to finance the acquisition of the Crown Point building to house County health programs.

2,004,122

Total Governmental Activities

\$ 7,259,122

NEVADA COUNTY FINANCE AUTHORITY
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Notes to Basic Financial Statements
For the Year Ended June 30, 2015

Following is a schedule of debt payment requirements of governmental activities to maturity for long-term debt.

Year Ended June 30	Certificates of Participation		
	Principal	Interest	Total
2016	1,165,000	230,825	1,395,825
2017	1,230,000	170,950	1,400,950
2018	1,290,000	107,950	1,397,950
2019	1,290,000	43,450	1,333,450
2020	280,000	5,600	285,600
Total	<u>\$ 5,255,000</u>	<u>\$ 558,775</u>	<u>\$ 5,813,775</u>

Year Ended June 30	Loans		
	Principal	Interest	Total
2016	151,198	93,421	244,619
2017	158,465	86,154	244,619
2018	166,081	78,538	244,619
2019	174,063	70,555	244,618
2020	182,430	62,189	244,619
2021-2025	1,052,413	170,682	1,223,095
2026	<u>119,472</u>	<u>2,838</u>	<u>122,310</u>
Total	<u>\$ 2,004,122</u>	<u>\$ 564,377</u>	<u>\$ 2,568,499</u>

NOTE 6: RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and distribution of assets; errors and omissions; and natural disaster.

Because of the close relationship between the Authority and the County of Nevada, the Authority's liability coverage is provided by the County's insurance policies. Complete information on risk management can be found in the County of Nevada's audited financial statements.

NOTE 7: RELATED PARTY TRANSACTIONS

The Authority has related party transactions with the County of Nevada. The Authority is charged through the County of Nevada cost plan for services provided by the following departments: Auditor-Controller, County Executive Office, Purchasing, and Treasurer.

NEVADA COUNTY FINANCE AUTHORITY
(A Component Unit of the County of Nevada, California)

Notes to Basic Financial Statements
For the Year Ended June 30, 2015

NOTE 8: OTHER INFORMATION

A. Subsequent Events

Management has evaluated events subsequent to June 30, 2015 through February 29, 2016, the date on which the financial statements were available for issuance. Management has determined no subsequent events requiring disclosure have occurred.

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OTHER REPORTS

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

To the Board of Directors and Grand Jury
Nevada County Finance Authority
Nevada City, California

We have audited, in accordance with the 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, the financial statements of the governmental activities and the major fund of Nevada County Finance Authority (Authority), a component unit of the County of Nevada, California, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated March 2, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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 Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from 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*.

To the Board of Directors and Grand Jury
Nevada County Finance Authority

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Gallina LLP".

Roseville, California
March 2, 2016