

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

AUDIT REPORT

JUNE 30, 2004

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

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FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Nevada County Sanitation District No. 1
Nevada City, California

We have audited the accompanying basic financial statements of the Nevada County Sanitation District No. 1 (a component unit of the County of Nevada, California) (District), as of and for the year ended June 30, 2004, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion 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 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 financial position of the District as of June 30, 2004, and the changes in financial position and cash flows 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 a report dated February 25, 2005, on our consideration of the District's internal control over financial reporting and 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.

Board of Directors
Nevada County Sanitation District No. 1

The Management's Discussion and Analysis, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

BARTIG, BASLER & RAY, CPAs, INC.

Bartig Basler & Ray, CPAs, Inc.

Roseville, California

February 25, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

NEVADA COUNTY SANITATION DISTRICT NO. 1

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2004

The following Management's Discussion and Analysis ("MD&A") of the County of Nevada Sanitation District (the "District") financial performance provides an introduction to the financial statements for the year ended June 30, 2004. The information contained in this MD&A should be considered in conjunction with the information contained in the District's financial statements.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

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

NEVADA COUNTY SANITATION DISTRICT NO. 1

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004

FINANCIAL HIGHLIGHTS

On June 30, 2004, the assets of the District exceeded its liabilities by \$12,363,096 (net assets). Of this amount, \$1,068,190 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors and \$11,294,906 is invested in capital assets, net of related debt.

The District's long-term debt, in the form of Special Assessment bonds and State loans decreased by \$64,706 during the current fiscal year as a result of scheduled principal payments.

Financial Position

Analysis of the District as a Whole – Governmental Wide Financial Statements

	Sanitation District's Net Assets		
	<u>2004</u>	<u>2003</u>	<u>Variance</u>
Current and other assets	2,184,292	3,745,228	-41.68%
Capital Assets	<u>11,408,304</u>	<u>10,653,640</u>	<u>7.08%</u>
Total Assets	<u>13,592,596</u>	<u>14,398,868</u>	<u>-5.60%</u>
Long-term liabilities	690,664	832,307	-17.02%
Other liabilities	<u>538,836</u>	<u>489,507</u>	<u>10.08%</u>
Total Liabilities	<u>1,229,500</u>	<u>1,321,814</u>	<u>-6.98%</u>
Net Assets:			
Invested in capital assets, net of related debt	11,294,906	9,997,535	12.98%
Unrestricted	<u>1,068,190</u>	<u>3,079,519</u>	<u>-65.31%</u>
Total net assets	<u>12,363,096</u>	<u>13,077,054</u>	<u>-5.46%</u>

As shown in the schedule above, at June 30, 2004, the District's total assets are \$13,592,596. The total assets held decreased \$806,272 or 6% from the June 30, 2003 balance. The total liabilities decreased by \$92,314 or 7% from the prior year. The District's net assets at June 30, 2004 decreased from the prior year by 5% or \$713,958.

Unrestricted net assets of the District at June 30, 2004 amounted to \$1,068,190. This was a decrease from the prior year's amount of \$3,079,519. In relation, the investment in capital assets increased to \$11,294,906 from the prior year amount of \$9,997,535. The total decrease in net assets was \$713,958, which is directly related to the operating loss.

NEVADA COUNTY SANITATION DISTRICT NO. 1

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2004

The largest portion of the District's net assets reflects its investment in capital assets (e.g., land, infrastructure and equipment), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to citizens; consequently these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate the liabilities.

Changes in Net Assets			
	<u>2004</u>	<u>2003</u>	<u>Variance</u>
Revenues			
Operating	2,159,899	4,102,412	-47.35%
Non-operating	<u>13,057</u>	<u>103,064</u>	<u>-87.33%</u>
Total Revenues	2,172,956	4,205,476	-48.33%
Expenses			
Operating Expenses	3,005,022	4,871,962	-38.32%
Non Operating Expenses	<u>39,124</u>	<u>43,906</u>	<u>-10.89%</u>
Total Expenses	<u>3,044,146</u>	<u>4,915,868</u>	<u>-38.08%</u>
Income (loss)	(871,190)	(710,392)	22.64%
Change in net assets	(871,190)	(710,392)	22.64%
Net Assets – restated beginning	<u>13,234,286</u>	<u>13,787,446</u>	<u>-4.01%</u>
Net Assets – ending	<u>12,363,096</u>	<u>13,077,054</u>	<u>-5.46%</u>

The financial statements of the District are presented in the GASB 34 format, which required the District's accounting structure to be reported as a business-type operation.

Revenues – The District's revenues for Fiscal Year 2003-04 decreased by 48%. This is attributed to the change in the reporting of interfund reimbursables as a decrease in expense rather than revenue per the GASB pronouncement.

Expenditures – The District's expenditures for Fiscal Year 2003-04 decreased by 38%. As noted above this is attributable to the interfund reimbursables reported as reduction to expenses.

Capital Assets and Debt Administration

Capital Assets – The District's investment in capital assets as of June 30, 2004 amounted to \$11,294,906 (net of accumulated depreciation). This investment in capital assets includes land, infrastructure, buildings and improvements, and equipment. This \$1,297,371 increase is due to the capital improvements being made to the systems of the Lake Wildwood and Lake of the Pines zones.

NEVADA COUNTY SANITATION DISTRICT NO. 1

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2004

Additional information on the District's capital assets can be found in Note 4 on page 16 of this report.

Long-term debt – At June 30, 2004, the District's had total debt outstanding of \$709,290. The long-term debt consists of two voter-approved bonds, a loan from the State of California and compensated absences. The two bonds, North San Juan Sewer Assessment and Penn Valley Sewer Assessment are being repaid through a restricted revenue source. A special assessment charge is placed on the tax bills of the parcels within the specific zone that benefited from the borrowing. The Cascade Shores Rehabilitation Loan is being repaid with operating revenues from the specific zone that received the loan proceeds.

Additional information on the District's long-term debt can be found in Note 5 on page 17 of this report.

Economic Factors and Next Year's Budget

The District operates and maintains sewage collections systems and treatment facilities for Nevada County Sanitation District No. 1. There are eight (8) zones within the District with facilities that collect and treat 955,000 gallons of wastewater each day. The Sanitation District provides sewer service to 5,840 accounts in western Nevada County with a population of 16,500. In 2004-05, the District is scheduled to bring two new facilities into operation. They will be known as the Dark Horse and Higgins Village Wastewater Facilities.

Two major improvement projects will continue for the Lake Wildwood (LWW) and Lake of the Pines (LOP) facilities. The multi-year capital improvement projects have estimated costs of \$9,000,000 and \$12,500,000 respectively. Approximately, \$341,700 for the LWW project and \$501,700 for the LOP will be expended in the next fiscal year during the next phase.

Request for Information

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

NEVADA COUNTY SANITATION DISTRICT NO. 1

Statement of Net Assets June 30, 2004

ASSETS

Current assets:	
Cash and investments	\$ 2,165,229
Accounts receivable	9,962
Due from County	<u>9,101</u>
Total current assets	<u>2,184,292</u>
Noncurrent assets:	
Capital assets, net	<u>11,408,304</u>
Total noncurrent assets	<u>11,408,304</u>
Total Assets	<u><u>13,592,596</u></u>

LIABILITIES

Current liabilities:	
Accounts payable	128,271
Salaries and benefits payable	35,594
Due to County	128,276
Interest payable	59,858
Compensated absences	117,892
Bonds and loans payable	<u>68,945</u>
Total current liabilities	<u>538,836</u>
Noncurrent liabilities:	
Advances from County	168,211
Bonds and loans payable	<u>522,453</u>
Total noncurrent liabilities	<u>690,664</u>
Total Liabilities	<u>1,229,500</u>

NET ASSETS

Invested in capital assets, net of related debt	11,294,906
Unrestricted	<u>1,068,190</u>
Total Net Assets	<u><u>\$ 12,363,096</u></u>

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

NEVADA COUNTY SANITATION DISTRICT NO. 1

Statement of Revenues, Expenses and Changes in Fund Net Assets For the Year Ended June 30, 2004

OPERATING REVENUES	
Charges for other services	<u>\$ 2,159,899</u>
OPERATING EXPENSES	
Salaries and benefits	1,308,665
Fuel	4,313
Maintenance and repairs	400,717
Parts and supplies	16,218
Outside services	394,365
Administrative and office	173,721
Utilities	284,713
Insurance	7,760
Depreciation	381,347
Rentals and lease payments	30,890
Miscellaneous expenses	2,313
Total Operating Expenses	<u>3,005,022</u>
Operating Income (Loss)	<u>(845,123)</u>
NON-OPERATING REVENUES (EXPENSES)	
Investment earnings	13,057
Interest expense	(39,124)
Total Nonoperating Revenues (Expenses)	<u>(26,067)</u>
Change in Net Assets	<u>(871,190)</u>
Net Assets - Beginning	13,077,054
Prior Period Adjustment	<u>157,232</u>
Total Net Assets - Beginning, Restated	<u>13,234,286</u>
Net Assets - Ending	<u><u>\$ 12,363,096</u></u>

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

NEVADA COUNTY SANITATION DISTRICT NO. 1

Statement of Cash Flows For the Year Ended June 30, 2004

Cash Flows from Operating Activities:	
Receipts from customers	\$ 2,359,902
Payments to suppliers	(1,324,967)
Payments to employees	<u>(1,308,665)</u>
Net Cash Provided (Used) by Operating Activities	<u>(273,730)</u>
Cash Flows from Non-Capital Financing Activities:	
Other revenue (expense)	(104,098)
Operating subsidies and transfers out	<u>(20)</u>
Net Cash Provided (Used) by Non-Capital Financing Activities	<u>(104,118)</u>
Cash Flows from Capital and Related Financing Activities:	
Purchase of capital assets	(918,492)
Principal payments on debt	(47,119)
Interest payments on debt	<u>(19,288)</u>
Net Cash (Used) by Capital and Related Financing Activities	<u>(984,899)</u>
Cash Flows From Investing Activities:	
Interest on investments	<u>19,443</u>
Net Increase (Decrease) in Cash	(1,343,304)
Cash at Beginning of Year	<u>3,508,533</u>
Cash at End of Year	<u><u>\$ 2,165,229</u></u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income (loss)	\$ (845,123)
Adjustments to reconcile net operating income to net cash provided (used) by operating activities:	
Depreciation expense	381,347
Changes in assets and liabilities:	
Receivables, net	200,003
Accounts and other payables	<u>(9,957)</u>
Net Cash Provided (Used) by Operating Activities	<u><u>\$ (273,730)</u></u>

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

NEVADA COUNTY SANITATION DISTRICT NO. 1

Notes to Financial Statements
For the Fiscal Year Ended June 30, 2004

Note 1: **Summary of Significant Accounting Policies**

A. **Description of the Reporting Entity**

The Nevada County Sanitation District No. 1, a component unit of the County of Nevada, California (District), is a public agency and is reported as a business-type activity in the County's basic financial statements. The District was formed on August 2, 1965, by order of the Nevada County Board of Supervisors pursuant to provisions of the California Health and Safety Code. Ten additional zones have been annexed into the District since its formation. The District is a public entity, separate and distinct from the County of Nevada (County), its primary government.

The District, for financial purposes, includes all of the activity relevant to the operations of the District in sixteen cost centers, as follows:

- Wastewater Management System
- SD Zone 1 Lake Wildwood O&M
- Lake Wildwood Capital Project
- SD Zone 8 Cascade Shores O&M
- SD Zone 2 Lake of the Pines O&M
- SD Zone 6 Penn Valley O&M
- No. San Juan Sewer Assessment
- Penn Valley Sewer Assessment
- Lake of the Pines Assessment
- SD Zone 4 North San Juan O&M
- Lake of the Pines Capital Project
- SD Zone 5 Gold Creek O&M
- SD Zone 7 Mt. Lake Estates O&M
- SD Zone 9 Eden Ranch O&M
- SD Zone 10 Dark Horse O&M
- SD Zone 11 Higgins Village O&M

The District is considered to be a component unit of the County of Nevada under criteria set by Governmental Accounting Standards Board (GASB) Statement No. 14. These entities are legally separate from each other. The County elected officials have a continuing full or partial oversight responsibility over and accountability for fiscal matters of this entity. The criteria used to determine the scope of the reporting entity for financial reporting purposes are (1) exercise of oversight responsibility over such agencies by the governmental unit's elected officials, (2) selection of governing authority, (3) designation of management, (4) ability to significantly influence operations, and (5) accountability for fiscal matters.

NEVADA COUNTY SANITATION DISTRICT NO. 1

Notes to Financial Statements
For the Fiscal Year Ended June 30, 2004

Note 1: **Summary of Significant Accounting Policies** (continued)

A. **Description of the Reporting Entity** (continued)

Reporting component units on the District's financial statements can be blended or discretely presented. Blended component units, although legally separate entities, are in substance, part of the government's operations. Blended component units are an extension of the District and so data from these units are combined with data of the primary government. Discretely presented component units, on the other hand, are reported in a separate column in the combined financial statements to emphasize they are legally separate from the District.

At June 30, 2004, the District did not report any blended component units, either blended or discretely presented.

B. **Basis of Accounting**

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange.

The District has elected, under Governmental Accounting Standards Board (GASB) Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting, to apply all applicable pronouncements as well as any applicable pronouncements of the Financial Accounting Standards Board, the Accounting Principles Board or any Accounting Research Bulletins issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to the same limitation. The District has elected not to follow subsequent private-sector guidance. The GASB periodically updates its codification of the existing Governmental Accounting and Financial reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes accounting principles generally accepted in the United States of America (GAAP) for governmental units.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise and internal service funds are charges to customers for sales and services.

NEVADA COUNTY SANITATION DISTRICT NO. 1

Notes to Financial Statements
For the Fiscal Year Ended June 30, 2004

Note 1: **Summary of Significant Accounting Policies** (continued)

B. Basis of Accounting (continued)

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 non-operating revenues and expenses.

C. Assets, Liabilities, and Equity

Cash and Cash Equivalents

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

Cash and Investments

All of the District's cash is ultimately deposited in the County Treasury. The County maintains a cash and investment pool that is available to all funds for which the County Treasury is the depository, for the purpose of increasing interest earnings through investment activities. The District's share in the pool is displayed in the accompanying financial statements as cash and investments. Investment income from pooled investments is allocated to all funds in the pool. Interest is allocated on the basis of average daily end cash balance amounts for each fund as a percentage of the total balance.

In accordance with the requirements of the California State Government Code, a Treasury Oversight Committee has been formed to provide oversight for the County's investment policy, and arranges for the annual audit of the cash and investment pool. Copies of the Treasurer-Tax Collector's monthly reports and the annual audit report can be obtained from the Treasurer-Tax Collector's Office.

Investments are reported in the accompanying balance sheet and Statement of Net Assets 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.

NEVADA COUNTY SANITATION DISTRICT NO. 1

Notes to Financial Statements
For the Fiscal Year Ended June 30, 2004

Note 1: **Summary of Significant Accounting Policies** (continued)

C. **Assets, Liabilities, and Equity** (continued)

Cash and Investments (continued)

Under Section 53601 of the California Government Code, as amended, the collateral underlying a government entity's investments must be "delivered" to the entity. If U.S. Treasury Bills are used as the underlying collateral, delivery may be made by book entry only. For all other collateral, the security must be physically delivered, either to the entity or a third-party custodial agent.

Under California Senate Bill No. 2115, passed by the California Legislature in 1986, when a bank is used as a third-party custodial agent, the bank is permitted to maintain the underlying securities in either a "Trust Department" or a "Safekeeping Department". All of the District's investments except for cash with fiscal agent, as described in Note 2, are maintained in the "Safekeeping Departments" of applicable banks.

Receivables

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

Due to/From Nevada County

During the course of operations, numerous transactions occur between The District and other funds within the County of Nevada that may result in amounts owed between funds. Those related to goods and services type transactions and short term loans are classified as "due to and from County of Nevada". Long-term interfund loans (noncurrent portion) are reported as "advances from and to County of Nevada".

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (wastewater treatment facility and collection system), are defined by the District as assets with a cost of more than \$5,000 for equipment, \$25,000 for infrastructure and an estimated useful life of more than two years. Such assets are recorded at historical or estimated historical cost. Contributed capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized.

NEVADA COUNTY SANITATION DISTRICT NO. 1

Notes to Financial Statements
For the Fiscal Year Ended June 30, 2004

Note 1: **Summary of Significant Accounting Policies** (continued)

C. Assets, Liabilities, and Equity (continued)

Capital Assets (continued)

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

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

Maintenance and repairs are charged to operations when incurred. Betterments and major improvements which significantly increase values, change capacities or extend useful lives are capitalized. Upon sale or retirement of fixed 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.

Compensated Absences

The District's policy regarding vacation is to permit employees to accumulate earned but unused vacation leave, which will be paid to employees upon separation from the District. The liability for these compensated absences is recorded as long-term. The current portion of this debt is estimated based on historical trends. The District includes its share of social security and medicare taxes payable on behalf of the employees in the accrual for compensated absences. The cost of vacation is recorded in the period accrued.

Net Assets

Net assets are 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.

NEVADA COUNTY SANITATION DISTRICT NO. 1

Notes to Financial Statements
For the Fiscal Year Ended June 30, 2004

Note 1: **Summary of Significant Accounting Policies** (continued)

C. **Assets, Liabilities, and Equity** (continued)

Net Assets (continued)

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

When both restricted and unrestricted net assets are available, restricted resources are used only after the unrestricted resources are depleted.

D. **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. **Restatement of Equity/Prior Period Adjustments**

- SD Zone 2 Lake of the Pines O&M – an adjustment to beginning net assets was required to correct prior year misstatements in accumulated depreciation of \$12,414 and fair market value adjustments of (\$814) to cash in County.
- SD Zone 8 Cascade Shores O&M – an adjustment to beginning net assets was required to correct prior year misstatements in accumulated depreciation of \$205,066 and fair market value adjustments of (\$59,434) to cash in County.

Note 3: **Cash and Investments**

The District holds unrestricted cash and investments with the Treasurer of the County of Nevada in a cash and investment pool. On a quarterly basis the Treasurer allocates interest to participants based upon their average daily balances. Required disclosure information regarding the categorization of investments can be found in the County of Nevada’s financial statements. The Nevada County Treasury Oversight Commission oversees the Treasurer’s compliance with the County investment policy. The County’s audit report discloses the required information in accordance with Governmental Accounting Standards Board Statement No. 3 (GASB No. 3).

NEVADA COUNTY SANITATION DISTRICT NO. 1

Notes to Financial Statements For the Fiscal Year Ended June 30, 2004

Note 4: **Capital Assets**

Capital assets activity for the year ended June 30, 2004, was as follows:

	Balance July 1, 2003	Additions	Adjustments	Balance June 30, 2004
Capital assets, not being depreciated:				
Land	\$ 1,304,187	\$ --	\$ --	\$ 1,304,187
Construction in progress	--	782,369	--	782,369
Total capital assets, not being depreciated	1,304,187	782,369	--	2,086,556
Capital assets, being depreciated:				
Infrastructure	16,241,403	128,253	18,844	16,388,500
Equipment	597,535	7,870	--	605,405
Total capital assets, being depreciated	16,838,938	136,123	18,844	16,993,905
Less accumulated depreciation for:				
Infrastructure	(7,013,191)	(354,336)	198,675	(7,168,852)
Equipment	(476,294)	(27,011)	--	(503,305)
Total accumulated depreciation	(7,489,485)	(381,347)	198,675	(7,672,157)
Total capital assets, being depreciated	9,349,453	(245,224)	217,519	9,321,748
Capital assets, net of accumulated depreciation	\$ 10,653,640	\$ 537,145	\$ 217,519	\$ 11,408,304

Depreciation expense was charged to the zones as follows:

Wastewater Management System	\$ 3,567
SD Zone 1 Lake Wildwood O&M	160,285
SD Zone 8 Cascade Shores O&M	53,255
SD Zone 4 No. San Juan O&M	9,320
SD Zone 2 Lake of the Pines O&M	75,380
SD Zone 6 Penn Valley O&M	56,120
SD Zone 7 Mt. Lakes Estates O&M	15,599
SD Zone 5 Gold Creek O&M	3,058
SD Zone 9 Eden Ranch O&M	4,763
Total Depreciation Expense – Business-Type Functions	\$ 381,347

NEVADA COUNTY SANITATION DISTRICT NO. 1

Notes to Financial Statements
For the Fiscal Year Ended June 30, 2004

Note 5: **Long-Term Liabilities**

The following is a summary of all long-term liabilities transactions for the year ended June 30, 2004:

	<u>Balance</u> <u>June 30, 2003</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2004</u>	<u>Amounts</u> <u>Due Within</u> <u>One Year</u>
Loans payable	\$ 121,104	\$ --	\$ 7,706	\$ 113,398	\$ 7,945
Bonds payable	535,000	--	57,000	478,000	61,000
Compensated absences	<u>104,604</u>	<u>13,288</u>	<u>--</u>	<u>117,892</u>	<u>117,892</u>
Total	<u>\$ 760,708</u>	<u>\$ 13,288</u>	<u>\$ 64,706</u>	<u>\$ 709,290</u>	<u>\$ 186,837</u>

A description of long-term debt recorded in business-type activities at June 30, 2004 follows:

Loans

<u>Description of Debt</u>	<u>Maturity</u>	<u>Interest</u> <u>Rates</u>	<u>Annual</u> <u>Principal</u> <u>Installments</u>	<u>Original</u> <u>Issue</u> <u>Amount</u>	<u>Outstanding at</u> <u>June 30, 2004</u>
Sanitation District No. 1 Facilities Rehabilitation Loan	1/22/2016	3.03	\$6,417-\$11,154	<u>\$ 170,874</u>	<u>\$ 113,398</u>
Total Loan Payable				<u>\$ 170,874</u>	<u>\$ 113,398</u>

As of June 30, 2004, annual debt service requirements of loans included in business-type activities are as follows:

<u>Fiscal Year</u> <u>June 30,</u>	<u>Loans</u>	
	<u>Principal</u>	<u>Interest</u>
2005	\$ 7,945	\$ 3,515
2006	8,192	3,269
2007	8,445	3,015
2008	8,707	2,753
2009	8,977	2,484
2010-2014	49,235	8,066
2015-2019	<u>21,897</u>	<u>1,023</u>
Total	<u>\$ 113,398</u>	<u>\$ 24,125</u>

NEVADA COUNTY SANITATION DISTRICT NO. 1

Notes to Financial Statements
For the Fiscal Year Ended June 30, 2004

Note 5: **Long-Term Liabilities** (continued)

Special Assessment Debt with Government Obligation (continued)

<u>Description of Debt</u>	<u>Maturity</u>	<u>Interest Rates</u>	<u>Annual Principal Installments</u>	<u>Original Issue Amount</u>	<u>Outstanding at June 30, 2004</u>
No. San Juan Sewer Assessment	9/2/2018	5.00	\$1,000-\$3,000	\$ 53,000	\$ 33,000
Penn Valley Assessment	9/2/2009	6.20-7.10	\$35,000-\$95,000	<u>1,065,000</u>	<u>445,000</u>
Total Special Assessment Debt with Government Obligation				<u>\$ 1,118,000</u>	<u>\$ 478,000</u>

As of June 30, 2004, annual debt service requirements of Special Assessment bonds with County Commitment are as follows:

<u>Fiscal Year June 30,</u>	<u>Special Assessment Debt with County Commitment</u>	
	<u>Principal</u>	<u>Interest</u>
2005	\$ 61,000	\$ 30,850
2006	66,000	26,425
2007	72,000	21,625
2008	77,000	16,450
2009	87,000	10,708
2010-2014	100,000	8,195
2015-2019	<u>15,000</u>	<u>1,875</u>
Total	<u>\$ 478,000</u>	<u>\$ 116,128</u>

Note 6: **Related Party Transactions**

The following is a summary of advances from the County of Nevada as of June 30, 2004:

SD Zone 8 Cascade Shores O&M	\$ 109,211
SD Zone 6 Penn Valley O&M	55,000
SD Zone 9 Eden Ranch O&M	<u>4,000</u>
Total	<u>\$ 168,211</u>

Operating receivables and payables between related parties are classified as due from or due to County. The following are due to/from balances as of June 30, 2004:

Due From County of Nevada	\$ 9,101
Due To County of Nevada	\$ 128,276

NEVADA COUNTY SANITATION DISTRICT NO. 1

Notes to Financial Statements
For the Fiscal Year Ended June 30, 2004

Note 7: **Employee Benefits**

Post-Employment Benefits

The District employees are considered to be County employees for retirement purposes. Complete information on the County retiree benefits can be found in the County of Nevada's audited financial statements.

457 Plan

The District employees are considered to be County employees for purposes of the 457 Plan. Information on the County 457 Plan can be found in the County of Nevada's audited financial statements.

Note 8: **Insurance**

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

Note 9: **New Accounting Pronouncements**

The Governmental Accounting Standards Board (GASB) recently released several new accounting and financial reporting standards. One of the new standards, GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, which establishes accounting and financial reporting standards for impairment of capital assets, may have a significant impact on the District's financial reporting process. GASB No. 42 will be effective for the fiscal year ending June 30, 2006.

SUPPLEMENTARY INFORMATION

NEVADA COUNTY SANITATION DISTRICT NO. 1

Statement of Net Assets by Zone
June 30, 2004

	Penn Valley Sewer Assessment	Wastewater Management System	Sd Zone 1 Lake Wildwood O&M	Sd Zone 8 Cascade Shores O&M
ASSETS				
Current assets:				
Cash and investments	\$ 103,409	\$ 44,620	\$ 98,269	\$ 29,807
Accounts Receivables	--	504	--	9,458
Due from other funds	--	266,597	2,130	--
Due from County	--	9,101	--	--
Total current assets	103,409	320,822	100,399	39,265
Noncurrent assets:				
Capital assets, net	--	21,889	3,667,888	1,620,884
Total noncurrent assets	--	21,889	3,667,888	1,620,884
Total Assets	103,409	342,711	3,768,287	1,660,149
 LIABILITIES				
Current liabilities:				
Accounts payable	--	15,442	23,030	1,291
Salaries and benefits payable	--	35,594	--	--
Due to other funds	--	8,332	134,255	9,297
Due to County	--	31,083	39,749	3,401
Interest payable	--	--	--	59,789
Compensated absences	--	117,892	--	--
Bonds, notes, loans payable	60,000	--	--	7,945
Total current liabilities	60,000	208,343	197,034	81,723
Noncurrent liabilities:				
Advances from County	--	--	--	109,211
Bonds, notes, loans payable	385,000	--	--	105,453
Total noncurrent liabilities	385,000	--	--	214,664
Total Liabilities	445,000	208,343	197,034	296,387
 NET ASSETS				
Invested in capital assets, net of related debt	--	21,889	3,667,888	1,507,486
Unrestricted	(341,591)	112,479	(96,635)	(143,724)
Total Net Assets	\$ (341,591)	\$ 134,368	\$ 3,571,253	\$ 1,363,762

continued

NEVADA COUNTY SANITATION DISTRICT NO. 1

Statement of Net Assets by Zone (continued)
June 30, 2004

	SD Zone 2 Lake of the Pines O&M	SD Zone 6 Penn Valley O&M	North San Juan O&M	Mt. Lake Estates O&M
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
ASSETS				
Current assets:				
Cash and investments	\$ 1,510,953	\$ 61,696	\$ 74,165	\$ 38,229
Accounts Receivables	--	--	--	--
Due from other funds	4,884	149	1,727	--
Due from County	<u> --</u>	<u> --</u>	<u> --</u>	<u> --</u>
Total current assets	<u>1,515,837</u>	<u>61,845</u>	<u>75,892</u>	<u>38,229</u>
Noncurrent assets:				
Capital assets, net	<u>2,227,321</u>	<u>1,930,414</u>	<u>405,389</u>	<u>514,641</u>
Total noncurrent assets	<u>2,227,321</u>	<u>1,930,414</u>	<u>405,389</u>	<u>514,641</u>
Total Assets	<u>3,743,158</u>	<u>1,992,259</u>	<u>481,281</u>	<u>552,870</u>
 LIABILITIES				
Current liabilities:				
Accounts payable	14,707	4,454	66	2,958
Salaries and benefits payable	--	--	--	--
Due to other funds	77,703	24,290	5,609	2,487
Due to County	28,421	8,302	1,629	561
Interest payable	--	--	--	--
Compensated absences	--	--	--	--
Bonds, notes, loans payable	<u> --</u>	<u> --</u>	<u> --</u>	<u> --</u>
Total current liabilities	<u>120,831</u>	<u>37,046</u>	<u>7,304</u>	<u>6,006</u>
Noncurrent liabilities:				
Advances from County	--	55,000	--	--
Bonds, notes, loans payable	<u> --</u>	<u> --</u>	<u> --</u>	<u> --</u>
Total noncurrent liabilities	<u> --</u>	<u>55,000</u>	<u> --</u>	<u> --</u>
Total Liabilities	<u>120,831</u>	<u>92,046</u>	<u>7,304</u>	<u>6,006</u>
 NET ASSETS				
Invested in capital assets, net of related debt	2,227,321	1,930,414	405,389	514,641
Unrestricted	<u>1,395,006</u>	<u>(30,201)</u>	<u>68,588</u>	<u>32,223</u>
Total Net Assets	<u>\$ 3,622,327</u>	<u>\$ 1,900,213</u>	<u>\$ 473,977</u>	<u>\$ 546,864</u>

continued

NEVADA COUNTY SANITATION DISTRICT NO. 1

Statement of Net Assets by Zone (continued)
June 30, 2004

	<u>No San Juan Sewer Assessment</u>	<u>Lake of the Pines Assessment</u>	<u>Lake Wildwood Capital Project</u>	<u>Lake of the Pines Capital Project</u>
ASSETS				
Current assets:				
Cash and investments	\$ 11,184	\$ --	\$ (15,037)	\$ 65,560
Accounts Receivables	--	--	--	--
Due from other funds	--	--	--	--
Due from County	--	--	--	--
	<u>11,184</u>	<u>--</u>	<u>(15,037)</u>	<u>65,560</u>
Total current assets	11,184	--	(15,037)	65,560
Noncurrent assets:				
Capital assets, net	--	--	312,112	470,256
Total noncurrent assets	<u>--</u>	<u>--</u>	<u>312,112</u>	<u>470,256</u>
Total Assets	<u>11,184</u>	<u>--</u>	<u>297,075</u>	<u>535,816</u>
LIABILITIES				
Current liabilities:				
Accounts payable	--	--	--	66,260
Salaries and benefits payable	--	--	--	--
Due to other funds	--	--	4,437	4,705
Due to County	--	--	4,806	5,743
Interest payable	--	--	--	--
Compensated absences	--	--	--	--
Bonds, notes, loans payable	1,000	--	--	--
Total current liabilities	<u>1,000</u>	<u>--</u>	<u>9,243</u>	<u>76,708</u>
Noncurrent liabilities:				
Advances from County	--	--	--	--
Bonds, notes, loans payable	32,000	--	--	--
Total noncurrent liabilities	<u>32,000</u>	<u>--</u>	<u>--</u>	<u>--</u>
Total Liabilities	<u>33,000</u>	<u>--</u>	<u>9,243</u>	<u>76,708</u>
NET ASSETS				
Invested in capital assets, net of related debt	--	--	312,112	470,256
Unrestricted	(21,816)	--	(24,280)	(11,148)
Total Net Assets	<u>\$ (21,816)</u>	<u>\$ --</u>	<u>\$ 287,832</u>	<u>\$ 459,108</u>

continued

NEVADA COUNTY SANITATION DISTRICT NO. 1

Statement of Net Assets by Zone (continued) June 30, 2004

	SD Zone 5 Gold Creek O&M	SD Zone 9 Eden Ranch O&M	SD Zone 10 Dark Horse O&M	SD Zone 11 Higgins Village O&M	Total
ASSETS					
Current assets:					
Cash and investments	\$ 58,699	\$ 736	\$ 5,975	\$ 76,964	\$ 2,165,229
Accounts Receivables	--	--	--	--	9,962
Due from other funds	--	--	--	--	275,487
Due from County	--	--	--	--	9,101
Total current assets	<u>58,699</u>	<u>736</u>	<u>5,975</u>	<u>76,964</u>	<u>2,459,779</u>
Noncurrent assets:					
Capital assets, net	<u>59,360</u>	<u>178,150</u>	<u>--</u>	<u>--</u>	<u>11,408,304</u>
Total noncurrent assets	<u>59,360</u>	<u>178,150</u>	<u>--</u>	<u>--</u>	<u>11,408,304</u>
Total Assets	<u>118,059</u>	<u>178,886</u>	<u>5,975</u>	<u>76,964</u>	<u>13,868,083</u>
LIABILITIES					
Current liabilities:					
Accounts payable	18	45	--	--	128,271
Salaries and benefits payable	--	--	--	--	35,594
Due to other funds	1,279	836	--	2,257	275,487
Due to County	149	622	--	3,810	128,276
Interest payable	--	69	--	--	59,858
Compensated absences	--	--	--	--	117,892
Bonds, notes, loans payable	--	--	--	--	68,945
Total current liabilities	<u>1,446</u>	<u>1,572</u>	<u>--</u>	<u>6,067</u>	<u>814,323</u>
Noncurrent liabilities:					
Advances from County	--	4,000	--	--	168,211
Bonds, notes, loans payable	--	--	--	--	522,453
Total noncurrent liabilities	<u>--</u>	<u>4,000</u>	<u>--</u>	<u>--</u>	<u>690,664</u>
Total Liabilities	<u>1,446</u>	<u>5,572</u>	<u>--</u>	<u>6,067</u>	<u>1,504,987</u>
NET ASSETS					
Invested in capital assets, net of related debt	59,360	178,150	--	--	11,294,906
Unrestricted	<u>57,253</u>	<u>(4,836)</u>	<u>5,975</u>	<u>70,897</u>	<u>1,068,190</u>
Total Net Assets	<u>\$ 116,613</u>	<u>\$ 173,314</u>	<u>\$ 5,975</u>	<u>\$ 70,897</u>	<u>\$ 12,363,096</u>

NEVADA COUNTY SANITATION DISTRICT NO. 1

Statement of Revenues, Expenses and
Changes in Net Assets by Zone
June 30, 2004

	Penn Valley Sewer Assessment	Wastewater Management System	Sd Zone 1 Lake Wildwood O&M	Sd Zone 8 Cascade Shores O&M
OPERATING REVENUES				
Charges for other services	\$ 98,682	\$ 294	\$ 913,605	\$ 140,533
OPERATING EXPENSES				
Salaries and benefits	--	1,308,665	--	--
Fuel	--	2,613	875	26
Maintenance and repairs	--	53,079	240,889	13,499
Parts and supplies	--	7,643	7,208	2
Outside services	1,052	(1,449,160)	928,640	90,162
Administrative and office	--	69,795	44,892	1,778
Utilities	--	11,808	118,043	8,865
Insurance	--	--	4,019	118
Depreciation	--	3,567	160,285	53,255
Rentals and lease payments	--	11,254	10,221	276
Miscellaneous expenses	6,571	(6,494)	1,511	221
Total Operating Expenses	<u>7,623</u>	<u>12,770</u>	<u>1,516,583</u>	<u>168,202</u>
Operating Income (Loss)	<u>91,059</u>	<u>(12,476)</u>	<u>(602,978)</u>	<u>(27,669)</u>
NON-OPERATING REVENUES (EXPENSES)				
Investment earnings (expense)	(246)	(6,283)	7,883	(157)
Interest expense	(33,250)	--	--	(4,105)
Total Nonoperating Revenues (Expenses)	<u>(33,496)</u>	<u>(6,283)</u>	<u>7,883</u>	<u>(4,262)</u>
Net Income (Loss) Before Contributions and Transfers	57,563	(18,759)	(595,095)	(31,931)
Transfers in	--	240,146	--	--
Transfers out	--	--	(129,198)	(3,770)
Change in Net Assets	<u>57,563</u>	<u>221,387</u>	<u>(724,293)</u>	<u>(35,701)</u>
Net Assets - Beginning	(399,154)	(87,019)	4,295,546	1,253,831
Prior Period Adjustment	--	--	--	145,632
Total Net Assets - Beginning, Restated	<u>(399,154)</u>	<u>(87,019)</u>	<u>4,295,546</u>	<u>1,399,463</u>
Net Assets - Ending	<u>\$ (341,591)</u>	<u>\$ 134,368</u>	<u>\$ 3,571,253</u>	<u>\$ 1,363,762</u>

continued

NEVADA COUNTY SANITATION DISTRICT NO. 1

Statement of Revenues, Expenses and
Changes in Net Assets by Zone (continued)
June 30, 2004

	SD Zone 2 Lake of the Pines O&M	SD Zone 6 Penn Valley O&M	North San Juan O&M	Mt. Lake Estates O&M
OPERATING REVENUES				
Charges for other services	\$ 648,526	\$ 175,943	\$ 38,691	\$ 12,165
OPERATING EXPENSES				
Salaries and benefits	--	--	--	--
Fuel	632	101	28	10
Maintenance and repairs	46,258	34,139	6,508	4,656
Parts and supplies	649	431	72	1
Outside services	526,558	203,040	31,031	19,042
Administrative and office	49,506	4,807	1,285	320
Utilities	135,078	7,886	2,420	2
Insurance	2,881	463	127	47
Depreciation	75,380	56,120	9,320	15,599
Rentals and lease payments	6,710	1,077	956	110
Miscellaneous expenses	1	1	--	--
Total Operating Expenses	<u>843,653</u>	<u>308,065</u>	<u>51,747</u>	<u>39,787</u>
Operating Income (Loss)	<u>(195,127)</u>	<u>(132,122)</u>	<u>(13,056)</u>	<u>(27,622)</u>
NON-OPERATING REVENUES (EXPENSES)				
Investment earnings (expense)	6,116	248	260	176
Interest expense	--	--	--	--
Total Nonoperating Revenues (Expenses)	<u>6,116</u>	<u>248</u>	<u>260</u>	<u>176</u>
Net Income (Loss) Before Contributions and Transfers	(189,011)	(131,874)	(12,796)	(27,446)
Transfers in	217	--	--	--
Transfers out	<u>(79,945)</u>	<u>(16,594)</u>	<u>(4,539)</u>	<u>(1,657)</u>
Change in Net Assets	<u>(268,739)</u>	<u>(148,468)</u>	<u>(17,335)</u>	<u>(29,103)</u>
Net Assets - Beginning	3,879,466	2,048,681	491,312	575,967
Prior Period Adjustment	<u>11,600</u>	<u>--</u>	<u>--</u>	<u>--</u>
Total Net Assets - Beginning, Restated	<u>3,891,066</u>	<u>2,048,681</u>	<u>491,312</u>	<u>575,967</u>
Net Assets - Ending	<u>\$ 3,622,327</u>	<u>\$ 1,900,213</u>	<u>\$ 473,977</u>	<u>\$ 546,864</u>

continued

NEVADA COUNTY SANITATION DISTRICT NO. 1

Statement of Revenues, Expenses and
Changes in Net Assets by Zone (continued)
June 30, 2004

	No San Juan Sewer Assessment	Lake of the Pines Assessment	Lake Wildwood Capital Project	Lake of the Pines Capital Project
OPERATING REVENUES				
Charges for other services	\$ 3,605	\$ --	\$ --	\$ --
OPERATING EXPENSES				
Salaries and benefits	--	--	--	--
Fuel	--	--	--	--
Maintenance and repairs	--	--	--	--
Parts and supplies	--	--	--	--
Outside services	117	--	--	--
Administrative and office	--	--	--	--
Utilities	--	--	--	--
Insurance	--	--	--	--
Depreciation	--	--	--	--
Rentals and lease payments	--	--	--	--
Miscellaneous expenses	501	--	--	--
Total Operating Expenses	<u>618</u>	<u>--</u>	<u>--</u>	<u>--</u>
Operating Income (Loss)	<u>2,987</u>	<u>--</u>	<u>--</u>	<u>--</u>
NON-OPERATING REVENUES (EXPENSES)				
Investment earnings (expense)	25	(1)	1,748	3,065
Interest expense	<u>(1,700)</u>	<u>--</u>	<u>--</u>	<u>--</u>
Total Nonoperating Revenues (Expenses)	<u>(1,675)</u>	<u>(1)</u>	<u>1,748</u>	<u>3,065</u>
Net Income (Loss) Before Contributions and Transfers	1,312	(1)	1,748	3,065
Transfers in	--	--	--	--
Transfers out	<u>--</u>	<u>(217)</u>	<u>--</u>	<u>--</u>
Change in Net Assets	<u>1,312</u>	<u>(218)</u>	<u>1,748</u>	<u>3,065</u>
Net Assets - Beginning	(23,128)	218	286,084	456,043
Prior Period Adjustment	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
Total Net Assets - Beginning, Restated	<u>(23,128)</u>	<u>218</u>	<u>286,084</u>	<u>456,043</u>
Net Assets - Ending	<u>\$ (21,816)</u>	<u>\$ --</u>	<u>\$ 287,832</u>	<u>\$ 459,108</u>

continued

NEVADA COUNTY SANITATION DISTRICT NO. 1

Statement of Revenues, Expenses and
Changes in Net Assets by Zone (continued)
June 30, 2004

	SD Zone 5 Gold Creek O&M	SD Zone 9 Eden Ranch O&M	SD Zone 10 Dark Horse O&M	SD Zone 11 Higgins Village O&M	Total Enterprise Funds
OPERATING REVENUES					
Charges for other services	\$ 6,380	\$ 9,245	\$ 6,000	\$ 106,230	\$ 2,159,899
OPERATING EXPENSES					
Salaries and benefits	--	--	--	--	1,308,665
Fuel	14	10	--	4	4,313
Maintenance and repairs	877	807	--	5	400,717
Parts and supplies	211	1	--	--	16,218
Outside services	3,551	6,933	--	33,399	394,365
Administrative and office	427	721	--	190	173,721
Utilities	11	597	--	3	284,713
Insurance	62	43	--	--	7,760
Depreciation	3,058	4,763	--	--	381,347
Rentals and lease payments	146	101	--	39	30,890
Miscellaneous expenses	--	1	--	--	2,313
Total Operating Expenses	<u>8,357</u>	<u>13,977</u>	<u>--</u>	<u>33,640</u>	<u>3,005,022</u>
Operating Income (Loss)	<u>(1,977)</u>	<u>(4,732)</u>	<u>6,000</u>	<u>72,590</u>	<u>(845,123)</u>
NON-OPERATING REVENUES (EXPENSES)					
Investment earnings (expense)	212	--	(25)	36	13,057
Interest expense	--	(69)	--	--	(39,124)
Total Nonoperating Revenues (Expenses)	<u>212</u>	<u>(69)</u>	<u>(25)</u>	<u>36</u>	<u>(26,067)</u>
Net Income (Loss) Before Contributions and Transfers	<u>(1,765)</u>	<u>(4,801)</u>	<u>5,975</u>	<u>72,626</u>	<u>(871,190)</u>
Transfers in	--	--	--	--	240,363
Transfers out	<u>(1,585)</u>	<u>(1,129)</u>	<u>--</u>	<u>(1,729)</u>	<u>(240,363)</u>
Change in Net Assets	<u>(3,350)</u>	<u>(5,930)</u>	<u>5,975</u>	<u>70,897</u>	<u>(871,190)</u>
Net Assets - Beginning	119,963	179,244	--	--	13,077,054
Prior Period Adjustment	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>157,232</u>
Total Net Assets - Beginning, Restated	<u>119,963</u>	<u>179,244</u>	<u>--</u>	<u>--</u>	<u>13,234,286</u>
Net Assets - Ending	<u>\$ 116,613</u>	<u>\$ 173,314</u>	<u>\$ 5,975</u>	<u>\$ 70,897</u>	<u>\$ 12,363,096</u>

NEVADA COUNTY SANITATION DISTRICT NO. 1

Statement of Cash Flows by Zone
June 30, 2004

	Penn Valley Sewer Assessment	Wastewater Management System	Sd Zone 1 Lake Wildwood O&M	Sd Zone 8 Cascade Shores O&M
Cash Flows from Operating Activities:				
Receipts from customers	\$ 98,682	\$ 165,780	\$ 937,973	\$ 132,723
Payments to suppliers	(7,623)	1,219,778	(1,433,735)	(54,738)
Payments to employees	--	(1,308,665)	--	--
Net Cash Provided (Used) by Operating Activities	<u>91,059</u>	<u>76,893</u>	<u>(495,762)</u>	<u>77,985</u>
Cash Flows from Non-Capital Financing Activities:				
Other revenue (expense)	(33,250)	(6,283)	(15)	(63,539)
Net operating subsidies and transfers	--	(18,119)	8,984	8,014
Net Cash Provided (Used) by Non-Capital Financing Activities	<u>(33,250)</u>	<u>(24,402)</u>	<u>8,969</u>	<u>(55,525)</u>
Cash Flows from Capital and Related Financing Activities:				
Purchase of capital assets	--	(7,871)	(111,191)	--
Principal payments on debt	(37,412)	--	--	(7,707)
Interest payments on debt	(17,588)	--	--	--
Net Cash (Used) by Capital and Related Financing Activities	<u>(55,000)</u>	<u>(7,871)</u>	<u>(111,191)</u>	<u>(7,707)</u>
Cash Flows From Investing Activities:				
Interest on investments	(246)	--	7,883	(157)
Net Increase (Decrease) in Cash	2,563	44,620	(590,101)	14,596
Cash at Beginning of Year	<u>100,846</u>	<u>--</u>	<u>688,370</u>	<u>15,211</u>
Cash at End of Year	<u>\$ 103,409</u>	<u>\$ 44,620</u>	<u>\$ 98,269</u>	<u>\$ 29,807</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income (loss)	\$ 91,059	\$ (12,476)	\$ (602,978)	\$ (27,669)
Adjustments to reconcile net operating income to net cash provided (used) by operating activities:				
Depreciation expense	--	3,567	160,285	53,255
Changes in assets and liabilities:				
Receivables, net	--	165,486	24,368	(7,810)
Accounts and other payables	--	(79,684)	(77,437)	60,209
Net Cash Provided (Used) by Operating Activities	<u>\$ 91,059</u>	<u>\$ 76,893</u>	<u>\$ (495,762)</u>	<u>\$ 77,985</u>

continued

NEVADA COUNTY SANITATION DISTRICT NO. 1

Statement of Cash Flows by Zone (continued)
June 30, 2004

	SD Zone 2 Lake of the Pines O&M	SD Zone 6 Penn Valley O&M	North San Juan O&M	Mt. Lake Estates O&M
Cash Flows from Operating Activities:				
Receipts from customers	\$ 661,299	\$ 179,864	\$ 39,352	\$ 12,559
Payments to suppliers	(767,265)	(249,265)	(42,827)	(21,253)
Payments to employees	--	--	--	--
Net Cash Provided (Used) by Operating Activities	<u>(105,966)</u>	<u>(69,401)</u>	<u>(3,475)</u>	<u>(8,694)</u>
Cash Flows from Non-Capital Financing Activities:				
Other revenue (expense)	(814)	(18)	(109)	--
Net operating subsidies and transfers	(24,290)	13,925	1,268	1,314
Net Cash Provided (Used) by Non-Capital Financing Activities	<u>(25,104)</u>	<u>13,907</u>	<u>1,159</u>	<u>1,314</u>
Cash Flows from Capital and Related Financing Activities:				
Purchase of capital assets	(17,062)	--	--	--
Principal payments on debt	--	--	--	--
Interest payments on debt	--	--	--	--
Net Cash (Used) by Capital and Related Financing Activities	<u>(17,062)</u>	<u>--</u>	<u>--</u>	<u>--</u>
Cash Flows From Investing Activities:				
Interest on investments	6,116	248	363	176
Net Increase (Decrease) in Cash	(142,016)	(55,246)	(1,953)	(7,204)
Cash at Beginning of Year	<u>1,652,969</u>	<u>116,942</u>	<u>76,118</u>	<u>45,433</u>
Cash at End of Year	<u>\$ 1,510,953</u>	<u>\$ 61,696</u>	<u>\$ 74,165</u>	<u>\$ 38,229</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income (loss)	\$ (195,127)	\$ (132,122)	\$ (13,056)	\$ (27,622)
Adjustments to reconcile net operating income to net cash provided (used) by operating activities:				
Depreciation expense	75,380	56,120	9,320	15,599
Changes in assets and liabilities:				
Receivables, net	12,773	3,921	661	394
Accounts and other payables	1,008	2,680	(400)	2,935
Net Cash Provided (Used) by Operating Activities	<u>\$ (105,966)</u>	<u>\$ (69,401)</u>	<u>\$ (3,475)</u>	<u>\$ (8,694)</u>

continued

NEVADA COUNTY SANITATION DISTRICT NO. 1

Statement of Cash Flows by Zone (continued)
June 30, 2004

	No San Juan Sewer Assessment	Lake of the Pines Assessment	Lake Wildwood Capital Project	Lake of the Pines Capital Project
Cash Flows from Operating Activities:				
Receipts from customers	\$ 3,605	\$ --	\$ --	\$ --
Payments to suppliers	(618)	--	4,806	72,003
Payments to employees	--	--	--	--
Net Cash Provided (Used) by Operating Activities	<u>2,987</u>	<u>--</u>	<u>4,806</u>	<u>72,003</u>
Cash Flows from Non-Capital Financing Activities:				
Other revenue (expense)	--	--	--	--
Net operating subsidies and transfers	--	(217)	4,437	4,705
Net Cash Provided (Used) by Non-Capital Financing Activities	<u>--</u>	<u>(217)</u>	<u>4,437</u>	<u>4,705</u>
Cash Flows from Capital and Related Financing Activities:				
Purchase of capital assets	--	--	(312,112)	(470,256)
Principal payments on debt	(2,000)	--	--	--
Interest payments on debt	(1,700)	--	--	--
Net Cash (Used) by Capital and Related Financing Activities	<u>(3,700)</u>	<u>--</u>	<u>(312,112)</u>	<u>(470,256)</u>
Cash Flows From Investing Activities:				
Interest on investments	25	(1)	1,748	3,065
Net Increase (Decrease) in Cash	(688)	(218)	(301,121)	(390,483)
Cash at Beginning of Year	<u>11,872</u>	<u>218</u>	<u>286,084</u>	<u>456,043</u>
Cash at End of Year	<u>\$ 11,184</u>	<u>\$ --</u>	<u>\$ (15,037)</u>	<u>\$ 65,560</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income (loss)	\$ 2,987	\$ --	\$ --	\$ --
Adjustments to reconcile net operating income to net cash provided (used) by operating activities:				
Depreciation expense	--	--	--	--
Changes in assets and liabilities:				
Receivables, net	--	--	--	--
Accounts and other payables	--	--	4,806	72,003
Net Cash Provided (Used) by Operating Activities	<u>\$ 2,987</u>	<u>\$ --</u>	<u>\$ 4,806</u>	<u>\$ 72,003</u>

continued

NEVADA COUNTY SANITATION DISTRICT NO. 1

Statement of Cash Flows by Zone (continued)
June 30, 2004

	SD Zone 5 Gold Creek O&M	SD Zone 9 Eden Ranch O&M	SD Zone 10 Dark Horse O&M	SD Zone 11 Higgins Village O&M	Total
Cash Flows from Operating Activities:					
Receipts from customers	\$ 6,453	\$ 9,382	\$ 6,000	\$ 106,230	\$ 2,359,902
Payments to suppliers	(5,472)	(8,928)	--	(29,830)	(1,324,967)
Payments to employees	--	--	--	--	(1,308,665)
Net Cash Provided (Used) by Operating Activities	<u>981</u>	<u>454</u>	<u>6,000</u>	<u>76,400</u>	<u>(273,730)</u>
Cash Flows from Non-Capital Financing Activities:					
Other revenue (expense)	--	(70)	--	--	(104,098)
Net operating subsidies and transfers	(579)	10	--	528	(20)
Net Cash Provided (Used) by Non-Capital Financing Activities	<u>(579)</u>	<u>(60)</u>	<u>--</u>	<u>528</u>	<u>(104,118)</u>
Cash Flows from Capital and Related Financing Activities:					
Purchase of capital assets	--	--	--	--	(918,492)
Principal payments on debt	--	--	--	--	(47,119)
Interest payments on debt	--	--	--	--	(19,288)
Net Cash (Used) by Capital and Related Financing Activities	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>(984,899)</u>
Cash Flows From Investing Activities:					
Interest on investments	212	--	(25)	36	19,443
Net Increase (Decrease) in Cash	614	394	5,975	76,964	(1,343,304)
Cash at Beginning of Year	<u>58,085</u>	<u>342</u>	<u>--</u>	<u>--</u>	<u>3,508,533</u>
Cash at End of Year	<u>\$ 58,699</u>	<u>\$ 736</u>	<u>\$ 5,975</u>	<u>\$ 76,964</u>	<u>\$ 2,165,229</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:					
Operating income (loss)	\$ (1,977)	\$ (4,732)	\$ 6,000	\$ 72,590	\$ (845,123)
Adjustments to reconcile net operating income to net cash provided (used) by operating activities:					
Depreciation expense	3,058	4,763	--	--	381,347
Changes in assets and liabilities:					
Receivables, net	73	137	--	--	200,003
Accounts and other payables	(173)	286	--	3,810	(9,957)
Net Cash Provided (Used) by Operating Activities	<u>\$ 981</u>	<u>\$ 454</u>	<u>\$ 6,000</u>	<u>\$ 76,400</u>	<u>\$ (273,730)</u>

OTHER REPORT

Bartig, Basler & Ray

A Professional Corporation

Certified Public Accountants and Management Consultants

Frank V. Trythall
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M. Elba Zuniga

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*

Board of Directors
Nevada County Sanitation District No. 1
Nevada City, California

We have audited the financial statements of the Nevada County Sanitation District No. 1 (a component unit of the County of Nevada, California) (District), as of and for the year ended June 30, 2004, and have issued our report thereon dated February 25, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Board of Directors
Nevada County Sanitation District No. 1

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial 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 that are required to be reported under *Government Auditing Standards*.

This report is intended for the information and use of the audit committee, management, Board of Directors and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than the specified parties.

BARTIG, BASLER & RAY, CPAs, INC.

A handwritten signature in black ink that reads "Bartig, Basler & Ray, CPAs, Inc." in a cursive script.

Roseville, California
February 25, 2005