

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

AUDIT REPORT

JUNE 30, 2005

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

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Bartig, Basler & Ray

A Professional Corporation

Certified Public Accountants and Management Consultants

Frank V. Trythall
Brad W. Constantine
Bruce W. Stephenson
Roseanne M. Lopez
Jason J. Cardinet
Tyler K. Hunt

Curtis A. Orgill
M. Elba Zuniga

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, 2005, 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, 2005, 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 December 7, 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 accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

BARTIG, BASLER & RAY, CPAs, INC.

Bartig, Basler + Ray, CPAs, Inc.

Roseville, California
December 7, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

NEVADA COUNTY SANITATION DISTRICT NO. 1

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2005

The following Management's Discussion and Analysis ("MD&A") of the County of Nevada Sanitation District No. 1 (the "District") financial performance provides an introduction to the financial statements for the year ended June 30, 2005. The information contained in this MD&A should be considered in conjunction with the information contained in the District's financial statements.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

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

NEVADA COUNTY SANITATION DISTRICT NO. 1

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2005

FINANCIAL HIGHLIGHTS

On June 30, 2005, the assets of the District exceeded its liabilities by \$13,041,352 (net assets). Of this amount, \$1,090,540 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors and \$11,950,812 is invested in capital assets, net of related debt.

The District's long-term debt, in the form of Special Assessment bonds, State and County loans increased by \$25,809 during the current fiscal year to \$716,473. This net increase was the difference between new borrowing and the paying down of existing debt of scheduled principal payments.

Financial Position

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

Sanitation District's Net Assets June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>	<u>Variance</u>
Current and other assets	\$ 2,403,956	\$ 2,184,292	10.06%
Capital Assets	<u>12,255,467</u>	<u>11,408,304</u>	<u>7.43%</u>
Total Assets	<u>14,659,423</u>	<u>13,592,596</u>	<u>7.85%</u>
Current liabilities	901,598	538,836	67.32%
Long-term liabilities	<u>716,473</u>	<u>690,664</u>	<u>3.74%</u>
Total Liabilities	<u>1,618,071</u>	<u>1,229,500</u>	<u>31.60%</u>
Net Assets:			
Invested in capital assets, net of related debt	11,950,812	11,294,906	5.81%
Restricted	0	0	
Unrestricted	<u>1,090,540</u>	<u>1,068,190</u>	<u>2.09%</u>
Total net assets	<u>\$ 13,041,352</u>	<u>\$ 12,363,096</u>	<u>5.49%</u>

As shown in the schedule above, at June 30, 2005, the District's total assets are \$14,659,423. The total assets held increased 7.85% from the June 30, 2004 balance of \$13,592,596. The total liabilities increased by \$388,571 or 31% from the prior year. The District's net assets at June 30, 2005 increased from the prior year by 5.49% or \$678,256.

Unrestricted net assets of the District at June 30, 2005 amounted to \$1,090,540. This was a increase from the prior year's amount of \$1,068,190. In relation, the investment in capital assets, net of related debt, increased to \$11,950,812 from the prior year amount of \$11,294,906. The total increase in net assets was \$678,256 which is primarily related to the increase in capital assets.

NEVADA COUNTY SANITATION DISTRICT NO. 1

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2005

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

Changes in Net Assets For the Years Ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>	<u>Variance</u>
Revenues			
Operating	\$ 3,818,931	\$ 2,159,899	76.81%
Non-operating	<u>155,227</u>	<u>13,057</u>	<u>1088.84%</u>
Total Revenues	<u>3,974,158</u>	<u>2,172,956</u>	<u>82.89%</u>
Expenses			
Operating Expenses	3,251,627	3,005,022	8.21%
Non Operating Expenses	<u>44,275</u>	<u>39,124</u>	<u>13.17%</u>
Total Expenses	<u>3,295,902</u>	<u>3,044,146</u>	<u>8.27%</u>
Income (loss)	<u>678,256</u>	<u>(871,190)</u>	<u>-177.85%</u>
Change in net assets	678,256	(871,190)	-177.85%
Net Assets – beginning	<u>12,363,096</u>	<u>13,234,286</u>	<u>-6.58%</u>
Net Assets – ending	<u>\$ 13,041,352</u>	<u>\$ 12,363,096</u>	<u>5.49%</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 2004-05 increased by 76.81% or \$1,659,032. This is attributed to a voter approved increase in the annual rates.

Expenditures – The District's expenditures for Fiscal Year 2004-05 increased by 8.27% or \$251,756. The operating expenditures increased \$246,605 or 8.21% from the prior fiscal year. This increase was primarily in the Salaries and Benefits expense category.

Capital Assets and Debt Administration

Capital Assets – The District's investment in capital assets as of June 30, 2005 amounted to \$12,555,467 (net of accumulated depreciation). This investment in capital assets includes land, infrastructure, buildings and improvements, and equipment. This \$847,190 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, 2005

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, 2005, the District's had total debt outstanding of \$716,473. The long-term debt consists of two voter-approved bonds, a loan from the State of California and loans from the County. 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 18-19 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 ten (10) zones within the District with facilities that collect and treat 1,233,000 gallons of wastewater each day. The Sanitation District provides sewer service to 5,590 accounts in western Nevada County with a population of 14,000. Another zone is expected to be added to the District by the end of the 05-06 fiscal year.

Three major improvement projects will continue for the Lake Wildwood (LWW), Lake of the Pines (LOP) and Cascade Shores facilities. The multi-year capital improvement projects have estimated costs of \$10,000,000; \$17,800,000; and \$3,100,000 respectively. Approximately, \$1,000,000 will be expended for both the LWW and the LOP projects during the next phase in the 05-06 fiscal year. In addition to the capital project at the Cascade Shores facility, the plant has been undergoing emergency repairs due to a May 2005 landslide. The necessary repair work has been estimated at a cost of \$800,000.

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, Marcia L. Salter, 950 Maidu Avenue, Nevada City CA 95959. This entire report is available online at <http://new.mynevadacounty.com/auditor/>.

FINANCIAL STATEMENTS

NEVADA COUNTY SANITATION DISTRICT NO. 1

Statement of Net Assets June 30, 2005

ASSETS

Current assets:	
Cash and investments	\$ 2,308,283
Accounts receivable	88,677
Due from County	<u>6,996</u>
Total current assets	<u>2,403,956</u>
Noncurrent assets:	
Capital assets, net	<u>12,255,467</u>
Total noncurrent assets	<u>12,255,467</u>
Total Assets	<u><u>14,659,423</u></u>

LIABILITIES

Current liabilities:	
Accounts payable	453,309
Salaries and benefits payable	42,552
Due to County	42,147
Interest payable	67,682
Compensated absences	121,717
Line of credit	100,000
Bonds and loans payable	<u>74,191</u>
Total current liabilities	<u>901,598</u>
Noncurrent liabilities:	
Advances from County	268,211
Bonds and loans payable	<u>448,262</u>
Total noncurrent liabilities	<u>716,473</u>
Total Liabilities	<u>1,618,071</u>

NET ASSETS

Invested in capital assets, net of related debt	11,950,812
Unrestricted	<u>1,090,540</u>
Total Net Assets	<u><u>\$ 13,041,352</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, 2005

OPERATING REVENUES	
Charges for other services	<u>\$ 3,818,931</u>
OPERATING EXPENSES	
Salaries and benefits	1,474,163
Fuel	8,941
Maintenance and repairs	366,328
Parts and supplies	13,752
Outside services	468,699
Administrative and office	167,441
Utilities	263,547
Insurance	32,652
Depreciation	408,557
Rentals and lease payments	38,944
Miscellaneous expenses	8,603
Total Operating Expenses	<u>3,251,627</u>
Operating Income (Loss)	<u>567,304</u>
NON-OPERATING REVENUES/(EXPENSES)	
Investment earnings	41,209
Interest expense	(44,275)
Nonoperating revenue	114,418
Sale of assets	(400)
Total Nonoperating Revenues (Expenses)	<u>110,952</u>
Change in Net Assets	678,256
Net Assets - Beginning	<u>12,363,096</u>
Net Assets - Ending	<u><u>\$ 13,041,352</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, 2005

Cash Flows from Operating Activities:	
Receipts from customers	\$ 3,510,985
Payments to suppliers	(681,973)
Payments to employees	<u>(1,474,163)</u>
Net Cash Provided (Used) by Operating Activities	<u>1,354,849</u>
Cash Flows from Non-Capital Financing Activities:	
Other revenue (expense)	<u>76,302</u>
Net Cash Provided (Used) by Non-Capital Financing Activities	<u>76,302</u>
Cash Flows from Capital and Related Financing Activities:	
Purchase of capital assets	(1,255,719)
Principal payments on debt	(68,945)
Interest payments on debt	<u>(1,625)</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(1,326,289)</u>
Cash Flows From Investing Activities:	
Interest on investments	<u>38,192</u>
Net Increase (Decrease) in Cash	143,054
Cash at Beginning of Year	<u>2,165,229</u>
Cash at End of Year	<u><u>\$ 2,308,283</u></u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income (loss)	\$ 567,304
Adjustments to reconcile net operating income to net cash provided (used) by operating activities:	
Depreciation expense	408,557
Changes in assets and liabilities:	
Receivables, net	(76,610)
Accounts and other payables	<u>455,598</u>
Net Cash Provided (Used) by Operating Activities	<u><u>\$ 1,354,849</u></u>

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

NOTES TO BASIC FINANCIAL STATEMENTS

The notes provided in the financial section of this report are considered an integral and essential part of adequate disclosure and fair presentation of this report. The notes include a summary of significant accounting policies for the District, and other necessary disclosure of pertinent matters relating to the financial position of the District. The notes express significant insight to the financial statements and are conjunctive to understanding the rationale for presentation of the financial statements and information contained in this document.

NEVADA COUNTY SANITATION DISTRICT NO. 1

Notes to Financial Statements
For the Fiscal Year Ended June 30, 2005

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
- 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
- Cascade Shores Insurance Proceeds
- Cascade Shores Capital Projects

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, 2005

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, 2005, 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, include grants, entitlements and donations.

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, 2005

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, 2005

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 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, 2005

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, 2005

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.

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

GASB Statement No. 40

At June 30, 2005, the District adopted the provisions of Governmental Accounting Standards Board (GASB) Statement 40, Deposits and Investment Risk Disclosures – and amendment of GASB Statement No. 3. The Statement modifies the custodial credit risk disclosures required by Statement No. 3, Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements and addresses deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency.

Accordingly, the cash and investment disclosure has been revised to conform to the provisions of GASB Statement No. 40.

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

NEVADA COUNTY SANITATION DISTRICT NO. 1

Notes to Financial Statements For the Fiscal Year Ended June 30, 2005

Note 3: **Cash and Investments** (continued)

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).

Government Accounting Standards Board Statement No. 40, effective for fiscal years ending June 30, 2005, requires additional disclosures about a government's deposits and investments risks that include credit risk, custodial risk, concentration risk and interest rate risk. The District has no deposit or investment policy that addresses a specific type of risk.

Required disclosures for the District's deposit and investment risks at June 30, 2005, were as follows:

Credit risk	Not rated
Custodial risk	N/A
Concentration of credit risk	N/A
Interest rate risk	Not available

Investments held in the County's investment pool are available on demand and are stated at fair value.

Note 4: **Capital Assets**

Capital assets activity for the year ended June 30, 2005, was as follows:

	<u>Balance</u> <u>July 1, 2004</u>	<u>Additions</u>	<u>Adjustments</u>	<u>Balance</u> <u>June 30, 2005</u>
Capital assets, not being depreciated:				
Land	\$ 1,304,187	\$ --	\$ --	\$ 1,304,187
Construction in progress	<u>782,369</u>	<u>993,845</u>	<u>--</u>	<u>1,776,214</u>
Total capital assets, not being depreciated	<u>2,086,556</u>	<u>993,845</u>	<u>--</u>	<u>3,080,401</u>
Capital assets, being depreciated:				
Infrastructure	16,388,500	--	--	16,388,500
Equipment	<u>605,405</u>	<u>262,275</u>	<u>(8,007)</u>	<u>859,673</u>
Total capital assets, being depreciated	<u>16,993,905</u>	<u>262,275</u>	<u>(8,007)</u>	<u>17,248,173</u>
Less accumulated depreciation for:				
Infrastructure	(7,168,852)	(358,153)	--	(7,527,005)
Equipment	<u>(503,305)</u>	<u>(50,404)</u>	<u>7,607</u>	<u>(546,102)</u>
Total accumulated depreciation	<u>(7,672,157)</u>	<u>(408,557)</u>	<u>7,607</u>	<u>(8,073,107)</u>
Total capital assets, being depreciated	<u>9,321,748</u>	<u>(146,282)</u>	<u>(400)</u>	<u>9,175,066</u>
Capital assets, net of accumulated depreciation	<u>\$ 11,408,304</u>	<u>\$ 847,563</u>	<u>\$ (400)</u>	<u>\$ 12,255,467</u>

NEVADA COUNTY SANITATION DISTRICT NO. 1

Notes to Financial Statements
For the Fiscal Year Ended June 30, 2005

Note 4: **Capital Assets** (continued)

Depreciation expense was charged to the zones as follows:

Wastewater Management System	\$ 32,754
SD Zone 1 Lake Wildwood O&M	158,198
SD Zone 8 Cascade Shores O&M	53,255
SD Zone 4 No. San Juan O&M	75,490
SD Zone 2 Lake of the Pines O&M	56,120
SD Zone 6 Penn Valley O&M	9,320
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	<u>4,763</u>
Total Depreciation Expense – Business-Type Functions	<u>\$ 408,557</u>

Note 5: **Short-Term Liabilities**

The following is a summary of short-term liabilities transactions for the year ended June 30, 2005:

	Balance June 30, 2004	Additions	Retirements	Adjustments	Balance June 30, 2005
Line of Credit	\$ -----	\$ 100,000	\$ -----	\$ -----	\$ 100,000
Total	<u>\$ -----</u>	<u>\$ 100,000</u>	<u>\$ -----</u>	<u>\$ -----</u>	<u>\$ 100,000</u>

Description of Debt

The District entered into a line of credit agreement with Bank of the West for the purpose of financing project costs for the Lake Wildwood Wastewater Treatment and Disposal Facility. The line of credit caps at \$2,500,000 and is payable solely from Lake Wildwood Zone 1 enterprise revenues, and no other funds or revenues of the District, its other zones, or the County. The Agreement includes a covenant by the District to institute proceedings for the issuance and sale of revenue bonds, certificates of participation, other short-term notes or interim financing in an amount sufficient to pay the principal and interest on the loan. Advance requests must be for \$100,000 or more. Interest is payable semi-annually on each re-payment date and shall accrue on the unpaid principal balance at a rate of 2.90% per annum. Repayment dates are January 1 and July 1 of each year, through October 1, 2007, whereupon the term of the agreement ends and any unpaid principal and interest will be due at that time.

NEVADA COUNTY SANITATION DISTRICT NO. 1

Notes to Financial Statements
For the Fiscal Year Ended June 30, 2005

Note 6: **Long-Term Liabilities**

The following is a summary of all long-term liabilities transactions for the year ended June 30, 2005:

	<u>Balance</u> <u>June 30, 2004</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2005</u>	<u>Amounts</u> <u>Due Within</u> <u>One Year</u>
Loans payable	\$ 113,398	\$ --	\$ (7,945)	\$ 105,453	\$ 8,191
Bonds payable	478,000	--	(61,000)	417,000	66,000
Compensated absences	<u>117,892</u>	<u>3,825</u>	<u>--</u>	<u>121,717</u>	<u>121,717</u>
Total	<u>\$ 709,290</u>	<u>\$ 3,825</u>	<u>\$ (68,945)</u>	<u>\$ 644,170</u>	<u>\$ 195,908</u>

A description of long-term debt at June 30, 2005 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, 2005</u>
Sanitation District No. 1 Facilities Rehabilitation Loan	1/22/2016	3.03	\$8,191-\$11,115	\$ 170,874	\$ 105,453
Total Loan Payable				<u>\$ 170,874</u>	<u>\$ 105,453</u>

As of June 30, 2005, annual debt service requirements of loans are as follows:

<u>Fiscal Year</u> <u>June 30,</u>	<u>Loans</u>	
	<u>Principal</u>	<u>Interest</u>
2006	\$ 8,191	\$ 3,269
2007	8,445	3,015
2008	8,707	2,753
2009	8,977	2,483
2010	9,255	2,205
2011-2015	50,762	6,540
2016	<u>11,116</u>	<u>345</u>
Total	<u>\$ 105,453</u>	<u>\$ 20,610</u>

NEVADA COUNTY SANITATION DISTRICT NO. 1

Notes to Financial Statements
For the Fiscal Year Ended June 30, 2005

Note 6: **Long-Term Liabilities** (continued)

Special Assessment Debt with Government Obligation

<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, 2005</u>
No. San Juan Sewer Assessment	9/2/2018	5.00	\$1,000-\$3,000	\$ 53,000	\$ 32,000
Penn Valley Assessment	9/2/2009	6.20-7.10	\$35,000-\$95,000	<u>1,065,000</u>	<u>385,000</u>
Total Special Assessment Debt with Government Obligation				<u>\$ 1,118,000</u>	<u>\$ 417,000</u>

As of June 30, 2005, 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>
2006	\$ 66,000	\$ 26,425
2007	72,000	21,625
2008	77,000	16,450
2009	87,000	4,595
2010	92,000	4,395
2011-2015	11,000	4,475
2016-2018	<u>12,000</u>	<u>1,200</u>
Total	<u>\$ 417,000</u>	<u>\$ 79,165</u>

Note 7: **Related Party Transactions**

The following is a summary of advances from the County of Nevada as of June 30, 2005:

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	4,000
Cascade Shores Capital Projects	<u>100,000</u>
Total	<u>\$ 268,211</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, 2005:

Due From County of Nevada	\$ 6,996
Due To County of Nevada	\$ 42,147

NEVADA COUNTY SANITATION DISTRICT NO. 1

Notes to Financial Statements
For the Fiscal Year Ended June 30, 2005

Note 8: **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 9: **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 10: **Contingencies**

County Counsel has indicated that the District may incur fines and penalties for violations in compliance with codes and regulations as determined by the California Regional Water Quality Control Board. County Counsel has estimated the fines and penalties to be approximately \$742,000, with \$537,000 being applied to capital asset upgrades and supplemental environmental projects, reducing the fines and penalties paid to approximately \$205,000. No accrual has been recorded.

Note 11: **Significant Event**

On May 9, 2005, a landslide occurred at the Cascade Shores sub-station. As of June 30, 2005, the District had incurred \$111,997 in emergency repair and maintenance costs. The District received \$111,997 in insurance proceeds, offset by a \$25,000 deductible. As of October 31, 2005, the District had incurred an additional \$497,974 in repair and maintenance costs, with matching insurance proceeds of \$95,000. The remaining insurance claim was still under review by the insurance provider.

Future repair and renovation costs have been estimated by County engineers and outside consultants at approximately \$3,000,000 to \$4,000,000. The District will seek funding through various state and federal capital project grants.

NEVADA COUNTY SANITATION DISTRICT NO. 1

Notes to Financial Statements
For the Fiscal Year Ended June 30, 2005

Note 12: **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, 2005

	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	\$ 121,823	\$ 65,345	\$ 233,556	\$ 4,084
Accounts Receivables	--	--	--	1,680
Due from other funds	--	305,575	164,016	11,656
Due from County	--	6,996	--	--
	<u>121,823</u>	<u>377,916</u>	<u>397,572</u>	<u>17,420</u>
Noncurrent assets:				
Capital assets, net	--	251,008	3,509,690	1,567,629
Total noncurrent assets	--	251,008	3,509,690	1,567,629
Total Assets	<u>121,823</u>	<u>628,924</u>	<u>3,907,262</u>	<u>1,585,049</u>
LIABILITIES				
Current liabilities:				
Accounts payable	--	10,767	25,255	1,195
Salaries and benefits payable	--	42,552	--	--
Due to other funds	--	324,736	138,684	13,845
Due to County	--	10,651	11,829	897
Interest payable	--	--	--	65,617
Compensated absences	--	121,717	--	--
Line of credit	--	--	--	--
Bonds, notes, loans payable	65,000	--	--	8,191
Total current liabilities	<u>65,000</u>	<u>510,423</u>	<u>175,768</u>	<u>89,745</u>
Noncurrent liabilities:				
Advances from County	--	--	--	109,211
Bonds, notes, loans payable	320,000	--	--	97,262
Total noncurrent liabilities	<u>320,000</u>	<u>--</u>	<u>--</u>	<u>206,473</u>
Total Liabilities	<u>385,000</u>	<u>510,423</u>	<u>175,768</u>	<u>296,218</u>
NET ASSETS				
Invested in capital assets, net of related debt	--	251,008	3,509,690	1,348,778
Unrestricted	(263,177)	(132,507)	221,804	(59,947)
Total Net Assets	<u>\$ (263,177)</u>	<u>\$ 118,501</u>	<u>\$ 3,731,494</u>	<u>\$ 1,288,831</u>

continued

NEVADA COUNTY SANITATION DISTRICT NO. 1

Statement of Net Assets by Zone (continued)
June 30, 2005

	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	\$ 1,044,580	\$ 18,008	\$ 54,544	\$ 32,254
Accounts Receivables	--	--	--	--
Due from other funds	104,132	28,942	5,226	2,814
Due from County	<u> --</u>	<u> --</u>	<u> --</u>	<u> --</u>
Total current assets	<u>1,148,712</u>	<u>46,950</u>	<u>59,770</u>	<u>35,068</u>
Noncurrent assets:				
Capital assets, net	<u>2,151,831</u>	<u>1,874,294</u>	<u>396,069</u>	<u>499,043</u>
Total noncurrent assets	<u>2,151,831</u>	<u>1,874,294</u>	<u>396,069</u>	<u>499,043</u>
Total Assets	<u>3,300,543</u>	<u>1,921,244</u>	<u>455,839</u>	<u>534,111</u>
 LIABILITIES				
Current liabilities:				
Accounts payable	9,894	1,699	1,594	1,200
Salaries and benefits payable	--	--	--	--
Due to other funds	87,912	26,494	7,088	2,300
Due to County	7,222	2,163	522	358
Interest payable	--	--	--	--
Compensated absences	--	--	--	--
Line of credit	--	--	--	--
Bonds, notes, loans payable	<u> --</u>	<u> --</u>	<u> --</u>	<u> --</u>
Total current liabilities	<u>105,028</u>	<u>30,356</u>	<u>9,204</u>	<u>3,858</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>105,028</u>	<u>85,356</u>	<u>9,204</u>	<u>3,858</u>
 NET ASSETS				
Invested in capital assets, net of related debt	2,151,831	1,874,294	396,069	499,042
Unrestricted	<u>1,043,684</u>	<u>(38,406)</u>	<u>50,566</u>	<u>31,211</u>
Total Net Assets	<u>\$ 3,195,515</u>	<u>\$ 1,835,888</u>	<u>\$ 446,635</u>	<u>\$ 530,253</u>

continued

NEVADA COUNTY SANITATION DISTRICT NO. 1

Statement of Net Assets by Zone (continued)

June 30, 2005

	No San Juan Sewer Assessment	Lake Wildwood Capital Project	Lake of the Pines Capital Project
	<u> </u>	<u> </u>	<u> </u>
ASSETS			
Current assets:			
Cash and investments	\$ 12,023	\$ 67,866	\$ 376,848
Accounts Receivables	--	--	--
Due from other funds	--	--	--
Due from County	<u> --</u>	<u> --</u>	<u> --</u>
Total current assets	<u>12,023</u>	<u>67,866</u>	<u>376,848</u>
Noncurrent assets:			
Capital assets, net	<u> --</u>	<u>827,861</u>	<u>862,550</u>
Total noncurrent assets	<u> --</u>	<u>827,861</u>	<u>862,550</u>
Total Assets	<u>12,023</u>	<u>895,727</u>	<u>1,239,398</u>
 LIABILITIES			
Current liabilities:			
Accounts payable	--	279,678	--
Salaries and benefits payable	--	--	--
Due to other funds	--	6,735	6,175
Due to County	--	4,721	485
Interest payable	--	--	--
Compensated absences	--	--	--
Line of credit	--	100,000	--
Bonds, notes, loans payable	<u>1,000</u>	<u> --</u>	<u> --</u>
Total current liabilities	<u>1,000</u>	<u>391,134</u>	<u>6,660</u>
Noncurrent liabilities:			
Advances from County	--	--	--
Bonds, notes, loans payable	<u>31,000</u>	<u> --</u>	<u> --</u>
Total noncurrent liabilities	<u>31,000</u>	<u> --</u>	<u> --</u>
Total Liabilities	<u>32,000</u>	<u>391,134</u>	<u>6,660</u>
 NET ASSETS			
Invested in capital assets, net of related debt	--	827,861	862,550
Unrestricted	<u>(19,977)</u>	<u>(323,268)</u>	<u>370,188</u>
Total Net Assets	<u>\$ (19,977)</u>	<u>\$ 504,593</u>	<u>\$ 1,232,738</u>

continued

NEVADA COUNTY SANITATION DISTRICT NO. 1

Statement of Net Assets by Zone (continued)

June 30, 2005

	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
ASSETS				
Current assets:				
Cash and investments	\$ 59,798	\$ 1,577	\$ 16,761	\$ 81,696
Accounts Receivables	--	--	--	--
Due from other funds	604	1,206	--	6,230
Due from County	--	--	--	--
	<u>60,402</u>	<u>2,783</u>	<u>16,761</u>	<u>87,926</u>
Total current assets				
Noncurrent assets:				
Capital assets, net	<u>56,302</u>	<u>173,387</u>	--	--
Total noncurrent assets	<u>56,302</u>	<u>173,387</u>	--	--
	<u>116,704</u>	<u>176,170</u>	<u>16,761</u>	<u>87,926</u>
Total Assets				
LIABILITIES				
Current liabilities:				
Accounts payable	--	77	--	--
Salaries and benefits payable	--	--	--	--
Due to other funds	967	1,975	414	1,924
Due to County	30	237	--	449
Interest payable	--	147	--	--
Compensated absences	--	--	--	--
Line of credit	--	--	--	--
Bonds, notes, loans payable	--	--	--	--
Total current liabilities	<u>997</u>	<u>2,436</u>	<u>414</u>	<u>2,373</u>
Noncurrent liabilities:				
Advances from County	--	4,000	--	--
Bonds, notes, loans payable	--	--	--	--
Total noncurrent liabilities	<u>--</u>	<u>4,000</u>	<u>--</u>	<u>--</u>
	<u>997</u>	<u>6,436</u>	<u>414</u>	<u>2,373</u>
Total Liabilities				
NET ASSETS				
Invested in capital assets, net of related debt	56,302	173,387	--	--
Unrestricted	<u>59,405</u>	<u>(3,653)</u>	<u>16,347</u>	<u>85,553</u>
	<u>\$ 115,707</u>	<u>\$ 169,734</u>	<u>\$ 16,347</u>	<u>\$ 85,553</u>
Total Net Assets				

continued

NEVADA COUNTY SANITATION DISTRICT NO. 1

Statement of Net Assets by Zone (continued) June 30, 2005

	Cascade Shores Insurance Proceeds	Cascade Shores Capital Projects	<u>Total</u>
ASSETS			
Current assets:			
Cash and investments	\$ --	\$ 117,520	\$ 2,308,283
Accounts Receivables	86,997	--	88,677
Due from other funds	--	53,582	683,983
Due from County	<u>--</u>	<u>--</u>	<u>6,996</u>
Total current assets	<u>86,997</u>	<u>171,102</u>	<u>3,087,939</u>
Noncurrent assets:			
Capital assets, net	<u>--</u>	<u>85,803</u>	<u>12,255,467</u>
Total noncurrent assets	<u>--</u>	<u>85,803</u>	<u>12,255,467</u>
Total Assets	<u>86,997</u>	<u>256,905</u>	<u>15,343,406</u>
 LIABILITIES			
Current liabilities:			
Accounts payable	--	121,950	453,309
Salaries and benefits payable	--	--	42,552
Due to other funds	53,582	11,152	683,983
Due to County	--	2,583	42,147
Interest payable	--	1,918	67,682
Compensated absences	--	--	121,717
Line of credit	--	--	100,000
Bonds, notes, loans payable	<u>--</u>	<u>--</u>	<u>74,191</u>
Total current liabilities	<u>53,582</u>	<u>137,603</u>	<u>1,585,581</u>
Noncurrent liabilities:			
Advances from County	--	100,000	268,211
Bonds, notes, loans payable	<u>--</u>	<u>--</u>	<u>448,262</u>
Total noncurrent liabilities	<u>--</u>	<u>100,000</u>	<u>716,473</u>
Total Liabilities	<u>53,582</u>	<u>237,603</u>	<u>2,302,054</u>
 NET ASSETS			
Invested in capital assets, net of related debt	--	--	11,950,812
Unrestricted	<u>33,415</u>	<u>19,302</u>	<u>1,090,540</u>
Total Net Assets	<u>\$ 33,415</u>	<u>\$ 19,302</u>	<u>\$ 13,041,352</u>

NEVADA COUNTY SANITATION DISTRICT NO. 1

Statement of Revenues, Expenses and Changes in Net Assets by Zone June 30, 2005

	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	\$ 113,783	\$ 3,336	\$ 1,714,519	\$ 175,211
OPERATING EXPENSES				
Salaries and benefits	--	1,474,163	--	--
Fuel	--	8,184	173	--
Maintenance and repairs	--	38,078	186,706	7,397
Parts and supplies	--	1,725	7,896	783
Outside services	1,050	(1,629,460)	995,239	97,010
Administrative and office	--	84,509	59,297	6,998
Utilities	--	5,887	118,902	10,472
Insurance	--	7,652	--	--
Depreciation	--	32,754	158,198	53,255
Rentals and lease payments	--	25,267	12,441	--
Miscellaneous expenses	6,607	1,492	--	--
Total Operating Expenses	<u>7,657</u>	<u>50,251</u>	<u>1,538,852</u>	<u>175,915</u>
Operating Income (Loss)	<u>106,126</u>	<u>(46,915)</u>	<u>175,667</u>	<u>(704)</u>
NON-OPERATING REVENUES (EXPENSES)				
Investment earnings (expense)	1,513	1,450	--	531
Interest expense	(29,225)	--	--	(9,343)
Nonoperating revenue	--	--	713	56
Sale of assets	--	(400)	--	--
Total Nonoperating Revenues (Expenses)	<u>(27,712)</u>	<u>1,050</u>	<u>713</u>	<u>(8,756)</u>
Net Income (Loss) Before Contributions and Transfers	78,414	(45,865)	176,380	(9,460)
Transfers in	--	29,998	--	--
Transfers out	--	--	(16,139)	(65,471)
Change in Net Assets	78,414	(15,867)	160,241	(74,931)
Net Assets - Beginning	<u>(341,591)</u>	<u>134,368</u>	<u>3,571,253</u>	<u>1,363,762</u>
Net Assets - Ending	<u><u>\$ (263,177)</u></u>	<u><u>\$ 118,501</u></u>	<u><u>\$ 3,731,494</u></u>	<u><u>\$ 1,288,831</u></u>

continued

NEVADA COUNTY SANITATION DISTRICT NO. 1

Statement of Revenues, Expenses and
Changes in Net Assets by Zone (continued)
June 30, 2005

	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>
OPERATING REVENUES				
Charges for other services	\$ 1,134,398	\$ 279,536	\$ 38,192	\$ 14,497
OPERATING EXPENSES				
Salaries and benefits	--	--	--	--
Fuel	--	--	--	--
Maintenance and repairs	46,581	23,516	6,304	2,521
Parts and supplies	920	1,170	109	1,149
Outside services	559,917	246,453	47,171	12,344
Administrative and office	14,616	1,304	352	--
Utilities	110,518	14,112	2,876	--
Insurance	--	--	--	--
Depreciation	75,490	56,120	9,320	15,599
Rentals and lease payments	81	--	1,155	--
Miscellaneous expenses	--	--	--	--
Total Operating Expenses	<u>808,123</u>	<u>342,675</u>	<u>67,287</u>	<u>31,613</u>
Operating Income (Loss)	<u>326,275</u>	<u>(63,139)</u>	<u>(29,095)</u>	<u>(17,116)</u>
NON-OPERATING REVENUES (EXPENSES)				
Investment earnings (expense)	24,842	745	1,421	698
Interest expense	--	--	--	--
Nonoperating revenue	557	142	899	14
Sale of assets	--	--	--	--
Total Nonoperating Revenues (Expenses)	<u>25,399</u>	<u>887</u>	<u>2,320</u>	<u>712</u>
Net Income (Loss) Before Contributions and Transfers	351,674	(62,252)	(26,775)	(16,404)
Transfers in	--	--	--	--
Transfers out	<u>(778,486)</u>	<u>(2,073)</u>	<u>(567)</u>	<u>(207)</u>
Change in Net Assets	(426,812)	(64,325)	(27,342)	(16,611)
Net Assets - Beginning	<u>3,622,327</u>	<u>1,900,213</u>	<u>473,977</u>	<u>546,864</u>
Net Assets - Ending	<u><u>\$ 3,195,515</u></u>	<u><u>\$ 1,835,888</u></u>	<u><u>\$ 446,635</u></u>	<u><u>\$ 530,253</u></u>

continued

NEVADA COUNTY SANITATION DISTRICT NO. 1

Statement of Revenues, Expenses and
Changes in Net Assets by Zone (continued)
June 30, 2005

	No San Juan Sewer Assessment	Lake Wildwood Capital Project	Lake of the Pines Capital Project	SD Zone 5 Gold Creek O&M
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
OPERATING REVENUES				
Charges for other services	\$ 3,869	\$ 231,336	\$ --	\$ 6,380
OPERATING EXPENSES				
Salaries and benefits	--	--	--	--
Fuel	--	--	--	--
Maintenance and repairs	--	--	--	958
Parts and supplies	--	--	--	--
Outside services	119	13,543	777	4,265
Administrative and office	--	--	32	--
Utilities	--	--	--	--
Insurance	--	--	--	--
Depreciation	--	--	--	3,058
Rentals and lease payments	--	--	--	--
Miscellaneous expenses	504	--	--	--
Total Operating Expenses	<u>623</u>	<u>13,543</u>	<u>809</u>	<u>8,281</u>
Operating Income (Loss)	<u>3,246</u>	<u>217,793</u>	<u>(809)</u>	<u>(1,901)</u>
NON-OPERATING REVENUES (EXPENSES)				
Investment earnings (expense)	218	1,054	5,939	1,189
Interest expense	(1,625)	(2,086)	--	--
Nonoperating revenue	--	--	--	4
Sale of assets	--	--	--	--
Total Nonoperating Revenues (Expenses)	<u>(1,407)</u>	<u>(1,032)</u>	<u>5,939</u>	<u>1,193</u>
Net Income (Loss) Before Contributions and Transfers	1,839	216,761	5,130	(708)
Transfers in	--	--	768,500	--
Transfers out	--	--	--	(198)
Change in Net Assets	1,839	216,761	773,630	(906)
Net Assets - Beginning	<u>(21,816)</u>	<u>287,832</u>	<u>459,108</u>	<u>116,613</u>
Net Assets - Ending	<u><u>\$ (19,977)</u></u>	<u><u>\$ 504,593</u></u>	<u><u>\$ 1,232,738</u></u>	<u><u>\$ 115,707</u></u>

continued

NEVADA COUNTY SANITATION DISTRICT NO. 1

Statement of Revenues, Expenses and
Changes in Net Assets by Zone (continued)
June 30, 2005

	SD Zone 9 Eden Ranch O&M	SD Zone 10 Dark Horse O&M	SD Zone 11 Higgins Village O&M	Cascade Shores Insurance Proceeds
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
OPERATING REVENUES				
Charges for other services	\$ 11,809	\$ 12,000	\$ 80,065	\$ --
OPERATING EXPENSES				
Salaries and benefits	--	--	--	--
Fuel	--	--	--	--
Maintenance and repairs	1	--	4	--
Parts and supplies	--	--	--	--
Outside services	9,300	1,778	66,677	--
Administrative and office	333	--	--	--
Utilities	780	--	--	--
Insurance	--	--	--	25,000
Depreciation	4,763	--	--	--
Rentals and lease payments	--	--	--	--
Miscellaneous expenses	--	--	--	--
Total Operating Expenses	<u>15,177</u>	<u>1,778</u>	<u>66,681</u>	<u>25,000</u>
Operating Income (Loss)	<u>(3,368)</u>	<u>10,222</u>	<u>13,384</u>	<u>(25,000)</u>
NON-OPERATING REVENUES (EXPENSES)				
Investment earnings (expense)	1	150	1,458	--
Interest expense	(78)	--	--	--
Nonoperating revenue	6	--	30	111,997
Sale of assets	--	--	--	--
Total Nonoperating Revenues (Expenses)	<u>(71)</u>	<u>150</u>	<u>1,488</u>	<u>111,997</u>
Net Income (Loss) Before Contributions and Transfers	(3,439)	10,372	14,872	86,997
Transfers in	--	--	--	--
Transfers out	<u>(141)</u>	<u>--</u>	<u>(216)</u>	<u>(53,582)</u>
Change in Net Assets	(3,580)	10,372	14,656	33,415
Net Assets - Beginning	<u>173,314</u>	<u>5,975</u>	<u>70,897</u>	<u>--</u>
Net Assets - Ending	<u><u>\$ 169,734</u></u>	<u><u>\$ 16,347</u></u>	<u><u>\$ 85,553</u></u>	<u><u>\$ 33,415</u></u>

continued

NEVADA COUNTY SANITATION DISTRICT NO. 1

Statement of Revenues, Expenses and
Changes in Net Assets by Zone (continued)
June 30, 2005

	Cascade Shores Capital Projects	Total Enterprise Funds
OPERATING REVENUES		
Charges for other services	\$ --	\$ 3,818,931
OPERATING EXPENSES		
Salaries and benefits	--	1,474,163
Fuel	584	8,941
Maintenance and repairs	54,262	366,328
Parts and supplies	--	13,752
Outside services	42,516	468,699
Administrative and office	--	167,441
Utilities	--	263,547
Insurance	--	32,652
Depreciation	--	408,557
Rentals and lease payments	--	38,944
Miscellaneous expenses	--	8,603
Total Operating Expenses	<u>97,362</u>	<u>3,251,627</u>
Operating Income (Loss)	<u>(97,362)</u>	<u>567,304</u>
NON-OPERATING REVENUES (EXPENSES)		
Investment earnings (expense)	--	41,209
Interest expense	(1,918)	(44,275)
Nonoperating revenue	--	114,418
Sale of assets	--	(400)
Total Nonoperating Revenues (Expenses)	<u>(1,918)</u>	<u>110,952</u>
Net Income (Loss) Before Contributions and Transfers	(99,280)	678,256
Transfers in	118,582	917,080
Transfers out	--	(917,080)
Change in Net Assets	19,302	678,256
Net Assets - Beginning	<u>--</u>	<u>12,363,096</u>
Net Assets - Ending	<u>\$ 19,302</u>	<u>\$ 13,041,352</u>

NEVADA COUNTY SANITATION DISTRICT NO. 1

Statement of Cash Flows by Zone June 30, 2005

	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	\$ 113,783	\$ 5,945	\$ 1,714,519	\$ 182,989
Payments to suppliers	(7,657)	1,442,342	(1,406,349)	(119,432)
Payments to employees	--	(1,474,163)	--	--
Net Cash Provided (Used) by Operating Activities	<u>106,126</u>	<u>(25,876)</u>	<u>308,170</u>	<u>63,557</u>
Cash Flows from Non-Capital Financing Activities:				
Other revenue (expense)	(29,225)	(400)	713	(9,287)
Net operating subsidies and transfers	--	307,424	(173,596)	(72,579)
Net Cash Provided (Used) by Non-Capital Financing Activities	<u>(29,225)</u>	<u>307,024</u>	<u>(172,883)</u>	<u>(81,866)</u>
Cash Flows from Capital and Related Financing Activities:				
Purchase of capital assets	--	(261,873)	--	--
Principal payments on debt	(60,000)	--	--	(7,945)
Interest payments on debt	--	--	--	--
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(60,000)</u>	<u>(261,873)</u>	<u>--</u>	<u>(7,945)</u>
Cash Flows From Investing Activities:				
Interest on investments	1,513	1,450	--	531
Net Increase (Decrease) in Cash	18,414	20,725	135,287	(25,723)
Cash at Beginning of Year	<u>103,409</u>	<u>44,620</u>	<u>98,269</u>	<u>29,807</u>
Cash at End of Year	<u>\$ 121,823</u>	<u>\$ 65,345</u>	<u>\$ 233,556</u>	<u>\$ 4,084</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income (loss)	\$ 106,126	\$ (46,915)	\$ 175,667	\$ (704)
Adjustments to reconcile net operating income to net cash provided (used) by operating activities:				
Depreciation expense	--	32,754	158,198	53,255
Changes in assets and liabilities:				
Receivables, net	--	2,609	--	7,778
Accounts and other payables	--	(14,324)	(25,695)	3,228
Net Cash Provided (Used) by Operating Activities	<u>\$ 106,126</u>	<u>\$ (25,876)</u>	<u>\$ 308,170</u>	<u>\$ 63,557</u>

continued

NEVADA COUNTY SANITATION DISTRICT NO. 1

Statement of Cash Flows by Zone (continued) June 30, 2005

	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	\$ 1,134,398	\$ 279,536	\$ 38,192	\$ 14,497
Payments to suppliers	(758,645)	(295,449)	(57,546)	(17,975)
Payments to employees	--	--	--	--
Net Cash Provided (Used) by Operating Activities	<u>375,753</u>	<u>(15,913)</u>	<u>(19,354)</u>	<u>(3,478)</u>
Cash Flows from Non-Capital Financing Activities:				
Other revenue (expense)	557	142	899	14
Net operating subsidies and transfers	(867,525)	(28,662)	(2,587)	(3,208)
Net Cash Provided (Used) by Non-Capital Financing Activities	<u>(866,968)</u>	<u>(28,520)</u>	<u>(1,688)</u>	<u>(3,194)</u>
Cash Flows from Capital and Related Financing Activities:				
Purchase of capital assets	--	--	--	--
Principal payments on debt	--	--	--	--
Interest payments on debt	--	--	--	--
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
Cash Flows From Investing Activities:				
Interest on investments	24,842	745	1,421	697
Net Increase (Decrease) in Cash	<u>(466,373)</u>	<u>(43,688)</u>	<u>(19,621)</u>	<u>(5,975)</u>
Cash at Beginning of Year	<u>1,510,953</u>	<u>61,696</u>	<u>74,165</u>	<u>38,229</u>
Cash at End of Year	<u>\$ 1,044,580</u>	<u>\$ 18,008</u>	<u>\$ 54,544</u>	<u>\$ 32,254</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income (loss)	\$ 326,275	\$ (63,139)	\$ (29,095)	\$ (17,116)
Adjustments to reconcile net operating income to net cash provided (used) by operating activities:				
Depreciation expense	75,490	56,120	9,320	15,599
Changes in assets and liabilities:				
Receivables, net	--	--	--	--
Accounts and other payables	(26,012)	(8,894)	421	(1,961)
Net Cash Provided (Used) by Operating Activities	<u>\$ 375,753</u>	<u>\$ (15,913)</u>	<u>\$ (19,354)</u>	<u>\$ (3,478)</u>

continued

NEVADA COUNTY SANITATION DISTRICT NO. 1

Statement of Cash Flows by Zone (continued) June 30, 2005

	No San Juan Sewer Assessment	Lake Wildwood Capital Project	Lake of the Pines Capital Project	SD Zone 5 Gold Creek O&M
Cash Flows from Operating Activities:				
Receipts from customers	\$ 3,869	\$ --	\$ --	\$ 6,380
Payments to suppliers	(623)	597,386	(72,327)	(5,360)
Payments to employees	--	--	--	--
Net Cash Provided (Used) by Operating Activities	3,246	597,386	(72,327)	1,020
Cash Flows from Non-Capital Financing Activities:				
Other revenue (expense)	218	(2,086)	--	1,193
Net operating subsidies and transfers	--	2,298	769,970	(1,114)
Net Cash Provided (Used) by Non-Capital Financing Activities	218	212	769,970	79
Cash Flows from Capital and Related Financing Activities:				
Purchase of capital assets	--	(515,749)	(392,294)	--
Principal payments on debt	(1,000)	--	--	--
Interest payments on debt	(1,625)	--	--	--
Net Cash Provided (Used) by Capital and Related Financing Activities	(2,625)	(515,749)	(392,294)	--
Cash Flows From Investing Activities:				
Interest on investments	--	1,054	5,939	--
Net Increase (Decrease) in Cash	839	82,903	311,288	1,099
Cash at Beginning of Year	11,184	(15,037)	65,560	58,699
Cash at End of Year	\$ 12,023	\$ 67,866	\$ 376,848	\$ 59,798
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income (loss)	\$ 3,246	\$ 217,793	\$ (809)	\$ (1,901)
Adjustments to reconcile net operating income to net cash provided (used) by operating activities:				
Depreciation expense	--	--	--	3,058
Changes in assets and liabilities:				
Receivables, net	--	--	--	--
Accounts and other payables	--	379,593	(71,518)	(137)
Net Cash Provided (Used) by Operating Activities	\$ 3,246	\$ 597,386	\$ (72,327)	\$ 1,020

continued

NEVADA COUNTY SANITATION DISTRICT NO. 1

Statement of Cash Flows by Zone (continued)
June 30, 2005

	SD Zone 9 Eden Ranch O&M	SD Zone 10 Dark Horse O&M	Cascade Shores Insurance Proceeds	SD Zone 11 Higgins Village O&M
Cash Flows from Operating Activities:				
Receipts from customers	\$ 11,809	\$ 12,000	\$ (86,997)	\$ 80,065
Payments to suppliers	(10,689)	(1,778)	(25,000)	(70,042)
Payments to employees	--	--	--	--
Net Cash Provided (Used) by Operating Activities	<u>1,120</u>	<u>10,222</u>	<u>(111,997)</u>	<u>10,023</u>
Cash Flows from Non-Capital Financing Activities:				
Other revenue (expense)	(71)	150	111,997	1,488
Net operating subsidies and transfers	(208)	414	--	(6,779)
Net Cash Provided (Used) by Non-Capital Financing Activities	<u>(279)</u>	<u>564</u>	<u>111,997</u>	<u>(5,291)</u>
Cash Flows from Capital and Related Financing Activities:				
Purchase of capital assets	--	--	--	--
Principal payments on debt	--	--	--	--
Interest payments on debt	--	--	--	--
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
Cash Flows From Investing Activities:				
Interest on investments	--	--	--	--
Net Increase (Decrease) in Cash	841	10,786	--	4,732
Cash at Beginning of Year	<u>736</u>	<u>5,975</u>	<u>--</u>	<u>76,964</u>
Cash at End of Year	<u>\$ 1,577</u>	<u>\$ 16,761</u>	<u>\$ --</u>	<u>\$ 81,696</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income (loss)	\$ (3,368)	\$ 10,222	\$ (25,000)	\$ 13,384
Adjustments to reconcile net operating income to net cash provided (used) by operating activities:				
Depreciation expense	4,763	--	--	--
Changes in assets and liabilities:				
Receivables, net	--	--	(86,997)	--
Accounts and other payables	(275)	--	--	(3,361)
Net Cash Provided (Used) by Operating Activities	<u>\$ 1,120</u>	<u>\$ 10,222</u>	<u>\$ (111,997)</u>	<u>\$ 10,023</u>

continued

NEVADA COUNTY SANITATION DISTRICT NO. 1

Statement of Cash Flows by Zone (continued) June 30, 2005

	<u>Cascade Shores Capital Projects</u>	<u>Total</u>
Cash Flows from Operating Activities:		
Receipts from customers	\$ --	\$ 3,510,985
Payments to suppliers	127,171	(681,973)
Payments to employees	--	(1,474,163)
Net Cash Provided (Used) by Operating Activities	<u>127,171</u>	<u>1,354,849</u>
Cash Flows from Non-Capital Financing Activities:		
Other revenue (expense)	--	76,302
Net operating subsidies and transfers	76,152	--
Net Cash Provided (Used) by Non-Capital Financing Activities	<u>76,152</u>	<u>76,302</u>
Cash Flows from Capital and Related Financing Activities:		
Purchase of capital assets	(85,803)	(1,255,719)
Principal payments on debt	--	(68,945)
Interest payments on debt	--	(1,625)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(85,803)</u>	<u>(1,326,289)</u>
Cash Flows From Investing Activities:		
Interest on investments	--	38,192
Net Increase (Decrease) in Cash	<u>117,520</u>	<u>143,054</u>
Cash at Beginning of Year	<u>--</u>	<u>2,165,229</u>
Cash at End of Year	<u>\$ 117,520</u>	<u>\$ 2,308,283</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ (97,362)	\$ 567,304
Adjustments to reconcile net operating income to net cash provided (used) by operating activities:		
Depreciation expense	--	408,557
Changes in assets and liabilities:		
Receivables, net	--	(76,610)
Accounts and other payables	224,533	455,598
Net Cash Provided (Used) by Operating Activities	<u>\$ 127,171</u>	<u>\$ 1,354,849</u>

OTHER REPORT

Bartig, Basler & Ray

A Professional Corporation

Certified Public Accountants and Management Consultants

Frank V. Trythall
Brad W. Constantine
Bruce W. Stephenson
Roseanne M. Lopez
Jason J. Cardinet
Tyler K. Hunt

Curtis A. Orgill
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, 2005, and have issued our report thereon dated December 7, 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.

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*.

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1520 Eureka Road, Suite 100, Roseville, CA 95661 • www.bbr.net • (916) 784-7800 • FAX (916) 784-7850
1885 South Arlington Avenue, Suite 105, Reno, NV 89509-3370 • (775) 323-7122 • FAX (775) 323-1174

Board of Directors
Nevada County Sanitation District No. 1

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.

Bartig, Basler & Ray, CPAs, Inc.

Roseville, California
December 7, 2005