

CALAVERAS COUNTY WATER DISTRICT

**INDEPENDENT AUDITORS' REPORT
AND
FINANCIAL STATEMENTS**

JUNE 30, 2006

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	2 - 5
FINANCIAL STATEMENTS:	
Statement of Net Assets - Proprietary Funds	6
Statement of Revenue, Expenses and Changes in Fund Net Assets - Proprietary Funds	7
Statement of Cash Flows - Proprietary Funds	8 - 9
Statement of Net Assets - Fiduciary Funds	10
Notes to Financial Statements	11 - 24
INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENTAL AUDITING STANDARDS</i>	25

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INDEPENDENT AUDITORS' REPORT

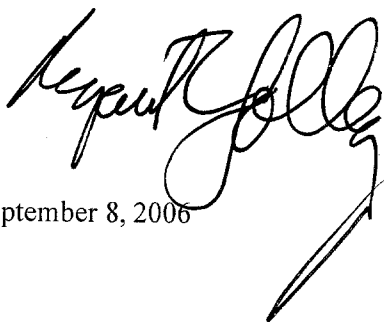
To the Board of Directors
Calaveras County Water District
San Andreas, California

We have audited the financial statements of the business-type activities and each major fund of the Calaveras County Water District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These basic 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 generally accepted auditing standards in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance as to 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of the Calaveras County Water District as of June 30, 2006 and the respective changes in the financial position and cash flows, thereof for the year then ended, in conformity with generally accepted accounting principles in the United States of America.

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



September 8, 2006



MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Calaveras County Water District (CCWD) Audited Financial Statements provides management's discussion and analysis of the District's financial performance for the period ending June 30, 2006. This section contains summary information and is intended to be read in conjunction with the financial statements and notes, which follow.

Pursuant to the Governmental Accounting Standards Board standard referred to as GASB Statement 34, public agencies must include this component. GASB 34 also addresses other reporting requirements for public agencies. The implementation of these standards has minor impact on the District and has resulted in changes to the format of some of the statements which readers of CCWD Financial Statements may have been accustomed to seeing in previous reports.

One of the changes is in the format of what was previously referred to as the Balance Sheet. This is now referred to as the Statement of Net Assets. In previous reports the Balance Sheet identified Total Assets and the accompanying Total Liabilities and Equity. Under GASB 34 this presentation (*see pages 6 & 7*) now provides the Total Assets, less Total Liabilities, resulting in Net Assets. The other significant change for the District is in the labeling of "Contributed Capital" which showed on the Balance Sheet in previous financial reports. Contributed Capital were capital assets originally received from grants and contractors. This account has since been eliminated and Contributed Capital is now accounted for as revenue in the Income Statement.

The transition to this new Financial Statement format will require some adjustment for the readers of this report. The intent of GASB was to implement financial statement standards that more closely resemble those in place for private firms and organizations.

District-Wide Financial Highlights

The District's financial results are largely impacted by the collection of water and wastewater sales and service fees that are used to finance capital improvements activities as well as the operating costs of the District. The following are some of the key highlights for the period ending June 30, 2006. A more detailed narrative analysis follows the listing.

- Total Assets increased \$4,657,589 or 4% to \$138,934,676.
- Total Liabilities increased \$14,855 or 0.01% to \$21,461,712.
- Net Assets increased \$4,642,734 or 4% to \$117,472,964.
- Operating Revenues increased \$180,877 or 2% to \$7,625,023.
- Other operating Expenses increased \$1,433,003 or 17% to \$10,013,812.
- Non-operating Revenues decreased \$(609,200) or -6% to \$9,339,850.
- Non-operating Expenses decreased \$1,507,004 or 62% to \$913,598.

Discussion of Key Changes from Prior Year

This section provides an analysis of the changes that occurred in Assets and Liabilities during the current and previous fiscal years. A table summarizing these amounts is presented below.

Table A-1
Condensed Statement of Net Assets

	Fiscal Year 2005	Fiscal Year 2006	Dollar Change	Total Percent Change
Assets				
Current and other assets	\$ 46,210,455	\$ 47,650,945	\$ 1,440,490	4.00%
Capital Assets	88,066,632	91,283,731	3,217,099	4.00%
Total Assets:	134,277,087	138,934,676	4,657,589	4.00%
Liabilities				
Long Term debt outstanding	18,742,035	17,380,496	(1,361,539)	-8.00%
Other Liabilities	2,704,822	4,081,216	1,376,394	51.00%
Total Liabilities:	21,446,857	21,461,712	14,855	0.01%
Net Assets				
Invested in capital assets, net of related debt	86,627,267	72,556,565	(14,070,702)	-17.00%
Restricted	14,183,716	23,055,242	8,871,526	63.00%
Unrestricted	12,019,247	21,861,157	9,841,910	82.00%
Total Net Assets:	\$ 112,830,230	\$ 117,472,964	\$ 4,642,734	4.00%

Analysis of the significant changes shown above is presented below.

Cash and Other Assets: The increase of \$1,440,490 over prior year is mainly due to the following:

This amount is the net of all District wide revenues (Service Fees, Property Taxes, Expansion Fees, ARR, Investment Income, etc.) less all District wide expenditures (Operating, Projects, CIP) plus increases/decreases in accounts receivables.

Capital Assets: Total Capital Assets (net of Accumulated Depreciation) was \$91,283,731 as of June 30, 2006. As described further in Note 3 to the Financial Statements, the District added \$7,515,797 in new capital assets, recorded \$3,515,876 in annual depreciation expense, and had retirements on capital assets of \$(782,822) for a total capital assets net change of \$3,217,099 for the fiscal year ending June 30, 2006.

Long Term Debt Outstanding: Details of the District's long-term debt issue are discussed in Note 6 accompanying the Financial Statements. As of June 30, 2006, \$18,727,166 in debt was outstanding. The source of repayment of the debt is water and sewer rates and expansion fee revenues of the District as defined in the debt agreements.

Total Net Assets: As discussed earlier the presentation of Net Assets is a different presentation than was used in previous financial statements. The increase of \$4,642,734 in Net Assets over the previous year is the result of the following:

- The FY 05/06 net income which amounted to \$2,521,587. Please note this amount includes all District wide revenues (Service Fees, Property Taxes, Expansion Fees, ARR, Investment Income, etc.) and all District wide expenditures (Operating, Projects, CIP, Depreciation).
- A prior period adjustment in the amount of \$2,121,147 which was a result of correcting errors made in recording fixed assets and interest on long-term debt.

Operating and Non-operating Financial Highlights

As previously discussed the financial statements present information consolidated for the entire enterprise. The table below compares the operating and nonoperating revenue and expenses for the District for the current and prior fiscal years.

**Table A-2
Condensed Statement of Revenues, Expenses and Changes in Net Assets**

	Fiscal Year 2005	Fiscal Year 2006	Dollar Change	Total Percent Change
Operating				
Operating Revenues	\$ 7,444,146	\$ 7,625,023	\$ 180,877	2.00%
Operating Expenses				
Depreciation Expense	(3,439,268)	(3,515,876)	(76,608)	2.00%
Other Operating Expenses	(8,580,809)	(10,013,812)	(1,433,003)	17.00%
Net Operating Loss	(4,575,931)	(5,904,665)	(1,328,734)	29.00%
Non-Operating				
Revenues	9,949,050	9,339,850	(609,200)	-6.00%
Expenses	(2,420,602)	(913,598)	1,507,004	62.00%
Non-operating, net	7,528,448	8,426,252	897,804	12.00%
Change in net assets	2,952,517	2,521,587	(430,930)	-15.00%
Beginning net assets:	109,877,713 *	112,830,230 *	2,952,517	3.00%
Ending net assets:	\$ 112,830,230	\$ 117,472,964	\$ 4,642,734	4.00%

* as restated (Note 13)

REVENUES

Operating Revenue: The \$180,877 or 2% increase over prior year is due to the following reason:

- A net combination of water and sewer service charges being higher than prior year.

EXPENSES

Depreciation expense: The \$76,608 or 2% increase in depreciation expense reflects assets due to recent additions minus assets that were fully depreciated and removed from the District's fixed asset accounting records at the end of fiscal year 2005-06.

Other Operating Expenses: As shown above, the overall increase in other operating expenses amounted to \$1,433,003 or 17%. The most significant contributing factors were personnel costs and materials and supplies.

NON-OPERATING REVENUES (EXPENSES)

Non-operating Revenue: The (\$609,200) or 6% decrease over prior year is a net combination of some non-operating revenues being higher and lower than prior year. Listed below are the significant factors:

- Grant revenues were less than prior year.
- Other Income was also less than prior year.

Non-Operating Expenses: The \$1,507,004 or 62% decrease over prior year is a net combination of some nonoperating expenses being higher and lower than prior year. For your information, listed below are the significant factors:

- Interest expense on debt service was less than prior year.
- Other expenses were \$1,083,313 less than prior year. Some of these expense decreases were in the areas of Consultants and Construction Contracts.

ECONOMIC CONDITION AND OUTLOOK

The Calaveras County Water District's water and wastewater operations budget has historically relied on non-operating revenues and reserve funds to help balance the annual budget. As an example, the Water District had to transfer \$1,137,455 from the reserve fund to balance the FY 06/07 Budget. As a long-term permanent solution, the District hired a firm to prepare a Financial Master Plan for the purpose of developing a long-term strategy for funding both operating and capital improvement projects. On September 14, 2005, the Board of Directors adopted the Financial Master Plan as prepared by the District's financial consultant. One key element of the Financial Master Plan was to establish capacity charges at appropriate levels. These capacity charges address facility costs needed to accommodate in-fill growth. After working diligently on analyzing the updated capacity charges, the Board of Directors on September 27, 2006 approved the updated capacity fee schedule. The Water District's next task is to finalize the revenue requirements analysis that will set water and sewer rates at a level that will address the operations and maintenance expenses, debt service, and other capital improvement projects (CIP) funded from rates.

Requests for Information

This financial report is designed to provide citizens, customers, taxpayers, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions about this report or need any additional information, contact the District at (209) 754-3543 or via our website at www.ccwd.org.

CALAVERAS COUNTY WATER DISTRICT

STATEMENT OF NET ASSETS – PROPRIETARY FUNDS

JUNE 30, 2006

ASSETS	Water	Sewer	Total
Current assets			
Cash and investments	\$ 1,472,951	\$ 912,746	\$ 2,385,697
Accounts receivable, net	1,184,316	529,257	1,713,573
Taxes receivable	123,526	31,433	154,959
Due from sewer fund	760,000	-	760,000
Current portion of loans receivable	79,439	1,564	81,003
Total current assets	<u>3,620,232</u>	<u>1,475,000</u>	<u>5,095,232</u>
Non-current assets			
Loans receivable	560,373	79,605	639,978
Deferred charges	1,451,127	62,494	1,513,621
Capital assets, net of allowance for depreciation	57,717,972	33,565,759	91,283,731
Total non-current assets	<u>59,729,472</u>	<u>33,707,858</u>	<u>93,437,330</u>
Restricted assets			
Cash and investments	27,751,405	12,351,452	40,102,857
Interest receivable	204,425	94,832	299,257
Total restricted assets	<u>27,955,830</u>	<u>12,446,284</u>	<u>40,402,114</u>
Total assets	<u>91,305,534</u>	<u>47,629,142</u>	<u>138,934,676</u>
LIABILITIES			
Current liabilities			
Accounts payable and accrued expenses	621,083	457,773	1,078,856
Deposits payable	187,884	30,913	218,797
Accrued interest payable	195,894	9,539	205,433
Due to water fund	-	760,000	760,000
Current portion of long-term debt	1,334,241	12,429	1,346,670
Total current liabilities	<u>2,339,102</u>	<u>1,270,654</u>	<u>3,609,756</u>
Non-current liabilities			
Long-term debt	16,645,543	734,953	17,380,496
Compensated absences	292,512	178,948	471,460
Total noncurrent liabilities	<u>16,938,055</u>	<u>913,901</u>	<u>17,851,956</u>
Total liabilities	<u>19,277,157</u>	<u>2,184,555</u>	<u>21,461,712</u>
NET ASSETS			
Invested in capital assets, net of related debt	39,738,188	32,818,377	72,556,565
Restricted for:			
Debt service	21,620	723	22,343
Expansion and construction	15,720,022	7,312,877	23,032,899
Unrestricted	16,548,547	5,312,610	21,861,157
Total net assets	<u>\$ 72,028,377</u>	<u>\$ 45,444,587</u>	<u>\$ 117,472,964</u>

