

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

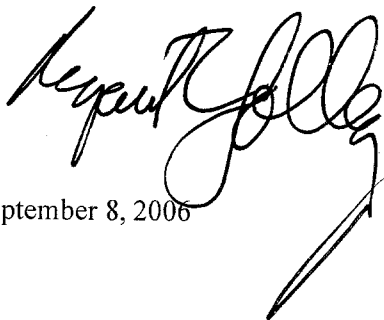
To the Board of Directors
Calaveras County Water District
San Andreas, California

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> |

CALAVERAS COUNTY WATER DISTRICT

STATEMENT OF REVENUE, EXPENSE, AND CHANGES IN FUND NET ASSETS – PROPRIETARY FUNDS YEAR ENDED JUNE 30, 2006

| | Water | Sewer | Total |
|---|----------------------|----------------------|-----------------------|
| Operating Revenues | | | |
| Water sales and sewer charges | \$ 4,372,104 | \$ 2,291,303 | \$ 6,663,407 |
| Water and sewer fees | 560,505 | 258,525 | 819,030 |
| Other revenues | 110,912 | 31,674 | 142,586 |
| Total operating revenues | <u>5,043,521</u> | <u>2,581,502</u> | <u>7,625,023</u> |
| Operating Expenses | | | |
| Salaries and benefits | 3,403,570 | 1,486,761 | 4,890,331 |
| Materials and supplies | 1,035,546 | 609,015 | 1,644,561 |
| Utility service | 436,121 | 249,658 | 685,779 |
| Outside services | 479,332 | 310,051 | 789,383 |
| Professional services | 529,494 | 175,537 | 705,031 |
| Vehicle and equipment | 176,938 | 160,631 | 337,569 |
| Office expense | 48,743 | 17,178 | 65,921 |
| Travel and training | 41,153 | 22,358 | 63,511 |
| Purchased water | 51,881 | 18,228 | 70,109 |
| Miscellaneous operating expenses | 501,363 | 154,152 | 655,515 |
| Depreciation | 2,394,568 | 1,121,308 | 3,515,876 |
| Director costs | 78,323 | 27,779 | 106,102 |
| Total operating expenses | <u>9,177,032</u> | <u>4,352,656</u> | <u>13,529,688</u> |
| Operating income/(loss) | <u>(4,133,511)</u> | <u>(1,771,154)</u> | <u>(5,904,665)</u> |
| Nonoperating Revenues/(Expenses) | | | |
| Property taxes | 758,481 | 199,333 | 957,814 |
| Investment income | 836,931 | 327,488 | 1,164,419 |
| Expansion fees | 3,073,445 | 1,903,052 | 4,976,497 |
| Power sales | 448,479 | 157,574 | 606,053 |
| Contributed capital revenue | 630,533 | 759,524 | 1,390,057 |
| Other income | 179,826 | 2,784 | 182,610 |
| Grant revenues | 42,432 | 19,968 | 62,400 |
| Amortization | (125,827) | (5,434) | (131,261) |
| Interest expense | (561,790) | (83,036) | (644,826) |
| Other expense | (85,704) | (51,807) | (137,511) |
| Total nonoperating revenues/(expenses) | <u>5,196,806</u> | <u>3,229,446</u> | <u>8,426,252</u> |
| Net income/(loss) before transfers | 1,063,295 | 1,458,292 | 2,521,587 |
| Transfers | | | |
| Transfers in/(out) | <u>4,641,315</u> | <u>(4,641,315)</u> | <u>-</u> |
| Change in Net Assets | <u>5,704,610</u> | <u>(3,183,023)</u> | <u>2,521,587</u> |
| Net Assets | | | |
| Beginning of year | 65,830,145 | 47,000,085 | 112,830,230 |
| Prior period adjustment | 839,837 | 1,281,310 | 2,121,147 |
| End of year | <u>\$ 72,374,592</u> | <u>\$ 45,098,372</u> | <u>\$ 117,472,964</u> |

CALAVERAS COUNTY WATER DISTRICT

STATEMENT OF CASH FLOW - PROPRIETARY FUNDS YEAR ENDED JUNE 30, 2006

| | Water | Sewer | Total |
|--|----------------------|----------------------|----------------------|
| Operating Activities | | | |
| Receipts from customers and users | \$ 5,113,605 | \$ 2,951,237 | \$ 8,064,842 |
| Payments for contractual services and utilities | (1,414,070) | (815,029) | (2,229,099) |
| Payments received/paid to other funds | (769,190) | 781,504 | 12,314 |
| Payments to employees | (3,468,143) | (1,448,558) | (4,916,701) |
| Payment to suppliers | (1,443,074) | (661,080) | (2,104,154) |
| Net cash provided by (used in) operating activities | <u>(1,980,872)</u> | <u>808,074</u> | <u>(1,172,798)</u> |
| Non-capital Financing Activities | | | |
| Property taxes | 758,481 | 199,333 | 957,814 |
| Power sales | 448,479 | 157,574 | 606,053 |
| Other income | 179,826 | 2,784 | 182,610 |
| Grants from outside agencies | 42,432 | 19,968 | 62,400 |
| Principal received from loans receivable | 364,787 | 386,464 | 751,251 |
| Other expenses | (85,704) | (51,807) | (137,511) |
| Transfers (to)/from other funds | 4,641,315 | (4,641,315) | - |
| Net cash provided by noncapital financing activities | <u>6,349,616</u> | <u>(3,926,999)</u> | <u>2,422,617</u> |
| Capital and Related Financing Activities | | | |
| Expansion fees | 3,073,445 | 1,903,052 | 4,976,497 |
| Purchase of capital assets | (1,115,106) | (1,979,853) | (3,094,959) |
| Principal paid on long-term debt | (1,284,243) | (73,485) | (1,357,728) |
| Interest paid on long-term debt | (601,894) | (53,300) | (655,194) |
| Net cash used in capital and related financing activities | <u>72,202</u> | <u>(203,586)</u> | <u>(131,384)</u> |
| Investing Activities | | | |
| Investment earnings | 795,798 | 340,670 | 1,136,468 |
| Net cash provided by investing activities | <u>795,798</u> | <u>340,670</u> | <u>1,136,468</u> |
| Net Increase (Decrease) in Cash | 5,236,744 | (2,981,841) | 2,254,903 |
| Cash and Investments | | | |
| Beginning of year | 23,987,612 | 16,246,039 | 40,233,651 |
| End of year | <u>\$ 29,224,356</u> | <u>\$ 13,264,198</u> | <u>\$ 42,488,554</u> |

CALAVERAS COUNTY WATER DISTRICT

STATEMENT OF CASH FLOW - PROPRIETARY FUNDS (CONTINUED) YEAR ENDED JUNE 30, 2006

| | <u>Water</u> | <u>Sewer</u> | <u>Total</u> |
|--|-----------------------|----------------------|-----------------------|
| Cash and investments as presented on Statement of Net Assets: | | | |
| Cash and investments | 29,224,356 | 13,264,198 | 42,488,554 |
| Cash and investments, restricted | - | - | - |
| Total cash and investments | <u>\$ 29,224,356</u> | <u>\$ 13,264,198</u> | <u>\$ 42,488,554</u> |
| Cash Flows from Operating Activities | | | |
| Operating income (loss) | \$ (4,133,511) | \$ (1,771,154) | \$ (5,904,665) |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities: | | | |
| Depreciation | 2,394,568 | 1,121,308 | 3,515,876 |
| (Increase) Decrease in accounts receivable | 70,084 | 369,735 | 439,819 |
| (Increase) Decrease in due from other funds | (753,843) | 21,504 | (732,339) |
| Increase (Decrease) in accounts payable | 360,669 | 302,254 | 662,923 |
| Increase (Decrease) in due to other funds | (15,347) | 760,000 | 744,653 |
| Increase (Decrease) in deposits payable | 82,758 | (61,555) | 21,203 |
| Increase (Decrease) in compensated absences | 13,750 | 65,982 | 79,732 |
| Net Cash (Used) by Operating Activities | <u>\$ (1,980,872)</u> | <u>\$ 808,074</u> | <u>\$ (1,172,798)</u> |

CALAVERAS COUNTY WATER DISTRICT

STATEMENT OF FIDUCIARY NET ASSETS YEAR ENDED JUNE 30, 2006

ASSETS

| | |
|----------------------|------------------|
| Cash and investments | \$ 2,072,356 |
| Interest receivable | 6,100 |
| Due from County | <u>13,974</u> |
| Total assets | <u>2,092,430</u> |

LIABILITIES

| | |
|--------------------|------------------|
| Due to bondholders | <u>2,092,430</u> |
| Total liabilities | <u>2,092,430</u> |

NET ASSETS

\$ -

CALAVERAS COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2006

Note 1 – Summary of Significant Accounting Policies

Reporting Entity

The Calaveras County Water District (District) was formed on September 6, 1946, for the purpose of assisting residents of Calaveras County in establishing and protecting their water resources. The District's boundaries are the same as the boundary lines of the County of Calaveras. Water and sewage services are provided to eight improvement districts within the boundaries of the District. The District has no component units.

Basis of Presentation

The financial statements of the Calaveras County Water District (District) have been prepared in conformity with Accounting Principles Generally Accepted in the United States of America (GAAP) as applicable to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

Proprietary funds are used to account for operations that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

The District reports the following major proprietary funds:

Water Fund – This fund accounts for the activities of providing water to residents of the District.

Sewer Fund – This fund accounts for the activities of providing sewer management to residents of the District.

The District also reports the following fiduciary fund:

Agency Fund – This fund is used to account for assets held by the District as an agent for special assessment districts in its boundaries.

Basis of Accounting

The accrual method of accounting is followed by the District. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when the liability is incurred.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

CALAVERAS COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2006

Note 1 – Summary of Significant Accounting Policies (Continued)

Financial Statement Amounts

Cash and Cash Equivalents – For purposes of the statement of cash flows, the District considers all highly liquid investments including cash and cash equivalents in restricted assets to be cash equivalents.

Accounts Receivable – Billed, but unpaid, services provided to individuals or non-governmental entities are recorded as accounts receivable. The Proprietary Funds include a year end accrual for services through the end of the fiscal year which have not yet been billed. Accounts receivable are reported net of an allowance for uncollectibles.

Property Taxes - Secured and unsecured property taxes are levied on January 1 by the County of Calaveras. Secured property taxes are due in two installments, the first installment is due on November 1 and delinquent with penalties after December 10; and the second installment is due February 1 and delinquent with penalties after April 10th, on the property taxes assessed on January 1. Unsecured property taxes are payable in one installment on or before August 31. Property tax revenues are recognized in the fiscal year in which they are levied.

Interfund Receivables/Payables - Items classified as interfund receivable/payable represent short-term lending/borrowing transactions between funds. This classification also includes the current portion of an advance to or from another fund.

Capital Assets - Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities are included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the primary government are depreciated using the straight line method over the following estimated useful lives:

| | <u>Years</u> |
|-----------------------------------|--------------|
| Buildings | 50 |
| Improvements other than buildings | 50 |
| Machinery and equipment | 10 |
| Vehicles | 8 |
| Computer equipment | 4 |

CALAVERAS COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2006

Note 1 – Summary of Significant Accounting Policies (Continued)

Compensated Absences – A total of 22 to 42 days of Personal Time Off (PTO) leave per year may be accumulated by each employee. Compensation time and holiday hours are also accumulated. Employees are paid 100% of their PTO leave hours upon death, termination or retirement. The District accrues a liability for compensated absences which meets the following criteria set by GASB Statement No. 16.

- The District's obligation relating to employees' rights to receive compensation for future absences is attributable to employees' services already rendered.
- The obligation relates to rights that vest or accumulate.
- Payment of the compensation is probable.
- The amount can be reasonably estimated.

In accordance with the above criteria, the District has accrued a liability for vacation pay, sick pay, compensation time and holiday pay which has been earned, but not taken, by the District's employees. At June 30, 2006, the recorded liability was \$471,460.

Long-Term Obligations - Long-term debt and other long-term obligations are reported as liabilities in the Proprietary Fund Type Statement of Net Assets. Debt principal payments are reported as decreases in the balance of the liability on the Statement of Net Assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

Net Assets/Fund Equity - The financial statements utilize a net assets presentation. Net assets are categorized as invested capital assets (net of related debt), restricted and unrestricted.

- Invested In Capital Assets, Net of Related Debt - This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.
- Restricted Net Assets - This category presents external restrictions on net assets imposed by creditors, grantors, contributors, laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.
- Unrestricted Net Assets - This category represents net assets of the District not restricted for any project or other purpose.

Note 2 – Cash and Investments

California law requires banks and savings and loan institutions to pledge government securities with a market value of 110% of the District's cash on deposits or first trust deed mortgage notes with a value of 150% of the deposit as collateral for all public agency deposits. Under California law this collateral remains with the institution but is held in the District's name and places the District ahead of general creditors of the institution. The District has waived collateral requirements for the portion of deposits covered by federal deposit insurance.

CALAVERAS COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2006

Note 2 – Cash and Investments (Continued)

Classification

Cash and investments are reported in the financial statements as follows:

Statement of Net Assets

| | |
|---------------------------------|-------------------|
| Cash and investments | \$ 2,385,697 |
| Restricted cash and investments | 40,102,857 |
| | <u>42,488,554</u> |

Fiduciary Funds

| | |
|----------------------------|----------------------|
| Cash and investments | 2,072,356 |
| Total Cash and investments | <u>\$ 44,560,910</u> |

Authorized Investments by the District

The District's Investment Policy and the California Government Code allows the District to invest in the following, provided the credit ratings of the issuers are acceptable to the District. The following also identifies certain provisions of the District and California Government Code that address interest rate risk, credit risk, and concentration of credit risk.

| <u>Authorized Investment Type</u> | <u>Maximum Maturity</u> | <u>Maximum Percentage of Portfolio</u> | <u>Minimum Credit Quality</u> |
|--|-------------------------|--|-------------------------------|
| Local District Bonds | 5 Years | 50% | AA |
| U.S. Treasury Obligations | 5 Years | 100% | N/A |
| State of California Obligations | 5 Years | 100% | AA |
| California Local District Obligations | 5 Years | 50% | AA |
| U.S. Agencies | 5 Years | 100% | AAA |
| Bankers Acceptances | 180 Days | 40% | Federal Reserve |
| Commercial Paper | 270 Days | 25% | A1/P1/F1 |
| Negotiable Certificates of Deposit | 5 Years | 30% | AA |
| Repurchase Agreements | 1 Year | 20% | N/A |
| Reverse Repurchase Agreements | 92 Days | 20% of Base | None |
| Medium Term Notes | 5 Years | 20% | A |
| Money Market Mutual Funds | N/A | 20% | AAA |
| Collateralized Bank Deposits | 5 Years | 20% | N/A |
| Mortgage Pass-Through Securities | 5 Years | 20% | AA |
| Time Deposits | 5 Years | 20% | None |
| Local Agency Investment Fund (LAIF) | N/A | No limit | N/A |
| County Pooled Investment Funds | N/A | 30% | N/A |
| Non-Negotiable Certificates of Deposit | 1 Year | 20% | None |

