

CALAVERAS COUNTY WATER DISTRICT

**INDEPENDENT AUDITORS' REPORT
AND
FINANCIAL STATEMENTS**

JUNE 30, 2007

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BRYANT L. JOLLEY

CERTIFIED PUBLIC ACCOUNTANT

BRYANT L. JOLLEY CPA

DARRYL SMITH CPA

INDEPENDENT AUDITORS' REPORT

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

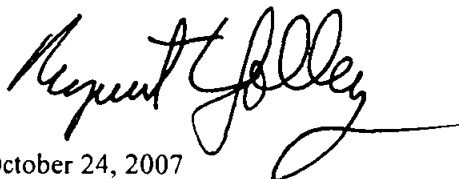
We have audited the financial statements of the business-type activities and each major fund of the Calaveras County Water District as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements as listed in the table of contents. These basic financial 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, 2007 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2007 on our consideration of the Calaveras County Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

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.



October 24, 2007



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, 2007. 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 of the Financial Statements. GASB 34 also addresses other reporting requirements for public agencies. The implementation of these standards has minor impact on the District.

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 now provides the *Total Assets, less Total Liabilities, resulting in Net Assets*. Another significant change for the District is in the treatment of "Contributed Capital" which was a Balance Sheet item in previous financial reports. Contributed Capital items were recorded as capital assets received from grants and/or contractors. Contributed Capital as a Balance Sheet item has been eliminated and Contributed Capital is now accounted for as revenue in the Income Statement.

The intent of GASB is 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. Following are some of the key highlights for the fiscal year ended June 30, 2007. A more detailed narrative analysis follows the listing.

- Total Assets increased
- Total Liabilities decreased
- Net Assets increased
- Operating Revenues increased
- Other Operating Expenses increased
- Non-operating Revenues increased
- Non-operating Expenses increased

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 2006	Fiscal Year 2007	Dollar Change	Total Percent Change
Assets				
Current and other assets	\$ 47,650,945	\$ 41,924,183	\$ (5,726,762)	-12.00%
Capital Assets	91,283,731	97,754,353	6,470,622	7.00%
Total Assets:	138,934,676	139,678,536	743,860	.50%
Liabilities				
Long Term debt outstanding	17,380,496	15,942,520	(1,437,976)	-8.00%
Other Liabilities	4,081,216	4,015,307	(65,909)	-2.00%
Total Liabilities:	21,461,712	19,957,827	(1,503,885)	-7.00%
Net Assets				
Invested in capital assets, net of related debt	72,556,565	80,443,857	7,887,292	11.00%
Restricted	23,055,242	35,861,047	12,805,805	56.00%
Unrestricted	21,861,157	3,415,804	(18,445,353)	-84.00%
Total Net Assets:	\$ 117,472,964	\$ 119,720,708	\$ 2,247,744	2.00%

Analysis of the significant changes shown above is presented below.

Current and Other Assets: The decrease of \$5.7 million over prior year is predominantly due to a corresponding increase in Capital Assets.

Capital Assets: Total Capital Assets (net of Accumulated Depreciation) was \$97,754,353 as of June 30, 2007. As described further in Note 3 to the Financial Statements, the District added \$9,725,661 in new capital assets, recorded \$(3,255,039) in annual depreciation expense, for a capital assets net change of \$6,470,622 for the fiscal year ending June 30, 2007.

Long Term Debt Outstanding: Details of the District's long-term debt issued are discussed in Note 6 accompanying the Financial Statements. As of June 30, 2007, \$17,310,497 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.

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 2006	Fiscal Year 2007	Dollar Change	Total Percent Change
Operating				
Operating Revenues	\$ 7,625,023	\$ 8,163,535	\$ 538,512	7.00%
Operating Expenses				
Depreciation Expense	(3,515,876)	(3,255,039)	(260,837)	-7.00%
Other Operating Expenses	(10,013,812)	(11,122,496)	1,108,684	11.00%
Net Operating Loss	(5,904,665)	(6,214,000)	309,335	5.00%
Non-Operating				
Revenues	9,339,850	10,411,587	1,071,737	11.00%
Expenses	(913,598)	(1,043,199)	129,601	14.00%
Non-operating, net	8,426,252	9,368,388	942,136	11.00%
Extraordinary charges	-	(906,644) *	906,644	
Change in net assets	2,521,587	2,247,744	(273,843)	-11.00%
Beginning net assets:	112,830,230	117,472,964	4,642,734	4.00%
Ending net assets:	\$ 117,472,964	\$ 119,720,708	\$ 2,247,744	2.00%

* See Note 10 in "Notes to Financial Statements"

REVENUES

Operating Revenue: The District recorded \$538,512 or 7% increase over prior year revenues which reflects an increase in new customer hook-ups as well as an increase in administrative fees collected. The District amended its administrative fees as of July 26, 2006 per the following table:

	<u>Former Fee</u>	<u>New Fee</u>
• Final Reminder Notice	\$10	\$10
• Hanging of a Door Tag (48 hr shutoff notice)	None	\$18
• Shutoff of meter for late payment	None	\$36
• Restoration of service after shutoff	\$30	\$36
• Return of check by rate-payer's bank	\$5	\$25

EXPENSES

Depreciation expense: The \$(260,837) or (7)% decrease in depreciation expense reflects depreciation on current capital asset additions as well as depreciation on assets acquired prior to FY 06-07 which is systematically recorded to match the timing of expense of the assets with their useful lives. The decrease in this expense is a result of some of the District's older assets being fully depreciated in FY 05-06.

Other Operating Expenses: As shown above, the overall increase in other operating expenses amounted to \$1,108,684 or 11%. The most significant contributing factors were salaries and benefits which increased by \$851,910 (the District filled seven open and new positions in FY 06-07), and outside services which increased approximately \$256,774.

NON-OPERATING REVENUES (EXPENSES)

Non-operating Revenue: The \$1,071,737 or 11% increase 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:

- Property taxes received were \$1,910,453 higher than prior year.
- Investment earnings which include adjustments for the fair market value of our investments amounted to \$976,274 more than prior year.
- Expansion fees collected were \$1,404,007 less than prior year.
- Power sales were \$26,377 less than prior year.
- Contributed capital revenue was \$780,682 less than prior year.
- Grant revenues were \$379,965 more than prior year.
- Other income was \$16,111 more than prior year.

Non-Operating Expenses: The \$129,601 or 14% increase from prior year is a net combination of some nonoperating expenses being higher and lower than prior year as follows:

- Interest expense on debt service was \$(45,742) less than prior year.
- Other expenses over prior year increased \$175,343.

ECONOMIC CONDITION AND OUTLOOK

After working diligently, the District has developed new utility rates and capacity fees. The utility rate increases were adopted by the Board at a public hearing on May 23, 2007 and will be implemented as of July 1, 2007. This is a five year plan which will result in an 80% increase in base water rates and 50% increase in wastewater rates.

The new capacity fees were adopted by the Board on September 27, 2006 (Ordinance 2006-03) and implemented on December 1, 2006. Now that the new fees are in place, the District is working on a funding plan for the Capital Improvement Plan. The plan calls for the sale of bonds paid for by the new fees. The District is taking into consideration the slowdown in housing construction due to the melt-down of the sub-prime mortgages.

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, 2007

ASSETS	Water	Sewer	Total
Current assets			
Cash and investments	\$ 915,517	\$ 1,442,956	\$ 2,358,473
Accounts receivable	1,548,499	523,495	2,071,994
Taxes receivable	83,978	101,521	185,499
Interest receivable	21,588	27,720	49,308
Total current assets	<u>2,569,582</u>	<u>2,095,692</u>	<u>4,665,274</u>
Non-current assets			
Deferred charges	1,335,897	61,965	1,397,862
Capital assets, net of allowance for depreciation	63,656,316	34,098,037	97,754,353
Total non-current assets	<u>64,992,213</u>	<u>34,160,002</u>	<u>99,152,215</u>
Restricted assets			
Cash and investments	22,580,731	12,401,218	34,981,949
Interest receivable	308,026	157,572	465,598
Loans receivable	355,101	58,399	413,500
Total restricted assets	<u>23,243,858</u>	<u>12,617,189</u>	<u>35,861,047</u>
Total assets	<u>90,805,653</u>	<u>48,872,883</u>	<u>139,678,536</u>
LIABILITIES			
Current liabilities			
Accounts payable and accrued expenses	1,304,800	351,437	1,656,237
Deposits payable	144,494	46,715	191,209
Accrued interest payable	187,385	9,004	196,389
Current portion of long-term debt	1,299,821	68,156	1,367,977
Total current liabilities	<u>2,936,500</u>	<u>475,312</u>	<u>3,411,812</u>
Non-current liabilities			
Long-term debt	15,014,226	928,294	15,942,520
Compensated absences	375,492	228,003	603,495
Total noncurrent liabilities	<u>15,389,718</u>	<u>1,156,297</u>	<u>16,546,015</u>
Total liabilities	<u>18,326,218</u>	<u>1,631,609</u>	<u>19,957,827</u>
NET ASSETS			
Invested in capital assets, net of related debt	47,342,270	33,101,587	80,443,857
Restricted for:			
Expansion and construction	23,243,858	12,617,189	35,861,047
Unrestricted	1,893,307	1,522,497	3,415,804
Total net assets	<u>\$ 72,479,435</u>	<u>\$ 47,241,273</u>	<u>\$ 119,720,708</u>

CALAVERAS COUNTY WATER DISTRICT

STATEMENT OF REVENUE, EXPENSE, AND CHANGES IN FUND NET ASSETS – PROPRIETARY FUNDS YEAR ENDED JUNE 30, 2007

Operating Revenues	Water	Sewer	Total
Water sales and sewer charges	\$ 4,434,576	\$ 2,401,264	\$ 6,835,840
Water and sewer fees	995,696	331,999	1,327,695
Total operating revenues	<u>5,430,272</u>	<u>2,733,263</u>	<u>8,163,535</u>
Operating Expenses			
Salaries and benefits	3,681,344	2,060,897	5,742,241
Repairs, materials and supplies	718,275	893,080	1,611,355
Utility service	386,020	267,278	653,298
Outside services	743,289	492,948	1,236,237
Professional services	500,416	141,665	642,081
Vehicle and equipment	178,426	198,426	376,852
Office expense	44,687	14,896	59,583
Travel and training	61,329	36,036	97,365
Purchased water	78,672	26,224	104,896
Miscellaneous operating expenses	346,316	169,728	516,044
Depreciation	2,165,544	1,089,495	3,255,039
Director costs	61,908	20,636	82,544
Total operating expenses	<u>8,966,226</u>	<u>5,411,309</u>	<u>14,377,535</u>
Operating income/(loss)	<u>(3,535,954)</u>	<u>(2,678,046)</u>	<u>(6,214,000)</u>
Nonoperating Revenues/(Expenses)			
Property taxes	1,267,274	1,600,993	2,868,267
Investment income	1,477,725	662,968	2,140,693
Expansion fees	2,114,245	1,458,245	3,572,490
Power sales	434,757	144,919	579,676
Contributed capital revenue	380,143	229,232	609,375
Other income	151,469	47,252	198,721
Grant revenues	442,365	-	442,365
Amortization	(125,827)	(5,434)	(131,261)
Interest expense	(570,033)	(29,051)	(599,084)
Other expense	(293,278)	(19,576)	(312,854)
Total nonoperating revenues/(expenses)	<u>5,278,839</u>	<u>4,089,548</u>	<u>9,368,388</u>
Net income before transfers and extraordinary charges	1,742,885	1,411,502	3,154,388
Transfers and Extraordinary Charges			
Extraordinary charges (Note 10)	(556,823)	(349,821)	(906,644)
Transfers in/(out)	<u>(1,081,220)</u>	<u>1,081,220</u>	<u>-</u>
Change in Net Assets	<u>104,843</u>	<u>2,142,901</u>	<u>2,247,744</u>
Net Assets			
Beginning of year	72,374,592	45,098,372	117,472,964
End of year	<u>\$ 72,479,435</u>	<u>\$ 47,241,273</u>	<u>\$ 119,720,708</u>

CALAVERAS COUNTY WATER DISTRICT

STATEMENT OF CASH FLOW - PROPRIETARY FUNDS YEAR ENDED JUNE 30, 2007

	Water	Sewer	Total
Operating Activities			
Receipts from customers and users	\$ 5,272,961	\$ 2,822,446	\$ 8,095,407
Payments for contractual services and utilities	(1,021,680)	(1,033,451)	(2,055,131)
Payments to employees	(3,660,272)	(2,032,478)	(5,692,750)
Payments to suppliers	(1,602,295)	(1,396,587)	(2,998,882)
Net cash provided by (used in) operating activities	<u>(1,011,286)</u>	<u>(1,640,070)</u>	<u>(2,651,356)</u>
Non-capital Financing Activities			
Property taxes	1,306,822	1,530,905	2,837,727
Power sales	434,757	144,919	579,676
Other income	151,469	47,252	198,721
Grants from outside agencies	442,365	-	442,365
Principal received from loans receivable	284,711	22,771	307,482
Other expenses	(293,278)	(19,577)	(312,855)
Extraordinary charges	(556,823)	(349,821)	(906,644)
Transfers (to)/from other funds	(1,081,220)	1,081,220	-
Net cash provided by noncapital financing activities	<u>688,803</u>	<u>2,457,669</u>	<u>3,146,472</u>
Capital and Related Financing Activities			
Expansion fees	2,114,245	1,458,245	3,572,490
Purchase of capital assets	(7,157,515)	(1,958,767)	(9,116,282)
Principal paid on long-term debt	(1,136,348)	(280,022)	(1,416,370)
Interest paid on long-term debt	(578,542)	(29,586)	(608,128)
Net cash used in capital and related financing activities	<u>(6,758,160)</u>	<u>(810,130)</u>	<u>(7,568,290)</u>
Investing Activities			
Investment earnings	<u>1,352,535</u>	<u>572,507</u>	<u>1,925,042</u>
Net cash provided by investing activities	<u>1,352,535</u>	<u>572,507</u>	<u>1,925,042</u>
Net Increase (Decrease) in Cash	(5,728,108)	579,976	(5,148,132)
Cash and Investments			
Beginning of year	29,224,356	13,264,198	42,488,554
End of year	<u>\$ 23,496,248</u>	<u>\$ 13,844,174</u>	<u>\$ 37,340,422</u>

CALAVERAS COUNTY WATER DISTRICT

STATEMENT OF CASH FLOW - PROPRIETARY FUNDS (CONTINUED) YEAR ENDED JUNE 30, 2007

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Cash and investments as presented on Statement of Net Assets:			
Cash and investments	915,517	1,442,956	2,358,473
Cash and investments, restricted	<u>22,580,731</u>	<u>12,401,218</u>	<u>34,981,949</u>
Total cash and investments	<u>\$ 23,496,248</u>	<u>\$ 13,844,174</u>	<u>\$ 37,340,422</u>
Cash Flows from Operating Activities			
Operating income (loss)	\$ (3,535,954)	\$ (2,678,046)	\$ (6,214,000)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	2,165,544	1,089,495	3,255,039
(Increase) Decrease in accounts receivable	(364,183)	5,762	(358,421)
Increase (Decrease) in accounts payable	683,717	(106,336)	577,381
Increase (Decrease) in deposits payable	(43,390)	-	(43,390)
Increase (Decrease) in compensated absences	<u>82,980</u>	<u>49,055</u>	<u>132,035</u>
Net Cash (Used) by Operating Activities	<u>\$ (1,011,286)</u>	<u>\$ (1,640,070)</u>	<u>\$ (2,651,356)</u>

CALAVERAS COUNTY WATER DISTRICT

STATEMENT OF FIDUCIARY NET ASSETS YEAR ENDED JUNE 30, 2007

ASSETS

Cash and investments	\$ 1,608,044
Interest receivable	70,587
Due from County	20,864
Total assets	<u>1,699,495</u>

LIABILITIES

Due to bondholders	<u>1,699,495</u>
Total liabilities	<u>1,699,495</u>

NET ASSETS

\$ -

CALAVERAS COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2007

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. In addition, the District allocates general and administrative activities 75% to the Water Fund and 25% to the Sewer Fund. Actual results could differ from those estimates.

CALAVERAS COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2007

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.

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:

	Years
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, 2007

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, 2007, the recorded liability was \$603,495.

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, 2007

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	\$ 2,358,473
Restricted cash and investments	34,981,949
	<u>37,340,422</u>
Fiduciary Funds	
Cash and investments	1,608,044
Total Cash and investments	<u>\$ 38,948,466</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

CALAVERAS COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2007

Note 2 – Cash and Investments (Continued)

Investments Authorized by Debt Agreements

The District must maintain required amounts of cash and investments with trustees or fiscal agents under the terms of certain debt issues. These funds are unexpended bond proceeds or are pledged reserves to be used if the District fails to meet its obligations under these debt issues. The California Government Code requires these funds to be invested in accordance with District resolutions, bond indentures or State statutes. The table below identifies the investment types that are authorized for investments held by fiscal agents. The table also identifies certain provisions of these debt agreements:

<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	None	None
U.S. Treasury Obligations	5 Years	None	None
State of California Obligations	5 Years	100%	None
California Local District Obligations	5 Years	None	None
U.S. Agencies	5 Years	None	None
Bankers Acceptances	180 Days	40%	None
Commercial Paper	270 Days	25%	A1/P1/F1
Negotiable Certificates of Deposit	5 Years	30%	None
Repurchase Agreements	1 Year	None	Various
Reverse Repurchase Agreements	92 Days	20% of Base	A
Medium Term Notes	5 Years	30%	Various
Money Market Mutual Funds	N/A	20%	None
Collateralized Bank Deposits	5 Years	None	AA
Mortgage Pass-Through Securities	5 Years	20%	None
Time Deposits	5 Years	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
County Pooled Investment Funds	N/A	None	None
Non-Negotiable Certificates of Deposit	1 Year	100%	None

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates.

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following table that shows the distribution to the District's investments by maturity:

CALAVERAS COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2007

Note 2 – Cash and Investments (Continued)

<u>Investment Type</u>	<u>12 Months or less</u>	<u>13 to 24 Months</u>	<u>25 to 60 Months</u>	<u>Total</u>
Federal Agency Securities	\$11,835,814	\$ 6,326,665	\$ -	\$ 18,162,479
Commercial Paper	8,454,094	2,503,435	-	10,957,529
Money Market Funds	2,313,190	-	-	2,313,190
LAIF	4,075,312	-	-	4,075,312
Total Investments	<u>\$26,678,410</u>	<u>\$ 8,830,100</u>	<u>\$ -</u>	<u>35,508,510</u>
Cash with fiscal agent				342,468
Cash in bank and on hand				3,097,488
Total Cash and Investments				<u>\$ 38,948,466</u>

California Local Agency Investment Fund

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) which is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The District reports its investment in LAIF at the fair value amount provided by LAIF, which is the same as the value of the pool share. The balance is available for withdrawal on demand, and is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, United States Treasury Notes and Bills and corporations. The carrying value of LAIF approximates fair value. At June 30, 2007, these investments matured in an average of 151 days.

Mutual funds are available for withdrawal on demand and at June 30, 2007 matured in an average of 90 days.

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating by Standard & Poor's required by the California Government Code or the District's investment policy, and the actual rating as of June 30, 2007 for each investment type:

CALAVERAS COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2007

Note 2 – Cash and Investments (Continued)

	Rating as of Year-End		Total
	AAA	A-1+ and A-1	
Investments			
Federal Agency Securities	\$ 18,162,479	\$ -	\$ 18,162,479
Commercial Paper	-	10,957,529	10,957,529
Total Investments	\$ 18,162,479	\$ 10,957,529	29,120,008
Not rated:			
LAIF			4,075,312
Money Market Funds			2,313,190
Cash with fiscal agent			342,468
Cash in bank and on hand			3,097,488
Total Cash and Investments			\$ 38,948,466

Concentration of Credit Risk

Investments in any one issuer, other than U.S. Treasury securities, mutual funds, and external investment pools, that represent 5% or more of total District-wide investments are as follows at June 30, 2007:

Issuer	Investment Type	Amount
Federal Home Loan Bank	U.S. Agency Obligations	\$ 8,418,605
Federal Home Loan Mortgage Corporation	U.S. Agency Obligations	3,882,324
Federal National Mortgage Association	U.S. Agency Obligations	2,899,680
Tennessee Valley Authority	U.S. Agency Obligations	2,961,870

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, the District will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The District's Investment Policy limits its exposure to custodial credit risk by requiring that all security transactions entered into by the District, including collateral for repurchase agreements, be conducted on a delivery-versus-payment basis. Securities are to be held by a third party custodian.

CALAVERAS COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2007

Note 3 – Capital Assets

Capital asset activity for the year ended June 30, 2007, was as follows:

	Balance July 1, 2006	Additions	Retirements	Balance June 30, 2007
Capital assets, not being depreciated				
Land	\$ 12,830,354	\$ -	\$ -	\$ 12,830,354
Construction in progress	1,705,761	8,200,361	-	9,906,122
Total capital assets, not being depreciated	<u>14,536,115</u>	<u>8,200,361</u>	<u>-</u>	<u>22,736,476</u>
Capital assets, being depreciated				
Buildings	15,255,387	-	-	15,255,387
Utility system - infrastructure	110,180,346	609,379	-	110,789,725
Equipment and machinery	12,771,597	915,921	-	13,687,518
Total capital assets, being depreciated	<u>138,207,330</u>	<u>1,525,300</u>	<u>-</u>	<u>139,732,630</u>
Less accumulated depreciation for				
Buildings	(6,302,133)	(439,598)	-	(6,741,731)
Utility system - infrastructure	(44,920,045)	(2,232,535)	-	(47,152,580)
Equipment and machinery	(10,237,536)	(582,906)	-	(10,820,442)
Total accumulated depreciation	<u>(61,459,714)</u>	<u>(3,255,039)</u>	<u>-</u>	<u>(64,714,753)</u>
Total capital assets, being depreciated, net	<u>76,747,616</u>	<u>(1,729,739)</u>	<u>-</u>	<u>75,017,877</u>
Total capital assets, net	<u>\$ 91,283,731</u>	<u>\$ 6,470,622</u>	<u>\$ -</u>	<u>\$ 97,754,353</u>

Note 4 – Loans Receivable

	Balance July 1, 2006	Retirements	Balance June 30, 2007	Current Portion
Mokelumne Hill Sanitary District	\$ 34,052	\$ (1,254)	\$ 32,798	\$ 1,354
West Point/Wilseyville Water Improvement Assessment District	181,000	(32,000)	149,000	34,000
Mineral Mountain Mutual Water	14,790	(2,094)	12,696	2,230
Mother Lode Acres/ Scenic Valley Improvement District	35,227	(17,017)	18,210	18,209
Valley Springs Public Utility District - Intertie Loan	89,438	(89,438)	-	-
Valley Springs Public Utility District - Well and Pipeline	75,850	(75,850)	-	-
Utica Power Authority	290,624	(89,828)	200,796	5,000
Total Loans Receivable	<u>\$ 720,981</u>	<u>\$ (307,481)</u>	<u>\$ 413,500</u>	<u>\$60,793</u>

CALAVERAS COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2007

Note 4 – Loans Receivable (Continued)

On December 31, 1990, the District loaned the Mokelumne Hill District \$44,787, for the purpose of upgrading Mokelumne Hill Sanitary District sewer facilities. The loan, secured by the District's revenue, bears interest at an annual rate of 8.0% and is to be repaid annually until December 31, 2015.

On August 30, 1990, the District loaned the West Point/ Wilseyville Water Improvement Assessment District \$507,662, for construction improvements. The loan, secured by the District's revenue, bears interest at an annual rate of 8.0% and is to be repaid semi-annually until September 2, 2010.

On May 10, 1990, the District loaned the Mineral Mountain Water Company \$33,664, for rehabilitation of an existing water supply system. The loan, secured by the District's revenue, bears interest at an annual rate of 6.5% and is to be repaid annually until December 31, 2011.

On November 2, 1987, the District loaned the Mother Lode Acres/ Scenic Valley Improvement District \$206,410, representing the cost borne by the property owners for a water system in the Mother Lode Acres/ Scenic Valley Improvement District. The loan, secured by the District's revenue, bears interest at an annual rate of 6.25% and is to be repaid annually until June 30, 2008.

On June 1, 1991, the District loaned Valley Springs Public Utility District \$125,575, for the construction of a connection to the District's pipelines. The loan, secured by the District's revenue, bears interest at an annual rate of 8.5% and was paid off in the current year.

On January 1, 1992, the District loaned Valley Springs Public Utility District \$117,877, for the installation of a well and pipeline. The loan, secured by the District's revenue, bears interest at an annual rate of 7.0% and was paid off in the current year.

As part of the District's withdrawal from the Utica Power Authority on July 1, 2004, the Utica Power Authority agreed to pay back a \$1,000,000 loan which accrues interest at 3.5% per annum, payable annually along with \$5,000 in principal through June 30, 2037, when the entire unpaid balance shall be due.

Note 5 – Equity in Griswold JPA

The District has a one-third equity interest in Griswold Joint Powers Authority (JPA). As the JPA has no tangible assets, it is carried at zero value on the District's financial statements.

CALAVERAS COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2007

Note 6 – Long-Term Debt

The District generally incurs long-term debt to finance projects or purchase assets which will have useful lives equal to or greater than the related debt. The District's debt issues and transactions are summarized below and discussed in detail thereafter.

	<u>Balance</u> <u>July 1, 2006</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2007</u>	<u>Current</u> <u>Portion</u>
Enterprise Refunding Revenue Bond	\$ 17,310,000	\$ -	\$ (1,315,000)	\$ 15,995,000	\$ 1,335,000
Vallecito Sewer Loan	44,820	-	(6,402)	38,418	6,597
West Point Water Treatment Facilities Loan	94,886	-	(1,165)	93,721	1,218
Equipment Loan	161,473	-	(24,102)	137,371	25,162
U.S. Bureau of Reclamation Note	<u>1,115,987</u>	<u>-</u>	<u>(70,000)</u>	<u>1,045,987</u>	<u>-</u>
Total Business-Type Activity Debt	<u>\$ 18,727,166</u>	<u>\$ -</u>	<u>\$ (1,416,669)</u>	<u>\$ 17,310,497</u>	<u>\$ 1,367,977</u>

2004 Enterprise Refunding Revenue Bonds

On February 12, 2004, the District issued Enterprise Refunding Revenue Bonds in the amount of \$19,625,000 bearing interest at 2.0% to 5.25% to refund the 1994 Certificates of Participation, the 1995 Certificates of Participation, as discussed below and to prepay a capital lease with LaSalle National Bank. The bonds are payable from net revenues of the District and are paid semi-annually on September 1 and March 1 through 2018.

Vallecito Sewer Loan

On November 17, 1992, the District obtained a loan from the California State Water Resources Control Board for Vallecito Sewer. The loan is paid annually at 3.03% for a period of 20 years, maturing on March 31, 2012.

West Point Water Treatment Facilities Loan

On April 4, 2002, the District obtained a loan from the U.S. Department of Agriculture for West Point Water Treatment Facilities. The loan is paid annually at 4.5% for a period of 40 years, maturing April 4, 2041.

Equipment Loan

In March 2007, the District obtained a loan from the Municipal Finance Corporation for the purchase of a truck. The loan is paid semi-annually in installments of \$15,433 which includes interest at 4.35%.

CALAVERAS COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2007

Note 6 – Long-Term Debt (Continued)

U.S. Bureau of Reclamation Note

Under the terms of a contract dated August 25, 1970, between the United States of America, the Stockton-East Water District and Calaveras County Water District, the two districts agreed to repay the United States of America 36.2% of the construction cost of the New Hogan Dam, excluding recreation features. Under the terms of a side agreement, the payment of all obligations under the Bureau contract is split between the two districts, whereby Stockton-East Water District is responsible for 43.5% of the repayments and Calaveras County Water District is responsible for 56.5% of the payments. The agreement requires the Calaveras County Water District to make annual payments based on a variable computation to Stockton-East Water District through 2010 with no interest. Any unpaid balance at 2010 will begin to bear interest at 4.5% and will be due in fifteen equal annual installments through 2025. The remaining balance on the contract at June 30, 2007 is \$1,045,987.

The contract also provides for payment to Stockton-East Water District for the Calaveras County Water District's share of expenses for operations, maintenance, replacements, and contract administration.

Debt Service Requirements

The annual requirement to amortize the principal and interest on the above long-term debt at June 30, 2007 were as follows:

Years ending June 30,	Principal	Interest	Total
2008	\$ 1,367,977	\$ 579,125	\$ 1,947,102
2009	1,409,337	547,226	1,956,563
2010	1,505,488	511,120	2,016,608
2011	1,541,965	470,619	2,012,584
2012	1,583,506	410,678	1,994,184
2013-2017	8,815,333	998,104	9,813,437
2018-2022	879,005	27,230	906,235
2023-2027	152,361	14,285	166,646
2028-2032	16,066	11,109	27,175
2033-2037	20,019	7,156	27,175
2038-2041	19,440	2,230	21,670
	<u>\$17,310,497</u>	<u>\$ 3,578,882</u>	<u>\$20,889,379</u>

CALAVERAS COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2007

Note 7 – Special Assessment Districts

The District acts as agent for the bondholders of eight special assessment districts in the District. Each of these special assessment districts has issued bonds to finance improvements in that district; these bonds are secured solely by liens on real property in that district. Calaveras County collects special assessments from the property owners in these special assessment districts. These collections are forwarded to the District, which directs payment to the bondholders through the designated paying agent. The District is not obligated in any manner in the event of default on this debt, which is not included in the District's financial statements. The outstanding principal amounts of these special assessment bonds at June 30, 2007, were as follows:

<u>District</u>	<u>Amount</u>
Westpoint/Wilseyville #303	\$ 144,000
Westpoint Acres #3A	97,000
Wilseyville #302	25,500
Arnold Sewer #9S4 A/B	230,000
Motherlode Acres #603	18,209
New Hogan/La Contenta #604	1,880,000
Lake Tulloch 2000	390,000
Saddle Creek Refinance 2001	<u>5,810,000</u>
Total	<u>\$ 8,594,709</u>

Note 8 – Defined Benefit Pension Plan

Plan Description

The District contributes to the California Public Employees Retirement System (PERS), an agent multiple-employer public employee defined benefit pension. PERS provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by State statute and District resolution. PERS' annual financial report may be obtained from their Executive Office located at 400 P Street, Sacramento, CA 95814.

Funding Policy

Active plan members are required by State statute to contribute 8% for miscellaneous employees of their annual covered salary. The District makes the contributions required of the District employees on their behalf and for their account, which amounted to \$840,014 for the year ended June 30, 2007. The District employer is required to contribute for fiscal year 2006/2007 at an actuarially determined rate of 19.923% of annual covered payroll for miscellaneous employees.

CALAVERAS COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2007

Note 8 – Defined Benefit Pension Plan (Continued)

Annual Pension Cost

For 2006/2007, the District's annual pension cost of \$840,014 for PERS was equal to the District's required and actual contributions. The required contribution was determined as part of the June 30, 2004 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.75% investment rate of return (net administrative expenses), (b) projected annual salary increases ranging from 3.25% to 14.45% for miscellaneous employees, and (c) 3.25% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 3.00%. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a three-year period (smoothed market value). PERS unfunded actuarial accrued liability (or surplus) is being amortized as a level percentage of projected payroll on a closed basis. The average amortization period for current service unfunded liability at June 30, 2004 was 14 years for miscellaneous employees.

THREE-YEAR TREND INFORMATION FOR PERS

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
06/30/05	\$ 571,962	100%	\$ -
06/30/06	669,002	100%	-
06/30/07	840,014	100%	-

Post Retirement Health Care Benefits

Under specific terms for eligibility, the District formerly provided post-retirement health care benefits through the PERS healthcare program to all employees and directors who retired directly from the District, or to their surviving spouse. The expenses for the plan are funded by the District on a pay-as-you-go basis. In prior years the District terminated this benefit for all future employees, but continued the benefits for all existing employees and retirees. At June 30, 2007 there were 30 retirees qualifying for these benefits and the total cost of these benefits was \$312,844 for the fiscal year ending June 30, 2007.

Note 9 – Risk Management

The District is a member of the ACWA/Joint Powers Insurance Authority (JPIA). JPIA covers general liability and workers' compensation claims. Commercial insurance is purchased for excess liability, property and employee dishonesty coverage. The District has no deductible for the general liability coverage and workers' compensation coverage.

Claims and judgements, including a provision for claims incurred but not reported, are recorded when a loss is deemed probable of assertion and the amount of the loss is reasonably determinable. As discussed above, the District has coverage for such claims.

CALAVERAS COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2007

Note 10 – Extraordinary Charges

The District consolidated various operating and capital funds in the current fiscal year to improve the financial reporting of the District. The extraordinary charges represent funds expended on various projects that were initially earmarked as capital projects, but did not come to fruition or were reclassified from the capital expenditure funds during the fund consolidation.

Note 11– Contingent Liabilities

The District is a defendant in a number of lawsuits which have arisen in the normal course of business, including challenges over certain rates and charges. The ultimate outcome of these matters is not presently determinable. In the opinion of the District, these actions when finally adjudicated will not have a material adverse effect on the financial position of the District.

BRYANT L. JOLLEY

CERTIFIED PUBLIC ACCOUNTANT

BRYANT L. JOLLEY CPA

DARRYL SMITH CPA

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 GOVERNMENTAL AUDITING STANDARDS

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

We have audited the financial statements of the Calaveras County Water District as of and for the year ended June 30, 2007, and have issued our report thereon dated October 24, 2007. 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 *Governmental Auditing Standards* issued by the Comptroller General of the United States.

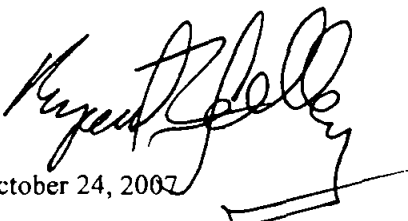
Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Calaveras County Water District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion 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 Calaveras County Water 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 *Governmental Auditing Standards*.

This report is intended for the information of the District Board of Directors, management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.


October 24, 2007