

CARMICHAEL WATER DISTRICT
AUDITED FINANCIAL STATEMENTS

June 30, 2006

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Carmichael Water District
Carmichael, California

We have audited the accompanying basic financial statements of the Carmichael Water District (the District) as of June 30, 2006 and 2005 and for the years then ended, 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 basic financial statements based on our audits.

We conducted our audits in accordance with accounting principles generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2006 and 2005 and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

Richardson & Company

October 5, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis of the Carmichael Water District's financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2006. This information is presented in conjunction with the audited financial statements and accompanying notes that follow this section.

FINANCIAL HIGHLIGHTS

During the year ended June 30, 2006, the District's net assets increased by \$560,153 or 2.6%. The District's revenues decreased \$1,190,318 or 11.5% while expenses increased \$700,998 or 8.9%. For the year ended June 30, 2006 operating revenues exceeded operating expenses by \$1,512,614, non-operating revenues of \$365,330 were below non-operating expenses of \$1,633,294 by \$1,267,964. Capital contributions totaled \$315,503 for the year ended June 30, 2006 and are the result of facility fees collected and donated infrastructure.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

This annual financial report consists of three parts: Management's Discussion and Analysis, the Basic Financial Statements, and optional Supplementary Information.

The required financial statements are the Balance Sheets at June 30, 2006 and 2005, the Statements of Revenues, Expenses and Changes in Fund Net Assets for the fiscal years ended June 30, 2006 and 2005, and the Statements of Cash Flows for the years ended June 30, 2006 and 2005.

The financial statements, except for the cash flow statements, are prepared using the accrual basis of accounting, which means that revenues are recorded when earned and expenses are recorded when incurred regardless of the timing of cash receipts or payments. The cash flow statements are an exception because those statements show the receipt and payment of cash for operating, non-capital, capital and related financing, and investing activities.

REQUIRED FINANCIAL STATEMENTS

The Financial Statements of the District report information about the District using accounting methods similar to those used by companies in the private sector. These statements offer short and long-term financial information about its activities. The *Balance Sheets* include all of the District's assets and liabilities and provides information about the nature and amounts of investments in assets and obligations to District creditors as liabilities, if any. It also provides the basis for computing rate of return, evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District.

All of the current year's revenues and expenses are accounted for in the *Statements of Revenues, Expenses, and Changes in Fund Net Assets*. These statements measure the District's operations over the past year and can be used to determine whether the District has successfully recovered all its costs through its rates and other income. The District's profitability and credit worthiness can also be determined from these statements.

The final required financial statement is the *Statements of Cash Flows*. The primary purpose of these statements is to provide information about the District's cash receipts and cash payments during the reporting period. These statements report cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. They explain where cash came from and where cash was used, and the change in the cash balance during the reporting period.

FINANCIAL ANALYSIS OF THE DISTRICT

Has the financial condition of the District improved or deteriorated as a result of last year's operations? The Balance Sheets and the Statements of Revenues, Expenses and Changes in Fund Net Assets are used to attempt to answer this question. These two statements report the net assets and the changes in them. Net assets may be a useful indicator over time as to the District's financial position. But, there may be other non-economic factors that could cause a change in the District's financial situation.

NET ASSETS

As can be seen from the table below, net assets increased \$560,153 to \$22,522,991 in 2006 up from \$21,962,838 in 2005. Net assets invested in capital assets, net of related debt increased due to construction in progress and other capital asset additions. Restricted net assets decreased due to redistribution in reserve fund, but no amounts were expended from this fund during the year. An increase in net assets in 2005 was primarily due to favorable net operating income as a result of increased water sale revenue. An increase in non-operating revenue in 2005 also contributed to the net assets increase and related primarily to the sale of property, but was offset by interest expense. Restricted net assets in 2005 increased due to increases in the debt service reserves, as well as facility fees collected, but no amounts were expended from this fund during the year.

To begin our analysis, a summary of the District's Balance Sheets is presented in Table A-1.

TABLE A-1
Condensed Balance Sheets

	FY 2006	FY 2005	Dollar Change	Percent Change	FY 2004
Current and Other Assets	10,361,006	\$10,795,549	(434,543)	(4.1%)	\$ 9,194,457
Capital Assets	<u>45,708,680</u>	<u>44,916,715</u>	<u>791,965</u>	<u>1.8%</u>	<u>45,005,483</u>
Total Assets	<u>56,069,686</u>	<u>55,712,264</u>	<u>357,422</u>	<u>0.6%</u>	<u>54,199,940</u>
Current Liabilities	1,936,810	1,411,568	525,242	37.2%	1,549,669
Long-Term Liabilities	<u>31,609,885</u>	<u>32,337,858</u>	<u>(727,973)</u>	<u>(2.3%)</u>	<u>33,138,902</u>
Total Liabilities	<u>33,546,695</u>	<u>33,749,426</u>	<u>(202,731)</u>	<u>(0.6%)</u>	<u>34,688,571</u>
Invested in Capital Assets, Net of Related Debt	13,428,184	11,923,415	1,504,769	12.6%	11,329,383
Restricted net assets	2,853,569	2,702,460	151,109	5.6%	2,713,117
Unrestricted net assets	<u>6,241,238</u>	<u>7,336,963</u>	<u>(1,095,725)</u>	<u>(14.9%)</u>	<u>5,468,869</u>
Total Net Assets	<u>\$22,522,991</u>	<u>\$21,962,838</u>	<u>\$ 560,153</u>	<u>2.6%</u>	<u>\$19,511,369</u>

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

The Balance Sheets are a snapshot that shows assets, liabilities and net assets at a specific point in time. The Statements of Revenues, Expenses and Changes in Fund Net Assets, provide information on the nature and source of these assets represented on the Balance Sheet. They also show that revenues exceeded expenses by \$560,153. Ending net assets totaled \$22,522,991 or an increase in net assets of 2.6%. Total revenues were lower by \$1,190,318 in 2006, totaling \$9,121,813. Operating revenues increased from 2005, by \$155,491, and non-operating revenues decreased by \$1,309,294. An explanation of this decrease in non-operating revenues follows Table A-6. Capital contributions decreased by \$36,515 in 2006 due to decrease in facility fees revenue. Revenue exceeded expenses by \$2,451,469 in 2005. Ending net assets in 2005 totaled \$21,962,838 and total revenues were higher by \$2,325,914 in 2005, totaling \$10,312,131. Operating revenues increased from 2004, by \$689,673, and non operating revenues increased by \$1,346,380. Capital contributions increased in 2005 by \$289,861 due to contributed developer infrastructure and increased facility fees of \$79,039.

On the statements of revenues, expenses and changes in fund net assets, the nonoperating revenues and expenses are listed together. On the condensed statement below, operating and nonoperating revenues and expenses are shown together, as follows:

TABLE A-2
Condensed Statements of Revenues,
Expenses and Changes in Net Assets

	FY 2006	FY 2005	Dollar Change	Percent Change	FY 2004
Operating Revenues	\$ 8,440,980	\$ 8,285,489	155,491	1.9%	\$ 7,595,816
Nonoperating Revenues	365,330	1,674,624	(1,309,294)	(78.2%)	328,244
Capital Contributions	<u>315,503</u>	<u>352,018</u>	<u>(36,515)</u>	<u>(10.4%)</u>	<u>62,157</u>
Total Revenues	9,121,813	10,312,131	(1,190,318)	(11.5%)	7,986,217
Depreciation Expense	2,159,149	2,152,106	7,043	0.3%	2,206,117
Other Operating Expense	4,769,217	4,047,182	722,035	17.8%	3,756,348
Nonoperating expenses	<u>1,633,294</u>	<u>1,661,374</u>	<u>(28,080)</u>	<u>(1.7%)</u>	<u>1,688,093</u>
Total Expenses	8,561,660	7,860,662	700,998	8.9%	7,650,558
Change in Net Assets	560,153	2,451,469	(1,891,316)	(77.2%)	335,659
Beginning Net Assets	<u>21,962,838</u>	<u>19,511,369</u>	<u>2,451,469</u>	<u>12.6%</u>	<u>19,175,710</u>
Ending Net Assets	\$ 22,522,991	\$ 21,962,838	\$ 560,153	2.6%	\$ 19,511,369

Operating revenues consists of the following:

Table A-3
Operating Revenues

	FY 2006	FY 2005	Dollar Change	Percent Change	FY 2004
Water Sales	\$8,293,402	\$ 8,130,854	\$ 162,548	2.0%	\$ 7,472,897
Connection and other fees	<u>147,578</u>	<u>154,905</u>	<u>(7,327)</u>	<u>(4.7%)</u>	<u>122,919</u>
Total	\$ 8,440,980	\$ 8,285,489	\$ 155,491	1.9%	\$ 7,595,816

Operating revenues increased in 2006 and 2005 due to a rate increase and new construction.

Significant components of operating expenses are as follows:

Table A-4
Operating Expenses

	FY 2006	FY 2005	Dollar Change	Percent Change	FY 2004
Operating Expenses					
Depreciation & Amortization	\$2,159,149	\$ 2,152,106	7,043	0.3%	\$ 2,206,117
General and Administrative	1,157,196	1,151,842	5,354	0.5%	1,085,469
Transmission and distribution	1,791,287	1,287,109	504,178	39.2%	1,016,204
Pumping	951,824	854,543	97,281	11.4%	758,295
Water Treatment	216,378	187,065	29,313	15.7%	207,699
Source of Supply	<u>652,532</u>	<u>596,623</u>	<u>55,909</u>	<u>9.4%</u>	<u>688,681</u>
Total Operating Expenses	\$6,928,366	\$6,199,288	\$729,078	11.8%	\$ 5,962,465

Operating expenses increased by \$729,078 from \$6,199,288 in 2005 to \$6,928,366 in 2006. This increase is primarily due to an increase in expenditures for transmission and distribution due to cost of repairs of service line

and main line, paving, road materials, spoils removal, gas and oil, and contract labor for meter reading. Operating expenses increased by \$236,823 from \$5,962,465 in 2004 to \$6,199,288 in 2005. This increase was primarily due to an increase in expenditures for transmission and distribution due to promotions and creating the Chief Plant Operator position. In addition, salaries were increased as a result of new rates in the Union agreement and increased healthcare insurance premiums and PERS rates.

Operating revenues compared to operating expenses, excluding depreciation, are compared as follows:

**Table A-5
Operating Revenues vs. Operating Expenses**

	FY 2006	FY 2005	Dollar Change	Percent Change	FY 2004
Operating Revenues	\$8,440,980	\$ 8,285,489	\$ 155,491	1.9%	\$ 7,595,816
Operating Expenses	<u>6,928,366</u>	<u>6,199,288</u>	<u>729,078</u>	<u>11.7%</u>	<u>5,962,465</u>
Net Operating Gain	<u>\$1,512,614</u>	<u>\$ 2,086,201</u>	<u>(\$573,587)</u>	<u>(27.5%)</u>	<u>\$ 1,633,351</u>

Significant items of nonoperating revenues and expenses are as follows:

**Table A-6
Nonoperating Revenues and Expenses**

	FY 2006	FY 2005	Dollar Change	Percent Change	FY 2004
Gain on disposal of capital assets	0	\$ 1,457,776	(\$1,457,776)	(100.0%)	\$ 195,309
Investment income	174,064	128,967	45,097	34.9%	77,114
Income from joint venture	17,684	61,190	(43,506)	(71.1%)	38,891
Miscellaneous income	<u>173,582</u>	<u>26,691</u>	<u>146,891</u>	<u>550.3%</u>	<u>16,930</u>
Total nonoperating revenue	<u>\$365,330</u>	<u>\$ 1,674,624</u>	<u>(\$1,309,294)</u>	<u>(78.2%)</u>	<u>\$ 328,244</u>
Interest expense	\$(1,633,294)	\$(1,661,374)	\$ (28,080)	(1.7%)	\$(1,688,093)
Total nonoperating expenses	<u>\$(1,633,294)</u>	<u>\$(1,661,374)</u>	<u>\$ (28,080)</u>	<u>(1.7%)</u>	<u>\$(1,688,093)</u>
Net	<u>\$(1,267,964)</u>	<u>\$ 13,250</u>	<u>(\$1,281,214)</u>	<u>(9669.5%)</u>	<u>\$(1,359,849)</u>

Non-operating revenues decreased by \$1,309,294 in 2006 primarily due to the effect of prior year's gain from the sale of the Grant Avenue property. Nonoperating revenues in 2005 increased by \$1,346,380 primarily due to the gain on the sale of the Grant Avenue property.

CAPITAL ASSETS

The District's capital assets, net of accumulated depreciation, consist mainly of land, water facilities, buildings and improvements, furniture and equipment and construction in progress. The increase in depreciation is due to the true up of the depreciation due to the conversion from the prior year. The details of the District's capital assets are as follows:

TABLE A-7
Capital Assets, Net
For the years ended June 30, 2006, 2005 and 2004

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Land, franchise and water rights	\$ 545,701	\$ 545,701	\$ 65,307
Construction in progress	994,976	721,891	91,212
Pumping plant	33,732,467	32,874,504	33,143,932
Transmission and distribution	16,650,950	15,814,839	14,500,995
General Plant	<u>10,850,857</u>	<u>9,904,429</u>	<u>10,450,838</u>
	62,774,951	59,861,364	58,252,284
Less Accumulated Depreciation	<u>(17,066,271)</u>	<u>(14,944,649)</u>	<u>(13,246,801)</u>
Net Capital Assets	<u>\$45,708,680</u>	<u>\$44,916,715</u>	<u>\$45,005,483</u>

Additional information about the capital assets can be found in Note C to the financial statements.

LONG-TERM DEBT

At June 30, 2006 the District had \$31,530,496 in certificates of participation, a decrease of 2.3% from 2005. At June 30, 2005, the District had \$32,993,300 in certificates of participation, a decrease of 2.0% from 2004. No new debt was issued during the year and the District has no immediate needs to issue additional debt. More detailed information about the District's long-term debt is presented in Note G to the financial statements.

ECONOMIC FACTORS AND RATES

The District budget for the fiscal year ended June 30, 2007 projects a 2.0% rate increase. The projected increase in revenues from these changes is expected to outpace the increase in costs associated with running the District.

There could be an adverse financial impact to the District if the increased revenues do not materialize.

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's accountability for the financial resources it manages. If you have questions about this report or need additional financial information, contact the District at 7837 Fair Oaks Blvd., Carmichael, CA 95608 or call (916) 483-2452.

CARMICHAEL WATER DISTRICT

BALANCE SHEETS

June 30, 2006 and 2005

	2006	2005
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 3,524,922	\$ 4,613,811
Accounts receivable	792,671	489,990
Other receivables	447,479	4,500
Accrued interest receivable	28,689	17,451
Inventory	256,627	254,258
Prepaid expenses	52,835	40,115
	TOTAL CURRENT ASSETS	5,420,125
RESTRICTED ASSETS		
Restricted cash and cash equivalents	648,407	410,228
Restricted investments	2,205,162	2,292,232
	TOTAL RESTRICTED ASSETS	2,940,460
CAPITAL ASSETS, NET	45,708,680	44,916,715
OTHER ASSETS		
Investment in electrical power	217,456	223,676
Membrane replacement liability		240,199
Notes receivable	1,675,000	1,675,000
Deferred bond issue costs	511,758	534,089
	TOTAL ASSETS	\$ 56,069,686
		\$ 55,712,264
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 336,184	\$ 73,750
Accrued payroll	66,350	60,533
Deferred revenue	71,911	
Accrued interest payable	542,860	552,285
Membrane replacement liability	169,505	
Current portion of long-term debt	750,000	725,000
	TOTAL CURRENT LIABILITIES	1,411,568
LONG-TERM LIABILITIES		
Certificates of participation	31,530,496	32,268,300
Compensated liabilities	79,389	69,558
	TOTAL LIABILITIES	33,749,426
NET ASSETS		
Invested in capital assets, net of related debt	13,428,184	11,923,415
Restricted for debt service	2,367,854	2,388,025
Restricted for facility expansion	485,715	314,435
Unrestricted	6,241,238	7,336,963
	TOTAL NET ASSETS	21,962,838
	TOTAL LIABILITIES AND NET ASSETS	\$ 56,069,686
		\$ 55,712,264

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

CARMICHAEL WATER DISTRICT

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

For the years ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
OPERATING REVENUES		
Water sales	\$ 8,293,402	\$ 8,130,584
Connection and other fees	147,578	154,905
TOTAL OPERATING REVENUES	<u>8,440,980</u>	<u>8,285,489</u>
OPERATING EXPENSES		
Depreciation and amortization	2,159,149	2,152,106
General and administrative	1,157,196	1,151,842
Transmission and distribution	1,791,287	1,287,109
Pumping	951,824	824,543
Source of supply	652,532	596,623
Water treatment	216,378	187,065
TOTAL OPERATING EXPENSES	<u>6,928,366</u>	<u>6,199,288</u>
NET INCOME FROM OPERATIONS	1,512,614	2,086,201
NON-OPERATING (EXPENSES) REVENUES		
Gain on disposal of capital assets		1,457,776
Investment income	174,064	128,967
Reimbursements	149,116	24,125
Income from joint venture	17,684	61,190
Miscellaneous income	24,466	2,566
Interest expense	(1,633,294)	(1,661,374)
TOTAL NON-OPERATING (EXPENSES) REVENUES	<u>(1,267,964)</u>	<u>13,250</u>
CAPITAL CONTRIBUTIONS	<u>315,503</u>	<u>352,018</u>
CHANGE IN NET ASSETS	560,153	2,451,469
Net assets at beginning of year	<u>21,962,838</u>	<u>19,511,369</u>
NET ASSETS AT END OF YEAR	<u>\$ 22,522,991</u>	<u>\$ 21,962,838</u>

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

CARMICHAEL WATER DISTRICT

STATEMENTS OF CASH FLOWS

For the years ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers	\$ 8,210,210	\$ 8,177,060
Cash paid to suppliers for goods and services	(3,534,947)	(2,974,558)
Cash paid to employees for services	(1,385,255)	(1,278,925)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>3,290,008</u>	<u>3,923,577</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Receipts from other net nonoperating revenues	<u>144,581</u>	<u>26,691</u>
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	144,581	26,691
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Membrane replacement deposits	(323,250)	(161,625)
Purchase of capital assets	(2,037,904)	(2,037,434)
Proceeds from sale of capital assets		367,662
Payments on certificates of participation	(725,000)	(695,000)
Interest paid on capital debt	(1,642,719)	(1,763,523)
Facility fees collected	<u>169,774</u>	<u>141,195</u>
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(4,559,099)	(4,148,725)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investment securities		(2,330,062)
Investment income received	249,896	157,983
Income from joint venture	<u>23,904</u>	<u>66,719</u>
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>273,800</u>	<u>(2,105,360)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(850,710)	(2,303,817)
Cash and cash equivalents at beginning of year	<u>5,024,039</u>	<u>7,327,856</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 4,173,329</u>	<u>\$ 5,024,039</u>
Cash and cash equivalents consist of the following:		
Unrestricted	\$ 3,524,922	\$ 4,613,811
Restricted	<u>648,407</u>	<u>410,228</u>
	<u>\$ 4,173,329</u>	<u>\$ 5,024,039</u>

(Continued)

CARMICHAEL WATER DISTRICT
STATEMENTS OF CASH FLOWS (Continued)

For the years ended June 30, 2006 and 2005

	2006	2005
RECONCILIATION OF NET INCOME FROM OPERATIONS TO		
NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Net income from operations	\$ 1,512,614	\$ 2,086,201
Adjustments to reconcile net income from operations to net cash provided by operating activities:		
Depreciation and amortization	2,159,149	2,152,106
Changes in assets and liabilities:		
Accounts and other receivables	(716,659)	(108,429)
Inventory	(2,369)	(53,854)
Prepaid expenses	(12,720)	1,746
Accounts payable	262,434	(152,404)
Notes payable		(19,143)
Accrued payroll	5,817	12,481
Deferred revenue	71,911	
Compensated absences	9,831	4,873
	\$ 3,290,008	\$ 3,923,577
 SUPPLEMENTAL DISCLOSURE OF NON-CASH ACTIVITIES		
Change in fair value of investments	\$ 87,070	\$ 37,830
Receipt of contributed assets	145,729	210,823
Receipt of note from sale of fixed asset		1,675,000

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

CARMICHAEL WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

June 30, 2006 and 2005

NOTE A--REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Carmichael Water District (District) have been prepared in conformity with generally accepted accounting principles as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. As allowed by the GASB, the District has elected not to apply to its proprietary activities Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee of Accounting Procedures issued after November 30, 1989. The more significant of the District's accounting policies are described below.

Reporting Entity: The District was established in 1916 as an irrigation district located in the central portion of Sacramento County northeast of the City of Sacramento and north of the lower American River. The area served by the District encompasses approximately eight square miles and served a population of approximately 39,000. The District is predominately residential in character, with interspersed commercial areas. The District is governed by a Board of Directors consisting of five directors elected by residents of the District. The accompanying basic financial statements present the District and its component unit. The component unit discussed below is included in the District's reporting entity because of the significance of its operational and financial relationship with the District.

The District has created the Carmichael Water District Financing Corporation (the Corporation) to provide assistance to the District in the issuance of debt. Although legally separate from the District, the Corporation is reported as if it were part of the primary government because it shares a common Board of Directors with the District and its sole purpose is to provide financing to the District under the debt issuance documents of the District. Debt issued by the Corporation is reflected as debt of the District in these financial statements. The Corporation has no other transactions and does not issue separate financial statements.

Basis of Presentation--Fund Accounting: The District's resources are allocated to and accounted for in these basic financial statements as an enterprise fund type of the proprietary fund group. The enterprise fund is 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, or where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other policies. Net assets for the enterprise fund represents the amount available for future operations.

Basis of Accounting: The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The enterprise fund type is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of this fund are included on the balance sheet. Net assets are segregated into amounts invested in capital assets, net of related debt, amounts restricted and amounts unrestricted. Enterprise fund type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

The District uses the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. Grant revenue is recognized when program expenditures are incurred in accordance with program guidelines. When such funds are received they are recorded as deferred revenues until earned. Earned but unbilled water services are accrued as revenue. Water lines are constructed by private developers and then dedicated to the District, which is then responsible for their future maintenance. These lines are recorded as capital contributions when they pass inspection by the District and the estimated costs are capitalized as transmission and distribution.

CARMICHAEL WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

June 30, 2006 and 2005

NOTE A--REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Operating revenues and expenses consist of those revenues and expenses that result from the ongoing principal operations of the District. Operating revenues consist primarily of charges for services. Non-operating revenues and expense consist of those revenues and expenses that are related to financing and investing types of activities and result from nonexchange transactions or ancillary activities.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles 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 expenses during the reporting period. Actual results could differ from those estimates.

Inventory: Inventory consists primarily of materials used in the construction and maintenance of the water distribution facilities and is valued at weighted average cost.

Investments: Investments are stated at their fair value which represents the quoted or stated market value. Investments that are not traded on a market, such as investments in external pools, are valued based on the stated fair value as represented by the external pool.

Capital Assets: Capital assets are recorded at historical cost. Donated assets are valued at estimated fair value on the date received. Self constructed assets are recorded based on the amount of direct labor, material, and certain overhead charged to the asset construction. Depreciation is calculated using the straight-line method over the following estimated useful lives:

<u>Description</u>	<u>Estimated Life</u>
Pumping plant	15-30 years
Transmission and distribution	15-33 years
General plant	3-40 years

Depreciation expense aggregated \$2,124,949 and \$2,117,578 for the years ended June 30, 2006 and 2005, respectively, and is included with depreciation and amortization expense.

Maintenance and repairs are charged to operations when incurred. It is the District's policy to capitalize all capital assets with a cost of more than \$500. Costs of assets sold or retired (and the related amounts of accumulated depreciation) are eliminated from the balance sheet in the year of sale or retirement, and the resulting gain or loss is recognized in operations.

Bond Premiums and Issuance Costs: Bond premiums, as well as issuance costs, are deferred and amortized over the lives of the bonds. Bonds payable are reported net of the applicable bond premiums. Bond issuance costs are reported as a component of Other Assets.

Compensated Absences: The District's policy allows employees to accumulate earned but unused vacation which will be paid to employees upon separation from the District's service, subject to a vesting policy. The cost of vacation is recorded in the period accrued.

Cash and Cash Equivalents: For purposes of the statement of cash flows the District considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents, including restricted assets.

CARMICHAEL WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2006 and 2005

NOTE A--REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reclassification: Certain accounts and amounts in the 2005 financial statements have been reclassified in order to conform to the 2006 presentation.

NOTE B--CASH AND INVESTMENTS

Cash and investments as of June 30, 2006 and 2005 are classified in the accompanying financial statements as follows:

	2006	2005
Cash and cash equivalents	\$ 3,524,922	\$ 4,613,811
Restricted cash and cash equivalents	648,407	410,228
Restricted investments	2,205,162	2,292,232
Total cash and investments	<u>\$ 6,378,491</u>	<u>\$ 7,316,271</u>

Cash and investments as of June 30, 2006 and 2005 consisted of the following:

	2006	2005
Cash on hand	\$ 1,050	\$ 1,050
Deposits with financial institutions	1,464,317	2,467,069
Total cash	<u>1,465,367</u>	<u>\$ 2,468,119</u>
U.S. Treasury obligations	\$ 2,205,162	2,292,232
Mutual funds	162,692	95,793
Investments in Local Agency Investment Fund (LAIF)	2,545,270	2,460,127
Total investments	<u>4,913,124</u>	<u>4,848,152</u>
Total cash and investments	<u>\$ 6,378,491</u>	<u>\$ 7,316,271</u>

Investment policy: California statutes authorize districts to invest idle or surplus funds in a variety of credit instruments as provided for in the California Government Code, Section 53600, Chapter 4 - Financial Affairs. The table below identifies the investment types that are authorized for the District by the California Government Code (or the District's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by the bond trustee that are governed by the provisions of debt agreements of the District, rather than the general provisions of the California Government Code or the District's investment policy. During the year ended June 30, 2006, the District's permissible investments included the following instruments:

Authorized Investment Type	Maximum Maturity	Maximum Percentage Of Portfolio*	Maximum Investment In One Issuer
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Bankers Acceptances	180 days	40%	30%
Commercial Paper	270 days	25%	10%

CARMICHAEL WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2006 and 2005

NOTE B--CASH AND INVESTMENTS (Continued)

Authorized Investment Type	Maximum Maturity	Maximum Percentage Of Portfolio	Maximum Investment In One Issuer
Negotiable Certificates and Time Deposits	5 years	30%	None
Repurchase Agreements	92 days	20%	None
Medium Term Corporate Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
LAIF	N/A	\$4 million	None

*Excluding amounts held by the bond trustee that are not subject to California Government Code restrictions.

The District complied with the provisions of the California Government Code (or the District's investment policy, where more restrictive) pertaining to the types of investments held, the institutions in which deposits were made and the security requirements. The District will continue to monitor compliance with applicable statutes pertaining to public deposits and investments.

Investments Authorized by Debt Agreements: Investment of debt proceeds held by the bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the District's investment policy. The 1999 Revenue Certificates of Participation debt agreement contains certain provisions that address interest rate risk and credit risk, but not concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage Of Portfolio	Maximum Investment In One Issuer
Local Agency Bonds	None	None	None
U.S. Treasury Obligations	None	None	None
U.S. Agency Securities	None	None	None
Bankers Acceptances	1 year	None	None
Commercial Paper	None	None	None
Certificates of Deposit	None	None	None
Investment Agreements	None	None	None
Repurchase Agreements	None	None	None
Mutual Funds	N/A	None	None
LAIF	N/A	None	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. One of the ways the District manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

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

CARMICHAEL WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2006 and 2005

NOTE B--CASH AND INVESTMENTS (Continued)

	Remaining Maturity (in Months)		
	Total	12 Months Or less	25-60 Months
LAIF	\$ 2,545,270	\$ 2,545,270	
Held by bond trustee:			
U.S. Treasury obligations	2,205,162		\$ 2,205,162
Mutual funds	162,692	162,692	
Total	\$ 4,913,124	\$ 2,707,962	\$ 2,205,162

Credit Risk: Generally, 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 required by (where applicable) the California Government Code, the District's investment policy, or debt agreements, and the actual rating as of year end for each investment type.

	Total	Minimum Legal Rating	Ratings as Of Year End AAA	Not Rated
LAIF	\$2,545,270	N/A		\$ 2,545,270
Held by bond trustee:				
U.S. Treasury obligations	2,205,162	N/A	\$ 2,205,162	
Mutual funds	162,692	AAA	162,692	
	\$4,913,124		\$ 2,367,854	\$ 2,545,270

Concentration of Credit Risk: The investment policy of the District limits the amount that can be invested in any one issuer to the lesser of the amount stipulated by the California Government Code or 50% of total investments, with the exception of U.S. Treasury obligations, U.S. Agency Securities and LAIF. There are no investments in any one issuer (other than mutual funds and external investment pools) that represent 5% or more of total District investments.

Custodial credit risk: Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. 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, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure public agency deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

At June 30, 2006, the carrying amount of the District's deposits were \$1,464,317 and the balances in financial institutions were \$1,935,617. Of the balance in financial institutions, \$100,000 was covered by federal depository insurance and \$1,835,617 was collateralized as required by State law (Government Code Section 53630), by the pledging financial

CARMICHAEL WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2006 and 2005

NOTE B--CASH AND INVESTMENTS (Continued)

institution with assets held in a common pool for the District and other governmental agencies, but not in the name of the District. As of June 30, 2006, District investments in the following investment types were held by the same broker-dealer (counterparty) that was used by the District to buy the securities:

<u>Reported Investment Type</u>	<u>Amount</u>
U.S. Treasury obligations	\$ 2,205,162
Mutual funds	162,962

Investment in LAIF: LAIF is stated at amortized cost, which approximates fair value. The LAIF is a special fund of the California State Treasury through which local governments may pool investments. The total fair value amount invested by all public agencies in LAIF is \$63,337,959,989 managed by the State Treasurer. Of that amount, 97.4 percent is invested in non-derivative financial products and 2.6 percent in derivative financial products and structured financial instruments. The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by State Statute. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

NOTE C--CAPITAL ASSETS

Capital asset activity for the years ended June 30, 2006 and 2005 are as follows:

	<u>Balance July 1, 2005</u>	<u>Additions</u>	<u>Other Adjustments/ Deletions</u>	<u>Transfers</u>	<u>Balance June 30, 2006</u>
Capital assets not being depreciated:					
Land, franchises and water rights	\$ 545,701				\$ 545,701
Construction in progress	721,891	\$ 948,139	\$ (14,332)	\$ (660,722)	994,976
	<u>1,267,592</u>	<u>948,139</u>	<u>(14,332)</u>	<u>(660,722)</u>	<u>1,540,677</u>
Capital assets being depreciated:					
Pumping plant	32,874,504	857,963			33,732,467
Transmission and distribution	15,814,839	578,928		257,183	16,650,950
Buildings and improvements	6,337,087	141,277		145,813	6,624,177
Vehicles and equipment	3,349,604	354,610		18,394	3,722,608
Furniture and fixtures	217,738	50,329	(3,327)	239,332	504,072
	<u>58,593,772</u>	<u>1,983,107</u>	<u>(3,327)</u>	<u>660,722</u>	<u>61,234,274</u>
Less accumulated depreciation	<u>(14,944,649)</u>	<u>(2,124,949)</u>	<u>3,327</u>		<u>(17,066,271)</u>
Net capital assets being depreciated	<u>43,649,123</u>	<u>(141,842)</u>		<u>660,722</u>	<u>44,168,003</u>
Net capital assets	<u>\$ 44,916,715</u>	<u>\$ 806,297</u>	<u>\$ (14,332)</u>		<u>\$ 45,708,680</u>

CARMICHAEL WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2006 and 2005

NOTE C--CAPITAL ASSETS (Continued)

	Balance July 1, 2004	Additions	Deletions	Transfers	Balance June 30, 2005
Capital assets not being depreciated:					
Land, franchises and water rights	\$ 65,307			\$ 480,394	\$ 545,701
Construction in progress	91,212	\$ 1,096,789		(466,110)	721,891
	<u>156,519</u>	<u>1,096,789</u>		<u>14,284</u>	<u>1,267,592</u>
Capital assets being depreciated:					
Pumping plant	33,143,932	365,441		(634,869)	32,874,504
Transmission and distribution	14,500,995	946,868	\$ (637)	367,613	15,814,839
Buildings and improvements	6,905,145	99,769	(992,967)	325,140	6,337,087
Vehicles and equipment	3,417,701	58,397	(9,552)	(116,942)	3,349,604
Furniture and fixtures	127,992	46,433	(1,461)	44,774	217,738
	<u>58,095,765</u>	<u>1,516,908</u>	<u>(1,004,617)</u>	<u>(14,284)</u>	<u>58,593,772</u>
Less accumulated depreciation	<u>(13,246,801)</u>	<u>(2,117,578)</u>	<u>419,730</u>		<u>(14,944,649)</u>
Net capital assets being depreciated	<u>44,848,964</u>	<u>(600,670)</u>	<u>(584,887)</u>	<u>(14,284)</u>	<u>43,649,123</u>
Net capital assets	<u>\$ 45,005,483</u>	<u>\$ 496,119</u>	<u>\$ (584,887)</u>		<u>\$ 44,916,715</u>

NOTE D--INVESTMENT IN ELECTRICAL POWER

The District participates in the California-Oregon Transmission Project (Project), a Joint Powers Authority (JPA), which is a project of the Department of Energy, Western Area Power Administration. The Project is governed by a management committee, which is chaired by a representative of the Transmission Agency of Northern California with each participant in the Project having representation on the Management Committee. The District applied as a Community Services District and Central Valley Project Contractor, and received allocation of 1MW (megawatt) of power (capacity and associated energy) in exchange for an investment as a participant in the construction of the transmission line.

The District has a 0.067 percent equity interest in the net assets of the Project as defined in the Long-Term Participation Agreement. The District also has an obligation to finance 0.067 percent of the net losses of the Project; it also has the right to receive 0.067 percent of the operating results of the Project income. The District is billed monthly for its share of the operations and maintenance costs of the Project, which totaled approximately \$417 and \$2,622 during the years ended June 30, 2006 and 2005, respectively. The District's net investment and its share of the operating results of the Project are reported as Investment in Electrical Power.

On January 1, 2006, the District entered into an agreement to lease its share or approximately 1MW of transmission capacity to the Sacramento Municipal Utility District. For the year ended June 30, 2006, the amount of revenue generated from the transmission lease was \$23,904 and \$66,719, respectively. The agreement is effective through December 31, 2024.

The Project's unaudited financial statements for the year ended June 30, 2006, are available from the California-Oregon Transmission Project at Post Office Box 15140, Sacramento, California 95851-5140. The following is the summarized unaudited financial information for the Project as of and for the year ended June 30, 2006 and 2005:

CARMICHAEL WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2006 and 2005

NOTE D--INVESTMENT IN ELECTRICAL POWER (Continued)

	2006	2005
Balance Sheet		
Assets	<u>\$ 343,472,318</u>	<u>\$ 346,932,093</u>
Liabilities	\$ 18,116,585	\$ 12,249,887
Net assets	<u>325,355,733</u>	<u>334,682,206</u>
	<u>\$ 343,472,318</u>	<u>\$ 346,932,093</u>
Income Statement		
Operating revenues	\$ 7,299,328	\$ 4,550,374
Operating expenses	<u>(17,611,756)</u>	<u>(14,819,453)</u>
Operating loss	<u>(10,312,428)</u>	<u>(10,269,079)</u>
Nonoperating revenues	<u>88,414</u>	<u>45,065</u>
Decrease in Net Assets Before Adjustments	(10,224,014)	(10,224,014)
Adjustments for Capital Improvements	<u>897,541</u>	<u>1,933,882</u>
Net decrease in net assets	<u>\$ (9,326,473)</u>	<u>\$ (8,290,132)</u>
District's share of net loss for period	<u>\$ (217,456)</u>	<u>\$ (223,676)</u>

NOTE E--MEMBRANE REPLACEMENT DEPOSIT

In connection with the construction of the water treatment plant, the District entered into a Membrane Replacement Agreement with US Filter Corporation in 1999. The agreement establishes a sinking fund to pay for the replacement membrane submodules. For an annual payment of \$150,000 plus 7.75% tax for ten years, US Filter Corporation will provide replacement membranes on an as-needed basis. If, at the end of the ten-year period, US Filter Corporation has not provided at least two replacement membranes for each and every submodule supplied with the original equipment, US Filter Corporation will still be required to provide these membranes as requested by the District at a later date. At June 30, 2006, payments totaling \$957,750 have been made. This amount will be recorded as a membrane replacement deposit until a membrane submodule is replaced, at which point the new membrane cost will reduce the outstanding deposit, and be recorded as a capital asset. During the year ended June 30, 2006, 1,080 membranes were replaced. A total of 1,661 membranes have been replaced since the beginning of the contract. The cost of membranes replaced exceeded the payments made during the year ended June 30, 2006 creating a membrane replacement deposit liability balance of \$169,505 at June 30, 2006. Remaining membrane replacement deposit totaled \$240,199 at June 30, 2005.

NOTE F--NOTES RECEIVABLE

On September 15, 2005, the District sold property located at 6840 Grant Avenue, Carmichael, California, for \$2,100,000. Pursuant to this sale transaction, the District recorded a note receivable for \$1,675,000. The note is secured by a deed of trust. The note accrues interest and is paid monthly. The interest rate is fixed at 4.55% for one year until September 20, 2006, and increases to 5.93% through September 20, 2007. No principal amounts are due until September 20, 2007, when the total note receivable is due and payable.

CARMICHAEL WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2006 and 2005

NOTE G--LONG-TERM LIABILITIES

Long-term debt consists of the following:

1999 Certificates of participation: On May 26, 1999, the District issued \$35,300,000 of Revenue Certificates of Participation (Certificates) with interest ranging from 3.9% to 5.25%. These 1999 Certificates were issued to finance the acquisition and construction of certain facilities. Annual principal payments, ranging from \$725,000 to \$2,265,000 are due on September 1 through September 1, 2029 and semi-annual interest payments, ranging from \$58,040 to \$828,428 are due on March 1 and September 1 through September 1, 2029. On or after September 1, 2009, the Certificates maturing on or after September 1, 2010 are subject to prepayment at the option of the District. The activity of the District's long-term debt during the years ended on June 30, 2006 and 2005 are as follows:

	Balance July 1, 2005	Reductions	Balance June 30, 2006	Due Within One Year
1999 Certificates of Participation	\$ 33,285,000	\$ (725,000)	\$ 32,560,000	
Less: Unamortized discount	(291,700)	12,196	(279,504)	
	<u>\$ 32,993,300</u>	<u>\$ (712,804)</u>	<u>\$ 32,280,496</u>	<u>\$ 750,000</u>
Compensated absences	<u>\$ 69,558</u>	<u>\$ 9,831</u>	<u>\$ 79,389</u>	

	Balance July 1, 2004	Reductions	Balance June 30, 2005	Due Within One Year
1999 Certificates of Participation	\$ 33,980,000	\$ (695,000)	\$ 33,285,000	
Less: Unamortized discount	(303,897)	12,196	(291,700)	
	<u>\$ 33,676,103</u>	<u>\$ (682,804)</u>	<u>\$ 32,993,300</u>	<u>\$ 725,000</u>
Compensated absences	<u>\$ 64,685</u>	<u>\$ 4,783</u>	<u>\$ 69,558</u>	

The following is a schedule of maturities for the certificates of participation:

	Principal	Interest
2007	\$ 750,000	\$ 1,613,581
2008	780,000	1,582,591
2009	815,000	1,549,283
2010	850,000	1,511,776
2011	890,000	1,471,564
2012-2016	5,110,000	6,660,013
2017-2021	6,545,000	5,182,784
2022-2026	8,400,000	3,277,181
2027-2030	8,420,000	889,956
	<u>\$ 32,560,000</u>	<u>\$ 23,738,729</u>

CARMICHAEL WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2006 and 2005

NOTE G--LONG-TERM LIABILITIES (Continued)

The District is required by its 1999 Certificates of Participation to collect rates and charges from its water system that will be sufficient to yield net revenues equal to 120% of debt service payments on any future debt issued and deposit the net revenues in a revenue fund pledged for such future debt service payments.

NOTE H--ARBITRAGE REBATE LIABILITY

Section 148(f) of the Internal Revenue Code requires issuers of tax-exempt state and local bonds to remit to the federal government amounts equal to (a) the excess of the actual amounts earned on all "Non-purpose Investments" allocable to "Gross Proceeds" of an issue of municipal obligations less the amount that would have been earned if the investments bore a rate equal to the amount that would have been earned if the investments bore a rate equal to the yield on the issue, plus (b) all income attributable to the excess. Issuers must make rebate payments at least once every five years and upon final retirement or redemption of the bonds. There was no arbitrage liability at June 30, 2006 and 2005. The net decrease in the arbitrage rebate liability of \$93,114 for the year ended June 30, 2005, has been credited to interest income.

NOTE I--NET ASSETS

Restrictions: Restricted net assets consist of constraints placed on net asset use through external requirements imposed by creditors (such as through debt covenants), grantors, contributors, or laws and regulations of other governments or constraints by law through constitutional provisions or enabling legislation. Net assets restricted for new facilities represents unspent facility fees, which are restricted to capital expenses by Section 66013 of the Water Code of the State of California. Restricted net assets consisted of the following at June 30:

	2006	2005
Debt service reserve on 1999 Certificates of Participation	\$ 2,367,854	\$ 2,388,025
Facility Fees - expansion of facilities	485,715	314,435
Total restricted net assets	<u>\$ 2,853,569</u>	<u>\$ 2,702,460</u>

Designations: Designations of unrestricted net assets may be imposed by the Board of Directors to reflect future spending plans or concerns about the availability of future resources. Designations may be modified, amended or removed by Board action. The Board has designated \$150,000 for rate stabilization to be used to make up a revenue deficiency in a future year in order to assist in meeting the debt service coverage requirement.

NOTE J--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 plan. 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 employers within the State of California. All full and part-time District employees working at least 1,000 hours per year are eligible to participate in PERS. Under PERS, benefits vest after five years of service. Upon retirement, participants are entitled to an annual retirement benefit, payable for life, in an amount equal to a benefit factor times the monthly average salary of their highest twelve consecutive months full-time equivalent monthly pay. A menu of benefit provisions as well as other requirements are established by State statutes within the Public

CARMICHAEL WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2006 and 2005

NOTE J--DEFINED BENEFIT PENSION PLAN (Continued)

employees' Retirement Law. The Plan selects optional benefit provisions from the benefit menu by contract with PERS and adopts those benefits through District resolution. PERS issues a separate comprehensive annual financial report. Copies of the PERS' annual financial report may be obtained from the PERS Executive Office - 400 P Street - Sacramento, California 95814.

Funding policy: Active plan members are required to contribute 7% of their annual covered salary. The District makes the contributions required of District employees on their behalf and for their account. The District is required to contribute at an actuarially determined rate. The required employer contribution rate for the fiscal year ended June 30, 2006 and 2005 was zero. The contribution requirements of the plan members and the District are established and may be amended by PERS.

Annual pension costs: For the years ended June 30, 2006 and 2005, the District's annual pension cost and actual contribution was zero. The required contribution for the fiscal year ended June 30, 2006 was determined as part of the June 30, 2003 actuarial valuation using entry age actuarial cost method. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses); (b) projected salary increases that vary in duration of service ranging from 3.25% to 14.45% for miscellaneous members and (c) 3.25% cost of living adjustment. Both (a) and (b) include an inflation component of 3%. The actuarial value of the plan's 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). The plan's excess assets are being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2003 was 17 years.

Three-Year Trend Information for the District

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage Of APC Contributed
June 30, 2004	\$ -0-	100%
June 30, 2005	\$ -0-	100%
June 30, 2006	\$ -0-	100%

The information below, which is from the latest available actuarial valuation reports, shows a three-year analysis of the actuarial value of assets as a percentage of the annual covered payroll of the Risk Pool for the District's contribution to PERS as of June 30:

Required Supplementary Information - Funded Status of Plan

Actuarial Valuation Date	Actuarial Accrued Liabilities	Actuarial Value Of Assets	Unfunded Liability	Funded Ratio	Annual Covered Payroll	Unfunded Liability as a % of Covered Payroll
June 30, 2002	N/A	N/A	N/A	N/A	N/A	N/A
June 30, 2003	\$ 2,596,966,545	\$ 2,372,879,034	\$ 224,087,511	91.37%	\$ 725,020,458	30.91%
June 30, 2004	\$ 2,746,095,668	\$ 2,460,944,656	\$ 285,151,012	89.62%	\$ 743,691,970	38.30%

NOTE K--OTHER POST-RETIREMENT BENEFITS

In addition to the pension benefits, the District provides certain healthcare benefits for retired employees through the Association of California Water Agencies. Substantially all of the District's full-time employees may become eligible for those benefits if they reach normal retirement age while working for the District. At June 30, 2006, nine retired employees/survivor dependents meet those eligibility requirements. The District's contributions are financed on a pay-as-you-

CARMICHAEL WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2006 and 2005

NOTE K--OTHER POST-RETIREMENT BENEFITS (Continued)

go basis and thus the District recognizes the cost of providing those benefits by expensing the annual insurance premiums, which amounted to \$45,533 and \$40,069 for the years ended June 30, 2006 and 2005, respectively.

NOTE L--COMMITMENTS AND CONTINGENCIES

The District has implemented a meter implementation program that will entail installing meters for all District customers by approximately 2011. Costs related to this program are budgeted annually.

NOTE M--INSURANCE

The District participates in the Association of California Water Agencies Joint Powers Insurance Authority (ACWA/JPIA) a public entity risk pool of California water agencies, for general and auto liability, public officials liability property damage and fidelity insurance. ACWA/JPIA provides insurance through the pool up to a certain level, beyond which group purchased commercial excess insurance is obtained.

The District pays an annual premium to ACWA/JPIA that includes its pro-rata share of excess insurance premiums, charges for the pooled risk, claims adjusting and legal costs, and administrative and other costs to operate the ACWA/JPIA. The District's deductibles and maximum coverage are as follows:

Coverage	ACWA/JPIA	Commercial Insurance	Deductible
General and Auto Liability (includes public officials liability)	\$ 1,000,000	\$ 39,000,000	None
Property Damage	50,000	50,000,000	\$500 to 25,000
Fidelity	100,000		1,000
Workers Compensation liability	2,000,000	Statutory	None
Employers liability	2,000,000	Statutory	None

The District continues to carry commercial insurance for all other risks of loss to cover all claims for risk of loss to which the District is exposed. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.