



**Yorba Linda Water District  
Annual Financial Report  
June 30, 2007 and 2006**



## *Mission Statement*

*“Yorba Linda Water District will provide reliable, high quality water and sewer services in an environmentally responsible manner at the most economical cost to our customers.”*

### **Board of Directors as of June 30, 2007**

<u>Name</u>	<u>Title</u>	<u>Elected/ Appointed</u>	<u>Current Term</u>
Ric P. Collett	President	Elected	11/2004-11/2008
John W. Summerfield	Vice-President	Elected	11/2006-11/2010
Paul R. Armstrong	Director	Elected	11/2006-11/2010
Michael J. Beverage	Director	Elected	11/2004-11/2008
William R. Mills	Director	Elected	11/2006-11/2010

**Michael A. Payne, General Manager  
Yorba Linda Water District  
4622 Plumosa Drive  
Yorba Linda, California 92886  
(714) 701-3020 – [www.ylwd.com](http://www.ylwd.com)**

**Yorba Linda Water District**

**Annual Financial Report**

**For the Years Ended June 30, 2007 and 2006**

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# **Introductory Section**





October 20, 2007

Board of Directors  
Yorba Linda Water District

### **Introduction**

It is our pleasure to submit the Annual Financial Report for the Yorba Linda Water District for the fiscal year ended June 30, 2007, following guidelines set forth by the Governmental Accounting Standards Board. District staff prepared this financial report. The District is ultimately responsible for both the accuracy of the data and the completeness and the fairness of presentation, including all disclosures in this financial report. We believe that the data presented is accurate in all material respects. The report is designed in a manner that we believe necessary to enhance your understanding of the District's financial position and activities.

This report is organized into two sections: (1) Introductory and (2) Financial. The Introductory section offers general information about the District's organization and current District activities and reports on a summary of significant financial results. The Financial section includes the Independent Auditors' Report, Management's Discussion and Analysis of the District's basic financial statements, and the District's audited basic financial statements with accompanying Notes.

Generally Accepted Accounting Principles (GAAP) requires that management provide a narrative introduction, overview and analysis to accompany the financial statements in the form of the Management's Discussion and Analysis (MD&A) section. This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The District's MD&A can be found immediately after the Independent Auditors' Report.

### **District Structure and Leadership**

The Yorba Linda Water District is an independent special district, which operates under the authority of Division 12 of the California Water Code. The Yorba Linda Water District has been providing water and sewer services to the residents of the City of Yorba Linda since 1959. The District is governed by a five-member Board of Directors, elected at-large from within the District's service area. The General Manager administers the day-to-day operations of the District in accordance with policies and procedures established by the Board of Directors. The Yorba Linda Water District employs a full-time staff of 68 employees. The District's Board of Directors meets on the second and fourth Thursday of each month. Meetings are publicly noticed and citizens are encouraged to attend.

The District provides water, sewer or a combination of both services to residents and businesses within its service area. The service area lies within most of the City of Yorba Linda and portions of the cities of Anaheim, Brea, and Placentia. The District includes approximately 14,475 acres of land comprising 22.6 square miles. The District serves a population of approximately 67,000 and currently provides service to 23,700 residential, commercial, and agricultural connections.

### **District Services**

Residential customers are approximately 71% of the District's customer base and consume approximately 73% of the water provided annually by the District. The District obtains most of its water supply from the Municipal Water District of Orange County and is supplemented by wells within the area. In 2007 and 2006, the District provided 25,657 and 23,033 acre-feet of water, respectively.

### **Economic Condition and Outlook**

The District's administrative offices are located in the City of Yorba Linda in Orange County. The economic outlook for the area is one of moderate growth, which is projected to continue through 2008.

California's water supply continues to be a concern due to projected population increases. This concern has increased interest in conservation and in irrigation methods and systems.

### **Major Initiatives**

The activities of the Board and staff of the District are driven by its Mission Statement: "To provide reliable, high quality water and sewer services in an environmentally responsible manner at the most economical cost to our customers."

1. To supply clean, wholesome water to the community and provide water for the future.
2. To plan, construct, operate, maintain and upgrade the water system facilities to adequately serve customer needs.
3. To utilize the District's financial resources in an effective and prudent manner.
4. To provide quality customer service for District customers.
5. To inform, educate, and communicate with the community on District and water issues.
6. To review and maintain a plan to be proactive in preventative maintenance of the District's water and sewer systems.

All programs and operations of the District are developed and performed to provide the highest level of services to its customers.

### **Internal Control Structure**

District management is responsible for the establishment and maintenance of the internal control structure that ensures the assets of the District are protected from loss, theft or misuse. The internal control structure also ensures adequate accounting data is compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The District's internal control structure is designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived, and (2) the valuation of costs and benefits requires estimates and judgments by management.

## **Budgetary Control**

The District Board of Directors adopts an operating and capital budget every two-years. The budget authorizes and provides the basis for reporting and control of financial operations and accountability for the District's enterprise operations and capital projects. The budget and reporting treatment applied to the District is consistent with the accrual basis of accounting and the financial statement basis.

## **Investment Policy**

The Board of Directors has adopted an investment policy that conforms to state law, District ordinance and resolutions, prudent money management, and the "prudent person" standards. The objective of the Investment Policy is safety, liquidity and yield.

## **Water and Sewer Rates and District Revenues**

District policy direction ensures that all revenues from user charges and surcharges generated from District customers must support all District operations including capital project funding. Accordingly, water and sewer rates are reviewed periodically. Water rates are user charges imposed on customers for services and are the primary component of the District's revenue. Water rates are composed of a commodity (usage) charge and a fixed (readiness-to-serve) charge. Sewer rates are composed of a fixed charge for typical residential usage and a commercial rate based on proportionate water usage.

## **Water Conservation Programs**

The District has implemented conservation management practices since the late 1980's. District staff participates in community events and distributes materials to encourage water conservation. The District offers the following conservation programs:

- Smart-Timer Irrigation Landscape Controller
- Voluntary Water Conservation Program
- Rebate Program for Ultra-Low Flow Toilets and High-Efficiency Clothes Washers

## **Audit and Financial Reporting**

State Law and Bond covenants require the District to obtain an annual audit of its financial statements by an independent certified public accountant. The accounting firm of Charles Z. Fedak & Company, CPAs has conducted the audit of the District's financial statements. Their unqualified Independent Auditor's Report appears in the Financial Section.

## **Risk Management**

The District is a member of the Association of California Water Agencies Joint Power Insurance Authority (Authority). The purpose of the Authority is to arrange and administer programs of insurance for the pooling of self-insured losses and to purchase excess insurance coverage.

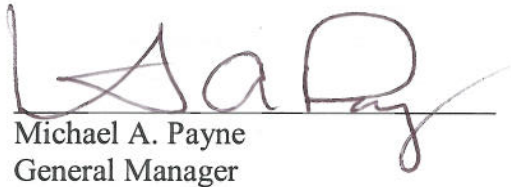
## **Other References**

More information is contained in the Management's Discussion and Analysis and the Notes to the Basic Financial Statements found in the Financial Section of the report.

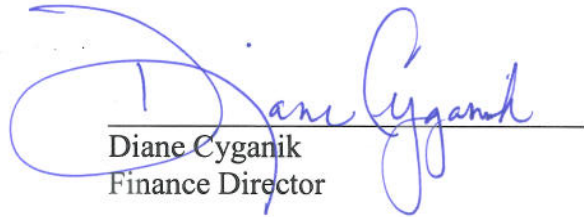
**Acknowledgements**

Preparation of this report was accomplished by the combined efforts of District staff. We appreciate the dedicated efforts and professionalism that these staff members contribute to the District. We would also like to thank the members of the Board of Directors and especially the Finance-Accounting Committee members for their continued support in planning and implementation of the Yorba Linda Water District's fiscal policies.

Respectfully submitted,



Michael A. Payne  
General Manager



Diane Cyganik  
Finance Director

# **Financial Section**





Charles Z. Fedak, CPA, MBA  
Paul J. Kaymark, CPA

# Charles Z. Fedak & Company

Certified Public Accountants

An Accountancy Corporation

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Cypress, California 90630  
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EMAIL czfco@czfcpa.com

## Independent Auditor's Report

Board of Directors  
Yorba Linda Water District  
Yorba Linda, California

We have audited the accompanying financial statements of the Yorba Linda Water District (District) as of and for the years ended June 30, 2007 and 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the Yorba Linda Water District as of June 30, 2007 and 2006, and the respective changes in net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 20, 2007, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 read in conjunction with this report in considering the results of our audit. This report can be found on page 36.

### Independent Auditor's Report (Continued)

Management's Discussion and Analysis on pages 7 through 11, are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The accompanying supplementary information on pages 32 through 35 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is stated fairly in all material respects in relation to the basic financial statements taken as a whole.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The accompanying introductory section on pages 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

October 20, 2007  
Cypress, California

Ch. Fedak, CPA  
An Accountancy Corporation

**Yorba Linda Water District**  
*Management's Discussion and Analysis*  
**For the Years Ended June 30, 2007 and 2006**

The following Management's Discussion and Analysis (MD&A) of activities and financial performance of the Yorba Linda Water District (District) provides an introduction to the financial statements of the District for the fiscal years ended June 30, 2007 and 2006. We encourage readers to consider the information presented here in conjunction with the transmittal letter in the Introductory Section and with the basic financial statements and related notes, which follow this section.

**Financial Highlights**

*Water Services*

- The District's Water Services 2007 operating loss was (\$2,298,543) or \$1,471,207 more than the District's Water Services 2006 operating loss of (\$827,336).
- The District's Water Services 2007 net income before capital contributions was \$197,255 or \$49,754 greater than the District's Water Services 2006 net income before capital contributions of \$147,501.

*Sewer Services*

- The District's Sewer Services 2007 operating loss was (\$378,128) or \$17,356 more than the District's Sewer Services 2006 operating loss of (\$360,772).
- The District's Sewer Services 2007 net loss before capital contributions was (\$275,662) or \$33,431 more than the District's Sewer Services 2006 net loss before capital contributions of (\$242,231).

**Required Financial Statements**

This annual report consists of a series of financial statements. The Statement of Net Assets, Statement of Revenues, Expenses and Changes in Net Assets and Statement of Cash Flows provide information about the activities and performance of the District using accounting methods similar to those used by private sector companies.

The District's statements consist of four funds, the Water Fund, the Sewer Fund, Improvement District No. 1, and Improvement District No. 2. The District's records are maintained on an enterprise basis, as it is the intent of the Board of Directors that the costs of providing water and sewer to the customer of the District are financed primarily through user charges.

The Statement of Net Assets includes all of the District's investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for computing a 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 revenue and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Assets. This statement measures the success of the District's operations over the past year and can be used to determine if the District has successfully recovered all of its costs through its rates and other charges. This statement can also be used to evaluate profitability and credit worthiness. The final required financial statement is the Statement of Cash Flows, which provides information about the District's cash receipts and cash payments during the reporting period. The Statement of Cash Flows reports cash receipts, cash payments and net changes in cash resulting from operations, investing, non-capital financing, and capital and related financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

**Yorba Linda Water District**  
**Management's Discussion and Analysis**  
**For the Years Ended June 30, 2007 and 2006**

**Financial Analysis of the District**

One of the most important reasons for this document is to compare the District's financial position between the two years presented. The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets report financial information about the District in a way that helps compare the financial operations and positions between the two years. These statements include all assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

These two statements report the District's *net assets* and changes in them. You can think of the District's net assets (the difference between assets and liabilities), as one way to measure the District's financial health, or *financial position*. Over time, *increases or decreases* in the District's net assets are one indicator of whether its *financial health* is improving or deteriorating. However, one will need to consider other factors such as changes in economic conditions, property taxes, investment earnings, population growth and new or changed government legislation (unfunded mandates), such as changes in Federal and State environmental laws and water quality standards.

**Notes to the Basic Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found on pages 16 through 31.

**Statement of Net Assets**

<b>Condensed Statements of Net Assets</b>			
	<b>2007</b>	<b>2006</b>	<b>Change</b>
<b>Assets:</b>			
Current assets	\$ 23,682,132	26,065,440	(2,383,308)
Restricted assets	23,528,786	22,850,512	678,274
Non-current assets	388,140	402,974	(14,834)
Capital assets, net	131,387,296	116,651,683	14,735,613
<b>Total assets</b>	<b>178,986,354</b>	<b>165,970,609</b>	<b>13,015,745</b>
<b>Liabilities:</b>			
Liabilities payable from unrestricted current assets	7,529,851	4,179,788	3,350,063
Liabilities payable from restricted assets	484,261	575,698	(91,437)
Non-current liabilities	24,750,077	22,444,369	2,305,708
<b>Total liabilities</b>	<b>32,764,189</b>	<b>27,199,855</b>	<b>5,564,334</b>
<b>Net assets:</b>			
Net investment in capital assets	121,317,296	106,376,683	14,940,613
Restricted	23,089,201	22,274,814	814,387
Unrestricted	1,815,668	10,119,257	(8,303,589)
<b>Total net assets</b>	<b>146,222,165</b>	<b>138,770,754</b>	<b>7,451,411</b>
<b>Total liabilities and net assets</b>	<b>\$ 178,986,354</b>	<b>165,970,609</b>	<b>13,015,745</b>

**Yorba Linda Water District**  
**Management's Discussion and Analysis**  
**For the Years Ended June 30, 2007 and 2006**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$146,222,165 and \$138,770,754 as of June 30, 2007 and 2006, respectively.

By far the largest portion of the District's net assets (83% and 77% as of June 30, 2007 and 2006, respectively) reflects the District's investment in capital assets (net of accumulated depreciation) less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to customers within the District's service area; consequently, these assets are *not* available for future spending.

At the end of fiscal year 2007 and 2006, the District showed a positive balance in its unrestricted net assets of \$1,815,668 and \$10,119,257, respectively, which may be utilized in future years.

**Statement of Revenues, Expenses and Changes in Net Assets**

**Condensed Statements of Revenues, Expenses and Changes in Net Assets**

	<u>2007</u>	<u>2006</u>	<u>Change</u>
Revenues:			
Operating revenues	\$ 20,144,415	18,178,467	1,965,948
Non-operating revenues	3,821,575	2,295,123	1,526,452
<b>Total revenues</b>	<u>23,965,990</u>	<u>20,473,590</u>	<u>3,492,400</u>
Expenses:			
Operating expenses	19,375,218	16,443,287	2,931,931
Depreciation and amortization	3,445,868	2,923,288	522,580
Non-operating expenses	606,588	808,812	(202,224)
<b>Total expenses</b>	<u>23,427,674</u>	<u>20,175,387</u>	<u>3,252,287</u>
<b>Net income before capital contributions</b>	538,316	298,203	240,113
Capital contributions	6,913,095	26,026,524	(19,113,429)
<b>Change in net assets</b>	7,451,411	26,324,727	(18,873,316)
<b>Net assets, beginning of year</b>	<u>138,770,754</u>	<u>112,446,027</u>	<u>26,324,727</u>
<b>Net assets, end of year</b>	<u>\$ 146,222,165</u>	<u>138,770,754</u>	<u>7,451,411</u>

The statement of revenues, expenses and changes of net assets shows how the District's net assets changed during the fiscal years. In the case of the District, net assets increased by \$7,451,411 and \$26,324,727 for the fiscal years ended June 30, 2007 and 2006, respectively.

A closer examination of the sources of changes in net assets reveals that:

In 2007, the District's total revenues increased by \$3,492,400, primarily due to an increase in operating revenues of \$1,965,948 from increased water and sewer services. Additionally, non-operating revenues increased by \$1,526,452 primarily due to higher interest rates and gains on investments. In addition, total expenses increased by \$3,252,287, due to increases in imported water costs, groundwater replenishment, and departmental and operational expenses.

**Yorba Linda Water District**  
**Management's Discussion and Analysis**  
**For the Years Ended June 30, 2007 and 2006**

In 2006, the District's total revenues increased by \$3,454,692, primarily due to an increase in operating revenues of \$2,467,245 from increased water and sewer services. Additionally, non-operating revenues increased by \$987,447 primarily due to higher interest rates and gains on investments. In addition, total expenses increased by \$1,937,780, due to increases in imported water costs, groundwater replenishment, and departmental and operational expenses.

**Capital Asset Administration**

At the end of fiscal year 2007 and 2006, the District's investment in capital assets amounted to \$131,387,296 and \$116,651,683, respectively, (net of accumulated depreciation). This investment in capital assets includes land, transmission and distribution systems, reservoirs, tanks, pumps, buildings and structures, equipment, vehicles and construction-in-process, etc. Major capital assets additions during the year included upgrades to the District's pumping plant and the transmission and distribution system.

Changes in capital asset amounts for 2007 were as follows:

	<u>Balance 2006</u>	<u>Additions</u>	<u>Transfers/ Deletions</u>	<u>Balance 2007</u>
Capital assets:				
Non-depreciable assets	\$ 8,680,187	10,511,754	(155,287)	19,036,654
Depreciable assets	145,039,254	7,842,360	(58,909)	152,822,705
Accumulated depreciation and amortization	<u>(37,067,758)</u>	<u>(3,445,868)</u>	<u>41,563</u>	<u>(40,472,063)</u>
Total capital assets, net	<u>\$ 116,651,683</u>	<u>14,908,246</u>	<u>(172,633)</u>	<u>131,387,296</u>

Changes in capital asset amounts for 2006 were as follows:

	<u>Balance 2005</u>	<u>Additions</u>	<u>Transfers/ Deletions</u>	<u>Balance 2006</u>
Capital assets:				
Non-depreciable assets	\$ 12,907,499	2,791,855	(7,285,887)	8,413,467
Depreciable assets	116,197,155	29,596,361	(487,542)	145,305,974
Accumulated depreciation and amortization	<u>(34,628,881)</u>	<u>(2,923,288)</u>	<u>484,411</u>	<u>(37,067,758)</u>
Total capital assets, net	<u>\$ 94,475,773</u>	<u>29,464,928</u>	<u>(7,289,018)</u>	<u>116,651,683</u>

**Debt Administration**

Changes in long-term debt amounts for the year ended June 30, 2007 were as follows:

	<u>Balance 2006</u>	<u>Additions</u>	<u>Principal Payments</u>	<u>Balance 2007</u>
Long-term debt:				
Revenue bonds	\$ 10,275,000	-	(205,000)	10,070,000
Total long-term debt	<u>\$ 10,275,000</u>	<u>-</u>	<u>(205,000)</u>	<u>10,070,000</u>

Changes in long-term debt amounts for the year ended June 30, 2006 were as follows:

	<u>Balance 2005</u>	<u>Additions</u>	<u>Principal Payments</u>	<u>Balance 2006</u>
Long-term debt:				
Revenue bonds	\$ 10,475,000	-	(200,000)	10,275,000
Total long-term debt	<u>\$ 10,475,000</u>	<u>-</u>	<u>(200,000)</u>	<u>10,275,000</u>

**Yorba Linda Water District**  
*Management's Discussion and Analysis*  
**For the Years Ended June 30, 2007 and 2006**

**Conditions Affecting Current Financial Position**

Management is unaware of any conditions that would have a significant impact on the District's financial position, net assets, or operating results in terms of past, present and future.

**Subsequent Event**

The District is in the process of approving a \$40,000,000 Certificate of Participation issuance to finance certain capital improvements for the District, to fund a reserve fund and to pay certain costs of water delivery.

**Requests for Information**

This financial report is designed to provide the District's funding sources, customers, stakeholders and other interested parties with an overview of the District's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact the District at 4622 Plumosa Drive Yorba Linda, California 92886 or the Finance Department at (714) 701-3040.



# **Basic Financial Statements**

**Yorba Linda Water District**  
**Statements of Net Assets**  
**June 30, 2007 and 2006**

<i>Assets</i>	<b>2007</b>	<b>2006</b>
<b>Current assets:</b>		
Cash and investments (note 2)	\$ 2,392,542	8,838,658
Cash and investments - annexation (note 2)	16,075,056	12,857,937
Accrued interest receivable	125,656	100,678
Accounts receivable – water and sewer services, net	4,517,785	3,722,423
Accounts receivable – property taxes	22,651	24,463
Inventory	374,176	327,328
Prepaid expenses and other deposits	174,266	193,953
Total current assets	<u>23,682,132</u>	<u>26,065,440</u>
<b>Restricted assets:</b>		
Cash and investments (note 2)	23,502,837	22,828,030
Accrued interest receivable	25,949	22,482
Total restricted assets	<u>23,528,786</u>	<u>22,850,512</u>
<b>Non-current assets:</b>		
Capital assets, net (note 4)	131,387,296	116,651,683
Deferred charges, net	388,140	402,974
Total non-current assets	<u>131,775,436</u>	<u>117,054,657</u>
<b>Total assets</b>	<u>\$ 178,986,354</u>	<u>165,970,609</u>
<b><i>Liabilities and Net Assets</i></b>		
<b>Current liabilities:</b>		
Accounts payable and accrued expenses	\$ 5,740,638	2,653,117
Accrued salaries and wages	70,813	56,185
Accrued compensated absences (note 5)	445,477	436,092
Customer and other deposits	380,371	640,646
Construction advances and deposits	34,273	392,057
Deferred credits	858,279	1,691
Total current liabilities	<u>7,529,851</u>	<u>4,179,788</u>
<b>Payable from restricted assets:</b>		
Accounts payable	-	18,373
Construction bonding deposits	150,176	227,215
Accrued interest payable	116,766	117,791
Prepaid connection fees	7,319	7,319
Certificates of Participation - current portion (note 6)	210,000	205,000
Total payable from restricted assets	<u>484,261</u>	<u>575,698</u>
Total current liabilities	<u>8,014,112</u>	<u>4,755,486</u>
<b>Non-current liabilities:</b>		
Deferred revenue	14,890,077	12,374,369
Certificates of Participation (note 6)	9,860,000	10,070,000
Total non-current liabilities	<u>24,750,077</u>	<u>22,444,369</u>
<b>Total liabilities</b>	<u>32,764,189</u>	<u>27,199,855</u>
<b>Net assets:</b>		
Net investment in capital assets (note 8)	121,317,296	106,376,683
Restricted (note 3)	23,089,201	22,274,814
Unrestricted	1,815,668	10,119,257
<b>Total net assets</b>	<u>146,222,165</u>	<u>138,770,754</u>
<b>Total liabilities and net assets</b>	<u>\$ 178,986,354</u>	<u>165,970,609</u>

See accompanying notes to the basic financial statements

**Yorba Linda Water District**  
**Statements of Revenues, Expenses and Changes in Net Assets**  
**For the Years Ended June 30, 2007 and 2006**

	<u>2007</u>	<u>2006</u>
Operating revenues:		
Metered water sales	\$ 18,489,306	16,498,835
Sewer maintenance charges	806,897	778,275
Construction water sales	332,893	410,116
Irrigation sales	78,897	52,835
Customer service fees	139,911	123,890
Rents and royalties	41,442	40,788
Outside of District water sales	38,876	42,087
Unmetered water sales	4,261	13,402
Other charges and services	211,932	218,239
Total operating revenues	<u>20,144,415</u>	<u>18,178,467</u>
Operating expenses:		
Variable water cost	10,703,037	8,930,535
Personnel services	5,276,878	4,635,464
Supplies and services	3,395,303	2,877,288
Total operating expenses	<u>19,375,218</u>	<u>16,443,287</u>
Operating income before depreciation and amortization	769,197	1,735,180
Depreciation and amortization	<u>(3,445,868)</u>	<u>(2,923,288)</u>
<b>Operating loss</b>	<u>(2,676,671)</u>	<u>(1,188,108)</u>
Non-operating revenue:		
Property taxes - debt service	5,509	5,194
Property taxes - operations	1,180,932	329,881
Interest and investment earnings	2,180,067	1,425,663
Other non-operating revenues	455,067	534,385
Total non-operating revenues	<u>3,821,575</u>	<u>2,295,123</u>
Non-operating expense:		
Interest expense	468,087	472,163
Other expense	138,501	336,649
Total non-operating expense	<u>606,588</u>	<u>808,812</u>
Total non-operating income	<u>3,214,987</u>	<u>1,486,311</u>
<b>Net income before capital contributions</b>	<u>538,316</u>	<u>298,203</u>
Capital contributions:		
Developers and others	6,913,095	26,026,524
<b>Capital contributions</b>	<u>6,913,095</u>	<u>26,026,524</u>
<b>Change in net assets</b>	7,451,411	26,324,727
Net assets, beginning of year	<u>138,770,754</u>	<u>112,446,027</u>
Net assets, end of year	<u>\$ 146,222,165</u>	<u>138,770,754</u>

See accompanying notes to the basic financial statements

**Yorba Linda Water District**  
**Statements of Cash Flows**  
**For the Years Ended June 30, 2007 and 2006**

	<b>2007</b>	<b>2006</b>
Cash flows from operating activities:		
Cash receipts from customers	\$ 19,349,053	18,425,771
Cash paid to employees for salaries and wages	(5,252,865)	(4,636,722)
Cash paid to suppliers of goods and services	(12,024,466)	(11,519,782)
Net cash provided by operating activities	2,071,722	2,269,267
Cash flows from non-capital financing activities:		
Proceeds from property taxes and assessments	1,182,744	329,796
Net cash provided by non-capital financing activities	1,182,744	329,796
Cash flows from capital and related financing activities:		
Property taxes received for debt service	5,509	5,315
Proceeds from capital contributions	1,111,145	7,765,153
Development fees received from developers	455,067	534,385
Acquisition and construction of capital assets	(7,842,358)	(7,110,845)
Principal paid on long-term liability	(205,000)	(200,000)
Interest paid on long-term liability	(468,087)	(472,163)
Proceeds from deposits and advances for construction	(695,098)	576,838
Net cash provided(used) in capital and related financing activities	(7,638,822)	1,098,683
Cash flows from investing activities:		
Proceeds from sale of investments	4,570,000	13,874,489
Purchases of investments	(10,711,276)	(21,797,000)
Interest and investment earnings	2,180,067	1,425,663
Net cash used in investing activities	(3,961,209)	(6,496,848)
<b>Net decrease in cash and cash equivalents</b>	(8,345,565)	(2,799,102)
Cash and cash equivalents (unrestricted and restricted), beginning of year	32,321,714	35,120,816
Cash and cash equivalents (unrestricted and restricted), end of year	\$ 23,976,149	32,321,714
Reconciliation of cash and cash equivalents to statement of financial position:		
Cash and cash equivalents	\$ 3,422,738	11,390,401
Restricted assets – cash and cash equivalents	20,553,411	20,931,313
Total cash and cash equivalents	\$ 23,976,149	32,321,714

Continued on next page

See accompanying notes to the basic financial statements

**Yorba Linda Water District**  
**Statements of Cash Flows (Continued)**  
**For the Year Ended June 30, 2007 and 2006**

	<u>2007</u>	<u>2006</u>
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$ <u>(2,676,671)</u>	<u>(1,188,108)</u>
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Deprecation and amortization	3,445,868	2,923,288
Changes in assets and liabilities:		
(Increase)Decrease in assets:		
Accounts receivable	(797,017)	230,353
Inventory	(46,848)	(58,352)
Prepaid expenses and other deposits	19,687	(38,825)
Increase(Decrease) in liabilities:		
Accounts payable	3,069,148	(272,955)
Accrued salaries and wages	24,013	3,562
Compensated absences	9,385	(4,820)
Construction advances and deposits	(618,059)	418,488
Deferred revenue	<u>(357,784)</u>	<u>256,636</u>
Total adjustments	<u>4,748,393</u>	<u>3,457,375</u>
Net cash provided by operating activities	<u>\$ <u>2,071,722</u></u>	<u><u>2,269,267</u></u>

See accompanying notes to the basic financial statements

**Yorba Linda Water District**  
**Notes to the Basic Financial Statements**  
**For the Years Ended June 30, 2007 and 2006**

**(1) Reporting Entity and Summary of Significant Accounting Policies**

**A. Organization and Operations of the Reporting Entity**

The Yorba Linda Water District is an independent special district established in 1959, which operates under the authority of Division 12 of the California Water Code for the purpose of providing water and sewer services to the properties within the district. The District is governed by a five member Board of Directors elected by the voters in the area to four-year terms. The District utilizes four districts which include Water, Sewer, Improvement District No.1, and Improvement District No. 2. Water is provided to the entire service area. Sewer is provided to about two-thirds of the service area. Improvement District No. 1 provides capital facilities to an area of approximately 4,700 acres. Improvement District No. 2 provides capital facilities to an area of approximately 3,200 acres. The District's service area includes Yorba Linda and portions of Placentia, Anaheim, Brea, and areas of unincorporated Orange County. The District provides water and sewer service to approximately 67,000 residents.

**B. Basis of Accounting and Measurement Focus**

The District reports its activities as an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent of the District is that the costs of providing water to its member agencies on a continuing basis be financed or recovered primarily through user charges (water sales). Revenues and expenses are recognized on the full accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred, regardless of when the related cash flows take place.

Operating revenues, such as water sales, result from exchange transactions associated with the principal activity of the District. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as property taxes and investment income, result from non-exchange transactions, in which, the District gives (receives) value without directly receiving (giving) value in exchange.

The District recognizes revenue from water and sewer service charges based on cycle billings performed every month. The District accrues revenues with respect to water and sewer service sold but not billed at the end of a fiscal period. Annexation charges are collected for operations and maintenance costs in-lieu of general property tax revenue are deferred and recognized over a period of 40 years.

**C. Financial Reporting**

The District's basic financial statements are presented in conformance with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, "*Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*" (GASB No. 34). This statement established revised financial reporting requirements for state and local governments throughout the United States for the purpose of enhancing the understandability and usefulness of financial reports.

GASB No. 34 and its related GASB pronouncements provide for a revised view of financial information and restructure the format of financial information provided prior to its adoption. A statement of net assets replaces the balance sheet and reports assets, liabilities, and the difference between them as net assets, not equity. A statement of revenues, expenses and changes in net assets replaces both the income statement and the statement of changes in retained earnings and contributed capital. GASB No. 34 also requires that the statement of cash flows be prepared using the direct method. Under the direct method, cash flows from operating activities are presented by major categories.

Under GASB No. 34, enterprise funds, such as the District, have the option of consistently following or not following pronouncements issued by the Financial Accounting Standards Board (FASB) subsequent to November 30, 1989. The District has elected not to follow FASB standards issued after that date, unless such standards are specifically adopted by GASB.

**Yorba Linda Water District**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Years Ended June 30, 2007 and 2006**

**(1) Reporting Entity and Summary of Significant Accounting Policies (Continued)**

**E. Assets, Liabilities and Net Assets**

**1. Use of Estimates**

The preparation of the basic 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 disclosures of contingent assets and liabilities at the date of the financial statements and the reported changes in net assets during the reporting period.

**2. Reclassification**

Certain prior year information has been reclassified to conform with the current year financial statement presentation.

**3. Cash and Cash Equivalents**

Substantially all of the District's cash is invested in interest bearing accounts. The District considers all highly liquid investments with a maturity of three months or less at the time of purchase to be cash equivalents.

**4. Investments and Investment Policy**

The District has adopted an investment policy directing the District's General Manager to deposit funds in financial institutions.

Changes in fair value that occur during a fiscal year are recognized as investment income reported for that fiscal year. Investment income includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments.

**5. Accounts Receivable**

The District extends credit to customers in the normal course of operations. Management has evaluated the accounts and believes they are all collectible. Management evaluates all accounts receivable and if it is determined that they are uncollectible they are written off as a bad debt expense. A charge of \$13,713 and \$16,147 were made to bad debt expense for the fiscal years ended June 30, 2007 and 2006, respectively.

**6. Property Taxes and Assessments**

The Orange County Assessor's Office assesses all real and personal property within the County each year. The Orange County Tax Collector's Offices bills and collects the District's share of property taxes and assessments. The Orange County Treasurer's Office remits current and delinquent property tax collections to the District throughout the year. Property tax in California is levied in accordance with Article 13A of the State Constitution at one percent (1%) of countywide assessed valuations.

Property taxes receivable at year-end are related to property taxes collected by the Orange County Tax Collector which have not been credited to the District's cash balance as of June 30. The property tax calendar is as follows:

Lien date	January 1
Levy date	March 1
Due dates	November 1 and March 1
Collection dates	December 10 and April 10

**Yorba Linda Water District**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Years Ended June 30, 2007 and 2006**

**(1) Reporting Entity and Summary of Significant Accounting Policies (Continued)**

**E. Assets, Liabilities and Net Assets (Continued)**

**7. Prepaid Expenses**

Certain payments to vendors reflects costs or deposits applicable to future accounting periods and are recorded as prepaid items in the basic financial statements.

**8. Materials and Supplies Inventory**

Inventory consists primarily of materials and supplies used in the construction and maintenance of the water and sewer systems and is stated at cost using the average-cost method.

**9. Capital Assets**

Capital assets acquired and/or constructed are capitalized at historical cost. District policy has set the capitalization threshold for reporting capital assets at \$5,000. Contributed assets are recorded at estimated fair market value at the date of contribution. Upon retirement or other disposition of capital assets, the cost and related accumulated depreciation are removed from the respective balances and any gains or losses are recognized. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

Source of Supply	30 to 75 years
Pumping Plant	20 to 40 years
Water Treatment Plant	12 to 40 years
Sewer, Transmission and Distribution Plant	5 to 60 years
General Plant	3 to 40 years

**10. Bond Issuance Costs**

Bond issuance costs are amortized on a straight-line methodology based on the estimated term of the related bond debt. Bond issuance cost were \$388,140 and \$402,974, net of accumulated amortization of \$280,633 and \$265,800 at June 30, 2007 and 2006, respectively.

**11. Compensated Absences**

The District's policy is to permit employees to accumulate earned vacation and sick leave. The liability for vested vacation and sick leave is recorded as an expense when earned. Employees may carry forward up to one and one-half years of earned vacation days and an unlimited number of sick leave days.

Upon termination or retirement, permanent employees are entitled to receive compensation at their current base salary for all unused vacation leave except for those employees that have not completed the probationary period.

Permanent employees that retire in accordance with the Public Employee's Retirement System qualifications are entitled to receive compensation at their current base salary for three-eighths of all unused sick leave.

**12. Deferred Credits**

Deferred credits represent customer refunds that have not been cashed.

**13. Construction Advances and Deposits**

Construction deposits are collected by the District to cover the cost of construction projects within the District. Funds in excess of project costs are refunded to the customer.

**Yorba Linda Water District**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Years Ended June 30, 2007 and 2006**

**(1) Reporting Entity and Summary of Significant Accounting Policies (Continued)**

**E. Assets, Liabilities and Net Assets (Continued)**

**14. Construction Bonding Deposits**

It is the District's policy is to maintain certain bonding requirements for water and sewer construction projects performed within District boundaries to ensure the proper completion of the project. Deposited amounts are refunded upon final approval of the project.

**15. Prepaid Connection Fees**

Connection fees are collected by the District to cover the cost of service connections within the District. Funds in excess of connection costs are refunded to the customer.

**16. Deferred Annexation Revenue**

The District collects a fee from newly annexed developments for all residential and commercial properties. This fee is in-lieu of the District's share of the 1% property tax revenue which the District no longer receives post-Proposition 13. The fee is a present worth value required to generate a forty year revenue stream equivalent to the lost property tax revenue. It is calculated based on the fair market value estimate of the improved property at the time the fee is collected and based on the current rate of return on the District's investments. The deposit balance accrues interest and provides a source of operational revenue for the District. This deferred revenue source may be used for capital facilities in the future if approved by the Board.

**17. Accrued Orange County Water District Assessment**

In fiscal years 2004 and 2005, Yorba Linda Water District (YLWD) and Orange County Water District (OCWD) were engaged in a legal dispute involving water rights issues. YLWD withheld a certain amount of the Replenishment Assessment (RA) normally paid to OCWD every six months. The RA is a statutory charge OCWD assesses on ground water pumped out of the Orange County Groundwater Basin. YLWD withheld a portion of this assessment pending resolution of the legal dispute. The accrued balance of this withholding was shown on the fiscal year 2005 financial statements and represented a liability which YLWD later paid and cleared with OCWD. YLWD paid the assessment due OCWD and cleared the accrued assessment in fiscal year 2006.

**18. Water and Sewer Sales**

The District recognizes water and sewer services charges based on cycle billings rendered to the customers each month.

**19. Capital Contributions**

Capital contributions represent cash and capital asset additions contributed to the District by property owners or real estate developers desiring services that require capital expenditures or capacity commitment.

**20. Budgetary Policies**

The District adopts a two-year non-appropriated budget for planning, control, and evaluation purposes. Budgetary control and evaluation are affected by comparisons of actual revenues and expenses with planned revenues and expenses for the period. Encumbrance accounting is not used to account for commitments related to unperformed contracts for construction and services.

**Yorba Linda Water District**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Years Ended June 30, 2007 and 2006**

**(1) Reporting Entity and Summary of Significant Accounting Policies (Continued)**

**E. Assets, Liabilities and Net Assets (Continued)**

**21. Net Assets**

The financial statements utilize a net assets presentation. Net assets are categorized as follows:

- **Net Investment in Capital Assets** – This component of net assets consists of capital assets, net of accumulated depreciation and reduced by any outstanding debt against the acquisition, construction or improvement of those assets.
- **Restricted Net Assets** – This component of net assets consists of constraints placed on net assets use through external constraints imposed by creditors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted Net Assets** – This component of net assets consists of net assets that do not meet the definition of *restricted* or *net investment in capital assets*.

**(2) Cash and Investments**

Cash and investments as of June 30, 2007 are classified in the accompanying financial statements as follows:

	<u>Water</u>	<u>Sewer</u>	<u>Improvement District No. 1</u>	<u>Improvement District No. 2</u>	<u>Total</u>
Cash and investments	\$ 745,363	1,647,179	-	-	2,392,542
Cash and investments - annexation	16,075,056	-	-	-	16,075,056
Restricted cash and investments:					
Cash and investments with fiscal agent	<u>9,821,483</u>	<u>-</u>	<u>4,363,122</u>	<u>9,318,232</u>	<u>23,502,837</u>
Total cash and investments	<u>\$ 26,641,902</u>	<u>1,647,179</u>	<u>4,363,122</u>	<u>9,318,232</u>	<u>41,970,435</u>

Cash and investments as of June 30, 2007 consist of the following:

	<u>Water</u>	<u>Sewer</u>	<u>Improvement District No. 1</u>	<u>Improvement District No. 2</u>	<u>Total</u>
Cash on hand	\$ 1,200	-	-	-	1,200
Deposits with financial institutions	7,484,571	989,692	4,085,007	2,726,874	15,286,144
Investments	<u>19,156,131</u>	<u>657,487</u>	<u>278,115</u>	<u>6,591,358</u>	<u>26,683,091</u>
Total cash and investments	<u>\$ 26,641,902</u>	<u>1,647,179</u>	<u>4,363,122</u>	<u>9,318,232</u>	<u>41,970,435</u>

**Yorba Linda Water District**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Years Ended June 30, 2007 and 2006**

**(2) Cash and Investments (Continued)**

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

	<u>Water</u>	<u>Sewer</u>	<u>Improvement District No. 1</u>	<u>Improvement District No. 2</u>	<u>Total</u>
Cash and investments	\$ 4,961,624	3,877,034	-	-	8,838,658
Cash and investments - annexation	12,857,937	-	-	-	12,857,937
Restricted cash and investments:					
Cash and investments with fiscal agent	<u>10,293,032</u>	<u>-</u>	<u>3,835,180</u>	<u>8,699,818</u>	<u>22,828,030</u>
Total Cash and Investments	<u>\$ 28,112,593</u>	<u>3,877,034</u>	<u>3,835,180</u>	<u>8,699,818</u>	<u>44,524,625</u>

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

	<u>Water</u>	<u>Sewer</u>	<u>Improvement District No. 1</u>	<u>Improvement District No. 2</u>	<u>Total</u>
Cash on hand	\$ 1,200	-	-	-	1,200
Deposits with financial institutions	10,177,267	1,612,742	3,075,525	2,045,260	16,910,794
Investments	<u>17,934,126</u>	<u>2,264,292</u>	<u>759,655</u>	<u>6,654,558</u>	<u>27,612,631</u>
Total cash and investments	<u>\$ 28,112,593</u>	<u>3,877,034</u>	<u>3,835,180</u>	<u>8,699,818</u>	<u>44,524,625</u>

***Investments Authorized by the California Government Code and the District's Investment Policy***

The table below identifies the investment types that are authorized by the District in accordance with the California Government Code (or the District's investment policy, where more restrictive). The table also identifies certain provisions of 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 bond trustees 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.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio*</u>	<u>Maximum Investment in One Issuer</u>
California Asset Management Program	N/A	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	50%	None
Banker's Acceptances	180 days	10%	30%
Medium-Term Notes	5 years	10%	\$1 Million
Money Market Mutual Funds	N/A	15%	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Orange County Commingled Investment Pool	N/A	None	None
Treasury Bills, Notes, Bonds	5 years	None	None
Commercial Paper	270 days	5%	None

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

**Yorba Linda Water District**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Years Ended June 30, 2007 and 2006**

**(2) Cash and Investments (Continued)**

***Investments Authorized by Debt Agreements***

Investment of debt proceeds held by bond trustees are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the District's investment policy.

Authorized investments for funds held by bond trustees are as follows:

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Allowed</u>	<u>Maximum Investment in One Issuer</u>
U.S. Agency Securities	5 years	50%	None

***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. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF).

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 or investments, 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 District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. The District had deposits with bank balances of \$872,197 and \$717,110 as of June 30, 2007 and 2006, respectively. Of the bank balances, up to \$100,000 is federally insured and the remaining balance is collateralized in accordance with the Code; however, the collateralized securities are not held in the District's name.

***Investment in State Investment Pool***

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. 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.

**Yorba Linda Water District**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Years Ended June 30, 2007 and 2006**

**(2) Cash and Investments (Continued)**

***Investment in California Asset Management Program***

The California Asset Management Program (CAMP) is a public joint powers authority which provides California Public Agencies with investment management services for surplus funds and comprehensive investment management, accounting and arbitrage rebate calculation services for proceeds of tax-exempt financings. The CAMP currently offers the Cash Reserve Portfolio, a short-term investment portfolio, as a means for Public Agencies to invest these funds. Public Agencies that invest in the Pool (“Participants”) purchase shares of beneficial interest. Participants may also establish individual, professionally managed investment accounts (“Individual Portfolios”) by separate agreement with the Investment Advisor.

Investments in the pools and individual portfolios are made only in investments in which Public Agencies generally are permitted by California statute. The CAMP may reject any investment and may limit the size of a participant’s account. The pool seeks to maintain, but does not guarantee, a constant net asset value of \$1.00 per share. A participant may withdraw funds from of its Pool accounts at any time by check or wire transfers. Requests for wire transfers must be made by 9:00 AM that day. Fair value of the pool is determined by the fair value per share of the pool’s underlying portfolio.

***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 that 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 matures or comes close to maturity evenly over time as necessary to provide requirements for cash flow and liquidity needed for operations. 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 of the District’s investments by maturity date:

Maturities of investments at June 30, 2007 are as follows:

<u>Investment Type</u>	<u>Total</u>	<u>Remaining Maturity (in Months)</u>		
		<u>12 Months or Less</u>	<u>13 to 24 Months</u>	<u>25 to 60 Months</u>
Money market funds	\$ 1,081,513	1,081,513	-	-
Commercial paper	4,884,505	4,884,505	-	-
Certificates of deposit	100,000	100,000	-	-
California Asset Management Program	6,313,243	6,313,243	-	-
Orange County Investment Pool	1,112,460	1,112,460	-	-
U.S Government Agency obligations	12,476,385	12,476,385	-	-
Corporate obligations	5,518,055	5,518,055	-	-
Held by bond trustee:				
Money market funds	9,535,333	9,535,333	-	-
Total	<u>\$ 41,021,494</u>	<u>41,021,494</u>	<u>-</u>	<u>-</u>

**Yorba Linda Water District**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Years Ended June 30, 2007 and 2006**

**(2) Cash and Investments (Continued)**

Maturities of investments at June 30, 2006 are as follows:

<u>Investment Type</u>	<u>Total</u>	<u>Remaining Maturity (in Months)</u>		
		<u>12 Months or Less</u>	<u>13 to 24 Months</u>	<u>25 to 60 Months</u>
Money market funds	\$ 3,738,753	3,738,753	-	-
Commercial paper	5,276,453	5,276,453	-	-
Certificates of deposit	2,170,000	2,070,000	100,000	-
California Asset Management Program	5,993,903	5,993,903	-	-
Orange County Investment Pool	1,058,619	1,058,619	-	-
U.S Government Agency obligations	9,786,586	9,786,586	-	-
Corporate obligations	5,508,585	5,508,585	-	-
Held by bond trustee:				
Money market funds	10,293,034	10,293,034	-	-
Total	<u>\$ 43,825,933</u>	<u>43,725,933</u>	<u>100,000</u>	<u>-</u>

***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.

Credit ratings of investments as of June 30, 2007, were as follows:

<u>Investment Types</u>	<u>Total</u>	<u>Minimum Legal Rating</u>	<u>Exempt From Disclosure</u>	<u>Rating as of Year End</u>	
				<u>AAA</u>	<u>Not Rated</u>
Money market funds	\$ 1,081,513	A	\$ -	1,081,513	-
Commercial paper	4,884,505	A	-	4,884,505	-
Certificates of deposit	100,000	A	-	100,000	-
California Asset Management Program (CAMP)	6,313,243	N/A	6,313,243	-	-
Orange County Investment Pool	1,112,460	N/A	-	1,112,460	-
U.S. Government Agency obligations	12,476,385	A	-	12,476,385	-
Corporate obligations	5,518,055	A	-	5,518,055	-
Held by bond trustee:					
Money market funds	9,535,333	A	-	9,535,333	-
Total	<u>\$ 41,021,494</u>		<u>\$ 6,313,243</u>	<u>34,708,251</u>	<u>-</u>

**Yorba Linda Water District**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Years Ended June 30, 2007 and 2006**

**(2) Cash and Investments (Continued)**

Credit ratings of investments as of June 30, 2006, were as follows:

<u>Investment Types</u>	<u>Total</u>	<u>Minimum Legal Rating</u>	<u>Exempt From Disclosure</u>	<u>Rating as of Year End</u>	
				<u>AAA</u>	<u>Not Rated</u>
Money market funds	\$ 3,738,753	A	\$ -	3,738,753	-
Commercial paper	5,276,453	A	-	5,276,453	-
Certificates of deposit	2,170,000	A	-	2,170,000	-
California Asset Management Program (CAMP)	5,993,903	N/A	5,993,903	-	-
Orange County Investment Pool	1,058,619	N/A	-	1,058,619	-
U.S. Government Agency obligations	9,786,586	A	-	9,786,586	-
Corporate obligations	5,508,585	A	-	5,508,585	-
Held by bond trustee:					
Money market funds	10,293,034	A	-	10,293,034	-
<b>Total</b>	<b>\$ 43,825,933</b>		<b>\$ 5,993,903</b>	<b>37,832,030</b>	<b>-</b>

**Concentration of Credit Risk**

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code.

**(3) Restricted Assets**

Restricted assets were provided by, and are to be used for, the following:

<u>Funding Source</u>	<u>Use</u>	<u>2007</u>	<u>2006</u>
Bond proceeds	Constr. of assets within ID No. 1	\$ 4,380,803	3,850,212
Bond proceeds	Constr. of assets within ID No. 2	9,326,500	8,707,268
Taxes assessment, & int.	Constr. of capital assets expansion	9,821,483	10,293,032
		<u>\$ 23,528,786</u>	<u>22,850,512</u>

**Yorba Linda Water District**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Years Ended June 30, 2007 and 2006**

**(4) Capital Assets**

Changes in capital assets for 2007 were as follows:

	<u>Balance 2006</u>	<u>Additions/ Transfers</u>	<u>Deletions/ Transfers</u>	<u>Balance 2007</u>
Non-depreciable assets:				
Land, mineral and water rights	\$ 347,490	-	-	347,490
Construction-in-process	8,332,697	10,511,754	(155,287)	18,689,164
Total non-depreciable assets	<u>8,680,187</u>	<u>10,511,754</u>	<u>(155,287)</u>	<u>19,036,654</u>
Depreciable assets:				
Source of supply	5,775,674	-	-	5,775,674
Pumping plant	11,039,201	-	-	11,039,201
Water treatment plant	2,594,232	-	-	2,594,232
Transmission and distribution plant	117,662,209	7,699,820	(25,402)	125,336,627
General plant	7,967,938	142,540	(33,507)	8,076,971
Total depreciable assets	<u>145,039,254</u>	<u>7,842,360</u>	<u>(58,909)</u>	<u>152,822,705</u>
Less: Accumulated depreciation	<u>(37,067,758)</u>	<u>(3,445,868)</u>	<u>41,563</u>	<u>(40,472,063)</u>
Total depreciable assets, net	<u>107,971,496</u>	<u>4,396,492</u>	<u>(17,346)</u>	<u>112,350,642</u>
Total capital assets, net	<u>\$ 116,651,683</u>	<u>14,908,246</u>	<u>(172,633)</u>	<u>131,387,296</u>

Changes in capital assets for 2006 were as follows:

	<u>Balance 2005</u>	<u>Additions/ Transfers</u>	<u>Deletions/ Transfers</u>	<u>Balance 2006</u>
Non-depreciable assets:				
Land, mineral and water rights	\$ 347,490	-	-	347,490
Construction-in-process	12,560,009	3,058,575	(7,285,887)	8,332,697
Total non-depreciable assets	<u>12,907,499</u>	<u>2,791,855</u>	<u>(7,285,887)</u>	<u>8,413,467</u>
Depreciable assets:				
Source of supply	4,334,504	1,441,170	-	5,775,674
Pumping plant	6,764,020	4,275,181	-	11,039,201
Water treatment plant	1,276,352	1,317,880	-	2,594,232
Transmission and distribution plant	98,514,014	19,453,592	(305,397)	117,662,209
General plant	5,308,265	3,108,538	(182,145)	8,234,658
Total depreciable assets	<u>116,197,155</u>	<u>29,596,361</u>	<u>(487,542)</u>	<u>145,305,974</u>
Less: Accumulated depreciation	<u>(34,628,881)</u>	<u>(2,923,288)</u>	<u>484,411</u>	<u>(37,067,758)</u>
Total depreciable assets, net	<u>81,568,274</u>	<u>26,673,073</u>	<u>(3,131)</u>	<u>108,238,216</u>
Total capital assets, net	<u>\$ 94,475,773</u>	<u>29,464,928</u>	<u>(7,289,018)</u>	<u>116,651,683</u>

**Yorba Linda Water District**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Years Ended June 30, 2007 and 2006**

**(4) Capital Assets**

***Construction-In-Process***

The District has been involved in various construction projects throughout the year. The balance of construction-in-process at June 30, 2007 and 2006 are \$18,689,164 and \$8,065,977, respectively.

**(5) Compensated Absences**

Compensated absences comprise unpaid vacation leave, sick leave and compensating time off which is accrued as earned. The District's liability for compensated absences is determined annually.

The changes to compensated absences balances at June 30, were as follows:

<u>Balance</u> <u>2006</u>	<u>Earned</u>	<u>Taken</u>	<u>Balance</u> <u>2007</u>	<u>Due Within</u> <u>One Year</u>
\$ 436,092	221,345	(211,960)	445,477	445,477

<u>Balance</u> <u>2005</u>	<u>Earned</u>	<u>Taken</u>	<u>Balance</u> <u>2006</u>	<u>Due Within</u> <u>One Year</u>
\$ 450,028	237,256	(251,192)	436,092	436,092

**(6) Long-Term Debt**

***2003 Revenue Certificates of Participation***

In August of 2003, the District issued Revenue Certificates of Participation for the purpose of financing the Highland Reservoir Renovation and Richland-Phase 3 Renovation Project. The Certificates bear interest ranging from 2% to 5%, payable semi-annually on April 1 and October 1, commencing April 1, 2004. The Term Certificates of \$2,295,000 are due on October 1, 2028 and the Term Certificates of \$2,930,000 are due on October 1, 2033.

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 210,000	464,595	674,595
2009	215,000	459,306	674,306
2010	220,000	453,074	673,074
2011	225,000	445,726	670,726
2012	235,000	441,789	676,789
2013-2016	1,325,000	2,033,249	3,358,249
2017-2021	1,645,000	1,703,897	3,348,897
2022-2026	2,080,000	1,249,250	3,329,250
2027-2031	2,655,000	659,875	3,314,875
2032-2033	1,260,000	63,750	1,323,750
Total	\$ 10,070,000	7,974,511	18,044,511
Less current portion	(210,000)		
Total non-current	\$ 9,860,000		

**Yorba Linda Water District**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Years Ended June 30, 2007 and 2006**

**(7) Operating Leases**

The District entered into a 27-year agreement dated January 13, 1978 along with other participants to lease from the Municipal Water District of Orange County (MWDOC) capacity in the water transmission pipeline known as the Allen-McCulloch Pipeline (AMP). Lease payments, payable in equal semi-annual installment, are due on January 31 and July 31 of each fiscal year. Annual lease payments vary each year with the total lease expense being based upon the District's estimated cost of capacity amortized over 27 years at an interest rate of 7% per annum. The District is also liable for additional taxes and assessments, insurance premiums and administrative costs on its capacity in the water pipeline, which is paid through a surcharge on purchased water. The District along with the other participants entered into an agreement dated July 1, 1994 to allow MWDOC to sell the capacity right in the AMP to Metropolitan Water District of California (Metropolitan). The District continues to be liable for the lease payments under the agreement dated January 13, 1978 even though the AMP has been sold to Metropolitan. Lease payments for the year ended June 30, 2007 and 2006 totaled \$0 and \$138,518, respectively.

**(8) Net Investment in Capital Assets**

Net investment in capital assets:

	<b>2007</b>	<b>2006</b>
The balance at June 30, consists of the following:		
Capital assets, net	\$ 131,387,296	116,651,683
Certificates of participation - current	(210,000)	(205,000)
Certificates of participation	(9,860,000)	(10,070,000)
Net investment in capital assets	\$ 121,317,296	106,376,683

**(9) Defined Benefit Pension Plan**

***Plan Description***

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

***Funding Policy***

The contribution rate for plan members in the CalPERS 2.0% at 55 Risk Pool Retirement Plan is 7% of their annual covered salary. The District makes these contributions required of District employees on their behalf and for their account. Also, the District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The required employer contribution rates for fiscal years 2007, 2006 and 2005 were 7.930%, 6.883% and 0.000%, respectively. The contribution requirements of the plan members are established by State statute, and the employer contribution rate is established and may be amended by CalPERS. For fiscal years 2007, 2006 and 2005, the District's annual contribution was \$613,905, \$514,003 and \$250,160, respectively, for CalPERS and was equal to the District's required and actual contributions for each year.

**Yorba Linda Water District**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Years Ended June 30, 2007 and 2006**

**(10) Post Employment Benefits**

In addition to a pension plan, substantially all the District's employees may become eligible for certain health care benefits for those retired employees and their dependants that attained the age of 50 years and have served the District on a full-time basis for five years. These benefits are provided through an insurance company whose premiums are based on benefits paid.

The District finances the plans on a pay-as-you-go basis. In 2007 and 2006, the District paid \$81,778 and \$58,105, respectively, in post-employment health care benefits, net of retiree contributions, and had twelve eligible retired employees in 2007 and nine eligible retired employees in 2006.

**(11) Risk Management**

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District is a member of the Association of California Water Agencies/Joint Powers Insurance Authority (ACWA/JPIA), an intergovernmental risk sharing joint powers authority created to provide self-insurance programs for California water agencies. The purpose of the ACWA/JPIA is to arrange and administer programs of self-insured losses and to purchase excess insurance coverage. At June 30, 2007, the District participated in the liability and property programs of the ACWA/JPIA as follows:

- General and auto liability, public officials and employee's errors and omissions: Total risk financing self-insurance limits of \$1,000,000, combined single limit at \$1,000,000 per occurrence. The District purchased additional excess coverage layers: \$49 million for general, auto and public officials liability, which increases the limits on the insurance coverage noted above.
- Employee dishonesty coverage up to \$100,000 per loss includes public employee dishonesty, forgery or alteration and theft, disappearance and destruction coverages, subject to a \$1,000 deductible per occurrence.
- Property loss is paid at the replacement cost for property on file, if replaced within two years after the loss, otherwise paid on an actual cash value basis, to a combined total of \$50 million per occurrence, subject to a \$10,000 deductible per occurrence.
- Boiler and machinery coverage for the replacement cost up to \$50 million per occurrence, subject to various deductibles depending on the type of equipment.
- Public officials personal liability up to \$100,000 each occurrence, with an annual aggregate of \$100,000 per each elected/appointed official to which this coverage applies, subject to the terms, with a deductible of \$1,000 per claim.
- Workers' compensation insurance up to California statutory limits for all work related injuries/illnesses covered by California law.

Settled claims have not exceeded any of the coverage amounts in any of the last three fiscal years and there were no reductions in the District's insurance coverage during the years ending June 30, 2007, 2006 and 2005. Liabilities are recorded when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated net of the respective insurance coverage. Liabilities include an amount for claims that have been incurred but not reported (IBNR). There were no IBNR claims payable as of June 30, 2007, 2006 and 2005.

**Yorba Linda Water District**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Years Ended June 30, 2007 and 2006**

**(12) Governmental Accounting Standards Board Statements Issued, Not Yet Effective**

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2007, that has effective dates that may impact future financial presentations.

***Governmental Accounting Standards Board Statement No. 45***

In June 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions*. This Statement establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local government employers. This statement is not effective for this District until the fiscal year ended June 30, 2009. This statement is expected to have a significant impact on the presentation of the District's financial statements in future years.

***Governmental Accounting Standards Board Statement No. 48***

In September 2006, the GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*. This statement establishes criteria that governments will use to ascertain whether certain transactions should be regarded as sales or as collateralized borrowings. This statement also includes disclosure requirements for future revenues that are pledged or sold. This statement is not effective for this District until the fiscal year ended June 30, 2008. This statement is not expected to have a significant impact on the presentation of the District's financial statements.

***Governmental Accounting Standards Board Statement No. 49***

In November 2006, the GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. This statement provides guidance on how to calculate and report the costs and obligations associated with pollution cleanup efforts. This statement is not effective for this District until the fiscal year ended June 30, 2009. This statement is not expected to have a significant impact on the presentation of the District's financial statements.

***Governmental Accounting Standards Board Statement No. 50***

In May 2007, the GASB issued Statement No. 50, *Pension Disclosures, an amendment of GASB Statements No. 25 and 27*. This statement more closely aligns the financial reporting requirements for pensions with those for other post-employment benefits (OPEB) and, in doing so, enhances information disclosed in the notes to financial statements or presented as required supplementary information (RSI) by pension plans and by employers that provide pension benefits. The reporting changes required by this Statement amend applicable note disclosure and RSI requirements of GASB Statements No. 25 and 27, to conform with requirements of GASB Statements No. 43 and 45. This statement is not effective for this District until the fiscal year ended June 30, 2009. This statement is not expected to have a significant impact on the presentation of the District's financial statements.

***Governmental Accounting Standards Board Statement No. 51***

In June 2007, the GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. This statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. This statement is not effective for this District until the fiscal year ended June 30, 2010. This statement is not expected to have a significant impact on the presentation of the District's financial statements.

**Yorba Linda Water District**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Years Ended June 30, 2007 and 2006**

**(13) Commitments and Contingencies**

***Construction Contracts***

The District has a variety of agreements with private parties relating to the installation, improvement or modification of water facilities and distribution systems within its service area. The financing of such construction contracts is being provided primarily from the District's replacement reserves and advances for construction. The District has committed to approximately \$10,815,675 of open construction contracts as of June 30, 2007. These include:

<u>Project Name</u>	<u>Total Approved Contract</u>	<u>Construction Costs to Date</u>	<u>Balance to Complete</u>
Design of Hidden Hills Reservoir (2MG)	\$ 322,769	22,594	300,175
Design of Highland Reservoir Replacement (6MG)	303,473	138,822	164,651
Design/CM & Inspection of New Administration Bldg., Phase 3	673,000	425,979	247,021
Administration Building Materials Inspection Services	50,000	13,670	36,330
Administration Building Construction	6,445,828	5,615,421	830,407
Design of 18 and 36 inch Bastanchury Transmission Pipeline	91,140	91,140	-
Design, CM & Insp. of Lakeview Ave. Res./Booster Station	1,800,188	428,951	1,371,237
Construction of Lakeview Booster Pump Station	3,544,747	491,505	3,053,242
Meter Replacement Program	304,000	129,960	174,040
2005 C.I. Replace (Ohio/Buena Vista/Grandview) Construction	4,078,610	373,669	3,704,940
CM & Insp. 2005 C.I. Replace (Ohio/Buena Vista/Grandview)	276,823	30,782	246,041
Hydraulic Network Modeling Services	10,000	9,380	620
Miraloma Ave. Storm Drain Design	78,900	2,000	76,900
Miraloma Ave. Storm Drain Construction	409,540	409,540	-
Miraloma Storm Drain Soils Testing	12,000	4,100	7,900
Lakeview 8 Million Gallon Reservoir Project	10,489,500	9,887,329	602,171
	<u>\$ 28,890,518</u>	<u>18,074,842</u>	<u>10,815,675</u>

***Litigation***

In the ordinary course of operations, the District is subject to claims and litigation from outside parties. After consultation with legal counsel, the District believes the ultimate outcome of such matters, if any, will not materially affect its financial condition.

**(14) Subsequent Event**

The District is in the process of approving a \$40,000,000 Certificate of Participation issuance to finance certain capital improvements for the District, to fund a reserve fund and to pay certain costs of water delivery.



## **Supplemental Information**



**Yorba Linda Water District  
Combining Schedule of Net Assets  
For the Year Ended June 30, 2007**

	<u>Water</u>	<u>Sewer</u>	<u>Improvement District No. 1</u>	<u>Improvement District No. 2</u>	<u>Total</u>
<b>Current assets:</b>					
Cash and investments	\$ 745,363	1,647,179	-	-	2,392,542
Cash and investments - annexation	16,075,056	-	-	-	16,075,056
Accrued interest receivable	122,370	3,286	-	-	125,656
Accounts receivable – water and sewer services, net	3,974,161	543,624	-	-	4,517,785
Accounts receivable – property taxes	21,748	903	-	-	22,651
Inventory	374,176	-	-	-	374,176
Prepaid expenses and other deposits	174,266	-	-	-	174,266
Total current assets	<u>21,487,140</u>	<u>2,194,992</u>	<u>-</u>	<u>-</u>	<u>23,682,132</u>
<b>Restricted assets:</b>					
Cash and investments	9,821,483	-	4,363,122	9,318,232	23,502,837
Accrued interest receivable	-	-	17,681	8,268	25,949
Total restricted assets	<u>9,821,483</u>	<u>-</u>	<u>4,380,803</u>	<u>9,326,500</u>	<u>23,528,786</u>
<b>Non-current assets:</b>					
Capital assets, net	83,226,166	20,079,519	14,125,571	13,956,040	131,387,296
Deferred charges, net	388,140	-	-	-	388,140
Total non-current assets	<u>83,614,306</u>	<u>20,079,519</u>	<u>14,125,571</u>	<u>13,956,040</u>	<u>131,775,436</u>
<b>Total assets</b>	<u>\$ 114,922,929</u>	<u>22,274,511</u>	<u>18,506,374</u>	<u>23,282,540</u>	<u>178,986,354</u>
<b>Current liabilities:</b>					
Accounts payable and accrued expenses	\$ 5,537,605	203,033	-	-	5,740,638
Accrued wages	65,707	5,106	-	-	70,813
Accrued compensated absences	445,477	-	-	-	445,477
Deposits	76,782	303,589	-	-	380,371
Construction advances and deposits	34,270	3	-	-	34,273
Deferred credits	858,279	-	-	-	858,279
Total current liabilities	<u>7,018,120</u>	<u>511,731</u>	<u>-</u>	<u>-</u>	<u>7,529,851</u>
<b>Payable from restricted assets:</b>					
Construction bonding deposits	105,500	44,676	-	-	150,176
Accrued interest payable	116,766	-	-	-	116,766
Prepaid connection fees	7,319	-	-	-	7,319
Current portion of revenue bonds	210,000	-	-	-	210,000
Total payable from restricted assets	<u>439,585</u>	<u>44,676</u>	<u>-</u>	<u>-</u>	<u>484,261</u>
Total current liabilities	<u>7,457,705</u>	<u>556,407</u>	<u>-</u>	<u>-</u>	<u>8,014,112</u>
<b>Non-current liabilities:</b>					
Deferred revenue	14,890,077	-	-	-	14,890,077
Revenue bonds, net of current portion	9,860,000	-	-	-	9,860,000
Total non-current liabilities	<u>24,750,077</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>24,750,077</u>
<b>Total liabilities</b>	<u>32,207,782</u>	<u>556,407</u>	<u>-</u>	<u>-</u>	<u>32,764,189</u>
<b>Net assets:</b>					
Net investment in capital assets	73,156,166	20,079,519	14,125,571	13,956,040	121,317,296
Restricted	9,381,898	-	4,380,803	9,326,500	23,089,201
Unrestricted	177,083	1,638,585	-	-	1,815,668
<b>Total net assets</b>	<u>82,715,147</u>	<u>21,718,104</u>	<u>18,506,374</u>	<u>23,282,540</u>	<u>146,222,165</u>
<b>Total liabilities and net assets</b>	<u>\$ 114,922,929</u>	<u>22,274,511</u>	<u>18,506,374</u>	<u>23,282,540</u>	<u>178,986,354</u>

**Yorba Linda Water District**  
**Combining Schedule of Revenues, Expenses and Changes in Fund Net Assets**  
**For the Year Ended June 30, 2007**

	<u>Water</u>	<u>Sewer</u>	<u>Improvement District No. 1</u>	<u>Improvement District No. 2</u>	<u>Total</u>
Operating revenues:					
Metered water sales	\$ 18,489,306	-	-	-	18,489,306
Sewer maintenance charges	-	806,897	-	-	806,897
Construction water sales	332,893	-	-	-	332,893
Irrigation sales	78,897	-	-	-	78,897
Customer service fees	139,911	-	-	-	139,911
Rents and royalties	41,442	-	-	-	41,442
Outside of District water sales	38,876	-	-	-	38,876
Unmetered water sales	4,261	-	-	-	4,261
Other charges and services	201,140	10,792	-	-	211,932
<b>Total operating revenues</b>	<b>19,326,726</b>	<b>817,689</b>	<b>-</b>	<b>-</b>	<b>20,144,415</b>
Operating expenses:					
Variable water cost	10,703,037	-	-	-	10,703,037
Personnel services	4,741,016	535,862	-	-	5,276,878
Supplies and services	3,130,117	265,186	-	-	3,395,303
<b>Total operating expenses</b>	<b>18,574,170</b>	<b>801,048</b>	<b>-</b>	<b>-</b>	<b>19,375,218</b>
Operating income before depreciation and amort	752,556	16,641	-	-	769,197
Depreciation and amortization	(3,051,099)	(394,769)	-	-	(3,445,868)
<b>Operating loss</b>	<b>(2,298,543)</b>	<b>(378,128)</b>	<b>-</b>	<b>-</b>	<b>(2,676,671)</b>
Non-operating revenue:					
Property taxes - debt service	-	-	187	5,322	5,509
Property taxes - operations	1,180,932	-	-	-	1,180,932
Interest and investment earnings	1,503,192	108,906	163,666	404,303	2,180,067
Other non-operating revenues	400,861	3,000	34,543	16,663	455,067
<b>Total non-operating revenues</b>	<b>3,084,985</b>	<b>111,906</b>	<b>198,396</b>	<b>426,288</b>	<b>3,821,575</b>
Non-operating expense:					
Interest expense	468,087	-	-	-	468,087
Other expense	121,100	9,440	5,462	2,499	138,501
<b>Total non-operating expense</b>	<b>589,187</b>	<b>9,440</b>	<b>5,462</b>	<b>2,499</b>	<b>606,588</b>
Total non-operating revenue (expense)	2,495,798	102,466	192,934	423,789	3,214,987
<b>Net income (loss) before     capital contributions</b>	<b>197,255</b>	<b>(275,662)</b>	<b>192,934</b>	<b>423,789</b>	<b>538,316</b>
Capital contributions:					
Developers and others	2,525,895	4,387,200	-	-	6,913,095
<b>Capital contributions</b>	<b>2,525,895</b>	<b>4,387,200</b>	<b>-</b>	<b>-</b>	<b>6,913,095</b>
<b>Change in net assets</b>	<b>2,723,150</b>	<b>4,111,538</b>	<b>192,934</b>	<b>423,789</b>	<b>7,451,411</b>
Net assets, beginning of year	79,991,997	17,606,566	18,313,440	22,858,751	138,770,754
Net assets, end of year	\$ 82,715,147	21,718,104	18,506,374	23,282,540	146,222,165

**Yorba Linda Water District**  
**Schedule of Operating Expenses by Cost Center**  
**And Nature of Expenses for Water and Sewer**  
**For the Year Ended June 30, 2007**

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Variable Water Costs			
Imported water	\$ 6,203,387	-	6,203,387
OCWD replenishment assessment	2,958,976	-	2,958,976
Fuel and power/pumping	1,258,601	-	1,258,601
MWD connection charge	282,073	-	282,073
Total variable water costs	<u>10,703,037</u>	<u>-</u>	<u>10,703,037</u>
Personnel Services			
Unit salaries	2,227,144	279,268	2,506,412
Management salaries	1,101,328	104,237	1,205,565
Fringe benefits	1,312,129	148,680	1,460,809
Director's fees	39,062	3,678	42,740
Salaries - other	61,352	-	61,352
Total personnel services	<u>4,741,015</u>	<u>535,863</u>	<u>5,276,878</u>
Supplies and Services			
Maintenance	822,232	19,558	841,790
Contractual services	867,319	70,540	937,859
Insurance	184,850	18,282	203,132
Data processing	139,720	8,540	148,260
Communications	168,472	14,049	182,521
Vehicle expense	200,562	39,973	240,535
Professional services	408,548	56,645	465,193
Utilities	29,792	1,448	31,240
Office expense	51,241	5,068	56,309
AMP lease	-	-	-
Training	28,326	3,508	31,834
Dues and memberships	21,579	2,174	23,753
Travel and conferences	19,972	2,237	22,209
Non-capital equipment	123,483	17,340	140,823
Bad debt expense	12,708	1,004	13,712
Recreation committee	14,063	1,369	15,432
Other	37,249	3,452	40,701
Total supplies and services	<u>3,130,116</u>	<u>265,187</u>	<u>3,395,303</u>
Total operating expenses	<u>\$ 18,574,168</u>	<u>801,050</u>	<u>19,375,218</u>

**Yorba Linda Water District  
Schedule of Capital Assets  
For the Year Ended June 30, 2007**

	<u>Water</u>	<u>Sewer</u>	<u>Improvement District No. 1</u>	<u>Improvement District No. 2</u>	<u>Total</u>
Land, Mineral and Water Rights					
Land	\$ 138,629	-	-	-	138,629
Water rights	86,300	-	-	-	86,300
Mineral rights	63,650	-	-	-	63,650
Land rights and easements	386	58,526	-	-	58,912
Total land, mineral and water rights	<u>288,965</u>	<u>58,526</u>	<u>-</u>	<u>-</u>	<u>347,491</u>
Source of Supply					
Wells	3,868,911	-	753,617	588,778	5,211,306
MWD connection	373,938	-	123,514	66,916	564,368
Total source of supply	<u>4,242,849</u>	<u>-</u>	<u>877,131</u>	<u>655,694</u>	<u>5,775,674</u>
Pumping Plant					
Structures and improvements	3,842,141	-	781,868	2,160,999	6,785,008
Equipment	3,325,910	29,240	733,694	165,348	4,254,192
Total pumping plant	<u>7,168,051</u>	<u>29,240</u>	<u>1,515,562</u>	<u>2,326,347</u>	<u>11,039,200</u>
Water Treatment Plant					
Structures and Improvements	934,650	-	370,338	170,814	1,475,802
Equipment	840,075	-	278,354	-	1,118,429
Total water treatment plant	<u>1,774,725</u>	<u>-</u>	<u>648,692</u>	<u>170,814</u>	<u>2,594,231</u>
Transmission and Distribution					
Mains	39,507,530	22,809,465	7,614,845	5,531,548	75,463,388
Reservoirs and tanks	16,129,101	-	5,822,555	8,400,449	30,352,105
Service and meter installation	4,913,339	1,582,940	-	-	6,496,279
Fire hydrants	5,372,356	-	-	-	5,372,356
Meters	5,465,245	-	-	-	5,465,245
Fire mains	732,505	-	-	-	732,505
Structure and improvements	1,222,794	-	231,955	-	1,454,749
Total transmission and distribution	<u>73,342,870</u>	<u>24,392,405</u>	<u>13,669,355</u>	<u>13,931,997</u>	<u>125,336,627</u>
General Plant					
Structures and improvements	2,941,863	-	825,648	468,552	4,236,063
Transportation equipment	1,382,758	-	-	-	1,382,758
Power operated equipment	191,287	-	-	-	191,287
Communication equipment	530,952	-	-	-	530,952
Computer equipment	407,304	-	-	-	407,304
Office furniture	371,798	-	-	-	371,798
Tools, shops and garage equipment	75,590	-	-	-	75,590
Other	33,790	822,480	-	-	856,270
Stores equipment	24,949	-	-	-	24,949
Total general plant	<u>5,960,291</u>	<u>822,480</u>	<u>825,648</u>	<u>468,552</u>	<u>8,076,971</u>
Construction-in-Process	15,942,952	963,714	863,472	919,027	18,689,165
Total capital assets	<u>\$ 108,720,703</u>	<u>26,266,365</u>	<u>18,399,860</u>	<u>18,472,431</u>	<u>171,859,359</u>

# **Report on Internal Controls and Compliance**





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## **Independent Auditor's Report on Internal Control Over Financial Reporting And on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards***

Board of Directors  
Yorba Linda Water District  
Yorba Linda, California

We have audited the basic financial statements of the Yorba Linda Water District (District) as of and for the year ended June 30, 2007 and 2006, and have issued our report thereon dated October 20, 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 *Government Auditing Standards*, issued by the Comptroller General of the United States.

### ***Internal Control Over Financial Reporting***

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control. Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### ***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors and management and is not intended to be and should not be used by anyone other than these specified parties.

October 20, 2007  
Cypress, California

*Charles Z. Fedak, CPA, MBA*  
*An Accountancy Corporation*