

# **Yuima Municipal Water District**

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**Financial Statements**

**June 30, 2007**

**(With Independent Auditors' Report thereon)**

# **Yuima Municipal Water District**

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**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**Fiscal Year Ended June 30, 2007**

The District's financial statements are prepared in accordance with the Governmental Accounting Standards Board Statement GASB Number 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments. GASB 34 established enhanced financial reporting requirements for state and local governments, including Yuima Municipal Water District.

This section of the Yuima Municipal Water District's Annual Financial Report presents Management's Discussion and Analysis of the District's financial performance for fiscal year ended June 30, 2007. GASB requires that when presenting comparative financial statements in the Management's Discussion and Analysis, it is required to present comparative financial information and analysis for both years. Therefore, the Financial overview section below contains the discussion of the June 30, 2007 financial performance, followed by the June 30, 2006 financial performance. Please note the Management' Discussion and Analysis is intended to be read in conjunction with the Transmittal Letter at the front of this report and Yuima Municipal Water District's financial statement, which follow this section.

The report was prepared by the District's Finance Department in accordance with generally accepted accounting principles. The responsibility for both the accuracy of the data presented and the completeness and fairness of the presentation, including all disclosures, rests with the District's management. We believe the data, as presented, is accurate in all material respects and that it is presented in a manner designed to set forth fairly the financial position and results of operations of the District. Included are all disclosures we believe are necessary to enhance the understanding of the financial condition of the District.

**FINANCIAL OVERVIEW**

The following factors impacted, or have the potential to impact, the finances of the District.

- The year ended June 30, 2007 experienced a less than average rainfall of only 9.27" compared to 16.4" the prior year and 20" in the previous 10 year average.
- Total water sales for the fiscal year were 7,433 acre feet. Of these sales 94.5% were to agricultural accounts. Water sales increased 13.9% from the previous year, which is 10.7% above the previous five year average. The district produced and purchased locally 53% of our water needs or 4,060 acre feet compared to 51% local production the year before.
- Tax revenues increased \$286,367 in fiscal year ending 2007 due to the increases in the 1% general tax revenue growth, unitary taxes and the elimination of the

ERAF tax shift that was in effect during fiscal years 2005 and 2006. Proposition 1A which passed in November of 2004 resulting in a loss of property tax revenue in the amount of \$260,350 for the fiscal years ending 2005 and 2006.

## FINANCIAL STATEMENTS

Our discussion and analysis of the Yuima Municipal Water District's performance provides a brief description of the District's financial statements, including the relationship of the statements to each other and the significant differences in the information that they provide. The District's financial statements include four components:

- Balance Sheet
- Statement of Revenues, Expenses and Changes in Net Assets
- Statement of Cash Flows
- Notes to the Financial Statements

The balance sheets include all of the District's assets and liabilities, with the difference between the two reported as net assets. Net assets are displayed in three categories:

- Invested in Capital Assets, Net of Related Debt
- Restricted Net Assets
- Unrestricted Net Assets

The balance sheet provides the basis for evaluating the capital structure of the District and assessing its liquidity and financial flexibility.

The statements of revenues, expenses and changes in net assets present information which shows how the District's net assets changed during the year. All of the current year's revenues and expenses are recorded when the underlying transaction occurs, regardless of the timing of the related cash flows. The statement of revenues, expenses and changes in net assets measures the success of the District's operations and determines whether the District has recovered its cost through user fees and other charges.

The statements of cash flows provide information regarding the District's cash receipts and cash disbursements during the year. This statement reports cash activity in four categories:

1. Operating
2. Investing
3. Capital financing
4. Non-capital financing

This statement differs from the statements of revenue, expenses and changes in net assets by only accounting for transactions that result in cash receipts or cash disbursements.

The notes to the financial statements provide a description of the accounting policies used to prepare the financial statement and present material disclosures required by generally accepted accounting principals that are not otherwise present in the financial statements.

## FINANCIAL ANALYSIS OF THE DISTRICT

Statement of Net Assets – The Statement of Net Assets presents the District's financial position relating to assets and liabilities. Assets in excess of liabilities (Net Assets) for fiscal 2007 increased by \$409,109 over fiscal year ended June 30, 2006, from \$13,826,042 to \$14,235,151. Restricted net assets decreased \$449,187 for capital projects and expenditures for energy related projects. Unrestricted assets are designated per district resolution 998-05 to various projects and funds.

In accordance with generally accepted accounting principals, capital assets are recorded at historical cost. Net assets are accumulated revenues, expenses, and contributed capital combined with the beginning balance of Net Assets in the Statement of Revenues, Expenses, and Changes in Net Assets.

### NET ASSETS

	<u>2007</u>	<u>2006</u>
Current Assets	\$ 5,979,094	\$ 6,147,063
Non-current assets	0	226,315
Capital assets	<u>10,132,455</u>	<u>9,589,414</u>
<b>Total Assets</b>	<b><u>\$16,111,549</u></b>	<b><u>\$15,962,792</u></b>
Current liabilities	\$ 494,436	\$ 736,082
Non-current liabilities	<u>1,381,962</u>	<u>1,400,668</u>
<b>Total Liabilities</b>	<b>\$ 1,876,398</b>	<b>\$ 2,136,750</b>
Net assets:		
Invested in capital assets, net of related debt	\$ 3,489,289	\$ 3,489,289
Restricted	2,923,894	3,373,081
Unrestricted	<u>7,821,968</u>	<u>6,963,672</u>
<b>Total Net Assets</b>	<b>14,235,151</b>	<b>13,826,042</b>
<b>Total Liabilities and Net Assets</b>	<b><u>\$16,111,549</u></b>	<b><u>\$15,962,792</u></b>

**Change in Net Assets** – The District's operating revenues increased 16.4% or \$939,400 as a result of increased water sales from the prior year.

The District's operating expenses increased 26.6%, from the prior year or \$1,298,993.

**SUMMARY OF INCREASES IN NET ASSETS**

	<u>2007</u>	<u>2006</u>
<b>Operating Revenues:</b>		
Water Operations	\$6,675,823	\$5,736,423
<b>Non-operating Revenues:</b>		
Property taxes, assessments & connection fees	\$ 594,426	\$ 340,386
Other	<u>657,340</u>	<u>375,831</u>
<b>Total Revenues</b>	<u>\$7,927,589</u>	<u>\$6,452,640</u>
<b>Operating Expenses:</b>		
Operating Expenses	7,355,971	6,100,422
Non-Operating Expenses (debt service interest)	<u>46,529</u>	<u>50,652</u>
<b>Total Expenses</b>	<u>7,402,500</u>	<u>6,151,074</u>
<b>Increase/(Decrease) in Net Assets</b>	<u>\$ 409,109</u>	<u>\$ 301,566</u>

**ANALYSIS OF OPERATIONS**

Revenues for the year ended June 30, 2007, totaled \$7,927,589, which is a 22.8% increase from the prior year. Details of this increase in revenues are as follows:

- ▶ Water sales and pumping revenues increased by 19.3%, or \$1,013,505 from the prior year. There was a 13.9% increase in the volume of water sold. In 2006-07 a total of 7,433 acre feet of water were billed compared to 6,521.5 acre feet in the prior year.
- ▶ Property taxes and assessments increased \$268,367 from 2005-06 to 2006-07. This increase is due to receiving the growth in property values in the 1% general tax take, state unitary taxes and the elimination of the ERAF tax shift. Meter Connection Fees and IDA Special Connection Fees totaled \$63,795.
- ▶ Other non-operating revenues increased \$127,736 from the prior year due to one time monies received. In fiscal year 2006-07 one time money in other revenues include the reimbursement of attorney fees and settlement funds from the energy lawsuit in the amount of \$82,144 and State Mandated claims reimbursements in the amount of \$23,246.

Expenses for the year ended June 30, 2007, totaled \$7,402,500. An increase of \$1,251,426 or 20.3%. Certain significant expenses are as follows:

- ▶ The cost of water sold increased 17% over the prior year due to the increase in water sales and the cost of imported water.

- ▶ Pumping and energy costs increased 35.6% over prior year in relation to the increased water sales. During fiscal year 2006 we received DWR & CTC energy credits from SDG&E totaling \$86,147 which ended on December 31, 2006.
- ▶ Customer Service Expense increased 19.7% due to our aggressive meter repair and replacement program in place this fiscal year.
- ▶ Transmission & Distribution expense increased 12% due to system maintenance demands.
- ▶ General and administrative expense increased 34.2% largely due to increases salary, wage and benefit expenses.

In June, 2005 the District updated its Master Plan. Based on demand projections and facility cost estimates in the District's master plan, there will be a need for long-term borrowing to fund expansion of its facilities which will be funded through new debt proceeds.

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YUIMA MUNICIPAL WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

A comparative analysis of "Yuima Municipal Water District's Revenues and Expenses" is presented below.

**Yuima Municipal Water District's Revenue and Expenses**

	<b>2007</b>	<b>2006</b>	<b>Increase/ (Decrease)</b>	<b>Percent Change</b>
<b>Operating revenues:</b>				
Water sales & Pumping charges	\$6,256,034	\$5,242,529	\$1,013,505	19.3%
Other customer fees and charges	<u>419,789</u>	<u>493,894</u>	-74,105	-15.0%
Total operating revenues	6,675,823	5,736,423	\$939,400	16.4%
<b>Operating expenses:</b>				
Cost of water sold	3,403,909	2,909,805	\$494,104	17.0%
Pumping and energy costs	1,474,197	1,087,195	387,002	35.6%
Water Treatment	104,179	97,674	6,505	6.7%
Transmission and distribution	378,565	338,003	40,562	12.0%
Customer services	84,239	70,375	13,864	19.7%
General Plant	108,533	120,245	-11,712	-9.7%
General and administrative	1,373,561	1,023,563	349,998	34.2%
Depreciation	<u>373,599</u>	<u>354,929</u>	18,670	5.3%
Total operating expenses	7,300,782	6,001,789	1,298,993	21.6%
Operating (loss)	(624,959)	(265,366)	(359,593)	135.5%
<b>Non-operating revenues:</b>				
Investment income	285,969	291,715	(5,746)	-2.0%
Property taxes, assmts. & conn. fees	587,046	205,676	381,370	185.4%
Energy Settlement	-33,737	0	(33,737)	0.0%
Fire Mitigation Fees	12,914	10,399	2,515	24.2%
Fire Protection Service taxes & fees	48,671	101,141	(52,470)	-51.9%
Other non- operating revenues	<u>235,022</u>	<u>107,286</u>	127,736	119.1%
Total non-operating revenues	1,135,885	716,217	419,668	58.6%
<b>Non-operating expenses:</b>				
Interest on long term debt	46,529	50,652	(4,123)	-8.1%
Fire Protection Service	<u>55,288</u>	<u>98,633</u>	(43,345)	-43.9%
Total non-operating expenses	101,817	149,285	(47,468)	-31.8%
Revenues over/(under) Expenditures	409,109	301,566	107,543	35.7%
<b>Change in net assets</b>				
Net assets, beginning of year	<u>13,826,042</u>	<u>13,524,476</u>	301,566	2.2%
<b>Net assets, end of year</b>	<u>\$14,235,151</u>	<u>\$13,826,042</u>	<u>\$409,109</u>	<u>3.0%</u>



YUIMA MUNICIPAL WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

A Comparative analysis of "Yuima Municipal Water District's Cash Flows is presented below.

YUIMA MUNICIPAL WATER DISTRICT STATEMENT OF CASH FLOWS	2007	2006	Increase/ (Decrease)	Percent Change
<b>Cash flows from operating activities</b>				
<b>Change in net assets</b>	409,109	301,566	107,543	35.7%
Adjustments to reconcile increase in net assets to net cash (used in) operating activities				
Depreciation	373,599	354,929	18,670	5.3%
Changes in				
Accounts receivable	19,462	-227,331	246,793	-108.6%
Interest receivable	2,935	-26,248	29,183	-111.2%
Other receivables	1,585	-1,380	2,965	-214.9%
Prepaid expenses & deposits	4,578	5,317	-739	-13.9%
Inventories	-8,933	-4,098	-4,835	118.0%
Due from other funds	28,626	74,061	-45,435	-61.3%
Accounts payable	-247,567	73,038	-320,605	-439.0%
Due to other funds	-28,626	-74,061	45,435	-61.3%
Accrued liabilities & expenses	36,675	23,389	13,286	56.8%
Deposits & other liabilities	<u>1,272</u>	<u>-3,542</u>	<u>4,814</u>	<u>-135.9%</u>
<b>Net cash provided by (used in) operating activities</b>	592,715	495,640	97,075	19.6%
<b>Cash flows from non-capital financing activities</b>				
Property taxes, net	27,369	73,107	-45,738	-62.6%
Energy settlement/special assmts.	-86,602	-344,539	257,937	-74.9%
Retiree health benefits	-90,598	-32,059	-58,539	182.6%
Other non operating, net	<u>12,914</u>	<u>69,637</u>	<u>-56,723</u>	<u>-81.5%</u>
<b>Net cash provided by Non-capital financing activities</b>	-136,917	-233,854	96,937	-41.5%
<b>Cash flow from capital and related financing activities</b>				
Additions to utility plant	-806,920	-820,985	14,065	-1.7%
Construction-in-progress	<u>-174,435</u>	<u>-175,077</u>	<u>642</u>	<u>-0.4%</u>
<b>Net cash (used in) capital and related financing activities</b>	-981,355	-996,062	14,707	-1.5%
<b>Cash flows from investing activities</b>				
Reduction of long-term debt	-109,304	-110,573	1,269	-1.1%
Interest income, net	<u>285,969</u>	<u>211,910</u>	<u>74,059</u>	<u>34.9%</u>
<b>Net cash provided by Investing activities</b>	176,665	101,337	75,328	74.3%
<b>Net increase (decrease) in cash &amp; cash equivalents</b>	-348,892	-632,939	284,047	-44.9%
<b>Cash and cash equivalents</b>				
Beginning of year	<u>5,307,315</u>	<u>5,940,254</u>	<u>-632,939</u>	<u>-10.7%</u>
End of year	<u>\$4,958,423</u>	<u>\$5,307,315</u>	<u>-348,892</u>	<u>-6.6%</u>

**CAPITAL ASSETS AND CAPITAL PROJECTS**

The District's Capital Assets in service at June 30, 2007 totaled \$16,035,840 less \$6,220,083 of accumulated depreciation, for a net book value of \$9,815,757. Capital Assets additions being depreciated totaled \$806,920 and included the following:

Source of Supply – Wells	\$ 493,279
General Plant additions	102,758
Pumping Plant	106,645
Water Treatment	0
Pipelines (Transmission & Distribution)	<u>104,238</u>
Total	\$ 806,920

Deletions of Capital Assets being depreciated totaled \$50,279.

Also, included in the total reported on the Statement of Net Assets is \$316,698 in construction-in-progress reflecting capital projects in various stages of completion. As of June 30, 2007, the following capital projects were in progress:

Station 8 Pump Station Replacement	\$ 106,285
Reservoir 8 tank & site study	20,301
IDA Station 1 renovation	3,609
Northern Route Feasibility study	183,880
Parallel 20" main line study	<u>2,623</u>
Total	\$ 316,698

To fund capital projects the District collects capacity fees from new development. These fees are restricted and used exclusively to provide capacity to service new development and fund future construction of facilities identified in the District's Master Plan. As of June 30, 2007 all capacity fees collected have been used for this purpose. Growth in the area is slow to none. The district does not expect any change for the next few years.

**LONG-TERM DEBT**

As of June 30, 2007, the District has one outstanding bond totaling \$1,184,880. Funds were disbursed in May, 2004 with repayment terms of 3.73% interest, bi-annual payments beginning October 21, 2004 for 12 years until April 21, 2016. This long-term debt represents the balance of capital financing for the Eastside Tank and Pump Station.

## **FUTURE INFRASTRUCTURE PLANNING**

Due to increasing demand for water in Pauma Valley, the District has determined that a new transmission pipeline will be required to bring additional imported water into the District from the First and Second San Diego Aqueducts. Two potential routes are under consideration. The first ("Southern Route") would parallel the District's existing 20" pipeline and would be built at the sole expense of the District. The second ("Northern Route") would be a joint venture between the San Luis Rey Indian Water Authority and the District, and would connect to the Metropolitan Water District portion of the aqueducts at a point just north of the jurisdictional boundary with the San Diego County Water Authority. The preliminary estimate of the District's cost is approximately \$25 million for either route.

## **FIRE PROTECTION**

Since the late 70's the district has exercised its latent powers to provide fire protection services. The services are provided under a joint powers agreement with Pauma Municipal Water District and Mootamai Municipal Water District wherein they contract with the State Department of Forestry & Fire Protection for fire protection during the non-fire season.

In November, 2004 Proposition C received an 81% approval by San Diego County voters in support of consolidation of unincorporated area fire protection agencies – provided that consolidation results in better coordinated and enhanced delivery of fire protection and emergency medical services at no additional cost. Citing voter support of Prop C, the Board of Supervisors requested LAFCO to initiate the process for consolidation.

On February 7, 2005, the San Diego Local Agency Formation Commission unanimously approved the initiation of a reorganization proposal involving the dissolution of sixteen (16) Fire Protection Districts and seven (7) County Service Areas plus the deactivation of the fire protection and emergency medical service functions of five (5) Municipal Water Districts, namely Yuima MWD, Pauma MWD, Mootamai MWD, Rincon del Diablo MWD and Ramona MWD.

The Board of Supervisors unanimously supported the concept of reapportioning local property tax in favor of a new regional fire protection agency. New reapportioned revenue would be phased in over three years and added to the proposed Regional Fire Protection District's existing revenue. The County's background material indicate the \$178.9 million in combined reapportioned and existing revenue would be available to the proposed Regional Fire Protection District by FY 08-09. The property tax revenue of the five municipal water districts is discretionary income that funds both water and fire function.

In the January 31, 2007 Micro Report prepared for LAFCO it was found that State law does not authorize removal of individual services from a multi-purpose district, and the Municipal Water District's could not be considered for the Phase 1 reorganization;

accordingly, Municipal Water District's property tax and voter-approved assessment revenues would not transfer to a successor agency. There is a provision in the reorganization documents to allow a Municipal Water District to apply for readmission and evaluate whether their fire protection function could be voluntarily transferred to the regional agency. Yuima's board has elected not to participate in the reorganization at this time. Their reasons for this decision include the following:

- No stable, reliable funding source for the new agency has been identified.
- It is not clear that the services provided to the local community will be equal to or better than those now provided by the California Department of Forestry ("CalFire")
- It is not clear that the reorganization will ever take place.
- The option to join later is still available.

### **ECONOMIC FACTORS**

The District derives funding for operations from customer rates, fees, and charges. To the extent required, the District has the ability to generate additional funding resources through rate adjustments to cover the costs for providing water services. The District sets its rates annually based upon anticipated consumption. A significant reduction in consumption could have an adverse effect on the District's financial position.

The District sold 26.3% of total water delivered during the year 2006/07 to one customer. The same customer has been one of the top ten water consumers in the district for the last 20 years averaging 27.6% of the district sales.

The District incurred a \$624,959 operating loss during fiscal year 2007 and a \$265,366 operating loss during fiscal year 2006. The operating loss in 2007 is primarily the result of the higher cost of imported water supplies, pumping costs and salary and benefit costs. The district has historically utilized its non-operating reserves to compensate for these operating losses.

### **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to give our citizens, taxpayers, customers, investors, and creditors a general overview of the District's finances and to demonstrate the District's accountability for the money it received and the stewardship of the facilities it maintains. If you have any questions about this report or need additional financial information, contact the Yuima Municipal Water District's Finance Department, 34928 Valley Center Road, Pauma Valley, Ca. 92061, or call (760) 742-3704.

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## Independent Auditors' Report

Board of Directors  
Yuima Municipal Water District  
Pauma Valley, California

We have audited the accompanying combining financial statements of Yuima Municipal Water District (the "District") as of June 30, 2007 and for the year then ended. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States and the State Controller's Minimum Audit Requirements for California Special Districts. 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 financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Yuima Municipal Water District as of June 30, 2007, and the results of its operations and its cash flows for the year then ended, in conformity with generally accepted accounting principles in the United States of America, as well as the accounting systems prescribed by the State Controller's Office and State Regulations governing Special Districts.

The Management's Discussion and Analysis is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the supplementary information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 5, 2007 on our consideration of the District's internal control and a report dated October 5, 2007 on the District's compliance with laws and regulations.

*CDGiedtCompany*

Escondido, California  
October 5, 2007

# Yuima Municipal Water District

## Combining Balance Sheets

June 30, 2007

<b>ASSETS</b>	<b>Proprietary Fund Type <u>Enterprise</u></b>	<b>Special Revenue <u>Fire</u></b>	<b>Total Memorandum <u>Only</u></b>
<b>Current assets</b>			
Cash in LAIF – State Treasury	\$ 3,474,616	\$ 166,539	\$ 3,641,155
Cash and cash equivalents	1,288,692	28,576	1,317,268
Interest receivable	57,267	2,175	59,442
Accounts receivable	658,749		658,749
Taxes receivable	4,757	109,789	114,546
Other receivable	-	3,859	3,859
Prepaid expenses & deposits	32,977		32,977
Inventories	184,954		184,954
Due from other funds	<u>0</u>	<u>(33,856)</u>	<u>(33,856)</u>
Total current assets	<u>5,702,012</u>	<u>277,082</u>	<u>5,979,094</u>
<b>Utility Plant</b>			
Land	355,835		355,835
Transmission & general plant	<u>15,680,005</u>		<u>15,680,005</u>
Total	16,035,840		16,035,840
Accumulated depreciation	<u>(6,220,083)</u>		<u>(6,220,083)</u>
Net utility plant in service	9,815,757		9,815,757
Construction-in-progress	<u>316,698</u>		<u>316,698</u>
Net utility plant	<u>10,132,455</u>		<u>10,132,455</u>
<b>TOTAL ASSETS</b>	<u>\$ 15,834,467</u>	<u>\$ 277,082</u>	<u>\$ 16,111,549</u>

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

# Yuima Municipal Water District

## Combining Balance Sheets

June 30, 2007

### LIABILITIES & NET ASSETS

	<b>Proprietary Fund Type <u>Enterprise</u></b>	<b>Special Revenue <u>Fire</u></b>	<b>Total Memorandum <u>Only</u></b>
<b>Current liabilities</b>			
Accounts payable	\$ 314,461	\$ 35,516	\$ 349,977
Due to other funds	(33,856)		(33,856)
Compensated absences	148,656		148,656
Current portion long term debt	19,634		19,634
Deposits & other liabilities	<u>10,025</u>		<u>10,025</u>
Total current liabilities	<u>458,920</u>	<u>35,516</u>	<u>494,436</u>
<b>Noncurrent liabilities</b>			
Long term debt (restricted)	1,165,246		1,165,246
Retiree health benefits	<u>216,716</u>		<u>216,716</u>
Total long term liabilities	<u>1,381,962</u>		<u>1,381,962</u>
Total liabilities	<u>1,840,882</u>	<u>35,516</u>	<u>1,876,398</u>
<b>Net Assets</b>			
Contributed property	2,046,534		2,046,534
Investment- Utility plant	1,442,755		1,442,755
Designated- Capital Outlay	2,648,592		2,648,592
Designated- Reserve	7,821,968		7,821,968
Designated- Energy Settlement	33,737		33,737
Designated- Fire Mitigation	<u>-</u>	<u>241,565</u>	<u>241,565</u>
Total net assets	<u>13,993,586</u>	<u>241,565</u>	<u>14,235,151</u>
<b>TOTAL LIABILITIES &amp; NET ASSETS</b>	<u>\$ 15,834,468</u>	<u>\$ 277,081</u>	<u>\$ 16,111,549</u>

*The accompanying notes are and integral part of these financial statements.*

# Yuima Municipal Water District

## Combining Statements of Activities

*For the year ended June 30, 2007*

	<b>Proprietary Fund Type <u>Enterprise</u></b>	<b>Special Revenue <u>Fire</u></b>	<b>Total Memorandum <u>Only</u></b>
<b>Operating revenues</b>			
Water sales	\$ 6,256,034		\$ 6,256,034
Other water services	<u>419,789</u>		<u>419,789</u>
 Total operating revenues	 <u>6,675,823</u>		 <u>6,675,823</u>
<b>Operating expenses</b>			
Purchased water	3,403,909		3,403,909
Pumping expense	1,474,197		1,474,197
Water treatment expense	104,179		104,179
Transmission & distribution	378,565		378,565
Customer services	84,239		84,239
General & administrative	1,373,561	5,773	1,379,334
General plant	108,533		108,533
Fire protection		49,515	49,515
Depreciation	<u>373,599</u>	<u>-</u>	<u>373,599</u>
 Total operating expenses	 <u>7,300,782</u>	 <u>55,288</u>	 <u>7,356,070</u>
<b>Net operating income(loss)</b>	<b><u>(624,959)</u></b>	<b><u>(55,288)</u></b>	<b><u>(680,247)</u></b>
<b>Non-operating revenues(expense)</b>			
Property taxes/assessments	587,046	48,671	635,717
Investment Income	277,258	8,711	285,969
Energy Settlement	(33,737)	0	(33,737)
Interest expense	(46,529)		(46,529)
Mitigation Fees		12,914	12,914
Other non operating	<u>235,022</u>	<u>-</u>	<u>235,022</u>
 Total non-operating revenues	 <u>1,019,060</u>	 <u>70,296</u>	 <u>1,089,356</u>
 <b>Change in net assets (or revenues over expenditures)</b>	 <b><u>\$ 394,101</u></b>	 <b><u>\$ 15,008</u></b>	 <b><u>\$ 409,109</u></b>

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



# Yuima Municipal Water District

## Combining Statements of Changes in Fund Net Assets

*For the year ended June 30, 2007*

	<b>Proprietary Fund Type <u>Enterprise</u></b>	<b>Special Revenue <u>Fire</u></b>	<b>Total Memorandum <u>Only</u></b>
<b>NET ASSETS</b>			
<b>Contributed property</b>	\$ 2,046,534		\$ 2,046,534
<b>Investment in Utility Plant</b>	<u>1,442,755</u>		<u>1,442,755</u>
<b>Undesignated ( previously retained earnings)</b>			
Beginning	0		0
Change in net assets	394,101		394,101
Transfer to Reserve	(858,296)		(858,296)
Transfer to Reserve	<u>464,195</u>		<u>464,195</u>
Ending	<u>0</u>		<u>0</u>
<b>Designated for Reserve</b>			
Beginning	6,963,672		6,963,672
Transfer in	<u>858,296</u>		<u>858,296</u>
Ending	<u>7,821,968</u>		<u>7,821,968</u>
<b>Designated for Capital Outlay</b>			
Beginning	3,112,787		3,112,787
Transfer in			0
Change in net assets	<u>(464,195)</u>		<u>(464,195)</u>
Ending	<u>2,648,592</u>		<u>2,648,592</u>
<b>Designated for Energy Settlement</b>			
Beginning	33,737		33,737
Change in net assets			-
Ending	<u>33,737</u>		<u>33,737</u>
<b>Designated for Fire Mitigation</b>			
Beginning		226,557	226,557
Change in net assets		<u>15,008</u>	<u>15,008</u>
Ending		<u>241,565</u>	<u>241,565</u>
<b>TOTAL NET ASSETS</b>	<u>\$ 13,993,586</u>	<u>\$ 241,565</u>	<u>\$ 14,235,151</u>

*The accompanying notes are and integral part of these financial statements.*

# Yuima Municipal Water District

## Combining Statements of Cash Flows

*For the year ended June 30, 2007*

	<b>Proprietary Fund Type <u>Enterprise</u></b>	<b>Special Revenue <u>Fire</u></b>	<b>Total Memorandum <u>Only</u></b>
<b>Cash flows from operating activities</b>			
<b>Change in net assets</b>	\$ 394,101	\$ 15,008	\$ 409,109
Adjustments to reconcile increase in net assets to net cash (used in) operating activities			
Depreciation	373,599		373,599
Changes in			
Accounts receivable	19,462		19,462
Interest receivable	3,318	(383)	2,935
Other receivables		1,585	1,585
Prepaid expenses & deposits	4,578		4,578
Inventories	(8,933)		(8,933)
Due from other funds	28,626	-	28,626
Accounts payable	(215,358)	(32,209)	(247,567)
Due to other funds	(28,626)	-	(28,626)
Accrued liabilities & expenses	36,675		36,675
Deposits & other liabilities	1,272	-	1,272
<b>Net cash provided by (used in) operating activities</b>	<u>608,714</u>	<u>(15,999)</u>	<u>592,715</u>
<b>Cash flows from noncapital financing activities</b>			
Property taxes, net	579	26,790	27,369
Energy settlement/other	(86,602)		(86,602)
Retiree health benefits	(90,598)	-	(90,598)
Other non operating, net	12,914		12,914
<b>Net cash provided by Noncapital financing activities</b>	<u>(163,707)</u>	<u>26,790</u>	<u>(136,917)</u>
<b>Cash flows from capital and related financing activities</b>			
Additions to utility plant	(806,920)		(806,920)
Construction-in-progress	(174,435)		(174,435)
<b>Net cash (used in) capital and Related financing activities</b>	<u>(981,355)</u>		<u>(981,355)</u>
<b>Cash flows from investing activities</b>			
Reduction of long-term debt	(109,304)		(109,304)
Investment income	277,258	8,711	285,969
<b>Net cash provided by Investing activities</b>	<u>167,954</u>	<u>8,711</u>	<u>176,665</u>
<b>Net increase (decrease) in cash and Cash equivalents</b>	(368,394)	19,502	(348,892)
<b>Cash and cash equivalents</b>			
Beginning of year	5,131,702	175,613	5,307,315
End of year	<u>\$ 5,131,702</u>	<u>\$ 295,032</u>	<u>\$ 5,426,734</u>

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

# Yuima Municipal Water District

## Notes to Financial Statements

June 30, 2007

### 1. Organization and summary of significant accounting policies

#### Organization and Basis of Combination

Yuima Municipal Water District (the "District") was formed in January 1963 pursuant to Section 8 of the California Municipal Water District Act of 1911 for the purpose of securing a supplemental water supply from the Metropolitan Water district of California for its irrigation and domestic service within its boundaries. The District is governed by an elected, five-member board (the "Board") of directors. The 1963 General Obligation Bonds financed the construction of the necessary pipelines, pumping and storage facilities to bring Colorado River water from the aqueducts owned by the Metropolitan Water District and the San Diego County Water Authority to serve the properties within its boundaries, which cover about 13,460 acres in northeastern San Diego County, California; the District maintains, develops and manages such water distribution system. The District offices are located in Pauma Valley, California.

The accounts of the District are organized on the basis of geographic segments. These groups of accounts, which are subfunds of the proprietary fund, are identified in the District's books and records as the General Fund, Improvement District A, Annexation #1 and # 2, Fire Fund, and their related capital improvement funds.

The area now known as "Improvement District A" was previously Palomar Mutual Water Company ("Palomar Mutual"). Palomar Mutual transferred its lands, water system and water rights, together with its rights, functions and duties as stated in an agreement dated February 11, 1948 between Palomar Mutual and Rossmoyne Village, Inc. to the District in April, 1968. This area consisting of approximately 4,000 acres was limited under a Stipulated Judgement (Strub vs. Palomar) filed November 10, 1953 and later modified to allow production of no more than 1,350 acre feet of water per calendar year from the San Luis Rey River up-stream of Cole Grade Road.

The District added another 351 acres, Annexation #1, in November 1967, and another 63 acres, Annexation #2, in November 1969, by revising its boundaries pursuant to the Reorganization Act of 1965 as amended by LAFCO. The District added another six acres, Fitzsimmons Annexation, on March 26, 1991, and de-annexed 27 acres, Adams De-annexation, on March 26, 1991. Hence the District boundaries total 13,460 acres.

#### Uniform Accounting Systems

Governmental accounting systems are organized and operated on a fund basis. A fund is defined as an independent fiscal and accounting entity with a self balancing set of accounts recording cash and other financial resources together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations or limitations. In keeping its books and records, the District has established various self-balancing groups of accounts in order to enhance internal control and to further the attainment of other management objectives.

#### Proprietary Fund Type

Enterprise Fund - to account for operations that are financed and operated in a manner similar to private business enterprises - where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis is to be financed or recovered primarily through user charges; or where periodic determination of revenues earned, expenses incurred, and/or net income is deemed appropriate for capital maintenance, public policy, management control, accountability, or other purposes. Since the District is in the business of selling water and rendering services to an end user, such as a publicly owned private utility, it is required by the State of California to follow the enterprise type of fund accounting. All proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and all liabilities (whether current, non-current or restricted) associated with their activity are included in their balance sheets. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net total assets.

## 1. Organization and summary of significant accounting policies (continued)

### Special Revenue Fund Type

The Fire Fund – is to account for the proceeds of specific revenue sources that are restricted by law to expenditures for specified purposes. The District receives revenues from a special fire tax, authorized by the voters on June 3, 1980. The purpose of the special fire tax is to pay the California Department of Forestry & Fire Protection, now CALFIRE, for their services through the non-fire season months, when their local station would otherwise be closed and other expenses necessary for fire protection within the boundaries of the District. In November 2005 the District entered into a 3-year agreement with the County of San Diego to provide county funds to supplement costs for the CDF Amador Agreement. The agreement is subject to County funding availability and ends June 30, 2008

### Basis of Accounting

All funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

### Property Taxes and Assessments

Property taxes and assessments are billed by the County of San Diego to property owners. Property tax revenue is recognized in the fiscal year in which the taxes have been levied. The property tax calendar is as follows:

Lien date: January 1  
Levy date: July 1  
Due date: First installment - November 1  
            Second installment - February 1  
Delinquent date: First installment – December 10  
                    Second installment – April 10

Taxes are collected by the County of San Diego and are remitted to the District periodically according to the following schedule:

August 16, September 13, October 11, November 8, December 14, January 17, May 14, April 11, May 2, May 30, June 20, and July 18

### Investments

Investments are stated at the lower of cost or stated market values.

### Utility Plant and Depreciation

Utility plant property constructed by the District is carried at cost. Contributed utility plant property is carried at cost, which approximates their fair market value established at the date of contribution. Major additions and betterments are capitalized, and expenditures for normal cost of repair and maintenance that do not add to the value of the assets or materially extend their lives are charged to operations. Depreciation expense is provided on the straight-line method based on the estimated useful lives of the related assets, which range from three to 50 years.

### Water sales and accounts receivable

Water sales revenue is recorded and billed monthly when the service is rendered. During the year ended June 30, 2007 the District reported water sales to one customer which totaled approximately 26.3% of total sales. Management has not incurred any additional expense to serve this customer, and the District has more than one source of supply to meet its needs.

**1. Organization and summary of significant accounting policies (continued)**

Capitalized expenses

Certain administrative and general expenses, relating to assets under construction, are charged to construction-in-progress until the assets are ready for their intended use. Upon completion of major utility plant additions the capitalized cost is recorded as part of the asset to which it is related and is depreciated over the estimated useful life of the related asset.

Allocation of expenses

The District uses a three factor formula for the purpose of allocating indirect expenses between the General District and Improvement District A. The three factors used in this formula are:

- (1) value of plant, equipment and property; (2) number of customers served by each; and (3) direct hours worked. This allocation is made on a monthly basis.

Inventory

Inventory consists of parts, materials and supplies needed to keep the plant and equipment owned by either the General District or Improvement District A in efficient operating condition to supply water to their customers without interruption of such service. It is valued at cost, and when it is used, it is charged out on the first in, first out basis.

Cash and cash equivalents

The District maintains a cash and investment pool to meet current expenses and to generate interest income through investment activities. Interest earnings in this pool are allocated on a pro-rata basis, based on the fund balances of each district. In general, this pool is used by all districts and contains cash deposits and various securities permitted for local public agencies as specified in the Government Code of the State of California and the Board approved investment policy. Cash and cash equivalents are stated at cost, which approximates market value as of June 30, 2007.

The District's deposits at year-end are categorized below to give an indication of the level of credit risk assumed at year-end:

- 1. Classified Credit Risk – Insured by the Federal Deposit Insurance Corporation (“FDIC”)
- 2. Unclassified Credit Risk - Investment in State Treasury Investment Pool –Local Agency Investment Fund (“LAIF”)- Acceptable to District's investment policies.

<u>Credit Risk Category</u>	<u>Amount</u>
1	\$ 1,278,443
2	<u>3,679,980</u>
Total (Memorandum column)	<u>\$ 4,958,423</u>

For purposes of the statements of cash flows, cash and cash equivalents consist of unrestricted cash and highly liquid investments with an original maturity of six months or less.

Investment Policy

In accordance with state law, the Board annually adopts an investment policy, which provides for the investment, safekeeping and reporting of the District's invested funds. The investment policy is generally more restrictive in nature with respect to authorized investments than allowed for under state law. The District is aware that the LAIF is authorized to hold derivatives and structured investments in its investment pool. However, based on the California State Treasurer's Office Report as of June 30, 2007, these amounts are not considered material to the fund or the District's investment.

**1. Organization and summary of significant accounting policies (continued)**

Net Assets

The net assets of the District are restricted by state law for sole use by the District for its operations. They are reported as designated net assets in the accompanying financial statements because these designations correspond to the general purpose for which the District has been established. They are unavailable for other government uses and are committed to the ongoing operations of the District, including amounts necessary to cover contingencies, unanticipated expenditures, revenue shortfalls, and weather and economic fluctuations.

Pronouncements of GASB and FASB

The District applies all relevant pronouncements of the Governmental Accounting Standards Board (GASB) as well as those pronouncements of the Financial Accounting Standards Board issued on or before January 1997, unless those pronouncements conflict with or contradict GASB pronouncements.

**2. Utility plant**

The District has acquired some of its facilities as a contribution. Such facilities are carried on its books at fair market value of such property when it was received. In the case of the General District, such contributions total \$554,214 and \$1,406,448 is the fair market value of property received by Improvement District A. The combined total of \$1,960,662 is included in Net Assets as Contributed Property. Also included is \$611,853 which represented the appraised value of facilities acquired by the General District upon the annexation of Improvement District A in April, 1968. This is shown as part of Net Assets - Investment in Plant.

Except for facilities donated, which are valued at their fair market value at the time received by the District, all other facilities are valued at their original cost. Depreciation is taken on a straight-line basis over the estimated useful life of that group of assets. Additions are depreciated for one-half year in the year of acquisition regardless of when acquired or placed in service.

All facilities under construction are carried in the account construction-in-progress until completed. Upon completion, such project is transferred to Utility plant in service.

The useful life of the various groups of assets are:

Group	Years
Source of supply	50
Pumping plant	25
Water treatment plant	33 1/3
Transmission and distribution	33 1/3
General plant	10

Depreciation totaled \$373,599 for the year ended June 30, 2007.

(continued)

**2. Utility plant (continued)**

A summary of utility plant in service and related allowance for depreciation is as follows:

	<u>June 30, 2006</u>	<u>Additions</u>	<u>Dispositions</u>	
		<u>Transfers in</u>	<u>Retirements</u>	
			<u>Transfers out</u>	<u>June 30, 2007</u>
Land	\$ 355,835			\$ 355,835
Annexation Fees	944,872			944,872
Source of supply	4,130,665	\$ 493,279		4,623,944
Pumping plant	1,798,409	106,645	\$ 50,279	1,854,775
Water treatment	141,315			141,315
Transmission & distribution	6,535,233	104,238		6,639,471
General plant	<u>1,372,870</u>	<u>102,758</u>		<u>1,475,628</u>
Subtotal	15,279,199	<u>806,920</u>	<u>50,279</u>	16,035,840
Accumulated depreciation	<u>(5,865,848)</u>	<u>(373,599)</u>	<u>19,364</u>	<u>(6,220,083)</u>
Utility plant in service, net	<u>9,413,352</u>			<u>9,815,758</u>
Construction-in-progress	<u>176,063</u>	<u>174,435</u>	<u>33,800</u>	<u>316,698</u>
Total utility plant, net	<u>9,589,415</u>			<u>10,132,456</u>

**3. Restricted Assets and Long-term debt-Construction Bonds**

In March 2004 the board of directors passed and adopted Resolution number 914-04 to finance construction of water storage facilities with \$1,500,000 in qualified tax exempt bonds. The offering was coordinated by Municipal Finance Corporation in the form of a fixed rate 3.73% installment sale transaction. Proceeds of the offering are restricted to the construction of the water storage facilities. The terms of the bond require \$78,099 installment payments in October and April each year through April 2016. Debt have been restricted and presented on the balance sheet accordingly.

**4. Retiree Health Benefits**

In May 2000, the District Board of Directors approved and adopted the Yuima Municipal Water District Retiree's Health Benefits Plan to be effective July 1, 2000. The Plan is permitted under Government Code Section 53200 et.seq. and generally provides that this District will pay all or a portion of the premiums for certain post employment health insurance coverage for eligible management employees. Under this plan, the District is required to contribute an annual contribution as determined by an actuarial study performed periodically. As of June 30, 2007, one retired management employee is receiving post-retirement healthcare benefits from the District. Currently, 7% of eligible management payroll plus interest on previously accumulated amounts at a rate equivalent to the District's overall actual annual investment yield is contributed to the plan. A schedule of changes in the long-term debt of retiree health benefits is as follows:

	<u>June 30, 2006</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2007</u>
Retiree Health Benefits	\$126,118	95,471	(4,874)	\$216,716

For the current fiscal year a prior period amount of \$57,061 has been included. The District will be required to record a liability for post employment benefits when it implements Government Accounting Standards Board Statement 45, "Accounting and Financial Reporting by Employers for Post Employment Benefits other than Pensions" (GASB 45) during the year ending June 30, 2008. The estimated liability above was not calculated using GASB 45 standards and no actuarial liability has been recorded in the financial statements of the District.

## **5. Deferred Compensation**

The District offers their employees a deferred compensation plan in accordance with Internal Revenue Code Section 457. The plan is under two investment group contracts, American United Life and Valic, which offer a fixed and variable rate, respectively. The plan permits employees to defer a portion of their salary until future retirement years. Eligibility to participate is after six months of service. The plan requires a minimum of \$25 per month to be allocated for each option preference. The maximum amount that may be deferred under this plan for the calendar year 2007 was \$15,000 per participant and is \$15,500 for the calendar year 2007; or up to 25% of gross compensation. For the fiscal year ended June 30, 2007, the total amount deferred was \$ 20,870.

## **6. Defined Benefit Pension Plan**

### Plan Description

The District began participation in the pension plan described herein on December 16, 2001. The District's defined benefit pension plan for Yuima Municipal Water District provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The District's plan is part of the public agency portion of the California Public Employees Retirement System (CalPERS), an agent multiple-employer plan administered by CalPERS, which acts as a common investment and administrative agent for participating public employers within the State of California. A menu of benefit provisions as well as other requirements are established by State statutes within the Public Employees' Retirement Law. The District's plan selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through District Resolution. CalPERS issues a separate comprehensive annual financial report.

Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, CA 95814.

### Funding Policy

The District elected on January 1, 2005, to make contributions on behalf of its employees at the required amount of 7% of their annual covered salary. The District is required to contribute the actuarially determined amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rate for the year ending June 30, 2007 was 27.464%. 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. The District's contributions to CalPERS for the fiscal year ending June 30, 2007 was \$ 185,249 and the employees contributed \$ 47,359, which equals the total 100%.

## **7. Fire mitigation fee program**

On March 20, 1987 the Board of Directors of the District passed Resolution Number 404-87 effective July 1, 1987 establishing a Fire Mitigation Fee Program. Since that time, the District has annually re-established participation in the program. The Board resolved to participate in the San Diego County's Fire Mitigation Fee Program whereby the District requests the County of San Diego to collect 100% of the ceiling amount of the fire mitigation fee on the District's behalf from applicants for building permits or other permits for development. This percent of ceiling fee is equal to or less than capital facility expansion needs caused by new development. Mitigation fees paid under this program will be used to expand the availability of capital facilities and equipment to serve new development. A separate budget accounting category has been set up on the books of the District to be known as the San Diego County Fire Mitigation Fee Fund.



## **8. Commitments and Contingencies**

### Legal

The District is involved with various potential litigation matters. In the opinion of management and legal counsel, the disposition of all litigation pending will not have a material effect on the financial condition of the District.

### Economic Dependency

For fiscal year ended June 30, 2007, 54% of water sold by the District is purchased from the San Diego County Water Authority. 46% is produced or purchased from local groundwater sources. All electricity used by the District for pumping and operations is purchased from San Diego Gas and Electric.

### 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 (JPIA). The JPIA is a risk-pooling self-insurance authority, created under provisions of California Government Code Sections 6500 et. seq. The purpose of JPIA is to arrange and administer programs of insurance for the pooling of self-insured losses and to purchase excess insurance coverage from commercial insurance carriers to reduce its exposure to large losses.

The District pays annual premiums for its liability (auto, general, and public officials), property loss, workers' compensation, and fidelity bond coverage. They are subject to retrospective adjustments based on claims experience. The nature and amounts of these adjustments cannot be estimated and are charged or credited to expense as invoiced. The District's insurance expense for the year ended June 30, 2007 was \$64,894. There were no instances in the past three years where a settlement exceeded the District's coverage.

## **9. Energy Settlement**

The District received a legal settlement in the amount of \$419,298 from the Williams Settlement, \$60,964 from Duke Energy, and \$82,144 from Reliant Energy. In addition, \$54,215 in legal fees were reimbursed. The funds were received over the last 4 years. The settlement agreement states that the award is to be used exclusively for the construction of energy efficiency/pollution reducing projects and is to be placed in a separate account. Specifically, the use of funds is restricted to the construction of energy efficiency and/or reduction of pollution associated with the consumption of energy. These restricted funds are reflected in the financial statements as net assets designated for energy settlement and are separate from other net assets in accordance with the terms of the settlement.

**10. Net Assets- Designated**

In addition to the regulatory restrictions imposed by state law, the Board of Directors by resolution allocated and designated unrestricted net asset balances for the following purposes:

	<u>June 30, 2006</u>	<u>Additions</u> <u>Transfers in</u>	<u>Dispositions</u> <u>Transfers out</u>	<u>June 30, 2007</u>
Customer rate stabilization	\$ 1,673,567	-	\$ 43,991	\$ 1,629,576
Minimum operating reserve	1,774,305	1,130,736		2,905,041
Continuing capital projects	2,266,843	-	161,586	2,105,257
Debt service requirements	226,318	-	226,318	-
Energy efficiency requirements	33,736	-	33,736	-
Vehicle replacement	328,835	97,580		426,415
Future capacity/development	165,348	18,750	640,775	(456,677)
System improvements/planning	381,739	465,245		846,984
Employee benefit requirements	<u>112,981</u>	<u>252,390</u>		<u>365,371</u>
Total	<u>\$ 6,963,672</u>	<u>\$ 1,964,701</u>	<u>\$ 1,106,406</u>	<u>\$ 7,821,967</u>

**YUIMA MUNICIPAL WATER DISTRICT  
GOVERNING BOARD  
JUNE 30, 2007**

The governing board for the fiscal year ended June 30, 2007 is as follows:

<u>Member</u>	<u>Office</u>	<u>Term Expires</u>
Mike Fitzsimmons	Director	January 2009
Douglas K. Anderson	Vice President	January 2011
George Stockton	Secretary/Treasurer	January 2009
W.D. "Bill" Knutson	President	January 2011
John B. Lyttle	Director	January 2009

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**AUDITORS REPORT ON INTERNAL ACCOUNTING CONTROLS BASED  
SOLELY ON A STUDY AND EVALUATION MADE AS A PART OF AN  
AUDIT OF THE GENERAL PURPOSE FINANCIAL STATEMENTS**

Board of Directors  
Yuima Municipal Water District  
Post Office Box 177  
Pauma Valley, CA 92061

We have audited the general purpose financial statements of the Yuima Municipal Water District for the year ended June 30, 2007, and have issued our report thereon dated October 5, 2007. As part of our audit, we made a study and evaluation of the system of internal accounting control of the District to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards and the standards for financial and compliance audits contained in the U.S. General Accounting Office's Government Auditing Standards: Standards for Audit of Governmental Organizations, Programs, Activities, and Functions. For the purpose of this report, we have classified the significant internal accounting controls in the following categories:

- \* Revenue and Receivables
  - \* Budgets and Planning
    - \* Capital Assets
- \* Procurement and Payables
- \* Employee Compensation
  - \* Financial Reporting
  - \* Year 2007 Compliance

Our study included all of the control categories listed above. The purpose of our study and evaluation was to determine the nature, timing and extent of the auditing procedures necessary for expressing an opinion on the District's financial statements. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole or on any of the categories of controls identified above.

The management of the District is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

continued

Our study and evaluation made for the limited purpose described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting control of the District taken as a whole or on any of the categories of controls identified in the first paragraph. However, our study and evaluation disclosed no condition that we believe to be a material weakness.

This report is intended solely for the use of management and the Controller's Office of the State of California and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report which, upon acceptance by the Controller's Office of the State of California, is a matter of public record.

*CDGiedtCompany*

Escondido, California  
October 5, 2007