

CENTRAL BASIN MUNICIPAL WATER DISTRICT

NOVEMBER 16, 2006 - Finance/Administration
Hawkins, Apodaca

NOVEMBER 28, 2006 - Board Meeting

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Submitted by: Aileen Hermoso

Approved by: Art Aguilar

CONSENT CALENDAR

FINAL ANNUAL INDEPENDENT AUDIT FOR FISCAL YEAR 2005-06

SUMMARY:

The annual audit of the financial statements for the Central Basin Municipal Water District has been completed for the fiscal year ended June 30, 2006. Gilbert Vasquez and Evelyn Matilla of Vasquez & Company, LLP presented the draft for review at the Finance/Administration Committee on October 11. In addition, the District was required to obtain a Single Audit on the federal monies received from the U.S. Bureau of Reclamation. Their audit indicated one finding that addresses the need to comply with the grant's requirements on reporting. The audit is complete and will be finalized with the Board's approval.

There are no management comments from Vasquez & Company, LLP as a result of this year's audit.

FISCAL IMPACTS:

None.

ENVIRONMENTAL COMPLIANCE:

None.

COMMITTEE STATUS:

This item was reviewed by the Finance/Administration Committee on November 16, 2006 and was agendized to the November 28, 2006 Board meeting Consent Calendar.

RECOMMENDED MOTION:

Receive and file.

LIST OF EXHIBITS:

EXHIBIT "A" - Final Audit Report

EXHIBIT "B" - Single Audit

EXHIBIT “A”

Audited Financial Statements
Central Basin Municipal Water District
Years ended June 30, 2006 and 2005
with Report of Independent Auditors

**Central Basin Municipal Water District
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Report of Independent Auditors

The Board of Directors Central Basin Municipal Water District

We have audited the accompanying statements of net assets of the Central Basin Municipal Water District (the District) as of June 30, 2006 and 2005 and the related statements of revenues, expenses, and changes in net assets and cash flows for the years 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 audits.

We conducted our audits in accordance with generally accepted auditing standards followed in the United States of America, the State Controller's *Minimum Audit Requirements for California Special Districts*, 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide 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 the District as of June 30, 2006 and 2005, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles used 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.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 15, 2006 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 and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Vasquez & Company LLP

Los Angeles, California
September 15, 2006

As management of the Central Basin Municipal Water District (District), we offer readers of the District's financial statements this narrative overview and analysis of the District's financial performance during the fiscal year ended June 30, 2006. Please read it in conjunction with the District's financial statements, which follow this section.

Financial Highlights

Fiscal Year Ended June 30, 2006 vs. prior year

In fiscal year ended June 30, 2006, total net assets increased by \$571 thousand or 1% as compared to previous year. The District's operations resulted in a loss before contribution of \$554 thousand due to additional conservation activities and one-time expenses caused by West Basin Municipal Water District's unilateral decision to terminate the joint administrative agreement. Total grants received from the United States Bureau of Reclamation amount to \$1.1 million.

Fiscal Year Ended June 30, 2005 vs. prior year

The District's total net assets increased approximately \$2 million or 5% over the course of the year's operations. Of this increase, 42% resulted from operating and nonoperating items while 58% resulted from contributions from the United States Bureau of Reclamation. The District's operations realized an income of \$805 thousand, which is 46% lower than 2004, primarily due to the full year of operations of the Water Quality Protection Project for contaminated water, initial year of depreciation for the capital assets of the Water Quality Protection Project, limitations in the purveyor agreement for spreading water sales, and lower recycled water sales due to rainy season.

Contributions for 2005 resulted in receipts of \$1.1 million in federal grants for the Water Quality Protection Project and Rio Hondo Water Recycling Program.

Overview of the Financial Statements

This financial report includes this management's discussion and analysis report, the independent auditors' report, and the District's basic financial statements and required supplementary information. The financial statements also include notes that explain in more detail some of the information in the financial statements. In addition, it provides a description of the accounting policies used to prepare the financial statements and presents material disclosures required by generally accepted accounting principles.

Required Financial Statements

The District's financial statements report information using accounting methods similar to those used by private sector companies. These statements offer short-term and long-term financial information about the District's activities. The Statement of Net Assets includes all of the District's assets and liabilities and provides information about the nature and amount of investments in resources (assets) and the obligations to District creditors (liabilities). It also provides the basis for evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District.

All of the current year's revenues and expenses are accounted for in the 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 whether the District has successfully recovered all of its costs through its water fees and other charges, profitability and credit worthiness.

The final required financial statement is the Statement of Cash Flows. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and capital and non-capital financing activities. This statement differs from the Statement of Revenues, Expenses, and Changes in Net Assets because this statement accounts only for transactions that resulted in actual receipts or disbursements.

Financial Analysis of the District

The Statement of Net Assets, and the Statement of Revenues, Expenses and Change in Net Assets report information about the District's activities. These two statements report the net assets of the District and the changes in them. One can think of the District's net assets – the difference between assets and liabilities – as one way to measure 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 non-financial factors such as changes in economic conditions, population growth, and new or changed government legislation. Our analysis compares the years ended June 30, 2006, June 30, 2005 and June 30, 2004.

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

**Central Basin Municipal Water District
Management's Discussion and Analysis**

Net Assets

The following table shows the condensed statements of net assets for the past three years.

Table A-1
Condensed Statement of Net Assets
(000's)

	June 30,			Variance			
	2006	2005	2004	2006 / 2005		2005 / 2004	
				Amount	%	Amount	%
Current assets	\$ 30,973	\$ 29,639	\$ 30,920	\$ 1,334	4.5	\$ (1,281)	(4.1)
Restricted assets	4,022	3,976	3,931	46	1.1	45	1.1
Capital assets	53,746	53,390	53,214	356	0.7	176	0.3
Other assets	274	296	317	(22)	(7.4)	(21)	(6.6)
	<u>89,015</u>	<u>87,301</u>	<u>88,382</u>	<u>1,714</u>	<u>2.0</u>	<u>(1,081)</u>	<u>(1.2)</u>
Current liabilities	11,738	8,965	11,396	2,773	30.9	(2,431)	(21.3)
Noncurrent liabilities	32,319	33,949	34,535	(1,630)	(4.8)	(586)	(1.7)
	<u>44,057</u>	<u>42,914</u>	<u>45,931</u>	<u>1,143</u>	<u>2.7</u>	<u>(3,017)</u>	<u>(6.6)</u>
Net assets							
Invested in capital assets, net of related debt	19,856	17,956	17,386	1,900	10.6	570	3.3
Restricted for debt service	4,021	3,976	3,931	45	1.1	45	1.1
Unrestricted	21,081	22,455	21,134	(1,374)	(6.1)	1,321	6.3
	<u>\$ 44,958</u>	<u>\$ 44,387</u>	<u>\$ 42,451</u>	<u>\$ 571</u>	<u>1.3</u>	<u>\$ 1,936</u>	<u>4.6</u>

Fiscal Year Ended June 30, 2006 vs. prior year

Net assets increased by \$571 thousand to \$44.958 million in 2006 up by 1% from prior year. The increase is the net effect of higher water sales, more conservation programs, unplanned expenses caused by the termination of certain agreements, and grants from federal government. The increase in current assets and the corresponding increase in current liabilities in fiscal year ended June 30, 2006 are due to the strong water sales billed at the end of the year.

Fiscal Year Ended June 30, 2005 vs. prior year

As can be seen from the table above, net assets increased by \$1.936 million to \$44.387 million in 2005 up from \$42.451 million in 2004. The increase in net assets resulted mostly from federal grants. The decrease in current assets and current liabilities in fiscal year ended June 30, 2005 as compared to prior year is primarily due to the timing of spreading sales billed in June 2004.

**Central Basin Municipal Water District
Management's Discussion and Analysis**

Statements of Revenues, Expenses and Changes in Net Assets

Table A-2
Condensed Statements of Revenues,
Expenses and Changes in Net Assets
(000's)

	Year Ended June 30,			Variance			
				2006 / 2005		2005 / 2004	
	2006	2005	2004	Amount	%	Amount	%
Operating revenues	\$ 41,997	\$ 40,095	\$ 39,904	\$ 1,902	4.7	\$ 191	0.5
Non operating revenues	4,268	4,090	4,128	178	4.4	(38)	(0.9)
Total revenues	<u>46,265</u>	<u>44,185</u>	<u>44,032</u>	<u>2,080</u>	<u>4.7</u>	<u>153</u>	<u>0.3</u>
Operating expenses	44,594	41,504	40,006	3,090	7.4	1,498	3.7
Non operating expenses	2,225	1,876	2,550	349	18.6	(674)	(26.4)
Total expenses	<u>46,819</u>	<u>43,380</u>	<u>42,556</u>	<u>3,439</u>	<u>7.9</u>	<u>824</u>	<u>1.9</u>
Capital contributions	<u>1,125</u>	<u>1,131</u>	<u>3,495</u>	<u>(6)</u>	<u>(0.5)</u>	<u>(2,364)</u>	<u>(67.6)</u>
Change in net assets	571	1,936	4,971	(1,365)	(70.5)	(3,035)	(61.0)
Net assets at beginning of year	<u>44,387</u>	<u>42,451</u>	<u>37,480</u>	<u>1,936</u>	<u>4.6</u>	<u>4,971</u>	<u>13.3</u>
Net assets at end of year	<u>\$ 44,958</u>	<u>\$ 44,387</u>	<u>\$ 42,451</u>	<u>\$ 571</u>	<u>1.3</u>	<u>\$ 1,936</u>	<u>4.6</u>

The Statements of Revenues, Expenses and Changes in Net Assets provide answers as to the nature and source of these changes.

Fiscal Year Ended June 30, 2006 vs. prior year

The District's revenues increased by \$2.080 million in 2006 as compared to prior year primarily due to strong water sales. On the other hand, operating expenses increased by \$3.439 million as the District conducted more conservation activities in 2006 to promote new water conservation devices. Further, the District incurred additional expenses in 2006 due to West Basin's unilateral decision to terminate the joint administrative agreement between West Basin and the District.

Fiscal Year Ended June 30, 2005 vs. prior year

Net assets increased 5% primarily with the federal grant contributions for the Water Quality Protection Project and Rio Hondo Water Recycling Program. In 2005, the District's operating revenues increased by \$191 thousand while operating expenses increased \$1.498 million, resulting in a higher operating loss in 2005 as compared to 2004. This change could be attributed to a number of factors, as follows:

- Lower recycled water sales due to rainy season.
- Full year of operations of the Water Quality Protection Project for contaminated water.
- Initial year of depreciation for the capital assets of the Water Quality Protection Project.
- Agreement with purveyor for spreading water sales limits the charging of the District's surcharge up to a certain point. The District's cost of source of supply for this water remains the same.

**Central Basin Municipal Water District
Management's Discussion and Analysis**

Capital Assets

Table A-3
Capital Assets
(000's)

	June 30,			Variance			
	2006 / 2005		2005 / 2004				
	2006	2005	2004	Amount	%	Amount	%
Non-depreciable capital assets:							
Land	\$ 563	\$ 563	\$ 563	\$ -	-	\$ -	
Construction-in-progress	2,079	1,809	491	270	14.9	1,318	268.4
Total non-depreciable capital assets	<u>2,642</u>	<u>2,372</u>	<u>1,054</u>	<u>270</u>	<u>11.4</u>	<u>1,318</u>	<u>125.0</u>
Depreciable capital assets:							
Distribution systems	59,561	57,778	57,337	1,783	3.1	441	0.8
Water Quality Protection Project	6,637	6,637	6,547	-	-	90	1.4
Building and improvements	1,871	1,869	1,863	2	0.1	6	0.3
Furniture, fixtures and equipment	103	571	559	(468)	(82.0)	12	2.1
Total	68,172	66,855	66,306	1,317	2.0	549	0.8
Accumulated depreciation	(17,068)	(15,837)	(14,146)	(1,231)	7.8	(1,691)	(12.0)
Net depreciable capital assets	<u>51,104</u>	<u>51,018</u>	<u>52,160</u>	<u>86</u>	<u>0.2</u>	<u>(1,142)</u>	<u>(2.2)</u>
	<u>\$ 53,746</u>	<u>\$ 53,390</u>	<u>\$ 53,214</u>	<u>\$ 356</u>	<u>0.7</u>	<u>\$ 176</u>	<u>0.3</u>

Fiscal Year Ended June 30, 2006 vs. prior year

The District has invested a total of \$70.814 million in capital assets over the years. Net book value (or the cost of assets less accumulated depreciation) at the end of 2006 is \$53.746 million, which is \$356 thousand higher than 2005. The change in net book value could be attributed to the following major items:

- Design phase of the Southeast Water Reliability Project started in February 2006. It was at 30% completion at the end of June 2006.
- Furniture, fixtures, and equipment of the Financing Authority were transferred to Central Basin and West Basin.
- Depreciation expense for the year amounted to \$1.725 million.

Fiscal Year Ended June 30, 2005 vs. prior year

At the end of 2005, the District had invested \$53.390 million in capital assets. The increase of \$176 thousand in 2005 is net of total additions of \$1.868 million and total depreciation of \$1.691 million. Additions to capital assets pertain to the construction of miscellaneous laterals and a pump station.

For more information regarding the District's capital assets, please refer to Note 8 of the Notes to Financial Statements.

Long-term Debt

Long-term debt outstanding at June 30, 2006 amounted \$33.18 million as compared to \$34.75 million at June 30, 2005 and \$36.14 million at June 30, 2004. The District made principal payments on long-term debt totaling \$1.78 million, \$1.61 million, and \$790 thousand for the years ended June 30, 2006, 2005 and 2004, respectively. More detailed information about the District's long-term debt is presented in Note 9 to the financial statements.

Economic Factors and Next Year's Budget and Rates

The Board of Directors has approved the budget for the June 30, 2007 fiscal year. The budgeted total expenditures are approximately \$45.65 million, including source of supply and debt service.

The Board of Directors has also approved an increase in water rates effective January 1, 2007 that is based on a formula applied to a base allocation established by the Metropolitan Water District which could generate sales from \$500 to \$621 per acre foot. There was a \$2 increase in the District's surcharge on potable water from Metropolitan Water District and up to \$14 increase in the recycled water tier rate effective July 1, 2006.

The District has approved a capital budget of \$28.31 million for the Southeast Water Reliability Project and the construction of minor water recycling facilities. These improvements will be financed through the District's designated funds and projected bond issuance.

Contacting the District's Financial Manager

This financial report is designed to provide our customers and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Central Basin Municipal Water District, Budget & Finance Officer, 17140 South Avalon Boulevard, Suite 300, Carson, California 90746.

**Central Basin Municipal Water District
Statements of Net Assets**

Assets	June 30	
	2006	2005
Current assets:		
Cash and cash equivalents	\$ 6,826,700	\$ 5,666,641
Investments	15,339,375	16,158,188
Accounts receivable	7,762,256	5,989,044
Due from West Basin Municipal Water District	616,943	1,663,930
Interest receivable	141,749	84,896
Prepaid and other assets	286,004	76,816
Total current assets	30,973,027	29,639,515
Noncurrent assets:		
Restricted:		
Cash and cash equivalents	600,960	507,215
Investments	3,387,500	3,436,260
Interest receivable	32,971	32,435
Total restricted assets	4,021,431	3,975,910
Unamortized bond issuance costs	274,235	295,704
Capital assets:		
Land and construction-in-progress	2,641,855	2,371,898
Depreciable capital assets, net	51,104,525	51,018,319
Net capital assets	53,746,380	53,390,217
Total noncurrent assets	58,042,046	57,661,831
Total assets	89,015,073	87,301,346
Liabilities		
Current liabilities:		
Accounts payable and accrued expenses	9,177,045	6,441,804
Accrued interest payable	715,282	742,906
Current portion of bonds payable	1,845,000	1,780,000
Total current liabilities	11,737,327	8,964,710
Noncurrent liabilities:		
Long-term payable	979,531	979,531
Bonds payable	31,339,617	32,969,642
Total liabilities	44,056,475	42,913,883
Net assets		
Invested in capital assets, net of related debt	19,856,467	17,956,748
Restricted for debt service	4,021,431	3,975,910
Unrestricted	21,080,700	22,454,805
Total net assets	\$ 44,958,598	\$ 44,387,463

See notes to financial statements.

**Central Basin Municipal Water District
Statements of Revenues, Expenses and Changes in Net Assets**

	Years ended June 30	
	2006	2005
Operating revenues		
Water revenue	\$ 38,867,593	\$ 37,513,795
Water recycling revenue	2,053,411	1,702,434
Water conservation and monitoring revenue	1,076,225	878,359
Total operating revenues	41,997,229	40,094,588
Operating expenses		
Sources of supply	34,271,031	33,184,055
Recycling costs	1,837,450	1,477,550
Water Quality Protection Project	982,044	665,651
Conservation and monitoring	2,663,956	2,418,432
Water resource planning	867,085	723,883
General and administrative	1,964,795	1,059,604
Depreciation and amortization	2,007,547	1,974,530
Total operating expenses	44,593,908	41,503,705
Operating income (loss)	(2,596,679)	(1,409,117)
Nonoperating revenues (expenses)		
Standby charges	3,215,934	3,225,123
Investment earnings	1,001,473	766,785
Change in fair value of investments	(250,353)	55,835
Interest expense	(1,798,389)	(1,751,956)
Facility expenses, net of rental income	(102,565)	(98,593)
Miscellaneous income, net of expenses	(23,776)	16,715
Nonoperating revenues (expenses), net	2,042,324	2,213,909
Income (loss) before contributions	(554,355)	804,792
Contributions	1,125,490	1,131,220
Change in net assets	571,135	1,936,012
Net assets at beginning of year	44,387,463	42,451,451
Net assets at end of year	\$ 44,958,598	\$ 44,387,463

See notes to financial statements.

**Central Basin Municipal Water District
Statements of Cash Flows**

	Years ended June 30	
	2006	2005
Cash flows from operating activities		
Cash received from customers	\$ 41,377,563	\$ 43,389,813
Cash payments to suppliers for goods and services	(38,534,312)	(40,744,025)
Cash payments to employees for services	(1,525,997)	(1,359,285)
Net cash provided by operating activities	1,317,254	1,286,503
Cash flows from noncapital financing activities		
Cash received for other services	75,622	71,881
Cash payments for other services	(189,975)	(153,759)
Cash received from operating grants	982,043	645,657
Cash received for standby charges	3,134,146	3,218,493
Net cash provided by noncapital financing activities	4,001,836	3,782,272
Cash flows from capital and related financing activities		
Acquisition and construction of capital assets	(2,126,371)	(888,288)
Proceeds from sale of assets	8,906	-
Principal paid on capital debt	(1,780,000)	(1,610,000)
Interest paid on capital debt	(1,872,572)	(1,812,763)
Capital contributions	143,447	485,563
Net cash used by capital and related financing activities	(5,626,590)	(3,825,488)
Cash flows from investing activities		
Cash received from sales and maturities of investments	1,600,000	-
Purchase of investments	(982,780)	-
Investment earnings	944,084	750,803
Net cash provided by investing activities	1,561,304	750,803
Net increase in cash and cash equivalents	1,253,804	1,994,090
Cash and cash equivalents at beginning of year	6,173,856	4,179,766
Cash and cash equivalents at end of year	\$ 7,427,660	\$ 6,173,856
Noncash capital and financing activity		
Capital-related advances from the City of Vernon	\$ -	\$ 979,531

See notes to financial statements.

**Central Basin Municipal Water District
Statements of Cash Flows (Continued)**

	Years ended June 30	
	2006	2005
Reconciliation of operating loss to net cash provided by operating activities		
Operating income (loss)	<u>\$ (2,596,679)</u>	<u>\$ (1,409,117)</u>
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation expense	1,724,544	1,691,527
Amortization expense	283,003	283,003
Changes in operating assets and liabilities:		
Accounts receivable	(619,667)	3,295,225
Prepaid expenses	(209,188)	13,068
Accounts payable and accrued expenses	<u>2,735,241</u>	<u>(2,587,203)</u>
Total adjustments - net	<u>3,913,933</u>	<u>2,695,620</u>
Net cash provided by operating activities	<u><u>\$ 1,317,254</u></u>	<u><u>\$ 1,286,503</u></u>

See notes to financial statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of the Entity

Central Basin Municipal Water District (District) was incorporated on December 15, 1952 under the provisions of the Municipal Water District Law of 1911, as amended, (now cited as "The Municipal Water District Law of 1911", Division 20, California Water Code) as a result of an election held on December 2, 1952.

The District's mission is to acquire, sell and conserve imported and other water that meets all required standards, and to furnish it to its customers, in a planned, timely, and cost-effective manner that anticipates future needs. The District serves as the official representative for its public at Metropolitan Water District. It also provides leadership, support, advice and communication on water issues to the people and agencies within and without its boundaries, as appropriate.

The District's customers consist of 34 agencies, private and public, within its boundaries. The District's supplier of imported water is the Metropolitan Water District. Imported water purchases comprise approximately 88% of the District's water revenue. The District Board of Directors sets water rates annually.

Central Basin Municipal Water District Financing Corporation (Corporation) was established in March of 2003. The mission of the Corporation is to provide assistance to public agencies in the State of California in acquiring, constructing, rehabilitating, financing or refinancing land and equipment for the use, benefit and enjoyment of the public being served.

Basis of Accounting

The District utilizes accounting principles appropriate for an enterprise fund to record its activities. Accordingly, revenues and expenses are recognized on an accrual basis of accounting. The District's books and records include the general fund, bond fund, interest in the Corporation, and interest in the West and Central Basin Financing Authority (Note 11). These funds have been consolidated in the accompanying statements of net assets, revenues, expenses and changes in net assets, and cash flows.

The custodial fund (Note 4) is an agency fund held by the District in a fiduciary role and is accounted for using the accrual basis of accounting. It reports assets received for, and disbursed to, other entities. Agency funds report assets and liabilities, they do not report equity. This fund is included only as a note disclosure.

The District has elected not to apply the option allowed in Paragraph 7 of GASB Statement No. 20, ("Accounting and Financial Reporting for Proprietary Activities"), that is to apply all FASB Statements and Interpretations issued after November 30, 1989, except those that conflict with or contradict GASB pronouncements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The District's financial statements are presented in accordance with the provisions of Governmental Accounting Standards Board Statement No. 34 *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Statement 34 established standards for external financial reporting for all state and local governmental entities. It requires the classification of net assets into three components – invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

- Invested in capital assets, net of related debt – This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.
- Restricted – This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, 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 "invested in capital assets, net of related debt."

The District distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an entity's ongoing operations. The principal operating revenues of the District are charges to customers for water sales. Operating expenses include cost of sales, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Estimates and Assumptions

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Reclassification

Reclassification has been made to prior year amounts to conform to the current year's classification.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Shared Staff Services

Central Basin shared staff with the West Basin Municipal Water District (West Basin) in fiscal years ended June 30, 2006 and 2005. All employee-related expenses were allocated to the two Districts based either on actual payroll hours or budgeted allocation percentages. Central Basin paid for all employee-related expenses and was reimbursed by West Basin for its proportionate share. Accordingly, expenses reported in the financial statements reflect only the amounts that pertain to Central Basin. This shared services arrangement was terminated effective July 1, 2006.

Risk Management

The District is a member of the Association of California Water Agencies Joint Powers Insurance Authority ("Insurance Authority"). The Insurance Authority is a risk-pooling, self-insurance authority, created under the provisions of California Government Code Sections 6500 et. seq. The purpose of the Insurance Authority is to arrange and administer programs of insurance for the pooling of self-insured losses and to purchase excess insurance coverage.

At June 30, 2006, the District participated in the self-insurance program of the Insurance Authority as follows:

Property Loss – The Insurance Authority has pooled self-insurance up to \$50,000 per occurrence and has purchased excess insurance coverage up to \$50,000,000 (total insurable value of \$11,172,365), with \$2,500 deductible for buildings, personal property and fixed equipment, and \$1,000 for mobile equipment.

General Liability – The Insurance Authority has pooled self-insurance up to \$1,000,000 and has purchased excess insurance coverage up to \$39,000,000.

Auto Liability – The Insurance Authority has pooled self-insurance up to \$1,000,000 per occurrence and has purchased excess insurance coverage up to \$39,000,000.

Public Officials' and Employees' Errors and Omissions – The Insurance Authority has pooled self-insurance up to \$1,000,000 per occurrence and has purchased excess insurance coverage up to \$39,000,000.

Fidelity Bonds – The Insurance Authority has pooled self-insurance up to \$100,000 per occurrence, with \$1,000 deductible.

Workers' Compensation – The Insurance Authority has pooled self-insurance up to \$2,000,000 each for workers' compensation and employers' liability. The employers' liability is insured up to \$2,000,000 in excess of \$2,000,000 SIR. Workers' compensation is insured up to the statutory limit.

The District does not have liability for unpaid claims at June 30, 2006 and 2005. Settlements have not exceeded coverages for each of the past three fiscal years.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Amortization

Bond issuance costs and the deferred amount on refunding are being amortized on the straight-line method over periods of debt maturities. Amortization aggregated to \$283,003 for years ended June 30, 2006 and 2005.

Bond discount and premium are being amortized using the effective interest method.

Capital Assets and Depreciation

Capital assets are stated at cost or at their estimated fair value at date of donation. It is the District's policy to capitalize assets costing over \$1,000. The provision for depreciation is computed using the straight-line method over the estimated service lives of the capital assets. Estimated service lives for the District's classes of assets are as follows:

Plant and distribution system	40 years
Building and improvements	10 - 40 years
Furniture, fixtures and equipment	5 - 10 years

No depreciation is recorded for land or construction-in-progress. The provision for depreciation aggregated \$1,724,544 and \$1,691,527 for the years ended June 30, 2006 and 2005, respectively. Expenses for repairs and maintenance are charged to operations as incurred. Additions, improvements and other capital outlays that significantly extend the useful life or productivity of an asset are capitalized.

Investments

Investments are stated at fair value, which represents the quoted market value.

Cash and Cash Equivalents

For purposes of the statements of cash flows, cash and cash equivalents have been defined as deposits and highly liquid investments with maturity of 90 days or less at the date of purchase.

**Central Basin Municipal Water District
Notes to Financial Statements
Years ended June 30, 2006 and 2005**

NOTE 2 CASH AND INVESTMENTS

At June 30th, cash and investments are composed of:

	Maturity in Years			2006 Total	2005 Total
	Less than 1 year	1 - 5 years	More than 5 years		
Imprest Cash on Hand	\$ 1,000	\$ -	\$ -	\$ 1,000	\$ 1,000
Open ended money market mutual funds	177,985	-	-	177,985	129,460
Deposits:					
Insured	150,000	-	-	150,000	150,000
Collateralized	901,357	-	-	901,357	296,610
Local Agency Investment Fund (1)	6,197,318	-	-	6,197,318	5,596,786
Investment agreements (2)	-	-	1,452,500	1,452,500	1,452,500
U.S. Agency securities	-	17,274,375	-	17,274,375	18,141,948
Total cash and investments	\$ 7,427,660	\$ 17,274,375	\$ 1,452,500	\$ 26,154,535	\$ 25,768,304

(1) The District is a voluntary participant in the Local Agency Investment Fund (LAIF), a special fund regulated by the California State Treasury through which each city, district or agency may invest up to \$30 million. At June 30, 2006, the total market value of LAIF, including accrued interest was approximately \$63.62 billion. The District's proportionate share of that value is \$6.19 million. Investments in LAIF are highly liquid, as deposits can be converted to cash within 24 hours without loss of interest.

(2) This represents funds held by bond trustees.

Cash and investments are reported in the accompanying statements of net assets as follows:

	2006	2005
Financial statement classification:		
Cash and cash equivalents – current	\$ 6,826,700	\$ 5,666,641
Cash and cash equivalents – restricted	600,960	507,215
Cash and cash equivalents	7,427,660	6,173,856
Investments – current	15,339,375	16,158,188
Investments – restricted	3,387,500	3,436,260
Total	\$ 26,154,535	\$ 25,768,304

**Central Basin Municipal Water District
Notes to Financial Statements
Years ended June 30, 2006 and 2005**

NOTE 2 CASH AND INVESTMENTS (CONTINUED)

Statements of Cash Flows

The statements of cash flows have been prepared by considering all investment instruments purchased with a maturity of three months or less to be a cash equivalent. Following is a detail at June 30th:

	2006	2005
Imprest cash on hand	\$ 1,000	\$ 1,000
Open ended money market mutual funds	177,985	129,460
Deposits:		
Insured	150,000	150,000
Collateralized	901,357	296,610
LAIF	6,197,318	5,596,786
Total cash and cash equivalents	\$ 7,427,660	\$ 6,173,856

Investment Policy

The District's investment policy outlines the guidelines required to be used in effectively managing the District's available cash in accordance with the California Government Code. Summarized below are the investment vehicles that are authorized and certain provisions of the policy that address interest rate risk and concentration of credit risk.

	Maturity	Portfolio Threshold	Investment Ceiling for a Single Issuer
U.S. Government and Agencies	5 years	None	None
Banker's Acceptances	180 days	15%	15%
Commercial Paper	270 days	25%	10%
Certificates of Deposit	1 year	None	None
Negotiable Certificates of Deposits	1 year	20%	25%
LAIF	N/A	None	None
Money Market Funds	90 days or less	20%	None

Interest Rate Risk

Interest rate risk, as defined under Governmental Accounting Standards Board (GASB) Statement No. 40, is the risk that changes in interest rates will adversely affect the fair value of an investment. The District's investments mature over time, generally consistent with its cash flow and liquidity needs. A table summarizing the distribution of the District's investments according to maturity at June 30, 2006 was presented previously.

NOTE 2 CASH AND INVESTMENTS (CONTINUED)

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District's investment policy limits eligible investments in certificates of deposits, banker's acceptances and commercial paper to those financial institutions and/or debt issuers that maintain a rating of "A" or higher from one or more of the Nationally Recognized Statistical-Rating Organizations (NRSRO). As of June 30, 2006, the District's investment in U.S. Government and Agency securities and those held by bond trustee under investment agreements were rated "AAA" by Standard and Poor's. The District's investments in LAIF and open-ended money market mutual funds are not rated.

Concentration of Credit Risk

Under GASB Statement No. 40, concentration of credit risk is the risk of loss attributable to the magnitude of the District's investment in a single issuer. As of June 30, 2006, investments in any one issuer that represent 5% or more of the District's total investments are as follows:

Unrestricted:	
Federal Home Loan Bank	\$ 11,475,625
Federal Farm Credit Bank	3,863,750
Restricted:	
Federal Home Loan Bank	1,935,000
Investment Agreement	1,452,500
	<u>\$ 18,726,875</u>

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the District 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 counter-party (e.g., broker-dealer) the District will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the District's investment policy do not contain legal or policy requirement 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 California banks and savings and loan associations to secure a local governmental agency's (agency) deposits by pledging government securities as collateral. The market value of pledged securities must equal at least 110% of an agency's deposits. California law also allows financial institutions to secure an agency's deposits by pledging first trust deed mortgage notes having a value of 150% of an agency's total deposits. The agency may waive collateral requirements for deposits which are fully insured up to \$100,000 by the Federal Deposit Insurance Corporation (FDIC).

**Central Basin Municipal Water District
Notes to Financial Statements
Years ended June 30, 2006 and 2005**

NOTE 2 CASH AND INVESTMENTS (CONTINUED)

At June 30, 2006, of the District's banks' \$1,427,718 balance, \$1,277,718 was exposed to custodial credit risk because this amount was uninsured and collateralized with securities held by the pledging financial institutions that are not in the District's name.

At June 30, 2006, investments exposed to custodial credit risk amount to \$15,339,375. The following investments were held in non-custodial account:

Unrestricted:

Federal Home Loan Bank	\$ 11,475,625
Federal Farm Credit Bank	<u>3,863,750</u>
	<u>\$ 15,339,375</u>

NOTE 3 RESTRICTED ASSETS

As of June 30th, restricted assets were provided by and are to be used for the following:

Funding Source	Use	2006	2005
Bond proceeds and interest earned	Construction of utility plant	\$ 425,524	\$ 379,169
Bond proceeds and interest earned	Reserve fund	3,595,363	3,596,541
Bond proceeds and interest earned	Debt service	<u>544</u>	<u>200</u>
		<u>\$ 4,021,431</u>	<u>\$ 3,975,910</u>

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

NOTE 4 CUSTODIAL FUND

The District became the custodian of funds pursuant to a judgment in Long Beach, California. As custodian in the Long Beach Judgment, the District is charged with the duty of paying the bills for purchase of make-up water and capital expenditures. The District is also responsible for the safekeeping of funds on behalf of the parties to the judgment.

**Central Basin Municipal Water District
Notes to Financial Statements
Years ended June 30, 2006 and 2005**

NOTE 4 CUSTODIAL FUND (CONTINUED)

Central Basin Municipal Water District has no vested interest in the purpose of the judgment in that replenishment of ground water supplies serves the purposes of other participants in the Long Beach Judgment. The District's sole function is custodian of the resources and derives no benefits from its stewardship of the funds. A summary of the funds at June 30, 2006 and 2005, and changes in assets and liabilities is as follows:

	2006	2005
Assets:		
Cash and investments at fair value	\$ 3,665,725	\$ 3,680,177
Accrued investment earnings	46,500	46,500
Total assets	\$ 3,712,225	\$ 3,726,677
Liabilities:		
Beginning of year	\$ 3,726,677	\$ 3,649,790
Add investment earnings	49,408	128,799
Less Watermaster fees	(63,860)	(51,912)
End of year	\$ 3,712,225	\$ 3,726,677

NOTE 5 DEFERRED COMPENSATION PLAN

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all District employees, permits them to defer a portion of their salaries until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. The plan assets are under the participants control and are principally invested in mutual funds and are held in trust by third parties for the exclusive benefit of the participants and their beneficiaries. The balance of this plan as of June 30, 2006 is \$1,847,335.

NOTE 6 PUBLIC AGENCY RETIREMENT SYSTEM (PARS) PLAN

The District provides retirement benefits for its elected directors through a defined benefit plan administered as part of the Public Agency Retirement System (PARS). Directors who retire at age 50 with 5 years of service are eligible to receive pension benefits under the plan. Supplemental benefits are available only to directors who retire at age 55 with 12 service years.

The District is required to contribute the actuarially determined amounts necessary to fund the benefits for the participants. Contribution amounts are determined by an actuarial study performed every two years.

For the years ended June 30, 2006 and 2005, the District's actual contributions to the PARS plan amounted to \$93,312 and \$43,912, respectively.

**Central Basin Municipal Water District
Notes to Financial Statements
Years ended June 30, 2006 and 2005**

NOTE 7 COMPENSATED ABSENCES

The District's employees at June 30, 2006 and 2005 had unused sick and vacation pay of \$615,119 and \$557,986 respectively. Because the employees have a vested right to these benefits, the liability has been reflected in accounts payable and accrued expenses.

NOTE 8 CAPITAL ASSETS

The investment in capital assets is recorded at cost and consists of the following:

	Balances at June 30, 2005	Additions/ Transfers	Deletions/ Transfers	Balances at June 30, 2006
Non-depreciable capital assets:				
Land-Recycling programs and distribution systems	\$ 361,970	\$ -	\$ -	\$ 361,970
Land-Financing Authority	200,825	-	-	200,825
Construction-in-progress	1,809,103	2,008,166	(1,738,209)	2,079,060
Total non-depreciable capital assets	2,371,898	2,008,166	(1,738,209)	2,641,855
Depreciable capital assets:				
Recycling programs and distribution systems				
Century	24,915,807	32,946	-	24,948,753
Rio Hondo	32,861,975	17,668	-	32,879,643
Hollydale	-	1,732,260	-	1,732,260
Water Quality Protection Project	6,636,946	-	-	6,636,946
Total recycling programs and distribution systems	64,414,728	1,782,874	-	66,197,602
Accumulated depreciation	(14,765,045)	(1,635,806)	-	(16,400,851)
Net recycling programs and distribution systems	49,649,683	147,068	-	49,796,751
Equipment	32,121	37,853	(8,906)	61,068
Furniture and fixtures	-	31,852	-	31,852
Total equipment, furniture and fixtures	32,121	69,705	(8,906)	92,920
Accumulated depreciation	(32,121)	(3,185)	8,906	(26,400)
Net equipment, furniture and fixtures	-	66,520	-	66,520
Financing Authority				
Building	1,343,983	-	-	1,343,983
Building improvements	525,342	2,249	-	527,591
Furniture, fixtures and equipment	538,979	1,586	(530,192)	10,373
Total Financing Authority	2,408,304	3,835	(530,192)	1,881,947
Accumulated depreciation	(1,039,668)	(85,553)	484,528	(640,693)
Net Financing Authority	1,368,636	(81,718)	(45,664)	1,241,254
Total depreciable capital assets	66,855,153	1,856,414	(539,098)	68,172,469
Total accumulated depreciation	(15,836,834)	(1,724,544)	493,434	(17,067,944)
Net depreciable capital assets	51,018,319	131,870	(45,664)	51,104,525
Total capital assets, net	\$ 53,390,217	\$ 2,140,036	\$ (1,783,873)	\$ 53,746,380

In fiscal year ended June 30, 2006, the District began operating the Hollydale Pump Station. As at June 30, 2006, the furniture, fixtures and equipment of the Financing Authority were transferred to the District and West Basin.

NOTE 9 LONG-TERM DEBT

2003 Refunding Revenue Certificates of Participation

In 2003, Central Basin Municipal Water District Financing Corporation ("Corporation") issued Refunding Revenue Certificates of Participation (Refunding Revenue COP) of \$14,525,000 to refund the District's 1993 Revenue Bonds. The refunded debt was originally incurred to finance the acquisition, construction and improvement of certain water reclamation facilities.

The refunding resulted in a deferred amount of approximately \$2,300,000, which is being netted against the new debt and amortized over the remaining life of the refunded debt.

1997 Revenue Bonds

In 1997, the West and Central Basin Financing Authority ("Authority") issued \$29,225,000 Revenue Bonds to assist the Central Basin Municipal Water District ("District") in refunding the District's then outstanding Certificates of Participation (COP) and Revenue Bonds. The refunded debt was originally incurred to finance the acquisition of capital assets.

The refunding resulted in a deferred amount of approximately \$2,100,000, which is being netted against the new debt and amortized over the remaining life of the refunded debt.

In December 2005, the District entered into a swap agreement with Citibank N.A. which requires the District to issue refunding bonds on or before August 1, 2007 otherwise the swap will terminate. See Note 16 for further information.

The 2003 Refunding Revenue COP and the 1997 Revenue Bonds are obligations of the Corporation and the Authority, respectively, payable solely from revenues consisting of interest income on investments and payments received from the District, pursuant to the 2003 Installment Purchase Agreements between the Corporation and the District and the 1997 Installment Purchase Agreements between the Authority and the District. No other funds of the Corporation and the Authority are pledged to or available for payment of the principal or interest on the Refunding Revenue COP and Revenue Bonds. The obligation of the District to make installment payments is payable solely from revenues. The Installment Purchase Agreements require the District to fix, prescribe and collect rates and charges for its water service, which will be at least sufficient to yield during each fiscal year net revenues equal to 115% of the installment payments and obligations of the District payable on a parity therewith.

**Central Basin Municipal Water District
Notes to Financial Statements
Years ended June 30, 2006 and 2005**

NOTE 9 LONG-TERM DEBT (CONTINUED)

Long-term liability activity for the years ended June 30, 2006 and 2005 follow:

June 30, 2006	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Revenue Bonds Refunding Revenue	\$ 24,080,000	\$ -	\$ 860,000	\$ 23,220,000	\$ 895,000
Certificates of Participation	13,735,000	-	920,000	12,815,000	950,000
Less deferred amounts:					
For issuance discount	(579,044)	-	(36,801)	(542,243)	
For issuance premium	923,910	-	83,360	840,550	
On refunding	<u>(3,410,224)</u>	<u>-</u>	<u>(261,534)</u>	<u>(3,148,690)</u>	
Net long-term debt	\$ <u>34,749,642</u>	\$ <u>-</u>	\$ <u>1,565,025</u>	\$ <u>33,184,617</u>	\$ <u>1,845,000</u>
June 30, 2005	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Revenue Bonds Refunding Revenue	\$ 24,900,000	\$ -	\$ 820,000	\$ 24,080,000	\$ 860,000
Certificates of Participation	14,525,000	-	790,000	13,735,000	920,000
Less deferred amounts:					
For issuance discount	(615,845)	-	(36,801)	(579,044)	
For issuance premium	1,007,270	-	83,360	923,910	
On refunding	<u>(3,671,758)</u>	<u>-</u>	<u>(261,534)</u>	<u>(3,410,224)</u>	
Net long-term debt	\$ <u>36,144,667</u>	\$ <u>-</u>	\$ <u>1,395,025</u>	\$ <u>34,749,642</u>	\$ <u>1,780,000</u>

The aggregate reserve requirements (Restricted Assets – Note 3) for the 2003 Refunding Revenue COP and 1997 Revenue Bonds at June 30, 2006 are \$1,452,500 and \$2,088,525, respectively. The bonds have interest rates ranging from 3% to 5.375% with maturities through August 2022. Aggregate debt service for the fiscal years subsequent to June 30, 2006 is as follows.

<u>Year Ending June 30</u>	<u>2003 Bonds</u>	<u>1997 Bonds</u>	<u>Total Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 950,000	\$ 895,000	\$ 1,845,000	\$ 1,676,978	\$ 3,521,978
2008	995,000	940,000	1,935,000	1,595,644	3,530,644
2009	1,040,000	985,000	2,025,000	1,509,813	3,534,813
2010	1,080,000	1,035,000	2,115,000	1,418,144	3,533,144
2011	1,125,000	1,080,000	2,205,000	1,324,656	3,529,656
2012-2016	6,365,000	6,295,000	12,660,000	5,012,847	17,672,847
2017-2021	1,260,000	8,130,000	9,390,000	2,112,438	11,502,438
2022-2023	-	3,860,000	3,860,000	200,388	4,060,388
	<u>\$ 12,815,000</u>	<u>\$ 23,220,000</u>	<u>\$ 36,035,000</u>	<u>\$ 14,850,908</u>	<u>\$ 50,885,908</u>

NOTE 9 LONG-TERM DEBT (CONTINUED)

On July 15, 2002, the District entered into an agreement with the City of Vernon for the construction of a recycled water distribution system. Under the agreement, the City of Vernon shall be responsible for the design and construction of the system and advance the necessary funds to the District to pay for such system. The District shall reimburse City of Vernon's expenditures through monthly credits to its future water bills. Monthly water credits shall be computed based on the total related capital expenditures amortized over 14 years at 5.13% per annum. The agreement covers a period of thirty years with the City of Vernon having an automatic right to extend it for another ten years. Total interest and principal payments for fiscal year ended June 30, 2006 amount to \$39,388 and \$0, respectively.

NOTE 10 DEFINED BENEFIT PENSION PLAN

Plan Description

The District's defined benefit pension plan, (the "Plan"), provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The 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 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, California 95814.

Funding Policy

Active members in the Plan are required to contribute 8% of their annual covered salary. The District is required to contribute the actuarially determined remaining 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 rates for the fiscal years ended June 30, 2006 and 2005 were 16.216% and 14.852%, 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. The District makes contributions under the Plan for both the employer and employee portions.

Annual Pension Cost

For the year ended June 30, 2006, the District's annual pension cost and actual contribution was \$354,461. The required contribution for the fiscal year ended June 30, 2006 was determined as part of the June 30, 2003 actuarial valuation.

NOTE 10 DEFINED BENEFIT PENSION PLAN (CONTINUED)

The following is a summary of the actuarial assumptions and methods:

Actuarial Cost Method	Entry Age Actuarial Cost Method
Amortization	Level Percent of Payroll
Average Remaining Period	17 Years as of the Valuation Date
Asset Valuation Method	3 Year Smoothed Market
Actuarial Assumptions:	
Investment Rate of Return	7.75% (net of administrative expenses)
Projected Salary Increases	3.25% to 14.45% depending on age, service, and type of employment
Inflation	3.00%
Payroll Growth	3.25%
Individual Salary Growth	A merit scale varying by duration of employment coupled with an assumed annual inflation component of 3.00% and an annual production growth of 0.25%.

Initial unfunded liabilities are amortized over a closed period that depends on the plan's date of entry into CalPERS Risk Pool. Subsequent plan amendments are amortized as a level percentage of pay over a closed 20-year period. Gains and losses that occur in the operation of the plan are amortized over a rolling period, which results in an amortization of 10% of unamortized gains and losses each year. If the plan's accrued liability exceeds the actuarial value of plan assets, then the amortization payment on the total unfunded liability may not be lower than the payment calculated over a 30 year amortization period.

NOTE 11 WEST AND CENTRAL BASIN FINANCING AUTHORITY

On August 1, 1992 the District and West Basin Municipal Water District created the West and Central Basin Financing Authority ("Authority") by execution of a "Joint Exercise of Powers Agreement".

The Authority operates the headquarters and administrative building for both West Basin Municipal Water District and Central Basin Municipal Water District and is the landlord for the other tenants. The District's share of the Authority's assets, liabilities and results of operations have been included in the District's financial statements, including footnotes, where appropriate.

The results of the Authority's operations for the years ended June 30, 2006 and 2005 and the District's share are summarized as follows:

**Central Basin Municipal Water District
Notes to Financial Statements
Years ended June 30, 2006 and 2005**

NOTE 11 WEST AND CENTRAL BASIN FINANCING AUTHORITY (CONTINUED)

	Balance Sheets			
	2006		2005	
	Total	District's Share	Total	District's Share
Assets				
Current assets	\$ 504,632	\$ 252,316	\$ 428,985	\$ 214,492
Restricted assets	20,506,589	20,071,705	21,068,111	20,728,823
Utility plant	2,884,156	1,442,078	3,138,922	1,569,461
Other assets	154,808	154,808	164,433	164,433
Total assets	<u>\$ 24,050,185</u>	<u>\$ 21,920,907</u>	<u>\$ 24,800,451</u>	<u>\$ 22,677,209</u>
Liabilities				
Current liabilities	\$ 78,961	\$ 39,480	\$ 66,889	\$ 33,444
Payable from restricted assets	3,476,287	1,386,490	3,457,411	1,367,614
Long-term debt	20,494,937	20,494,937	21,276,151	21,276,151
	<u>24,050,185</u>	<u>21,920,907</u>	<u>24,800,451</u>	<u>22,677,209</u>
Net assets	-	-	-	-
Total liabilities and equity	<u>\$ 24,050,185</u>	<u>\$ 21,920,907</u>	<u>\$ 24,800,451</u>	<u>\$ 22,677,209</u>

	Statement of Revenues and Expenses			
	2006		2005	
	Total	District's Share	Total	District's Share
Operating revenues	\$ 128,205	\$ 64,102	\$ 110,333	\$ 55,166
Less operating expenses	(759,767)	(378,892)	(717,224)	(355,695)
Excess (deficiency) of operating revenues over operating expenses	<u>(631,562)</u>	<u>(314,790)</u>	<u>(606,891)</u>	<u>(300,529)</u>
Non operating revenues	1,938,166	1,621,394	1,951,921	1,645,559
Less non operating expenses	1,306,604	1,306,604	1,345,030	1,345,030
Excess of non operating revenues over non operating expenses	<u>631,562</u>	<u>314,790</u>	<u>606,891</u>	<u>300,529</u>
Excess of revenues over expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

NOTE 12 OTHER POST-EMPLOYMENT BENEFITS

The District provides postemployment health benefits, in accordance with the District's administrative code, to all employees who retire from the District on or after attaining age 55 with a minimum of 10 consecutive years of service. In addition, directors who retire from the District at age 55 with a minimum of 12 consecutive years of service or assumed office before January 1, 1981, and served at least two terms are also eligible for this benefit. The benefits are funded on a pay-as-you-go basis. Currently there are nine retirees who meet these eligibility requirements. Expenditures of \$80,282 and \$58,223 were recognized for postemployment health care during the years ended June 30, 2006 and 2005, respectively.

**Central Basin Municipal Water District
Notes to Financial Statements
Years ended June 30, 2006 and 2005**

NOTE 13 CONTRIBUTIONS

Contributions for the fiscal years ended June 30th, are as follows:

	2006	2005
Rio Hondo Recycling Program	\$ 143,448	\$ 896,429
Water Quality Protection Program:		
For capital expenditures	-	90,027
For operations and maintenance	982,042	645,657
Total contributions received	1,125,490	1,632,113
Less pass-through amounts	-	500,893
Net	\$ 1,125,490	\$ 1,131,220

Rio Hondo Recycling Program - The District received 25% funding from the United States Bureau of Reclamation primarily to help finance the construction of the District's recycled water facilities.

Water Quality Protection Program - Grant received from the United States Bureau of Reclamation to fund the construction and operations of the treatment facilities for contaminated water.

NOTE 14 LEASING ARRANGEMENTS

The District shares in the Authority's lease of the administration building office space to tenants under non-cancelable operating leases requiring fixed rents. Tenants are required to reimburse the Authority for the tenant's share of utilities and janitorial services. These leasing arrangements expired June 30, 2006 but are renewed on a month-to-month basis.

NOTE 15 RELATED PARTY TRANSACTIONS

For the years ended June 30, 2006 and 2005, the District had transactions with a non-profit organization, whose Executive Director also serves concurrently as a member of the District's Board of Directors. This non-profit organization is involved in the management of the District's conservation program. Under this program, the non-profit organization manages the distribution of high-efficiency toilets within the District's service area. It also handles the rebates for toilets and washers purchased by participating households. Total payments made to this related party amounted to \$691,586 and \$660,414 for the years ended June 30, 2006 and 2005.

NOTE 16 COMMITMENTS AND CONTINGENCIES

The District has received funds for specific purposes that are subject to review and audit by the grantors. Although such audits could generate expenditure disallowances under terms of the grants or contracts, management believes that any required reimbursements will not be material.

The District has entered into various contracts for the purchase of materials and construction of the utility plant, professional and non-professional services. At June 30, 2006, the total unpaid amount on these contracts is approximately \$11.115 million. These commitments may be funded from restricted assets.

On July 21, 2000, the District entered into a fixed to variable rate swap with Salomon Brothers Holding Company, Inc. (Salomon) for the purpose of providing a closer match between interest rates on short term investments. The swap has a notional amount of \$29 million and has a termination date of August 1, 2012. Under the terms of the swap the District pays a variable rate equal to the BMA Municipal Swap Index and receives a fixed rate of 5.16% from Salomon. During March 2001, the swap agreement was revised and, in consideration of the modifications therein, Salomon paid the District \$1,501,872. Such modifications effectively suspended payment of interest under the swap agreement until August 1, 2005. At that date or on any subsequent February 1 or August 1 through August 1, 2012, Salomon may terminate the agreement, which may result in the District's making or receiving a termination payment. On July 28, 2005, Salomon exercised its option to terminate the agreement effective August 1, 2005.

In November 2005, the District decided to refund its 1997A Revenue Bonds on August 1, 2007 (call date) through a forward synthetic refunding. The District entered into a floating-to-fixed interest rate swap agreement ("swap") with Citibank N.A. in the notional amount of \$19,825,000, subject to the 1992 ISDA Master Agreement dated December 7, 2005. Under the swap agreement, the District will pay Citibank a fixed rate of 3.353% and receive 53.8% of USD-LIBOR-BBA plus 36 basis points. The swap was structured for the floating index to reset on the 1st Wednesday of each month.

The swap will mature on August 1, 2021, unless earlier terminated. Termination events are listed in the agreement, which include optional termination and failure by the District to issue the refunding bonds on or before the effective date of the swap. Termination of the swap may obligate the District to pay or receive termination payment based on the market interest rate at the time of termination.

As at June 30, 2006, the swap has a fair value of \$76,400 using the standard derivatives pricing software.

NOTE 16 COMMITMENTS AND CONTINGENCIES (CONTINUED)

In exchange for a lower nominal fixed swap rate, the District bears basis risk, or the risk that it could incur a shortfall between the variable rate paid on the bonds and the variable rate received on the swap. In this case, actual (realized) savings from the refunding would be less than the expected present value savings of \$1.572 million. Citibank, N.A., the counterparty to this swap agreement, has credit ratings as follows:

Moody's - Aaa
S&P - AA
Fitch - AA+

Legal claims and lawsuits arise from time to time in the normal course of business, which, in the opinion of management, will have no material effect on the District's financial position.

Operating lease commitments are primarily for computer equipment and property used for the construction, reconstruction, operation and maintenance of water pumps and water storage facilities. The District pays property leases based on a predetermined base rent adjusted annually based on the prevailing consumer price index and every five years based on the appraised value of the property. Total lease expenses for the years ended June 30, 2006 and 2005 amounted to \$490,909 and \$494,159, respectively.

Future minimum annual lease payments for the years ending June 30 are as follows:

<u>Year</u>	<u>Amount</u>
2007	\$ 201,594
2008	200,280
2009	226,470
2010	203,347
2011	202,732
2012-2016	1,045,364
2017-2021	962,438
2022-2026	1,115,729
2027-2031	1,318,551
2032-2036	1,437,221
2037-2041	1,566,570
2042-2046	1,707,562
2047	<u>487,206</u>
Total	\$ <u>10,675,064</u>

NOTE 17 NEW GOVERNMENTAL ACCOUNTING STANDARDS

GASB No. 40 - During the year ended June 30, 2005, the District implemented Governmental Accounting Standards Board (GASB) Statement no. 40, "Deposits and Investment Risk Disclosures". This statement updates the custodial credit risk disclosure requirements and establishes more comprehensive disclosure requirements to address other common risks of deposits and investments.

GASB No. 42 - In November 2003, the Governmental Accounting Standards Board issued Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries". This pronouncement is effective for periods beginning after December 15, 2004 and requires governments to report the effects of capital asset impairments in their financial statements when they occur rather than as a part of the ongoing depreciation expense for the capital asset or upon disposal of the capital asset. The District has determined that there is no effect on the financial statements in the year of adoption.

GASB No. 44 - In May 2004, the Governmental Accounting Standards Board (GASB) issued Statement No. 44 "Economic Condition Reporting: The Statistical Section" an amendment of NCGA Statement No. 1. This statement improves the understandability and usefulness of statistical section information by addressing the comparability problems that have developed in practice and by adding information from the new financial reporting model for state and local governments required by GASB Statement no. 34. Although this pronouncement is effective for statistical sections prepared for periods beginning after June 15, 2005, the District has implemented the provisions of this Statement for the fiscal year ended June 30, 2005.

GASB No. 45 - The Governmental Accounting Standards Board (GASB) issued Statement No. 45 "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, which provides guidance on all aspects of OPEB reporting by employers. The requirements of this statement are effective for fiscal periods beginning after December 15, 2006, for governments with annual revenues of \$100 million or more; for fiscal periods beginning after December 15, 2007, for governments with total annual revenues of \$10 million or more but less than \$100 million; and for fiscal periods beginning after December 15, 2008, for governments with total annual revenues of less than \$10 million.

GASB No. 47 - The Governmental Accounting Standards Board (GASB) issued Statement No. 47 "Accounting for Termination Benefits", which provides guidance on how employers should account for benefits associated with either voluntary or involuntary terminations. The requirements of the new statement become effective for fiscal periods beginning after June 15, 2005 (except for those provisions involving other postemployment benefits, which only take effect upon the implementation of GASB Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions").

Required Supplementary Information

**Central Basin Municipal Water District
Required Supplementary Information
Years ended June 30, 2006 and 2005**

Three-Year Trend Information for PERS

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2004	381,721	100%	-
June 30, 2005	324,477	100%	-
June 30, 2006	354,461	100%	-

Schedule of Funding Progress for PERS

Actuarial Valuation Date	Actuarial Asset Value (A)	Entry Age Actuarial Accrued Liability (AAL) (B)	Unfunded Actuarial Accrued Liability (Excess Assets) [(B) - (A)] (UAAL) (C)	Funded Ratio [(A) / (B)] (D)	Covered Payroll (E)	Unfunded Accrued Actuarial Liability as Percentage of Covered Payroll [(B)- (A)]/(E)} (F)
June 30, 2001	5,294,138	5,123,196	(170,942)	103.3%	2,891,932	(5.9%)
June 30, 2002	5,178,111	5,806,844	628,733	89.2%	3,322,160	18.9%
June 30, 2003	5,922,049	7,348,743	1,426,694	80.6%	3,493,666	40.8%

The schedule of funding progress for PERS included information for the entire risk pool, is as follows:

Actuarial Valuation Date	Actuarial Asset Value in '000 (A)	Entry Age Actuarial Accrued Liability (AAL) in '000 (B)	Unfunded AAL [(B) - (A)] (UAAL) in '000 (C)	Funded Ratio [(A) / (B)] (D)	Covered Payroll in '000 (E)	Unfunded AAL as Percentage of Covered Payroll [(B)- (A)]/(E)} (F)
June 30, 2004	334,956	426,958	92,002	78.45%	90,667	101.5%

**Report of Independent Auditors on Compliance and on Internal Control
Over Financial Reporting Based on an Audit of Financial Statements
Performed in Accordance with Government Auditing Standards**

**The Honorable Members of the Board
Central Basin Municipal Water District**

We have audited the financial statements of the Central Basin Municipal Water District as of and for the year ended June 30, 2006 and have issued our report thereon dated September 15, 2006. 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.

Compliance

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*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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



Los Angeles, California
September 15, 2006

EXHIBIT “B”

Single Audit Report
Central Basin Municipal Water District
Fiscal year ended June 30, 2006
with Report of Independent Auditors

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**Report of Independent Auditors on Compliance and on Internal Control
Over Financial Reporting Based on an Audit of Financial Statements
Performed in Accordance with Government Auditing Standards**

**The Honorable Members of the Board
Central Basin Municipal Water District**

We have audited the financial statements of the Central Basin Municipal Water District as of and for the year ended June 30, 2006 and have issued our report thereon dated September 15, 2006. 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.

Compliance

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*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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

Vasquez & Company LLP

Los Angeles, California
September 15, 2006

**Report of Independent Auditors on Compliance with Requirements
Applicable to Each Major Program and Internal Control Over
Compliance in Accordance with OMB Circular A-133**

**The Honorable Members of the Board
Central Basin Municipal Water District**

Compliance

We have audited the compliance of Central Basin Municipal Water District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal programs for the year ended June 30, 2006. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Central Basin Municipal Water District management. Our responsibility is to express an opinion on Central Basin Municipal Water District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and *OMB Circular A-133* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Central Basin Municipal Water district's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, Central Basin Municipal Water District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006. The results of our auditing procedures disclosed an instance of noncompliance with requirements that is required to be reported in accordance with *OMB Circular A-133*. This is reported as item 06-01 in Section III of the Schedule of Findings and Questioned Costs.

Internal Control Over Compliance

The Management of Central Basin Municipal Water District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Central Basin Municipal Water District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with *OMB Circular A-133*. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or

more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

Vasquez & Company LLP

Los Angeles, California
September 15, 2006

**Report of Independent Auditors on
Schedule of Expenditures of Federal Awards**

**The Honorable Members of the Board
Central Basin Municipal Water District**

We have audited the financial statements of Central Basin Municipal Water District as of and for the year ended June 30, 2006, and have issued our report thereon dated September 15, 2006. 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 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 financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was made for the purpose of forming an opinion on the financial statements of Central Basin Municipal Water District taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and is not a required part of the financial statements. The information in that schedule has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

Vasquez & Company LLP

Los Angeles, California
September 15, 2006

Central Basin Municipal Water District
 Schedule of Expenditures of Federal Awards
 For the year ended June 30, 2006

Federal Grantor/ Pass Through Grantor Program Title	CFDA Number	Program Identification Number	Federal Disbursements/ Expenditures
MAJOR PROGRAM:			
<u>U.S. Department of Interior</u>			
<i>Direct Program</i>			
Central Basin Water Quality Protection Plan	15.BCR	02-FG-35-0049	\$ 982,043
		Total major program	<u>982,043</u>
NONMAJOR PROGRAMS:			
<u>U.S. Department of Interior</u>			
<i>Direct Program</i>			
Water Reclamation and Reuse Program	15.504	1425-4-FG-30-00210	143,447
<i>Passed through the Water Reuse Foundation</i>			
Water Reclamation and Reuse Program	15.504	WRF-03-012	25,980
		Total non-major programs	<u>169,427</u>
		Total federal expenditures	<u>\$ 1,151,470</u>

See accompanying notes to the Schedule of Expenditures of Federal Awards.

**Central Basin Municipal Water District
Note to Schedule of Expenditures of Federal Awards
For the year ended June 30, 2006**

Summary of Significant Accounting Policies

Basis of Accounting

Monies received from Central Basin Water Quality Protection Plan Program are recorded within the general fund of Central Basin Municipal Water District. The District utilizes the accrual basis of accounting for these funds. The accompanying Schedule of Expenditures of Federal Awards has been prepared accordingly.

Schedule of Expenditures of Federal Awards Presentation

The Schedule of Expenditures of Federal Awards presented is prepared from only the accounts of the grant programs and, therefore, does not present the financial position or results of operations of the District.

**Central Basin Municipal Water District
Schedule of Findings and Questioned Costs
For the year ended June 30, 2006**

Section I - Summary of Audit Results

Financial Statements

Type of auditors' report issued on the financial statements:	Unqualified
Internal control over financial reporting:	
Material weakness(es) identified	No
Reportable condition(s) identified that are not considered to be material weaknesses?	None Reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over its major programs:	
Material weakness(es) identified	No
Reportable condition(s) identified that are not considered to be material weaknesses?	Yes
Type of auditors' report issued on compliance for its major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB A-133?	06-01

Identification of major program

CFDA Number(s): 15.BCR	<u>Name of Federal Program or Cluster:</u> Central Basin Water Quality Protection Plan
Dollar threshold used to distinguish between type A and type B programs:	\$300,000
Auditee qualified as a low-risk auditee:	Yes

**Central Basin Municipal Water District
Schedule of Findings and Questioned Costs
For the year ended June 30, 2006**

Section II – Financial Statement Findings

None

Section III – Federal Award Findings

Finding 06-01

Condition

We noted that the District failed to submit the report for the quarter ended September 30, 2005 to the U.S. Bureau of Reclamation for its Water Quality Protection Plan (CFDA #15.BCR) within the required 30-day period. The report was submitted on January 9, 2006.

Criteria

The grant agreement requires submission of the quarterly reports within 30 days after the end of each quarter.

Recommendation

The District should submit all required reports on a timely basis.

Management Action Plan

District will ensure timely submission of required reports in all existing grants and contracts. In the future, a more reasonable deadline will be negotiated with the grantor as the 30-day period is not enough for the District to process and approve all required information.

Section IV – Status of Prior Year Audit Findings

Finding 05-01

Condition

We noted the following reporting deficiencies in the course of our review of the District's Water Reclamation and Reuse Program (CFDA #15.504):

- a. Non-submission of the following reports:
 - Progress report that presents the status of each of the components of the projects.
 - Current list of project components with a schedule and cost estimate for each.
 - Updated estimate of project expenditures by federal fiscal year.
- b. Failure to certify that no operation and maintenance costs have been included in payment requests submitted.

Recommendation

The District should submit complete copies of all required reports on a timely basis. The project ended January 31, 2005. Hence, this recommendation is applicable to future grants and other existing federal-assisted programs.

Status

A similar finding was noted during our test for CFDA #15.BCR. Please see Finding 06-01.

Finding 05-02

Condition

We noted delays in the processing of payments to the City of Vernon (City) for expenditure incurred relating to the project. Based on samples tested, we noted a 45-day lag between the time the District received the federal funding and the time it paid amounts owed to the City.

Recommendation

The District should ensure that procedures are in place to minimize the time elapsed between the transfer of funds from the grantor and their subsequent disbursement. This recommendation is also applicable to future grants and other existing federal-assisted programs.

Status

No similar findings were noted during our tests for CFDA #15.BCR.