

CAMBRIA COMMUNITY SERVICES DISTRICT

BASIC FINANCIAL STATEMENTS

June 30, 2006

CAMBRIA COMMUNITY SERVICES DISTRICT
TABLE OF CONTENTS
June 30, 2006

Independent Auditors' Report	1
Management's Discussion and Analysis	2
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets	17
Statement of Activities	18
Fund Financial Statements:	
Balance Sheet – Governmental Fund	20
Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Assets	21
Statement of Revenues, Expenditures, and Changes In Fund Balance - Governmental Fund	22
Reconciliation of the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities	23
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund	24
Statement of Net Assets – Proprietary Funds	25
Statement of Revenues, Expenses, and Changes in Fund Net Assets – Proprietary Funds	27
Statement of Cash Flows – Proprietary Funds	28
Notes to Basic Financial Statements	29



MOSS, LEVY & HARTZHEIM L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS:

ROBERT M. MOSS, C.PA.
RONALD A. LEVY, C.PA.
CRAIG A. HARTZHEIM, C.PA.
HADLEY Y. HUI, C.PA.

802 EAST MAIN
SANTA MARIA, CA 93454
PHONE: (805) 925-2579
FAX: (805) 925-2147
EMAIL: mlhsm@mlhpcpas.com

INDEPENDENT AUDITORS' REPORT

Board of Directors
Cambria Community Services District
Cambria, California

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Cambria Community Services District (the District) as of June 30, 2006, and for the fiscal year then ended, which collectively comprise the District's basic financial statements as listed in the foregoing table of contents. These financial statements are the responsibility of the management of the Cambria Community Services District. Our responsibility is to express opinions 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. Those standards require that we plan and perform the audit 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 audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, and each major fund of the Cambria Community Services District, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable thereof, and the respective budgetary comparison for the general fund, for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 1 of the notes to basic financial statements, the Cambria Community Services District adopted Governmental Accounting Standards Board Statement No. 46, *Net Assets Restricted by Enabling Legislation – an Amendment of GASB Statement No. 34*, effective July 1, 2005.

Management's Discussion and Analysis on pages 2 through 15, is not a required part of the basic financial statements but is supplementary information required, by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

MOSS, LEVY & HARTZHEIM L.L.P.

Moss, Levy & Hartzheim L.L.P.

September 15, 2006

CAMBRIA COMMUNITY SERVICES DISTRICT

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2006

The Management's Discussion and Analysis is to be read in conjunction with the financial statements of the District. The discussion is to identify financial trends and significant changes in the financial information.

The Cambria Community Services District (CCSD) is a multi-purpose special district formed on December 9, 1976. Formation took place under the Community Services District Law, Section 61000, et. seq. of the California Government Code. At the time of formation it absorbed and combined the responsibilities of five existing special districts. These independently operated districts were as follows:

- The Cambria Community Services District - Moonstone Beach Drive area
- The Cambria County Water District
- The Cambria Fire Protection District
- The Cambria Garbage Disposal District
- San Luis Obispo County Service Area No. 6 - Street Lighting Service

The incorporation of the Fire Protection District allowed the CCSD to receive property tax as general fund revenue.

The CCSD is a political subdivision of the State of California and operates under a Board of Directors-Manager form of government. A five-member Board of Directors governs it with each member serving a four-year term. The CCSD has a population of 6,400 residents within its boundaries. Tourism in the summer months and on holiday weekends creates seasonal increases in the population.

Basic Financial Statements

The basic financial statements of the CCSD are grouped into two categories.

- Government – wide financial statements
- Fund financial statements

The notes to basic financial statements are an integral part of the basic financial statements.

Government-Wide Financial Statements

These statements display financial information about the reporting governmental entity as a whole. It includes the governmental activities and business-type activities. Governmental activity includes the following functions:

- Fire Department
- Administration
- Facilities and Properties Management
- Resource Conservation
- Parks & Recreation

The five governmental functions have a number of activities. The Fire Department has the Fire Hazard Fuel Reduction Program and North Coast Ocean Rescue. Under the auspices of the administration function are assessments and franchise fees. Management of facilities and resources includes open space, Fiscalini Ranch Preserve, Vets Hall, public restrooms, and ranch houses.

Effective July 1, 2005, the Regional Transit Authority (RTA) assumed responsibility for the operations of the trolley service in Cambria with the CCSD retaining responsibility for the 10% farebox requirement.

The largest capital asset in governmental activities is the Fiscalini Ranch Preserve land with a value of \$11,153,350. A number of funding sources were used to acquire the land. The CCSD contributed \$2 million toward the acquisition. Private donations contributed \$1,125,000 and the American Land Conservancy provided the balance of the acquisition cost.

The business-type activities are the water and wastewater (sewer) departments.

Fund Financial Statements

The accounting system of the CCSD is organized and operated on a fund basis. A fund is considered a separate self-balancing entity with assets, liabilities, fund equity, revenues, and expenditures/expenses.

The basis of accounting depends on the fund. Basis of accounting refers to “when” revenues and expenses are recognized in the accounts and reported in the financial statements.

Governmental funds use the modified accrual basis of accounting. Revenues are recognized when measurable and available as net current assets. Measurable means the amounts can be estimated or determined. Available means the amounts were collected during the reporting period or soon enough to finance the expenditures accrued for the reporting period.

Enterprise or business-like funds use the accrual basis of accounting. Revenues, expenses, assets and liabilities are recognized when the event happens.

Fiscal Year 2005/2006 Financial Highlights

		<u>Governmental Activities</u>		<u>Business-type Activities</u>
Net Assets	\$	24,378,274	\$	20,018,324
Revenues	\$	4,408,740	\$	3,879,228
Expenses	\$	3,989,121	\$	4,469,160
Results	\$	419,619	\$	(589,932)

Results indicate an excess of revenues over expenses for governmental activities and a deficit for the business-type (enterprise) activities. The water and wastewater funds combined have a \$589,932 deficit. The expenditures in the governmental fund exclude depreciation but include principal and interest on debt service. Total depreciation for the business-type activities is \$1,104,145.

The largest component of the net assets balance is invested in capital assets net of accumulated depreciation and related debt. Net assets serve over time as an indicator of an entity's financial condition. Results above display a revenue stream unable to cover the cost of depreciation of assets.

For the fiscal year ending June 30, 2006, water and sewer had increases in depreciable and non-depreciable asset expenses of \$1,475,300. In the sewer fund, expenses for the Bio-Solids Project accounted for most of the increase. In the water fund, expenses for the Pine Knolls Tank Project, Build Out Reduction Program, Desalinization Project, Meter Replacement Program and Water Master Plan EIR accounted for most of the increase. The expenditure figure for the general fund was an increase of \$884,303. In the general fund, expenditures for the Bluff Trail, Santa Rosa Creek Riparian Bank and tennis courts accounted for most of the increase.

Enterprise revenues for the 2005/2006 fiscal year were \$3,879,228, a decrease of \$48,334 from the 2004/2005 fiscal year. Service fees account for virtually all of the revenue for enterprise activities. The customer base is not expanding due to a lack of development resulting from the water moratorium.

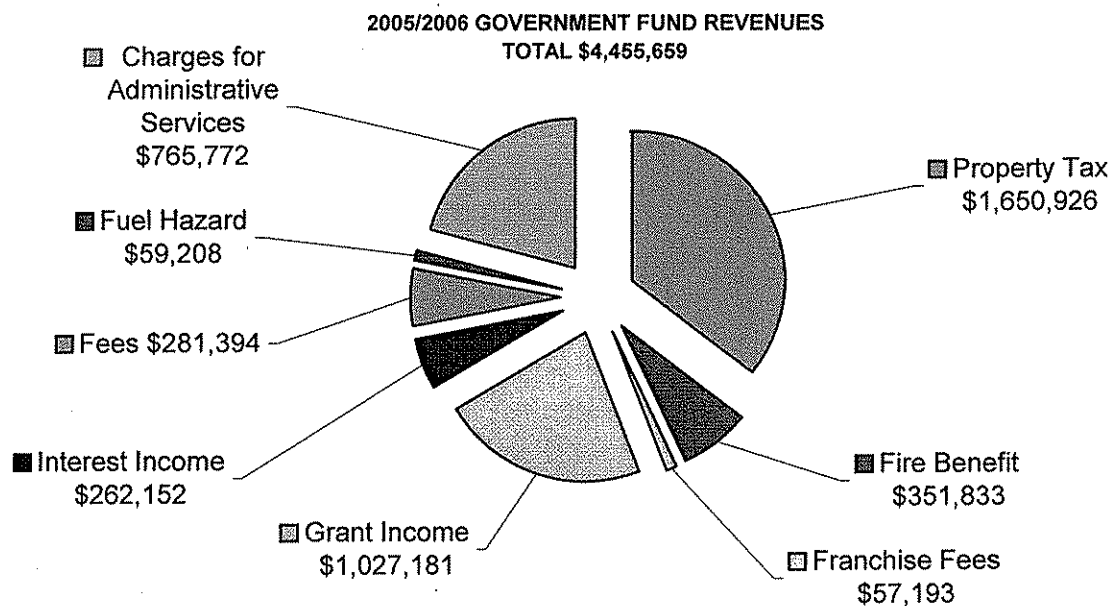
Enterprise fund expenses include depreciation expense, which is not included in the rate structure. Utility rates are currently under analysis as part of a long-term financial management plan by Black and Veatch.

General government revenues for the 2005/2006 fiscal year were \$4,408,740 or a decrease of \$303,406 from the 2004/2005 fiscal year. The largest sources of revenue were property taxes, grants, and fire suppression benefit assessment.

General fund total revenues for the 2005/2006 fiscal year were \$4,455,659. This is an increase of \$697,486 over the 2004/2005 fiscal year. A source of revenue for the general government is charging other departments for administrative services. General government received \$765,772 from the water and sewer departments for the 2005/2006 fiscal year, which is a decrease of \$153,274 from the 2004/2005 fiscal year.

All other revenue sources increased in the 2005/2006 fiscal year over the 2004/2005 fiscal year with the exception of a decrease of \$117,991 in the Trolley TDA (to zero) due to the RTA assuming responsibility of the trolley's operation. The largest increases occurred in grant revenue (\$562,237); fee revenue (\$150,442); property tax revenue (\$143,010) and revenue from investments (\$76,310). Property values in Cambria followed the housing burst nationwide. This was reflected in higher tax revenue due to housing sales. A higher rate of return is the reason revenue from investments was higher, more than offsetting a decrease in invested funds.

The following graph displays the sources of revenue by type of revenue:

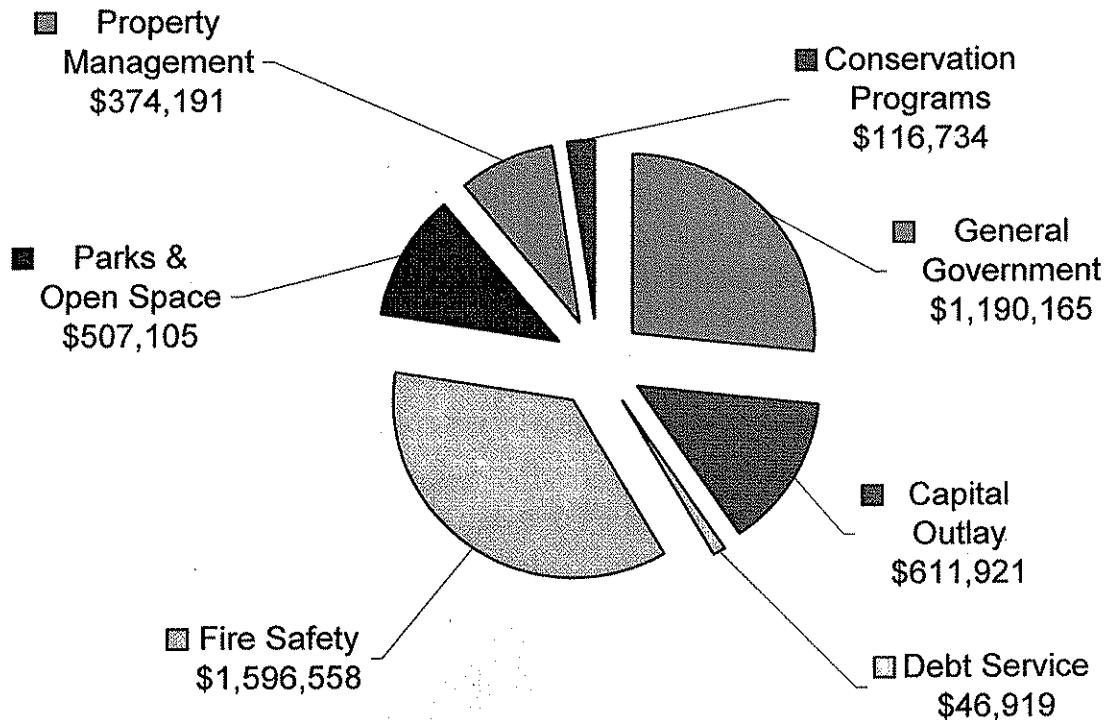


Proposition 218 and other restrictions are a challenge for general government to increase revenue sources. Enterprise functions are business like in nature. Service fees should cover the cost of providing service as well as provide funds for capital improvements.

General fund total expenditures for the 2005/2006 fiscal year were \$4,443,593. This is an increase of \$781,060 over the 2004/2005 fiscal year. The cost of providing fire protection and related safety activities is the CCSD's largest cost. The administrative cost of managing the CCSD is the next largest cost.

Capital outlay increase is due to the construction of the Bluff Trail, Santa Rosa Creek Riparian Bank restoration and Tennis Courts. The graph on the next page indicates expenditures by function.

2005/2006 GOVERNMENTAL EXPENDITURE BY FUNCTION
TOTAL \$4,443,593



Chevron MtBE Litigation

In October 2003, the CCSD and Chevron reached an agreement culminating a legal struggle that began in 2000. The issue was MtBE groundwater contamination in the potable water supply for the residents of Cambria. The settlement amount was \$9,100,000, and split as follows - \$8.4 million water contamination; \$700,000 donation for the Cross Town Trail.

Net settlement for water contamination after legal/attorney fees was \$6,554,000, and was received by wire transfer on December 15, 2003. Of the total settlement, \$1,231,319 reimbursed the Utilities/Water Department and the balance went to the General Fund.

The trail donation was paid over four years with \$100,000 being received in January, 2004. \$100,000 being received in January, 2005, \$100,000 being received in January, 2006 and the final payment of \$300,000 was received on December 5, 2006.

The CCSD received a \$1,520,711 loan from the Department of Health Services (DHS) to construct a well, SR-4, Santa Rosa Creek at Coast Union High School. The loan is non-interest bearing. The agreement with the Coast Union School District is a ten-year lease, which expires June 30, 2010. It is possible that SR-4 will need to be re-located at expiration of the lease. While repayment was dependant on the outcome of the litigation

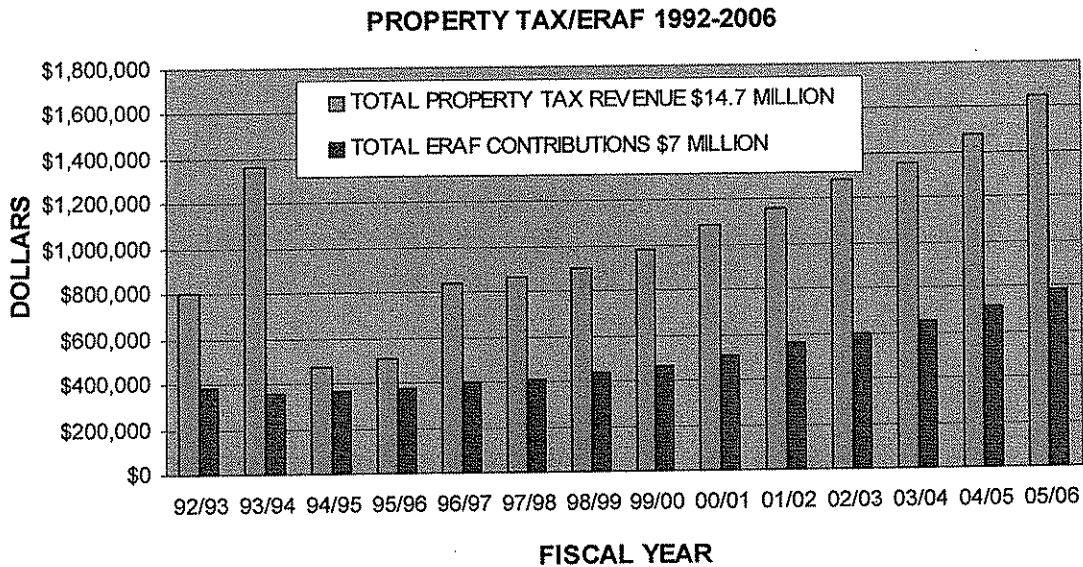
with Chevron, due to the possibility of having to relocate SR-4 at the high school, the District has asked for a waiver of the repayment requirement. The response to the request was denied and the DHS has requested repayment. The loan is a liability on the enterprise fund financial statements.

Property Tax/ERAF

As the general government revenue chart indicates, the CCSD received \$1,650,926 in property tax revenue for the 2005/2006 fiscal year.

Since 1992, the CCSD has made contributions to the Educational Revenue Augmentation Fund (ERAF). In 1992, the State of California initiated a revenue “take-away” program from cities, counties, and special districts to help balance the state budget. The CCSD contribution to the fund since 1992 is approximately \$7 million. Hence, slightly less than one/half of the tax revenue reverts to the state.

The graph below depicts the contribution since 1992. Property tax revenue does increase each year as property values increase. This also results in a corresponding increase in the ERAF contribution.



Reserves

The CCSD reserves are on deposit with the State Treasurer's Office. It is a pooled money investment account under Local Agency Investment Fund (LAIF). LAIF serves as a savings account for the CCSD. Funds are transferred in and out based on cash flow requirements. At fiscal year end June 30, 2006, the balance in the account was \$8,795,996, which does not include accrued interest of \$104,632. The Chevron settlement funds and the Department of Health Services loan proceeds of \$1,520,711 were transferred to LAIF and are included in the year-end balance. The average yield for the 2005/2006 fiscal year was 3.84%. The rate of return increased from 2.85% as of June 30, 2005 to 4.53% as of June 30, 2006.

A four-year summary of the reserve balance in LAIF is as follows:

• June 30, 2003	\$10,820,163
• June 30, 2004	\$12,989,202
• June 30, 2005	\$10,894,323
• June 30, 2006	\$ 8,795,996

Reserves in LAIF dropped \$2,098,327 in the fiscal year end June 30, 2006 and the enterprise funds are in a deficit position. These financial developments caused the auditor to insert Note 12 in the audit report. To address the deficit spending condition in the enterprise funds caused by increasing costs and stagnant revenue, the CCSD contracted with an outside consultant in May 2006, to develop a comprehensive cost of service analysis of its water and wastewater utilities. The data will be incorporated in a Long-Range Financial Management Plan to be used to maintain the utility operations and rate structure so that the existing deficit situation is corrected and to ensure sustainable future rates to avoid similar deficit conditions.

Investment Policy

The CCSD has an investment policy. All CCSD surplus funds are invested with the LAIF.

Long-Term Debt

At fiscal year end June 30, 2006, the CCSD had long-term outstanding debt of \$5,307,240 in water and sewer. Following is the detail of each debt item in the enterprise funds:

	<u>Water</u>	<u>Sewer</u>	<u>Interest Rate</u>	<u>Maturity</u>	<u>Issue Date</u>
1.	\$1,233,375		4.5%	May 2015	2006
2.		\$ 664,125	4.5%	May 2015	2006
3.		\$1,925,000	3.5% / 5.7%	October 2024	1999
4.		\$1,484,740	3.0%	May 2016	1996

Items 1 & 2 are a 4.5% note held by Citizens Bank for the original water and sewer infrastructure when the CCSD was formed. The note refinanced the 1995 bonds.

Item 3 is a Revenue Bond to pay for the upgrade to the wastewater treatment plant bringing plant capacity to one million gallon per day treatment capability.

Item 4 is a 3.0% note from the State Water Resources Control Board under the State Revolving Fund Loan Program. It was also used to fund the upgrade to the wastewater treatment plant.

The Revenue Bonds have a coverage ratio of 1.10. Under the terms of the debt structure, the CCSD covenants will charge fees for services to provide sufficient coverage. The coverage ratio is not currently being met due to insufficient revenue. The Long-Term Financial Management Plan currently being compiled will address this deficiency.

The CCSD entered into a lease purchase agreement for a Pierce Fire Tender in 2002. As part of the MtBE settlement with Chevron, the CCSD is responsible for the payments but is reimbursed by Chevron. The lease payment agreement is for five years. Four payments have been made by the CCSD and Chevron has reimbursed the CCSD for those payments.

Compensated balances are the employee accumulated sick and vacation leave. CCSD policy allows employees to accumulate earned but unused vacation and sick pay. Unused vacation and sick leave are paid at termination of employment. One half of sick leave is paid up to maximum of 320 hours. Accrued leave balances are an obligation of the CCSD. Reporting requirements dictate that this be included in long-term liabilities.

Except for compensated absences and the refinancing of debt, there were no additions to long-term liabilities in the 2005/2006 fiscal year. The debt refinancing resulted in a projected savings \$174,494 with a prepayment penalty of \$47,000 and a cost of issuance of \$17,000.

At fiscal year end June 30, 2006, the CCSD had long-term debt of \$309,578 in governmental activities. General fund debt is \$87,989 for the fire tender and \$221,589 for compensated absences.

The following table provides a reconciliation of the debt activity for the fiscal year for the business-type activities:

	<u>Balance</u> <u>July 1, 2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2006</u>
Water Revenue Bonds	\$1,527,500	\$ -	\$1,527,500	\$ -
Water Bank Loan		1,233,375		1,233,375
Sewer Revenue Bonds	2,807,500		882,500	1,925,000
Sewer Bank Loan		664,125		664,125
Sewer SWCRB Loan	1,610,482		125,742	1,484,740
Compensated Absences	<u>83,689</u>	<u>19,375</u>	<u> </u>	<u>103,064</u>
Totals	<u>\$6,029,171</u>	<u>\$1,916,875</u>	<u>\$2,535,742</u>	<u>\$ 5,410,304</u>

The following table provides a reconciliation of debt activity for the governmental activities. The addition to the debt activity was compensated balances.

	<u>Balance</u> <u>July 1, 2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2006</u>
Capital Lease	\$129,222	\$ -	\$41,233	\$ 87,989
Compensated Absences	<u>194,007</u>	<u>34,916</u>	<u>7,334</u>	<u>221,589</u>
Totals	<u>\$323,229</u>	<u>\$34,916</u>	<u>\$48,567</u>	<u>\$309,578</u>

All bond, note and lease payments were current as of June 30, 2006.

Operating Budget

On May 27, 2004, the CCSD adopted a two-year budget for the July 1, 2004 to June 30, 2006 fiscal years.

A mid-year budget review was presented on January 27, 2005. The review amended the budget for the fiscal year end June 2005 and June 2006

Management objectives in the fiscal year 2005 - 2006 budget process were as follows:

- To produce a document that meets the evolving needs of the CCSD considering the constraints of increasingly limited resources.
- Department managers identified priority maintenance and repair issues, staffing needs, and began to address the issue of replacement of aging fleet vehicles and equipment.
- Clear separation between operating and infrastructure activity.
- Identify levels of services and implement a cost recovery fee structure.

In addition to the mid year review, quarterly (or monthly when possible) budget status reports are to be prepared and reviewed with each department manager. The monitoring process does not focus on line item or category totals. Shifts can be made internally, provided the total approved budget does not increase.

Budget Highlights

A 5.5% rate increase was implemented on September 2002 and September 2003. The rate adjustments were the first rate adjustments since September 1992, or a ten year span with no revenue enhancements.

Effective January 1, 2003, the sewer rate went from a fixed rate to one based on volume. A customer's sewer charge was based on the volume of water that flowed through the meter and consequently into the sewer system. The rate for computing sewer charges per unit of water was \$1.60 and increased to \$1.69 in July 2006.

In July 2003, the CCSD adopted Code Section 3.04.020 setting a revised fee schedule as well as establishing new fees for services. The fee schedule in use had not kept pace with the cost of providing services. New fees were established to cover the cost of services the CCSD was providing and not collecting. These are currently under review as part of the Long-Term Financial Management Plan.

On June 19, 2003, the residents of Cambria voted to extend the Fire Suppression Benefit Assessment. The process was a mail-in ballot with a majority of the votes needed to pass. CCSD Resolution 27-2003, confirmed the assessment and vote tally. The final tally was 74% yes and 26% no.

The assessment is placed on the tax roll each year and supports the operations of the Fire Department. The assessment increases each year per the Los Angeles, Anaheim and Riverside consumer Price Index. The increase was 5.4% for fiscal year 2005/2006. The assessment generated \$351,833 for the year-end June 30, 2006.

Other items impacting the 2004- 2006 budget were as follows:

- Two additional Fire Engineers
- Utility rate increases to sustain operations
- No new customers due to the water moratorium
- Completed the conversion of the parcel land data base
- CCSD wide computer and network upgrade
- Decreases in workers' compensation rates
- Increases in health cost and retirement rates
- Continued deferred maintenance in water and wastewater
- Reserves used to balance enterprise funds
- A lack of replacement reserves

A general fund function comparison between the adopted budget, amended budget, and operating results for the fiscal year end June 30, 2006 follows. The budget was adopted on May 2004, and amended at the mid-year review done January 2005.

	<u>Budgeted Amounts</u>		<u>Actual</u>	Favorable (Unfavorable) <u>Variance</u>
	<u>Originally Adopted</u>	<u>As Amended</u>		
Revenues	\$3,844,246	\$4,262,794	\$4,455,659	\$ 192,865
Expenditures				
General Government	1,201,277	1,105,123	1,190,165	(85,042)
Public Safety	1,526,029	1,579,291	1,596,558	(17,267)
Park & Recreation	149,412	226,701	507,105	(280,404)
Facilities Mgmt	339,498	403,237	374,191	29,046
Conservation Program	202,212	145,428	116,734	28,694
Capital Outlay	400,997	810,946	611,921	199,025
Debt Service	39,420	1,739	46,919	(45,180)
Total Expenditures	3,858,845	4,272,465	4,443,593	(171,128)
Excess revenues over (under) expenditures	\$ (14,599)	\$ (9,671)	\$ 12,066	\$ 21,737

As holds true for most governmental agencies, the necessity to replace aging vehicles, equipment, and infrastructure is ever looming. Funding the needs of government to continue to provide not only a high level of service but service at any level is a challenge and this is true for the CCSD, particularly in light of the deferred maintenance in recent years. There is no replacement program currently in place, but it will be included in the rate analysis for the Long-Term Financial Management Plan.

Budget to Actual Variances

General fund revenue was higher due to passage of Prop 1A as well as increased grant revenue, fees/administrative charges and investment revenue. Passage of Prop 1A enabled the CCSD to retain the increase tax revenue due to property value increases. Prior to the passage of Prop 1A, the State took a proportionate share of the increase in tax revenue.

Facilities management has the added the responsibility of maintaining more open space. The CCSD acquired a number of lots from the Land Conservancy of San Luis Obispo County under various programs administered by the conservancy. They are deeded to the CCSD with a conservation easement and must be maintained, but they do not generate corresponding revenue.

The Parks and Recreation Department has received five grants allowing for improvement to or additional open space, trails, and recreational facilities. The five grants are Marine

Terrace, Cross Town Trail, Bluff Trail, Santa Rosa Stream Bank Restoration, and Guthrie-Bianchini House and Gardens.

Capital Improvement Program

The Capital Improvement Program Budget is a plan of infrastructure improvements for the treatment and delivery of water to residents and the collection of wastewater to the sewer treatment plant. The CCSD collects revenues that are designated for infrastructure improvements. For the fiscal year end June 30, 2006, the following revenues were collected for the improvement program:

- Water Availability \$175,402
- Water Connection Fees \$ 45,070
- Sewer Availability \$113,878
- Sewer Connection Fees \$ 2,200
- Retrofit In-Lieu Fees \$ 65,613

A number of priority projects have been identified and District's staff has been focusing time and outside resources on the projects. A listing of the projects is as follows:

- Pine Knolls Tank Replacement
- 30% Design Seawater Desalinization
- Bio-Solids De-Watering
- Buildout Reduction Program
- Water Master Plan EIR
- Meter Replacement Program
- Stuart Street Tank Upgrade
- Rodeo Grounds Pump Station Replacement
- SCADA (Supervisory Control and Data Acquisition)

The Buildout Reduction Program is the nexus toward mitigating growth impacts of the seawater desalinization project. It caps development in Cambria by a lot retirement program. The CCSD has finalized a Project Cooperation Agreement with the Army Corp of Engineers to acquire a \$10.3 million grant from the federal government to build the desalination plant.

The estimated cost of the above projects far exceeds the revenues listed above, which puts a further strain on reserves. Progress work is funded from existing reserves and the Chevron settlement funds.

The East/West Ranch Pipeline project was completed in July 2005. It likewise was funded from the Chevron settlement.

Water storage is critical as it impacts the CCSD's ability to combat a fire. The CCSD currently has four storage tanks with a combined storage capacity of 983,000 gallons. All are 30-40 years old and do not meet current seismic standards. The Pine Knolls tank has a design capacity of 1 million gallons. CCSD analysis estimates Cambria needs a storage

capacity of at least 2.4 million gallons to adequately fight a fire with sufficient water pressure.

Economic Factors

Two significant factors other than general cost increases impact the financial strength of the CCSD. They are:

- Minimal impact on development fee revenue; and
- Stagnant customer base.

Cambria is a residential coastal community and does not have any industry. Commercial activity serves predominately the tourist trade. The CCSD receives no revenue generated by the tourist trade from sales tax or transient occupancy tax. Impact fee revenue would be generated from new housing and retail as well as visitor-serving commercial activity.

Section 350

In late 2000, the CCSD declared a Stage 3 Water Shortage Emergency. This ceased all development allowing only open intent to serve letters to hook up to the water and sewer system. It plugged a financial source of revenue for capital improvement projects.

The CCSD no longer receives connection and retrofit in lieu fee revenue. These are a major source of funding for infrastructure projects. Until such time as a water project is online, little revenue will be generated. The funding source for immediate projects is the Chevron settlement money.

The customer base has not grown to any significant degree. As of June 30, 2006, the CCSD had 4,001 water customer accounts. The water customer count as of June 30, 2002, was 3,946 or an increase of 55 customers, or less than 1.4% over a four-year span. With no increase in the customer base, sales revenue can only increase by rate adjustments.

Labor Costs

Labor costs, including benefits, account for approximately 50% of the CCSD's costs. Rising costs of providing health care coverage and retirement, contributed to an increase in labor cost. The CCSD has a labor association and a labor union currently operating under Memorandum of Understanding agreements. The Cambria Professional Firefighters Association has a two-year agreement that will expire on June 30, 2008. The Service Employees International Union has a one-year agreement that will expire on June 30, 2007 that covers all other non-management employees.

The Section 350 Water Moratorium inflicts revenue constraints on the CCSD. The revenue squeeze likewise makes it difficult to raise funds in the open market to fund improvement projects. Increased operating costs and deferred maintenance magnify the effects of the stagnant revenue.

Future funding needs for general government functions are ongoing equipment and technology upgrades, replacing aging fire engines, vehicles and other equipment, co-location of emergency medical services at the fire station, and permanent CCSD administration office re-location.

This page intentionally left blank.

BASIC FINANCIAL STATEMENTS

CAMBRIA COMMUNITY SERVICES DISTRICT
STATEMENT OF NET ASSETS
June 30, 2006

	Governmental Activities	Business -type Activities	Total
ASSETS			
Cash and investments	\$ 8,172,903	\$ 1,290,772	\$ 9,463,675
Receivables:			
Interest	72,692	31,940	104,632
Taxes	96,631		96,631
Note	114,469		114,469
Grants	184,697		184,697
Other	75,829	562,120	637,949
Prepaid costs	137,000		137,000
Inventory	1,504	8,628	10,132
Capital assets:			
Nondepreciable	14,727,289	7,899,789	22,627,078
Depreciable, net	1,480,872	17,266,972	18,747,844
Deferred loss on refunding, net of accumulated amortization		380,526	380,526
Total assets	25,063,886	27,440,747	52,504,633
LIABILITIES			
Accounts payable	97,727	354,247	451,974
Accrued expenses	48,788	47,037	95,825
Accrued interest payable		57,652	57,652
Department of Health Services payable		1,520,711	1,520,711
Refundable deposits	4,519	32,472	36,991
Deferred revenue	225,000		225,000
Long-term debt:			
Due in one year	43,047	375,015	418,062
Due in more than one year	266,531	5,035,289	5,301,820
Total liabilities	685,612	7,422,423	8,108,035
NET ASSETS			
Invested in capital assets, net of related debt	16,120,172	20,240,047	36,360,219
Unrestricted	8,258,102	(221,723)	8,036,379
Total net assets	\$ 24,378,274	\$ 20,018,324	\$ 44,396,598

The notes to basic financial statements are an integral part of this statement.

CAMBRIA COMMUNITY SERVICES DISTRICT
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2006

	<u>Expenses</u>	<u>Charges for Services</u>	<u>Program Revenues Operating Contributions and Grants</u>
Governmental activities:			
General government	\$ 1,237,384	\$ 765,772	\$ -
Public safety	1,727,651	83,329	73,592
Parks and recreation	508,675		
Facilities management	392,991		200,000
Conservation program	116,734	92,042	
Interest on long-term debt	5,686		
Total governmental activities	<u>3,989,121</u>	<u>941,143</u>	<u>273,592</u>
Business-type activities:			
Water	2,187,177	1,622,275	
Sewer	2,281,983	1,667,504	
Total business-type activities	<u>4,469,160</u>	<u>3,289,779</u>	
Total government	<u>\$ 8,458,281</u>	<u>\$ 4,230,922</u>	<u>\$ 273,592</u>

General Revenues

Taxes:

Property taxes and assessments

Availability charges

Franchise taxes

Investment income

Other

Total general revenues

Change in net assets

Net assets at beginning of fiscal year

Net assets at end of fiscal year

The notes to basic financial statements are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Assets			
Capital Contributions and Grants	Governmental Activities	Business-type Activities	Total
\$ -	\$ (471,612)	\$ -	\$ (471,612)
2,000	(1,568,730)		(1,568,730)
704,670	195,995		195,995
	(192,991)		(192,991)
	(24,692)		(24,692)
	(5,686)		(5,686)
<u>706,670</u>	<u>(2,067,716)</u>		<u>(2,067,716)</u>
115,612		(449,290)	(449,290)
2,200		(612,279)	(612,279)
<u>117,812</u>		<u>(1,061,569)</u>	<u>(1,061,569)</u>
<u>\$ 824,482</u>	<u>(2,067,716)</u>	<u>(1,061,569)</u>	<u>(3,129,285)</u>
	2,002,759		2,002,759
		289,280	289,280
	57,193		57,193
	262,152	182,357	444,509
	165,231		165,231
	<u>2,487,335</u>	<u>471,637</u>	<u>2,958,972</u>
	419,619	(589,932)	(170,313)
	<u>23,958,655</u>	<u>20,608,256</u>	<u>44,566,911</u>
	<u>\$ 24,378,274</u>	<u>\$ 20,018,324</u>	<u>\$ 44,396,598</u>

CAMBRIA COMMUNITY SERVICES DISTRICT
BALANCE SHEET
GOVERNMENTAL FUND
June 30, 2006

	<u>General Fund</u>
ASSETS	
Cash and investments	\$ 8,172,903
Receivables:	
Interest	72,692
Taxes	96,631
Notes	114,469
Grants	184,697
Other	75,829
Prepaid items	137,000
Inventory	<u>1,504</u>
Total assets	<u>\$ 8,855,725</u>
LIABILITIES AND FUND BALANCE	
Accounts payable	\$ 97,727
Payroll and related liabilities	48,788
Deferred revenue	271,919
Refundable deposits	<u>4,519</u>
Total liabilities	<u>422,953</u>
Fund Balance	
Fund Balance:	
Reserved:	
Reserved for inventory	1,504
Reserved for prepaid items	137,000
Reserved for notes receivable	114,469
Unreserved:	
Designated for capital projects	139,420
Undesignated	<u>8,040,379</u>
Total fund balance	<u>8,432,772</u>
Total liabilities and fund balance	<u>\$ 8,855,725</u>

The notes to basic financial statements are an integral part of this statement.

**CAMBRIA COMMUNITY SERVICES DISTRICT
RECONCILIATION OF THE GOVERNMENTAL
FUND BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
June 30, 2006**

Total Fund Balance \$ 8,432,772

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets, net of depreciation, have been included as financial resources in governmental funds activity: 16,208,161

Long-term debt and compensated absences have not been included in the governmental funds activity:

Capital lease payable (87,989)
Compensated absences (221,589)

In governmental funds, other long-term assets are not available to pay expenditures, therefore, are deferred in the funds. 46,919

Total net assets \$ 24,378,274

The notes to basic financial statements are an integral part of this statement.

CAMBRIA COMMUNITY SERVICES DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
For the Fiscal Year Ended June 30, 2006

	<u>General Fund</u>
Revenues:	
Property taxes and assessments	\$ 2,002,759
Grant income	1,027,181
Weed abatement	59,208
Franchise fees	57,193
Use of money and property	262,152
Charges for administrative services	765,772
Other revenues	<u>281,394</u>
 Total revenues	 <u>4,455,659</u>
Expenditures:	
General government	1,190,165
Public safety	1,596,558
Parks and recreation	507,105
Facilities management	374,191
Conservation program	116,734
Capital outlay	611,921
Debt service:	
Principal	41,233
Interest	<u>5,686</u>
 Total expenditures	 <u>4,443,593</u>
 Excess of revenues over (under) expenditures	 12,066
 Fund balance - beginning of fiscal year	 <u>8,420,706</u>
 Fund balance - end of fiscal year	 <u><u>\$ 8,432,772</u></u>

The notes to basic financial statements are an integral part of this statement.

CAMBRIA COMMUNITY SERVICES DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUND STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
TO THE STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2006

Net Change in Fund Balance - governmental fund	\$	12,066
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>Repayment of capital lease principal is an expenditure in the governmental funds, but the repayment reduces long- term liabilities in the statement of net assets.</p>		41,233
<p>In the statement of activities, compensated absences are measured by the amounts earned during the fiscal year. In governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially the amounts paid). This fiscal year, vacation earned was more than the amounts used by \$27,582.</p>		(27,582)
<p>In governmental funds, notes receivable are offset by deferred revenue as it is not available to pay for current period expenditures. In the statement of activities, the payment on the long-term notes are recorded as a reduction in the net asset.</p>		(46,919)
<p>Capital outlays are reported in the governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which additions to capital outlay of \$610,351 is greater than depreciation expense \$(169,530) in the period.</p>		440,821
		<hr/>
Change in net assets	\$	<u>419,619</u>

The notes to basic financial statements are an integral part of this statement.

CAMBRIA COMMUNITY SERVICES DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
GENERAL FUND
For Fiscal Year Ended June 30, 2006

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance Favorable (Unfavorable)
	Original	Final		
Revenues:				
Property taxes and assessments	\$ 1,788,890	\$ 1,888,784	\$ 2,002,759	\$ 113,975
Transit TDA grant	122,200			
Grant income	520,000	1,004,782	1,027,181	22,399
Weed abatement	47,800	59,207	59,208	1
Franchise fees	56,350	64,193	57,193	(7,000)
Use of money and property	125,200	155,099	262,152	107,053
Charges for administrative services	888,536	841,512	765,772	(75,740)
Other revenues	295,270	249,217	281,394	32,177
Total revenues	3,844,246	4,262,794	4,455,659	192,865
Expenditures:				
General government	1,201,277	1,105,123	1,190,165	(85,042)
Public safety	1,526,029	1,579,291	1,596,558	(17,267)
Parks and recreation	149,412	226,701	507,105	(280,404)
Facilities management	339,498	403,237	374,191	29,046
Conservation program	202,212	145,428	116,734	28,694
Capital outlay	400,997	810,946	611,921	199,025
Debt service:				
Principal	39,420	1,739	41,233	(39,494)
Interest			5,686	(5,686)
Total expenditures	3,858,845	4,272,465	4,443,593	(171,128)
Excess of revenues over (under) expenditures	(14,599)	(9,671)	12,066	21,737
Fund balance - beginning of fiscal year	8,420,706	8,420,706	8,420,706	
Fund balance - end of fiscal year	<u>\$ 8,406,107</u>	<u>\$ 8,411,035</u>	<u>\$ 8,432,772</u>	<u>\$ 21,737</u>

The notes to basic financial statements are an integral part of this statement.

CAMBRIA COMMUNITY SERVICES DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2006

	Business-type Activities		
	Enterprise Funds		
	Water Fund	Wastewater Fund	Totals
ASSETS			
Current Assets:			
Cash and investments	\$ 1,290,772	\$ -	\$ 1,290,772
Accrued interest receivable	31,940		31,940
Accounts receivable, net of allowance	254,121	307,999	562,120
Due from other funds	349,990		349,990
Inventory		8,628	8,628
Total current assets	1,926,823	316,627	2,243,450
Capital Assets:			
Construction in progress	5,357,804	720,558	6,078,362
Land	812,416	1,009,011	1,821,427
Plant and facilities	14,457,868	22,708,040	37,165,908
Machinery and equipment	471,431	850,432	1,321,863
Less: accumulated depreciation	(7,680,419)	(13,540,380)	(21,220,799)
Net capital assets	13,419,100	11,747,661	25,166,761
Other Assets:			
Deferred loss on refunding - net of accumulated amortization	151,601	228,925	380,526
Total assets	15,497,524	12,293,213	27,790,737

The notes to basic financial statements are an integral part of this statement.

CAMBRIA COMMUNITY SERVICES DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2006

	Business-type Activities		Totals
	Enterprise Funds		
	Water Fund	Wastewater Fund	
LIABILITIES			
Current Liabilities:			
Accounts payable	\$ 218,018	\$ 136,229	\$ 354,247
Payroll and related items	40,281	6,756	47,037
Accrued interest payable	15,664	41,988	57,652
Department of Health Services payable	1,520,711		1,520,711
Deposits	32,472		32,472
Due to other funds		349,990	349,990
Current portion of noncurrent liabilities	117,325	257,690	375,015
Total current liabilities	1,944,471	792,653	2,737,124
Noncurrent Liabilities:			
Compensated absences	45,481	57,583	103,064
Note payable, less current portion		1,355,225	1,355,225
Bonds payable, less current portion		1,860,000	1,860,000
Loan payable, less current portion	1,116,050	600,950	1,717,000
Total noncurrent liabilities	1,161,531	3,873,758	5,035,289
Total liabilities	3,106,002	4,666,411	7,772,413
Net Assets			
Invested in capital assets, net of related debt	12,337,326	7,902,721	20,240,047
Unrestricted	54,196	(275,919)	(221,723)
Total net assets	\$ 12,391,522	\$ 7,626,802	\$ 20,018,324

The notes to basic financial statements are an integral part of this statement.

CAMBRIA COMMUNITY SERVICES DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2006

	Business-type Activities		Totals
	Enterprise Funds		
	Water Fund	Wastewater Fund	
Operating Revenues:			
Utility sales	\$ 1,540,495	\$ 1,667,309	\$ 3,207,804
Service charges and fees	81,780	195	81,975
Total operating revenues	<u>1,622,275</u>	<u>1,667,504</u>	<u>3,289,779</u>
Operating Expenses:			
Salaries and wages	358,949	330,558	689,507
Payroll taxes and benefits	284,592	201,195	485,787
Maintenance and repairs	111,204	308,348	419,552
Office supplies, publications, and dues	22,299	20,121	42,420
Licenses and fees	9,535	39,343	48,878
Rent - equipment		167	167
Professional services	189,793	6,071	195,864
Operating supplies	17,502	36,034	53,536
Employee travel and training	8,504	10,201	18,705
Utilities	111,715	158,210	269,925
Bad debts	(11,494)		(11,494)
General and administrative overhead	503,704	262,068	765,772
Depreciation	444,655	659,490	1,104,145
Total operating expenses	<u>2,050,958</u>	<u>2,031,806</u>	<u>4,082,764</u>
Operating income (loss)	<u>(428,683)</u>	<u>(364,302)</u>	<u>(792,985)</u>
Non-Operating Income (Expenses):			
Interest income	138,139	44,218	182,357
Availability charges	175,402	113,878	289,280
Interest expense	(136,219)	(250,177)	(386,396)
Total non-operating revenues (expenses)	<u>177,322</u>	<u>(92,081)</u>	<u>85,241</u>
Net income (loss) before contributions	<u>(251,361)</u>	<u>(456,383)</u>	<u>(707,744)</u>
Capital contribution - connection fees	<u>115,612</u>	<u>2,200</u>	<u>117,812</u>
Change in net assets	<u>(135,749)</u>	<u>(454,183)</u>	<u>(589,932)</u>
Total net assets - beginning of fiscal year	<u>12,527,271</u>	<u>8,080,985</u>	<u>20,608,256</u>
Total net assets - end of fiscal year	<u>\$ 12,391,522</u>	<u>\$ 7,626,802</u>	<u>\$ 20,018,324</u>

The notes to basic financial statements are an integral part of this statement.

CAMBRIA COMMUNITY SERVICES DISTRICT
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2006

	Business-type Activities		
	Enterprise Funds		
	Water Fund	Wastewater Fund	Totals
Cash Flows From Operating Activities			
Receipts from customers and users	\$ 1,620,495	\$ 1,652,053	\$ 3,272,548
Payments to suppliers	(1,409,103)	(474,967)	(1,884,070)
Payments to employees	(599,902)	(519,447)	(1,119,349)
Net cash provided (used) by operating activities	<u>(388,510)</u>	<u>657,639</u>	<u>269,129</u>
Cash Flows from Capital and Related			
Financing Activities:			
Interest payments	(102,734)	(212,400)	(315,134)
Proceeds from issuance of long-term debt	1,233,375	664,125	1,897,500
Principal payments	(1,527,500)	(1,008,242)	(2,535,742)
Purchase of capital assets	(1,053,586)	(421,714)	(1,475,300)
Capital contributions	115,612	2,200	117,812
Net cash provided (used) by capital and related financing activities	<u>(1,334,833)</u>	<u>(976,031)</u>	<u>(2,310,864)</u>
Cash Flows from Non-Capital and Related			
Financing Activities:			
Availability charges	175,402	113,878	289,280
Net cash provided (used) by non-capital and related financing activities	<u>175,402</u>	<u>113,878</u>	<u>289,280</u>
Cash Flows from Investing Activities:			
Investment income	136,390	44,218	180,608
Net cash provided (used) by investing activities	<u>136,390</u>	<u>44,218</u>	<u>180,608</u>
Net increase (decrease) in cash and cash equivalents	(1,411,551)	(160,296)	(1,571,847)
Cash and cash equivalents, beginning of fiscal year	2,702,323	160,296	2,862,619
Cash and cash equivalents, end of fiscal year	<u>\$ 1,290,772</u>	<u>\$ -</u>	<u>\$ 1,290,772</u>
Reconciliation to Statement of Net Assets:			
Cash and investments	<u>\$ 1,290,772</u>	<u>\$ -</u>	<u>\$ 1,290,772</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Operating income (loss)	\$ (428,683)	\$ (364,302)	\$ (792,985)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities			
Depreciation	444,655	659,490	1,104,145
Change in operating assets and liabilities:			
(Increase) decrease in due from other funds	(297,368)		(297,368)
(Increase) decrease in accounts receivable	(12,814)	(15,451)	(28,265)
(Increase) decrease in inventory		(8,628)	(8,628)
Increase (decrease) in deposits	(460)		(460)
Increase (decrease) in accounts payable	(137,479)	76,856	(60,623)
Increase (decrease) in accrued payroll	36,265	305	36,570
Increase (decrease) in due to other funds		297,368	297,368
Increase (decrease) in compensated absences	7,374	12,001	19,375
Net cash provided (used) by operating activities	<u>\$ (388,510)</u>	<u>\$ 657,639</u>	<u>\$ 269,129</u>

The notes to basic financial statements are an integral part of this statement.

NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Cambria Community Services District (District) is a multi-purpose special district established on December 9, 1976. The District is a political subdivision of the State of California and operates under a Board of Directors-Manager form of government. The District provides fire protection, street lighting, park, recreation, open space, water, wastewater, and general administrative services.

There are no component units included in this report, which meet the criteria of Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39.

B. Basis of Accounting, Measurement Focus, and Financial Statements Presentation

The *basic financial statements* of the District are composed of the following:

- Government-wide financial statements
- Fund financial statements
- Notes to the basic financial statements

Government-wide Financial Statements

Government-wide financial statements display information about the reporting government as a whole. These statements include separate columns for the governmental activities and business-type activities of the primary government (including its blended component units), as well as its discretely presented component units. Eliminations have been made in The Statement of Activities so that certain allocated expenses are recorded only once (by the function to which they were allocated). However, general government expenses have not been allocated as indirect expenses to the various functions of the District.

Government-wide financial statements are presented using the *economic resources measurement focus* and the *accrual basis of accounting*. Under the economic resources measurement focus, all (both current and long-term) economic resources and obligations of the reporting government are reported in the government-wide financial statements. *Basis of accounting* refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Under the accrual basis of accounting, revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets, and liabilities resulting from nonexchange transaction are recognized in accordance with the requirements of GASB Statement No. 33.

Program revenues include charges for services, special assessments, and payments made by parties outside of the reporting government's citizenry if that money is restricted to a particular program. Program revenues are netted with program expenses in the statement of activities to present the net cost of each program.

Fund Financial Statements

The underlying accounting system of the District is organized and operated on the basis of separate funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Accounting, Measurement Focus, and Financial Statements Presentation (Continued)

Fund financial statements for the primary government are presented after the government-wide financial statements. These statements display information about major funds individually and nonmajor funds in the aggregate for governmental and enterprise funds.

Governmental Funds

In the fund financial statements, governmental funds are presented using the *modified - accrual basis of accounting*. Their revenues are recognized when they become *measurable* and *available* as net current assets. *Measurable* means that the amounts can be estimated, or otherwise determined. *Available* means that the amounts were collected during the reporting period or soon enough thereafter to be available to finance the expenditures accrued for the reporting period. Revenue recognition is subject to the measurable and *availability* criteria for the governmental funds in the fund financial statements. *Exchange transactions* are recognized as revenues in the period in which they are earned (i.e., the related goods or services are provided). *Locally imposed derived tax revenues* are recognized as revenues in the period in which the underlying exchange transaction upon which they are based takes place. *Imposed nonexchange* transactions are recognized as revenues in the period for which they were imposed. If the period of use is not specified, they are recognized as revenues when an enforceable legal claim to the revenues arises or when they are received, whichever occurs first. *Government-mandated and voluntary nonexchange transactions* are recognized as revenues when all applicable eligibility requirements have been met.

In the fund financial statements, governmental funds are presented using the *current financial resources measurement focus*. This means that only current assets and current liabilities are generally included on their balance sheets. The reported fund balance (net current assets) is considered to be a measure of “available spendable resources.” Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of “available spendable resources” during a period.

Non-current portions of long-term receivables due to governmental funds are reported on their balance sheets in spite of their spending measurement focus. Special reporting treatments are used to indicate, however, that they should not be considered “available spendable resources,” since they do not represent net current assets. Recognition of governmental fund type revenue represented by non-current receivables are deferred until they become current receivables. Non-current portions of other long-term receivables are offset by fund balance reserve accounts. Because of their spending measurement focus, expenditure recognition for governmental fund types excludes amounts represented by noncurrent liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities.

Amounts expended to acquire capital assets are recorded as *expenditures* in the fiscal year that resources were expended, rather than as capital assets. The proceeds of long-term debt are recorded as an *other financing sources* rather than as a fund liability. Amounts paid to reduce long-term indebtedness are reported as fund expenditures.

When both restricted and unrestricted resources are combined in a fund, expenditures/expenses are considered to be paid first from restricted resources, and then from unrestricted resources.

The District reports the following major governmental fund:

The General Fund is the primary operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.

The District reports the following major proprietary funds:

The Water Fund accounts for the activities of the District’s water operations.

The Wastewater Fund accounts for activities of the District’s sewer operations.

CAMBRIA COMMUNITY SERVICES DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2006

NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Accounting, Measurement Focus, and Financial Statements Presentation (Continued)

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The District has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes.

Proprietary funds distinguish *operating* revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services, and producing and delivering goods in connection with proprietary funds' principal ongoing operations. The principal operating revenues of the Water and Wastewater Funds are charges to customers. Operating expenses for the Water and Wastewater Funds include non-capital expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

C. Investments

Investments are stated at fair value.

D. Capital Assets

Capital assets (including infrastructure) are recorded at cost where historical records are available and at estimated original cost where no historical records exist. Contributed capital assets are valued at their estimated fair value at the date of the contribution. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and estimated useful life in excess of two years.

Capital assets include public domain (infrastructure) capital assets consisting of certain improvements including roads, streets, sidewalks, medians, and storm drains.

Capital assets used in operations are depreciated over their estimated useful lives using the straight-line method in the applicable governmental or business-type activity column in the government-wide financial statements. Depreciation is charged as an expense against operations and accumulated depreciation is reported on the respective statement of net assets. The estimated useful lives are as follows:

Equipment	3 to 10 years
Improvements	5 to 20 years

E. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

F. Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or business-type activities fund type statement of net assets. In the fund financial statements, governmental fund types report the face amount of debt issued as other financing sources.

CAMBRIA COMMUNITY SERVICES DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2006

NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Compensated Absences

It is the District’s policy to permit employees to accumulate earned but unused vacation and sick pay benefits.

Sick and vacation pay is accrued when incurred in the government-wide and proprietary fund statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

H. Fund Balance:

- Reserved Fund Balance indicates that portion of fund balance which has been legally segregated for specific purposes;
- Designated Fund Balance indicates that portion of fund balance for which the Board of Directors has made tentative plans for financial resource utilization in a future period; and
- Undesignated Fund Balance indicates that portion of fund balance which is available for budgeting in future periods.

I. Interfund Transactions

Quasi-external transactions are accounted for as revenues and expenditures. Transactions that constitute reimbursements to a fund for expenditures initially made from it that are properly applicable to another fund, are recorded as expenses/expenditures in the reimbursing fund and as reductions of expenses/expenditures in the fund that is reimbursed.

All other interfund transactions except quasi-external transactions and reimbursements, are reported as transfers. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

J. Cash Equivalents

For purposes of the statement of cash flows, the District considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

K. New Accounting Pronouncement

Governmental Accounting Standards Board Statement No. 46

For the fiscal year ended June 30, 2006, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 46, “Net Assets Restricted by Enabling Legislation – an amendment of GASB Statement No. 34”. This statement is effective for fiscal periods beginning after June 15, 2005. This Statement requires that limitations on the use of net assets imposed by enabling legislation be reported as restricted net assets. A legally enforceable enabling legislation restriction is one that a party external to the District - such as citizens, public interest groups, or the judiciary – can compel a government to honor. Implementation of GASB Statement No. 46 did not have an impact on the District’s basic financial statements for the fiscal year ended June 30, 2006.

NOTE 2 - CASH AND INVESTMENTS

The District pools idle cash from all funds for the purpose of increasing income through investment. Earnings from such investments are allocated to the respective funds on the basis of applicable cash balances of each fund.

On June 30, 2006, the District had the following cash and investments:

Pooled cash	\$ 667,679
Pooled investments	<u>8,795,996</u>
Total cash and investments	<u>\$ 9,463,675</u>

CAMBRIA COMMUNITY SERVICES DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2006

NOTE 2 - CASH AND INVESTMENTS (Continued)

Investments Authorized by the California Government Code

The table below identifies the investment types that are authorized for the District by the California Government Code. The table also identifies certain provisions of the California Government Code that address interest rate risk, credit risk, and concentration of credit risk.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	10%	5%
Bankers' Acceptances	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base value	None
Medium-Term Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Fund	N/A	10%	None
Local Agency Investment Fund (LAIF)	N/A	None	None
JPA Pools (other investment pools)	N/A	None	None

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the District manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

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

<u>Investment Type</u>	<u>Carrying Amount</u>	<u>Remaining Maturity (in Months)</u>			
		<u>12 Months Or Less</u>	<u>13-24 Months</u>	<u>25-60 Months</u>	<u>More than 60 Months</u>
LAIF	\$ 8,795,996	\$ 8,795,996	\$ -	\$ -	\$ -
Total	\$ 8,795,996	\$ 8,795,996	\$ -	\$ -	\$ -

CAMBRIA COMMUNITY SERVICES DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2006

NOTE 2 - CASH AND INVESTMENTS (Continued)

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by the California Government Code, the District's investment policy, and the actual rating as of fiscal year end for each investment type.

<u>Investment Type</u>	<u>Carrying Amount</u>	<u>Minimum Legal Rating</u>	<u>Exempt From Disclosure</u>	<u>Rating as of Fiscal Year End</u>		
				<u>AAA</u>	<u>Aa</u>	<u>Not Rated</u>
LAIF	\$ 8,795,996	N/A	\$ -	\$ -	\$ -	\$ 8,795,996
Total	\$ 8,795,996		\$ -	\$ -	\$ -	\$ 8,795,996

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. There are no investments in any one issuer that represent 5% or more of total District investments.

Custodial Credit Risk

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

None of the District's deposits with financial institutions in excess of federal depository insurance limits were held in uncollateralized accounts.

The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in government investment pools (such as LAIF).

Investment in State Investment Pool

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the District's investment in this pool is reported in the accompanying basic financial statements at the amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

CAMBRIA COMMUNITY SERVICES DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2006

NOTE 3 - PROPERTY TAXES

Property taxes in the State of California are administered for all local agencies at the county level, and consist of secured, unsecured, and utility tax rolls. The following is a summary of major policies and practices relating to property taxes:

Tax Collections - are the responsibility of the county tax collector. Taxes and assessments on secured and utility rolls which constitute a lien against the property, may be paid in two installments: the first is due on November 1 of the fiscal year and is delinquent if not paid by December 10; and the second is due on March 1 of the fiscal year and is delinquent if not paid by April 10. Unsecured personal property taxes do not constitute a lien against real property unless the taxes become delinquent. Payment must be made in one installment, which is delinquent if not paid by August 31 of the fiscal year. Significant penalties are imposed by the county for late payments.

Tax Levy Apportionments - Due to the nature of the District-wide maximum levy, it is not possible to identify general purpose tax rates for specific entities. Under state legislation adopted subsequent to the passage of Proposition 13, apportionments to local agencies are made by the county auditor-controller based primarily on the ratio that each agency represented of the total District-wide levy for the three years prior to fiscal year 1979.

Property Tax Administration Fees - The State of California FY 90-91 Budget Act, authorized counties to collect an administrative fee for collection and distribution of property taxes. Property taxes are recorded as net of administrative fees withheld during the fiscal year.

Tax Levies - are limited to 1% of full market value which results in a tax rate of \$1.00 per \$100 assessed valuation, under the provisions of Proposition 13. Tax rates for voter-approved indebtedness are excluded from this limitation.

Tax Levy Dates - are attached annually on January 1 preceding the fiscal year for which the taxes are levied. The fiscal year begins July 1 and ends June 30 of the following year. Taxes are levied on both real and unsecured personal property as it exists at that time. Liens against real estate, as well as the tax on personal property, are not relieved by subsequent renewal or change in ownership.

Property Valuations - are established by the Assessor of the County of San Luis Obispo for the secured and unsecured property tax rolls; the utility property tax roll is valued by the State Board of Equalization. Under the provisions of Article XIII A of the State Constitution (Proposition 13 adopted by the voters on June 6, 1978) properties are assessed at 100% of full value. From the base assessment, subsequent annual increases in valuation are limited to a maximum of 2%. However, increases to full value are allowed for property improvements or upon change in ownership. Personal property is excluded from these limitations, and is subject to annual reappraisal.

NOTE 4- NOTES RECEIVABLE

The District has recorded a note receivable for \$93,838. Chevron-Texaco agreed to reimburse the District for the purchase of a 2002 Kenworth Dryside Tanker. The District has deferred \$46,919 of the note as it has not met the revenue recognition criteria under the modified accrual basis of accounting as discussed in Note 1.

The District has recorded a note receivable for \$20,631. The Cambria Tennis Club has agreed to pay the District \$20,631 to reimburse the District for tennis court construction. The interest free note is due in annual installments of \$5,000 with the first payment due on September 1, 2007.

CAMBRIA COMMUNITY SERVICES DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2006

NOTE 5 – CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2006, was as follows:

	<u>Balance</u> <u>July 1, 2005</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2006</u>
Governmental activities				
Nondepreciable capital assets				
Land	\$12,714,864	\$ -	\$ -	\$ 12,714,864
Construction in progress	<u>1,550,382</u>	<u>462,043</u>	<u> </u>	<u>2,012,425</u>
Total nondepreciable capital assets	<u>14,265,246</u>	<u>462,043</u>	<u> </u>	<u>14,727,289</u>
Depreciable capital assets:				
Buildings and improvements	\$ 1,794,453	\$ -	\$ -	\$ 1,794,453
Equipment	<u>1,018,976</u>	<u>148,308</u>	<u> </u>	<u>1,167,284</u>
Total depreciable capital assets	2,813,429	148,308	<u> </u>	2,961,737
Less accumulated depreciation	<u>(1,311,335)</u>	<u>(169,530)</u>	<u> </u>	<u>1,480,865</u>
Net depreciable capital assets	<u>1,502,094</u>	<u>(21,222)</u>	<u> </u>	<u>1,480,872</u>
Net capital assets	<u>\$15,767,340</u>	<u>\$ 440,821</u>	<u>\$ -</u>	<u>\$ 16,208,161</u>
	<u>Balance</u> <u>July 1, 2005</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2006</u>
Business-type activities				
Nondepreciable capital assets				
Land	\$ 1,821,427	\$ -	\$ -	\$ 1,821,427
Construction in progress	<u>6,045,428</u>	<u>1,475,300</u>	<u>1,442,366</u>	<u>6,078,362</u>
Total nondepreciable capital assets	<u>7,866,855</u>	<u>1,475,300</u>	<u>1,442,366</u>	<u>7,899,789</u>
Depreciable capital assets:				
Plant and facilities	35,723,542	1,442,366	<u> </u>	37,165,908
Machinery and equipment	<u>1,321,863</u>	<u> </u>	<u> </u>	<u>1,321,863</u>
Total depreciable capital assets	37,045,405	1,442,366	<u> </u>	38,487,771
Less accumulated depreciation	<u>(20,116,654)</u>	<u>(1,104,145)</u>	<u> </u>	<u>(21,220,799)</u>
Net depreciable capital assets	<u>16,928,751</u>	<u>338,221</u>	<u> </u>	<u>17,266,972</u>
Net capital assets	<u>\$24,795,606</u>	<u>\$ 1,813,521</u>	<u>\$1,442,366</u>	<u>\$ 25,166,761</u>

NOTE 6 – LONG-TERM DEBT

1995 Revenue Bond

Water and wastewater revenue bonds totaling \$3,795,000 were issued on August 1, 1995, with interest rates ranging from 3.75 to 6.10 percent. The revenue bonds were allocated 65% to the water fund and 35% to the wastewater fund. On February 17, 2006, the outstanding balance of the bonds in the amount of \$2,350,000 were defeased.

CAMBRIA COMMUNITY SERVICES DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2006

NOTE 6 – LONG-TERM DEBT (Continued)

Loan Payable

On February 17, 2006, the District entered into a loan agreement for \$1,897,500 with the Municipal Finance Corporation to advance refund its 1995 water and wastewater bonds. The interest rate on the loan is 4.5%. The loan is allocated 65% to water operations and 35% to wastewater operations. The balance of the loan payable at June 30, 2006, is \$1,897,500.

The loan matures on May 1st of the following fiscal years through 2015, as follows:

Fiscal Year Ending <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 180,500	\$ 102,939	\$ 283,439
2008	206,100	77,265	283,365
2009	215,300	67,990	283,290
2010	225,100	58,302	283,402
2011	235,200	48,173	283,373
2012-2015	<u>835,300</u>	<u>81,968</u>	<u>917,268</u>
Totals	<u>\$ 1,897,500</u>	<u>\$ 436,637</u>	<u>\$ 2,334,137</u>

1999 Revenue Bond

Wastewater revenue bonds totaling \$2,245,000 were issued on October 5, 1999, with interest rates ranging from 3.5 to 5.7 percent. At June 30, 2006, the revenue bonds principal balance outstanding was \$1,925,000.

The bonds mature on May 1st of the following fiscal years through 2025, as follows:

Fiscal Year Ending <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 65,000	\$ 103,090	\$ 168,090
2008	65,000	100,198	165,198
2009	65,000	97,240	162,240
2010	70,000	94,082	164,082
2011	75,000	90,582	165,582
2012-2016	430,000	390,030	820,030
2017-2021	565,000	251,873	816,873
2022-2025	<u>590,000</u>	<u>69,925</u>	<u>659,925</u>
Totals	<u>\$ 1,925,000</u>	<u>\$ 1,197,020</u>	<u>\$ 3,122,020</u>

Note Payable

A State Water Resource Control Board (SWRCB) note payable totaling \$2,512,330 was issued on September 13, 1994, with an interest rate at 3 percent. At June 30, 2006, the note payable principal balance outstanding was \$1,484,740.

CAMBRIA COMMUNITY SERVICES DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2006

NOTE 6 – LONG-TERM DEBT (Continued)

Note Payable (Continued)

The note payments are due annually on May 28th of the following fiscal years through 2016, as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2007	\$ 129,515	\$ 44,542	\$ 174,057
2008	133,400	40,657	174,057
2009	137,402	36,655	174,057
2010	141,524	32,533	174,057
2011	145,770	28,287	174,057
2012-2016	<u>797,129</u>	<u>73,156</u>	<u>870,285</u>
Totals	<u>\$ 1,484,740</u>	<u>\$ 255,830</u>	<u>\$ 1,740,570</u>

Capital Lease Payable

The District entered into a capital lease agreement on November 7, 2002, with OshKosh Capital for the purchase of a 2002 Kenworth Dryside Tanker. The terms of the lease are for five annual payments of \$46,919, commencing November 7, 2003, with an interest rate of 4.40%. At June 30, 2006, the capital lease principal balance outstanding was \$87,989. As part of the MTBE settlement, Chevron-Texaco has agreed to reimburse the District the payments associated with the capital lease. See Note 4, for further details. The lease payments are due annually on November 7th, until 2007 as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2007	\$ 43,047	\$ 3,872	\$ 46,919
2008	<u>44,942</u>	<u>1,977</u>	<u>46,919</u>
Totals	<u>\$ 87,989</u>	<u>\$ 5,849</u>	<u>\$ 93,838</u>

Future debt service payments:

Fiscal Year Ending June 30,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2007	\$ 43,047	\$ 3,872	\$ 375,015	\$ 250,571
2008	44,942	1,977	404,500	218,120
2009			417,702	201,885
2010			436,624	184,917
2011			455,970	167,042
2012-2016			2,062,429	545,154
2017-2021			565,000	251,873
2022-2025			<u>590,000</u>	<u>69,925</u>
Total	<u>\$ 87,989</u>	<u>\$ 5,849</u>	<u>\$ 5,307,240</u>	<u>\$ 1,889,487</u>

CAMBRIA COMMUNITY SERVICES DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2006

NOTE 6 – LONG-TERM DEBT (Continued)

Changes in long-term liabilities

The following is a summary of long-term liabilities activity for the fiscal year ended June 30, 2006:

	Balance July 1, 2005	Additions	Reductions	Balance June 30, 2006	Due Within One Year
Governmental activities:					
Capital lease	\$ 129,222	\$ -	\$ 41,233	\$ 87,989	\$ 43,047
Compensated absences	194,007	34,916	7,334	221,589	
Governmental activity Long-term liabilities	<u>\$ 323,229</u>	<u>\$ 34,916</u>	<u>\$ 48,567</u>	<u>\$ 309,578</u>	<u>\$ 43,047</u>
Business-type activities:					
Bonds payable	\$ 4,335,000	\$ -	\$ 2,410,000	\$ 1,925,000	\$ 65,000
Loan payable		1,897,500		1,897,500	180,500
Note payable	1,610,482		125,742	1,484,740	129,515
Compensated absences	83,689	19,375		103,064	
Business-type activity long-term liabilities	<u>\$ 6,029,171</u>	<u>\$ 1,916,875</u>	<u>\$ 2,535,742</u>	<u>\$ 5,410,304</u>	<u>\$ 375,015</u>

NOTE 7 – DEFEASED DEBT

On February 17, 2006, the District defeased the 1995 Revenue Bonds. The District placed \$2,417,216 in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1995 Revenue Bonds. The bonds are considered to be defeased and the related liability has been removed from the financial statements. The amount of bonds considered defeased at June 30, 2006 is \$0 as the bonds were paid in full on May 1, 2006. The economic gain resulting from the refunding was \$174,494 and the District recognized a loss on refunding of \$61,061, which is being amortized through May 15, 2015.

NOTE 8 - DISTRICT EMPLOYEES' RETIRMENT PLAN/DEFINED BENEFIT PENSION PLAN (FULL TIME EMPLOYEES)

Plan Description

The Cambria Community Services District's (the District) defined benefit pension plan, Public Employees' Retirement System (PERS), provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The PERS is part 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 with the Public Employees' Retirement Law. The District selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through local ordinance (other local methods). 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

Active plan members in the PERS are required to contribute 7% for miscellaneous members or 9% for safety members of their annual covered salary. The District makes the contributions required of District employees on their behalf and for their account. The District is required to contribute 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 rate of fiscal 2005/2006 was 22.874% for miscellaneous employees and 36.219% for safety employees. The contribution requirements of the plan members are established by State statute and employer contribution rate established may be amended by CalPERS.

CAMBRIA COMMUNITY SERVICES DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2006

NOTE 8 - DISTRICT EMPLOYEES' RETIRMENT PLAN/DEFINED BENEFIT PENSION PLAN (FULL TIME EMPLOYEES') (Continued)

Annual Pension Cost

For fiscal year 2005/2006, the District's annual pension cost was \$513,579, and the District actually contributed \$513,579. The required contribution for fiscal year 2005/2006 was determined as part of the June 30, 2003 actuarial valuation using the entry age normal actuarial cost method with the contributions determined as a percent of pay. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses); (b) projected salary increases that vary by duration of service, and (c) no cost-of-living adjustment. Both (a) and (b) include an inflation component of 3.0%. The actuarial value of the District's assets was determined using a technique that smoothes the effect of short-term volatility in the market value of investments over a two to five year period depending on the size of investment gains and/or losses. The Cambria Community Services District's unfunded actuarial accrued liability (or excess assets) is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2005, was 17 years.

Three Year Trend Information for the Cambria Community Services District Public Employees' Retirement Plan

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contribution	Net Pension Obligation
6/30/04	\$ 203,701	100%	\$ 0
6/30/05	\$ 318,003	100%	\$ 0
6/30/06	\$ 513,579	100%	\$ 0

Required Supplementary Information

Funded Status of Miscellaneous Plan (Pool)

Valuation Date	Entry Age Normal Accrued Liability (a)	Actuarial Value of Assets (b)	Unfunded Liability (Excess Assets) (a)-(b)	Funded Status (b)/(a)	Annual Covered Payroll (c)	UAAL As of % of Payroll ((a)-(b))/(c)
6/30/03	\$335,029,580	\$270,886,705	\$64,142,875	80.9%	\$ 75,357,937	85.1%
6/30/04	\$426,958,282	\$324,956,019	\$92,002,263	78.5%	\$ 90,667,029	101.5%
6/30/05	\$499,323,280	\$405,480,805	\$93,842,475	81.2%	\$108,618,321	86.4%

Required Supplementary Information

Funded Status of Safety Plan (Pool)

Valuation Date	Entry Age Normal Accrued Liability (a)	Actuarial Value of Assets (b)	Unfunded Liability (Excess Assets) (a)-(b)	Funded Status (b)/(a)	Annual Covered Payroll (c)	UAAL As of % of Payroll ((a)-(b))/(c)
6/30/03	\$4,270,573,982	\$3,577,742,166	\$ 692,831,816	83.8%	\$476,089,674	145.5%
6/30/04	\$5,383,921,942	\$4,424,586,846	\$ 959,335,096	82.2%	\$575,296,434	166.8%
6/30/05	\$6,367,049,264	\$5,295,150,375	\$1,071,898,889	83.2%	\$664,147,796	161.4%

CAMBRIA COMMUNITY SERVICES DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2006

NOTE 9 – JOINT POWERS AGENCIES

The Cambria Community Services District participates in a joint venture under a Joint Power Agency (JPA), the Special District Risk Management Authority (SDRMA). The SDRMA was established to provide general liability, automobile, errors and omission, and property loss coverage to special districts. The SDRMA is administered by a Board of Directors, consisting of two members appointed by the California Special Districts Association and five members elected by the districts participating. The Board is responsible for establishing premium rates and making budgeting decisions.

Coverage under current policies it includes property loss, general liability, auto liability and comprehensive/collision, and public officials' and employees' errors and omissions. Claims over the self-insured amounts are covered by the SDRMA within the limits of the policy. Each member district is assessed a premium in accordance with the JPA agreement creating the agency.

Condensed financial information for the SDRMA for the fiscal year ended June 30, 2005*, is as follows:

Total assets	\$ 42,332,618
Total liabilities	<u>24,871,468</u>
Fund equity	<u>\$ 17,461,150</u>
Total operating revenues	\$ 19,383,296
Total operating expenditures	<u>16,937,747</u>
Net increase	<u>\$ 2,445,579</u>

* Latest fiscal year available

The District is also participating in two separate Joint Powers Agencies. The first is an agreement with the City of Morro Bay, the Cayucos Fire District, and the South Bay Fire Department to operate an air fill compressor station for the respective fire departments. The District pays their share of the member contributions due on an annual basis, not to exceed \$1,000 per year. There is no contingent liability for the District at June 30, 2005.

The second is an agreement with the Coast Unified School District (CUSD) to operate the Santa Rosa Creek Well #4, the CUSD water well, pump, and distribution facilities for the purpose of securing the conveying groundwater. The District pays CUSD \$26,000 per year for the easement and access to the site operation and maintenance repairs. The total cost of the 10 year agreement is \$266,000. The first payment of \$32,000, was made in December 2000.

NOTE 9 – DEPARTMENT OF HEALTH SERVICES PAYABLE

The District received monies from the Department of Health Services (DOHS) for the construction of the SR-4 Emergency Well Project. There is no formal agreement schedule, nor any interest rate terms in the agreement, however, the money is due back to DOHS upon receipt of the Chevron-Texaco settlement, which was received in the 03-04 fiscal year.

NOTE 10 – NET ASSETS

The government-wide activity and proprietary fund financial statements utilize a net assets presentation. Net assets are categorized as invested capital assets (net of related debt), restricted and unrestricted.

Invested In Capital Assets, Net of Related Debt – This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of these assets reduce the balance in this category.

Restricted Net Assets – This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Assets – This category represents net assets of the District, not restricted for any project or other purpose.

CAMBRIA COMMUNITY SERVICES DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2006

NOTE 11 - INTERFUND TRANSACTIONS

Interfund transactions are reported as either loans, services provided, reimbursements, or transfers. Loans are reported as interfund receivables and payables, as appropriate, and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers.

Due From/Due to Other Funds

Individual fund interfund receivable and payable balances at June 30, 2006, are as follows:

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Water	\$ 349,990	\$ -
Wastewater	<u> </u>	<u>349,990</u>
Totals	<u>\$ 349,990</u>	<u>\$ 349,990</u>

NOTE 12- DEFICIT SPENDING

The District in the past fiscal year incurred significant losses in the Enterprise Funds (Water and Wastewater). The Water Fund realized a deficit change in net assets of \$135,749 and the Wastewater Fund \$454,183. If the District continues to incur these deficits it will be unable to meet their ongoing obligations.

To address the deficit spending condition, the District contracted with an outside consultant in May, 2006 to prepare a comprehensive cost of service study of its water and wastewater utilities. The data obtained by the study will be incorporated in a long-range financial plan that will be used to revise the current rate structure such that the existing deficit situation is corrected and future rates can be determined to avoid similar deficit conditions.