

BELLA VISTA WATER DISTRICT
FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2007 AND 2006

TABLE OF CONTENTS

	Page No.
INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
BASIC FINANCIAL STATEMENTS	
Statements of Net Assets, June 30, 2007 and 2006	7
Statements of Revenues, Expenses and Changes in Net Assets, Years Ended June 30, 2007 and 2006.....	9
Statements of Cash Flows, Years Ended June 30, 2007 and 2006.....	11
Notes to the Financial Statements, June 30, 2007 and 2006	13
SUPPLEMENTARY INFORMATION	
Schedule of Expenditures of Federal Awards	34
INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards.....	35
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	37
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	39
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS	40

INDEPENDENT AUDITORS' REPORT

Board of Directors
Bella Vista Water District
Redding, California

We have audited the accompanying basic financial statements of Bella Vista Water (District) as of and for the years ended June 30, 2007 and 2006, which comprise the District's basic financial statements as listed in the table of contents. 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 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 the State Controller's Minimum Audit Requirements and Reporting Guidelines for California Special Districts. 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 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, 2007 and 2006, and the changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted 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 our report dated November 3, 2007, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages 3 through 6, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. 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 also not a required part of the basic financial statements of the District. The schedule of expenditures of federal awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Nystrom & Company LLP

November 3, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Bella Vista Water District, we offer readers of the District's financial statement this narrative overview and analysis of the financial activities of the District for fiscal year ended June 30, 2007. The management discussion and analysis is designed to: 1) assist the reader in focusing on significant financial issues, 2) provide an overview of the District's financial activity, and 3) identify changes in the District's financial position. Please read and review it in conjunction with the District's financial statements and accompanying notes.

FINANCIAL HIGHLIGHTS

- The net assets of the District at the close of the fiscal year total \$21,522,481. Of this amount, \$5,385,319 (unrestricted net assets) may be used to meet the government's ongoing obligations.
- Total operating revenue reached \$5,793,131 total operating costs and expenses were \$4,704,384 and the net revenues debt service coverage rate of 6.74% meets the required 1.20% by the 1996 Sales Agreement debt.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's annual financial report is comprised of three components: 1) management's discussion and analysis (this section), 2) financial statements, and 3) notes to the financial statements.

The financial statements provide both long-term and short-term information about the District's overall financial status along with providing the readers with a broad overview in a manner similar to a private-section business. The financial statements also include notes that are essential to fully understand the data provided in the financial statements. The notes to the financial statements can be found in this report and explain some of the information in the financial statements and provide more detailed data.

The District maintains an Enterprise fund which is used to account for its water funds. Various accounts are established within the fund. These accounts are utilized as the accounting device for allocations.

BELLA VISTA WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2007

The District's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units on an accrual basis. Under this basis, revenues are recognized in the period in which they are earned, expenses are recognized in the period in which they are incurred, and depreciation of assets is recognized in the Statement of Revenues, Expenses, and Changes in Net Assets. All assets and liabilities associated with the operation of the District are included in the Statement of Net Assets.

The Statement of Net Assets presents the financial position of the District on a full accrual historical cost basis and provides information about the nature and amount of resources and obligations at year-end.

Net Assets

The following table summarizes the changes between June 30, 2007 and 2006:

	<u>2007</u>	<u>2006</u>	<u>% Change</u>
Current assets	\$ 5,700,805	\$ 4,272,078	33.44%
Restricted assets	2,050,106	1,363,500	50.36%
Capital assets	27,051,490	26,151,464	3.44%
Other assets	<u>413,785</u>	<u>444,183</u>	-6.84%
Total assets	<u>35,216,186</u>	<u>32,231,225</u>	9.26%
Long-term debt	12,645,118	11,890,077	6.35%
Other liabilities	<u>1,048,587</u>	<u>1,136,607</u>	-7.74%
Total liabilities	<u>13,693,705</u>	<u>13,026,684</u>	5.12%
Net assets invested in capital, net of related debt	14,087,056	13,955,272	0.94%
Restricted	2,050,106	1,363,500	50.36%
Unrestricted	<u>5,385,319</u>	<u>3,885,769</u>	38.59%
Total net assets	<u>\$ 21,522,481</u>	<u>\$ 19,204,541</u>	12.07%

The increase of net assets at June 30, 2007 was \$2,317,940 or approximately 12% higher than at June 30, 2006. The largest portion of the District's net assets (65.45 percent) reflects its investment in capital assets (e.g., land, building, machinery and equipment), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

BELLA VISTA WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2007

Changes in Net Assets

The following table summarizes the changes between June 30, 2007 and 2006:

	<u>2007</u>	<u>2006</u>	<u>% Change</u>
Operating revenues	\$ 5,793,131	\$ 5,411,588	7.05%
Operating costs and expenses:			
Operating expenses	4,075,957	4,211,684	-3.22%
Depreciation	<u>628,427</u>	<u>624,892</u>	.57%
Total operating expenses	<u>4,704,384</u>	<u>4,836,576</u>	-2.73%
Operating income (loss)	1,088,747	575,012	89.34%
Net non-operating revenue (expenses)	738,324	(55,177)	1,438.10%
Capital contributions	<u>490,869</u>	<u>397,413</u>	23.52%
Change in net assets	2,317,940	917,248	152.71%
Total net assets, beginning of year	<u>19,204,541</u>	<u>18,287,293</u>	5.02%
Total net assets, end of year	\$ <u>21,522,481</u>	\$ <u>19,204,541</u>	12.07%

At the end of the current fiscal year, the District is able to report a positive balance in net assets. As stated previously, net assets increased at June 30, 2007 by \$2,317,940 or 12.07% higher than at June 30, 2006. The major factor attributable to the increase of net assets was an increase in land valuation which created additional assessment revenue and the return of the Proposition 1A monies that were previously taken by the State of California.

CAPITAL ASSET AND DEBT ADMINISTRATION

As of June 30, 2007, the District's investment in capital assets was \$27,051,490 (net of accumulated depreciation). This amount represents a net increase of \$900,026 or 3.44% over June 30, 2006.

The following table summarizes the changes in net capital assets between 2007 and 2006:

	<u>2007</u>	<u>2006</u>	<u>% Change</u>
Land and land improvements	\$ 95,064	\$ 95,064	0.00%
Buildings	540,260	537,424	0.05%
Land improvements	106,469	106,469	0.00%
Water system	25,741,652	25,248,082	1.95%
General plant equipment	1,310,725	1,161,475	12.85%
Office furniture and equipment	284,428	284,428	0.00%
Filter plant improvements	483,003	483,003	0.00%
Construction in progress	10,238,276	9,381,368	9.13%
Less accumulated depreciation	<u>(11,748,387)</u>	<u>(11,145,849)</u>	5.41%
Total net capital assets	\$ <u>27,051,490</u>	\$ <u>26,151,464</u>	3.44%

BELLA VISTA WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2007

Major capital asset events that occurred during the current fiscal year included the construction of the Water Treatment Plant Improvements.

Debt Administration

Long-term debt includes the repayment of the following obligations: United States Department of the Interior, 1996 Installment Sale Agreement and the 1915 Act Special Assessment Bonds and the newest debt issuance from the State of California. Due to the State borrowing, the debt increased in the current fiscal year, however principal reductions to the previous borrowing did decrease those specifically. More detailed information about the debt of the District is set forth in the Notes to the Financial Statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The assessed valuation within the District increased \$51.2 million or 10.47% in 2007 or in the current tax year. Total assessed valuation for 2006 was \$489,298,172 and increased to \$540,536,327 in the current tax year. Inflationary trends and the unemployment rate for the County of Shasta were considered in preparing the District's budget for the 2007-2008 fiscal year. In addition, the District has prepared a 20 year Extraordinary Operations and Maintenance Replacement (EOMR) schedule that will assist in maintaining the budget and to be able to plan for these costs. This budget includes a total of \$6,139,200 in revenue which consists of water sales, county taxes and other funds available for use. The operating budget includes expenses in the amount of \$6,139,200, a decrease of \$35,159 from 2006-2007 fiscal year budget of \$6,174,359 or 0.50%. The District also adopted the 2007-2008 Capital Budget on June 30, 2007 and a Debt Service schedule.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

The financial report is designed to provide a general overview of the District's finances for all those with an interest. Questions concerning any of the information provided in this report or questions for additional financial information should be addressed to the Office Manager, Bella Vista Water District, 11368 E. Stillwater Way, Redding, California 96003 or by calling (530) 241-1085.

BELLA VISTA WATER DISTRICT
 STATEMENTS OF NET ASSETS

	June 30,	
	2007	2006
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 4,875,910	\$ 3,388,055
Cash in Shasta County Treasury	95,005	91,730
Trade accounts receivable, net	600,396	578,943
1915 Act special assessment bonds receivable - current	2,500	2,500
Inventories	23,652	83,660
Deposits and prepaid expenses	103,342	127,190
Total current assets	5,700,805	4,272,078
Restricted Assets:		
Cash and cash equivalents:		
Department of Interior note reserve	67,989	65,448
Capital improvement funds	617,559	466,377
Water treatment plant improvement funds	1,209,494	770,296
Palo Cedro special projects	148,152	49,972
1996 Redemption fund	6,912	11,407
Total restricted assets	2,050,106	1,363,500
Capital Assets:		
Non-depreciable land and construction in progress	10,333,340	9,476,432
Depreciable capital assets, net	16,718,150	16,675,032
Total capital assets	27,051,490	26,151,464
Other Assets:		
Deferred loss on advance refunding	238,622	266,520
1915 Act special assessment bonds receivable - non-current	175,163	177,663
Total other assets	413,785	444,183
Total assets	35,216,186	32,231,225

(Continued on following page)

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

BELLA VISTA WATER DISTRICT
 STATEMENTS OF NET ASSETS

	June 30,	
	<u>2007</u>	<u>2006</u>
LIABILITIES		
Current Liabilities:		
Accounts payable	\$ 325,425	\$ 471,256
Deposits held	13,568	12,595
Accrued wages	2,117	50,380
Accrued interest	182,681	84,994
Accrued benefits and compensated absences	205,480	211,267
Current maturities of long-term debt	319,316	306,115
Total current liabilities	<u>1,048,587</u>	<u>1,136,607</u>
Long-term Debt, Net of Current Maturities	<u>12,645,118</u>	<u>11,890,077</u>
Total liabilities	<u>13,693,705</u>	<u>13,026,684</u>
NET ASSETS:		
Invested in capital assets, net of related debt	14,087,056	13,955,272
Restricted net assets	2,050,106	1,363,500
Unrestricted net assets	5,385,319	3,885,769
Total net assets	<u>\$ 21,522,481</u>	<u>\$ 19,204,541</u>

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

BELLA VISTA WATER DISTRICT
 STATEMENTS OF REVENUES, EXPENSES
 AND CHANGES IN NET ASSETS

	Years Ended June 30,	
	2007	2006
OPERATING REVENUES		
Sale of water:		
Residential	\$ 1,384,082	\$ 1,264,728
Commercial and industrial	179,687	158,869
Rural	955,583	674,650
Agricultural	246,678	325,048
Public institution	238,987	211,007
Aquaculture	16,805	32,493
Net change in unbilled water sales	-	49,950
New meters	12,693	34,563
New services	9,501	29,507
New hydrants	-	20,200
Cross connects	14,278	11,786
Special assessment	1,793,959	1,655,827
Capital improvement fees	796,857	862,886
CVP restoration fees and other charges	144,021	80,074
Total operating revenues	5,793,131	5,411,588
OPERATING EXPENSES		
Wages and salaries	1,315,547	1,392,424
Water purchases	509,397	668,368
Depreciation	628,427	624,892
Payroll taxes and benefits	914,163	968,870
Repairs and maintenance	400,161	213,558
Tools and supplies	24,933	31,396
Equipment rental	3,953	3,513
Chemicals and lab services	112,071	116,830
Utilities and communications	279,810	350,071
Legal and professional	218,428	150,038
General and administrative expenses	97,970	76,491
Insurance	74,176	113,426

(Continued on following page)

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

BELLA VISTA WATER DISTRICT
 STATEMENTS OF REVENUES, EXPENSES
 AND CHANGES IN NET ASSETS

	Years Ended June 30,	
	2007	2006
OPERATING EXPENSES (Continued)		
Office supplies	39,876	45,731
Education and training	13,574	13,773
Memberships and dues	16,396	17,186
Transportation	44,442	38,386
Janitorial	6,421	8,009
Directors fees	4,639	3,614
	4,704,384	4,836,576
INCOME FROM OPERATIONS	1,088,747	575,012
NON-OPERATING REVENUES (EXPENSES)		
County tax allocation	591,373	79,075
Interest income	296,787	67,894
Interest expense	(203,954)	(274,392)
Gain (loss) on disposal of fixed assets	1,629	5,150
Miscellaneous income	52,489	67,096
	738,324	(55,177)
CAPITAL CONTRIBUTIONS	490,869	397,413
CHANGE IN NET ASSETS	2,317,940	917,248
NET ASSETS, BEGINNING OF YEAR	19,204,541	18,287,293
NET ASSETS, END OF YEAR	\$ 21,522,481	\$ 19,204,541

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

BELLA VISTA WATER DISTRICT
 STATEMENTS OF CASH FLOWS

	Years Ended June 30,	
	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	\$ 3,978,692	\$ 3,659,199
Cash received from special and county tax assessment	1,796,459	1,658,327
Cash paid to suppliers	(1,903,583)	(1,551,801)
Cash paid to employees	(2,288,399)	(2,318,408)
Net cash provided by operating activities	1,583,169	1,447,317
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Cash received from county tax allocation	591,373	79,075
Other	52,489	67,096
Net cash provided by noncapital financing activities	643,862	146,171
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition and construction of capital assets	(850,621)	(5,743,865)
Proceeds from capital grant	25,000	-
Proceeds from long-term debt	1,074,357	5,478,040
Proceeds from the sale of capital assets	1,629	8,323
Principal payments on long-term debt	(306,115)	(288,666)
Interest paid on long-term debt	(290,332)	(328,778)
Net cash used in capital and related financing activities	(346,082)	(874,946)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest received	296,787	67,894
Net cash provided by investing activities	296,787	67,894
NET CHANGE IN CASH AND CASH EQUIVALENTS	2,177,736	786,436
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	4,843,285	4,056,849
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 7,021,021	\$ 4,843,285

(Continued on following page)

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

BELLA VISTA WATER DISTRICT
 STATEMENTS OF CASH FLOWS

	Years Ended June 30,	
	<u>2007</u>	<u>2006</u>
SCHEDULE OF NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES:		
Developers' contributions (contributed capital)	<u>\$ 465,869</u>	<u>\$ 397,413</u>
COMPONENTS OF CASH AND CASH EQUIVALENTS:		
Cash and cash equivalents	\$ 4,875,910	\$ 3,388,055
Cash in Shasta County Treasury	95,005	91,730
Restricted cash and cash equivalents:		
Department of Interior note reserve	67,989	65,448
Capital improvement funds	617,559	466,377
Water treatment plant improvements funds	1,209,494	770,296
Palo Cedro storage improvement funds	148,152	49,972
1996 Redemption fund	6,912	11,407
Total cash and cash equivalents	<u>\$ 7,021,021</u>	<u>\$ 4,843,285</u>
RECONCILIATION OF INCOME FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Income from operations	<u>\$ 1,088,747</u>	<u>\$ 575,012</u>
Adjustments to reconcile income from operations to net cash provided by operating activities:		
Depreciation	628,427	624,892
(Increase) decrease in assets:		
Trade accounts receivable, net	(21,453)	(98,540)
1915 Act special assessment bonds receivable	2,500	2,500
Inventories	60,008	(2,682)
Deposits and prepaid expenses	23,848	46,552
Increase (decrease) in liabilities:		
Accounts payable	(145,831)	251,105
Deposits held	973	1,978
Accrued wages	(48,263)	2,221
Accrued benefits and compensated absences	(5,787)	44,279
Total adjustments	<u>494,422</u>	<u>872,305</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 1,583,169</u>	<u>\$ 1,447,317</u>

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

BELLA VISTA WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

The District, a California water district, was formed on June 17, 1957, and was organized as a water district under Division 13 of the Water Code of the State of California. The District's purposes are limited to, "produce, store, and distribute water for irrigation, domestic, industrial and municipal purposes and reclaim lands incidental thereto or connected therewith."

The District operates under an elected Board of Directors. The accounting methods and procedures adopted by the District conform to generally accepted accounting principles (GAAP) as applied to government entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Consistent with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the District has elected to apply all Financial Accounting Standards Board (FASB) Statements and Interpretations issued after November 30, 1989, except those that conflict with or contradict GASB pronouncements. These financial statements present the District and its component units, entities for which the government is considered to be financially accountable under the criteria set by GASB Statement No. 14 and No. 39.

Reporting for component units on the District's financial statements can be blended or discretely presented. Blended component units, although legally separate entities are, in substance, part of the District's operations. Blended component units are an extension of the District and so data from these units are combined with data of the District. Discretely presented component units, on the other hand, are reported in a separate column in the financial statements to emphasize they are legally separate from the District.

The Bella Vista Capital Improvement Authority is governed by the District's Board of Directors, hence, the authority is presented by blending it with the District. There are no discretely presented component units of the District.

In accordance with generally accepted accounting principles, the financial statements of the District do not include the transactions of the 81-1, 86-1, and 86-2 Assessment Districts' special assessment funds. However, they do include the transactions of the Logan Road Special Assessment District.

(Continued on following page)

BELLA VISTA WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

BASIS OF ACCOUNTING

The District's activities are accounted for as an enterprise fund (a business-type activity) and the accounting records are maintained on the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

CASH AND CASH EQUIVALENTS

Cash includes amounts in demand deposits as well as short-term investments with a maturity date from three months to one year of the date acquired by the District.

State statutes authorize the District to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds and repurchase agreements.

The District reports its investments in external investment pools at market value and the related realized and unrealized gains and losses in the statement of revenues and expenses. Investments in certificates of deposits and investments with remaining maturities of 90 days or less at the date of the financial statement are reported at amortized cost. The fair market value of investments are determined based on quoted market values, or on fair value as provided by the investment trustee, except time deposits, repurchase agreements, reverse repurchase agreements and AB 55 and General Fund loans which are valued at amortized cost.

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

ACCOUNTS RECEIVABLE

Receivables represent revenues earned but not collected. Receivables are uncollateralized and are valued at cost. Any losses on uncollectible accounts receivable are recognized when such losses become known or indicated. All receivables are adjusted to net realizable value when they are determined to be delinquent based on historical experience.

The allowance for doubtful accounts totaled \$5,000 at June 30, 2007 and 2006.

(Continued on following page)

BELLA VISTA WATER DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2007 AND 2006

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
 (Continued)

INVENTORIES

Inventories are valued at cost, which approximates market, using the average cost method.

DEPOSITS AND PREPAID EXPENSES

Payments made to vendors for services that will benefit periods beyond the fiscal year end are recorded as prepaid assets.

RESTRICTED ASSETS

Certain loan proceeds as well as certain resources set aside for their repayment are classified as restricted assets because their use is limited by applicable loan covenants. In addition, funds have been restricted for capital improvements, repairs and maintenance.

CAPITAL ASSETS

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related assets, as applicable.

Interest expense that relates to the cost of acquiring or constructing capital assets is capitalized. Interest expense incurred in connection with construction of capital assets has been reduced by interest earned on the investment of funds borrowed for construction in accordance with Financial Accounting Standards Board (FASB) Statement No. 62, *Capitalization of Interest Cost in Situations Involving Certain Tax Exempt Borrowings and Certain Gifts and Grants*.

Capitalized interest consists of the following:

	June 30,	
	<u>2007</u>	<u>2006</u>
Interest incurred	\$ 415,917	\$ 353,398
Less amount expensed	<u>(203,954)</u>	<u>(274,392)</u>
Amount to be capitalized	211,963	79,006
Reduced by interest earned	<u>-</u>	<u>-</u>
Capitalized interest, net	<u>\$ 211,963</u>	<u>\$ 79,006</u>

(Continued on following page)

BELLA VISTA WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

CAPITAL ASSETS (Continued)

All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at estimated fair market value on the date received.

Accumulated depreciation is reported on the accompanying statements of net assets. Depreciation has been provided over the estimated useful lives of the assets using the straight-line method. The estimated useful lives are as follows:

Building	40 years
Water system	50 years
General plant equipment	5 to 15 years
Office furniture and equipment	10 years
Filter plant improvements	20 years

DEFERRED LOSS ON ADVANCE REFUNDING

The loss on debt refunding is deferred and amortized over the life of the related debt using the straight-line method.

COMPENSATED ABSENCES

Vested or accumulated sick leave, holiday pay, and vacation pay is recorded as an expense and liability as the benefits accrue to employees. In accordance with the provisions of Governmental Accounting Standards (GASB) Statement No. 16, *Accounting for Compensated Absences*, no liability is recorded for nonvesting accumulating rights to receive sick pay benefits.

NET ASSETS

Net assets represent the difference between assets and liabilities. The District's net assets are classified as follows:

- *Invested in capital assets, net of related debt* – This represents the District's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component invested in capital assets, net of related debt.

(Continued on following page)

BELLA VISTA WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

NET ASSETS (Continued)

- *Restricted net assets-expendable* – Restricted expendable net assets represent resources which are legally or contractually obligated to be spent in accordance with restrictions imposed by external third parties.
- *Unrestricted net assets* – Unrestricted net assets represent resources available for transactions relating to the general operations of the District, and may be used at the discretion of the governing board to meet current expenses for any purpose.

OPERATING REVENUE AND EXPENSE

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 the District's principal ongoing operations. The principal operating revenues of the District are charges to customers for sales and services. Operating expenses for the District include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

TAX REVENUES

The County of Shasta assesses, bills and collects property taxes for the District.

The County property tax is levied each November 1st on the assessed valuation of property located in the County as of the preceding lien date (March 1). Taxes are receivable in two equal installments which become delinquent the first working day after December 10th and April 10th.

The County adopted the alternative method of tax apportionment ("Teeter Plan"). The District determined they would participate in this plan. Under the plan the County remits all property taxes and special assessments due to the District without regard to their current or delinquent status.

(Continued on following page)

BELLA VISTA WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

WATER SYSTEM SPECIAL ASSESSMENT

Section 37203 of the Water Code of the State of California, upon a vote of the affected property owners, allows a California Water District to compel the county in which it is located to levy and collect ad-valorem assessments on all lands located within the District, sufficient to raise monies to provide for the operations and debt service of the District. The assessment was authorized by the voters in March, 1964.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

BUDGET

The District's budget is adopted on a modified accrual basis, which is a comprehensive basis of accounting other than generally accepted accounting principles. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The annual appropriations lapse at fiscal year end.

NOTE 2 CASH AND CASH EQUIVALENTS

DEPOSITS

All of the District's deposits in financial institutions are entirely insured or collateralized. The California Government Code requires California banks and savings and loan associations to secure local agency deposits by pledging government securities as collateral. The market value of pledged securities must equal at least 110% of a local agency's deposits.

(Continued on following page)

BELLA VISTA WATER DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2007 AND 2006

NOTE 2 CASH AND CASH EQUIVALENTS
 (Continued)

DEPOSITS (Continued)

Custodial credit risk – The District’s deposits were as follows:

	<u>June 30,</u>	
	<u>2007</u>	<u>2006</u>
Carrying amount	\$ <u>6,515,115</u>	\$ <u>4,360,287</u>
Bank balance	\$ 6,517,518	\$ 4,473,178
Amount covered by Federal depository insurance	<u>100,000</u>	<u>100,000</u>
Amount covered by collateral held by agents of pledging banks	\$ <u>6,417,518</u>	\$ <u>4,373,178</u>

Collateral was not held in the District’s name. (There is no Government Code requirement that collateral be held in the District’s name).

EQUITY IN POOLED CASH AND INVESTMENTS

The District also maintains cash equivalents in pools managed by others. The pooled investment funds are both unrated.

	<u>June 30,</u>	
	<u>2007</u>	<u>2006</u>
Pooled investment funds:		
Cash in Shasta County Treasury	\$ <u>95,005</u>	\$ <u>91,730</u>
Local Agency Investment Fund (LAIF)	\$ <u>410,901</u>	\$ <u>391,268</u>

The District invests funds in the State Treasurer’s Pooled Money Investment Account (PMIA) through the Local Agency Investment Fund (LAIF), a voluntary program created by statute in 1977. The PMIA has regulatory oversight from the Pooled Money Investment Board and an in-house Investment Committee. The Local Agency Investment Advisory Board has oversight of LAIF. The fair value of the District’s position in the pool is materially equivalent to the value of pool shares.

(Continued on following page)

BELLA VISTA WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

NOTE 2 CASH AND CASH EQUIVALENTS
(Continued)

EQUITY IN POOLED CASH AND INVESTMENTS (Continued)

In accordance with authorized investment laws, the State Treasurer's Investment Pool (LAIF) invests in various structured notes and mortgage-backed securities, such as collateralized mortgage obligations. As of June 30, 2007 and 2006, 3.466% and 2.406%, respectively, of LAIF's investment portfolio was invested in structured notes and other asset-backed securities. (Copies can be obtained from the Local Agency Investment Fund, P.O. Box 942809, Sacramento, CA 94209.) PMIA's weighted average maturities was 167.73 days and 146.73 days at June 30, 2007 and 2006, respectively.

The District also invests funds with the Shasta County Treasury's Pooled Money Investment account.

The California Government Code and investment policy of the County authorize the County to invest in obligations, participations, or other investments of the U.S. Government or its agencies, state and municipal bonds, commercial paper of "prime" quality of the highest ranking or of the highest letter and numerical rating as provided by Standard & Poor's Corporation or Moody's Investor Service, Inc., bankers' acceptances, repurchase agreements and the State Treasurer's Investment Pool (Local Agency Investment Fund). The 2007 audited financial statements of the County of Shasta are not yet available. (Copies can be obtained from the County of Shasta, 1450 Court Street, Redding, CA 96001.) As provided in the 2006 audited financial statements for the County of Shasta, cost and fair value are materially equivalent. Accordingly, the District has reported its position in the County Treasury at cost, which approximates fair value as of June 30, 2007. The County Treasury's Pooled Money Investment account's weighted average maturities was 116.57 days and 124.06 days at June 30, 2007 and 2006, respectively.

The pooled treasury has oversight from the Shasta County Treasury Oversight Committee in accordance with California Government Code requirements.

The District is unable to determine whether the County has invested directly or indirectly in any derivative instruments.

Interest Rate Risk – In accordance with its investment policy, the District manages its exposure to declines in fair value by limiting all debt securities to a final maturity of no more than five years.

(Continued on following page)

BELLA VISTA WATER DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2007 AND 2006

NOTE 2 CASH AND CASH EQUIVALENTS
 (Continued)

EQUITY IN POOLED CASH AND INVESTMENTS (Continued)

Credit Risk – The District has a formal investment policy on managing credit risk; the District’s policy and the California Government Code authorize the District to invest in obligations, participations, or other investments of the U.S. Government or its agencies, state and municipal bonds, commercial paper of "prime" quality of the highest ranking or of the highest letter and numerical rating as provided by Standard & Poor's Corporation or Moody's Investor Service, Inc., bankers' acceptances, repurchase agreements and the State Treasurer's Investment Pool (Local Agency Investment Fund).

Concentration of Credit Risk – The District's policy limits the amount that may be invested in any one permissible investment type.

NOTE 3 CAPITAL ASSETS

A summary of changes in capital assets for the years ended June 30, 2007 and 2006 is as follows:

	Year Ended June 30, 2007			
	Balance July 1, 2006	Additions	Transfers/ Deletions	Balance June 30, 2007
Non-depreciable capital assets:				
Land	\$ 95,064	\$ -	\$ -	\$ 95,064
Construction in progress	<u>9,381,368</u>	<u>856,908</u>	<u>-</u>	<u>10,238,276</u>
Non-depreciable capital assets total	<u>9,476,432</u>	<u>856,908</u>	<u>-</u>	<u>10,333,340</u>
Depreciable capital assets:				
Building	537,424	2,836	-	540,260
Land improvements	106,469	-	-	106,469
Water system	25,248,082	493,570	-	25,741,652
General plant equipment	1,161,475	175,139	(25,889)	1,310,725
Office furniture and equipment	284,428	-	-	284,428
Filter plant improvements	<u>483,003</u>	<u>-</u>	<u>-</u>	<u>483,003</u>
	27,820,881	671,545	(25,889)	28,466,537
Less accumulated depreciation	<u>11,145,849</u>	<u>628,427</u>	<u>(25,889)</u>	<u>11,748,387</u>
Depreciable capital assets, net	<u>16,675,032</u>	<u>43,118</u>	<u>-</u>	<u>16,718,150</u>
Capital assets, net	<u>\$ 26,151,464</u>	<u>\$ 900,026</u>	<u>\$ -</u>	<u>\$ 27,051,490</u>

(Continued on following page)

BELLA VISTA WATER DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2007 AND 2006

NOTE 3 CAPITAL ASSETS
 (Continued)

	Year Ended June 30, 2006			
	Balance July 1, 2005	Additions	Transfers/ Deletions	Balance June 30, 2006
Non-depreciable capital assets:				
Land	\$ 95,064	\$ -	\$ -	\$ 95,064
Construction in progress	4,874,662	4,506,706	-	9,381,368
Non-depreciable capital assets total	<u>4,969,726</u>	<u>4,506,706</u>	<u>-</u>	<u>9,476,432</u>
Depreciable capital assets:				
Building	537,154	270	-	537,424
Land improvements	106,469	-	-	106,469
Water system	24,790,711	462,037	(4,666)	25,248,082
General plant equipment	1,147,255	57,565	(43,345)	1,161,475
Office furniture and equipment	277,689	6,739	-	284,428
Filter plant improvements	483,003	-	-	483,003
	27,342,281	526,611	(48,011)	27,820,881
Less accumulated depreciation	<u>10,565,795</u>	<u>624,892</u>	<u>(44,838)</u>	<u>11,145,849</u>
Depreciable capital assets, net	<u>16,776,486</u>	<u>(98,281)</u>	<u>(3,173)</u>	<u>16,675,032</u>
Capital assets, net	<u>\$ 21,746,212</u>	<u>\$ 4,408,425</u>	<u>\$ (3,173)</u>	<u>\$ 26,151,464</u>

NOTE 4 ACCRUED BENEFITS AND COMPENSATED ABSENCES

A summary of the liabilities for accrued benefits and compensated absences as of June 30, 2007 and 2006 is as follows:

	June 30,	
	2007	2006
Vacation pay	\$ 82,050	\$ 80,487
Sick leave	97,481	102,038
Comp time and floater holidays	26,041	26,822
Pension	(92)	1,920
Total	<u>\$ 205,480</u>	<u>\$ 211,267</u>

(Continued on following page)

BELLA VISTA WATER DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2007 AND 2006

NOTE 5 LONG-TERM DEBT

A summary of long-term debt for the years ended June 30, 2007 and 2006 is as follows:

	<u>Year Ended June 30, 2007</u>			
	<u>Balance July 1, 2006</u>	<u>Additions</u>	<u>Reductions</u>	
Note payable – U.S. Department of the Interior	\$ 897,656	\$ -	\$ 85,000	\$ 812,656
1996 Installment sale agreement	2,886,739	-	218,615	2,668,124
1915 Act Special Assessment bonds	180,163	-	2,500	177,663
State of California Department of Water Resources	<u>8,231,634</u>	<u>1,074,357</u>	<u>-</u>	<u>9,305,991</u>
	<u>\$ 12,196,192</u>	<u>\$ 1,074,357</u>	<u>\$ 306,115</u>	12,964,434
Less current maturities				<u>319,316</u>
Long-term debt, net of current maturities				<u>\$ 12,645,118</u>
	<u>Year Ended June 30, 2006</u>			
	<u>Balance July 1, 2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2006</u>
Note payable – U.S. Department of the Interior	\$ 977,656	\$ -	\$ 80,000	\$ 897,656
1996 Installment sale agreement	3,092,905	-	206,166	2,886,739
1915 Act Special Assessment bonds	182,663	-	2,500	180,163
State of California Department of Water Resources	<u>2,753,594</u>	<u>5,478,040</u>	<u>-</u>	<u>8,231,634</u>
	<u>\$ 7,006,818</u>	<u>\$ 5,478,040</u>	<u>\$ 288,666</u>	12,196,192
Less current maturities				<u>306,115</u>
Long-term debt, net of current maturities				<u>\$ 11,890,077</u>

(Continued on following page)

BELLA VISTA WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

NOTE 5 LONG-TERM DEBT
(Continued)

Note payable – U.S. Department of the Interior – This note is secured by the distribution system of the District. Interest at 3.046% is payable only on the portion of the unpaid balance of the loan allocated to municipal, industrial, and domestic water supply (M & I) for the prior calendar year. Interest calculations through the year 2017 are based on an estimated 35.88% M & I usage. The note is payable through the year 2017 in annual principal installments of \$80,000 to \$85,000 plus interest.

The Department of Interior note agreement requires funds to be set aside in a reserve fund. The agreement requires \$5,000 each year to be deposited into a separate account until at least \$50,000 has been accumulated. The District has currently set aside sufficient funds to satisfy this requirement.

1996 Installment Sale Agreement – During the fiscal year ended June 30, 1996, the District executed an advance refunding agreement to retire the 1992 Certificates of Participation. The District refunded the Certificates by entering into an Amended and Restated Installment Sale Agreement with a third party. The 1996 Installment Sale Agreement is due in semi-annual payments of \$193,586, including interest at 5.95%, which are payable on January 15 and July 15 of each year through 2016. The remaining proceeds from the 1992 Certificates of Participation along with the additional proceeds from the 1996 Installment Sale Agreement are required to be used for the acquisition of and construction of the water supply system.

1915 Act Special Assessment Bonds – The District issued Limited Obligation Improvement Bonds (1915 Act), Series A for \$201,470 on August 7, 1997 in order to provide the matching funding required to complete the Logan Road Water Project. The bonds call for semi-annual interest payments at 5% on March 2 and September 2 of each year. Principal payments are due on September 2 of each year through the year 2036, and the principal payment amount ranges from \$2,000 to \$11,000. The bonds are secured by special assessment taxes to be collected by the County of Shasta.

State of California Department of Water Resources – On September 16, 2004, the District entered into a funding agreement with the State of California Department of Water Resources for a construction loan under the Safe Drinking Water State Revolving Fund Law of 1997 to upgrade the District's water treatment plant. The amount of the loan is not to exceed \$10,399,538. Interest is charged at a rate of 2.34% annually. Interest during the construction period is due semi-annually.

(Continued on following page)

BELLA VISTA WATER DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2007 AND 2006

NOTE 5 LONG-TERM DEBT
 (Continued)

State of California Department of Water Resources (Continued)

Principal payments shall commence no later than one year from the project completion date. The first semi-annual principal payment for this loan is projected to be due January 1, 2009. The entire amount of the loan plus interest is due and payable within 20 years from the project completion date. The loan is secured by the revenues from the water treatment plant improvement fees.

As of June 30, 2007, the District had incurred costs totaling \$480,815 which were eligible to be drawn against this loan. District's management submitted requests for funding subsequent to the year end.

The annual debt service requirements to amortize all long-term debt including interest are as follows:

Year Ending June 30,	U.S. Department of the Interior	1996 Installment Sales Agreement	1915 Act Special Assessment Bond (96-1 Logan Road)	State Revolving Loan Fund (SDWSTR)	Total
2008	\$ 93,885	\$ 387,172	\$ 11,321	\$ -	\$ 492,378
2009	92,953	387,172	11,683	325,158	816,966
2010	92,023	387,172	11,533	650,316	1,141,044
2011	91,091	387,172	11,383	650,316	1,139,962
2012	90,159	387,172	11,721	650,316	1,139,368
2013 – 2017	394,178	1,548,688	57,366	3,251,580	5,251,812
2018 – 2022	-	-	57,478	3,251,580	3,309,058
2023 – 2027	-	-	57,528	3,251,580	3,309,108
2028 – 2032	-	-	57,066	975,461	1,032,527
2033 – 2037	-	-	53,787	-	53,787
Total	854,289	3,484,548	340,866	13,006,307	17,686,010
Less: interest	41,633	816,424	163,203	2,666,769	3,688,029
Net principal	\$ 812,656	\$ 2,668,124	\$ 177,663	\$ 10,339,538	\$ 13,997,981

(Continued on following page)

BELLA VISTA WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

NOTE 6 EMPLOYEE BENEFIT PLANS

DEFINED BENEFIT PLANS

Qualified employees are covered under a cost-sharing multiple-employer defined benefit pension plan maintained by the Public Employees' Retirement System.

A. Plan Descriptions and Provisions

All full-time employees participate in the CalPERS, a cost-sharing multiple-employer contributory public employee retirement system that acts as a common investment and administrative agent for participating public entities within the State of California. The Bella Vista Water District is part of a "cost-sharing" pool within CalPERS. Employees are eligible for retirement as early as age 50 with five years of service. At age 60, the employee is entitled to a monthly benefit of 2.0 percent of final compensation for each year of service credit.

Retirement after age 60 will increase the percentage rate to a maximum of 2.418 percent at age 63. The plan also provides death and disability benefits. Retirement benefits fully vest after five years of credited service. Upon separation from the Fund, members' accumulated contributions are refundable with interest credited through the date of separation.

The Public Employees' Retirement Law (Part 3 of the *California Government Code*, Section 20000 et seq.) establishes benefit provisions for CalPERS. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95814.

B. Funding Policy

Active plan members are required to contribute 7.0% of their salary (7.0% of monthly salary over \$133.33 if the member participates in Social Security) which is currently paid by the District. Also, the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for the fiscal year ended June 30, 2007, was 16.417% of annual payroll. The contribution requirements of the plan members are established by State statutes.

(Continued on following page)

BELLA VISTA WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

NOTE 6 EMPLOYEE BENEFIT PLANS
(Continued)

DEFINED BENEFIT PLANS (Continued)

B. Funding Policy (Continued)

The District's required contributions for the last three years are as follows:

Year Ended June 30,		
2005	2006	2007
\$ <u>265,817</u>	\$ <u>299,575</u>	\$ <u>302,885</u>

All contributions were made in accordance with actuarially determined requirements and equal 100% of the required contribution for each year.

DEFERRED COMPENSATION PLAN

The District also 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 salary up to legal limit until future years. Participation in the Plan is optional. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. All amounts of compensation deferred under the Plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights, are held in trust for the "exclusive benefit of governmental plan participants." Consistent with this, the District has no rights to these monies and, therefore, Plan assets and liabilities are not reported on the District's financial statements.

NOTE 7 USBR RECLAMATION REFORM ACT ACCUMULATED DEFICIT LIABILITY FOR AGRICULTURAL WATER DELIVERIES AND CONTINGENT LIABILITY FOR MUNICIPAL AND INDUSTRIAL WATER DELIVERIES

In 1982, Congress passed the Reclamation Reform Act (RRA) requiring the United States Bureau of Reclamation to modify its water delivery rate-setting method in order to recover operation and maintenance (O & M) deficits the Bureau had incurred. Using this new rate-setting method, each contractor's annual water payments through September 30, 1986 were applied to the contractor's allocated share of O & M expenses. In the case of Bella Vista Water District, O & M

(Continued on following page)

BELLA VISTA WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

NOTE 7 USBR RECLAMATION REFORM ACT ACCUMULATED DEFICIT LIABILITY FOR AGRICULTURAL WATER DELIVERIES AND CONTINGENT LIABILITY FOR MUNICIPAL AND INDUSTRIAL WATER DELIVERIES
(Continued)

expenses exceeded annual water payments and as of June, 1988, the Bureau had determined the District's total deficit to be \$1,047,067. The Bureau divided this deficit into two components: (1) Deficits attributable to agricultural water deliveries of \$115,063 (of which \$15,338 was interest bearing at approximately 10.75%); and (2) deficits attributable to municipal and industrial (M & I) water deliveries of \$932,004 (all of which bears interest).

The previous contract between the District and Bureau of Reclamation, effective until December, 1994, did not provide for the payment of excess O & M costs. Since the Bureau may not retroactively assess any charges to a contractor who is in compliance with their contract, these additional O & M costs were not previously assessed. Since 1994 several interim water service contracts have been negotiated. These contracts have adjusted the O & M water rates for the above amount.

In the absence of continuing water contracts with the Bureau, these charges would not be recoverable. The District is not obligated to repay the deficits unless they continue to contract with the Bureau. However, since the District's primary source of water is under Bureau contract, the District will most likely have no alternative but to continue renewing their contract. Consequently, the District will be required to repay its portion of the O & M deficits over the life of the future contracts with the Bureau in the form of higher water rates.

The District is entitled to prepay any or all of the deficits. Prepayment would serve to reduce the water rates charged at contract renewal in the future.

The O & M deficits for agricultural water deliveries were paid in full during the year ended June 30, 1999. The O & M deficit for municipal and industrial water, which accumulated during the current fiscal year, was also paid. During the year ended June 30, 2001, the District increased its water rate on M & I water to obtain funds to at least partially pay the annual M & I operation and maintenance deficit. These payments will serve to stabilize increases in future water rates.

In September 2005, the District accepted a settlement from the Bureau in the amount of \$218,000. This amount was recorded in the year ended June 30, 2006.

(Continued on following page)

BELLA VISTA WATER DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2007 AND 2006

NOTE 8 SPECIAL ASSESSMENT BONDS

Special assessment bonds are used for the provision and financing of public improvements which primarily benefit the particular taxpayers against whose properties special assessments are levied. Property owners are given the option of paying their special assessments in a lump sum or in interest-bearing annual installments over a number of years. Special assessment bonds issued to finance initial construction costs are secured by liens on the property of those taxpayers electing to pay their assessments in annual installments.

The Governmental Accounting Standards Board (GASB) issued Statement No. 6, *Accounting and Financial Reporting for Special Assessments* in January, 1989. Reporting requirements for governments vary under this statement, dependent on whether or not the government is obligated in some manner for special assessment debt.

In accordance with legal requirements pertaining to the sale of 1915 Act special assessment bonds, a reserve fund was established out of the proceeds of the bond sale and is utilized to cover delinquencies by property owners.

Delinquencies, if any, at June 30, 2007 and 2006, are immaterial.

The liability for the payment of the outstanding 1915 Act special assessment bonds are reported and disclosed in Note 5.

In accordance with GASB Statement No. 6, the District determined that it has no liability for the payment of outstanding 1911 Act special assessment bonds under California Law. The District does not record any activity of these bonds on its financial statements as Shasta County is designated by the bond document as the collection and disbursement agent and currently collects all annual special assessment installments and pays off the bonds as they become due.

The following reflects the outstanding 1911 Act special assessment bonds:

<u>Assessment District</u>	<u>June 30,</u>	
	<u>2007</u>	<u>2006</u>
Palo Cedro South 86-2	\$ 64,385	\$ 64,385
Bella Vista 81-1	<u>922</u>	<u>922</u>
Total	\$ <u>65,307</u>	\$ <u>65,307</u>

(Continued on following page)

BELLA VISTA WATER DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2007 AND 2006

NOTE 9 SELF-INSURANCE

The District is a member of the Association of California Water Agencies Joint Powers Insurance Authority (JPIA). The JPIA provides joint protection coverage for losses in excess of the District's self-insurance retention levels. Claims in excess of specified levels are covered by excess insurance policies purchased from commercial insurance carriers. There has been no significant reduction in coverage over the last three years.

The District has an agreement with the JPIA to provide auto and general liability insurance and property insurance. Under the agreement the District has no self-insured retention for auto and general liability insurance and excess insurance coverage to \$40,000,000. The property insurance fund provides for a self-insured retention of \$10,000 except for \$2,500 for auto and for mobile equipment and excess insurance coverage to \$50,000,000.

The District has an agreement with the JPIA to provide error and omissions insurance of \$1,000,000 per incident with a \$100,000 deductible.

The District also participates in the JPIA workers' compensation insurance program. Under the agreement, the District has no self-insured retention, and insurance coverage to statutory limits.

The premiums billed by the JPIA to member districts are planned to match the expenses of the self-insurance as well as the cost of providing the excess layer coverage and the cost of administering the plans.

NOTE 10 RESTRICTED NET ASSETS

Restricted net assets consist of the following:

	June 30,	
	2007	2006
<u>Department of Interior Note Reserve</u> – The purpose of these funds is to ensure that the District maintains adequate financial capability to meet unusual and unforeseen extraordinary operation and maintenance costs as per the Bureau contracts.	\$ 67,989	\$ 65,448

(Continued on following page)

BELLA VISTA WATER DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2007 AND 2006

NOTE 10 RESTRICTED NET ASSETS
 (Continued)

	June 30,	
	2007	2006
<p><u>Capital Improvement Fund</u> – This fund was established to deposit capital improvement fees charged for use towards the construction and improvement of District facilities and to maintain adequate facilities as growth in the District occurs. The fees collected are currently obligated to service debt.</p>	617,559	466,377
<p><u>Water Treatment Plant Improvements</u> – This fund was established to deposit fees charged for the water treatment plant improvements required by the California Department of Health Services.</p>	1,209,494	770,296
<p><u>Palo Cedro Special Projects</u> – Pursuant to Resolution 87-38, the purpose of this reservation was to reduce the initial construction cost of the Palo Cedro South Project. Agreement by the property owners was made whereby a capital facilities charge would be levied upon property owners at such time as they choose to connect to the system. The funds are specifically allocated to the construction of a tank at such time as it becomes necessary.</p>	148,152	49,972
<p>1996 Redemption fund</p>	6,912	11,407
	\$ 2,050,106	\$ 1,363,500

NOTE 11 DESIGNATED UNRESTRICTED NET ASSETS

Designated unrestricted net assets consist of the following:

	June 30,	
	2007	2006
<p><u>Contingency Fund</u> – This fund was established as an appropriation and interfund transfer account, as needed, for cash flow purposes.</p>	\$ 2,610,884	\$ 1,514,438

(Continued on following page)

BELLA VISTA WATER DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2007 AND 2006

NOTE 11 DESIGNATED UNRESTRICTED NET ASSETS
 (Continued)

	<u>June 30,</u>	
	<u>2007</u>	<u>2006</u>
<u>Irrigation Users</u> – These funds were received from a rebate for the CVP Act funds previously paid by agricultural users. A large portion of the funds was refunded to the customers. The balance of the funds was deposited to maintain rate stabilization and to keep the O & M deficit at a zero balance.	167,318	161,109
<u>Department of Interior Operating Deficit</u> – This fund was established to fund current year M & I operating deficit charged by the Department of the Interior.	214,677	194,819
<u>Major Repair</u> – This fund was established as an emergency fund to make repairs to any major water lines or facilities.	128,786	124,027
<u>Extraordinary Operations Maintenance Replacement</u> – This fund was established to assist the District in long-term planning and budgeting for extraordinary major maintenance and replacement costs the District is going to be faced with for its aging facilities and infrastructure. In addition, a separate allocation under this fund was created to assist the District in the purchase of vehicles and large equipment items. It is the goal of the District to smooth the impact of these significant costs over many years rather than a significant impact to any one year.		
	<u>36,761</u>	<u>-</u>
	<u>\$ 3,158,426</u>	<u>\$ 1,994,393</u>

(Continued on following page)

BELLA VISTA WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

NOTE 12 COMMITMENTS AND CONTINGENCIES

PROPOSITION 218

Proposition 218, which was approved by the voters in November, 1996, and amended Article 13 of the State Constitution, regulates the District's ability to impose, increase and extend taxes, assessments and fees. New, increased, or extended taxes, assessments, and fees subject to the provisions of Proposition 218. This decision was upheld and broadly interpreted to include water rates and charges in the recent court decision of *Bighorn-Desert View Water Agency vs. Virjil* which states " an agency may not adopt a rate increase if written protests against the proposed fee or charge are presented by a majority" of the effected property owners. In addition, Proposition 218 states that these rates will be fair, equitable and cost based. Therefore, the District's ability to finance the services for which the taxes, assessments and fees are imposed in the future may be impaired. However, management believes it will be able to maintain the current level of revenue it now receives. Recent legislation (AB 1260 CABELLERO) clarifies the process required to revise fees and rates.

SURFACE WATER TREATMENT RULE

The District's water treatment plant is currently in violation of the federal "Surface Water Treatment Rule." The District is required to make improvements to the plant to cure this violation. The current costs of these improvements are estimated at approximately \$10,399,538. Construction of these improvements began in 2004 and is projected to be completed by March 2008.

SUPPLEMENTARY INFORMATION

BELLA VISTA WATER DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2007

<u>Federal Grantor/Pass-through Grantor/ Program Title</u>	<u>CFDA Number</u>	<u>Grant/Project Number</u>	<u>Expenditures</u>
<u>Environmental Protection Agency</u>			
Pass-through from the State of California			
Department of Health Services:			
Capitalization Grants for Drinking Water State Revolving Funds	66.468	SRF02CX132	<u>\$ 578,023</u>

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Directors
Bella Vista Water District
Redding, California

We have audited the basic financial statements of Bella Vista Water District, as of and for the year ended June 30, 2007 and have issued our report thereon dated November 3, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Bella Vista Water District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Bella Vista Water District's financial statements that is more than inconsequential will not be prevented or detected by Bella Vista Water District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Bella Vista Water District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Bella Vista Water District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, Board of Directors, others within the entity, and federal or state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Nystrom & Company LLP

November 3, 2007

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH
OMB CIRCULAR A-133**

Board of Directors
Bella Vista Water District
Redding, California

Compliance

We have audited the compliance of Bella Vista 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 program for the year ended June 30, 2007. Bella Vista Water District's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of Bella Vista Water District's management. Our responsibility is to express an opinion on Bella Vista 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 Bella Vista 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 of Bella Vista Water District's compliance with those requirements.

In our opinion, Bella Vista 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, 2007.

Internal Control Over Compliance

The management of Bella Vista Water District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Bella Vista 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Bella Vista Water District's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, Board of Directors, others within the entity, and federal or state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Nystrom & Company LLP

November 3, 2007

BELLA VISTA WATER DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007

A. SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses an unqualified opinion on the financial statements of Bella Vista Water District.
2. No significant deficiencies relating to the audit of the financial statements are reported in the Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. No instances of noncompliance material to the financial statements of Bella Vista Water District were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award program are reported in the Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program on Internal Control Over Compliance in Accordance with OMB Circular A-133.
5. The auditors' report on compliance for the major federal award program for Bella Vista Water District expresses an unqualified opinion.
6. Audit findings, if any, relative to the major federal award program for Bella Vista Water District are reported in Part C of this Schedule.
7. The program tested as a major program was the Environmental Protection Agency Capitalization Grants for Drinking Water State Revolving Funds CFDA No. 66.468.
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Bella Vista Water District was determined to be a low-risk auditee.

B. FINDINGS – FINANCIAL STATEMENTS AUDIT

REPORTABLE CONDITIONS

None noted.

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAM AUDIT

None noted.

BELLA VISTA WATER DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2007

None noted.