



**ANNUAL FINANCIAL REPORT**

**FOR THE FISCAL YEARS ENDED JUNE 30, 2006 and 2005**

**LAKESIDE WATER DISTRICT**  
**ANNUAL FINANCIAL REPORT**  
**For the Fiscal Years Ended June 30, 2006 and 2005**

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**LAKESIDE WATER DISTRICT**

**DISTRICT OFFICIALS**

**June 30, 2006**

**BOARD OF COMMISSIONERS:**

Benny Henry, Chairperson  
1635 Kristi Loop  
Lakeside, Oregon 97449

Dennis Sargent, Secretary/Treasurer  
705 Bonneville  
Lakeside, Oregon 97449

Linda Sherych, Safety Officer  
685 Tiara  
Lakeside, Oregon 97449

Orville Nelson, Personnel Officer  
1105 N. 8th  
Lakeside, Oregon 97449

Michael Armstrong, Commissioner  
PO Box 317  
Lakeside, Oregon 97449

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**REGISTERED AGENT**

Rodney R. Clemons  
PO Box 314  
Lakeside, Oregon 97449

**REGISTERED OFFICE:**

1000 North Lake Road  
Lakeside, Oregon 97449



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## INDEPENDENT AUDITOR'S REPORT

July 28, 2006

To the Governing Body of Lakeside Water District:

We have audited the accompanying basic financial statements of the Lakeside Water District, as of and for the years ended June 30, 2006 and 2005 as listed in the table of contents. These financial statements are the responsibility of the Lakeside Water 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our 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 Lakeside Water District at June 30, 2006 and 2005, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis as shown in the table of contents 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 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.

In accordance with *Government Auditing Standards*, we have also issued a report dated July 28, 2006 on our consideration of the Lakeside Water District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of Lakeside Water District. The individual fund financial schedules and other accompanying financial information listed in the table of contents as supplemental information are presented for purposes of additional analysis and are not a required part of the basic financial statements of the Lakeside Water District. Such information 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.



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Hough, MacAdam & Wartnik, LLC  
North Bend, Oregon

## **Lakeside Water District Managements Discussion and Analysis (MD&A)**

As management of the Lakeside Water District, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the Lakeside Water District for the fiscal year ended June 30, 2006. We encourage readers to consider the information presented here in conjunction with additional information found in this report.

### **Financial Highlights**

Total assets of the District were \$4.9 million with capital assets at \$3.59 million, net of accumulated depreciation. Current and restricted assets were \$150,000 and \$1.18 million respectively.

The assets of the Lakeside Water District exceeded its liabilities at the close of the most recent fiscal year by \$3.6 million (net assets). Of this amount, nearly \$537,000 (unrestricted net assets) may be used to meet the District's ongoing obligations.

Capital assets less related debt were \$2.3 million. Revenue bonded debt totaled \$138,000 and General Obligation debt totaled \$1.13 million.

The District's net assets increased by approximately \$54,000 from June 30, 2005.

Total Operating Revenues for the fiscal year 2005-2006 were \$483,000, which is an increase of \$23,000 over the prior year. This reflects a slightly increasing customer base.

Total Operating Expenses for the fiscal year 2005-2006 were about \$451,000, which is an increase of nearly \$54,000 over the prior year. This reflects increases in employee health insurance and pension costs, an increase in materials and services related to the increase in system users and additional costs to dive, vacuum and clean all basins at the water treatment plant.

Total Liabilities were \$1.3 million with long-term liabilities at \$1.2 million and other liabilities at about \$78,000.

Overall, the financial position of the District has improved since the prior year.

### **Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the Lakeside Water District's basic financial statements. The District is a self-supporting entity and follows enterprise fund reporting. Accordingly, the financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. The District's basic financial statements are comprised of three components: 1) Statement of Net Assets, 2) Statement of Revenues, Expenses and Changes in Net Assets, and 3) Statement of Cash Flows. This report also contains other supplementary information in addition to the basic financial statements themselves.

The Statement of Net Assets presents the current and long-term portion of assets and liabilities separately and may provide a useful indicator of whether the financial position of the District is improving or deteriorating over time. This statement includes all of the District's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to the District's creditors (liabilities). It also provides the basis for evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District.

The Statement of Revenues, Expenses and Changes in Net Assets presents information showing profitability and credit worthiness as well as how the District's net assets changed during the most recent fiscal year. This statement shows income and expenses from operations, non-operating revenues and expenses, and reconciles the change from one fiscal year to the next. This statement measures the success of the District's operations over the past year and can be used to determine whether the District has successfully recovered all its costs through its user fees and other charges.

The Statement of Cash Flows is prepared using the direct method and is concerned solely with input and outlay of cash from operating activities, non-capital financing activities, capital and related financing activities, and investing activities. This statement also includes a reconciliation to the Statement of Revenues, Expenses and Changes in Net Assets. The primary purpose of this statement is to provide information about the District's cash receipts and cash payments during the reporting period. It answers such questions as where did the cash come from, what was the cash used for and what was the change in cash balance during the reporting period.

### Notes to the Basic Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

### Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a district's financial position. In the Lakeside Water District's case, assets exceeded liabilities by \$3.63 million at the close of the most recent fiscal year, an increase of almost \$54,000. By far the largest portion of the District's assets reflects its investment in capital assets (e.g. land, building, equipment, reservoirs and pipelines), less related debt to acquire those assets that is still outstanding. The District uses these assets to provide services to ratepayers; consequently, these assets are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from services to customers (ratepayers) or other sources, since capital assets themselves cannot be used to liquidate these liabilities.

	<b>Net Assets</b>			
	<u>2006</u>	<u>2005</u>	<u>Difference</u>	<u>%</u>
Current assets	\$ 150,129	\$ 172,669	\$ (22,540)	-13.1%
Restricted assets	1,184,447	1,055,553	128,894	12.2%
Non-current assets	5,116	4,854	262	5.4%
Capital assets	<u>3,588,920</u>	<u>3,679,276</u>	<u>(90,356)</u>	-2.5%
Total assets	<u>4,928,612</u>	<u>4,912,352</u>	<u>16,260</u>	0.3%
Long-term liabilities	1,225,955	1,273,240	(47,285)	-3.7%
Other liabilities	<u>77,635</u>	<u>67,607</u>	<u>10,028</u>	14.8%
Total liabilities	<u>1,303,590</u>	<u>1,340,847</u>	<u>(37,257)</u>	-2.8%
Invested in capital assets	2,308,239	2,353,073	(44,834)	-1.9%
Restricted	779,943	708,096	71,847	10.1%
Unrestricted	<u>536,840</u>	<u>510,336</u>	<u>26,504</u>	5.2%
Total net assets	<u>\$ 3,625,022</u>	<u>\$ 3,571,505</u>	<u>\$ 53,517</u>	1.5%

An additional portion of the District's net assets (22%) represents resources that are subject to external restriction on how they may be used. Unrestricted net assets in the amount of nearly \$537,000 may be used to meet the District's ongoing obligations to ratepayers and creditors.

### Change in Net Assets

	2006	2005	Difference	%
Water sales	\$ 283,655	\$ 271,583	\$ 12,072	4.4%
Hook-up fees & other chgs	130,796	125,552	5,244	4.2%
Property taxes	56,084	51,153	4,931	9.6%
Other services	12,053	11,896	157	1.3%
<b>Total operating revenues</b>	<b>482,588</b>	<b>460,184</b>	<b>22,404</b>	<b>4.9%</b>
Wages & payroll	213,068	178,291	34,777	19.5%
Operating & admin expense	101,933	81,274	20,659	25.4%
Depreciation	136,143	137,677	(1,534)	-1.1%
<b>Total operating expense</b>	<b>451,144</b>	<b>397,242</b>	<b>53,902</b>	<b>13.6%</b>
<b>Operating income</b>	<b>31,444</b>	<b>62,942</b>	<b>(31,498)</b>	<b>-50.0%</b>
Nonoperating revenue (expense)				
Property taxes	17,503	20,762	(3,259)	-15.7%
System development charges	11,600	24,850	(13,250)	-53.3%
Special assessments interest	3,770	2,270	1,500	66.1%
Interest income	49,047	27,671	21,376	77.3%
Interest expense	(59,847)	(61,997)	2,150	-3.5%
<b>Total nonoperating revenue (expense)</b>	<b>22,073</b>	<b>13,556</b>	<b>8,517</b>	<b>62.8%</b>
<b>Change in net assets</b>	<b>53,517</b>	<b>76,498</b>	<b>(22,981)</b>	<b>-30.0%</b>
<b>Beginning net assets</b>	<b>3,571,505</b>	<b>3,495,007</b>	<b>76,498</b>	<b>2.2%</b>
<b>Ending net assets</b>	<b>\$ 3,625,022</b>	<b>\$ 3,571,505</b>	<b>\$ 53,517</b>	<b>1.5%</b>

### Capital Asset and Debt Administration

#### Capital Assets (Treatment Plant in Service)

Lakeside Water District's investment in capital assets as of June 30, 2006 amounts to \$3.58 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, reservoirs, pipelines, pump stations, office, automotive and construction equipment. The major capital asset additions during the current fiscal year were improvements to a building and to the water system for a total of about \$46,000.

Because of depreciation expense, the District's investment in capital assets for the current fiscal year declined about 2%.

### Long Term Debt

At the end of the current fiscal year, Lakeside Water District had a total bonded debt outstanding of \$1.13 million. There is \$138,000 of this secured by revenue bonds. The remaining \$1.136 million is general obligation bonds payable from property tax revenue and other charges. There is a portion of these bonds that are payable within the next fiscal year. Therefore, classified as current debt, there is \$2,883 for revenue bonds and \$44,361 for general obligation bonds.

### **Budgetary Highlights**

The District's budget is prepared according to Oregon Budget Law. The most significant budgeted fund is the General Fund.

In the 2005-06 budget, the Water System Fund, which is used for system improvements, had a budget of \$395,000. Only \$23,990 was spent in anticipation of future development. The balance of that fund will be held for future improvements, construction and emergency repairs. Also, budgeted projects of \$85,400 in the System Development Charge Fund were deferred to future years, and will include surveillance equipment. Due to an error in calculating debt service, the budget for principal payments on the 1979 G.O. Bond Debt was exceeded by approximately \$380.

### **Economic Factors and Next Year's Budgets and Finances**

The District adopted an annual budget for the period covering fiscal year 2006-2007. The budget for operating and capital expenditures is expected to grow by an average of 1.05%.

The District entered the 2006-2007 fiscal year with combined cash reserves of \$1.25 million, which is above our budget projection of \$1.07 million.

Capital outlay is planned for just under \$960,000 for emergency improvements, security system enhancements and extension of distribution lines.

### **Requests for Information**

The financial report is designed to provide a general overview of Lakeside Water District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Chairman of the Board, Lakeside Water District, P.O. Box 314, Lakeside, OR 97449.

**LAKESIDE WATER DISTRICT  
ENTERPRISE FUND  
STATEMENTS OF NET ASSETS  
June 30, 2006 and 2005**

**ASSETS**

	2006	2005
Current assets:		
Cash and cash equivalents	\$ 68,685	\$ 75,919
Receivables:		
Accounts	28,920	31,809
Property taxes	6,274	5,701
Assessments and related interest	25,965	40,388
Inventory	15,424	10,501
Prepaid expenses	4,862	8,351
Total current assets	150,130	172,669
Noncurrent assets:		
Restricted assets:		
Cash and cash equivalents	1,183,046	1,053,928
Property taxes receivable	1,400	1,625
Capital assets (net of accumulated depreciation)	3,588,920	3,679,276
Property taxes receivable	5,116	4,854
Total noncurrent assets	4,778,482	4,739,683
Total assets	\$ 4,928,612	\$ 4,912,352

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

**LIABILITIES AND NET ASSETS**

	<u>2006</u>	<u>2005</u>
Current liabilities (payable from current assets):		
Accounts payable	\$ 11,125	\$ 2,326
Accrued payroll taxes	1,739	385
Accrued compensation	<u>3,595</u>	<u>3,508</u>
Total current liabilities (payable from current assets)	<u>16,459</u>	<u>6,219</u>
Current liabilities (payable from restricted assets):		
Current portion of G.O. bonds 1979	18,732	17,820
Current portion of G.O. bonds 2000	25,629	24,525
Current portion water revenue bonds 2000	2,883	2,746
Accrued interest	<u>7,482</u>	<u>7,872</u>
Total current liabilities (payable from restricted assets)	<u>54,726</u>	<u>52,963</u>
Deferred credits and other liabilities:		
Water deposits	<u>6,450</u>	<u>8,425</u>
Long-term debt:		
General obligation bonds 1979 (net of current portion)	49,137	67,911
General obligation bonds 2000 (net of current portion)	1,042,183	1,067,811
Water revenue bonds 2000 (net of current portion)	<u>134,635</u>	<u>137,518</u>
Total long-term debt	<u>1,225,955</u>	<u>1,273,240</u>
Total liabilities	<u>1,303,590</u>	<u>1,340,847</u>
Net assets:		
Investment in capital assets, net of related debt	2,308,239	2,353,073
Restricted for:		
Debt service	666,023	609,824
Capital projects	113,920	98,272
Other purposes	6,450	8,425
Unrestricted, designated for capital projects	398,053	339,032
Unrestricted, undesignated assets	<u>132,337</u>	<u>162,879</u>
Total net assets	<u>3,625,022</u>	<u>3,571,505</u>
Total liabilities and net assets	<u>\$ 4,928,612</u>	<u>\$ 4,912,352</u>

**LAKESIDE WATER DISTRICT  
ENTERPRISE FUND  
COMPARATIVE STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
For the Fiscal Years Ended June 30, 2006 and 2005**

	<u>2006</u>	<u>2005</u>
Operating revenues:		
Water sales	\$ 283,655	\$ 271,583
Hook-up fees and other user charges	130,796	125,552
Ad valorem taxes	56,084	51,153
Reservoir site lease	7,550	7,986
Miscellaneous income	<u>4,503</u>	<u>3,910</u>
Total operating revenues	<u>482,588</u>	<u>460,184</u>
Operating expenses:		
Wages and payroll costs	213,068	178,291
Operating and administrative expenses	101,933	81,274
Depreciation	<u>136,143</u>	<u>137,677</u>
Total operating expenses	<u>451,144</u>	<u>397,242</u>
Operating income	<u>31,444</u>	<u>62,942</u>
Non-operating revenues (expenses):		
Ad valorem taxes	17,503	20,762
System development charges	11,600	24,850
Special assessment interest income	3,770	2,270
Interest income	49,047	27,671
Interest expense	<u>(59,847)</u>	<u>(61,997)</u>
Total non-operating revenues (expenses)	<u>22,073</u>	<u>13,556</u>
Changes in net assets	53,517	76,498
Net assets, beginning of the year	<u>3,571,505</u>	<u>3,495,007</u>
Net assets, end of the year	<u>\$ 3,625,022</u>	<u>\$ 3,571,505</u>

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

**LAKESIDE WATER DISTRICT  
ENTERPRISE FUND  
COMPARATIVE STATEMENTS OF CASH FLOWS  
For the Fiscal Years Ended June 30, 2006 and 2005**

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Cash received from customers	\$ 427,418	\$ 405,769
Cash payments to employees	(208,497)	(176,472)
Cash payments to suppliers	(97,698)	(86,015)
Ad valorem taxes	55,474	50,283
	<u>176,697</u>	<u>193,565</u>
Cash flows from noncapital financing activities:		
Ad valorem taxes	17,503	20,762
	<u>17,503</u>	<u>20,762</u>
Cash flows from capital and related financing activities:		
Cash proceeds from assessments	18,194	14,548
Cash proceeds from system development charges	11,600	24,850
Cash payments for the purchase of capital assets	(45,789)	(49,182)
Principal payments on long term debt	(45,132)	(50,899)
Interest paid	(60,236)	(62,586)
	<u>(121,363)</u>	<u>(123,269)</u>
Net capital provided (used) by capital and related financing activities	<u>(121,363)</u>	<u>(123,269)</u>
Cash flows from investing activities:		
Interest income	49,047	27,670
	<u>49,047</u>	<u>27,670</u>
Net increase (decrease) in cash and cash equivalents	121,884	118,728
Cash and cash equivalents, beginning of year (including restricted cash of \$1,053,928)	<u>1,129,847</u>	<u>1,011,119</u>
Cash and cash equivalents, end of year (including restricted cash of \$1,183,046)	<u>\$ 1,251,731</u>	<u>\$ 1,129,847</u>

**Reconciliation of operating income to net cash provided by operating activities**

Operating income	\$ 31,444	\$ 62,942
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	136,143	137,677
Changes in assets and liabilities:		
Accounts receivable	2,889	(2,237)
Property taxes receivable	(610)	(870)
Inventory	(4,923)	(88)
Prepaid items	3,489	(265)
Accounts payable and other accrued liabilities	8,799	(3,963)
Deposits payable	(1,975)	(1,025)
Accrued payroll and employee benefits	1,441	1,394
	<u>176,697</u>	<u>193,565</u>
Net cash provided by operating activities	<u>\$ 176,697</u>	<u>\$ 193,565</u>

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

## LAKESIDE WATER DISTRICT

### NOTES TO THE BASIC FINANCIAL STATEMENTS

#### I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

##### A. Reporting Entity

The Lakeside Water District (District), Coos County, Oregon, is a political subdivision and municipal corporation within the State of Oregon and the County of Coos. The District's purpose is to provide water for customers in and near the City of Lakeside. The District was formed on September 3, 1959 and is operated pursuant to Oregon Revised Statutes Chapter 264 concerning domestic water supply districts. The District is governed by five elected commissioners who serve four-year terms of office with staggered expirations.

In evaluating how to define the District for financial reporting purposes, management has considered all potential component units, as defined under GASB Statement No. 39. Based on the application of the criteria established by GASB, there are no potential component units of the District.

##### B. Basis of Presentation, Measurement Focus and Basis of Accounting

###### 1. Basis of Presentation

For operating and budgetary purposes, the accounts of the District are organized and operated on a fund basis. The operations of each fund are accounted for as a separate accounting entity. The funds of the District include the following:

*General Fund.* The General Fund accounts for all general operating revenues and expenditures of the District. The major sources of revenues are water sales and ad valorem taxes.

*General Obligation Bond Fund.* The General Obligation Bond Fund accounts for principal and interest on bonded indebtedness. The primary source of revenue is ad valorem taxes, specifically levied toward the retirement of the G.O. Bond.

*Water System Fund.* The Water System Fund accounts for funds used for expenditures for system improvements, construction and emergency repairs. The primary sources of revenues are transfers from the General Fund and interest on investments.

*System Development Charge Fund.* The System Development Charge Fund accounts for funds used for water system construction, expansion, and improvements as limited by Oregon law.

*1995 Bond Debt Service Fund.* The Bond Debt Service Fund accounts for principal and interest on bonded indebtedness. The primary sources of revenues are user fees and interest on investments.

2. *Measurement Focus and Basis of Accounting*

For financial reporting purposes, management considers the activities relating to the operation of the District as those of a unitary nature and as such are primarily financed and operated in a manner similar to private business. The Board has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

The District uses the flow of economic resources measurement focus and the accrual basis of accounting. The accrual basis of accounting recognizes revenues when earned and expenses when incurred. Assets are capitalized based upon the District's capitalization policy and long-term liabilities are accounted for in the appropriate accounts.

Investments are stated at cost, which approximates fair value.

The District has applied all Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure issued on or before November 30, 1989, unless those pronouncement conflict or contradict Governmental Accounting Standards Board (GASB) pronouncements. The District does not apply FASB statements issued after November 30, 1989, unless they are specifically incorporated into GASB pronouncements.

Entitlements and shared revenues are recorded at the time of receipt or earlier if susceptible to accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met. 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.

**C. Assets, Liabilities, and Equity**

1. *Cash and Cash Equivalents*

The District maintains separate bank accounts for its funds and invests in a central pool of cash and investments.

The investment policy of the District is to invest in the Oregon State Treasury's Local Government Investment Pool and to transfer resources to the various checking accounts as the need arises. This policy is in accordance with ORS 294.035, which specifies the types of investments authorized for municipal corporations. The District allocates earnings on investments to each fund based on monthly investment balances.

All cash and investments are carried at cost, which approximates fair value. 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.

2. *Receivables and Payables*

Receivables including property taxes, accounts, and assessments are reported in accordance with the policies enumerated in paragraph B above.

The District is a domestic water supply corporation and grants credit to customers served by the District. Turn on fees are required of all customers, which provides security for unpaid accounts. An allowance for bad debts has not been established since any remaining uncollectable amounts would not be material.

Assessment proceeds are payment of debt for the North Lake Road Water System Expansion project.

3. *Inventory and Prepaid Items*

Inventories are valued at the lower of cost or market based on management's estimate, using the first-in/first-out (FIFO) method. The cost of inventories is expensed when consumed.

Certain payments made to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

4. *Restricted Assets Whose Use is Limited*

Certain resources set aside for repayment of bonds are classified as restricted assets on the Statement of Net Assets because their use is limited by applicable bond covenants.

Water deposits are collected from new customers and are refundable when the District is no longer supplying water to the customer or payments for service have been made for one year in a timely manner and paid in full.

System development charges are set aside and restricted to water system construction, expansion and improvements pursuant to Oregon law.

Water system charges are set aside and restricted to system improvements, construction and emergency repairs pursuant to board policy.

5. *Capital Assets*

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 fixed assets are valued at their estimated fair market value on the date received.

Expenditures or major additions, improvements, and replacements are capitalized for amounts in excess of \$500. 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. Major outlays for capital assets and improvements are capitalized as projects are incurred. Capital assets are depreciated using the straight-line method over their estimated useful lives.

Estimated useful lives of the components of the utility plant in service are as follows:

Buildings	40 years
Improvements	40 years
Equipment	5-20 years

6. *Compensated Absences*

Vacation pay accumulates at the regular rates of pay. Employees are entitled to vacation pay up to four weeks, depending on length of service. The Board of Commissioners requires the District's fulltime employees to use their vacation annually or receive express approval to carry over balances.

Employees are also entitled to 25% of their unused sick leave upon termination. Employees may accrue a maximum of 60 days sick leave.

7. *Long-term Obligations*

Since Lakeside Water District is considered a unitary enterprise, the long-term debt and other obligations are reported on the Statement of Net Assets.

8. *Operating Revenue*

The District has defined operating revenues to include all service charges and other applicable charges for services directly attributable to providing either potable water, management services or other related activities, including ad volarem taxes levied for general operating purposes.

Operating expenses are defined as those expenses directly related to providing the services reflected within operating revenues including depreciation.

Non-operating revenues are revenues of the District not directly attributable to the services provided. This includes investment interest, capital contributions, gain (loss) on sale of capital assets and other non-operating revenue.

9. *Use of Estimates*

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

10. *Net Assets*

Net assets comprise the various net earnings from operating and non-operating revenues, expenses and contributions of capital. Net assets are classified in the following three components: Investment in capital assets, net of related debt; Restricted net assets; and Unrestricted net assets.

Investment in capital assets, net of related debt, consists of all capital assets, net of accumulated depreciation and reduced by outstanding debt (revenue bonds and other debt obligations) that is attributable to the acquisition, construction and improvement of those assets; debt related to unspent proceeds or other restricted cash and investments is excluded from the determination. Restricted net assets consist of net assets for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws, regulations and enabling legislation, including self-imposed legal mandates. Unrestricted net assets consists of all other net assets not included in the above categories.

## II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

### A. Budgetary Information

Annual budgets for proprietary funds are adopted on the cash basis, which is not consistent with generally accepted accounting principles to comply with Oregon Budget Law. All annual appropriations lapse at fiscal year end. Budgetary comparisons for enterprise funds are not required by GAAP.

Oregon Local Budget Law establishes standard procedures relating to the preparation, adoption, and execution of the annual budget. The District begins its budgeting process by appointing budget committee members in early fall of each year. Recommendations are developed through early spring and the Budget Committee usually approves the budget in late spring. Public notices of the budget hearing are generally published in early June, and the public hearing is held in late June. The budget is adopted, appropriations are made and the tax levy is declared no later than June 30. The resolution authorizing appropriations for each fund, by function, sets the legal limit for expenditures.

Management may reassign resources within functions without seeking approval of the District's Board of Commissioners.

Original appropriations may be increased through resolutions by transferring amounts between appropriations in the same fund or by transferring from an appropriation in the General Fund to an appropriation category in another fund. A supplemental budget is needed to increase appropriations when appropriations transfers are unauthorized, and is prepared in the same manner as the regular budget. Budget amounts are shown as originally adopted, and as amended by the District's Board of Commissioners.

### B. Excess of Expenditures over Appropriations

Expenditures exceeded appropriations for the fiscal year ended June 30, 2006 in the following amounts:

General Fund	
Personal Services	<u>\$          132</u>
1979 General Obligation Bond Fund	
Debt Service	<u>\$          380</u>

The above over-expenditure for debt service was due to the District choosing to make an additional principal payment on the bonded debt balance, resulting in a savings in interest costs over the remaining term of the bond.

The resolution authorizing appropriations for each fund sets the level by which expenditures cannot legally exceed appropriations. Total personal services, materials and services, capital outlay, debt service, operating transfers and operating contingencies are the levels of control. Budgeted amounts are as originally adopted or as amended by the Board of Commissioners. The excess of expenditures over appropriations listed above were not considered material to the financial statements.

### III. DETAILED NOTES

#### A. Deposits and Investments

**Deposits.** The Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*, requires governmental agencies to disclose an indication of the level of risk assumed by the entity at year-end. If bank deposits at year end are not entirely insured or collateralized with securities held by the District or by its agent in the District's name, the District must disclose the custodial credit risk that exists. Deposits with financial institutions are comprised of bank demand deposits and certificates of deposit. For deposits in excess of federal depository insurance, Oregon Revised Statutes require the depository institution to maintain on deposit with a collateral pool manager, securities having a value not less than 25% of the outstanding certificates of participation issued by the pool manager. For the fiscal years ended June 30, 2006 and 2005, the carrying amounts of the District's deposits in various financial institutions was \$37,189 and \$12,485 and the bank balance was \$45,755 and \$24,960 respectively. All deposits are held in the name of the District. For the fiscal years' ended June 30, 2006 and 2005, the District's deposits with various financial institutions had a bank value of \$45,755 and \$24,960, respectively. All of these deposits were covered by federal depository insurance.

*Custodial Credit Risk.* Custodial credit risk for deposits is the risk that, in the event of a bank failure, a government's deposits may not be returned to it. The District does not have a formal deposit policy for custodial credit risk.

**Investments.** Lakeside Water District has invested funds in the State Treasurer's Oregon Short-Term Fund Local Government Investment Pool during fiscal years 2006 and 2005. The Oregon Short-Term Fund is the local government investment pool for local governments and was established by the State Treasurer. It was created to meet the financial and administrative responsibilities of federal arbitrage regulations. The investments are regulated by the Oregon Short-Term Fund Board and approved by the Oregon Investment Council (ORS 294.805 to 294.895). Local Government Investment Pool (LGIP) is an external investment pool managed by the State Treasurer's office, which allows governments within the state to pool their funds for investment purposes. The amounts invested in the pool are not classified by risk categories because they are not evidenced by securities that exist in physical or book entry form as defined by GASB Statement No. 40.

In addition, the Oregon State Treasury LGIP distributes investment income on an amortized cost basis and participants' equity in the pool is determined by the amount of participant deposits, adjusted for withdrawals and distributed income. Accordingly, the adjustment to fair value would not represent an expendable increase in the District's cash position.

Investments in the Oregon State Treasury LGIP are made under the provisions of ORS 194.180. These funds are held in the District's name and are not subject to collateralization requirements or ORS 295.015. Investments are stated at cost, which approximates fair value.

*Credit Risk.* State statutes authorize the District to invest primarily in general obligations of the US Government and its agencies, certain bonded obligations of Oregon municipalities, bank repurchase agreements, bankers' acceptances, certain commercial papers, and the State Treasurer's investment pool, among others. The District has no formal investment policy that further restricts its investment choices.

*Concentration of Credit Risk.* Credit risk for investments is the risk that, in the event of the failure of the counterparty, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The District's policy for managing this risk complies with the ORS.

*Interest Rate Risk.* The District has no formal investment policy that explicitly limits investment maturities as a means of managing its exposure to fair value loss arising from increasing interest rates.

As of June 30, 2006, the District had the following investments:

<u>Investment Type</u>	<u>Maturities</u>	<u>Percentage of Portfolio</u>	<u>Fair Value</u>
Local Government Investment Pool	1 day	100%	\$ 1,214,442

A reconciliation of cash and cash equivalents as shown on the Statement of Net Assets follows:

	<u>2006</u>	<u>2005</u>
Petty cash	\$ 100	\$ 100
Carrying amount of deposit	37,189	12,485
Carrying amount of investments	<u>1,214,442</u>	<u>1,117,262</u>
Total cash and cash equivalents	<u>\$ 1,251,731</u>	<u>\$ 1,129,847</u>
Cash and cash equivalents:		
In unrestricted accounts	\$ 68,685	\$ 75,919
In restricted accounts (Note D)	<u>1,183,046</u>	<u>1,053,928</u>
Total	<u>\$ 1,251,731</u>	<u>\$ 1,129,847</u>

**B. Receivables**

Receivables at the end of each fiscal year are as follows:

	<u>2006</u>	<u>2005</u>
Unrestricted		
Accounts	\$ 28,920	\$ 31,809
Property taxes	6,274	5,701
Assessments	25,205	39,207
Assessment interest	<u>760</u>	<u>1,181</u>
Total unrestricted	61,159	77,898
Restricted		
Property taxes	1,400	1,625
Property taxes receivable (noncurrent)	<u>5,116</u>	<u>4,854</u>
Total	<u>\$ 67,675</u>	<u>\$ 84,377</u>

Deposits are required of all customers for the first year of service, which provides security for unpaid accounts. Otherwise, service is disconnected for delinquent accounts. An allowance for bad debts has not been established since any remaining uncollectable amounts would not be material.

Property taxes are assessed and attach as an enforceable lien on property as of July 1. Taxes are payable on November 15 and may be paid in installments due November 15, February 15, and May 15. Taxes are billed and collected by the County of Coos and remittance to the District is made at periodic intervals. For the fiscal year 2005-2006, the District levied taxes provided for in the adopted budget at the rate of \$.7065/\$1,000 of assessed value for operations and in the amount of \$16,654 for bonds. These taxes were imposed and categorized for the tax year 2005-2006 upon the assessed value of all taxable property within the Lakeside Water District.

Following is the summary of property tax transactions for the year ended June 30, 2006:

		<u>Receivable 7/1/2005</u>	<u>2005-06 Net Levy</u>	<u>Adjustments and Collections</u>	<u>Receivable 6/30/2006</u>
2005-06	Operating Fund	\$ -	\$ 55,659	\$ 48,848	\$ 6,811
	Bond Fund	-	16,654	15,786	868
2004-05	Operating Fund	6,320	-	3,894	2,426
	Bond Fund	1,006	-	726	280
2003-04	Operating Fund	2,244	-	1,059	1,185
	Bond Fund	322	-	196	126
2002-03	Operating Fund	1,096	-	492	604
	Bond Fund	144	-	74	70
2001-02	Operating Fund	555	-	293	262
	Bond Fund	81	-	53	28
2000-01	Operating Fund	241	-	184	57
	Bond Fund	34	-	13	21
1999-00	Operating Fund	43	-	20	23
	Bond Fund	23	-	16	7
1998-99	Operating Fund	25	-	3	22
	Bond Fund	3	-	3	-
1997-98	Operating Fund	31	-	31	-
	Bond Fund	12	-	12	-
Total		<u>12,180</u>	<u>\$ 72,313</u>	<u>\$ 71,703</u>	<u>12,790</u>
Less: Restricted portion		<u>(1,625)</u>			<u>(1,400)</u>
Total Unrestricted Property Tax Receivable		<u>\$ 10,555</u>			<u>\$ 11,390</u>

### C. Capital Assets

The following is a summary of changes in capital assets during the fiscal year:

	Balance 7/1/2005	Adjustments	Additions	Deletions	Balance 6/30/2006
Nondepreciable capital assets					
Land	\$ 32,872	\$ -	\$ -	\$ -	\$ 32,872
Depreciable capital assets					
Building improvements	73,315	-	15,853	-	89,168
Utility plant in service	5,049,757	4,303	27,985	-	5,082,045
Equipment	123,952	(4,305)	1,951	(2,442)	119,156
Total depreciable capital assets	5,247,024	(2)	45,789	(2,442)	5,290,369
Less accumulated depreciation	(1,600,620)	-	(136,143)	2,442	(1,734,321)
Total depreciable capital assets (net)	3,646,404	(2)	(90,354)	-	3,556,048
Total capital assets (net)	\$3,679,276	\$ (2)	\$ (90,354)	\$ -	\$3,588,920

### D. Restricted Assets

Restricted assets at June 30, 2006 and 2005 consisted of the following:

	2006	2005
Bonded debt service accounts:		
Cash	\$ 658,767	\$ 603,319
Property taxes receivable	1,400	1,625
	660,167	604,944
System development charge accounts:		
Cash	113,920	98,272
General fund accounts:		
Loan reserves - Cash	5,856	4,880
Deposits - Cash	6,450	8,425
Water system fund accounts:		
Cash	398,053	339,032
Total	\$ 1,184,446	\$ 1,055,553

**E. Long-Term Debt**

**1979 General Obligation Bonds.** The bonds payables are General Obligation Bonds issued for the purpose of improving facilities and are payable from taxes levied. The original issue date was September 18, 1979 for \$332,000 and bears a simple interest rate of 5% computed daily on the outstanding balance. A schedule of maturities by fiscal year is shown below:

<u>Issue of September, 1979</u> <u>Fiscal Year Ending</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 18,732	\$ 3,197
2008	19,690	2,239
2009	20,697	1,232
2010	8,750	222
	67,869	<u>\$ 6,890</u>
Less current portion	<u>(18,732)</u>	
Total	<u>\$ 49,137</u>	

Scheduled payment dates are September 18 and March 18.

The entire issue is held by the U.S. Department of Agriculture, Rural Economic and Community Development. Call and early retirement provisions: Callable in inverse numerical order on any interest payment date without premium. Principal payments may be accelerated on any interest payment date without premium or penalty.

**2000 General Obligation Bonds.** The bonds payable are General Obligation Bonds issued for the purpose of improving facilities and are payable from monthly assessments of \$8.40 for each water-user in the District. The original issue date of the 30 year bond was June 15, 2000 for \$1.2 million and bears simple interest of 4.5%. A schedule of maturities by fiscal year is shown below:

<u>Issue of June, 2000</u>		
<u>Fiscal Year Ending</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 25,629	\$ 48,051
2008	26,782	46,898
2009	27,988	45,692
2010	29,247	44,433
2011	30,563	43,117
2012	31,939	41,741
2013	33,375	40,305
2014	34,878	38,802
2015	36,447	37,233
2016	38,087	35,593
2017	39,801	33,879
2018	41,592	32,088
2019	43,464	30,216
2020	45,420	28,260
2021	47,464	26,216
2022	49,600	24,080
2023	51,832	21,848
2024	54,164	19,516
2025	56,601	17,079
2026	59,148	14,532
2027	61,810	11,870
2028	64,592	9,088
2029	67,498	6,182
2030	<u>69,891</u>	<u>3,131</u>
	1,067,812	<u>\$ 699,850</u>
Less current portion	<u>(25,629)</u>	
Total	<u>\$ 1,042,183</u>	

The entire issue is held by the U.S. Department of Agriculture, Rural Economic and Community Development. The reserve account is to be accumulated at a minimum rate of \$7,368 per year until there is a minimum of \$73,680 in the account. At June 30, 2006 and 2005, the balance of this reserve account was \$642,601 and \$583,574, respectively. Call and early retirement provisions: Callable in inverse numerical order on any date without premium. Principal payments may be accelerated on any interest payment date without premium or penalty.

**2000 Water Revenue Bond.** This is a single instrument water revenue bond issued for the purpose of water system improvement and is payable from the unobligated net revenues of the water facilities of the District. The original issue date of the 30 year bond was November 1, 2000 for \$150,000 with 5.0% interest and an annual payment of \$9,759. A schedule of maturities by fiscal year is shown below:

Issue of November, 2000

<u>Fiscal Year Ending</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 2,883	\$ 6,876
2008	3,027	6,732
2009	3,179	6,581
2010	3,338	6,421
2011	3,504	6,255
2012	3,680	6,079
2013	3,864	5,895
2014	4,057	5,703
2015	4,260	5,499
2016	4,473	5,286
2017	4,695	5,063
2018	4,931	4,827
2019	5,178	4,581
2020	5,437	4,322
2021	5,708	4,051
2022	5,994	3,765
2023	6,293	3,466
2024	6,608	3,151
2025	6,939	2,820
2026	7,285	2,474
2027	7,650	2,109
2028	8,032	1,727
2029	8,434	1,325
2030	<u>18,069</u>	<u>904</u>
	137,518	<u>\$ 105,912</u>
Less current portion	<u>(2,883)</u>	
Total	<u>\$ 134,635</u>	

The entire issue is held by the U.S. Department of Agriculture (USDA), Rural Economic and Community Development. The District has created a long-term debt reserve account, which is required to be funded by the District under the Letter of Conditions issued by USDA Rural Development. The reserve account is to be accumulated at a minimum rate of \$976 per year until there is a minimum of \$9,759 in the account. At June 30, 2006 and 2005, the balance of this reserve account was \$5,856 and \$4,880, respectively. This minimum level of required Fidelity Bond coverage is in addition to any existing or future account obligations of the Lakeside Water District. Call and early retirement provisions: All or part of the outstanding bond installments may be paid in inverse order on any interest payment date without premium.

**Changes in long-term liabilities.** During the fiscal year ended June 30, 2006, the following changes occurred in long-term liabilities:

	Balance 7/1/2005	Additions	Reductions	Balance 6/30/2006	Amount due within one year
G.O. Bonds					
September 1979	\$ 85,731	\$ -	\$ (17,862)	\$ 67,869	\$ 18,732
G.O. Bonds					
June 2000	1,092,336	-	(24,524)	1,067,812	25,629
Water revenue bond					
November 2000	140,264	-	(2,746)	137,518	2,883
Accrued					
Compenstaion	<u>3,508</u>	<u>5,948</u>	<u>(5,861)</u>	<u>3,595</u>	<u>3,595</u>
Totals	<u>\$1,321,839</u>	<u>\$ 5,948</u>	<u>\$ (50,993)</u>	<u>\$1,276,794</u>	<u>\$ 50,839</u>

There are a number of limitations and restrictions contained in the bond indentures. The District is in compliance with all significant limitations and restrictions.

Interest paid for fiscal year ended June 30, 2006 and June 30, 2005 is as follows:

	2006	2005
1979 General obligation bonds	\$ 4,068	\$ 5,229
2000 General obligation bonds	49,155	50,211
2000 Water revenue bond	7,013	7,146

#### IV. OTHER INFORMATION

##### A. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the District carries commercial insurance. Worker's compensation insurance is also provided through a commercial carrier. There has been no significant reduction in insurance coverage from the prior year and the District has not been required to pay any settlements in excess of insurance coverage during the last three fiscal years.

##### B. Employee Retirement System

**Plan Description.** The Lakeside Water District's 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. PERS is an agent multiple-employer pension plan administered by the Oregon Public Employees Retirement System. PERS is administered under ORS Chapter 238 by the Public Employees Retirement Board.

The Board has the authority to establish and amend the benefit provisions of the plans that participate in PERS to the respective employer entities. Oregon PERS issues a publicly available financial report that includes financial statements and required supplementary information for PERS. That report may be obtained by writing to Oregon PERS, PO Box 23700, Tigard, Oregon 97281-3700 or by calling (503) 598-7377.

**Funding Policy.** Lakeside Water District members are required to contribute 6.0% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current rate is 10.65% of annual covered payroll for Tier I and Tier II employees. Public employees hired after August 29, 2003, after a six month waiting period, become members of the Oregon Public Service Retirement Plan. The District currently has no employees under this plan. The contribution requirements of plan members and the Lakeside Water District are established and may be amended by the PERS Retirement Board and the State Legislature.

**Annual Pension Cost.** For June 30, 2006, the District's annual pension cost of \$16,090 for Lakeside Water District was equal to the District's required and actual contributions. This consisted of \$9,604 from the District and \$6,486 paid by the District on behalf of employees. The required contribution was determined as part of the December 2004 actuarial valuation using the projected unit credit cost method. The unfunded Actuarial Liability is amortized as a level percentage of covered payroll over a 23 year period. The actuarial assumptions included (a) 8.0% investment rate of return (net of administrative expenses), (b) projected salary increases of 4.25% per year attributable to general wage adjustments, with additional increases for promotion and longevity that vary by age and service, and (c) 3.5% per year cost-of-living adjustments. Because all PERS employees are required by law to submit the contributions adopted by the Retirement Board, the employer contributions are calculated in conformance with the Standards of GASB 27, and there is no net pension obligation. The contributions actually made are equivalent to the Annual Pension Cost.

**THREE YEAR TREND INFORMATION FOR LAKESIDE WATER DISTRICT**

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/2004	\$ 16,544	100%	-
6/30/2005	\$ 16,092	100%	-
6/30/2006	\$ 20,379	100%	-

**SCHEDULE OF FUNDING PROGRESS**

<u>Actuarial Valuation Date</u>	<u>Valuation AVA</u>	<u>AAL</u>	<u>UAAL</u>	<u>Funded Percent</u>	<u>Covered Payroll</u>	<u>UAAL/ Payroll</u>
12/31/2001	\$ 493,874	\$ 452,808	\$ (41,066)	109%	\$ 104,948	-39%
12/31/2003	\$ 476,730	\$ 492,615	\$ 15,886	97%	\$ 112,608	14%
12/31/2004	\$ 463,619	\$ 533,304	\$ 69,685	87%	\$ 114,191	61%

AVA: Actuarial Value of Assets  
 AAL: Actuarial Accrued Liability  
 UAAL: Unfunded Actuarial Accrued Liability

**LAKESIDE WATER DISTRICT**  
**SCHEDULE OF REVENUES RECEIVED, EXPENDITURES PAID AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)**  
**GENERAL FUND**  
**For the Fiscal Year Ended June 30, 2006**

	Budget		Actual on Budgetary Basis	Variance
	Original	Final		
<b>Revenues:</b>				
Ad valorem taxes	\$ 51,515	\$ 51,515	\$ 55,474	\$ 3,959
Hookup fees and meter charges	7,000	7,000	17,682	10,682
Water deposits	8,000	8,000	-	(8,000)
Water receipts	275,000	275,000	284,845	9,845
Interest	800	800	3,981	3,181
Miscellaneous revenue	2,500	2,500	4,503	2,003
Turn on and transfer fees	3,000	3,000	2,289	(711)
Site lease	7,900	7,900	7,550	(350)
Late charges and reconnections	4,000	4,000	4,594	594
<b>Total revenues</b>	<b>359,715</b>	<b>359,715</b>	<b>380,918</b>	<b>21,203</b>
<b>Expenditures:</b>				
<b>Personal services:</b>				
Superintendent	42,014	42,014	42,224	(210)
Office manager	34,308	34,308	39,477	(5,169)
Maintenance technologist	31,520	31,520	30,617	903
Overtime, vacation relief, etc.	23,833	23,833	19,741	4,092
Payroll taxes and benefits	76,000	76,000	75,748	252
<b>Total personal services</b>	<b>207,675</b>	<b>207,675</b>	<b>207,807</b>	<b>(132)</b>
<b>Materials and services:</b>				
Office supplies and postage	10,000	10,000	7,900	2,100
Telecommunications	4,000	4,000	-	4,000
Office heat and lights	2,000	2,000	4,686	(2,686)
Insurance and fidelity bonds	15,000	15,000	8,560	6,440
Professional fees	20,000	20,000	14,883	5,117
Printing and publications	1,000	1,000	652	348
Repairs and maintenance	20,225	20,225	14,556	5,669
Vehicle repairs and maintenance	1,000	1,000	-	1,000
Fuel, oil and tires	5,000	5,000	3,888	1,112
Small tools	1,000	1,000	566	434
Chlorine and chemicals	15,000	15,000	12,018	2,982
Power for plant	20,000	20,000	23,128	(3,128)
Schools and training	2,000	2,000	1,849	151
Water testing	4,500	4,500	4,481	19
Dues and fees	2,500	2,500	1,010	1,490
Elections	200	200	175	25
Deposit refunds	8,000	8,000	1,400	6,600
Sewer	2,000	2,000	-	2,000
Miscellaneous	1,000	1,000	36	964
<b>Total materials and services</b>	<b>\$ 134,425</b>	<b>\$ 134,425</b>	<b>\$ 99,788</b>	<b>\$ 34,637</b>

**LAKESIDE WATER DISTRICT**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)**  
**GENERAL FUND**  
**(Continued)**  
**For the Fiscal Year Ended June 30, 2006**

	Budget		Actual on Budgetary Basis	Variance
	Original	Final		
Capital outlay:				
Water service hookups	\$ 7,000	\$ 7,000	\$ 3,995	\$ 3,005
Office equipment	3,000	3,000	-	3,000
Building improvements	15,000	15,000	15,853	(853)
Other equipment	3,000	3,000	1,951	1,049
	<u>28,000</u>	<u>28,000</u>	<u>21,799</u>	<u>6,201</u>
Total capital outlay				
Debt service:				
Reserve	5,856	5,856	-	5,856
Payments	9,759	9,759	9,759	-
	<u>15,615</u>	<u>15,615</u>	<u>9,759</u>	<u>5,856</u>
Total debt service				
Operating contingency	<u>9,000</u>	<u>9,000</u>	<u>-</u>	<u>(9,000)</u>
Total expenditures	<u>394,715</u>	<u>394,715</u>	<u>339,153</u>	<u>37,562</u>
Excess (deficiency) of revenues over (under) expenditures	(35,000)	(35,000)	41,765	76,765
Other financing sources (uses):				
Operating transfers out	<u>(50,000)</u>	<u>(50,000)</u>	<u>(50,000)</u>	<u>-</u>
Change in net assets	(85,000)	(85,000)	(8,235)	76,765
Fund balance at beginning of year	<u>85,000</u>	<u>85,000</u>	<u>89,225</u>	<u>4,225</u>
Fund balance at end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 80,990</u>	<u>\$ 80,990</u>

**LAKESIDE WATER DISTRICT**  
**SCHEDULE OF REVENUES RECEIVED, EXPENDITURES PAID AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)**  
**1979 GENERAL OBLIGATION BOND FUND**  
**For the Fiscal Year Ended June 30, 2006**

	<u>Budget Original and Final</u>	<u>Actual on Budgetary Basis</u>	<u>Variance</u>
Revenues:			
Ad valorem taxes	\$ 16,150	\$ 17,503	\$ 1,353
Interest	<u>200</u>	<u>847</u>	<u>647</u>
Total revenues	<u>16,350</u>	<u>18,350</u>	<u>2,000</u>
Expenditures:			
Debt service:			
Retirement of bonds	17,250	17,862	(612)
Interest on bonds	<u>4,300</u>	<u>4,068</u>	<u>232</u>
Total expenditures	<u>21,550</u>	<u>21,930</u>	<u>(380)</u>
Change in net assets	(5,200)	(3,580)	1,620
Fund balance at beginning of year	<u>25,000</u>	<u>19,746</u>	<u>(5,254)</u>
Fund balance at end of year	<u>\$ 19,800</u>	<u>\$ 16,166</u>	<u>\$ (3,634)</u>

**LAKESIDE WATER DISTRICT**  
**SCHEDULE OF REVENUES RECEIVED, EXPENDITURES PAID AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)**  
**WATER SYSTEM FUND**  
**For the Fiscal Year Ended June 30, 2006**

	Budget Original and Final	Actual on Budgetary Basis	Variance
Revenues:			
Interest	\$ 5,000	\$ 14,819	\$ 9,819
Expenditures:			
Capital outlay:			
General improvements	<u>395,000</u>	<u>23,990</u>	<u>371,010</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(390,000)</u>	<u>(9,171)</u>	<u>380,829</u>
Other financing sources (uses):			
Repayment of loan	25,000	18,193	(6,807)
Transfers in	<u>50,000</u>	<u>50,000</u>	<u>-</u>
Total other financing sources (uses)	<u>75,000</u>	<u>68,193</u>	<u>(6,807)</u>
Change in net assets	(315,000)	59,022	374,022
Fund balance at beginning of year	<u>315,000</u>	<u>339,031</u>	<u>24,031</u>
Fund balance at end of year	<u><u>\$ -</u></u>	<u><u>\$ 398,053</u></u>	<u><u>\$ 398,053</u></u>

**LAKESIDE WATER DISTRICT**  
**SCHEDULE OF REVENUES RECEIVED, EXPENDITURES PAID AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)**  
**SYSTEM DEVELOPMENT CHARGE FUND**  
**For the Fiscal Year Ended June 30, 2006**

	<u>Budget Original and Final</u>	<u>Actual on Budgetary Basis</u>	<u>Variance</u>
Revenues:			
System development charges	\$ 9,900	\$ 11,600	\$ 1,700
Interest	<u>500</u>	<u>4,049</u>	<u>3,549</u>
Total revenues	10,400	15,649	5,249
Expenditures:			
Capital outlay:			
System development	<u>85,400</u>	<u>-</u>	<u>85,400</u>
Change in net assets	(75,000)	15,649	90,649
Fund balance at beginning of year	<u>75,000</u>	<u>98,271</u>	<u>23,271</u>
Fund balance at end of year	<u><u>\$ -</u></u>	<u><u>\$ 113,920</u></u>	<u><u>\$ 113,920</u></u>

**LAKESIDE WATER DISTRICT**  
**SCHEDULE OF REVENUES RECEIVED, EXPENDITURES PAID AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)**  
**1995 BOND DEBT SERVICE FUND**  
**For the Fiscal Year Ended June 30, 2006**

	Budget Original and Final	Actual on Budgetary Basis	Variance
Revenues:			
User fees	\$ 96,000	\$ 107,356	\$ 11,356
Interest	4,000	25,351	21,351
Total revenues	<u>100,000</u>	<u>132,707</u>	<u>32,707</u>
Expenditures:			
Debt service:			
Retirement of bonds	24,525	24,525	-
Interest on bonds	49,200	49,155	45
Total expenditures	<u>73,725</u>	<u>73,680</u>	<u>45</u>
Change in net assets	26,275	59,027	32,752
Fund balance at beginning of year	<u>570,000</u>	<u>583,574</u>	<u>13,574</u>
Fund balance at end of year	<u>\$ 596,275</u>	<u>\$ 642,601</u>	<u>\$ 46,326</u>

**LAKESIDE WATER DISTRICT  
RECONCILIATION OF REVENUES RECEIVED AND EXPENDITURES PAID  
AND OTHER FINANCING SOURCES  
TO THE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
For the Fiscal Year Ended June 30, 2006**

	<u>Total Revenues</u>	<u>Total Expenditures</u>	<u>Net</u>
Budgetary basis			
General Fund	\$ 380,918	\$ 389,153	\$ (8,235)
1979 General Obligation Bond Fund	18,350	21,930	(3,580)
Water System Fund	83,012	23,990	59,022
System Development Charge Fund	15,649	-	15,649
1995 Bonded Debt Service Fund	<u>132,707</u>	<u>73,680</u>	<u>59,027</u>
	<u>\$ 630,636</u>	<u>\$ 508,753</u>	<u>121,883</u>
 Add (Deduct) items to reconcile to net income on a financial reporting basis			
Receivables - current			881
Assessments receivable			(18,193)
Prepaid expenses			(3,489)
Payables - current			(7,876)
Payment of long-term debt:			
General obligation bonds			42,387
Revenue bonds			2,745
Property taxes receivable			610
Capital outlay			45,789
Inventory			4,923
Depreciation			<u>(136,143)</u>
 Change in net assets			<u>\$ 53,517</u>

**LAKESIDE WATER DISTRICT  
SCHEDULE OF AGED ACCOUNTS RECEIVABLE  
June 30, 2006 and 2005**

Accounts receivable at fiscal year end for water and related user services are as follows:

	<u>2006</u>	<u>2005</u>
Days outstanding:		
Billings for June service mailed in June	\$ 37,823	\$ 41,516
1 - 30 days	2,851	1,883
31 to 60 days	1,037	150
Over 60 days	<u>584</u>	<u>988</u>
	42,295	44,537
Less accounts of customers who have prepaid	<u>(13,375)</u>	<u>(12,728)</u>
Total net receivables	<u><u>\$ 28,920</u></u>	<u><u>\$ 31,809</u></u>

## INDEPENDENT AUDITOR'S COMMENTS

JUNE 30, 2006

### Audit Report Requirements

Oregon Administrative Rules 162-10-000 through 162-10-330 of the *Minimum Standards for Audits of Oregon Municipal Corporations*, prescribed by the Secretary of State in cooperation with the Oregon State Board of Accountancy, enumerate the financial statements, schedules, comments, and disclosures required in audit reports. The required schedules, comments, and disclosures not included in the preceding section of this report are set forth as follows:

### Accounting Systems and Internal Controls

The Lakeside Water District's accounting systems are adequate and the accounting records are properly maintained. The internal controls for the District are operating as designed and no material weaknesses or reportable conditions were noted.

### Collateral

For the months tested, balances on deposit with financial institutions were secured in accordance with requirements of ORS 295.015.

### Indebtedness

Based on our tests, the District has not exceeded its legal debt limitations as provided by ORS 264.250 and complied with provisions of bond covenants and other agreements.

### Budget

We reviewed the preparation, adoption, and execution of the budgets for the current year and the preparation and adoption of the budget for the ensuing fiscal year. The District has complied with statutory requirements for the current and ensuing year's budget, except as follows:

Expenditures exceeded appropriations for the fiscal year ended June 30, 2006 in the following amounts:

General Fund	
Personal Services	<u>\$          132</u>
1979 General Obligation Bond Fund	
Debt Service	<u>\$          380</u>

The above over-expenditure for debt service was due to the District choosing to make an additional principal payment on the bonded debt balance, resulting in a savings in interest costs over the remaining term of the bond.

The resolution authorizing appropriations for each fund sets the level by which expenditures cannot legally exceed appropriations. Total personal services, materials and services, capital outlay, debt service, operating transfers and operating contingencies are the levels of control. Budgeted amounts are as originally adopted or as amended by the Board of Commissioners. The excess of expenditures over appropriations listed above were not considered material to the financial statements.

### **Insurance and Fidelity Bonds**

We examined insurance policies relating to insurance and fidelity bond coverage and ascertained that such policies appeared to be in force. We are not competent by training to state whether the insurance policies covering District-owned property in force at June 30, 2006, are adequate.

The District has complied with provisions of ORS 198.220 regarding the bonding of District officials.

### **Investments**

Based on our tests, the District is in compliance with legal requirements pertaining to investment of public funds.

### **Public Contracts and Purchasing**

Based on our tests, the District is in compliance with the provisions of ORS 279 pertaining to the awarding of public contracts and the construction of public improvements.

### **Programs Funded from Outside Sources**

We selected and tested, to the extent deemed appropriate, transactions, records and reports relative to programs funded from outside sources.

The results of our tests indicate, for the items tested, the District complied with the laws, rules, and regulations pertaining to programs funded wholly or partially by other governmental agencies, and for the items tested, financial reports and related data were in agreement with and supported by the accounting records.

Since the District expended less than \$500,000 in Federal Financial Assistance, they were not subject to the requirements of OMB Circular A-133.

### **Statement of Accountability for Independently Elected Officials**

This statement is not applicable to the Lakeside Water District.



**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**

July 28, 2006

To the Governing Body of Lakeside Water District:

We have audited the accompanying financial statements of Lakeside Water District as of and for the year ended June 30, 2006 have issued our report thereon dated July 28, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

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

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Lakeside 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 that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management; the Board of Commissioners of the Lakeside Water District, the State of Oregon, Secretary of State, Division of Audits; and cognizant and other federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Hough, MacAdam & Wartnik, LLC  
North Bend, Oregon