CITY OF HAYWARD
SEWER ENTERPRISE FUND
FINANCIAL STATEMENTS
FOR THE YEARS ENDED
JUNE 30, 2006 AND 2005

CITY OF HAYWARD SEWER ENTERPRISE FUND
FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

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INDEPENDENT AUDITORS' REPORT

The Honorable Mayor and
Members of the City Council
of the City of Hayward, California

We have audited the accompanying financial statements of the City of Hayward Sewer Enterprise Fund as of June 30, 2006 and 2005 and for the years then ended, as listed in the Table of Contents. These financial statements are the responsibility of the management of the City of Hayward. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance as to 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 opinion.

As discussed in Note 1 to the financial statements, the financial statements referred to above present only the Sewer Enterprise Fund and are not intended to present fairly the financial position of the City and the results of its operations and cash flows of its proprietary fund types in conformity with generally accepted accounting principles.

In our opinion, such financial statements present fairly in all material respects the financial position of the City of Hayward Sewer Enterprise Fund as of June 30, 2006 and 2005 and the results of its operations and cash flows for the years then ended in conformity with generally accepted accounting principles in the United States of America.

Maze + Associates

October 27, 2006

CITY OF HAYWARD
SEWER ENTERPRISE FUND
(A Component of the City of Hayward, California)

COMPARATIVE STATEMENTS OF NET ASSETS, JUNE 30, 2006 AND 2005

	2006	2005
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents (Note 2)	$24,223,152	$32,642,625
Interest receivable	136,792	101,066
Customer receivables (net of allowance of uncollectibles of $131,478 in 2006 and $124,927 in 2005)	2,621,459	2,418,232
Due from other governments	13,163,350	
Inventory and other	251,701	275,001
Total current assets	40,396,454	35,436,924
RESTRICTED ASSETS (Note 2):		
Cash and cash equivalents	1,478,209	369,599
Investments	1,434,824	1,491,273
Total restricted assets	2,913,033	1,860,872
LONG TERM RECEIVABLE FROM REDEVELOPMENT AGENCY (Note 3)	2,232,500	2,350,000
CAPITAL ASSETS (Note 4):		
Land and improvements	1,830,143	1,830,143
Construction-in-progress	18,455,870	11,248,038
Plant and equipment (net of accumulated depreciation of $41,349,054 in 2006 and $38,723,361 in 2005)	54,710,392	48,193,662
Net Capital Assets	74,996,405	61,271,843
INVESTMENT IN JOINT POWERS AGENCY - East Bay Dischargers Authority (Note 5)	12,271,048	12,419,901
TOTAL ASSETS	$132,809,440	$113,339,540

(continued)

See notes to financial statements.

CITY OF HAYWARD
SEWER ENTERPRISE FUND
(A Component of the City of Hayward, California)

COMPARATIVE STATEMENTS OF NET ASSETS, JUNE 30, 2006 AND 2005

	2006	2005
LIABILITIES AND FUND EQUITY		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	$2,706,292	$270,108
Compensated absences	281,099	183,483
Interest payable	259,569	275,999
Long-term debt - current portion (Note 6)	908,680	865,760
Refundable deposits	1,358,942	
Accrued reclamation costs - current portion (Note 7)	80,741	84,904
Total current liabilities	5,595,323	1,680,254
ACCRUED RECLAMATION COSTS (Note 7)	352,309	428,887
LONG-TERM DEBT (Note 6)		
Revenue bonds - more than 1 year	393,205	451,885
Certificates of participation - more than 1 year	11,025,000	11,875,000
State loan payable - more than 1 year	13,163,350	
Total long-term debt	24,581,555	12,326,885
Total liabilities	30,529,187	14,436,026
NET ASSETS:		
Invested in capital assets, net of related debt	49,506,170	48,079,198
Restricted for debt service	1,554,091	1,860,872
Unrestricted	51,219,992	48,963,444
TOTAL NET ASSETS	$102,280,253	$98,903,514

See notes to financial statements.

CITY OF HAYWARD
SEWER ENTERPRISE FUND
(A Component of the City of Hayward, California)

COMPARATIVE STATEMENTS OF ACTIVITIES, YEARS ENDED JUNE 30, 2006 AND 2005

	2006	2005
OPERATING REVENUES:		
Sewer service charges	$12,859,445	$12,323,567
Connection fees	1,963,303	2,792,084
Other	162,470	251,001
Total operating revenues	14,985,218	15,366,652
OPERATING EXPENSES:		
Salaries and benefits	4,992,613	4,554,090
Materials, supplies, and services	3,996,401	3,591,899
Depreciation (Note 4)	2,625,693	2,540,395
Transfers to City of Hayward	944,807	938,231
Repairs and maintenance	832,832	822,868
Total operating expenses	13,392,346	12,447,483
OPERATING INCOME	1,592,872	2,919,169
NONOPERATING REVENUES (EXPENSES):		
Loss from equity investment in joint powers agency (Note 5)	(148,853)	(173,713)
Interest income	912,976	855,547
Interest expense	(670,256)	(709,883)
Net nonoperating revenues (expenses)	93,867	(28,049)
INCOME BEFORE TRANSFERS AND CONTRIBUTIONS	1,686,739	2,891,120
Transfer of capital assets from the City	1,690,000	
Contribution		2,543,407
Net transfers and contributions	1,690,000	2,543,407
NET INCOME	3,376,739	5,434,527
NET ASSETS:		
Beginning of year	98,903,514	93,468,987
End of year	$102,280,253	$98,903,514

See notes to financial statements.

CITY OF HAYWARD
SEWER ENTERPRISE FUND
(A Component of the City of Hayward, California)

COMPARATIVE STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2006 AND 2005

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	$16,140,933	$15,257,310
Payments to suppliers	(2,450,490)	(4,729,700)
Payments to employees	(4,894,997)	(4,554,090)
Internal activity - payments to other funds	(944,807)	(938,231)
Net cash provided by operating activities	7,850,639	5,035,289
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Payment of long-term debt principal	(865,760)	(827,320)
Payment of long-term debt interest	(686,686)	(725,248)
Acquisition of captial assets	(14,660,255)	(1,394,714)
Net cash provided by (used for) capital and related financing activities	(16,212,701)	(2,947,282)
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES:		
Collection of interfund loan	117,500	420,976
Net cash provided by noncapital and related financing activities	117,500	420,976
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest received	933,699	871,160
Net cash provided by investing activities	933,699	871,160
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(7,310,863)	3,380,143
CASH AND CASH EQUIVALENTS:		
Beginning of year	33,012,224	29,632,081
End of year	$25,701,361	$33,012,224
FINANCIAL STATEMENT PRESENTATION:		
Cash and cash equivalents	$24,223,152	$32,642,625
Restricted cash and cash equivalents	1,478,209	369,599
Total cash and cash equivalents	$25,701,361	$33,012,224
NONCASH INVESTING ACTIVITY - Loss from equity investment	$148,853	$173,713
RECONCILIATION OF OPERATING INCOME TO CASH FLOWS FROM OPERATING ACTIVITIES:		
Operating income	$1,592,872	$2,919,169
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	2,625,693	2,540,395
Change in assets and liabilities:		
Customer receivables	(203,227)	8,359
Inventory and other assets	23,300	23,299
Accounts payable	2,436,184	(213,910)
Compensated absences	97,616	49,285
Refundable deposits	1,358,942	(117,701)
Accrued reclamation costs	(80,741)	(173,607)
Net cash provided by operating activities	$7,850,639	$5,035,289
NONCASH FINANCING ACTIVITIES:		
Contributed Captial Assets		$2,543,407
Transfer of captial assets from the City	$1,690,000	
State loan/Due from other governments	$13,163,350	

See notes to financial statements

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NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. ***Reporting Entity*** - The City of Hayward Sewer Enterprise Fund (the "Fund") is used to account for sewer collection activities of the City of Hayward, California (the "City") that are financed and operated in a manner similar to that of a private business enterprise. The intent of the City Council is that the associated costs (expenses, including depreciation) of providing services to the general public on a continuing basis be financed or recovered primarily through user charges.

The Fund is an enterprise fund of the City, and the accompanying financial statements are included as the Sewer Enterprise Fund in the City's basic financial statements.

B. ***Basis of Accounting*** - The Financial Statements are prepared in conformity with accounting principles generally accepted in the United States of America. The Government Accounting Standards Board is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the U.S.A.

These Statements require that the financial statements described below be presented.

The Statement of Net Assets and the Statement of Activities display information about the City of Hayward Sewer Enterprise Fund. Eliminations have been made to minimize the double counting of internal activities. Business-type activities are financed in whole or in part by fees charged to external parties.

Proprietary fund *operating* revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. *Nonoperating* revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

The City follows Statements and interpretations of the Financial Accounting Standards Board and its predecessors that were issued on or before November 30, 1989, in accounting for its business-type activities, unless they conflict with Government Accounting Standards Board pronouncements.

C. ***Bad Debts*** - Customer receivables are reviewed for collectibility. Accounts which are not expected to be collected are offset by an allowance for uncollectibles.

D. ***Cash Equivalents*** - For purposes of the statement of cash flows, the Fund considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents. The Fund's investment in the City investment pool is, in substance, a demand deposit and is, therefore, considered to be a cash equivalent.

E. ***Transfers to City of Hayward*** represent reimbursements for overhead and debt service paid by the City on behalf of the Fund.

F. ***Unamortized Issuance Costs*** are being amortized on a straight-line basis over the remaining life of the Certificates of Participation.

G. ***Construction in Progress Net Financing Costs*** - Interest incurred and the amortization of issuance costs on debt used to finance projects are netted with interest earned on unspent proceeds of the debt. These "Net Financing Costs" are capitalized and added to construction in progress during the construction period to reflect the true project costs, including financing costs.

NOTE 2 - CASH AND INVESTMENTS

A. Policies

Investments in City of Hayward Investment Pool - Fund cash and investments not held by the trustee are invested in the City of Hayward's investment pool. The City's pooled cash and investments consist of cash in banks, negotiable certificates of deposit, U.S. Government securities, medium-term corporate notes, repurchase agreements, mutual funds, and deposits in the State of California Local Agency Investment Fund.

Cash Deposits - California Law requires banks and savings and loan institutions to pledge government securities with a market value of 110% of the City's cash on deposit or first trust deed mortgage notes with a value of 150% of the City's cash on deposit as collateral for these deposits. Under California Law this collateral is held in an investment pool by an independent financial institution in the City's name and places the City ahead of general creditors of the institution pledging the collateral.

Investments Carrying Value - The City's investments are carried at fair value, as required by generally accepted accounting principles. The City adjusts the carrying value of its investments to reflect their fair value at each fiscal year end, and it includes the effects of these adjustments in income for that fiscal year.

B. Interest Rate Risk, Classification, and Credit Risk

Interest rate risk - is the risk that changes in market interest rates will adversely affect the fair value of an investment. Normally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The City generally manages its interest rate risk by holding investments to maturity.

Information about the sensitivity of the fair values of the Fund's investments (including investments held by bond trustees) to market interest rate fluctuations is provided by the table below that shows the distribution of the Fund's investments by maturity.

NOTE 2 - CASH AND INVESTMENTS (Continued)

At June 30, 2006, cash and investments are classified in the financial statements as shown below, based on whether or not their use is restricted under the terms of debt instruments or agreements.

	Maturity Date	2006	2005
Investment in City of Hayward Investment Pool		$24,223,152	$32,642,625
Restricted Assets:			
Cash and cash equivalents with fiscal agent:			
Cash		$133	
Money Market	(A)	119,960	$369,599
Commercial Paper	January 10, 2007	1,358,116	
		$1,478,209	$369,599
Investments:			
Investment Agreements	February 1, 2016	$894,066	$894,066
U.S. Treasury Note	November 15, 2008	530,212	586,661
Federal Home Loan Bank Discount Note	December 1, 2006	10,546	10,546
		$1,434,824	$1,491,273

(A) Money market funds are available for withdrawal on demand and at June 30, 2006, matured in an average of 37 days.

Credit risk - is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The actual ratings as of June 20, 2006 for Money Market Funds and the Federal Home Loan Bank Note are AAA as provided by Standard and Poor's investment rating system. The agreements were not rated as of June 30, 2006.

Significant investments in the securities of any individual issuers, other than U.S. Treasury securities and money market mutual funds is set forth below:

Issuer	Investment Type	Reported Amount
Wells Fargo Bank	Commercial Paper	$1,358,116

C. ***Debt Service Reserves With Trustees*** - The Fund had cash and investments at June 30, 2006 held by fiscal agents, which are pledged for debt repayment, as required by the covenants of the respective debt issues. The California Government Code requires these funds to be invested in accordance with any applicable City ordinance resolution or bond indenture, unless there are specific State statutes governing their investment. All these funds have been invested only as permitted by either the above Code or applicable City ordinance.

NOTE 2 - CASH AND INVESTMENTS (Continued)

D. Investments Authorized by Debt Agreements

The City must maintain required amounts of cash and investments with trustees or fiscal agents under the terms of certain debt issues. These funds are unexpended bond proceeds or are pledged reserves to be used if the City fails to meet its obligations under these debt issues. The California Government Code requires these funds to be invested in accordance with City resolutions, bond indentures or State statutes. The table below identifies the investment types that are authorized for investments held by fiscal agents. The bond indentures contain no limitations for the maximum investment in any one issuer or the maximum percentage of the portfolio that may be invested in any one investment type. The table also identifies certain provisions of these debt agreements:

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality
U.S. Treasury Obligations	No limit	No limit
U.S. Government Agency Obligations	No limit	No limit
U.S. Government Sponsored Obligations	No limit	None to AAA
Money Market Mutual Funds	No limit	AAm to AAAm-G
Collateralized Certificates of Deposits	1 year	A-1+
FDIC Insured Deposits	No limit	No limit
Investment Agreements	No limit	No limit
Commercial Paper	270 days	A-1+
Municipal Obligations	No limit	AAA
State General Obligations	No limit	A/A2 to Two Highest Categories
Federal Funds or Bankers Acceptances	360 days to 1 year	A-1 to A-1+
Repurchase Agreements	30 days	None to A
Pre-refunded Municipal Bonds	No limit	Highest Rating Category
California Local Agency Investment Fund	No limit	No limit

NOTE 3 - DUE FROM REDEVELOPMENT AGENCY

During fiscal 2002-2003, $2.35 million was loaned to the Redevelopment Agency pursuant to a City Council resolution to partially finance sidewalk improvements. This loan bears interest from 2.25% to 3.00% which is repaid quarterly. Principal is repayable over the next four fiscal years. As of June 30, 2006, the outstanding loan balance is $2,232,500.

NOTE 4 – CAPITAL ASSETS

Capital Assets are recorded at historical cost, including interest during construction, or at estimated historical cost as determined by an independent appraisal if actual historical cost is not available. Depreciation is provided over the following estimated useful lives using the straight-line method: buildings and improvements - forty years, and equipment - five to fifty years. Changes in Capital Assets are presented below:

	Balance at June 30, 2005	Additions	Retirements	Transfers	Balance at June 30, 2006
Capital assets not being depreciated:					
Land and improvements	$1,830,143				$1,830,143
Construction in progress	11,248,038	$14,781,854	($144,482)	($7,429,540)	18,455,870
Total capital assets not being depreciated	13,078,181	14,781,854	(144,482)	(7,429,540)	20,286,013
Capital assets being depreciated:					
Buildings	15,268,608				15,268,608
Machinery and Equipment	20,095,911	22,883		57,170	20,175,964
Sewer pipelines and other infrastructure assets	51,552,504			9,062,370	60,614,874
	86,917,023	22,883		9,119,540	96,059,446
Less accumulated depreciation for:					
Buildings	7,857,248	382,560			8,239,808
Machinery and Equipment	14,004,175	830,981			14,835,156
Sewer pipelines and other infrastructure assets	16,861,938	1,412,152			18,274,090
Total accumulated depreciation	38,723,361	2,625,693			41,349,054
Net capital assets being depreciated	48,193,662	(2,602,810)		9,119,540	54,710,392
Business-type activity capital assets, net	$61,271,843	$12,179,044	($144,482)	$1,690,000	$74,996,405

NOTE 4 – CAPITAL ASSETS (Continued)

The Fund has ongoing construction in progress for capital asset replacement, which is summarized below:

	Project Budget	Expended to June 30, 2006	Encumbered	Committed
Second Fixed Film Reactor	$445,617	$445,617		
Solids Contact Tanks	335,475	335,475		
Two New Final Clarifiers	697,634	697,634		
Two DAF Thickeners	331,718	331,718		
Construction Management Services, Phase I	690,000	420,732	$172,589	$96,679
WPCF Improvements Phase I	32,957,000	15,477,310	16,652,677	827,013
A & Yolo Easement Sewer Improvements	672,000	23,812		648,188
West Tennyson Road Sewer Improvements	500,000	547		499,453
Sewer Relocation at 92/880	284,000	46,210		237,790
Sewer spot repairs various easements areas	369,000	6,298		362,702
Scada RPLC/ Radio Replacement	90,000	25,286		64,714
Annual Line Replacement 05-06	250,000	11,789	94,412	143,799
Small diameter pipe inspection system	20,000	10,737		9,263
Confined space entry equipment replacement	20,000	9,701		10,299
Large diameter pipe CCTC tractor component	25,000	20,744		4,256
Centex Standy generator replacement	65,000	60,338		4,662
Sewer replacement at Linden, Madrone, & Beech St	229,000	174		228,826
Candlewood Pl & Nimitz Fwy Sewer improvements	376,000	70		375,930
WPCF Telemetry System	30,154	18,936		11,218
Primary Clarifier Rehabilitation	250,000	89,377		160,623
Primary Clarifier Dist Box WWTP Repl	367,232	367,232		
Seismic Retro Digester No. 2	318,000	55,994		262,006
SCADA PLC replacement	100,000	139		99,861
Total	$39,422,830	$18,455,870	$16,919,678	$4,047,282

NOTE 5 - EAST BAY DISCHARGERS AUTHORITY

The East Bay Dischargers Authority ("EBDA") was established in 1974 under the Joint Exercise of Powers Act of the State of California by the Cities of Hayward, and San Leandro, and the Ora Loma, Castro Valley, and Union Sanitary Districts for the purpose of planning, acquiring, constructing, managing, and operating common use, and individual wastewater treatment, and disposal facilities for the member agencies. The governing body of EBDA consists of five members, one appointed by each of the member agencies. The City exercises a weighted vote of 20.7% of the total vote. As a separate legal entity, EBDA exercises full powers and authorities within the scope of the Joint Powers Agreement. Obligations and liabilities of EBDA are not those of the member agencies.

The financial activities for EBDA are not included in the accompanying financial statements as it is administered by a board separate from and independent of the City. Transactions with and the investment in the joint powers agency are accounted for as follows:

NOTE 5 - EAST BAY DISCHARGERS AUTHORITY (Continued)

a) Payments related to the services which the City received during fiscal 2006 amounted to $580,949 and are recorded as materials, supplies and services expenses.

b) Payments related to the City's long-term investment in the joint powers agency, for which the City has the ability to exercise significant influence over operating and financial policies, are recorded as an investment in the East Bay Dischargers Authority under the equity method. The City's equity approximates one-third of the total assets of EBDA and amounts to $12,271,048 at June 30, 2006.

The investment in East Bay Dischargers Authority is valued as of June 30, 2006, the latest date for which financial information is available.

Summary financial information as of and for the year ended June 30, 2006 (the most recent audited financial information available) for EBDA's common use operations was as follows:

Assets	
Current	$4,560,448
Fixed - net	33,201,962
Total	$37,762,410
Liabilities	$577,415
Net Assets	37,184,995
Total	$37,762,410
Revenues	$2,836,103
Expenses	(3,385,660)
Non-operating revenues	506,116
Non-operating expenses	(407,629)
Change in Net Assets	($451,070)

Complete financial statements of EBDA can be obtained from:

City of Hayward
Finance Department, 3rd Floor
777 B Street
Hayward, California 94541

NOTE 6 - LONG-TERM DEBT

To finance property, plant and equipment, the Fund occasionally issues long-term debt repayable from future operating revenues. As of June 30, 2006 the Fund's long-term debt was composed of the following:

	Balance June 30, 2005	Additions	Retirements	Balance June 30, 2006	Current Portion
Certificates of Participation:					
1996, 3.70% to 5.625%, due 2016	$7,215,000		$500,000	$6,715,000	$525,000
1998, 4.00% to 5.00%, due 2018	5,470,000		310,000	5,160,000	325,000
Revenue Bonds:					
2002, 3.00% to 5.00%, due 2020	507,645		55,760	451,885	58,680
State Water Resource Control Board Loan					
0%, due 2028		$13,163,350		13,163,350	
	$13,192,645	$13,163,350	$865,760	$25,490,235	$908,680

In August 1996, the Hayward Public Financing Authority issued $10,665,000 principal amount of 1996 Sewer System Refunding and Improvement Project Certificates of Participation. Proceeds from these COPs were used to retire $775,000 of outstanding Sewer Revenue Bonds, Series A, and $2,470,000 of outstanding Sewer Revenue Bonds, Series B, and to finance construction of a new pumping plant/headwork's and piping and construction of Clawiter Road/Enterprise Avenue Sewer Line replacements and other projects.

On January 1, 1998 the Hayward Public Financing Authority issued $7,300,000 in Certificates of Participation to finance construction of an upgrade of the Valley Vista pump station with a new larger capacity station on an extended site, the rehabilitation and expansion of existing sludge drying beds, Ruus Road Sewer line replacement, upgrade of Tennyson Road lift station and replacement of the Tennyson Road interceptor.

The Fund has recorded 9.5% of the ABAG Lease Revenue Bonds, Series 2002 on its financial statements to reflect its portion of the debt issued to finance the Public Works Building.

In June 2006, the City signed a loan agreement with the State Water Resources Control Board to finance the cost in improvements to the City's existing water pollution control facilities. The loan bears no interest, may not exceed $54,550,018 and is due in equal annual installments each September 30 commencing 2009 until 2028. As of June 30, 2006, loan draw downs amounted to $13,163,350.

NOTE 6 - LONG-TERM DEBT (Continued)

Annual debt service for the above debt is as follows at June 30:

	Principal	Interest
2007	$908,680	$645,282
2008	954,310	601,298
2009	996,655	554,212
2010	1,707,713	504,471
2011	1,758,868	451,174
2012-2016	9,517,835	1,306,765
2017-2021	4,380,840	82,500
2022-2026	3,290,840	
2027-2029	1,974,494	
	$25,490,235	$4,145,702

NOTE 7 - ACCRUED RECLAMATION COSTS

To comply with regulatory requirements imposed by the California Regional Water Quality Control Board and the Alameda County Department of Environmental Health, the City expects to incur reclamation costs associated with an abandoned 60-acre landfill site. Such costs represent placing an 18-inch vegetative cover over the landfill site as well as ongoing monitoring costs. As of June 30, 2006, the City expects to incur $433,050 for remaining reclamation costs, funded from operating revenue of the Sewer Enterprise Fund. Reclamation payments totaled $80,741 for the year ended June 30, 2006. Reclamation costs are accrued in the Sewer Enterprise Fund. Actual costs may be higher due to inflation, changes in technology; or changes in State or Federal regulations.

CITY OF HAYWARD
SEWER ENTERPRISE FUND
(A Component of the City of Hayward, California)

COMBINING STATEMENT OF NET ASSETS, JUNE 30, 2006

	Operating	Capital	Total
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	$7,732,533	$16,490,619	$24,223,152
Interest receivable	42,453	94,339	136,792
Customer receivables (net of allowance of uncollectibles)	2,621,459		2,621,459
Due from other governments		13,163,350	13,163,350
Inventory and other	251,701		251,701
Total current assets	10,648,146	29,748,308	40,396,454
RESTRICTED ASSETS:			
Cash and cash equivalents	119,267	1,358,942	1,478,209
Investments	1,434,824		1,434,824
Total restricted assets	1,554,091	1,358,942	2,913,033
LONG TERM RECEIVABLE FROM REDEVELOPMENT AGENCY		2,232,500	2,232,500
CAPITAL ASSETS:			
Land and improvements	1,830,143		1,830,143
Construction-in-progress	18,455,870		18,455,870
Plant and equipment (net of accumulated depreciation)	54,710,392		54,710,392
Net Capital Assets	74,996,405		74,996,405
INVESTMENT IN JOINT POWERS AGENCY - East Bay Dischargers Authority	12,271,048		12,271,048
TOTAL ASSETS	$99,469,690	$33,339,750	$132,809,440

(continued)

CITY OF HAYWARD
SEWER ENTERPRISE FUND
(A Component of the City of Hayward, California)

COMBINING STATEMENT OF NET ASSETS, JUNE 30, 2006

LIABILITIES AND FUND EQUITY	Operating	Capital	Total
CURRENT LIABILITIES:			
Accounts payable and accrued liabilities	$264,955	$2,441,337	$2,706,292
Compensated absences	281,099		281,099
Interest payable	259,569		259,569
Long-term debt - current portion	908,680		908,680
Refundable deposits		1,358,942	1,358,942
Accrued reclamation costs - current portion	80,741		80,741
Total current liabilities	1,795,044	3,800,279	5,595,323
ACCRUED RECLAMATION COSTS	352,309		352,309
LONG-TERM DEBT			
Revenue bonds - more than 1 year	393,205		393,205
Certificates of participation - more than 1 year	11,025,000		11,025,000
State loan payable - more then 1 year		13,163,350	13,163,350
Total long-term debts	11,418,205	13,163,350	24,581,555
Total liabilities	13,565,558	16,963,629	30,529,187
NET ASSETS:			
Invested in capital assets, net of related debt	62,669,520	(13,163,350)	49,506,170
Restricted for debt service	1,554,091		1,554,091
Unrestricted	21,680,521	29,539,471	51,219,992
TOTAL NET ASSETS	$85,904,132	$16,376,121	$102,280,253

CITY OF HAYWARD
SEWER ENTERPRISE FUND
(A Component of the City of Hayward, California)

COMBINING STATEMENT OF ACTIVITIES, YEAR ENDED JUNE 30, 2006

	Operating	Capital	Total
OPERATING REVENUES:			
Sewer service charges	$12,859,445		$12,859,445
Connection fees	1,963,303		1,963,303
Other	27,952	$134,518	162,470
Total operating revenues	14,850,700	134,518	14,985,218
OPERATING EXPENSES:			
Salaries and benefits	4,992,613		4,992,613
Materials, supplies, and services	(12,969,210)	16,965,611	3,996,401
Depreciation	2,625,693		2,625,693
Transfers to City of Hayward and net allocations	(6,054,195)	6,999,002	944,807
Repairs and maintenance	832,832		832,832
Total operating expenses	(10,572,267)	23,964,613	13,392,346
OPERATING INCOME (LOSS)	25,422,967	(23,830,095)	1,592,872
NONOPERATING REVENUES (EXPENSES):			
Loss from equity investment in joint powers agency	(148,853)		(148,853)
Interest income	268,705	644,271	912,976
Interest expense	(670,256)		(670,256)
Net nonoperating revenues (expenses)	(550,404)	644,271	93,867
INCOME BEFORE TRANSFERS	24,872,563	(23,185,824)	1,686,739
Transfer of capital assets from the City	1,690,000		1,690,000
Operating transfers in		13,115,331	13,115,331
Operating transfers (out)	(13,115,331)		(13,115,331)
Net transfers and contributions	(11,425,331)	13,115,331	1,690,000
NET INCOME (LOSS)	13,447,232	(10,070,493)	3,376,739
NET ASSETS:			
Beginning of year	72,456,900	26,446,614	98,903,514
End of year	$85,904,132	$16,376,121	$102,280,253

CITY OF HAYWARD
SEWER ENTERPRISE FUND
(A Component of the City of Hayward, California)

COMBINING STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2006

	Operating	Capital	Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers	$14,647,473	$1,493,460	$16,140,933
Payments to suppliers	12,081,103	(14,531,593)	(2,450,490)
Payments to employees	(4,894,997)		(4,894,997)
Internal activity - payments to other funds	(7,061,136)	6,116,329	(944,807)
Net cash provided by operating activities	14,772,443	(6,921,804)	7,850,639
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Payment of long-term debt principal	(865,760)		(865,760)
Payment of long-term debt interest	(686,686)		(686,686)
Acquisition of property, plant and equipment	(14,660,255)		(14,660,255)
Net cash provided by (used for) capital and related financing activities	(16,212,701)		(16,212,701)
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES:			
Collection of interfund loan		117,500	117,500
Net cash provided by noncapital and related financing activities		117,500	117,500
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest received	309,663	624,036	933,699
Net cash provided by investing activities	309,663	624,036	933,699
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,130,595)	(6,180,268)	(7,310,863)
CASH AND CASH EQUIVALENTS:			
Beginning of year	8,982,395	24,029,829	33,012,224
End of year	$7,851,800	$17,849,561	$25,701,361
FINANCIAL STATEMENT PRESENTATION:			
Cash and cash equivalents	$7,732,533	$16,490,619	$24,223,152
Restricted cash and cash equivalents	119,267	1,358,942	1,478,209
Total cash and cash equivalents	$7,851,800	$17,849,561	$25,701,361
RECONCILIATION OF OPERATING INCOME TO CASH FLOWS FROM OPERATING ACTIVITIES:			
Operating income (loss)	$25,422,967	($23,830,095)	$1,592,872
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation	2,625,693		2,625,693
Change in assets and liabilities:			
Customer receivables	(203,227)		(203,227)
Inventory and other assets	23,300		23,300
Accounts payable	2,166	2,434,018	2,436,184
Compensated absences	97,616		97,616
Refundable deposits		1,358,942	1,358,942
Accrued reclamation costs	(80,741)		(80,741)
Net cash provided by operating activities	$27,887,774		$7,850,639
NONCASH FINANCING ACTIVITIES:			
Loss from equity investment	($148,853)		($148,853)
Transfer of capital assets from the City	$1,690,000		$1,690,000
State loan/Due from other governments		$13,163,350	$13,163,350