

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

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FINANCIAL STATEMENTS
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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 Water Enterprise Fund, a component unit of the City of Hayward, 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 audits provide a reasonable basis for our opinion.

As discussed in Note 1 to the financial statements, the financial statements referred to above present only the Water 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 the United States of America.

In our opinion, such financial statements present fairly in all material respects the financial position of the City of Hayward Water 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
WATER ENTERPRISE FUND
(A Component of the City of Hayward, California)**

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

	<u>2006</u>	<u>2005</u>
ASSETS		
CURRENT ASSETS:		
Cash and investments available for operations (Note 2)	\$41,514,102	\$34,473,052
Customer receivables (net of allowance of uncollectible of \$330,659 in 2006 and \$351,751 in 2005)	3,923,675	6,186,398
Interest receivable	229,342	108,431
Inventory	<u>531,945</u>	<u>488,305</u>
Total current assets	<u>46,199,064</u>	<u>41,256,186</u>
RESTRICTED ASSETS (Note 2):		
Cash and cash equivalents	1,287,411	2,164,227
Investments	<u>1,224,709</u>	<u>1,224,709</u>
Total restricted assets	<u>2,512,120</u>	<u>3,388,936</u>
LONG-TERM ASSETS:		
Due from the City (Note 3)	2,555,000	2,635,000
Due from the Redevelopment Agency (Note 3)	2,128,196	2,478,196
Deferred charges	<u>599,839</u>	<u>657,999</u>
Total long - term assets	<u>5,283,035</u>	<u>5,771,195</u>
CAPITAL ASSETS (Note 4):		
Land and improvements	1,086,727	1,086,727
Construction-in-progress	12,183,837	16,791,107
Plant and equipment (net of accumulated depreciation of \$23,437,236 in 2006 and \$22,143,818 in 2005)	<u>38,228,969</u>	<u>32,513,200</u>
Net Capital Assets	<u>51,499,533</u>	<u>50,391,034</u>
TOTAL ASSETS	<u><u>\$105,493,752</u></u>	<u><u>\$100,807,351</u></u>

See notes to financial statements.

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

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

	<u>2006</u>	<u>2005</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	\$2,065,978	\$1,978,679
Interest payable	166,464	172,852
Long-term debt - current portion (Note 5)	793,680	770,760
Refundable deposits	1,433,959	707,981
Deferred revenue	243,600	255,200
Compensated absences	323,790	209,849
Total current liabilities	<u>5,027,471</u>	<u>4,095,321</u>
LONG-TERM DEBT (Note 5)		
Revenue bonds-more than 1 year	3,633,205	4,051,885
Certificates of participation -more than 1 year	10,220,000	10,595,000
Total long-term liabilities	<u>13,853,205</u>	<u>14,646,885</u>
Total liabilities	<u>18,880,676</u>	<u>18,742,206</u>
NET ASSETS:		
Invested in capital assets, net of related debt	36,852,648	36,482,826
Restricted for debt service	2,512,120	1,879,499
Unrestricted	47,248,308	43,702,820
TOTAL NET ASSETS	<u><u>\$86,613,076</u></u>	<u><u>\$82,065,145</u></u>

See notes to financial statements.

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

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

	<u>2006</u>	<u>2005</u>
OPERATING REVENUES:		
Charges for services	\$4,610,486	\$7,641,753
Sale of water	18,276,146	18,539,106
Miscellaneous	149,091	4,886,993
	<u>23,035,723</u>	<u>31,067,852</u>
OPERATING EXPENSES:		
Salaries and benefits	4,479,238	4,142,581
Materials, supplies and services	2,869,899	5,874,724
Repair and maintenance	673,573	609,776
Water purchases	9,367,704	10,252,121
Depreciation (Note 4)	1,293,418	1,153,742
Overhead cost reimbursements to City of Hayward	1,152,082	1,167,144
	<u>19,835,914</u>	<u>23,200,088</u>
OPERATING INCOME	<u>3,199,809</u>	<u>7,867,764</u>
NONOPERATING REVENUES (EXPENSES):		
Interest income	1,490,566	1,211,816
Interest expense	(642,444)	(669,051)
	<u>848,122</u>	<u>542,765</u>
INCOME BEFORE TRANSFERS AND CONTRIBUTIONS	4,047,931	8,410,529
Transfer of capital assets from the City (Note 4)	500,000	
Contributions		1,203,975
	<u>500,000</u>	<u>1,203,975</u>
NET INCOME	4,547,931	9,614,504
NET ASSETS:		
Beginning of year	82,065,145	72,450,641
End of year	<u>\$86,613,076</u>	<u>\$82,065,145</u>

See notes to financial statements.

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

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

	<u>2006</u>	<u>2005</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	\$26,012,824	\$30,347,036
Payments to suppliers	(12,695,416)	(16,168,047)
Payments to employees	(4,479,238)	(4,142,581)
Internal activity - payments to other funds	<u>(1,152,082)</u>	<u>(1,167,144)</u>
Net cash provided by operating activities	<u>7,686,088</u>	<u>8,869,264</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Receipts from the City and the Redevelopment Agency	<u>430,000</u>	<u>825,976</u>
Net cash provided by noncapital financing activities	<u>430,000</u>	<u>825,976</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Long term debt repayment	(770,760)	(737,320)
Interest paid	(648,832)	(675,211)
Acquisition of capital assets	<u>(1,901,917)</u>	<u>(10,321,592)</u>
Net cash provided by (used for) capital and related financing activities	<u>(3,321,509)</u>	<u>(11,734,123)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest received	<u>1,369,655</u>	<u>1,220,150</u>
Net cash provided by investing activities	<u>1,369,655</u>	<u>1,220,150</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	6,164,234	(818,733)
CASH AND CASH EQUIVALENTS:		
Beginning of year	<u>36,637,279</u>	<u>37,456,012</u>
End of year	<u>\$42,801,513</u>	<u>\$36,637,279</u>
FINANCIAL STATEMENT PRESENTATION:		
Cash and cash equivalents	\$41,514,102	\$34,473,052
Restricted cash and cash equivalents	<u>1,287,411</u>	<u>2,164,227</u>
Total cash and cash equivalents	<u>\$42,801,513</u>	<u>\$36,637,279</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$3,199,809	\$7,867,764
Adjustments to reconcile operating income to cash flows from operating activities:		
Depreciation	1,293,418	1,153,742
Change in assets and liabilities:		
Accounts receivable	2,262,723	(1,450,552)
Due from other governments		518,801
Inventory	(43,640)	113,331
Other assets	58,160	58,161
Accounts payable	87,299	381,884
Compensated absences	113,941	15,198
Deferred revenue	(11,600)	(11,600)
Refundable deposits	<u>725,978</u>	<u>222,535</u>
Net cash provided by operating activities	<u>\$7,686,088</u>	<u>\$8,869,264</u>
NONCASH FINANCING ACTIVITIES:		
Transfer of capital assets from the City	<u>\$500,000</u>	
Contributed Capital Assets		<u>\$1,203,975</u>

See notes to financial statements

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CITY OF HAYWARD WATER ENTERPRISE FUND
Notes to Financial Statements

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. Reporting Entity** - The City of Hayward, California Water Enterprise Fund (the "Fund") is used to account for water distribution and related capital improvements 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 in the Water Enterprise Fund in the City's basic financial statements.

- B. Basis of Accounting** - Basic 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 Water 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 uncollectables.
- 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. 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.

CITY OF HAYWARD WATER ENTERPRISE FUND
Notes to Financial Statements

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.

CITY OF HAYWARD WATER ENTERPRISE FUND
Notes to Financial Statements

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 City debt instruments or agreements.

	Maturity Date	2006	2005
Investment in City of Hayward Investment Pool		<u>\$41,514,102</u>	<u>\$34,473,052</u>
Restricted Assets:			
Cash and cash equivalents with fiscal agent			
Cash		\$778,578	\$162,172
Money Market	(A)	<u>508,833</u>	<u>2,002,055</u>
		<u>\$1,287,411</u>	<u>\$2,164,227</u>
Investments			
Guaranteed Investment Agreement	May 26, 2006	\$578,600	\$578,600
Guaranteed Investment Agreement	October 1, 2024	623,828	623,828
Federal Home Loan Bank Discount Note	December 1, 2006	<u>22,281</u>	<u>22,281</u>
		<u>\$1,224,709</u>	<u>\$1,224,709</u>

(A) Money market funds are available for withdrawal on demand and at June 30, 2006, matured in an average of 22 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 Guaranteed Investment Contracts were not rated as of June 30, 2006.

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.

CITY OF HAYWARD WATER ENTERPRISE FUND
Notes to Financial Statements

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	None to A-1+
FDIC Insured Deposits	No limit	No limit
Investment Agreements	No limit	None to Two Highest Categories
Commercial Paper	None to 270 days	A-1 to A-1+
Municipal Obligations	No limit	AAA to Two Highest Categories
State General Obligations	No limit	A/A2 to Two Highest Categories
Federal Funds or Bankers Acceptances	180 days to 1 year	A-1 to A-1+
Repurchase Agreements	None to 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 THE REDEVELOPMENT AGENCY AND CITY

In fiscal 2001-2002, the Water Enterprise Fund loaned \$2.6 million to the Airport Enterprise Fund bearing interest at between 3% to 4.75%, due in annual installments until October 2026. During fiscal 2002-2003, the Water Enterprise Fund loaned an additional \$290,000 to the Airport Enterprise Fund. During the year ended June 30, 2006, \$80,000 of the loan principal was repaid. As of June 30, 2006, the outstanding loan balance was \$2,555,000

During the year ended June 30, 1990, the Water Enterprise Fund loaned \$5,946,333 to the Redevelopment Agency Capital Projects Fund to finance the purchase of land for development. The interest rate on the loan is 7.506%. Repayments are being made from incremental property tax revenues. Loan repayments are made semiannually on February 1 and August 1 of each year. Repayments on the loan commenced during the year ended June 30, 1992 and run through the year ending June 30, 2014. During the year ended June 30, 2006, \$544,000 of the loan principal was repaid. As of June 30, 2006, the outstanding loan balance was \$2,128,196.

CITY OF HAYWARD WATER ENTERPRISE FUND
Notes to Financial Statements

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	\$1,086,727				\$1,086,727
Construction in progress	16,791,107	\$2,029,033	(\$129,164)	(\$6,507,139)	12,183,837
Total capital assets not being depreciated	<u>17,877,834</u>	<u>2,029,033</u>	<u>(129,164)</u>	<u>(6,507,139)</u>	<u>13,270,564</u>
Capital assets being depreciated:					
Buildings	4,149,762				4,149,762
Machinery and Equipment	10,752,241	2,048		105,737	10,860,026
Water pipelines and other infrastructure assets	39,755,015			6,901,402	46,656,417
	<u>54,657,018</u>	<u>2,048</u>		<u>7,007,139</u>	<u>61,666,205</u>
Less accumulated depreciation for:					
Buildings	2,439,213	85,217			2,524,430
Machinery and Equipment	3,406,961	239,104			3,646,065
Water pipelines and other infrastructure assets	16,297,644	969,097			17,266,741
Total accumulated depreciation	<u>22,143,818</u>	<u>1,293,418</u>			<u>23,437,236</u>
Net capital assets being depreciated	<u>32,513,200</u>	<u>(1,291,370)</u>		<u>7,007,139</u>	<u>38,228,969</u>
Capital assets, net	<u>\$50,391,034</u>	<u>\$737,663</u>	<u>(\$129,164)</u>	<u>\$500,000</u>	<u>\$51,499,533</u>

CITY OF HAYWARD WATER ENTERPRISE FUND
Notes to Financial Statements

NOTE 4 – CAPITAL ASSETS (Continued)

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

	Project Budget	Expended to June 30, 2006	Encumbered	Budget Balance
Emergency Sudden Loss Valves	\$320,000	\$35		\$319,965
Waterline Looping near Bart	640,000	70		639,930
Water Line Golf Access Road	655,000	793		654,207
Parallel Supply to 330 Zone	1,005,000	119,366		885,634
Highland Chain Pump Station Improvements	2,770,000	2,669,375	\$64,420	36,205
Hesperian Booster Pump Station	7,980,000	7,923,548	60,859	(4,407)
Seismic Retrofit Highland 250 reservoir		1,323		(1,323)
Seismic Retrofit Maitland reservoir	390,000	279		389,721
Seismic Retrofit D Street reservoir	500,000	279		499,721
Water Fac Security Enhancement		189,411		(189,411)
Backhoe Pavement Breaker	12,000	11,963		37
Trailer Mounted 50 amp Generator	17,000	17,000		
Annual Hydrant Replacement 05-06	50,000	7,162		42,838
Annual Water Distribution Sys Repl 05-06	100,000	17,138		82,862
Water Main Replacement at Calaroga	140,000	20,957		119,043
Aqueducts Drawings Upgrade	150,000	5,504		144,496
Scada Place/ Radio Replacement	90,000	26,452		63,548
Scada Place/ Record & Program Update	60,000	1,211		58,789
Annual Line Replacement 2005/2006	300,000	2,547		297,453
MN Replacement Jackson, Mission	400,000	368,286		31,714
SEIS Retro @ Fault Crossing	1,622,000	801,138	778,796	42,066
Total	\$17,201,000	\$12,183,837	\$904,075	\$4,113,088

CITY OF HAYWARD WATER ENTERPRISE FUND
Notes to Financial Statements

NOTE 5 – 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	Retirements	Balance June 30, 2006	Current Portion
Certificates of Participation:				
2001, 2.0% - 4.75%, due 2026	\$4,195,000	\$285,000	\$3,910,000	\$295,000
2004, 2.0-4.375%, due 10/1/24	6,765,000	80,000	6,685,000	80,000
Revenue Bonds:				
1996, 3.00% to 5.20%, due 2014	3,950,000	350,000	3,600,000	360,000
2002, 3.00%-5.00%, due 2020	<u>507,645</u>	<u>55,760</u>	<u>451,885</u>	<u>58,680</u>
	<u>\$15,417,645</u>	<u>\$770,760</u>	<u>\$14,646,885</u>	<u>\$793,680</u>

In October 2001, the Fund issued \$5,030,000 in Certificates of Participation to fund improvements to the municipal water system of the City of Hayward. The COPs are payable solely from net revenue from operations of the Fund's water system. Interest payments are due semi-annually on April 1 and October 1. Principal payments are due annually on October 1.

In January 2004, the Fund issued \$6,845,000 in Certificates of Participation to the design and construction of a new booster pump station. The COPs are payable from net revenue from operations of the Fund's water system. Interest payments are due semi-annually on April 1 and October 1. Principal payments are due annually on October 1.

In February 1996, the Fund issued \$6,440,000 in Lease Revenue Refunding Bonds, Series 1996 to advance refund and retire the outstanding 1989 Lease Revenue Bonds. Improvements, initially financed with 1989 lease revenue bonds, include a Reservoir Telemetry Control System, installation of two emergency electrical generators used to pump water in the event of electrical failure, fuel tanks, and replacement of 16,600 feet of water mains. Principal payments are due serially each June 1. Interest payments are due semi-annually on December 1 and June 1. 1996 Bonds maturing on or after June 1, 2006 may be prepaid on any date beginning June 1, 2004 at par plus 2%. The prepayment price decreases one-half of one percent each year until June 1, 2006, at which time the 1996 Bonds may be prepaid at par.

The Fund has recorded 50% of the 2002 Revenue Bonds issued by the City of Hayward on its financial statements to reflect its portion of the debt issued to retire the 1992 Certificates of Participation.

CITY OF HAYWARD WATER ENTERPRISE FUND
Notes to Financial Statements

NOTE 5 – LONG-TERM DEBT (Continued)

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

	Principal	Interest
2007	\$793,680	\$620,327
2008	834,310	590,408
2009	871,655	556,683
2010	914,545	519,596
2011	955,700	480,025
2012-2016	4,101,995	1,732,174
2017-2021	2,955,000	1,033,184
2022-2026	3,045,000	339,502
2027-2030	175,000	4,156
	<u>\$14,646,885</u>	<u>\$5,876,055</u>

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

COMBINING STATEMENT OF NET ASSETS, JUNE 30, 2006

	<u>Operating</u>	<u>Capital</u>	<u>Total</u>
ASSETS			
CURRENT ASSETS:			
Cash and investments available for operations	\$18,273,750	\$23,240,352	\$41,514,102
Customer receivables (net of allowance of uncollectible)	3,923,675		3,923,675
Interest receivable	95,797	133,545	229,342
Inventory	531,945		531,945
	<u>22,825,167</u>	<u>23,373,897</u>	<u>46,199,064</u>
Total current assets			
RESTRICTED ASSETS:			
Cash and cash equivalents	488,917	798,494	1,287,411
Investments	646,109	578,600	1,224,709
	<u>1,135,026</u>	<u>1,377,094</u>	<u>2,512,120</u>
Total restricted assets			
LONG-TERM ASSETS:			
Due from the City		2,555,000	2,555,000
Due from the Redevelopment Agency		2,128,196	2,128,196
Deferred charges	275,417	324,422	599,839
	<u>275,417</u>	<u>5,007,618</u>	<u>5,283,035</u>
Total long - term assets			
CAPITAL ASSETS:			
Land and improvements	1,086,727		1,086,727
Construction-in-progress	12,183,837		12,183,837
Plant and equipment (net of accumulated depreciation)	38,228,969		38,228,969
	<u>51,499,533</u>		<u>51,499,533</u>
Net Capital Assets			
TOTAL ASSETS	<u><u>\$75,735,143</u></u>	<u><u>\$29,758,609</u></u>	<u><u>\$105,493,752</u></u>

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

COMBINING STATEMENT OF NET ASSETS, JUNE 30, 2006

	<u>Operating</u>	<u>Capital</u>	<u>Totals</u>
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES:			
Accounts payable and accrued liabilities	\$1,433,631	\$632,347	\$2,065,978
Interest payable	151,610	14,854	166,464
Long-term debt - current portion	433,680	360,000	793,680
Refundable deposits	651,381	782,578	1,433,959
Deferred revenue		243,600	243,600
Compensated absences	323,790		323,790
	<u>2,994,092</u>	<u>2,033,379</u>	<u>5,027,471</u>
LONG-TERM DEBT			
Revenue bonds-more than 1 year	393,205	3,240,000	3,633,205
Certificates of participation -more than 1 year	10,220,000		10,220,000
	<u>10,613,205</u>	<u>3,240,000</u>	<u>13,853,205</u>
Total long-term liabilities			
	<u>13,607,297</u>	<u>5,273,379</u>	<u>18,880,676</u>
NET ASSETS:			
Invested in capital assets, net of related debt	40,452,648	(3,600,000)	36,852,648
Restricted for debt service	1,135,026	1,377,094	2,512,120
Unrestricted	20,540,172	26,708,136	47,248,308
	<u>\$62,127,846</u>	<u>\$24,485,230</u>	<u>\$86,613,076</u>
TOTAL NET ASSETS			

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

COMBINING STATEMENT OF ACTIVITIES, YEAR ENDED JUNE 30, 2006

	<u>Operating</u>	<u>Capital</u>	<u>Total</u>
OPERATING REVENUES:			
Charges for services	\$2,772,268	\$1,838,218	\$4,610,486
Sale of water	18,276,146		18,276,146
Miscellaneous	137,492	11,599	149,091
	<u>21,185,906</u>	<u>1,849,817</u>	<u>23,035,723</u>
OPERATING EXPENSES:			
Salaries and benefits	4,479,238		4,479,238
Materials, supplies and services	1,034,013	1,835,886	2,869,899
Repair and maintenance	673,573		673,573
Water purchases	9,367,704		9,367,704
Depreciation	1,293,418		1,293,418
Transfers to City of Hayward and net allocations	(329,162)	1,481,244	1,152,082
	<u>16,518,784</u>	<u>3,317,130</u>	<u>19,835,914</u>
OPERATING INCOME (LOSS)	<u>4,667,122</u>	<u>(1,467,313)</u>	<u>3,199,809</u>
NONOPERATING REVENUES (EXPENSES):			
Interest income	587,234	903,332	1,490,566
Interest expense	(449,756)	(192,688)	(642,444)
	<u>137,478</u>	<u>710,644</u>	<u>848,122</u>
INCOME BEFORE TRANSFERS AND CONTRIBUTIONS	<u>4,804,600</u>	<u>(756,669)</u>	<u>4,047,931</u>
Transfers of capital assets from the City	500,000		500,000
Operating transfers in		4,813,464	4,813,464
Operating transfers (out)	(4,813,464)		(4,813,464)
	<u>(4,313,464)</u>	<u>4,813,464</u>	<u>500,000</u>
NET INCOME	491,136	4,056,795	4,547,931
NET ASSETS:			
Beginning of year	61,636,710	20,428,435	82,065,145
End of year	<u>\$62,127,846</u>	<u>\$24,485,230</u>	<u>\$86,613,076</u>

See notes to financial statements.

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

COMBINING STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2006

	<u>Operating</u>	<u>Capital</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers	\$21,332,204	\$4,680,620	\$26,012,824
Payments to suppliers	(10,893,810)	(1,915,547)	(12,809,357)
Payments to employees	(4,365,297)		(4,365,297)
Internal activity - payments to other funds	(4,484,302)	3,332,220	(1,152,082)
Net cash provided by operating activities	<u>1,588,795</u>	<u>6,097,293</u>	<u>7,686,088</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Receipts from the City and the Redevelopment Agency		430,000	430,000
Net cash provided by noncapital financing activities		<u>430,000</u>	<u>430,000</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Long term debt repayment	(420,760)	(350,000)	(770,760)
Interest paid	(454,831)	(194,001)	(648,832)
Acquisition of capital assets	(1,901,917)		(1,901,917)
Net cash provided by (used for) capital and related financing activities	<u>(2,777,508)</u>	<u>(544,001)</u>	<u>(3,321,509)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest received	543,405	826,250	1,369,655
Net cash provided by investing activities	<u>543,405</u>	<u>826,250</u>	<u>1,369,655</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	(645,308)	6,809,542	6,164,234
CASH AND CASH EQUIVALENTS:			
Beginning of year	18,687,975	17,949,304	36,637,279
End of year	<u>\$18,042,667</u>	<u>\$24,758,846</u>	<u>\$42,801,513</u>
FINANCIAL STATEMENT PRESENTATION:			
Cash and cash equivalents	\$18,273,750	\$23,240,352	\$41,514,102
Restricted cash and cash equivalents	488,917	798,494	1,287,411
Total cash and cash equivalents	<u>\$18,762,667</u>	<u>\$24,038,846</u>	<u>\$42,801,513</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Operating income (loss)	\$4,667,122	(\$1,467,313)	\$3,199,809
Adjustments to reconcile operating income (loss) to cash flows from operating activities:			
Depreciation	1,293,418		1,293,418
Change in assets and liabilities:			
Accounts receivable	36,723	2,226,000	2,262,723
Inventory	(43,640)		(43,640)
Other assets	13,968	44,192	58,160
Accounts payable	211,152	(123,853)	87,299
Compensated absences	113,941		113,941
Deferred revenue		(11,600)	(11,600)
Refundable deposits	109,575	616,403	725,978
Net cash provided by operating activities	<u>\$6,402,259</u>	<u>\$1,283,829</u>	<u>\$7,686,088</u>
NONCASH FINANCING ACTIVITIES:			
Transfer of capital assets from the City	<u>\$500,000</u>		<u>\$500,000</u>

See notes to financial statements