

COASTSIDE COUNTY WATER DISTRICT
BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003

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**COASTSIDE COUNTY WATER DISTRICT
BASIC FINANCIAL STATEMENTS
For the Years Ended June 30, 2004 and 2003**

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COASTSIDE COUNTY WATER DISTRICT

**ELECTED OFFICIALS AND
ADMINISTRATIVE PERSONNEL**

JUNE 30, 2004

BOARD OF DIRECTORS

John Muller - President
Chris Mickelsen - Vice President
James Larimer - Director
Everett Asher - Director
Ken Coverdell - Director

MANAGEMENT

Ed Schmidt – General Manager

ACCOUNTANCY CORPORATION
1931 San Miguel Drive - Suite 100
Walnut Creek, California 94596
(925) 930-0902 • FAX (925) 930-0135
E-Mail: maze@mazeassociates.com
Website: www.mazeassociates.com

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Coastside County Water District
Half Moon Bay, California

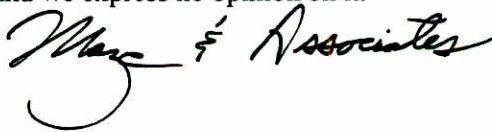
We have audited the basic financial statements of the Coastside County Water District as of and for the years ended June 30, 2004 and 2003, as listed in the table of contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards in the United States of America. Those standards require that we plan and perform the audit 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.

In our opinion, the basic financial statements referred to above present fairly in all material respects the financial position of the Coastside County Water District at June 30, 2004 and 2003 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.

The basic financial statements referred to above follow the requirements of the Government Accounting Standards Board's Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, No. 36, *Recipient Reporting for Certain Non-exchange Revenues, an Amendment of GASB Statement No. 33*, No. 37, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments; Omnibus*, and No. 38, *Certain Financial Statement Note Disclosures*, as discussed in Note 1 to the basic financial statements.

Management's Discussion and Analysis is required by the Government Accounting Standards Board, but is not part of the basic financial statements. We have applied certain limited procedures to this information, principally inquiries of management regarding the methods of measurement and presentation of this information, but we did not audit this information and we express no opinion on it.



August 20, 2004

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The Governmental Accounting Standards Board (GASB) recently issued GASB 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments. GASB 34 establishes financial reporting standards for state and local governments, including states, cities, villages and special purpose governments such as school districts and public utilities. This standard has minor impacts upon the financial reporting and accounting performed by the Coastside County Water District, which includes the addition of this section, entitled Management's Discussion and Analysis (MDA).

The MDA presents management's analysis of the Coastside County Water District's (the District) financial condition and activities as of and for the year ended June 30, 2004. The MDA is intended to serve as an introduction to the District's basic financial statements. In future years, a comparative analysis of prior year information will be presented in this report. Readers are encouraged to consider the information presented here in conjunction with the information contained in the accompanying financial statements.

The information in this MDA is presented in the following order:

- Organization and Overview of Financial Statements
- Financial Analysis
- Capital Assets
- Debt Administration
- Request for Information

Organization and Overview of Financial Statements:

The Coastside County Water District is organized under the Water Code provisions of the general laws of the State of California and is governed by a five-member Board of Directors elected at large by the registered voters of the District. The District is located along the Pacific Ocean in San Mateo County; it purchases more than half of its water supply from the San Francisco Water Department. The balance is developed from local sources, including surface diversion and wells. Water is distributed to customers inside and outside the District's boundaries.

The District is a proprietary entity; it uses an enterprise fund format to report its activities for financial statement purposes. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs and expenses, including depreciation, of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Financial Analysis:

Financial Condition

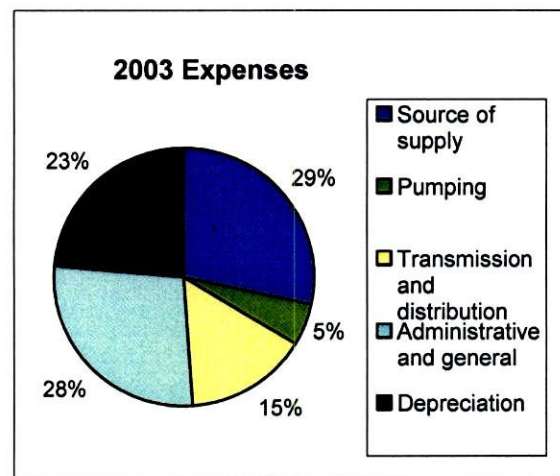
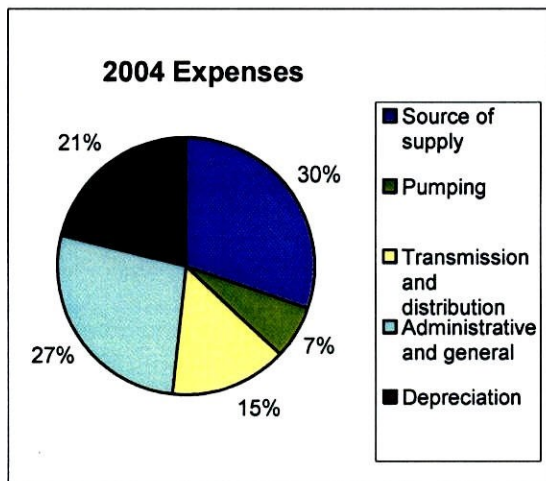
	Net Assets June 30, 2004 and 2003		Increase (Decrease)
	2004	2003	
Capital assets	27,329,000	27,729,922	(400,922)
Cash and investments	12,578,074	12,261,739	316,335
Other Assets	647,260	545,690	101,570
Total assets	40,554,334	40,537,351	16,983
Noncurrent liabilities	2,105,000	2,265,000	(160,000)
Current liabilities	2,408,263	2,263,246	145,017
Total liabilities	4,513,263	4,528,246	(14,983)
Net assets			
Invested in capital assets	25,224,000	25,464,922	(240,922)
Restricted	5,743,601	5,537,923	205,678
Unrestricted	5,073,470	5,006,260	67,210
Total net assets	36,041,071	36,009,105	31,966

Comparison of fiscal year 2004 to fiscal year 2003: Total assets increased by \$16,983 in fiscal year 2004 to \$40,554,334, while total liabilities decreased by \$14,983, resulting in an overall increase in net assets of \$31,966.

Results of Operations

Revenues & Expenses June 30, 2004 and 2003

	2004	2003	Increase (Decrease)
Operating revenue	4,029,232	3,454,371	574,861
Operating expenses			
Source of supply	1,464,339	1,181,697	282,642
Pumping	326,542	221,923	104,619
Transmission and distribution	709,776	643,997	65,779
Administrative and general	1,329,570	1,158,146	171,424
Depreciation	1,018,401	983,988	34,413
Total operating expenses	4,848,628	4,189,751	658,877
Operating income (loss)	(819,396)	(735,380)	(84,016)



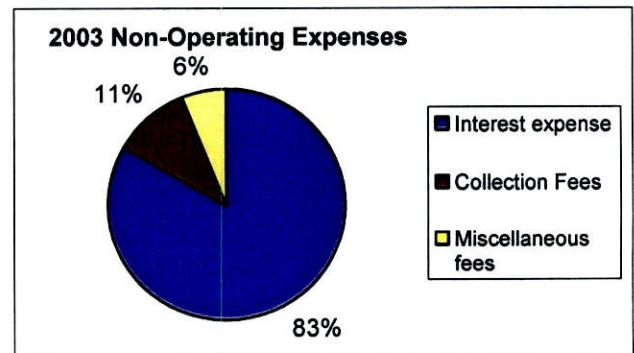
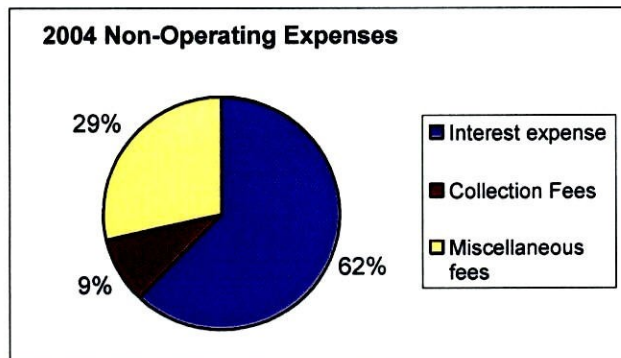
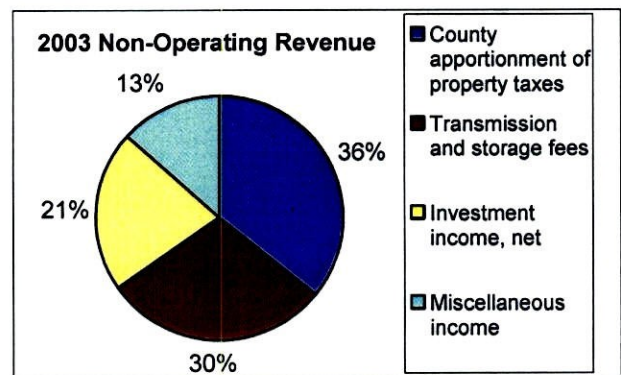
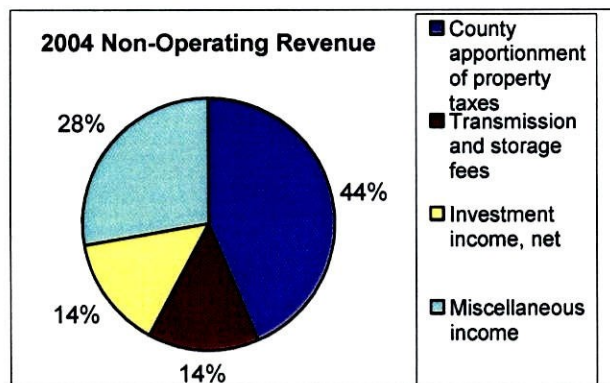
Comparison of fiscal year 2004 to fiscal year 2003: Operating revenue increase by \$574,861 in fiscal year 2004, while expenses increased by \$658,877, resulting in an overall \$84,016 decrease in operating income during fiscal year 2004.

Non-Operating Revenues & Expenditures

The governmental accounting standards divided Revenue and Expenses for agencies between "Operating" and "Non-Operating" sources. The Non-Operating sources are summarized in the following Table:

Comparison of Non-Operating Revenues & Expenses 2004 and 2003

	2004	2003	\$ Change Increase/ (Decrease)	% Change
County apportionment of property taxes	450,772	422,027	28,745	6.8%
Transmission and storage fees	145,614	349,327	(203,713)	-58.3%
Investment income, net	147,451	251,018	(103,567)	-41.3%
Miscellaneous income	286,632	158,689	127,943	80.6%
Total non-operating revenue	1,030,469	1,181,061	(150,592)	-12.8%
Interest expense	111,272	115,172	(3,900)	-3.4%
Collection Fees	16,731	14,782	1,949	13.2%
Miscellaneous fees	51,104	8,376	42,728	510.1%
Total non-operating expense	179,107	138,330	40,777	29.5%
Net from non-operating	851,362	1,042,731	(191,369)	-18.4%



Comparison of fiscal year 2004 to fiscal year 2003: Non-operating revenue decreased by \$150,592 while non-operating expense increased by \$40,777, resulting in an overall decrease of \$191,369 during fiscal year 2004.

Capital Assets

Utility plant and construction in progress balances and activity are summarized below:

	Balance Beginning of Year	Additions and Transfers, net	Balance End of Year
Utility Plant in Service:			
Land	\$ 160,612		\$ 160,612
Buildings	560,337		560,337
Furniture & Equipment	633,640	\$ 10,524	644,164
Vehicles	553,460	27,885	581,345
Treatment plants, pipelines wells, pump stations	17,150,577	64,802	17,215,379
Crystal Springs Project			
West pipeline	2,746,355		2,746,355
Nunes treatment plant	3,221,460		3,221,460
East pipeline	3,197,786		3,197,786
Pump station	7,643,220		7,643,220
Casa Del Mar pipeline	21,452		21,452
Carter Hill Tank pipeline	50,000		50,000
Design, engineering and intangible costs	3,235,451	25,909	3,261,360
Utility plant at cost	39,174,350	\$ 129,120	39,303,470
Less accumulated depreciation	(12,264,988)	\$ (1,010,540)	(13,275,528)
Utility plant, net	\$ 26,909,362		\$ 26,027,942
Construction in progress	\$ 820,560	\$ 480,498	\$ 1,301,058

Debt Administration

On May 12, 1998 the District issued ABAG Water and Wastewater Revenue Refunding Bonds, Series 1998A in an original principal amount of \$2,855,000. Proceeds of the 1998 Bonds were placed in an irrevocable trust to advance refund the outstanding balance of the Water Revenue Refunding Bond, Series 1993; a portion was also used to finance water pipeline replacements. The remaining balance of the 1993 Bonds was paid off as of June 30, 2004.

All revenues generated by the Utility Plant and a debt service insurance policy serving as a reserve fund are pledged for the repayment of the 1998 Bonds. The 1998 Bonds bear interest at 3.75% to 5.3% and require semiannual interest payments on October 1 and April 1 and annual principal payments on October 1. A final installment is due October 1, 2013.

Any 1998 Bonds maturing on or after October 1, 2009 may be redeemed at par plus a 2% premium on or after October 1, 2008. The premium decreases 1% each year until October 1, 2010 at which time the 1998 Bonds may be redeemed at par. 1998 Bonds maturing on or after October 1, 2010 and 2021 are subject to mandatory annual redemption commencing October 1, 2006 and 2011, respectively, at par.

Future annual repayment requirements are as follows:

For the Years ended June 30:	Principal	Interest	Total
2005	\$ 170,000	\$ 101,575	\$ 271,575
2006	175,000	94,070	269,070
2007	185,000	85,595	270,595
2008	195,000	76,095	271,095
2009	200,000	66,220	266,220
2010-2014	1,180,000	160,846	1,340,846
Total future repayments due	\$ 2,105,000	\$ 584,401	\$ 2,689,401

Request for Information

This report is designed to provide customers and creditors with a general overview of the District's finances and demonstrate the District's accountability for the monies it receives. If you have any questions about this report or need additional information, please contact: The Accounting Manager, 766 Main Street, Half Moon Bay, CA 94019.

COASTSIDE COUNTY WATER DISTRICT
COMPARATIVE STATEMENTS OF NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003

ASSETS	2004	2003
Utility Plant (Note 3)	\$39,303,470	\$39,174,350
Less Accumulated depreciation	<u>(13,275,528)</u>	<u>(12,264,988)</u>
Utility plant, net	<u>26,027,942</u>	<u>26,909,362</u>
Construction in progress (Note 3)	<u>1,301,058</u>	<u>820,560</u>
Restricted cash and investments (Note 2)	<u>7,130,466</u>	<u>7,838,141</u>
Current Assets		
Cash and temporary investments (Note 2)	5,447,608	4,423,598
Accounts receivable from customers	395,954	255,222
Taxes receivable	10,653	23,675
Interest receivable	35,091	39,902
Prepaid expenses	25,541	25,593
Materials and supplies	109,277	122,693
Unamortized bond issuance costs	<u>70,744</u>	<u>78,605</u>
Total current assets	<u>6,094,868</u>	<u>4,969,288</u>
Total assets	<u>40,554,334</u>	<u>40,537,351</u>
LIABILITIES		
Long Term Debt (Note 5)		
ABAG Water and Wastewater Revenue Refunding Bond, Series 1998A	<u>2,105,000</u>	<u>2,265,000</u>
Current Liabilities		
Due to Crystal Springs Assessment District (Note 4)	1,694,344	1,661,385
Accounts payable and accrued liabilities	287,831	190,735
Customer deposits	45,290	38,740
Accrued vacation and sick leave (Note 1G)	146,052	174,766
Accrued payroll	59,084	
Deferred revenue	<u>175,662</u>	<u>197,620</u>
Total current liabilities	<u>2,408,263</u>	<u>2,263,246</u>
Total liabilities	<u>4,513,263</u>	<u>4,528,246</u>
NET ASSETS		
Invested in capital assets, net of related debt (Note 8)	<u>25,224,000</u>	<u>25,464,922</u>
Restricted for Crystal Springs Project:		
Transmission and storage fees-Crystal Springs Project	5,495,004	5,263,417
District contribution to Crystal Springs Project	<u>248,597</u>	<u>274,506</u>
Total restricted	<u>5,743,601</u>	<u>5,537,923</u>
Unrestricted (board designations)		
Operating capital	300,000	300,000
Emergency and contingency	700,000	700,000
Capital expenditures	3,059,000	1,779,600
Unrestricted, undesignated by Board	<u>1,014,470</u>	<u>2,226,660</u>
Total unrestricted	<u>5,073,470</u>	<u>5,006,260</u>
Net Assets	<u>\$36,041,071</u>	<u>\$36,009,105</u>

See accompanying notes to financial statements

COASTSIDE COUNTY WATER DISTRICT
COMPARATIVE STATEMENTS OF REVENUES AND EXPENSES
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003

	2004			2003
	Original and Final Budget	Actual	Variance Favorable (Unfavorable)	Actual
OPERATING REVENUES				
Water sales	\$3,872,960	\$4,029,232	\$156,272	\$3,454,371
OPERATING EXPENSES				
Source of supply	1,145,309	1,464,339	(319,030)	1,181,697
Pumping	275,605	326,542	(50,937)	221,923
Transmission and distribution	728,569	709,776	18,793	643,997
Administrative and general	1,226,300	1,329,570	(103,270)	1,158,146
Depreciation	1,003,000	1,018,401	(15,401)	983,988
Total Operating Expenses	4,378,783	4,848,628	(469,845)	4,189,751
OPERATING LOSS	(505,823)	(819,396)	(313,573)	(735,380)
NONOPERATING REVENUES (EXPENSES)				
County apportionment of property taxes	507,000	450,772	(56,228)	422,027
Transmission and storage fees	12,000	145,614	133,614	349,327
Investment income, net	102,143	147,451	45,308	251,018
Interest expense	(109,000)	(111,272)	(2,272)	(115,172)
Collection fees	(18,700)	(16,731)	1,969	(14,782)
Miscellaneous fees	(49,620)	(51,104)	(1,484)	(8,376)
Miscellaneous income	62,000	286,632	(224,632)	158,689
Net Nonoperating Revenues (Expenses)	505,823	851,362	345,539	1,042,731
Net Income		\$31,966	\$31,966	\$307,351

See accompanying notes to financial statements

COASTSIDE COUNTY WATER DISTRICT
COMPARATIVE STATEMENTS OF CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003

	Invested in Capital Assets, Net of Related Debt	Restricted		Unrestricted			
		Transmission & Storage Fees	District Contribution	Operating Capital	Emergency and Contingency	Capital Expenditures	Undesignated
Balance June 30, 2002	\$25,535,422	\$4,763,665	\$292,858	\$300,000	\$700,000	\$2,374,000	\$1,735,809
Reduction reflecting District expenditures on Crystal Springs Project			(18,352)				18,352
Transmission and Storage Fees		349,327					(349,327)
Interest on Accumulated Transmission and Storage Fees		150,425					(150,425)
Net income							307,351
Decrease in designation for capital expenditures						(594,400)	594,400
Decrease in Utility Plant, net	(70,500)						70,500
Balance June 30, 2003	<u>25,464,922</u>	<u>5,263,417</u>	<u>274,506</u>	<u>300,000</u>	<u>700,000</u>	<u>1,779,600</u>	<u>2,226,660</u>
Reduction reflecting District expenditures on Crystal Springs Project			(25,909)				25,909
Transmission and Storage Fees and Interest		145,614					(145,614)
Interest on Accumulated Transmission and Storage Fees		85,973					(85,973)
Net income							31,966
Decrease in designation for capital expenditures						1,279,400	(1,279,400)
Decrease in Utility Plant, net	(240,922)						240,922
Balance June 30, 2004	<u>\$25,224,000</u>	<u>\$5,495,004</u>	<u>\$248,597</u>	<u>\$300,000</u>	<u>\$700,000</u>	<u>\$3,059,000</u>	<u>\$1,014,470</u>

See accompanying notes to basic financial statements

COASTSIDE COUNTY WATER DISTRICT
COMPARATIVE STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003

	<u>2004</u>	<u>2003</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash collections from customers	\$3,873,092	\$3,471,042
Cash payments to vendors	(2,658,749)	(2,434,152)
Payments to employees	<u>(997,585)</u>	<u>(991,688)</u>
Cash Flows from Operating Activities	<u>216,758</u>	<u>45,202</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received on investments	<u>152,262</u>	<u>271,639</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Property taxes received	463,794	435,105
County collection fees	(16,731)	(14,782)
Miscellaneous receipts	286,632	158,689
Miscellaneous payments	<u>(51,104)</u>	<u>(8,376)</u>
Cash Flows from Noncapital Financing Activities	<u>682,591</u>	<u>570,636</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Collection of transmission and storage fees	145,614	349,327
Change in restricted cash & investments	707,675	(303,248)
Acquisition of capital assets	(609,618)	(750,627)
Principal and interest paid on Water Revenue Refunding Bond	<u>(271,272)</u>	<u>(270,172)</u>
Cash Flows from Capital and Related Financing Activities	<u>(27,601)</u>	<u>(974,720)</u>
NET CASH FLOWS	1,024,010	(87,243)
Cash and investments at beginning of year	<u>4,423,598</u>	<u>4,510,841</u>
Cash and investments at end of year	<u><u>\$5,447,608</u></u>	<u><u>\$4,423,598</u></u>
RECONCILIATION OF OPERATING INCOME TO CASH FLOWS FROM OPERATIONS		
Operating loss	(\$819,396)	(\$735,380)
Adjustments to reconcile operating loss to cash flows from operating activities:		
Depreciation	1,018,401	983,988
Decrease (increase) in:		
Accounts receivable from customers	(140,732)	42,089
Prepaid expenses	52	5,477
Materials and supplies	13,416	(16,534)
Increase (decrease) in:		
Due to Crystal Springs Assessment District	32,959	(206,596)
Accounts payable and accrued liabilities	97,096	36,143
Customers' deposits	6,550	(3,460)
Accrued vacation and sick leave	(28,714)	(38,567)
Deferred revenue	(21,958)	(21,958)
Accrued payroll	<u>59,084</u>	<u></u>
Cash Flows from Operating Activities	<u><u>\$216,758</u></u>	<u><u>\$45,202</u></u>

See accompanying notes to basic financial statements

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**COASTSIDE COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Coastside County Water District is organized under the Water Code provisions of the general laws of the State of California and is governed by a five-member Board of Directors elected at large by the registered voters of the District. The District is located along the Pacific Ocean in San Mateo County; it purchases more than half of its water supply from the San Francisco Water Department. The balance is developed from local sources, including surface diversion and wells. Water is distributed to customers inside and outside the District's boundaries.

A. Reporting Entity

The District's financial statements reflect only its own activities; it has no component units (other government units overseen by the District).

B. Enterprise Fund Accounting

The District is a proprietary entity; it uses an enterprise fund format to report its activities for financial statement purposes. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs and expenses, including depreciation, of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

An enterprise fund is used to account for activities similar to those in the private sector, where the proper matching of revenues and costs is important and the full accrual basis of accounting is required. With this measurement focus, all assets and all liabilities of the enterprise are recorded on its balance sheet, all revenues are recognized when earned and all expenses, including depreciation, are recognized when incurred. Enterprise fund equity includes retained earnings and contributed capital.

The accompanying financial statements are presented on the basis set forth in Government Accounting Standards Board Statements No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, No. 36, *Recipient Reporting for Certain Non-exchange Revenues, an Amendment of GASB Statement No. 33*, No. 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments; Omnibus*, and No. 38, *Certain Financial Statement Note Disclosures*.

C. Utility Plant

Utility plant is stated at cost. Utility plant contributed to the District, including meters, pipelines and mains contributed by contractors, is stated at estimated fair value at the time of contribution. Expenditures which materially increase the value or life of utility plant assets are capitalized and depreciated over the remaining useful life of the asset.

D. Depreciation

The purpose of depreciation is to spread the cost of utility plant assets equitably among all customers over the life of these assets, so that each customer's bill includes a pro rata share of the cost of these assets. The amount charged to depreciation expense each year represents that year's pro rata share of utility plant cost.

**COASTSIDE COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)
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Depreciation of all utility plant in service is charged as an expense against operations each year and the total amount of depreciation taken over the years, called accumulated depreciation, is reported on the balance sheet as a reduction in the book value of the utility plant assets.

Depreciation of utility plant in service is provided using the straight line method, which means the cost of the asset is divided by its expected useful life in years and the result is charged to expense each year until the asset is fully depreciated. The District has assigned the useful lives listed below to utility plant assets:

	<u>Years</u>
Water Treatment Plants and Pipelines	22-50
Buildings	23-33
Furniture and Equipment	10
Vehicles	5

E. Cash Flows Defined

For purposes of the statement of cash flows the District defines cash and investments to include all cash and temporary investments.

F. Property Taxes

Property tax revenue is recognized in the fiscal year for which the tax is levied. The County of San Mateo levies, bills and collects property taxes for the District; all material amounts are collected by June 30.

Secured and unsecured property tax is due in two installments on November 1 and February 1, becomes a lien on January 1, and becomes delinquent on December 10 and April 10, respectively. Delinquent accounts are assessed a penalty of 10 percent. Accounts which remain unpaid on June 30 are charged an additional one and one half percent per month. Unsecured property tax is due on July 1 and becomes delinquent on August 31. The penalty percentage rates are the same as secured property tax.

G. Accrued Vacation and Sick Leave

The liability for vested vacation pay is recorded as an expense when the vacation is earned. District employees have a vested interest of up to 240 hours of accrued vacation time and up to 120 days of accrued sick time for employees hired prior to December 31, 1990. Employees hired after that date have a vested interest in up to fifty percent of their sick time up to 60 days, based upon time with the District.

H. Unamortized Bond Issue Costs

Costs incurred in issuing long term debt are capitalized and amortized over the life of the debt.

**COASTSIDE COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 - CASH AND TEMPORARY INVESTMENTS

A. Composition

The District's cash and temporary investments are carried at market, and include:

	June 30, 2004		June 30, 2003
	Current	Restricted	
Cash in Bank:			
Operating Account	\$589,901		\$258,430
Crystal Springs Project Transmission & Storage Account		\$479,652	363,934
Reassessment Redemption Fund		1,099,870	1,074,516
Reassessment Reserve Fund		594,475	586,869
Cash on hand - Petty Cash	3,374		1,900
Local Agency Investment Fund:			
Crystal Springs Project		4,707,872	4,624,977
District contribution to Crystal Springs Project		248,597	274,506
Operating capital reserve	300,000		300,000
Emergency and contingency reserve	700,000		700,000
Capital expenditures reserves	3,059,000		2,374,000
Unallocated	795,333		789,268
Capital Improvement funds with Trustee:			
Money Market Funds (US Government Securities)			913,339
Total	\$5,447,608	\$7,130,466	\$12,261,739

B. Collateralization of Cash and Temporary Investments

Cash deposits are collateralized in accordance with policies of the District as well as State statutes, which both require the pledged collateral to be 110% of the bank balance if secured by government securities and 150% if secured by government backed mortgage certificates. The financial institution which holds the deposits reserves the right of substitution of collateral. The District has waived collateral requirements for cash deposits which are fully insured up to \$100,000 by an agency of the federal government.

The carrying amount of the District's cash deposits was \$2,765,372 at June 30, 2004. Bank balances before reconciling items were \$3,138,710 at that date, of which \$400,000 was insured and \$2,737,398 was collateralized as discussed above.

The District's investment in the California Local Agency Investment Fund cannot be categorized because it is a pooled account.

C. Authorized Investments

The District's investment policy and the California Government Code allow the District to invest in certificates of deposit or time deposits placed with commercial banks and/or savings and loan companies or the California Local Agency Investment Fund.

**COASTSIDE COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 - CASH AND TEMPORARY INVESTMENTS (Continued)

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

D. Reassessment Redemption Fund

The cash balance in the Reassessment Redemption Fund account represents receipts of the Crystal Springs Assessment District, held by the Water District as the Assessment District's agent as discussed at Note 4.

E. District Contribution to Crystal Springs Project

In fiscal 2004, District expenditures of \$25,909 reduced the set aside amount for the Crystal Springs Project to \$248,597, which will be expended on the Project in future years.

NOTE 3 - UTILITY PLANT AND CONSTRUCTION IN PROGRESS

Utility plant and construction in progress balances and activity are summarized below:

	Balance Beginning of Year	Additions and Transfers, net	Balance End of Year
Utility Plant in Service:			
Land	\$160,612		\$160,612
Buildings	560,337		560,337
Furniture & equipment	633,640	\$10,524	644,164
Vehicles	553,460	27,885	581,345
Treatment plants, pipelines, wells, pump stations	17,150,577	64,802	17,215,379
Crystal Springs Project:			
West pipeline	2,746,355		2,746,355
Nunes treatment plant	3,221,460		3,221,460
East pipeline	3,197,786		3,197,786
Pump station	7,643,220		7,643,220
Casa Del Mar pipeline	21,452		21,452
Carter Hill Tank pipeline	50,000		50,000
Design, engineering and intangible costs	3,235,451	25,909	3,261,360
Utility plant at cost	39,174,350	\$129,120	39,303,470
Less accumulated depreciation	(12,264,988)	(\$1,010,540)	(13,275,528)
Utility plant, net	\$26,909,362		\$26,027,942
Construction in progress	\$820,560	\$480,498	\$1,301,058

Construction in progress at June 30, 2004 consisted primarily of pipeline replacement costs.

**COASTSIDE COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 4 - CRYSTAL SPRINGS ASSESSMENT DISTRICT

The Crystal Springs Water Supply Project (CSP) constructed by the Coastsides County Water District (Water District) was financed by purchasers of CSP water service connections who either paid cash for their water service connections or have agreed to place their properties in the Crystal Springs Assessment District, which was formed for the sole purpose of providing funding to construct the Project.

At June 30, 2004, the Assessment District had outstanding debt in the amount of \$2,430,000 comprising the balance of its Limited Obligation Refunding Bonds issued in 1999. Property owners are solely responsible for repayment of these Bonds. Security for the Bonds is provided by a lien against each property to which a CSP water service connection is assigned. The County of San Mateo acts as the agent for the Assessment District, collecting assessments and forwarding bond payments to the Assessment District. The Assessment District is responsible for submitting monies collected by the County to a paying agent, which in turn pays the bond holders. In the event of non-payment of an assessment by a property owner, the Water District is responsible only for initiating foreclosure action on the property encumbered by the CSP assessment.

Since the Water District has never assumed any legal or moral liability to pay any of the Assessment District's bonded indebtedness, the Water District's financial statements do not include the Assessment District bonds or related balances. However, as the Assessment District's agent, the Water District uses the cash discussed at Note 2 D to make the required payments on the Assessment District Bonds.

NOTE 5 - LONG TERM DEBT

On May 12, 1998 the District issued ABAG Water and Wastewater Revenue Refunding Bonds, Series 1998A in an original principal amount of \$2,855,000. Proceeds of the 1998 Bonds were placed in an irrevocable trust to advance refund the outstanding balance of the Water Revenue Refunding Bond, Series 1993; a portion was also used to finance water pipeline replacements. The remaining balance of the 1993 Bonds was paid off as of June 30, 2004.

All revenues generated by the Utility Plant and a debt service insurance policy serving as a reserve fund are pledged for the repayment of the 1998 Bonds. The 1998 Bonds bear interest at 3.75% to 5.3% and require semiannual interest payments on October 1 and April 1 and annual principal payments on October 1. A final installment is due October 1, 2013.

Any 1998 Bonds maturing on or after October 1, 2009 may be redeemed at par plus a 2% premium on or after October 1, 2008. The premium decreases 1% each year until October 1, 2010 at which time the 1998 Bonds may be redeemed at par. 1998 Bonds maturing on or after October 1, 2010 and 2021 are subject to mandatory annual redemption commencing October 1, 2006 and 2011, respectively, at par.

**COASTSIDE COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 5 - LONG TERM DEBT (Continued)

Future annual repayment requirements are as follows:

<u>For the years ended June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$170,000	\$101,575	\$271,575
2006	175,000	94,070	269,070
2007	185,000	85,595	270,595
2008	195,000	76,095	271,095
2009	200,000	66,220	266,220
2010-2014	1,180,000	160,846	1,340,846
Total future repayments due	<u>\$2,105,000</u>	<u>\$584,401</u>	<u>\$2,689,401</u>

NOTE 6 - PENSION PLAN

Substantially all District employees are eligible to participate in pension plans offered by California Public Employees Retirement System (CALPERS), an agent multiple employer defined benefit pension plan which acts as a common investment and administrative agent for its participating member employers. CALPERS provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. The District's employees participate in the Miscellaneous Employee Plan. Benefit provisions under the Plan are established by State statute and District resolution. Benefits are based on years of credited service, equal to one year of full time employment. Funding contributions for the Plan are determined annually on an actuarial basis as of June 30 by CALPERS; the District must contribute these amounts. The Plan's provisions and benefits in effect at June 30, 2004, are summarized as follows:

	<u>Miscellaneous</u>
Benefit vesting schedule	5 years service
Benefit payments	monthly for life
Retirement age	50
Monthly benefits, as a % of annual salary	1.426%-2.418%
Required employee contribution rates	7%
Required employer contribution rates	7.525%

The District's labor contracts require it to pay employee contributions as well as its own.

CALPERS determines contribution requirements using a modification of the Entry Age Normal Method. Under this method, the District's total normal benefit cost for each employee from date of hire to date of retirement is expressed as a level percentage of the related total payroll cost. Normal benefit cost under this method is the level amount the District must pay annually to fund an employee's projected retirement benefit. This level percentage of payroll method is used to amortize any unfunded actuarial liabilities. The actuarial assumptions used to compute contribution requirements are also used to compute the pension benefit obligation. The District does not have a net pension obligation since it pays these actuarially required contributions monthly.

**COASTSIDE COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 - PENSION PLAN (Continued)

CALPERS uses the market related value method of valuing the Plan's assets. An investment rate of return of 8.25% is assumed, including inflation at 3.5%. Annual salary increases are assumed to vary by duration of service. Changes in liability due to plan amendments, changes in actuarial assumptions, or changes in actuarial methods are amortized as a level percentage of payroll on a closed basis over twenty years. Investment gains and losses are accumulated as they are realized and ten percent of the net balance is amortized annually.

The Plan's actuarial value (which differs from market value) and funding progress over the past three years are set forth below at their actuarial valuation date of June 30:

Actuarial						
Valuation Date	Entry Age Accrued Liability	Value of Asset	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) as % of Payroll
2000	\$ 3,409,961	\$4,256,265	\$ (846,304)	124.8%	\$ 772,489	(109.6%)
2001	3,973,952	4,391,922	(417,970)	110.5%	917,510	(45.6%)
2002	4,586,411	4,209,010	377,401	91.8%	839,696	44.9%

Audited annual financial statements are available from CALPERS at P.O. Box 942709, Sacramento, CA 94229-2709.

CALPERS has reported that the value of the net assets in the Plan held for pension benefits changed as follows during the year ended June 30, 2002, the most recent available:

Beginning Balance at June 30, 2001	\$4,391,922
Contributions received	155,302
Benefits and Refunds Paid	(152,045)
Expected Investment Earnings Credited	362,465
	<u> </u>
Expected Actuarial Value of Assets as of June 30, 2002	<u>\$4,757,644</u>
	<u> </u>
Market Value of Assets as of June 30, 2002	<u>\$3,826,373</u>
	<u> </u>
Actuarial Value of Assets as of June 30, 2002	<u>\$4,209,010</u>

NOTE 7 - DEFERRED COMPENSATION PLAN

District employees may defer a portion of their compensation under a District sponsored Deferred Compensation Plan created in accordance with Internal Revenue Code Section 457. Under this plan, participants are not taxed on the deferred portion of their compensation until distributed to them; distributions may be made only at termination, retirement, death or in an emergency as defined by the Plan.

The District's Plan administration agreements require plan assets to be held by a Trust for the exclusive benefit of plan participants and their beneficiaries. Since the assets held under these plans are not the District's property and are not subject to claims by general creditors of the District, they have been excluded from these financial statements.

**COASTSIDE COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 8 – NET ASSETS

GASB Statement 34 adds the concept of Net Assets, which is measured on the full accrual basis. Net Assets replaces Contributions in Aid of Construction and Retained Earnings which are no longer used. As part of the implementation of GASB 34, the District closed and combined Contributions in Aid of Construction (\$21,169,245 as of July 1, 2002) and Retained Earnings (\$14,532,509 as of July 1, 2002) into the newly required Net Assets which amounted to \$35,701,754 as of that same date.

Net Assets is the excess of all the District's assets over all its liabilities. Net Assets are divided into three captions under GASB Statement 34. These captions apply only to Net Assets, which are described below:

Invested in Capital Assets, net of related debt describes the portion of Net Assets which is represented by the current net book value of the District's capital assets, less the outstanding balance of any debt issued to finance these assets.

Restricted describes the portion of Net Assets which is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions which the District cannot unilaterally alter. The Restricted Net Assets are presented below:

Transmission and Storage Fees collected but not yet expended on the Crystal Springs Project, plus interest earned on the balance. These funds have been held in a separate bank account and in LAIF since the inception of the Project.

The District Contribution to Crystal Springs Project, representing the amount pledged by the District at inception of the project, net of subsequent District expenditures on the Project.

Unrestricted describes the portion of Net Assets which is not restricted to use. Included here are "Reserves" which the Board can unilaterally alter. Net Assets have been reserved by the Board of Directors for specific uses in the future. These reserves are presented below:

Operating Capital, representing minimum operating cash requirements.

Capital Expenditures, for planned capital expenditures and depreciation expense.

Emergency and Contingencies, to be used in the event of economic uncertainty.

NOTE 9 - RISK MANAGEMENT

The District is a member of the Association of California Water Agencies Joint Powers Insurance Authority. ACWAJPIA covers general liability claims in an amount up to \$40,000,000. The District has worker's compensation insurance with ACWAJPIA which provides coverage of worker's compensation claims from the first dollar up to statutory limits. During the fiscal year ended June 30, 2003 the District contributed \$78,398 for current year coverage.

ACWAJPIA is governed by a board consisting of representatives from member municipalities. The board controls ACWAJPIA's operations, including selection of management and approval of operating budgets, independent of any influence by member municipalities beyond their representation on the board.

**COASTSIDE COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 9 - RISK MANAGEMENT (Continued)

The District's contributions to ACWAJPIA equal the ratio of the District's payroll to the total payrolls of all entities participating in the same layer of each program, in each program year. Actual surpluses or losses are shared according to a formula developed from overall loss costs and spread to member entities on a percentage basis after a retrospective rating.

ACWAJPIA's audited financial statements may be obtained from them at 5620 Birdcage Street, #200, Citrus Heights, CA 95610-7632.

NOTE 10 - COMMITMENT AND CONTINGENT LIABILITY

The District provides certain health care and dental benefits for retired employees. These benefits are provided through insurance companies whose premiums are based on the benefits paid during the year. The District recognizes the cost of providing those benefits by expensing the annual insurance premiums, which was \$45,553 for eligible retirees for the year ended June 30, 2004.

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