

CENTRAL COAST WATER AUTHORITY

Annual Financial Report

June 30, 1993 and 1992

(With Independent Auditors' Report Thereon)

INDEPENDENT AUDITORS' REPORT**The Member Agencies of the
Central Coast Water Authority:**

We have audited the accompanying balance sheets of the Central Coast Water Authority as of June 30, 1993 and 1992 and the related statements of revenues, expenses, changes in retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the management of the Central Coast Water Authority. Our responsibility is to express an opinion on the financial statements based upon our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Central Coast Water Authority, as of June 30, 1993 and 1992 and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

KPMG Peat Marwick

September 30, 1993

Central Coast Water Authority
Balance Sheet
June 30, 1993 and 1992

<u>Assets</u>	<u>1993</u>	<u>1992</u>
Current assets:		
Cash and investments (note 2)	\$ 914,215	\$ 231,591
Accounts receivable	930,694	-
Accrued interest receivable	<u>3,714,175</u>	<u>512,858</u>
Total current assets	<u>5,559,084</u>	<u>744,449</u>
Restricted assets:		
Cash with fiscal agent (note 2)	194,913,700	25,501,344
Cash held for deposits	<u>2,923,957</u>	<u>283,561</u>
Total restricted assets	<u>197,837,657</u>	<u>25,784,905</u>
Property, plant and equipment (note 3)	15,447,524	4,031,498
Less: accumulated depreciation	<u>(8,719)</u>	<u>(1,626)</u>
Net property, plant and equipment	<u>15,438,805</u>	<u>4,029,872</u>
Unamortized bond issuance costs	<u>3,761,716</u>	<u>326,937</u>
Total assets	<u>\$ 222,597,262</u>	<u>\$ 30,886,163</u>
<u>Liabilities and Fund Equity</u>		
Current liabilities:		
Accounts payable	\$ 598,378	\$ 640,721
Deposits	2,923,957	283,561
Accrued interest payable	2,822,533	186,398
Due to other agencies	108,119	114,310
Retainage payable	484,423	-
Notes payable (note 4)	<u>-</u>	<u>23,545,000</u>
Total current liabilities	<u>6,937,410</u>	<u>24,769,990</u>
Long-term liabilities:		
Deferred compensation payable	49,268	-
Bonds payable (note 4)	<u>177,120,000</u>	<u>-</u>
Total long-term liabilities	<u>177,169,268</u>	<u>-</u>
Total liabilities	<u>184,106,678</u>	<u>24,769,990</u>
Fund equity:		
Contributed capital, net (note 4)	35,510,237	5,621,708
Retained earnings	<u>2,980,347</u>	<u>494,465</u>
Total fund equity	<u>38,490,584</u>	<u>6,116,173</u>
Total liabilities and fund equity	<u>\$ 222,597,262</u>	<u>\$ 30,886,163</u>

See accompanying notes to the financial statements

**Central Coast Water Authority
Statement of Revenues, Expenses and
Changes in Retained Earnings
Years ended June 30, 1993 and 1992**

	<u>1993</u>	<u>1992</u>
Operating revenues:		
Operating reimbursements from member agencies	\$ 1,463,823	\$ 912,390
Other revenues	<u>655,252</u>	<u>63,384</u>
Total operating revenues	<u>2,119,075</u>	<u>975,774</u>
Operating expenses:		
Administration	272,241	98,424
Accounting	44,576	-
Communications	9,583	1,143
Consultants	11,208	35,665
Depreciation	7,092	1,626
Dues and memberships	12,612	-
Equipment maintenance	4,854	-
Insurance	20,811	7,139
Legal	278,564	352,496
Office expense	26,619	6,787
Rents	24,763	-
Small tools and software	12,920	-
Transportation and travel	<u>16,873</u>	<u>976</u>
Total operating expenses	<u>742,716</u>	<u>504,256</u>
Operating income	1,376,359	471,518
Nonoperating revenue - interest income	<u>1,109,523</u>	<u>22,947</u>
Net Income	2,485,882	494,465
Retained earnings, July 1	<u>494,465</u>	<u>-</u>
Retained earnings, June 30	<u>\$ 2,980,347</u>	<u>\$ 494,465</u>

See accompanying notes to the financial statements

**Central Coast Water Authority
Statement of Cash Flows
Years ended June 30, 1993 and 1992**

	<u>1993</u>	<u>1992</u>
Cash flows from operating activities:		
Cash received from member agencies	\$ 1,128,873	912,390
Cash payments for goods and services	(1,325,244)	(341,468)
Other operating revenues	<u>655,252</u>	<u>63,384</u>
Net cash provided by operating activities	<u>458,881</u>	<u>634,306</u>
Cash flows from non-capital financing activities:		
Cash received for deposits	2,640,396	283,561
Increase in deferred compensation payable	<u>49,268</u>	<u>-</u>
Net cash provided by non-capital financing activities	<u>2,689,664</u>	<u>283,561</u>
Cash flows from capital and related financing activities:		
Proceeds from issuance of bonds	173,685,221	-
(Payment) proceeds of note payable	(23,545,000)	23,218,063
Acquisition of capital assets	(11,470,683)	(3,437,629)
Increase in contributed capital	29,888,529	5,621,708
Increase in retainage payable	484,423	-
Increase in accrued interest payable	<u>2,636,135</u>	<u>186,398</u>
Net cash provided by capital and related financing activities	<u>171,678,625</u>	<u>25,588,540</u>
Cash flows from investing activities:		
Increase in cash with fiscal agent	(169,412,356)	(25,501,344)
Interest and dividends on investments	1,109,523	22,947
Increase in accrued interest receivable	<u>(3,201,317)</u>	<u>(512,858)</u>
Net cash used for investing activities	<u>(171,504,150)</u>	<u>(25,991,255)</u>
Net increase in cash and cash equivalents	3,323,020	515,152
Cash and cash equivalents at July 1	<u>515,152</u>	<u>-</u>
Cash and cash equivalents at June 30	<u>\$ 3,838,172</u>	<u>515,152</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 1,376,359	471,518
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	7,092	1,626
Changes in assets and liabilities:		
Increase in accounts payable	12,315	46,852
Increase in accounts receivable	(930,694)	-
Increase (decrease) in due to member agencies	<u>(6,191)</u>	<u>114,310</u>
Net cash provided (used) by operating activities	<u>\$ 458,881</u>	<u>634,306</u>

See accompanying notes to the financial statements

CENTRAL COAST WATER AUTHORITY
Notes to the Financial Statements
June 30, 1993 and 1992

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Central Coast Water Authority ("Authority") conform to generally accepted accounting principles. The following summary of the Authority's more significant accounting policies is presented to assist the reader in interpreting the financial statements and other data in this report. These policies should be viewed as an integral part of the accompanying financial statements.

A. Reporting entity

The primary purpose of the Central Coast Water Authority is to provide for the development, financing, construction, operation and maintenance of certain local (non-state owned) facilities required to deliver water from the State Water Project (the "SWP") to certain water purveyors and users in Santa Barbara County .

The Central Coast Water Authority was created by its members in September 1991. The Authority is presently composed of nine members, all of which are public agencies, as follows: The cities of Santa Maria, Santa Barbara, Guadalupe and Buellton, the Santa Ynez River Water Conservation District - Improvement District No. 1, the Goleta Water District, the Montecito Water District, the Summerland County Water District and the Carpinteria County Water District. In addition, the Authority has one associate member, the La Cumbre Mutual Water Company (together with the members, the "Purveyor Participants"). Each of the Purveyor Participants has entered into a Water Supply Agreement with the Authority, as have three non-member, private water users: Vandenberg Airforce Base (AFB), Santa Barbara Research Company and Morehart Land Company (the "Consumer Participants").

The Authority Participants are located in three different geographic areas of Santa Barbara County: North County (Vandenberg AFB, Santa Maria and Guadalupe); the Santa Ynez Valley (Buellton and Santa Ynez River Water Conservation District, Improvement District No. 1); and the South Coast (Santa Barbara, Goleta, Montecito, Summerland, Carpinteria, La Cumbre Mutual Water Company, Santa Barbara Research Company and Morehart Land Company). Historically, the North County has been an agricultural area but has seen significant urban development in the last ten years and expects additional urban development in the future; the Santa Ynez Valley is a rural agricultural area and tourist destination; and the South Coast is a generally developed urban area which does not expect significant growth in the future.

In October 1992 Central Coast Water Authority entered into an agreement with San Luis Obispo County to treat water delivered through the SWP. The entities covered by this agreement with San Luis Obispo County include: City of Pismo Beach, City of Morro Bay, Cuesta College, California Men's Colony, Oceano Community Services District, Avila Beach County Water District, County of San Luis Obispo Community Services Area #16, Irrigation District #1, Avila Valley Mutual Water Company, San Luis Coastal Unified School District and San Miguelito Mutual Water District.

Facilities To Be Constructed

The facilities to be constructed by the Authority include a water treatment plant to be located at Polonio Pass in northern San Luis Obispo County and two pipeline extensions: (1) the Mission Hills Extension, which will be a buried pipeline approximately ten miles long running from the

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terminus of the Coastal Branch (Phase II) southerly to the vicinity of the Lompoc Valley, and (2) the Santa Ynez Extension, which will be a buried pipeline approximately 32 miles long running from the terminus of the Mission Hills Extension through the Santa Ynez Valley, to terminus at or near Cachuma Lake and which is expected to include one pumping plant near Santa Ynez and one storage tank. Water will be transported from that point through the existing Tecolote Tunnel, which traverses the Santa Ynez Mountains, to the South Coast of Santa Barbara County.

The water treatment plant would receive raw water from the SWP and deliver treated water to purveyors and users located in San Luis Obispo and Santa Barbara Counties.

Contractual Relationships

The State of California Department of Water Resources (DWR) entered into contracts (the "State Water Supply Contracts") with San Luis Obispo and Santa Barbara Counties in 1963 pursuant to which the counties received entitlements to water from the SWP. San Luis Obispo County's entitlement was for 25,000 acre-feet per year and Santa Barbara County's entitlement was for 57,700 acre-feet per year. In 1981, Santa Barbara County amended its contract to reduce its entitlement to 45,486 acre-feet per year.

In 1983, Santa Barbara County entered into a series of Water Supply Retention Agreements ("WSRAs") with local water purveyors and users within Santa Barbara County. These WSRA initially granted the purveyors and users an option to obtain an assignment of Santa Barbara County's State Water Supply Contract rights, and, as of July 1, 1989, actually granting the full assignment of those rights. Thereafter, on September 26, 1991, certain of the local water purveyors and users holding the WSRA rights transferred those rights to the Authority, a newly formed joint powers authority, in consideration for Water Supply Agreements which provide for the delivery of SWP water by the Authority and the payment of required costs by the transferors. These transfers have been consented to by DWR.

The Water Supply Agreements

Each Project Participant has entered into a Water Supply Agreement in order to provide for the development, financing, construction, operation and maintenance of the Project. The purpose of the Water Supply Agreements is to assist in carrying out the purposes of the Authority with respect to the Project by: (i) requiring the Authority to sell, and the Project Participants to buy, a specified amount of water from the project, and (ii) assigning the Project Participants' entitlement rights in the Project to the Authority.

In accordance with the provisions of each Water Supply Agreement, the Authority will fix charges for each Project Participant in order to produce revenues from the Project equal to the amounts anticipated to be needed by the Authority to deliver to each Project Participant its pro rata share of water from the Project as set forth in each Water Supply Agreement. Each Project Participant is required to pay to the Authority an amount equal to its share of the total Fixed Project Costs and certain other costs in the proportion established in accordance with the applicable Water Supply Agreement. Such obligation is to be honored by each Project Participant whether or not water is furnished to it from the Project at all times or at all and whether or not the Project is completed, operable, operated or retired. Such payments are not subject to any reduction and are not conditioned upon performance by the Authority or any other Project Participant under any agreement.

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The Water Supply Agreements set forth detailed provisions concerning the time and method of payment by each Contractor of certain costs, including Fixed Project Costs and other operation and maintenance costs, as well as the method of allocation of such costs and expenses and the remedies available to the Authority in the event a Contractor defaults in its payments to the Authority.

B. Basis of Accounting

The Authority's financial transactions are accounted for on a flow of economic resources measurement focus. Under this measurement focus, all assets and liabilities associated with the operation of these funds are included on the balance sheet. Where appropriate, net total assets (i.e., fund equity) is segregated into contributed capital and retained earnings. Proprietary fund-type operating statements present increases (revenues) and decreases (expenses) in net total assets.

The Authority operates as a proprietary fund type and utilizes the accrual basis of accounting. Revenues for this fund type are recognized when earned, regardless of when received, and expenses are recognized at the time the related liabilities are incurred, regardless of when paid.

C. Investments

The Authority has developed an investment policy that exceeds the minimum requirements established by the State of California. The Authority believes that it has adhered to established policies for all investment activities. Investments are stated at lower of cost or market.

D. Property, Plant, and Equipment

Property, plant and equipment purchased or constructed by the Authority is stated at cost. Depreciation has been provided over the estimated useful life of each asset using the straight-line method. Interest costs incurred in excess of related interest earned on proceeds from notes and bonds have been capitalized. In addition, certain technical and engineering related studies associated with the Project have also been capitalized and are being amortized. The estimated useful life of depreciated assets is as follows:

Buildings	20-50 years
Improvements other than buildings	10-100 years
Equipment	3-12 years

E. Unamortized Bond Issuance Costs

Unamortized bond issuance costs are deferred and amortized over the term of the bonds using the bonds-outstanding method, which approximates the effective interest method (see Note 4).

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2) CASH AND INVESTMENTS

The Authority follows the practice of pooling cash and investments for all funds under its direct daily control. Funds held by outside fiscal agents under provisions of the bond indenture are maintained separately. Interest income from cash and investments with fiscal agents is credited directly to the related accounts.

Cash and investments at June 30, 1993 consisted of the following:

	1993		1992
	Carrying Amount	Market Value	
Cash and Investments			
Cash in bank	\$ 61,923	\$ 61,923	\$ 1,152
Petty cash	500	500	-
State Local Agency Investment Fund	3,775,749	3,775,749	514,000
Total Pooled Cash and Investments	3,838,172	3,838,172	515,152
Funds with Fiscal Agents			
Money market funds	1,502,314	1,502,314	923,326
Mutual funds	6,994,045	6,994,045	-
Deferred compensation	49,268	49,268	-
U.S. Government securities	100,398,063	100,398,063	24,578,018
Local Agency Investment Fund	85,970,010	85,970,010	-
Total funds with fiscal agents	194,913,700	194,913,700	25,501,344
Total cash and investments	\$ 198,751,872	\$ 198,751,872	\$ 26,016,496

A. Deposits

At June 30, 1993, the carrying amount and bank balance of the Authority's deposits with financial institutions was \$61,923 and at June 30, 1992, the carrying amount and bank balance was \$1,152. Such balances were fully insured by the Federal Deposit Insurance Corporation (FDIC).

B. Investments

The Authority is authorized by its investment policy, in accordance with Section 53601 of the California Government Code, to invest in the following instruments: securities issued or guaranteed by the Federal Government or its agencies, and the State Treasurer's Local Agency Investment Funds (LAIF).

Based upon categories established to measure the level of custodial risk assumed by the Authority in its investments, the Authority's government securities are considered category three investments. These are uninsured and unregistered investments for which the securities are held by the counterparty trust department or agent, but not specifically in the Authority's name.

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C. Funds with Fiscal Agent

The Authority has moneys held by trustees or fiscal agents pledged to the payment or security of the bonds and notes payable. The California Government Code provides that these moneys, in absence of specific statutory provisions governing the issuance of bonds or certificates, may be invested in accordance with the indentures specifying the types of investments the trustees or fiscal agents may make.

D. Cash Equivalents

The Authority considers all pooled cash and investments, except funds with fiscal agents, to be cash equivalents.

E. Deferred Compensation Plan

The Authority offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. Under the terms of this plan, employees may defer amounts of income up to a maximum of twenty five percent of salary or \$7,500 per year, which ever is less. Amounts so deferred may not be paid to the employee during employment with the Authority except for a catastrophic circumstance creating an undue and unforeseen financial hardship for the employee.

The plan provides for a wide range of investment alternatives, including deposits to savings and loan institutions, investments in mutual funds and insurance company annuity programs. Investments of the deferred compensation fund are stated at market in accordance with the deferred compensation agreement. At June 30, 1993, net assets available in the fund amounted to \$49,268.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property or rights are, until paid or made available to the employee or other beneficiary, solely the property and rights of the Authority without being restricted to the provisions of benefits under the plan, subject only to the claims of the Authority's general creditors. Participants' rights under the plan are equal to those of general creditors of the Authority in an amount equal to the fair market value of the deferred account for each participant.

It is the opinion of the Authority's legal counsel that the Authority has no liability for losses under the plan, but does have the duty of due care that would be required of an ordinary prudent investor. The Authority believes that it is unlikely that it will use the assets of the plan to satisfy the claims of general creditors in the future.

(3) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment at June 30, 1993 and 1992, is as follows:

	1993	1992
Equipment	\$ 51,475	\$ 16,265
Construction in progress	<u>15,396,049</u>	<u>4,015,233</u>
Total property, plant and equipment	15,447,524	4,031,498
Accumulated depreciation	<u>(8,719)</u>	<u>(1,626)</u>
Net property, plant and equipment	<u>\$ 15,438,805</u>	<u>\$ 4,029,872</u>

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(4) LONG-TERM DEBT

In October 1992 the Authority issued revenue bonds for the benefit of its participants to finance a portion of the costs of developing a pipeline and water treatment plant, reimburse certain project participants for costs incurred in connection with the State Water Project, and to finance certain other facilities. Each of the participants in the financing held elections authorizing issuance of revenue bonds for the construction of the State Water Project. In order to reduce issuance costs and insure the proceeds are available on a timely basis, the Authority issued the bonds for all the participants requiring financing.

The City of Santa Maria, Vandenberg AFB, Avila Valley Mutual Water Company, San Luis Coastal Unified School District and San Miguelito Mutual Water District contributed cash for their proportionate share of the construction costs. Such contributions totaling \$35,510,237 and \$5,621,708 at June 30, 1993 and 1992, respectively, have been accounted for as contributed capital. Under the Water Supply Agreements, each Project Participant is obligated to make payments to the Authority, with the payments pledged to secure the payment of the principal and interest of the Bonds. These bonds are backed by a municipal bond insurance policy issued by AMBAC Indemnity. The Central Coast Water Authority Note, issued in June 1992, in the amount of \$23,545,000 was advance refunded from proceeds of this bond issue. The bonds were sold at interest ranging from 4.85% to 6.60 %.

The annual requirements to pay all debt outstanding, as of June 30, 1993, including interest payments of \$233,721,758 are as follows:

<u>Fiscal Year</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
1994	\$ 11,290,130	-	\$ 11,290,130
1995	11,290,130	-	11,290,130
1996	11,290,130	-	11,290,130
1997	11,290,130	-	11,290,130
1998	11,217,623	2,990,000	14,207,623
1999-2003	53,495,330	17,430,000	70,925,330
2004-2008	47,598,570	23,100,000	70,698,570
2009-2013	39,006,405	31,385,000	70,391,405
2014-2018	26,977,175	43,020,000	69,997,175
2019-2023	<u>10,266,135</u>	<u>59,195,000</u>	<u>69,461,135</u>
Total	\$ <u>233,721,758</u>	\$ <u>177,120,000</u>	\$ <u>410,841,758</u>

(5) LITIGATION

The Authority is presently involved in certain matters of litigation that have arisen in the normal course of conducting the Authority's business. Management believes, based upon consultation with the Authority's legal counsel, that these cases, in the aggregate, are not expected to result in a material adverse financial impact on the Authority.

