

CENTRAL COAST WATER AUTHORITY

ANNUAL FINANCIAL STATEMENTS

JUNE 30, 1994 AND 1993

**(WITH INDEPENDENT AUDITORS'
REPORT THEREON)**

NASIF, HICKS & CO.

CERTIFIED PUBLIC ACCOUNTANTS

WILLIAM J. NASIF
STEVEN J. HICKS
JEFFERY P. HARRIS
MARIANNE F. BLOOM
JODY R. DOLAN

1111 GARDEN STREET, SUITE 200
SANTA BARBARA, CALIFORNIA 93101
TELEPHONE (805) 966-1521
FAX (805) 963-1780

Independent Auditors' Report

To the Member Agencies of the
Central Coast Water Authority

We have audited the accompanying balance sheet of the Central Coast Water Authority as of June 30, 1994, and the related statements of revenues, expenses and changes in retained earnings and cash flows for the year 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 these financial statements based upon our audit. The financial statements of the Central Coast Water Authority as of June 30, 1993, were audited by other auditors whose report dated September 30, 1993 expressed an unqualified opinion on those statements.

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 1994 financial statements referred to above present fairly, in all material respects, the financial position of Central Coast Water Authority as of June 30, 1994, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.

Nasif, Hicks & Co.
Nasif, Hicks & Co.

August 19, 1994

Central Coast Water Authority
Balance Sheet
June 30,

ASSETS

	<u>1994</u>	<u>1993</u>
Current Assets:		
Cash and investments (Note 2)	\$ 2,835,268	\$ 914,215
Accounts receivable	4,926	930,694
Accrued interest receivable	8,193,009	3,714,175
	-----	-----
Total Current Assets	11,033,203	5,559,084
	-----	-----
Restricted Assets:		
Cash and investments with fiscal agents (Note 2)	176,156,944	194,913,700
Cash and investments held for deposits	3,036,506	2,923,957
	-----	-----
Total Restricted Assets	179,193,450	197,837,657
	-----	-----
Property, Plant and Equipment (Note 3)	33,736,069	15,447,524
Less: Accumulated depreciation	(25,608)	(8,719)
	-----	-----
Net Property, Plant and Equipment	33,710,461	15,438,805
	-----	-----
Unamortized Bond Issuance Costs	3,575,506	3,761,716
	-----	-----
TOTAL ASSETS	\$227,512,620	\$222,597,262
	=====	=====

Central Coast Water Authority
Balance Sheet
June 30,

LIABILITIES AND FUND EQUITY

	<u>1994</u>	<u>1993</u>
Current Liabilities:		
Accounts payable	\$ 2,025,344	\$ 598,378
Deposits	3,036,506	2,923,957
Accrued interest payable	2,822,533	2,822,533
Due to other agencies	---	108,119
Retainage payable	1,324,208	484,423
	-----	-----
Total Current Liabilities	9,208,591	6,937,410
	-----	-----
Long-Term Liabilities:		
Deferred compensation payable (Note 2)	68,416	49,268
Bonds payable (Note 4)	177,120,000	177,120,000
	-----	-----
Total Long-Term Liabilities	177,188,416	177,169,268
	-----	-----
Total Liabilities	186,397,007	184,106,678
	-----	-----
Commitments and Contingencies (Note 5)		
Fund Equity:		
Contributed capital, net (Note 6)	36,015,226	35,510,237
Retained earnings	5,100,387	2,980,347
	-----	-----
Total Fund Equity	41,115,613	38,490,584
	-----	-----
TOTAL LIABILITIES AND FUND EQUITY	\$227,512,620	\$222,597,262
	=====	=====

See Notes to Financial Statements.

Central Coast Water Authority
Statement of Revenues, Expenses and
Changes in Retained Earnings
Years Ended June 30,

	<u>1994</u>	<u>1993</u>
Operating Revenues:		
Operating reimbursements from member agencies	\$1,176,743	\$1,463,823
Other revenues	295,333	655,252
	-----	-----
Total Operating Revenues	1,472,076	2,119,075
	-----	-----
Operating Expenses:		
Administration	582,670	272,241
Accounting	30,249	44,576
Communications	7,544	9,583
Consultants	13,441	11,208
Depreciation	16,889	7,092
Dues and memberships	11,062	12,612
Equipment maintenance	4,790	4,854
Insurance	23,298	20,811
Legal	126,530	278,564
Office expense	12,083	26,619
Rents	39,588	24,763
Small tools and software	7,130	12,920
Transportation and travel	18,144	16,873
	-----	-----
Total Operating Expenses	893,418	742,716
	-----	-----
Operating Income	578,658	1,376,359
	-----	-----
Nonoperating Revenue - interest income	1,541,382	1,109,523
	-----	-----
Net Income	2,120,040	2,485,882
	-----	-----
Retained Earnings, beginning of year	2,980,347	494,465
	-----	-----
Retained Earnings, end of year	\$5,100,387	\$2,980,347
	=====	=====

See Notes to Financial Statements.

Central Coast Water Authority
Statement of Cash Flows
Years Ended June 30,

	<u>1994</u>	<u>1993</u>
Cash Flows From Operating Activities:		
Cash received from member agencies	\$2,102,511	\$1,128,873
Cash payments for goods and services	(745,388)	(1,325,244)
Other operating revenues	295,333	655,252
	-----	-----
Net cash provided by operating activities	1,652,456	458,881
	-----	-----
Cash flows from non-capital financing activities:		
Cash received for deposits	112,549	2,640,396
Increase in deferred compensation payable	19,148	49,268
	-----	-----
Net cash provided by non-capital financing activities	131,697	2,689,664
	-----	-----
Cash flows from capital and related financing activities:		
Proceeds from issuance of bonds	---	173,685,221
(Payment) note payable	---	(23,545,000)
Acquisition of capital assets	(16,914,629)	(11,470,683)
Increase in contributed capital	504,989	29,888,529
Increase in retainage payable	839,785	484,423
Increase in accrued interest payable	---	2,636,135
	-----	-----
Net cash provided (used) by capital and related financing activities	(15,569,855)	171,678,625
	-----	-----
Cash flows from investing activities:		
(Increase) decrease in cash with fiscal agent	18,756,756	(169,412,356)
Interest and dividends on investments	1,541,382	1,109,523
Increase in accrued interest receivable	(4,478,834)	(3,201,317)
	-----	-----
Net cash provided (used) for investing activities	15,819,304	(171,504,150)
	-----	-----
Net increase in cash and cash equivalents	2,033,602	3,323,020
Cash and cash equivalents, beginning of year	3,838,172	515,152
	-----	-----
Cash and cash equivalents, end of year	\$5,871,774	\$3,838,172
	=====	=====

See Notes to Financial Statements.

Central Coast Water Authority
Statement of Cash Flows
Years Ended June 30,

	<u>1994</u>	<u>1993</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 578,658	\$1,376,359
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	16,889	7,092
Amortization	186,210	
Changes in assets and liabilities:		
Increase in accounts payable	53,050	12,315
(Increase) decrease in accounts receivable	925,768	(930,694)
Decrease in due to member agencies	(108,119)	(6,191)
	-----	-----
Net cash provided by operating activities	\$1,652,456	\$ 458,881
	=====	=====

Central Coast Water Authority
Notes to Financial Statements
June 30,

Note 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 ("SYRWCD, ID#1"), the Goleta Water District, the Montecito Water District, the Summerland Water District and the Carpinteria County Water District. In addition, the Authority has two associate members, the La Cumbre Mutual Water Company and the Southern California 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 ("Vandenberg AFB"), Santa Barbara Research Company and Morehart Land Company (the "Consumer Participants").

Central Coast Water Authority
Notes to Financial Statements
June 30, 1994 and 1993

Note 1: Summary of Significant Accounting Policies - Continued

A. Reporting Entity

The Authority Participants are located in three different geographic areas of Santa Barbara County: North County (Vandenberg AFB, Santa Maria, Southern California Water Company and Guadalupe); the Santa Ynez Valley (Buellton and SYRWCD, ID#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 the agreement include: San Luis Obispo County, 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.

Central Coast Water Authority
Notes to Financial Statements
June 30, 1994 and 1993

Note 1: Summary of Significant Accounting Policies - Continued

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 twenty-three miles long running from the terminus of the Coastal Branch (Phase II) southerly to the vicinity of the Lompoc Valley, and which is expected to include a pumping plant in northern Santa Barbara County and three water storage tanks located at two separate tank sites, and (2) the Santa Ynez Extension, which will be a buried pipeline approximately thirty-two miles long running from the terminus of the Mission Hills Extension easterly 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 plan 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.

Central Coast Water Authority
Notes to Financial Statements
June 30, 1994 and 1993

Note 1: Summary of Significant Accounting Policies - Continued

Contractual Relationships

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 WSRAs 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 granted 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 and were validated by an agreement between Santa Barbara County and the Authority on November 12, 1991 (the "Transfer of Financial Responsibility Agreement").

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: (1) requiring the Authority to sell, and the Project Participants to buy, a specified amount of water from the project, and (2) assigning the Project Participants' entitlement rights in the Project to the Authority.

Central Coast Water Authority
Notes to Financial Statements
June 30, 1994 and 1993

Note 1: Summary of Significant Accounting Policies - Continued

The Water Supply Agreements

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 meet the costs of 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.

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 operates as a proprietary fund-type. All proprietary fund-types 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.

Central Coast Water Authority
Notes to Financial Statements
June 30, 1994 and 1993

Note 1: Summary of Significant Accounting Policies - Continued

B. Basis of Accounting

All proprietary fund-types utilize the accrual basis of accounting. Under this method, revenues 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 classified as held-to-maturity and are stated at amortized cost. Investments have been purchased with maturity dates to coincide with cash needed to satisfy construction progress payments.

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 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).

Central Coast Water Authority
Notes to Financial Statements
June 30, 1994 and 1993

Note 2: Cash and Investments

A. Deposits

At June 30, 1994, the carrying amount and bank balance of the Authority's deposits with financial institutions was \$10,652 and at June 30, 1993, the carrying amount and bank balance was \$61,923. Such balances were fully insured by the Federal Deposit Insurance Corporation (FDIC).

B. Cash and 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.

C. Cash and Investments with Fiscal Agent

The Authority has monies held by trustees or fiscal agents pledged to the payment or security of the bonds payable. The California Government Code provides that these monies, 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 investment 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.

Central Coast Water Authority
Notes to Financial Statements
June 30, 1994 and 1993

Note 2: Cash and Investments - Continued

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, whichever 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 value in accordance with the deferred compensation agreement. At June 30, 1994, net assets available in the fund amounted to \$68,416.

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.

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.

Central Coast Water Authority
Notes to Financial Statements
June 30, 1994 and 1993

Note 2: Cash and Investments - Continued

The carrying and market values of cash and investments consisted of the following at June 30,

	1994		1993
	Carrying Amount	Market Value	Carrying Amount
Cash and Investments			
Cash in bank	\$ 10,652	\$ 10,652	\$ 61,923
Petty cash	1,000	1,000	500
Local Agency Investment Fund	5,860,122	5,860,122	3,775,749
	5,871,774	5,871,774	3,838,172
Less: cash and investments held for deposits	(3,036,506)	(3,036,506)	(2,923,957)
Total Cash and Investments	2,835,268	2,835,268	914,215
Cash and Investments with Fiscal Agents			
Money market funds	279,701	279,701	1,502,314
Mutual funds	6,976,732	6,836,802	6,994,045
Deferred compensation	68,416	68,416	49,268
U.S. Government securities	120,730,209	118,309,167	100,398,063
Local Agency Investment Fund	48,101,886	48,101,886	85,970,010
	176,156,944	173,595,972	194,913,700
Total Cash and Investments with Fiscal Agents	176,156,944	173,595,972	194,913,700
Accrued Interest on Stripped Securities	6,523,341	6,523,341	2,044,507
Total	\$188,552,059	\$185,991,087	\$200,796,379

Central Coast Water Authority
Notes to Financial Statements
June 30, 1994 and 1993

Note 3: Property, Plant and Equipment

Construction in progress includes \$8,070,013 and \$1,981,600 of capitalized interest for June 30, 1994 and 1993, respectively. Property, plant and equipment is as follows at June 30,

	<u>1994</u>	<u>1993</u>
Equipment	\$ 165,825	\$ 51,475
Construction in progress	33,570,244	15,396,049
	-----	-----
Total property, plant and equipment	33,736,069	15,447,524
Accumulated depreciation	(25,608)	(8,719)
	-----	-----
Net property, plant and equipment	\$33,710,461	\$15,438,805
	=====	=====

Note 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, to 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 \$36,015,226 and \$35,510,237 at June 30, 1994 and 1993, 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. The bonds are backed by a municipal bond insurance policy issued by AMBAC Indemnity. The Central Coast

Central Coast Water Authority
Notes to Financial Statements
June 30, 1994 and 1993

Note 4: Long-Term Debt - Continued

Water Authority Note, issued June 1992, in the amount of \$23,545,000 was advance refunded from proceeds of the 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, 1994, are as follows:

<u>Fiscal Year</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
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	10,266,135	59,195,000	69,461,135
	-----	-----	-----
Total	\$222,431,628	\$177,120,000	\$399,551,628
	=====	=====	=====

Note 5: Commitments and Contingencies

The Authority has entered into long-term contracts with prime contractors for consultation and the construction of the facilities described in Note 1. Construction contracts signed total \$69,125,463.

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.

Central Coast Water Authority
Notes to Financial Statements
June 30, 1994 and 1993

Note 5: Commitments and Contingencies - Continued

The Authority is also involved in a dispute with a general contractor over contract monies on a pipeline reconstruction project. Management does not believe that the settlement of this dispute will result in a material adverse effect on the financial statements. Management's assessment of settlement costs could substantially increase if the dispute goes to litigation and the general contractor prevails on the current dispute and any other currently unknown alleged losses.

The management of the Authority believes that sufficient reserves are available to the Authority to cover any potential losses, should any unfavorable outcomes materialize.

Note 6: Contributed Capital

The following schedule provides changes in contributed capital for the fiscal year ended June 30, 1994:

	Beginning Balance 07/01/93	Additions	Refunds	Ending Balance 6/30/94
	-----	-----	-----	-----
Avila Valley	\$ 12,660	\$ 11,260	\$ ---	\$ 23,920
San Luis Schools	4,431	3,941	---	8,372
San Miguelito	174,075	154,825	---	328,900
Santa Maria	20,706,944	1	147,000	20,559,945
Vandenberg AFB	14,612,127	---	165,000	14,447,127
SoCal Water	---	646,962	---	646,962
	-----	-----	-----	-----
Totals	\$35,510,237	\$816,989	\$312,000	\$36,015,226
	=====	=====	=====	=====

Central Coast Water Authority
Notes to Financial Statements
June 30, 1994 and 1993

Note 5: Commitments and Contingencies - Continued

The Authority is also involved in a dispute with a general contractor over contract monies on a pipeline reconstruction project. Management does not believe that the settlement of this dispute will result in a material adverse effect on the financial statements. Management's assessment of settlement costs could substantially increase if the dispute goes to litigation and the general contractor prevails on the current dispute and any other currently unknown alleged losses.

The management of the Authority believes that sufficient reserves are available to the Authority to cover any potential losses, should any unfavorable outcomes materialize.

Note 6: Contributed Capital

The following schedule provides changes in contributed capital for the fiscal year ended June 30, 1994:

	Beginning Balance 07/01/93	Additions	Refunds	Ending Balance 6/30/94
	-----	-----	-----	-----
Avila Valley	\$ 12,660	\$ 11,260	\$ ---	\$ 23,920
San Luis Schools	4,431	3,941	---	8,372
San Miguelito	174,075	154,825	---	328,900
Santa Maria	20,706,944	1	147,000	20,559,945
Vandenberg AFB	14,612,127	---	165,000	14,447,127
SoCal Water	---	646,962	---	646,962
	-----	-----	-----	-----
Totals	\$35,510,237	\$816,989	\$312,000	\$36,015,226
	=====	=====	=====	=====

CENTRAL COAST WATER AUTHORITY

**INDEPENDENT AUDITORS'
MANAGEMENT LETTER**

JUNE 30, 1994

NASIF, HICKS & Co.

CERTIFIED PUBLIC ACCOUNTANTS

WILLIAM J. NASIF
STEVEN J. HICKS
JEFFERY P. HARRIS
MARIANNE F. BLOOM
JODY R. DOLAN

August 19, 1994

1111 GARDEN STREET, SUITE 200
SANTA BARBARA, CALIFORNIA 93101
TELEPHONE (805) 966-1521
FAX (805) 963-1780

To the Member Agencies of the
Central Coast Water Authority

In planning and performing our audit of the financial statements of the Central Coast Water Authority ("CCWA") for the year ended June 30, 1994, we considered the internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure. However, we noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions and other matters noted are described below.

REPORTABLE CONDITIONS

General

CCWA has a limited number of personnel available to perform accounting duties. Thus, a high degree of segregation of responsibilities is not practical. This places a greater burden of responsibility on management to closely supervise accounting functions and on the Board of Directors to review financial statements.

The recommendations and comments below are offered to help CCWA improve its operations and fiscal and accounting systems.

CCWA should develop a written general policy and procedures manual describing:

1. Deposits held by CCWA for other Agencies such as State Water Retention Deposit and Morehart Land Co. Such policies and procedures would include the designation of the deposits as restricted cash, would detail the method for the allocation of interest earnings, and define where the monies should be invested.

2. The methodology underlying the allocation schedules prepared by Mark Paul for each of the member agencies. Such policies and procedures should facilitate the continuation of the schedules in Mark Paul's absence from CCWA.
3. Procedures to enhance segregation of duties with limited staff such as:
 - a. The opening of incoming mail and listing of cash receipts should be done by someone having no access to cash receipts and accounting records;
 - b. Custody of checks after signing and before mailing should be handled by an employee independent of accounts payable, disbursing, cash, receiving and general ledger functions;
 - c. Bank reconciliations should be made by someone other than persons who participate in the receipt and disbursement of cash.

Nasif, Hicks & Co. would be happy to assist in the design and implementation of such policies and procedures.

Conclusion

None of the reportable conditions described above is believed to be a material weakness.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being reviewed may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, none of the reportable conditions described above is believed to be a material weakness.

This report is intended solely for the use of management and should not be used for any other purpose.

We would be pleased to meet with you at your convenience to discuss these matters further.

Nasif, Hicks & Co.

Nasif, Hicks & Co.

SBJPAMLC.doc