

In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel to the Authority, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest on the Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and (ii) interest on the Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. In addition, in the opinion of Bond Counsel to the Authority, under existing statutes, interest on the Bonds is exempt from personal income taxes imposed by the State of California. See "TAX MATTERS" herein.



\$27,820,000
CALIFORNIA STATEWIDE COMMUNITIES DEVELOPMENT AUTHORITY
WATER AND WASTE WATER REVENUE BONDS
SERIES 2005C
City of Eureka (Humboldt County)
Sonoma Valley County Sanitation District (Sonoma County)
Sonoma County Water Agency (Sonoma County)
South Park County Sanitation District (Sonoma County)

Dated: Date of Delivery

Due: October 1, as shown below

The Bonds are issuable in fully registered form and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York. Individual purchases will be made in principal amounts of \$5,000 and integral multiples thereof and will be in book-entry form only. Purchasers of Bonds will not receive certificates representing their beneficial ownership in the Bonds but will receive credit balances on the books of their respective nominees. Interest on the Bonds, which is payable semiannually on each April 1 and October 1, commencing April 1, 2006, and the principal thereof are payable by the Trustee (as defined herein) to Cede & Co. and such interest and principal payments are to be disbursed to the beneficial owners of the Bonds through their nominees.

The Bonds are subject to optional and mandatory redemption as more fully described herein.

The Bonds will be issued and secured pursuant to the terms of an Indenture, dated as of September 1, 2005 (the "Indenture"), by and between the California Statewide Communities Development Authority (the "Authority") and Union Bank of California, N.A., as trustee (the "Trustee"). The Bonds are special obligations of the Authority payable solely from Revenues consisting generally of the Installment Payments to be made by certain local public agencies described herein (the "Program Participants") and from amounts on deposit in certain funds and accounts held under the Indenture. No other funds of the Authority are pledged to or available for payment of the principal of or interest on the Bonds.

The Installment Payments securing the Bonds are special obligations of the Program Participants under the respective Installment Purchase Agreements secured by pledges of the System Net Revenues of the Enterprise System of the respective Program Participant. The pledge of System Net Revenues under each Installment Purchase Agreement secures only the obligation to pay Installment Payments and other obligations under that particular Installment Purchase Agreement. Individual Program Participants are not obligated to make up for any deficiency in the Installment Payments of other Program Participants. Individual Program Participants may have outstanding obligations secured by System Revenues on a parity with the Installment Payments and may enter into additional obligations secured by System Revenues on a parity with the Installment Payments subject to certain conditions under their Installment Purchase Agreements.

Neither the faith and credit nor the taxing power of the State of California or any public agency thereof or the Authority or any Program Participant or any member of the Authority is pledged to the payment of the Bonds. The Bonds do not constitute a debt, liability or obligation of the State of California or any public agency thereof (other than the Authority payable solely from the Revenues) or any Program Participant or any member of the Authority, and neither the directors of the Authority nor any persons executing the Bonds are liable personally on the Bonds by reason of their issuance. The Authority has no taxing power.

The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Bonds by FINANCIAL SECURITY ASSURANCE INC.



This cover page contains certain information for reference only. It is not a summary of this issue. Investors must read the entire official statement to obtain information essential to the making of an informed investment decision. See "Risk Factors" herein for a discussion of certain of the risks to timely payment of the Bonds.

MATURITY SCHEDULE
\$20,320,000 Serial Bonds

<u>Maturity (October 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>Maturity (October 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>
2006	\$1,185,000	2.600%	2.70%	2014	\$1,595,000	3.650%	3.75%
2007	1,285,000	2.750	2.85	2015	1,655,000	3.750	3.85
2008	1,325,000	2.800	2.90	2016	1,715,000	3.850	4.00
2009	1,350,000	3.000	3.10	2017	1,785,000	3.900	4.05
2010	1,405,000	3.200	3.30	2018	1,860,000	4.000	4.10
2011	1,445,000	3.300	3.40	--	--	--	--
2012	1,490,000	3.400	3.50	2026	680,000	4.375	4.48
2013	1,545,000	3.500	3.60				

\$7,500,000 5.000% Term Bonds due October 1, 2025 Yield 4.20%*

The Bonds are offered when, as and if delivered and received by the Underwriter, subject to the approval as to their legality by Hawkins Delafield & Wood LLP, San Francisco, California, Bond Counsel, and certain other conditions. Hawkins Delafield & Wood LLP has also served as Disclosure Counsel. Certain legal matters will be passed upon for each of the Program Participants by its respective counsel. Public Financial Management has acted as financial advisor to the City of Eureka in connection with the issuance of the Bonds. Certain matters will be passed on for the Authority by Orrick, Herrington & Sutcliffe LLP. It is anticipated that the Bonds will be available for delivery to The Depository Trust Company in New York, New York on or about September 7, 2005.

HENDERSON CAPITAL PARTNERS, LLC

Dated: August 22, 2005

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

No dealer, broker, salesperson or other person has been authorized to give any information or to make any representations other than those contained in this Official Statement in connection with the offering made hereby and, if given or made, such other information or representations must not be relied upon as having been authorized by the Authority or the Underwriter. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

This Official Statement is not to be construed as a contract with the purchasers of the Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as a representation of facts.

The information set forth herein has been obtained from official sources other than the Authority (except for the section "THE AUTHORITY" and the first paragraph of the section "LITIGATION") which are believed to be reliable. The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, their responsibility to investors under the federal securities law as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information. The information and expression of opinions herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the information provided herein since the date hereof.

Other than with respect to information concerning Financial Security Assurance Inc. (the "Bond Insurer") contained under the caption "Bond Insurance" and Appendix E, none of the information in this Official Statement has been supplied or verified by the Bond Insurer and the Bond Insurer makes no representation or warranty, express or implied, as to (i) the accuracy or completeness of such information; (ii) the validity of the Bonds; or (iii) the tax exempt status of the interest on the Bonds.

**CALIFORNIA STATEWIDE COMMUNITIES DEVELOPMENT AUTHORITY
WATER AND WASTEWATER REVENUE BONDS
(POOLED FINANCING PROGRAM)
SERIES 2005C**

**CALIFORNIA STATEWIDE COMMUNITIES
DEVELOPMENT AUTHORITY**

Chris K. McKenzie, Chairman
James Keene, Vice Chairman
Daniel Harrison, Secretary
Norma Lammers, Treasurer
Steve Keil, Member
Ken Nishimoto, Member
Paul Hahn, Member

PROGRAM PARTICIPANTS

City of Eureka (Humboldt County)
Sonoma Valley County Sanitation District (Sonoma County)
Sonoma County Water Agency (Sonoma County)
South Park County Sanitation District (Sonoma County)

**FINANCIAL ADVISOR
TO THE CITY OF EUREKA**

Public Financial Management
San Francisco, California

BOND COUNSEL AND DISCLOSURE COUNSEL

Hawkins Delafield & Wood LLP
San Francisco, California

TRUSTEE

Union Bank of California, N.A.
San Francisco, California

ESCROW AGENTS

Union Bank of California, N.A.
San Francisco, California
(For City of Eureka, Sonoma County Water Agency and
South Park County Sanitation District)

U.S. Bank National Association
San Francisco, California
(For Sonoma Valley County Sanitation District)

AUTHORITY COUNSEL

Orrick Herrington & Sutcliffe LLP

VERIFICATION AGENT

Grant Thornton LLP
Minneapolis, Minnesota

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\$27,820,000
CALIFORNIA STATEWIDE COMMUNITIES DEVELOPMENT AUTHORITY
WATER AND WASTEWATER REVENUE BONDS
(POOLED FINANCING PROGRAM)
SERIES 2005C

INTRODUCTION

General. This Official Statement, including the cover page and all appendices hereto, provides certain information concerning the sale and delivery of the California Statewide Communities Development Authority Water and Wastewater Revenue Bonds (Pooled Financing Program), Series 2005C (the "Bonds"). Descriptions and summaries of various documents hereinafter set forth do not purport to be comprehensive or definitive, and reference is made to each document for complete details of all terms and conditions. All statements herein are qualified in their entirety by reference to each document. Capitalized terms used and not otherwise defined herein shall have the meanings ascribed to them in Appendix C hereto entitled "DEFINITIONS AND SUMMARY OF LEGAL DOCUMENTS." This Introduction is subject in all respects to the more complete information contained in this Official Statement, and the offering of the Bonds to potential investors is made only by means of the entire Official Statement.

The Bonds are being issued pursuant to an Indenture, dated as of September 1, 2005 (the "Indenture"), by and between the California Statewide Communities Development Authority (the "Authority") and Union Bank of California, N.A., as trustee (the "Trustee"). The Bonds are authorized pursuant to the terms of Chapter 5 of Division 7 of Title 1 of the California Government Code (the "Law").

The Program. The Authority's Water and Wastewater Pooled Financing Program (the "Program") is available to California water and wastewater agencies to facilitate the financing or refinancing of capital improvements. The Program is available to California cities and special districts that operate water or wastewater enterprises. The Program team has assisted over 35 local agencies borrow over \$305 million (these borrowings are all independently secured). The Authority is authorized pursuant to Chapter 5 of Division 7 of Title 1 of the California Government Code to issue Bonds to finance and refinance water and wastewater public capital improvements of local agencies located throughout California.

The Authority. The Authority is a joint exercise of powers agency created pursuant to the California Government Code on June 1, 1988. For more information regarding the Authority, see "THE AUTHORITY" herein.

Purpose. The Bonds are being sold to refinance certain public capital improvements of the Program Participants (defined below) and to pay the costs incurred in issuing the Bonds. For more information regarding the financing plan, see "PROGRAM PARTICIPANTS AND FINANCING PLAN" herein.

Security for the Bonds. The Bonds will be issued and secured pursuant to the terms of the Indenture. The Bonds are special obligations of the Authority payable solely from Revenues consisting generally of the Installment Payments to be made by certain local public agencies (the "Program Participants") and from amounts on deposit in certain funds and accounts held under the Indenture. Financial and other information concerning the Program Participants is in Appendix B attached hereto. No funds of the Authority other than the Revenues are pledged to or available for payment of the principal of or interest on the Bonds.

The Installment Payments securing the Bonds are special obligations of the Program Participants under the respective Installment Purchase Agreements entered into by each of the Program Participants with the Authority and dated as of September 1, 2005 (the "Installment Purchase Agreements"). The Installment Payments under each Installment Purchase Agreement are separately secured by a pledge of the System Net Revenues of the Enterprise System of the respective Program Participant under such Installment Purchase Agreement. The pledge of System Net Revenues (as defined herein) under each Installment Purchase Agreement secures only the obligation to pay Installment Payments and other obligations under that particular Installment Purchase Agreement. Individual Program Participants are not obligated to make up for any deficiency in the Installment Payments of other Program Participants under their Installment Purchase Agreement.

Neither the faith and credit nor the taxing power of the State of California or any public agency thereof or the Authority or any Program Participant or any member of the Authority is pledged to the payment of the Bonds. The Bonds do not constitute a debt, liability or obligation of the State of California or any public agency thereof (other than the Authority payable solely from the Revenues) or any Program Participant or any member of the Authority, and neither the directors of the Authority nor any persons executing the Bonds are liable personally on the Bonds by reason of their issuance. The Authority has no taxing power.

For more information regarding the security for the Bonds, see "SECURITY FOR THE BONDS" herein.

Additional Debt Test under Installment Purchase Agreements. Each Installment Purchase Agreement permits the Program Participant to enter into additional obligations secured by System Net Revenues on a parity with the related Installment Payments provided that certain conditions are satisfied as described herein. For more information concerning the additional debt tests under the Installment Purchase Agreements, see "SECURITY FOR THE BONDS-Additional Debt Tests under the Installment Purchase Agreements" herein.

Rate Covenant under Installment Purchase Agreements. Each Installment Purchase Agreement will require the Program Participant, to the fullest extent permitted by law, to fix, prescribe and collect rates and charges and maintain its operations such that System Net Revenues will be equal to 120% of the Installment Payments and other Parity Debt of such Program Participant during each Fiscal Year, *provided* that for the Sonoma Valley County Sanitation District such System Net Revenues will be equal to 110% of the Installment Payments and other Parity Debt of the Sonoma Valley County Sanitation District during each Fiscal Year, all as more particularly described herein. For more information concerning the rate covenants see "SECURITY FOR THE BONDS-Rate Covenant under the Installment Purchase Agreements" herein.

The Reserve Fund. Concurrently with the issuance of the Bonds, the Trustee is to establish, maintain and hold in trust a separate fund designated as the Reserve Fund. Separate Reserve Accounts for each Participant are created within the Reserve Fund. The Reserve Account Requirements (defined herein) will be satisfied with Bond proceeds or an insurance policy (the "Reserve Policy") to be issued by Financial Security Assurance Inc. Moneys available to the Reserve Fund will be used and withdrawn solely for the purpose of paying principal of and interest on the Bonds in the event Installment Payments deposited with the Trustee are insufficient therefor. Within the Reserve Fund there will be established separate Reserve Accounts relating to each Program Participant. Amounts in each Reserve Account will only be available for delinquencies in Installment Payments by the related Program Participant for which such Account is established. For more information concerning the Reserve Fund and the Reserve Accounts, see "SECURITY FOR THE BONDS-Reserve Fund" herein.

Bond Insurance. Concurrently with the issuance of the Bonds, Financial Security Assurance Inc. will issue a municipal bond insurance policy (the "Municipal Bond Insurance Policy") with respect to the Bonds. The Municipal Bond Insurance Policy will unconditionally guarantee the payment of the principal of and interest on the Bonds which has become due for payment, but is unpaid by reason of nonpayment by the Authority. See "BOND INSURANCE" herein.

Redemption. The Bonds are subject to optional and mandatory sinking fund redemption as described herein. See "THE BONDS" herein.

Continuing Disclosure and Additional Information. Each Program Participant, subject to certain exceptions, will covenant in a Continuing Disclosure Certificate to provide certain financial information and operating data relating to such Program Participant and notices of certain events, if material. The Authority will covenant in a Continuing Disclosure Certificate to provide notices of certain events, if material. Such information and notices will be filed by the Trustee as Dissemination Agent with certain Nationally Recognized Municipal Securities Repositories. For more information concerning continuing disclosure, see "CONTINUING DISCLOSURE" and Appendix G attached hereto.

Each Program Participant regularly prepares a variety of reports, including audits, budgets and related documents. Any interested person may obtain a copy of certain reports, as available, from such Program Participant. Additional information regarding the Official Statement may be obtained by contacting the Trustee or the Program Participants.

PROGRAM PARTICIPANTS AND FINANCING PLAN

Program Participants. The Program Participants are described in the chart below. See Appendices A and B for information concerning the operations and finances of the Program Participants. See "THE BONDS - Debt Service Schedule" for a schedule of the Installment Payments due from each Program Participant under the Installment Purchase Agreements.

Schedule of Program Participants

<u>Participant</u>	<u>Type of System</u>	<u>Type of Project</u>	<u>Principal Amount</u>	<u>Final Installment Payment Date (October 1)</u>
City of Eureka	Water	Refunding	\$ 8,110,000	2025
Sonoma Valley County Sanitation District	Wastewater	Partial Refunding	10,240,000	2018
Sonoma Valley County Water Agency (Airport-Larkfield-Wikiup Sanitation Zone)	Wastewater	Refunding	6,220,000	2026
South Park County Sanitation District	Wastewater	Refunding	3,250,000	2026

Financing of New Improvements. As a result of the defeasance of the South Park County Sanitation District Refunded Obligations (described under "Refunding Plan" below), certain funds will be deposited into the Project Fund established under the Indenture and used to acquire and construct certain public capital improvements of such Program Participant. Within the Project Fund there shall be established a separate, segregated Project Account with respect to such Program Participant. The chart below summarizes the financing of new improvements by such Program Participant.

Schedule of New Improvements

<u>Participant</u>	<u>Project</u>	<u>Project Account Amount</u>
South Park County Sanitation District	Capital Improvements	\$749,328.18

Refunding Plan. A portion of the proceeds of the Bonds will be used to redeem portions of three outstanding issues of bonds that are obligations of one or more of the Program Participants. The issues of bonds to be partially redeemed are: \$9,825,000 outstanding principal amount of California Statewide Communities Development Authority Water and Wastewater Revenue Bonds (Pooled Financing Program), Series 2000A (the "CSCDA 2000A Bonds"); \$17,555,000 outstanding principal amount of Sonoma County Water and Wastewater Financing Authority 1998 Special Revenue Bonds (the "1998 Special Revenue Bonds") and \$14,610,000 total outstanding principal amount of California Statewide Communities Development Authority Water and Wastewater Revenue Bonds (Pooled Financing Program), Series 2000B (the "CSCDA 2000B Bonds").

A portion of the proceeds from the sale of the Bonds will be used to defease and prepay the City of Eureka's portion of the CSCDA 2000A Bonds, currently outstanding in the amount of \$7,605,000 (the "Eureka Refunded Obligations"). The Eureka Refunded Obligations were issued to provide funds for certain improvements to the City of Eureka's water system. The chart below summarizes the terms of the refunding and payment of the Eureka Refunded Obligations.

A portion of the proceeds from the sale of the Bonds will be used to defease and prepay a \$11,095,000 portion of the 1998 Special Revenue Bonds, currently outstanding in the amount of

\$17,555,000 (the "Sonoma Valley County Sanitation District Refunded Obligations"). The Sonoma Valley County Sanitation District Refunded Obligations were issued to provide funds for certain improvements to the Sonoma Valley County Sanitation District's wastewater system and prepayment of certain Sonoma Valley County Sanitation District's obligations related to the wastewater system. The chart below summarizes the terms of the refunding and payment of the Sonoma Valley County Sanitation District Refunded Obligations.

A portion of the proceeds from the sale of the Bonds will be used to defease and prepay the Sonoma County Water Agency's portion of the CSCDA 2000B Bonds, currently outstanding in the amount of \$6,000,000 (the "Sonoma County Water Agency Refunded Obligations"). The Sonoma County Water Agency Refunded Obligations were issued to provide funds for certain improvements to the Sonoma County Water Agency's Airport-Larkfield-Wikiup Sanitation Zone's wastewater system. The chart below summarizes the terms of the refunding and payment of the Sonoma County Water Agency Refunded Obligations.

A portion of the proceeds from the sale of the Bonds will be used to defease and prepay the South Park County Sanitation District's portion of the CSCDA 2000B Bonds, currently outstanding in the amount of \$3,255,000 (the "South Park County Sanitation District Refunded Obligations"). The South Park County Sanitation District Refunded Obligations were issued to provide funds for certain improvements to the South Park County Sanitation District's wastewater system. The chart below summarizes the terms of the refunding and payment of the South Park County Sanitation District Refunded Obligations.

Under the financing plan, there shall be deposited in the respective escrow fund (each, the "Escrow Fund") to be held by the respective trustee bank acting as escrow agent (each, the "Escrow Agent") under the respective escrow agreement (each, the "Escrow Agreement"), by and between each applicable Program Participant and the Escrow Agent, funds from a portion of the net proceeds of the sale of the Bonds. The Escrow Agent will hold moneys which will be sufficient to pay the regularly scheduled payments with respect to the respective Refunded Obligations until the redemption date and to pay the redemption price with respect to the respective Refunded Obligations on such date. Upon the deposit of such proceeds and said moneys into the respective Escrow Fund, the respective Refunded Obligations will no longer be deemed outstanding.

Schedule of Refunding

<u>Participant</u>	<u>Obligation</u>	<u>Amount to be Redeemed</u>	<u>Prepayment Date</u>	<u>Prepayment Price</u>	<u>Final Maturity to be Redeemed</u>
City of Eureka	California Statewide Communities Development Authority Water and Wastewater Revenue Bonds (Pooled Financing Program), Series 2000A	\$7,605,000	10/1/2009	102%	10/1/2025
Sonoma Valley County Sanitation District	Sonoma County Water and Wastewater Financing Authority 1998 Special Revenue Bonds	\$11,095,000	8/1/2008	101%	8/1/2018
Sonoma County Water Agency (Airport-Larkfield-Wikiup Sanitation Zone)	California Statewide Communities Development Authority Water and Wastewater Revenue Bonds (Pooled Financing Program), Series 2000B	\$6,000,000	10/1/2009	102%	10/1/2026
South Park County Sanitation District	California Statewide Communities Development Authority Water and Wastewater Revenue Bonds (Pooled Financing Program), Series 2000B	\$3,255,000	10/1/2009	102%	10/1/2026

ESTIMATED SOURCES AND USES OF FUNDS

The following table sets forth the estimated sources and uses of funds relating to the Bonds.

Sources:

Principal Amount of Bonds	\$27,820,000.00
Original Issue Premium	338,199.50
Amounts related to Refunding Obligations	<u>3,020,003.20</u>
Total Sources	<u>\$31,178,202.70</u>

Uses:

Escrow Fund ⁽¹⁾	\$29,808,537.00
Project Fund ⁽¹⁾	749,328.18
Costs of Issuance ⁽²⁾	<u>620,337.52</u>
Total Uses	<u>\$31,178,202.70</u>

⁽¹⁾ See "PROGRAM PARTICIPANTS AND FINANCING PLAN" for a breakdown of the allocation of these amounts among the Program Participants.

⁽²⁾ Includes the premium for the Municipal Bond Insurance Policy and Reserve Policy and underwriter's discount, as well as certain legal, financing and printing costs.

THE BONDS

The Bonds will be dated their date of delivery and will be payable in the years and amounts and bear interest at the respective rates set forth on the cover page hereof, which interest shall be payable on April 1 and October 1 of each year, commencing April 1, 2006 (each, an "Interest Payment Date"). The Bonds will be delivered only in fully registered form and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Bonds. Ownership interests in the Bonds may be purchased in book-entry form only in denominations of \$5,000 or any integral multiple thereof. See "Book-Entry Only System" below and Appendix F attached hereto.

In the event the book-entry only system described below is discontinued, each Bond will bear interest from the Interest Payment Date next preceding the date of registration thereof, unless such date of registration is during the period from and including the Record Date next preceding an Interest Payment Date to and including such Interest Payment Date, in which event it will bear interest from such Interest Payment Date, or unless such date of registration is on or before the Record Date next preceding the first Interest Payment Date, in which event it shall bear interest from the delivery date of the Bonds; *provided*, that if at the time of registration of any Bond interest is then in default on the Outstanding Bonds, such Bond will bear interest from the Interest Payment Date to which interest previously has been paid or made available for payment on the Outstanding Bonds. Payment of interest on the Bonds due on or before the maturity or prior redemption of the Bonds will be made to the person whose name appears in the registration books maintained under the Indenture as the Owner thereof as of the close of business on the Record Date next preceding each Interest Payment Date, such interest to be paid by check mailed by first class mail, postage prepaid, on each Interest Payment Date to such Owner at his address as it appears in the registration books maintained under the Indenture, or, upon written request received prior to the Record Date next preceding an Interest Payment Date of an Owner of at least one million dollars (\$1,000,000) in aggregate principal amount of Bonds, by wire transfer in immediately available funds to an account within the continental United States of America designated by such Owner.

Book-Entry Only System

One fully-registered Bond will be issued for each maturity of the Bonds in the principal amount of the Bonds of such maturity. It will be registered in the name of Cede & Co. and will be deposited with DTC. The Authority may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bonds will be printed and delivered and will be governed by the provisions of the Indenture with respect to payment of principal and interest and rights of exchange and transfer.

There can be no assurance that DTC participants or others will distribute payments with respect to the Bonds received by DTC or its nominee as the registered Owner, or any prepayment or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or that DTC will service and act in the manner described in this Official Statement. See Appendix F hereto for additional information concerning DTC.

Transfers and Exchanges Upon Termination of Book-Entry Only System

In the event the book-entry system described above is abandoned, Bonds will be printed and delivered. Thereafter, any Bond may, in accordance with its terms, be transferred upon the books required to be kept pursuant to the Indenture by the person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of such Bond for cancellation at the Corporate Trust Office of the Trustee accompanied by delivery of a duly executed written instrument of transfer. Whenever any Bond or Bonds will be surrendered for transfer, the Authority will execute and the Trustee will authenticate and deliver a new Bond or Bonds for a like aggregate principal amount and maturity date. The Trustee will require the payment by the Owner requesting such transfer of any tax or other governmental charge required to be paid with respect to such transfer.

The Trustee will not be required to register the transfer of (i) any Bond during the fifteen (15) day period preceding any date established by the Trustee for selection of Bonds for redemption, (ii) any Bonds which have been selected for redemption (except for any unredeemed portion of any of such Bonds) or (iii) any Bonds during the period from any Record Date to any Interest Payment Date.

The Bonds may be exchanged at the Corporate Trust Office of the Trustee for a like aggregate principal amount of Bonds of the same maturity of other authorized denominations. The Trustee will require the payment by the Owner requesting such exchange of any tax or other governmental charge required to be paid with respect to such exchange. No such exchange will be made (i) during the fifteen (15) days preceding any date established by the Trustee for selection of Bonds for redemption, (ii) of any Bonds which have been selected for redemption (except for any unredeemed portion of any of such Bonds) or (iii) of any Bonds during the period from any Record Date to any Interest Payment Date.

Sinking Fund Redemption

Sinking Fund Installments are established under the Indenture for the mandatory redemption and payment of the Term Bonds maturing on October 1, 2025 which payments will become due during the years ending on the dates and in the amounts set forth in the following schedule (except that if any Term Bonds have been optionally redeemed as described below the amounts of such Sinking Fund Installments will be reduced by the principal amount of all such Term Bonds so optionally redeemed).

Term Bonds Due October 1, 2025

<u>Date</u> <u>(October 1)</u>	<u>Sinking Fund</u> <u>Installment</u>
2019	\$920,000
2020	970,000
2021	1,015,000
2022	1,065,000
2023	1,120,000
2024	1,180,000
2025 [†]	1,230,000

[†]Maturity.

Optional Redemption

The Bonds maturing on or before October 1, 2015 are not subject to redemption prior to their respective stated maturities. The Bonds maturing by their terms on or after October 1, 2016 are subject to optional redemption by the Authority on any date on and after October 1, 2015, prior to their respective stated maturity dates, as a whole or in part in such principal amounts and from such maturity dates as selected by the Authority at the direction of the Program Participant, from funds derived by the Authority from any lawful source and deposited with the Trustee not less than five (5) days prior to the date of redemption, upon mailed notice as provided in the Indenture, at a redemption price equal to the principal amount of the Bonds or the portions thereof redeemed together with interest accrued thereon to the date fixed for redemption, without premium.

Redemption Procedures

Whenever less than all the Outstanding Bonds maturing on any one date are called for redemption at any one time, the Trustee will select the Bonds to be redeemed (from the Outstanding Bonds maturing on such date not previously selected for redemption) by lot in any manner which the Trustee deems fair; *provided*, that if less than all the Outstanding Term Bonds maturing on any one date are called for redemption from proceeds other than Sinking Fund Installment payments at any one time, the Trustee will calculate a reduction in the Sinking Fund Installment payments required to be made with respect to such Term Bonds (in an amount equal to the amount of Outstanding Term Bonds to be redeemed). Except for Sinking Fund Installment redemptions, the Authority will deposit with the Trustee money sufficient to redeem any Outstanding Bonds not later than five (5) days prior to the redemption date of the Bonds to be redeemed.

In lieu of redemption of any Term Bonds, amounts on deposit in the Sinking Fund allocable to such Term Bonds may be used and withdrawn by the Trustee at any time upon the request of the Authority at the direction of the applicable Program Participant for the purchase of such Term Bonds at public or private sale as and when and at such prices as the Authority at the direction of the applicable Program Participant may determine. The principal amount of any Term Bonds so purchased by the Trustee will be credited toward and will reduce the principal amount of the Term Bonds required to be redeemed on such Sinking Fund Payment Date.

Notice of redemption of any Bonds or any portions thereof will be mailed by first class mail, postage prepaid, by the Trustee not less than 30 nor more than 60 days prior to the redemption date of such Bonds (i) to the respective Owners of the Bonds designated for redemption at their addresses appearing on the bond registration books kept by the Trustee, (ii) to the Information Services and (iii) to the Securities Depositories. Each notice of redemption will state the date of such notice, the Bonds to be redeemed, the date of issue of such Bonds, the redemption date, the redemption price, whether funds are then on deposit sufficient to pay the redemption price, the place of redemption (including the name and appropriate address), the CUSIP number (if any) of the maturity or maturities, and, if less than all Bonds of any such maturity are to be redeemed, the distinctive numbers of the Bonds of such maturity to be redeemed and, in the case of Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. Each such notice will also state that on such redemption date there will become due and payable on each of such Bonds the redemption price thereof or of the specified portion of the principal amount thereof in the case of a Bond to be redeemed in part only, together with interest accrued thereon to the redemption date, and that from and after such redemption date interest thereon will cease to accrue, and

will require that such Bonds be then surrendered at the Corporate Trust Office of the Trustee specified in the redemption notice as the place of redemption; *provided*, that failure by the Trustee to give notice to any one or more of the Information Services or Securities Depositories, or the insufficiency of any such notice or the failure of any Owner to receive any redemption notice mailed to such Owner or any immaterial defect in the notice so mailed shall not affect the sufficiency of the proceedings for the redemption of any Bonds.

From and after the date fixed for redemption of any Bonds or any portions thereof, if notice of such redemption will have been duly given and funds available for the payment of such redemption price of the Bonds or such portions thereof so called for redemption will have been duly provided, no additional interest will accrue on such Bonds or such portions thereof from and after the redemption date specified in such notice.

Debt Service Schedule

The following table shows the annual Installment Payments due from each Program Participant and the debt service requirements for the Bonds.

**Schedule of Annual Installment Payments
and Debt Service on the Bonds**

Annual Period Ending October 1	Sonoma County Water Agency (Airport-Larkfield- Wikiup Sanitation Zone)			Sonoma Valley County Sanitation District		Aggregate Principal	Aggregate Interest	Total
	South Park County Sanitation District Installment Payments	Installment Payments	Installment Payments	City of Eureka Installment Payments	Installment Payments			
2006	\$243,444.00	\$464,684.00	\$998,352.00	\$626,466.67	\$1,185,000.00	\$1,147,946.67	\$2,332,946.67	
2007	241,878.75	462,576.25	1,003,767.50	622,167.50	1,285,000.00	1,045,390.00	2,330,390.00	
2008	243,853.75	461,801.25	1,005,342.50	624,055.00	1,325,000.00	1,010,052.50	2,335,052.50	
2009	240,633.75	460,781.25	1,001,022.50	620,515.00	1,350,000.00	972,952.50	2,322,952.50	
2010	242,183.75	464,181.25	1,004,872.50	626,215.00	1,405,000.00	932,452.50	2,337,452.50	
2011	243,343.75	461,821.25	1,006,512.50	620,815.00	1,445,000.00	887,492.50	2,332,492.50	
2012	239,218.75	464,066.25	1,001,597.50	624,925.00	1,490,000.00	839,807.50	2,329,807.50	
2013	239,968.75	465,736.25	1,005,247.50	623,195.00	1,545,000.00	789,147.50	2,334,147.50	
2014	245,418.75	461,811.25	1,002,072.50	620,770.00	1,595,000.00	735,072.50	2,330,072.50	
2015	240,308.75	467,321.25	1,001,777.50	622,447.50	1,655,000.00	676,855.00	2,331,855.00	
2016	240,058.75	462,008.75	1,004,527.50	623,197.50	1,715,000.00	614,792.50	2,329,792.50	
2017	244,476.25	461,228.75	1,005,070.00	622,990.00	1,785,000.00	548,765.00	2,333,765.00	
2018	243,431.25	464,918.75	1,008,800.00	622,000.00	1,860,000.00	479,150.00	2,339,150.00	
2019	242,031.25	462,718.75	--	620,000.00	920,000.00	404,750.00	1,324,750.00	
2020	238,781.25	466,968.75	--	623,000.00	970,000.00	358,750.00	1,328,750.00	
2021	240,281.25	460,218.75	--	624,750.00	1,015,000.00	310,250.00	1,325,250.00	
2022	241,281.25	462,968.75	--	620,250.00	1,065,000.00	259,500.00	1,324,500.00	
2023	241,781.25	459,718.75	--	624,750.00	1,120,000.00	206,250.00	1,326,250.00	
2024	241,781.25	465,718.75	--	622,750.00	1,180,000.00	150,250.00	1,330,250.00	
2025	241,281.25	460,468.75	--	619,500.00	1,230,000.00	91,250.00	1,321,250.00	
2026	245,281.25	464,468.75	--	--	680,000.00	29,750.00	709,750.00	
Total	\$5,080,719.00	\$9,726,186.50	\$13,048,962.00	\$12,454,759.17	\$27,820,000.00	\$12,490,626.67	\$40,310,626.67	

SECURITY FOR THE BONDS

Security under the Indenture

Under the Indenture, the Authority irrevocably transfers and assigns over to the Trustee all of the Installment Payments received by the Authority under the Installment Purchase Agreements and any and all rights it has to enforce the obligations of the Program Participants under the Installment Purchase Agreements. The Installment Payments received by the Trustee (the "Revenues") and in the other funds or accounts (except the Rebate Fund) are irrevocably pledged by the Authority to the punctual payment of the Bonds. The Revenues and such other funds and accounts are not permitted to be used for any other purpose while any of the Bonds remain Outstanding; subject to the provisions permitting the application thereof for the purposes and on the conditions and terms set forth therein. The Indenture provides that this pledge constitutes a first lien on the Revenues and such other money for the payment of the Bonds in accordance with the terms thereof.

The Indenture establishes a special fund known as the "Revenue Fund" held by the Trustee into which all Installment Payments are deposited. The money in the Revenue Fund is required to be transferred by the Trustee for deposit in the following respective funds (each of which is maintained with the Trustee) at the following times and in the following order of priority:

- (1) Interest Fund;
- (2) Principal Fund;
- (3) Sinking Fund; and
- (4) Reserve Fund.

Interest Fund. The Trustee will transfer for deposit in the Interest Fund before each Interest Payment Date, an amount of money from the Revenue Fund which is equal to the aggregate amount of the interest becoming due and payable on all Outstanding Bonds on such Interest Payment Date.

Principal Fund. The Trustee will transfer for deposit in the Principal Fund before October 1 of each year, an amount of money from the Revenue Fund which, together with any money contained in the Principal Fund, is equal to the aggregate amount of the principal becoming due and payable on all Outstanding Serial Bonds on such Principal Payment Date.

Sinking Fund. The Trustee will transfer for deposit in the Sinking Fund before October 1 of each year as required, an amount of money from the Revenue Fund equal to the Sinking Fund Installments payable on such Sinking Fund Payment Date.

Reserve Fund. Concurrently with the issuance of the Bonds, the Trustee is to establish, maintain and hold in trust a separate fund designated as the Reserve Fund. Separate Reserve Accounts for each Participant are created within the Reserve Fund. In the event of a withdrawal of amounts from any Reserve Account within the Reserve Fund to make payments to the Interest Fund, Principal Fund or Sinking Fund, the Trustee will deposit in such Reserve Account moneys from the Revenue Fund necessary to restore the amount in such Reserve Account to the Reserve Account Requirement but only from the

Installment Payments made for such purpose by the Program Participants who are obligated under the Installment Purchase Agreements to restore said amounts; *provided*, that if there has been a draw upon any policy of insurance, surety bond, letter of credit or other comparable credit facility used to provide all or a portion of the Reserve Account Requirement, said Installment Payments will be applied to reimburse the provider of such instrument for payments made under such draw plus its expenses in connection therewith. Under each Installment Purchase Agreement, each Program Participant is obligated only to replenish the Reserve Fund for withdrawals therefrom caused by deficiencies in such Program Participant's payment of Installment Payments.

Reserve Fund

Under the Indenture, the Trustee holds in trust a separate fund designated as the Reserve Fund. The Reserve Fund consists of separate, segregated Reserve Accounts established for each Program Participant. The amount on deposit in each Reserve Account is required to be maintained in an amount at least equal to the Reserve Account Requirement for such Reserve Account. The Reserve Account Requirements for each Installment Purchase Agreement are set forth below and generally are equal to the maximum annual Installment Payments payable by each Program Participant. Each Reserve Account will be available only to cover a deficiency in the Installment Payments under the related Installment Purchase Agreement. Under the Installment Agreements, Program Participants will only be obligated to replenish draws on the Reserve Account relating to such Program Participant.

The Reserve Account Requirements will be satisfied with Bond proceeds or a debt service reserve fund insurance policy (the "Reserve Policy") to be issued by Financial Security Assurance Inc. See "BOND INSURANCE - The Bond Insurer" for information on Financial Security Assurance Inc. The total stated amount of the Reserve Policy is \$2,348,006.67 (only a portion of such amount is available to each Reserve Account as shown in the table below).

The table below describes the Reserve Account Requirement for each Reserve Account and whether such Reserve Account has been satisfied with Bond proceeds or the Reserve Policy.

Reserve Accounts Information

<u>Participant</u>	<u>Reserve Account Requirement</u>	<u>Bond Proceeds and/or Reserve Policy</u>
City of Eureka	\$626,466.67	Reserve Policy
Sonoma Valley County Sanitation District	\$1,008,800.00	Reserve Policy
Sonoma County Water Agency (Airport-Larkfield-Wikiup Sanitation Zone)	\$467,321.25	Reserve Policy
South Park County Sanitation District	\$245,418.75	Reserve Policy

Pledge of System Net Revenues under the Installment Purchase Agreements

Each Installment Purchase Agreement provides that all System Net Revenues and all amounts on deposit in the System Revenue Fund are irrevocably pledged to the payment of the Installment Payments and that the System Net Revenues will not be used for any other purpose while any of the Installment Payments remain unpaid. The Installment Purchase Agreement provide that this pledge, together with the pledge created by any other Parity Debt (i.e., the Installment Payments and any other parity obligations of

the Program Participant), and subject to any permitted prior liens on Revenues, constitutes a lien on System Net Revenues for the payment of the Installment Payments and all other Parity Debt.

"System Net Revenues" is defined under the Installment Purchase Agreements as, for any period System Revenues less Operation and Maintenance Costs for such period; *provided* that certain adjustments in the amount of System Net Revenue deemed collected during a Fiscal Year may be made in connection with amounts deposited in the Rate Stabilization Fund. "System Revenues" is defined under the Installment Purchase Agreements as all gross income and revenue received or receivable by the Program Participant from the ownership or operation of the System, determined in accordance with Generally Accepted Accounting Principles, including all fees (including connection fees), rates, charges and all amounts paid under any contracts received by or owed to the Program Participant in connection with the operation of the System and all proceeds of insurance relating to the System and investment income allocable to the System and all other income and revenue howsoever derived by the Program Participant from the ownership or operation of the System or arising from the System, subject to and after satisfaction of any Prior Liens.

"Operation and Maintenance Costs" is defined under the Installment Purchase Agreement as the reasonable and necessary costs paid or incurred by the Program Participant for maintaining and operating the System, determined in accordance with Generally Accepted Accounting Principles, including all reasonable expenses of management and repair and all other expenses necessary to maintain and preserve the System in good repair and working order, and including all administrative costs of the Program Participant that are charged directly or apportioned to the operation of the System, such as salaries and wages of employees, overhead, taxes (if any) and insurance premiums (including payments required to be paid into any self-insurance funds), and including all other reasonable and necessary costs of the Program Participant or charges required to be paid by it to comply with the terms of the Agreement or of any Supplemental Agreement or of any resolution authorizing the execution of any Parity Debt, such as compensation, reimbursement and indemnification of the Trustee and the Authority and fees and expenses of Independent Certified Public Accountants; but excluding in all cases (i) payment of Parity Debt and Subordinate Obligations, (ii) costs of capital additions, replacements, betterments, extensions or improvements which under Generally Accepted Accounting Principles are chargeable to a capital account, and (iii) depreciation, replacement and obsolescence charges or reserves therefor and amortization of intangibles.

In order to carry out and effectuate such pledge each Program Participant agrees and covenants that all System Revenues will be deposited when and as received in a special fund designated as the "System Revenue Fund", which fund the Program Participant agrees and covenants to maintain and to hold separate and apart from other funds so long as any Installment Payments remain unpaid. The Program Participant is required, from the moneys in the System Revenue Fund, to pay all Operation and Maintenance Costs (including amounts reasonably required to be set aside in contingency reserves for Operation and Maintenance Costs, the payment of which is not then immediately required) as such Operation and Maintenance Costs become due and payable. Thereafter, all remaining moneys in the System Revenue Fund are required to be set aside by the Program Participant at the following times for the transfer to the following respective special funds in the following order of priority.

Installment Payments. Not later than each Installment Payment Date (*i.e.*, March 15 and September 15 of each year), the Program Participant is required, from the moneys in the System Revenue Fund, to transfer to the Trustee the Installment Payment due and payable on that Installment Payment

Date. The Program Participant will also, from the moneys in the System Revenue Fund, transfer to the applicable trustee for deposit in the respective payment fund, without preference or priority, and in the event of any insufficiency of such moneys ratably without any discrimination or preference, any other Parity Obligation Payments in accordance with the provisions of any Parity Obligation.

Reserve Account. On or before the first Business Day of each month, the Program Participant is required, from the remaining moneys in the System Revenue Fund, thereafter, without preference or priority, and in the event of any insufficiency of such moneys ratably without any discrimination or preference, to transfer to the Trustee for deposit in the Revenue Fund for application to the Program Participant Reserve Account within the Reserve Fund in accordance with the Indenture and to the applicable trustee for such other reserve accounts, if any, as may have been established in connection with Parity Obligations that sum, if any, necessary to restore the Reserve Account to an amount equal to the Reserve Account Requirement and otherwise replenish the Reserve Fund for any withdrawals to pay the Installment Payments due under the related Installment Purchase Agreement and necessary to restore such other reserve accounts to an amount equal to the amount required to be maintained therein; *provided* that payments to restore the Reserve Account after a withdrawal will be in an amount equal to 1/12 of the aggregate amount needed to restore the Reserve Account to the Reserve Account Requirement as of the date of the withdrawal.

Surplus. Moneys on deposit in the System Revenue Fund not necessary to make any of the payments required above, may be expended by the Program Participant at any time for any purpose permitted by law, including but not limited to payments with respect to Subordinate Obligations and deposits to the Rate Stabilization Fund.

No Cross-Collateralization Among Participants. No Program Participant has covenanted to pay the Installment Payments of any other Program Participant or to make up any deficit in the Reserve Fund which occurs by reason of another Program Participant's nonpayment. For this reason, a default in the payment of Installment Payments by any single Program Participant could cause a default in the payments of principal and interest on the Bonds if moneys in such Program Participant's Reserve Account are insufficient to make up the deficit caused by such nonpayment.

Additional Debt Tests under Installment Purchase Agreements

Each Installment Purchase Agreement provides that the Program Participant which is a party to such Agreement may at any time enter into obligations secured by a lien and charge upon the System Net Revenues of such Program Participant equal to and on a parity with the lien and charge securing the Installment Payments, but only if the System Net Revenues for the last completed Fiscal Year or any 12 consecutive months within the last 18 months preceding the date of execution of such Parity Debt, as shown by a Certificate of the Program Participant on file with the Trustee, plus an allowance for increased System Net Revenues arising from any increase in the rates, fees and charges of the System which became effective prior to the date of the execution of such Parity Debt but which, during all or any part of such 12 month period, was not in effect, in an amount equal to the amount by which the System Net Revenues would have been increased if such increase in rates, fees and charges had been in effect during the whole of such 12 month period, as shown by a Certificate of the Program Participant on file with the Trustee, produce a sum equal to at least 120% of the Maximum Annual Debt Service as calculated after the execution of such Parity Debt; *provided* that for Sonoma Valley County Sanitation District such shall produce a sum equal to at least 110% of the Maximum Annual Debt Service as calculated after the

execution of such Parity Debt; *provided*, that in the event that all or a portion of such Parity Debt is to be issued for the purpose of refunding and retiring any Parity Debt then Outstanding, interest and principal payments on the Parity Debt to be so refunded and retired from the proceeds of such Parity Debt being issued shall be excluded from the foregoing computation of Maximum Annual Debt Service; *provided further*, that the Program Participant may at any time issue Parity Debt without compliance with the foregoing conditions if the Annual Debt Service for each Fiscal Year during which such Parity Debt is Outstanding will not be increased by reason of the issuance of such Parity Debt; and provided further, an adjustment will be made in the amount of System Net Revenues for amounts deposited into or withdrawn from the Rate Stabilization Fund of the Program Participant.

Rate Covenant under the Installment Purchase Agreements

Each Installment Purchase Agreement provides that the related Program Participant will fix, prescribe and collect rates, fees and charges and manage the operation of the System for each Fiscal Year so as to yield System Revenues at least sufficient, after making reasonable allowances for contingencies and errors in the estimates, to pay the following amounts during such Fiscal Year:

- (i) All current Operation and Maintenance Costs.
- (ii) The Installment Payments and payments for other Parity Debt and the payment of the Subordinate Obligations as they become due and payable.
- (iii) All payments required for compliance with the terms of the Installment Purchase Agreement, including restoration of the Program Participant's Reserve Account to an amount equal to the Reserve Account Requirement, and of any Supplemental Agreement.
- (iv) All payments to meet any other obligations of the Program Participant which are charges, liens or encumbrances upon, or payable from, the System Net Revenues.

In addition to the foregoing requirements, the Program Participant will, to the maximum extent permitted by law, fix, prescribe and collect rates, fees and charges and manage the operation of the System for each Fiscal Year so as to yield System Net Revenues during such Fiscal Year equal to at least 120% (110% for the Sonoma Valley County Sanitation District) of the Annual Debt Service in such Fiscal Year; *provided*, an adjustment will be made to the amount of System Net Revenues for amounts deposited into or withdrawn from the Rate Stabilization Fund of the Program Participant.

Rate Stabilization Fund under the Installment Purchase Agreements

Each Installment Purchase Agreement creates a Rate Stabilization Fund. Each Program Participant may, during or within 210 days after a Fiscal Year, deposit System Net Revenues attributable to such Fiscal Year (on the basis of Generally Accepted Accounting Principles) into the Rate Stabilization Fund. The Program Participant may at any time withdraw moneys from the Rate Stabilization Fund. System Net Revenues deposited into the Rate Stabilization Fund will not be taken into account as System Net Revenues for purposes of the calculations required by the covenants in the Installment Purchase Agreement relating to System Net Revenue coverage and additional parity debt in the Fiscal Year to which such deposit is attributable, and amounts withdrawn from the Rate Stabilization Fund, during or within 210 days after a Fiscal Year, may be taken into account as Revenues for purposes of the calculations required by such covenants in such Fiscal Year.

BOND INSURANCE

The following information has been furnished by Financial Security Assurance Inc. (the "Bond Insurer") for use in this Official Statement. No representation is made by the Program Participants, the Authority or the Underwriter as to the accuracy, completeness or adequacy of such information, or as to the absence of material adverse changes in the condition of the Bond Insurer subsequent to the date hereof, including but not limited to a downgrade in the credit ratings of the Bond Insurer. Reference is made to Appendix E for a specimen of the Bond Insurer's municipal bond insurance policy.

The Municipal Bond Insurance Policy

Concurrently with the issuance of the Bonds, the Bond Insurer will issue its Municipal Bond Insurance Policy for the Bonds. The Municipal Bond Insurance Policy guarantees the scheduled payment of principal of and interest on the Bonds when due as set forth in the form of the Municipal Bond Insurance Policy included as Appendix E to this Official Statement.

The Municipal Bond Insurance Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

The Bond Insurer

The Bond Insurer is a New York domiciled financial guaranty insurance company and a wholly owned subsidiary of Financial Security Assurance Holdings Ltd. ("Holdings"). Holdings is an indirect subsidiary of Dexia, S.A., a publicly held Belgian corporation, and of Dexia Credit Local, a direct wholly-owned subsidiary of Dexia, S.A. Dexia, S.A., through its bank subsidiaries, is primarily engaged in the business of public finance, banking and asset management in France, Belgium and other European countries. No shareholder of Holdings or the Bond Insurer is liable for the obligations of the Bond Insurer.

At March 31, 2005, the Bond Insurer's total policyholders' surplus and contingency reserves were approximately \$2,321,918,000 and its total unearned premium reserve was approximately \$1,672,672,000 in accordance with statutory accounting principles. At March 31, 2005, the Bond Insurer's total shareholder's equity was approximately \$2,726,667,000 and its total net unearned premium reserve was approximately \$1,356,678,000 in accordance with generally accepted accounting principles.

The financial statements included as exhibits to the annual and quarterly reports filed by Holdings with the Securities and Exchange Commission are hereby incorporated herein by reference. Also incorporated herein by reference are any such financial statements so filed from the date of this Official Statement until the termination of the offering of the Bonds. Copies of materials incorporated by reference will be provided upon request to Financial Security Assurance Inc.: 350 Park Avenue, New York, New York 10022, Attention: Communications Department (telephone (212) 826-0100).

The Municipal Bond Insurance Policy does not protect investors against changes in market value of the Bonds, which market value may be impaired as a result of changes in prevailing interest rates, changes in applicable ratings or other causes. The Bond Insurer makes no representation regarding the Bonds or the advisability of investing in the Bonds. The Bond Insurer makes no representation regarding the Official Statement, nor has it participated in the preparation thereof, except that the Bond Insurer has provided to the Authority the information presented under this caption for inclusion in the Official Statement.

CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND CHARGES

Article XIII B

Article XIII B of the California State Constitution limits the annual appropriations of the State and of any city, county, school district, authority or other political subdivision of the State to the level of appropriations of the particular governmental entity for the prior fiscal year, as adjusted for changes in the cost of living and population. The "base year" for establishing such appropriation limit is the 1978/79 fiscal year and the limit is to be adjusted annually to reflect changes in population and consumer prices. Adjustments in the appropriations limit of an entity may also be made if (i) the financial responsibility for a service is transferred to another public entity or to a private entity, (ii) the financial source for the provision of services is transferred from taxes to other revenues, or (iii) the voters of the entity approve a change in the limit for a period of time not to exceed four years.

Appropriations subject to Article XIII B generally include the proceeds of taxes levied by the State or other entity of local government, exclusive of certain State subventions and refunds of taxes. "Proceeds of taxes" include, but are not limited to, all tax revenues and the proceeds to an entity of government from (i) regulatory licenses, user charges, and user fees (but only to the extent such proceeds exceed the cost of providing the service or regulation), and (ii) the investment of tax revenues. Article XIII B includes a requirement that if an entity's revenues in any year exceed the amounts permitted to be spent, the excess would have to be returned by revising tax rates or fee schedules over the subsequent two years.

Certain expenditures are excluded from the appropriations limit including payments of indebtedness existing or legally authorized as of January 1, 1979, or of bonded indebtedness thereafter approved by the voters and payments required to comply with court or federal mandates which without discretion require an expenditure for additional services or which unavoidably make the providing of existing services more costly.

The Program Participants are of the opinion that their service charges do not exceed the costs they reasonably bear in providing such services and therefore are not subject to the limits of Article XIII B.

Proposition 218

An initiative measure entitled the "Right to Vote on Taxes Act" ("Proposition 218") was approved by the voters of the State of California at the November 5, 1996 general election. Proposition 218 added Articles XIIC and Article XIID to the California Constitution.

Proposition 218 requires that any agency imposing or increasing any property-related fee or charge must provide written notice to the record owner of each identified parcel upon which such fee or charge is to be imposed and must conduct a public hearing with respect thereto. The proposed fee or charge may not be imposed or increased if a majority of owners of the identified parcels file written protests against it. As a result, if and to the extent that a fee or charge imposed by a Program Participant is ultimately determined to be a "fee" or "charge" as defined in Proposition 218, a Program Participant's ability to increase such fee or charge may be limited by a majority protest.

In addition, Proposition 218 includes a number of limitations applicable to existing fees and charges including provisions to the effect that (i) revenues derived from the fee or charge shall not exceed the funds required to provide the property-related service, (ii) such revenues shall not be used for any

purpose other than that for which the fee or charge was imposed, (iii) the amount of a fee or charge imposed upon any parcel or person as an incident of property ownership shall not exceed the proportional cost of the service attributable to the parcel and (iv) no such fee or charge may be imposed for a service unless that service is actually used by, or immediately available to, the owner of the property in question. Property-related fees or charges based on potential or future use of a service are not permitted. The Program Participants believe that their current fees and charges comply with these limitations.

Proposition 218 provides that stand-by charges, whether characterized as charges or assessments, are classified as assessments and cannot be imposed without compliance with the provisions of Proposition 218 pertaining assessments.

Under the Installment Purchase Agreements, the Program Participants have covenanted, to the maximum extent permitted by law, to establish and collect sufficient rates and charges to comply with the rate covenants thereunder. See "SECURITY FOR THE BONDS - Rate Covenant under the Installment Purchase Agreements" herein. For information concerning the Program Participants, including projections of future rate increases, see Appendix B attached hereto.

Article XIIC provides that the initiative power shall not be prohibited or otherwise limited in matters of reducing or repealing any local tax, assessment, fee or charge and that the power of initiative to affect local taxes, assessments, fees and charges shall be applicable to all local governments. Article XIIC does not define the terms "local tax," "assessment," "fee" or "charge," so it is unclear that the definitions set forth in Article XIID referred to above will be applicable to Article XIIC. Moreover, the provisions of Article XIIC are not expressly limited to local taxes, assessments, fees and charges imposed after November 6, 1996. Therefore, in the absence of other limitations, it is unclear whether the provisions of Article XIIC could be applicable to the fees and charges charged by the Program Participants. The Program Participants do not believe that Article XIIC grants to the voters the power to repeal or reduce rates and charges in a manner which would be inconsistent with the Program Participant's contractual obligations, including but not limited to, the obligation to pay Installment Payments. There can be no assurance of the availability of particular remedies adequate to protect the interests of Bond Owners. Remedies available to Bond Owners in the event of a default are dependent upon judicial actions which are often subject to discretion and delay and could prove both expensive and time-consuming to obtain.

Proposition 218 defines the terms "fee" and "charge" to mean "any levy other than an ad valorem tax, a special tax or an assessment, imposed by an agency upon a parcel or upon a person as an incident of property ownership, including user fees or charges for a property-related service." A "property-related service" is defined as "a public service having a direct relationship to property ownership."

In July 1997, the Authority General of the State of California issued an opinion to the effect that Article XIID does not apply to water fees or charges which are based on the volume of consumption. In November 2000, the Second District Court of Appeal held in *Howard Jarvis Taxpayers Association v. City of Los Angeles* that water service fees and charges, where based primarily on consumption, were not "fees" or "charges" within the meaning of Article XIID. The California State Supreme Court denied review of the *Howard Jarvis Taxpayers Association* case.

In February 2004, the California Supreme Court in *Richmond et al. v. Shasta Community Services District* upheld a Court of Appeal decision that water connection fees were not property related fees and charges subject to Article XIID. The California Supreme Court's opinion in *Richmond* contained dicta

that charges for ongoing water service were property related and, thus, subject to Article XIII D. However, subsequent to the California Supreme Court's decision in *Richmond*, the Fourth District Court of Appeal held in *Bighorn-Desert View Water Agency v. Beringson* that usage-based water rates are not subject to Proposition 218. The appellate court reasoned that such fees were not property related as provided in Proposition 218 or, if property related, were exempt from Proposition 218 as a fee or charge for water services. On October 27, 2004, the California Supreme Court granted a petition for review of the *Bighorn* decision.

Certain aspects of the impact of Proposition 218 in these and other areas remain unclear as court decisions interpreting the application of Proposition 218 to various circumstances continue to be published on a frequent basis. The fees and charges collected by the Program Participants are based on various criteria. See Appendix B attached hereto.

Future Initiatives

Articles XIII B, XIII C and XIII D were adopted as measures that qualified for the ballot pursuant to California's initiative process. From time to time other initiatives could be proposed and adopted affecting the Program Participants' revenues or ability to increase revenues.

RISK FACTORS

The following section describes certain risk factors affecting the payment of and security for the Bonds. The following discussion of risks is not meant to be an exhaustive list of the risks associated with the purchase of the Bonds and does not necessarily reflect the relative importance of the various issues. Potential investors are advised to consider the following factors, along with all other information in this Official Statement, in evaluating the Bonds. There can be no assurance that other risk factors will not become material in the future.

General

The payment of principal of and interest on the Bonds is secured solely by a pledge of the Revenues and certain funds under the Indenture. Revenues consist of Installment Payments to be made by Program Participants. The obligation of each Program Participant to make Installment Payments is secured by the System Net Revenues of such Program Participant. No assurance can be made that System Net Revenues, estimated or otherwise, will be realized by any Program Participant in an amount sufficient to pay the Installment Payments of such Program Participant. The realization of future System Net Revenues is subject to, among other things, the capabilities of management of the Program Participants, the ability of the Program Participants to provide services to its users, and the ability of the Program Participants to establish and maintain charges sufficient to provide the required debt service coverage as well as pay for Operation and Maintenance Costs.

Among other matters, inadequate sources of water, general and local economic conditions and changes in law and government regulations (including initiatives and moratoriums on growth) could adversely affect the amount of System Revenues realized by the Program Participants and ultimately the ability of the Program Participants to pay the Installment Payments.

No Cross-Collateralization

No Program Participant has covenanted to pay the Installment Payments of any other Program Participant or to make up any deficit in the Reserve Fund which occurs by reason of another Program Participant's nonpayment. For this reason, a default in the payment of Installment Payments by any single Program Participant could cause a default in the payments of principal and interest on the Bonds if moneys in such Program Participant's Reserve Account are insufficient to make up the deficit caused by such nonpayment.

Earthquakes, Floods, Fires, Drought or Other Natural Conditions

Earthquakes, floods, fires or other natural disasters could interrupt operation of the Systems of the Program Participants and cause increased costs and thereby interrupt the ability of the Program Participants to realize System Net Revenues sufficient to pay the Installment Payments. Many of the Program Participants are located in active seismic areas and, in certain cases, flood zones. The Program Participants are not obligated under the Installment Purchase Agreements to have earthquake or flood insurance. Further, Southern California and certain southwestern states are currently experiencing drought. Such drought may negatively impact the cost and availability of water for the Program Participants.

Investment of Funds

All funds and accounts held under the Indenture are required to be invested in Authorized Investments as provided under the Indenture. See Appendix C attached hereto for a summary of the definition of Authorized Investments. See the Program Participants' financial statements attached as Appendix A for a summary of the Program Participants' investments as of the date of such financial statements. All investments, including the Authorized Investments and those authorized by law from time to time for investments by public agencies contain a certain degree of risk. Such risks include, but are not limited to, a lower rate of return than expected, loss of market value and loss or delayed receipt of principal. The occurrence of these events with respect to amounts held under the Indenture or by the Program Participants could have a material adverse effect on the security of the Bonds.

Limitations on Remedies and Bankruptcy

The rights and remedies provided in the Indenture and the Installment Purchase Agreements may be limited by and are subject to bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar laws affecting creditors' rights, to the application of equitable principles if equitable remedies are sought, and to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against public agencies in the State of California. The various opinions of counsel to be delivered with respect to such documents, including the opinion of Bond Counsel (the form of which is attached as Appendix D), will be similarly qualified.

The enforcement of the remedies provided in the Installment Purchase Agreements and the Indenture could prove both expensive and time consuming. In the event of a default, the Trustee is not empowered to sell the Projects in order to pay debt service on the Bonds. In addition, the rights and remedies provided in the Installment Purchase Agreements and Indenture may be limited by and are subject to provisions of the federal bankruptcy laws, as now or hereafter enacted, and to other laws or equitable principles that may affect creditors' rights. If a Program Participant were to file a petition under

Chapter 9 of the Bankruptcy Code (Title 11, United States Code), the Bondholders and the Trustee could be prohibited or severely restricted from taking any steps to enforce their rights under the Installment Purchase Agreements and from taking any steps to collect amounts due from the Program Participant under the Installment Purchase Agreements.

THE AUTHORITY

The California Statewide Communities Development Authority (the "Authority") is a joint exercise of powers authority duly organized and operating pursuant to Article 1 (commencing with Section 6500) of Chapter 5, Division 7, Title 1 of the California Government Code, and pursuant to an agreement which became dated as of June 1, 1988, by and among various cities, counties, and special districts, and is qualified to issue the Bonds under the Law.

Neither the faith and credit nor the taxing power of the State of California or any public agency thereof or the Authority or any Program Participant or any member of the Authority is pledged to the payment of the Bonds. The Bonds do not constitute a debt, liability or obligation of the State of California or any public agency thereof (other than the Authority payable solely from the Revenues) or any Program Participant or any member of the Authority, and neither the directors of the Authority nor any persons executing the Bonds are liable personally on the Bonds by reason of their issuance. The Authority has no taxing power.

LEGAL MATTERS

The legality and enforceability of the Bonds are subject to the approval of Hawkins Delafield & Wood LLP, San Francisco, California, acting as Bond Counsel. The form of such legal opinion is attached hereto as Appendix D. Hawkins Delafield & Wood LLP, San Francisco, California, has also served as Disclosure Counsel. Certain legal matters will be passed upon by the counsel to the Authority and the counsels to the Program Participants.

LITIGATION

The Authority will certify to the effect that, to the best knowledge of the Authority, there is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, regulatory agency, public board or body pending other than as described in the Official Statement (i) in any way questioning the existence of the Authority or the titles of the officers of the Authority to their respective offices; (ii) affecting, contesting or seeking to prohibit, restrain or enjoin the issuance or delivery of any of the Bonds, or the payment or collection of any amounts pledged or to be pledged to pay the principal of and interest on the Bonds, or in any way contesting or affecting the validity of the Bonds or the related legal documents or the consummation of the transactions contemplated thereby, or contesting the exclusion of the interest on the Bonds from taxation or contesting the powers of the Authority to assign and pledge the Installment Payments; or (iii) contesting the completeness or accuracy of the Preliminary Official Statement (excluding all appendices) or the Official Statement (excluding all appendices) or any supplement or amendment thereto or asserting that the Preliminary Official Statement (excluding all appendices) or the Official Statement (excluding all appendices) contained any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

Each Program Participant will certify to the effect that, other than as described in the Official Statement, including all appendices hereto, there is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, regulatory agency, public board or body pending or, to the best knowledge of the Program Participant, threatened (i) in any way questioning the existence of the Program Participant or the titles of the officers of the Program Participant to their respective offices; (ii) in any way contesting or affecting the validity of the legal documents relating to the Bonds entered into by the Program Participant or the consummation of the transactions contemplated thereby, (iii) which may result in any material adverse change relating to the finances or operations of the Program Participant; or (iv) contesting the completeness or accuracy of the Preliminary Official Statement or the Official Statement or any supplement or amendment thereto or asserting that the Preliminary Official Statement or the Official Statement contained any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading. See Appendix B for certain information related to any litigation affecting the Program Participants.

TAX MATTERS

Opinion of Bond Counsel

In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel to the Authority, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest on the Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and (ii) interest on the Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. In rendering its opinion, Bond Counsel has relied on certain representations, certifications of fact, and statements of reasonable expectations made by the Authority in connection with the Bonds, and Bond Counsel has assumed compliance by the Authority with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the Bonds from gross income under Section 103 of the Code.

In addition, in the opinion of Bond Counsel to the Authority, under existing statutes, interest on the Bonds is exempt from personal income taxes imposed by the State of California.

Bond Counsel expresses no opinion regarding any other Federal or state tax consequences with respect to the Bonds. Bond Counsel renders its opinion under existing statutes and court decisions as of the issue date, and assumes no obligation to update its opinion after the issue date to reflect any future action, fact or circumstance, or change in law or interpretation, or otherwise. Bond Counsel expresses no opinion on the effect of any action hereafter taken or not taken in reliance upon an opinion of other counsel on the exclusion from gross income for Federal income tax purposes of interest on the Bonds, or under state and local tax law.

Certain Ongoing Federal Tax Requirements and Covenants

The Code establishes certain ongoing requirements that must be met subsequent to the issuance and delivery of the Bonds in order that interest on the Bonds be and remain excluded from gross income under Section 103 of the Code. These requirements include, but are not limited to, requirements relating to use and expenditure of gross proceeds of the Bonds, yield and other restrictions on investments of gross proceeds, and the arbitrage rebate requirement that certain excess earnings on gross proceeds be rebated to the Federal government. Noncompliance with such requirements may cause interest on the Bonds to become included in gross income for Federal income tax purposes retroactive to their issue date, irrespective of the date on which such noncompliance occurs or is discovered. The Authority has covenanted to comply with certain applicable requirements of the Code to assure the exclusion of interest on the Bonds from gross income under Section 103 of the Code.

Certain Collateral Federal Tax Consequences

The following is a brief discussion of certain collateral Federal income tax matters with respect to the Bonds. It does not purport to address all aspects of Federal taxation that may be relevant to a particular owner of a Bond. Prospective investors, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the Federal tax consequences of owning and disposing of the Bonds.

Prospective owners of the Bonds should be aware that the ownership of such obligations may result in collateral Federal income tax consequences to various categories of persons, such as corporations (including S corporations and foreign corporations), financial institutions, property and casualty and life insurance companies, individual recipients of Social Security and railroad retirement benefits, individuals otherwise eligible for the earned income tax credit, and taxpayers deemed to have incurred or continued indebtedness to purchase or carry obligations the interest on which is excluded from gross income for Federal income tax purposes. Interest on the Bonds may be taken into account in determining the tax liability of foreign corporations subject to the branch profits tax imposed by Section 884 of the Code.

Original Issue Discount

"Original issue discount" ("OID") is the excess of the sum of all amounts payable at the stated maturity of a Bond (excluding certain "qualified stated interest" that is unconditionally payable at least annually at prescribed rates) over the issue price of that maturity. In general, the "issue price" of a maturity means the first price at which a substantial amount of the Bonds of that maturity was sold (excluding sales to bond houses, brokers, or similar persons acting in the capacity as underwriters, placement agents, or wholesalers). In general, the issue price for each maturity of Bonds is expected to be the initial public offering price set forth on the cover page of the Official Statement. Bond Counsel further is of the opinion that, for any Bonds having OID (a "Discount Bond"), OID that has accrued and is properly allocable to the owners of the Discount Bonds under Section 1288 of the Code is excludable from gross income for Federal income tax purposes to the same extent as other interest on the Bonds.

In general, under Section 1288 of the Code, OID on a Discount Bond accrues under a constant yield method, based on periodic compounding of interest over prescribed accrual periods using a compounding rate determined by reference to the yield on that Discount Bond. An owner's adjusted basis in a Discount Bond is increased by accrued OID for purposes of determining gain or loss on sale,

exchange, or other disposition of such Bond. Accrued OID may be taken into account as an increase in the amount of tax-exempt income received or deemed to have been received for purposes of determining various other tax consequences of owning a Discount Bond even though there will not be a corresponding cash payment.

Owners of Discount Bonds should consult their own tax advisors with respect to the treatment of original issue discount for Federal income tax purposes, including various special rules relating thereto, and the state and local tax consequences of acquiring, holding, and disposing of Discount Bonds.

Bond Premium

In general, if an owner acquires a Bond for a purchase price (excluding accrued interest) or otherwise at a tax basis that reflects a premium over the sum of all amounts payable on the Bond after the acquisition date (excluding certain "qualified stated interest" that is unconditionally payable at least annually at prescribed rates), that premium constitutes "bond premium" on that Bond (a "Premium Bond"). In general, under Section 171 of the Code, an owner of a Premium Bond must amortize the bond premium over the remaining term of the Premium Bond, based on the owner's yield over the remaining term of the Premium Bond determined based on constant yield principles (in certain cases involving a Premium Bond callable prior to its stated maturity date, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on such bond). An owner of a Premium Bond must amortize the bond premium by offsetting the qualified stated interest allocable to each interest accrual period under the owner's regular method of accounting against the bond premium allocable to that period. In the case of a tax-exempt Premium Bond, if the bond premium allocable to an accrual period exceeds the qualified stated interest allocable to that accrual period, the excess is a nondeductible loss. Under certain circumstances, the owner of a Premium Bond may realize a taxable gain upon disposition of the Premium Bond even though it is sold or redeemed for an amount less than or equal to the owner's original acquisition cost. Owners of any Premium Bonds should consult their own tax advisors regarding the treatment of bond premium for Federal income tax purposes, including various special rules relating thereto, and state and local tax consequences, in connection with the acquisition, ownership, amortization of bond premium on, sale, exchange, or other disposition of Premium Bonds.

Legislation

Legislation affecting municipal bonds is regularly under consideration by the United States Congress. There can be no assurance that legislation enacted or proposed after the date of issuance of the Bonds will not have an adverse effect on the tax exempt status or market price of the Bonds.

A copy of the proposed form of opinion of Bond Counsel is attached hereto as Appendix D.

CONTINUING DISCLOSURE

The Program Participants have covenanted in Continuing Disclosure Certificates for the benefit of the holders and beneficial owners of the Bonds to provide certain financial information and operating data relating to Participants by not later than the 210 days following the end of the fiscal year (currently their fiscal years end on June 30) (the "Participant Annual Reports"), commencing with the fiscal year ending June 30, 2005, and to provide notices of the occurrence of certain enumerated events, if material.

The Authority has covenanted in a Continuing Disclosure Certificate for the benefit of the holders and beneficial owners of the Bonds to provide notices of the occurrence of certain enumerated events, if material.

The Program Participant Annual Reports and the notices of material events will be filed by the Trustee as Dissemination Agent with each Nationally Recognized Municipal Securities Information Repository. The specific nature of the information to be contained in the Annual Reports and the notice of material events is set forth in Appendix G—"FORMS OF CONTINUING DISCLOSURE CERTIFICATES" hereto. These covenants have been made in order to assist the Underwriter in complying with Rule 15c2-12(b)(5) promulgated under the Securities Exchange Act of 1934.

RATINGS

Upon the issuance by Financial Security Assurance Inc. of its municipal bond insurance policy (the "Municipal Bond Insurance Policy"), Standard & Poor's Ratings Services and Fitch Ratings will assign the Bonds the rating of "AAA". These ratings are based upon the Municipal Bond Insurance Policy. See "BOND INSURANCE" herein. Generally, rating agencies base their ratings on information and material furnished directly to them and on investigations, studies and assumptions made by them. The ratings reflect only the views of such organization and an explanation of the significance of the ratings may be obtained from Standard & Poor's Ratings Services, 25 Broadway, New York, New York 10004 and from Fitch Ratings, 33 Whitehall Street, 27th Floor, New York, New York 10004, respectively. There is no assurance that the ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by the rating agencies, if, in the judgment of such rating agencies, circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Bonds.

UNDERWRITING

The Bonds will be purchased by Henderson Capital Partners, LLC (the "Underwriter") pursuant to a Bond Purchase Contract, under which the Underwriter agrees to purchase all of the Bonds for an aggregate purchase price of \$27,934,399.50 (which represents the principal amount of the Bonds plus net original issue premium of \$338,199.50 and less an Underwriter's discount of \$223,800.00).

The initial public offering prices stated on the cover of this Official Statement may be changed from time to time by the Underwriter. The Underwriter may offer and sell the Bonds to certain dealers (including dealers depositing Bonds into investment trusts), dealer banks, banks acting as agents and others at prices lower than said public offering prices.

POOL VERIFICATION

Upon delivery of the Bonds, Grant Thornton LLP, a firm of independent certified public accountants, will have verified the mathematical accuracy of certain computations based upon certain information and assertions provided to them by the Underwriter relating to (a) the adequacy of the Program Participants' scheduled Installment Payments to pay when due all of the scheduled principal of and interest on the Bonds, (b) the adequacy of the amounts in the respective Escrow Fund to pay all of the principal and payment premium represented by and the interest on the respective Refunded Obligations (see "PARTICIPANTS AND FINANCING PLAN" herein) and (c) the computations of yield of the Bonds and the respective Escrow Fund which support Bond Counsel's opinion that the interest on the Bonds is excluded from gross income for federal income tax purposes.

MISCELLANEOUS

Insofar as any statements made in this Official Statement involve matters of opinion or of estimates, whether or not expressly stated, they are set forth as such and not as representations of fact. No representation is made that any of such statements made will be realized. Neither this Official Statement nor any statement which may have been made verbally or in writing is to be construed as a contract with the Owners of the Bonds.

The execution and delivery of this Official Statement have been duly authorized by the Authority and the Program Participants.

**CALIFORNIA STATEWIDE
COMMUNITIES DEVELOPMENT
AUTHORITY**

By: /s/ Norma Lammers
 Member of the Commission

CITY OF EUREKA

By: /s/ David W. Tyson
 City Manager

**SONOMA VALLEY COUNTY
SANITATION DISTRICT**

By: /s/ Randy Poole
 General Manager/Chief Engineer

SONOMA COUNTY WATER AGENCY

By: /s/ Randy Poole
 General Manager/Chief Engineer

**SOUTH PARK COUNTY SANITATION
DISTRICT**

By: /s/ Randy Poole
 General Manager/Chief Engineer

APPENDIX A

EXCERPTS FROM PROGRAM PARTICIPANTS' FINANCIAL STATEMENTS

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**COMPREHENSIVE
ANNUAL FINANCIAL REPORT**

OF THE

CITY OF EUREKA,

CALIFORNIA

Fiscal Year Ended June 30, 2004

*Prepared By:
Finance Department*

CAROLYNN THOMAS
Finance Director

WENDY HOWARD-AZIZ
Accountant II

LYNNE SANDSTROM
Accountant II

TRACY HOWARD
Accountant II

City of Eureka, California
Comprehensive Annual Financial Report
Year Ended June 30, 2004

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December 31, 2004

To the People of the City of Eureka

Represented by the Honorable Mayor and Members of City Council of the City of Eureka

In accordance with State and Local Statutes, the City of Eureka hereby submits the Comprehensive Annual Financial Report for the year ended June 30, 2004. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the City. We believe the data, as presented, is accurate in all material aspects; that it is presented in a manner designed to fairly set forth the financial position and results of operations of the City as measured by the financial activity of its various funds, and that all disclosures necessary to enable the reader to gain maximum understanding of the City's financial affairs have been included.

The Comprehensive Annual Financial Report (CAFR) is presented in three sections: Introductory, Financial, and Statistical. The Introductory section includes this transmittal letter, a table of contents, the City's organizational chart, and a list of principal officers. The Financial section includes the unqualified opinion of our independent auditors, Mess. Levy G. Hartman, Certified Public Accountants, the management's discussion and analysis, the basic financial statements and notes to these statements, followed by supplementary information. The Statistical section includes selected financial and demographic information, generally presented on a ten year historical basis, both financial and non-financial trend data about the City and its operations.

REPORTING REQUIREMENTS

In June of 1999, the Governmental Accounting Standards Board (GASB), which sets the Generally Accepted Accounting Principles (GAAP) for all State and Local governments, established a new framework for financial reports. GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City of Eureka's MD&A can be found immediately following the report of the independent auditors.

GENERAL INFORMATION

The City of Eureka is a charter City, incorporated as a town on April 19, 1856, under a special act of the legislature; reincorporated as a City on February 19, 1874, and incorporated under a Freeholder's Charter on February 8, 1895. The City has been declared a State Historic Site because of its significance in the development of California. The City operates under a Council-Manager form of government with a five-member Council elected to four year overlapping terms, and the Mayor being elected for a four year term. The position of City Manager is filled by appointment of the Council to serve as Administrator of the Staff, and to carry out the policies of the Council. The City Attorney and City Clerk are also appointed by the Council.

The City of Eureka is located along Humboldt Bay (California's second largest deep-water port), on the Northern California coast, 280 miles north of San Francisco, and 436 miles south of Portland, Oregon. Eureka is also the county seat for the County of Humboldt. The City has an approximate population of 26,300, and its boundaries encompass 17 square miles. Extracting timber, and the processing of wood by-products, along with agriculture, fishing, tourism, and government have historically been the pillars of the local economy.

The City of Eureka provides a full range of services, including police and fire protection; the construction and maintenance of highways, streets, and other infrastructure, and various recreational activities. Certain redevelopment activities are carried out by a blended component unit of the City. The Eureka Redevelopment Agency was created by the City Council during the year ending June 30, 1992, the Agency was given the authority and responsibility to develop and upgrade blighted areas of the City. Of the City's 17.71 square miles, 1.97 square miles are included in the Agency boundaries. The City Council also functions as the Board of the Eureka Redevelopment Agency. Financing for redevelopment activities is provided through another blended component unit of the City, the Eureka Public Financing Authority. The City Council created the Authority to sell bonds and lend the proceeds of bond issues to the Agency. The City Council also functions as the Board of the Eureka Public Financing Authority.



ECONOMIC CONDITIONS AND OUTLOOK

The growth and health of Eureka's economy can be traced to a variety of indicators.

Employment Rate. The average unemployment rate for the calendar year 2004 for Humboldt County was 4.9 percent, compared to 5.4 percent for the State. This was a decrease of 0.02 percent from the preceding year. The County labor force increased during the year by 1,100 to 61,900. The number of employed increased during that time by 1,000 to 58,700.

Building Activity. During the fiscal year, 533 construction permits were drawn with a value of \$27.1 million, as presented in the Statistical Section table "Construction Activity and Bank Deposits".

Housing. A wide variety of homes and land are available in the Eureka area, from modest residences to estates. Based on 2004 information, Humboldt County's median cost for housing was \$270,000 compared with a statewide average of \$460,370, and a national existing home average of \$182,500. Median 2004 home sales in Eureka averaged \$200,000 with prices ranging from \$175,000 to \$500,000.

Retail Sales. Shopping districts are abundant throughout the City of Eureka. There is a traditional downtown region offering over 700 retail and service related business - Old Town Eureka, with 140 specialty shops in a redeveloped Victorian waterfront setting; the Eureka Mall, a large power center with 13 stores; the Bayshore Mall, a regional mall with over 100 stores; and a variety of neighborhood shopping centers.

This multitude of retail opportunities strengthens Eureka's dominance as a regional trade center and is clearly supported by the fact that the City has higher retail sales for taxable items per capita than other cities in the Humboldt County area. Eureka is strong in the areas of general merchandise, auto sales, and building materials. In 2004, there were 1,498 retail permits issued in Eureka, with a total of \$751,500,000 in taxable transactions.

Industrial Property. 756.2 acres in the City limits are zoned light and heavy industrial, with about 25.4 percent vacant and available in one parcel of 38 acres. Typical sales prices in 2004 ranged from \$0.30 to \$0.45 per square foot for parcel with flat terrain and adequate drainage. Subsoil is fair, and piling is required in some areas. Sewer mains and lines range from 8 to 12 inches.

Eureka has been designated as one of 39 Enterprise Zones in the State of California, providing existing, new, and expanding businesses with numerous economic benefits and tax incentives.

MAJOR ACCOMPLISHMENTS

Fiscal Year 2003-04

The financial plan for the year, as adopted by the City Council, represents a balance between planning for the future and delivering services to our citizens today. The operating programs were designed to maintain existing service levels. The 2003-04 budget included financial support for a number of future planning efforts. At the same time, the capital budget primarily consisted of projects intended to maintain or rehabilitate existing City facilities, as opposed to constructing new facilities.

Major progress was made in a number of areas critical to the well-being of the City. These include:

- The Fiscal Year 2003-04 Budget continued our approach to budgeting which is the measurement of service performance. The basis for this was our continued focus of giving priority to programs which produce outcomes desired by the citizens and to ensure citizens get at least a dollar's worth of service for each dollar invested. For each program, measures of effort and resources were identified. These include: income, expenditures, and employees used to provide a program. Measures of performance were identified and related to measures of effort. From this the efficiency and effectiveness of the process being used to convert resources into outputs can be determined. The public and elected officials can readily see what level of resources is needed for each service. Decisions can then be made about what modifications in service delivery should be implemented.
- In response to slow General Fund revenue growth and the revenue losses due to the State budget crisis, a number of proactive budget actions were taken with the adoption of the Fiscal Year 2003-04 Financial Plan, including reductions in operating expenditures, deferral of capital improvement projects, and maintenance deferral.
- A Cost-of-Service study update was completed on the City's Water System. The study analyzed the City's rate structure for the Water Utility and developed a microcomputer model of the City's rate structure so various rate structures could be considered. The information gained from the model has provided the detail for implementing a 16.3 percent rate adjustment during 2003-04.
- Internal Service Fund Balances. The administration of the City's Worker's Compensation Insurance Fund, and the Liability Insurance Fund were addressed during Fiscal Year 1992-93, by the City joining a Joint Powers Authority for Insurance Coverage. To offset the unfunded deficits which existed in the Worker's Compensation and Liability Insurance Funds, an advance was made

in fiscal year 1995-96 from the City's Wastewater Fund to be repaid over a 10 year period with interest. With the recurring losses in the City's Group Health and Benefit fund along with health care benefits continuing to increase, the City Council made the decision to no longer be self-funded for health care benefits as of August 1, 2002.

- A major water transmission line replacement project totaling \$8 million dollars began during the 2001-02 fiscal year and continued into the 2003-04 fiscal year. Also a \$2.2 million high water tank replacement project was constructed during the same year.
- The City was awarded a \$1 million loan from the State HOME program, and a \$500,000 State CDBG grant to purchase and rehabilitate the Multiple Assistance Center (MAC) during fiscal year 2001-02. During the 2002-03 fiscal year an additional \$500,000 EHAP grant was received and \$750,000 has been earmarked from Eureka Redevelopment Agency funds. Additional local funding grants and loans totaling \$765,000 will go towards this \$3.5 million project. The MAC project will provide on-site housing, job training and care of homeless persons and their families, and is intended to provide a more efficient and effective distribution of existing homeless services. Construction on this project began during the 2003-04 fiscal year and will be completed during the following fiscal year.
- A major harbor revitalization project that has been in the planning stages for many years began the funding stage during the 2003-04 fiscal year. The Fisherman's Terminal Project constitutes Phase II of the Inner Channel Dock and Boardwalk Revitalization Project. Phase II of the Boardwalk project was completed in the 2002-03 fiscal year. Total costs are estimated at \$5 million and construction will begin in the 2003-04 fiscal year. Funding will come from various sources: State Coastal Conservancy grant of \$1.5 million; US Department of Commerce grants of \$700,000; State Department of Fish and Game, Wildlife Conservation bond of \$500,000 and Eureka Redevelopment Agency funding of \$2.4 million.
- The City of Eureka completed its annual process of updating a comprehensive schedule of fees and service charges. This schedule provides operating departments, within the City, the means to distribute information regarding fees and service charges.
- With the November, 1996 passage of Proposition 218, the "taxpayers right to vote," the City took its Utility User Tax to the voters and received validation to charge this tax on electric, gas, telephone and cable TV utilities. Extended in November 1997 for five years, this tax went back to the voters in November 2002 and was extended for four more years until July 1, 2007.

Prospects for the Future

The City continually strives to improve the level and quality of service provided to its citizens as has been demonstrated through the various on-going and enhanced service levels contained with the City's Fiscal Year 2003-04 budget. In future years, the City's goals and objectives will continue to be reflective of the desire to improve the quality of life for Eureka's citizens.

- The General Fund. For several consecutive years we have adopted balanced General Fund budgets. Still, we need to remind ourselves that simply making ends meet one year to the next is not the same thing as sufficiently financing this organization's future.

The full financial picture is made up of several components: contingency reserves that cushion annual fluctuations in revenue collections, sufficient fund balance that protect against disaster and uncertainty, ongoing and consistent capital planning and improvements, adequate funding of liabilities, and continuation of competitive compensation for our workforce. For the continuation of current services to this community, our long-term General Fund financial planning must include revenue enhancement, expenditures reduction through increased efficiencies, or some combination of the two.

Changes in the legal environment have made matters worse. Propositions 62 and 218, with their requirement for voter approval of nearly all fees and taxes, have created severe restriction on our ability to offset growth in the cost of doing business. Budget challenges at the State level have taken their toll on local revenues.

- Street & Road Maintenance. Clearly, one of the greatest challenges facing us is the need to maintain the City's street and road infrastructure. In FY 2003-04 and beyond, the City is faced with the need to fund approximately \$1.5 million per year related to street maintenance. This equates to the portion of the operating budget that has been funded historically with "one-time" funding rather than with operating revenue. It is staff's belief that based on revenue and expenditure trends, the Eureka economy, and prudent budget development and monitoring, this needed level of funding will be available for not only street maintenance but for sidewalk maintenance as well.

- Federal and State Government Actions. State government deficits will affect counties and cities for the next six to eight years. The trend toward greater and more frequent intrusions on local government finance has been firmly established by State elected officials in Sacramento. Consider, for example, the current reductions in Vehicle License Fees, the freeze on State Mandated Claim reimbursements and ERAF shifts from the City and Redevelopment Agencies. Again we find ourselves pitted against the State government and in competition for scarce economic resources. Add to the list of our obligations the need to vigilantly watch over the actions of State government officials who are, in the final analysis, unaccountable to our community.

- Business Development and Retention. We continue to work in partnership with the business community, strengthening our formal and informal ties to local commerce, to develop our community's business potential. We emphasize assistance for businesses considering relocation into our community equally with retention efforts for businesses considering relocation outside of Eureka.

* **Technology.** Intensified deployment of technology will continue to be an important priority for the City. The city will strengthen its presence on the World Wide Web to provide continued access to a wide range of useful information and more convenient ways of transacting City business. The upgrade of the City's financial systems software began in 2003-04 and will be completed in 2004-05.

* **Infrastructure Construction and Improvements.** With the exception of the water and wastewater capital improvements we embark upon this year, we fall far short of meeting the City's infrastructure needs. Most available funding continues to find application in operational budgeting areas, meaning that the rate of decline in the usefulness of our City's infrastructure base has outpaced our ability to carry out needed capital upgrading and replacement.

* **Redevelopment Project Financing.** The Eureka Redevelopment Agency took advantage of the opportunity to refinance outstanding 1993 tax allocation bonds during the 2003-04 budget year. Low interest rates and a "call" date in November 2003 afforded the agency a savings of approximately \$700,000 annually over the next ten years. With this savings in debt service payments the deficit position within the Eureka Tomorrow Project area will be reduced and funds will become available to use for continued development within the Agency boundaries.

REPORTING ENTITY AND ITS SERVICES

This report includes all of the funds of the City. Financial information for separate legal entities related to the City of Eureka, including the Eureka Redevelopment Agency, and the Eureka Public Financing Authority, are also accounted for in this City's financial statements in accordance with the Government Accounting Standards Board (GASB) Statement No. 14 *The Financial Reporting Entity*.

City Council members serve as the governing board of the Redevelopment Agency. The City provides accounting and administrative services to the Redevelopment Agency. Additional detail is provided in Note 1. A. of the Notes to the Financial Statements.

Eureka is a full service city with 253 authorized full-time and regular part-time personnel. This includes public safety (Police and Fire), highways and streets, public improvements, land use, building and housing standards, culture - recreation programs, parks and recreation areas, water and sewer utilities, public transit, and administration and fiscal services.

ACCOUNTING SYSTEM AND BUDGETARY CONTROL

The basic financial statements are presented on an "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all of the City's assets and liabilities, including capital assets, as well as infrastructure assets, and long-term liabilities, are included in the accompanying Statement of Net Assets. The Statement of Activities presents changes in net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

All governmental funds are accounted for on a spending or "current financial resources" measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the balance sheet. The Statement of Revenue, Expenditures and Changes in Net Assets present increases (revenue and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period.

In developing and evaluating the City's accounting system, consideration is given to the adequacy of internal accounting controls. Internal accounting controls are designed to provide reasonable, but not absolute, assurances regarding (1) the safeguarding of assets against loss from unauthorized use or dispositions, and (2) the reliability of financial records for preparing financial statements and maintaining accountability of assets. The concept of reasonable assurances recognizes that the cost of a control should not exceed the benefits likely to be derived; and the evaluation of costs and benefits requires estimates and judgments by management.

All internal control evaluations occur within the above framework. The City's internal accounting controls adequately safeguard assets and provide reasonable assurances of proper recording of financial transactions.

Annual appropriated budgets are adopted for all funds of the City except agency funds. Appropriations include amounts encumbered at year-end, and these encumbrances are not reappropriated in the following year. All annual appropriations lapse at fiscal year end. Legally adopted budgetary appropriations are enacted at the department level for current operating expenditures, with separate appropriations for capital and other projects, debt service, reserves, transfers and contingencies. Expenditures cannot legally exceed appropriations at these control levels. Amendments to the budget at the legal appropriation level must be approved by City Council. Amendments to the budget at less than the legal appropriation level may be made by management.

Project-length financial plans are adopted for capital and other projects. Appropriations for these projects are included in the annual appropriated budgets for each of the applicable funds. Unspent project amounts are included in the annual budgets of subsequent years until project completion. The objective of these budgetary controls is to ensure compliance with legal provisions contained in the annual appropriated budget approved by the City Council.

CASH MANAGEMENT

Cash temporarily idle during the year was invested in certain eligible securities as constrained by law and the City's Investment Policy. The City invests in demand deposits, time deposits, securities of the U.S. Government or its Agencies, bankers acceptances, corporate notes and bonds, repurchase agreements, mortgage backed securities, money-market and other mutual funds, commercial paper, and the Local Agency Investment Fund. The goals of the City's investment policy are safety, liquidity, and yield. The average yield on pooled investments at June 30, 2004 was 4.80 percent with an average maturity of 1.97 years.

RISK MANAGEMENT

As more fully explained in Note V. A. of the notes to the financial statements, the City participates in a public entity risk pool for general liability, workers' compensation, and property insurance coverage. All funds of the City are participants in these programs and make payments to Internal service funds based upon estimates of the amounts needed to pay operating expenditures of the fund, prior- and current-year claims, and where applicable to establish reserve for losses. Employees choose from a number of benefit plans available to them through the City.

INDEPENDENT AUDIT

The City requires an annual audit by an independent certified public accountant. The accounting firm of Moss, Levy & Hartzheim, Certified Public Accountants conducted this year's audit. The auditors report on the basic financial statements and schedules is included in the financial section of this report. The audit was also designed to meet the requirements of the Federal Single Audit Act as amended in 1996, and related OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* (68 FR 38401).

AWARDS

The Government Financial Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Eureka for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2003. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized Comprehensive Annual Financial Report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

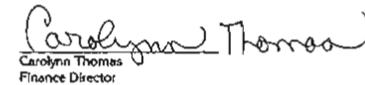
A Certificate of Achievement is valid for a period of one year only. We believe that our current Comprehensive Annual Financial Report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

ACKNOWLEDGMENTS

The preparation of this report on a timely basis could not have been accomplished without the efficient and dedicated services of the Staff of the Department of Finance. We would like to express our appreciation to the independent auditing firm of Moss, Levy & Hartzheim, Certified Public Accountants for their guidance. We would also like to thank the Mayor and members of the City Council for their interest and support in planning and conducting the financial operation of the City in a responsible and progressive manner.

Respectfully Submitted,


David W. Tyson
City Manager


Carolyn Thomas
Finance Director

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Eureka,
California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2003

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Nancy L. Zielke

President

Jeffrey R. Emery

Executive Director

City of Eureka, California
Principal City Officials
June 30, 2004

Peter La Vallee
Mayor

City Council

Chris Kerrigan
Council Member

Mike Jones
Council Member

Mary Beth Wolford
Council Member

Virginia Bass-Jackson
Council Member

Jeff Leonard
Council Member

Administration

David W. Tyson
City Manager

Kathleen Franco Simmons
City Clerk

Randy Nickolaus
Assistant City Manager

Kevin Hamblin
Director of Community Development

Mike Knight
Public Works Director/Building Official

Cindy Troblitz-Thomas
Redevelopment & Housing Director

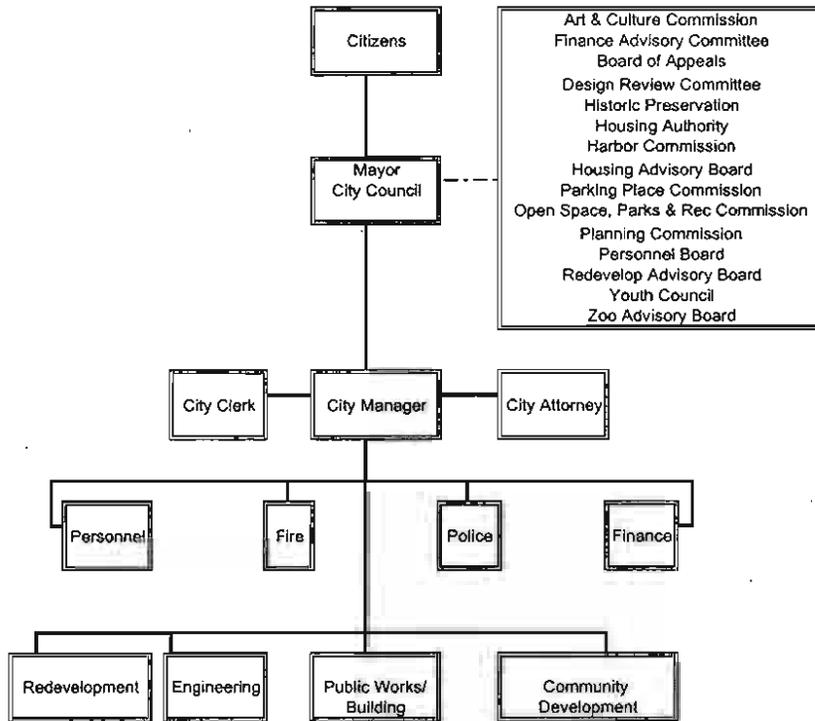
David Tranberg
City Attorney

David Douglas
Police Chief

Eric Smith
Fire Chief

Brent Siemer
City Engineer

City of Eureka Organizational Chart



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 RONALD A. LEVY, C.P.A.*
 CRAIG A. HARTZHEIM, C.P.A.*
 BRETT J. MILLER, C.P.A.

MEMBER

AMERICAN INSTITUTE OF C.P.A.S.
 CALIFORNIA SOCIETY OF C.P.A.S.
 CALIFORNIA SOCIETY OF
 MUNICIPAL FINANCE OFFICERS
 CALIFORNIA ASSOCIATION OF
 SCHOOL BUSINESS OFFICIALS

OFFICES

BEVERLY HILLS, CALIFORNIA
 SANTA MARIA, CALIFORNIA
 SACRAMENTO, CALIFORNIA

HADLEY HUI, C.P.A.
 PAUL NIEDERMULLER, C.P.A.
 KARAN C. POHL, C.P.A.

INDEPENDENT AUDITOR'S REPORT

The Members of the City Council of the
 City of Eureka
 Eureka, California

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Eureka, California (City) as of and for the fiscal year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. 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 the 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Eureka, California, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable thereof, and the respective budgetary comparison for the General Fund, the Housing Special Revenue Fund, and the Low & Moderate Income Housing Special Revenue Fund for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued a report dated October 15, 2004, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in

accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 11 and the schedule of funding progress for the Local and Public Retirement Systems on pages 12 and 13 are not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining nonmajor fund financial statements, major debt service and major capital projects budgetary comparison schedules, nonmajor fund budgetary comparison schedules, combining internal service fund financial statements, combining agency fund statement of net assets, agency funds statement of changes in assets and liabilities, and the statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements, major debt service and major capital projects budgetary comparison schedules, nonmajor fund budgetary comparison schedules, combining internal service fund financial statements, combining agency fund statement of net assets, and agency funds statement of changes in assets and liabilities have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The introductory section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Moss, Levy & Hartzheim

Moss, Levy & Hartzheim
Beverly Hills, California
October 15, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Eureka, we offer readers of the City of Eureka's financial statements this narrative overview and analysis of the financial activities of the City of Eureka for the fiscal year ended June 30, 2004. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal found in the introductory section of this annual report.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Eureka's basic financial statements. The City of Eureka's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the City of Eureka's finances, in a manner similar to private-sector business.

The statement of net assets presents information on all of the City of Eureka's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City of Eureka is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City of Eureka that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City of Eureka include general government, public safety, community development, community services, culture-recreation, highways and street, public works, and interest on long-term debt. The business-type activities of the City of Eureka include water, wastewater, transit, harbor, building, and golf operations.

The government-wide financial statements include not only the City of Eureka itself (known as the primary government), but also a legally separate redevelopment agency for which the City of Eureka is financially accountable. The redevelopment agency, although legally separate, functions for all practical purposes as a department of the City of Eureka, and therefore has been included as an integral part of the primary government. Financial information for a component unit, the Hazardous Materials Response Authority, is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages 13-14 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Eureka, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Eureka can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on short-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's short-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's short-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City of Eureka maintains fourteen individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the general fund and the redevelopment funds, which are considered to be major funds. Data from the other nine governmental funds are combined into a single, aggregated presentation. Individual fund data for these nonmajor governmental funds is provided in the form of combining statements found in the supplemental statements and schedules section of this report.

The City of Eureka adopts an annual appropriated budget for its general fund. A budgetary comparison schedule has been provided for the general fund to demonstrate compliance with this budget and is found on page 21 in the basic financial statements section of this report. The basic governmental fund financial statements can be found on pages 15-18 of this report.

Proprietary funds. The City of Eureka maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of Eureka uses enterprise funds to account for its water, wastewater, transit, harbor, building, and golf operations. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City of Eureka's various functions. The City of Eureka uses internal service funds to account for its equipment operation, risk management, information technology, and redevelopment administration. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary funds financial statements provide separate information for the water, wastewater, transit, harbor, building, and golf operations, all of which are considered to be major funds of the City of Eureka. Conversely, all internal service funds are combined into a single, aggregated presentation in the proprietary funds financial statements. Individual fund data for the internal service funds is provided in the form of combining statements found in the supplemental statements and schedules section of this report.

The basic proprietary fund financial statements can be found on pages 25-36 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City of Eureka's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The fiduciary fund financial statements can be found on pages 37-38 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 39-67 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City of Eureka's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found on pages 69-70 of this report.

The combining statements and schedules referred to earlier in connection with nonmajor governmental funds and internal service funds are presented immediately following the required supplementary information. Combining and individual fund statements and schedules can be found on pages 73-89 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Eureka, assets exceeded liabilities by \$124,033,865 at the close of the most recent fiscal year.

A large portion of the City of Eureka's net assets (71 percent) reflects its investment in capital assets (e.g., land, easements, buildings, machinery, and infrastructure), less any related debt used to acquire those assets that is still outstanding. The City of Eureka uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Eureka's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City of Eureka's Net Assets Year Ending June 30, 2004

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Current and other assets	\$25,953,063	\$26,253,845	\$19,903,721	\$27,158,108	\$45,856,784	\$53,411,953
Capital assets	52,117,887	48,892,810	69,579,478	64,643,790	121,697,365	113,536,600
Total assets	78,070,950	75,146,655	89,483,199	91,801,898	167,554,149	166,948,553
Long-term liab outstanding	18,036,010	16,441,608	19,500,284	20,353,609	37,536,294	36,795,217
Other liabilities	4,368,221	5,260,941	1,617,769	1,413,876	5,981,990	6,674,817
Total liabilities	22,402,231	21,702,549	21,118,053	21,767,485	43,520,284	43,470,034
Net assets:						
Invested in capital assets,						
net of related debt	36,214,745	35,276,231	51,425,885	43,678,064	87,640,630	78,954,295
Restricted	1,968,932	14,597,054	7,244,903	14,945,702	9,213,835	29,502,756
Unrestricted	17,485,042	3,610,821	9,694,358	11,410,647	27,179,400	15,021,468
Total Net Assets	\$55,668,719	\$53,484,106	\$68,365,146	\$70,034,413	\$124,033,865	\$123,478,519

An additional portion of the City of Eureka's net assets (7 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$27,179,400) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City of Eureka is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year. Overall, total net assets increased by \$555,346 as a result of modest growth in revenues.

There was a decrease of \$7,700,799 in restricted net assets reported in connection with the City of Eureka's business-type activities. This decrease resulted from refunding outstanding debt in the water and wastewater funds, and adjustments to prior year retained earnings as detailed in Note V. H. on pages 66-67. During the same time period, unrestricted net assets in the City's business-type activities decreased by \$1,716,289 as a result of growth in expenditures exceeding growth in revenues within various enterprise funds.

Changes in net assets. The statement of net assets provides a snapshot at a given point in time of the assets and liabilities of the City. The other government-wide statement provided is the Statement of Activities. This statement provides the reader with information regarding the revenues, expenses, and changes in net assets over the fiscal year. Generally, all changes to the City's net assets from one fiscal year to the next flows through the statement of activities.

The City of Eureka's net assets increased by \$555,346. Changes in net assets resulting from governmental activities increased by \$2,224,613 while changes in net assets resulting from business-type activities decreased by \$1,669,267.

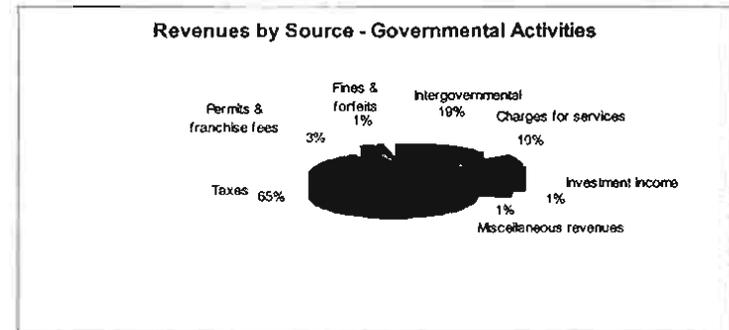
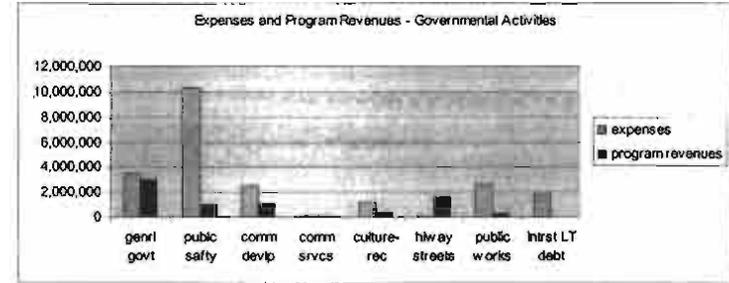
Details of the City's changes in net assets are as follows:

City of Eureka's Changes in Net Assets
Year Ending June 30, 2004

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Revenues:						
Program Revenues:						
Charges for services	\$2,772,294	\$2,441,803	\$ 8,729,462	\$7,625,056	\$11,501,756	\$10,066,859
Operating grants and contributions	1,775,335	2,251,821	1,109,640	984,825	2,884,975	3,236,646
Capital grants and contributions	3,350,372	1,134,902		462,613	3,350,372	1,597,515
General Revenues:						
Taxes:						
Property taxes	4,543,445	4,091,267			4,543,445	4,091,267
Sales taxes	8,398,120	7,928,212			8,398,120	7,928,212
Other taxes	2,882,261	2,446,945			2,882,261	2,446,945
Investment income	234,169	1,028,574	368,894	585,081	603,063	1,613,655
Other	855,772	778,021	457,676		1,313,448	778,021
Total revenues	24,811,768	22,101,545	10,665,672	9,657,575	35,477,440	31,759,120
Expenses:						
General government	3,692,654	3,798,232			3,692,654	3,798,232
Public safety	10,331,006	10,260,034			10,331,006	10,260,034
Community development	2,517,447	2,943,947			2,517,447	2,943,947
Community services	132,253	118,050			132,253	118,050
Culture - recreation	1,262,761	1,198,403			1,262,761	1,198,403
Public works	2,684,340	3,760,811			2,684,340	3,760,811
Interest on long-term debt	1,811,098	748,497			1,811,098	748,497
Water			3,936,017	3,000,990	3,936,017	3,000,990
Wastewater			5,187,671	3,946,192	5,187,671	3,946,192
Transit			1,687,429	1,602,904	1,687,429	1,602,904
Harbor			1,219,715	1,192,850	1,219,715	1,192,850
Building			410,449	372,014	410,449	372,014
Golf			49,254	35,392	49,254	35,392
Total expenses	22,431,599	22,827,974	12,490,532	10,150,342	34,922,064	32,978,316
Increase in net assets before transfers	2,380,209	(726,429)	(1,824,863)	(492,767)	555,346	(1,219,196)
Transfers	(155,296)	(98,172)	155,296	98,172		
Increase in net assets	2,224,913	(824,601)	(1,669,567)	(394,595)	555,346	(1,219,196)
Net assets (restated) - 7/1/03	53,444,106	56,392,166	70,024,413	72,237,148	123,478,519	128,629,314
Net assets - 6/30/04	\$55,669,019	\$55,567,565	\$68,354,846	\$71,842,553	\$124,033,865	\$127,410,118

The City's largest governmental revenue source, sales tax, accounts for 34% of total revenues. During the current fiscal year, sales tax increased by \$469,908 (6 percent). Most of this increase is the product of increased consumer spending both by locals and visitors in Humboldt County. Property tax is the next largest governmental revenue source and they account for 18% of total revenues.

Operating grants for governmental activities furnished resources to support five of the City of Eureka's functions: general government, public safety, redevelopment, community development, and community services.

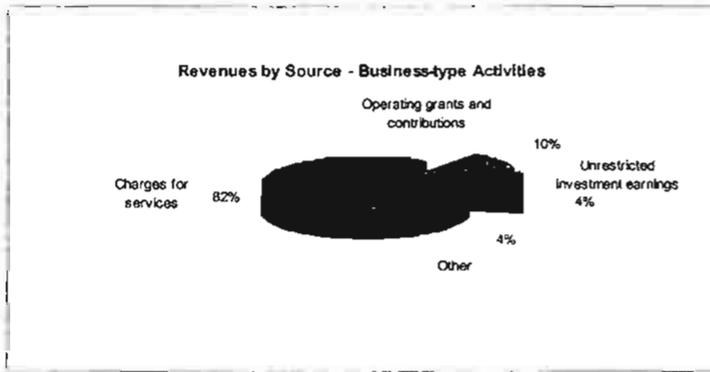
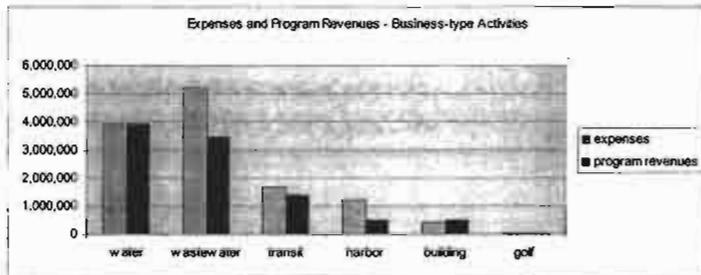


Public safety expenses account for 46% of total governmental activity expenses, an increase of 1% over the prior fiscal year. Of this increase, 65% can be attributed to employee costs.

Business-type activities. Business-type activities decreased the City of Eureka's net assets by \$1,669,267 (1% of total net assets). Increased facility maintenance costs within the water and wastewater facilities, professional services to secure funding for capital projects, along with personnel cost increases accounted for this decrease.

Increases in business-type activity revenues assisted in keeping this decrease relatively small. Key elements of this increase are as follows:

- Charges for services for business-type activities account for 82% of total revenues. The water fund accounts for a significant portion of this total, which resulted from the approval of a 16% rate increase designed primarily to provide additional resources to meet debt service requirements. Revenues also increased as a result of a modest increase in demand. The remainder of total revenues is attributable to modest growth in wastewater, harbor, transit, and building fund operations, which resulted from a combination of additional new customers, increased usage on the part of several current customers, and community economic development.
- Charges for services cover 70% of business type activity expenses. The remaining 30% is funded by grants, contributions, and use of unreserved fund balance.
- Investment earnings totaled \$368,894 for business-type activities because of investments within the portfolio which had an average yield of 4.80 at June 30, 2004 and an average maturity of 1.97 years.
- The wastewater fund received a one-time special purpose prior year grant for \$228,613 to design the Martin Slough Sewer Interceptor Project.



Financial Analysis of the Government's Funds

As noted earlier, the City of Eureka uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City of Eureka's governmental funds is to provide information on short-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City of Eureka's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City of Eureka's governmental funds reported combined ending fund balances of \$19,233,412, an increase of \$875,663 in comparison with the prior year. The majority of this fund balance is reserved to indicate that it is not available for new spending because it has already been committed for the following purposes: 1) to account for payments due on notes receivable (\$7,400,461); 2) for advances to other funds (\$6,085,955); and 3) for land held for resale (\$6,121,179).

The general fund is the chief operating fund of the City of Eureka. At the end of the current fiscal year, unreserved fund balance of the general fund was \$1,821,466 an increase of \$60,670 in comparison with the prior year. As a measure of the general fund's liquidity, it may be useful to compare unreserved fund balance to total fund expenditures. Unreserved fund balance at the end of the fiscal year represented 10% of total general fund expenditures, the same percentage as the prior year.

The fund balance of the City of Eureka's general fund decreased by \$483,580 during the current fiscal year. Key factors in this decline are as follows:

- Legal actions requiring the City to spend \$500,000 to repair road culverts in a low-lying area of the community.
- Operating revenues increased by seven percent while expenditures increased by four percent over the previous year. Most of this increase is due to increases in salaries and benefits. The increase in revenues did offset the decrease in fund balance by a small amount.
- One-time expenditures on capital projects such as fire station improvements (\$12,800) and playground facilities (\$20,000).

The redevelopment and housing funds have a total fund balance of \$9,612,477, all of which will be used for specific redevelopment and housing activities.

Proprietary funds. The City of Eureka's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the water and wastewater funds at the end of the year amounted to \$11,426,294 and those for other proprietary funds total \$(1,731,936). This negative net assets is a result of the activities within the City's harbor fund. Other factors concerning the finances of these funds have already been addressed in the discussion of the City of Eureka's business-type activities.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget (including transfers out) were six percent higher (\$1,114,470 added to \$17,755,698 in original appropriations) and can be briefly summarized as follows:

- \$521,074 in various increases in general government activities (mainly the result of salary agreements with employee groups)
- \$137,280 in increases allocated to the police department (addition of state and federal grant funds)
- \$456,116 in increases allocated for capital outlay (additional appropriations for disc golf course)

Of this increase, \$456,000 was budgeted from available fund balance. During the year, however, actual expenditures were less than budgetary estimates, thus drawing only \$223,830 from existing fund balance.

Differences between the final budget and actual budgetary expenditures were one percent less than appropriated (\$232,172 less than \$18,870,168) and can be briefly summarized as follows:

- \$101,912 in reductions in general government activities mainly the result of deferral of capital outlay expenditures
- \$130,260 in changes to allocations for capital outlay (mainly the result of budgeted capital outlay expenditures which were moved into materials and services as they did not meet the City's capitalization threshold for capital outlay items)

Capital Asset and Debt Administration

Capital assets. The capital assets of the City are those assets that are used in the performance of the City's functions, including infrastructure. At June 30, 2004, the City of Eureka's net capital assets for its governmental and business-type activities amounted to \$121,697,364 (net of accumulated depreciation). The investment in capital assets includes land, easements, buildings, improvements other than buildings, machinery and equipment, infrastructure, and construction in progress. Net additions to capital assets of the City over the prior year totaled \$4,985,776.

Major capital asset events during the current fiscal year included the following:

- Construction began on the High Tank and Water Line Improvements within the water fund and Martin Slough Lift Station/Trunk Line Improvements and Trickling Filter Cover in the wastewater fund. These projects accounted for an increase of \$3,858,087 of total construction in progress as of the close of the fiscal year.
- A variety of street construction projects added \$476,536 to total construction in progress at the close of the fiscal year (mainly the Fairway Drive improvements).
- Construction in progress for the City's Multiple Assistance Center added \$2,008,000 during this fiscal year for this building project.
- As part of the restatement of fiscal year 2002-03 fund balances, reductions to the capitalization and depreciation of capital assets totaled \$1,366,845 as noted in Note V. H. on pages 65-67 of this report.

- The occupancy rate of the City's main street area has improved to 98 percent over the last ten years.
- Inflationary trends in the region compare favorably to national indices.

All of these factors were considered in preparing the City of Eureka's budget for the 2004-05 fiscal year.

During the current fiscal year, the unreserved fund balance in the general fund decreased to \$1,821,466 which is available in the 2004-05 fiscal year for appropriation. Of this amount the City of Eureka has appropriated \$453,285 for spending in the 2004-05 fiscal year budget. It is intended that this use of available fund balance will avoid the need to raise taxes or charges significantly during the 2004-05 fiscal year.

Water fund rates were increased for the 2004-05 budget year. The water rates were increased by an average of 20% for all customers. These rate increases were necessary to finance debt service on the new debt issued during the 2002-03 fiscal year within the water fund. Rate increases for the wastewater fund were increased by 22% mid-way into the 2004-05 budget year for all customers with the exception of the senior citizen rate to finance debt issued during the 2002-03 fiscal year within the wastewater fund.

Requests for Information

This financial report is designed to provide a general overview of the City of Eureka's finances for all those with an interest in the government's finances, and to demonstrate the City's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Finance Director, City of Eureka, 531 K Street, Eureka, California, 95501.

City of Eureka Capital Assets (net of depreciation) Year Ending June 30, 2004

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Land	\$3,646,899	\$3,658,056	\$8,835,741	\$8,838,230	\$12,482,640	\$12,496,286
Easements	23,922,864				23,922,864	
Buildings	5,008,500	5,102,317	5,756,988	5,942,553	10,765,488	11,044,870
Improvements other than buildings	11,022,152	11,319,352	20,705,934	18,710,544	31,728,086	30,029,896
Machinery and equipment	3,677,226	3,421,868	20,361,134	22,515,052	24,038,360	25,936,920
Infrastructure	658,358	24,186,633	4,703,530	4,272,206	5,361,888	28,458,839
Construction in progress	4,181,888	2,571,428	9,216,150	6,173,349	13,398,038	8,744,777
Total Capital Assets	\$32,117,887	\$50,259,654	\$69,579,477	\$66,451,934	\$121,697,354	\$116,711,588

Additional information on the City of Eureka's capital assets can be found in note IV.C. on pages 51-52 of this report.

Long-term debt. At the end of the current fiscal year, the City of Eureka had total bonded debt outstanding of \$32,165,992. Of this amount, \$11,345,000 comprises debt backed by revenues within the water fund, another \$4,745,992 comprises debt backed by revenues within the wastewater fund, \$825,000 comprises debt backed by revenues within the harbor fund and \$15,250,000 in tax allocation bonds backed by incremental tax revenues from the redevelopment project areas.

City of Eureka Outstanding Debt Year Ending June 30, 2004

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Revenue bonds payable, net	\$15,250,000	\$13,140,000	\$16,915,991	\$17,713,825	\$32,165,992	\$30,853,825
Capital leases	653,142	440,758			653,142	440,758
Notes payable		35,821				35,821
Loans payable		750,000	2,584,293	2,639,784	2,584,292	3,389,784
Net pension obligation	2,132,868	2,075,029			2,132,868	2,075,029
Compensated absences	889,146	773,746	128,569	159,101	1,017,715	932,847
Total	\$18,925,156	\$17,215,354	\$19,628,853	\$20,512,710	\$38,554,009	\$37,728,064

The City of Eureka Redevelopment Agency and its water and wastewater funds all maintain a "AAA" rating from Standard & Poor's.

Changes to the City's long-term debt included a refunding of the redevelopment agency tax allocation bonds, 1993 tax allocation revenue bonds totaling \$13,140,000 were refinanced, a bank loan agreement was refinanced and a loan between the agency and the city was refinanced. A portion of the total \$15,250,000 issuance was used to fund reserve accounts and to pay the costs of issuing the bonds.

State statutes limit the amount of general obligation debt a governmental entity may issue to 3.75 percent of its total assessed valuation. The current debt limitation for the City of Eureka is \$65,128,081 which is significantly in excess of the City of Eureka's outstanding general obligation debt.

Additional information on the City of Eureka's long-term debt can be found in note IV. F. on pages 55-57 of this report.

Economic Factors and Next Year's Budgets and Rates

- The unemployment rate for the City of Eureka is currently 5.0 percent, which is a decrease from a rate of 5.1 percent a year ago. This compares favorably to the state's average unemployment rate of 6.0 percent and the national average rate of 5.4 percent.



City of Eureka, California
Statement of Net Assets
 June 30, 2004

	Primary Government			Component Unit Hazardous Materials Response Authority
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Cash, cash equivalents, and investments	\$ 11,490,931	\$ 4,289,120	\$ 15,780,059	\$ 94,260
Receivables	4,289,973	1,987,515	6,277,488	1,402
Notes receivable	7,403,461		7,403,461	
Internal balances-noncurrent	(5,967,449)	5,967,449		
Prepaid items	32,097	19,004	51,101	
Inventory of land held for sale	6,125,179		6,121,179	
Restricted cash, cash equivalents, and investments	1,968,932	7,244,903	9,213,835	
Deferred bond issuance costs	572,967	265,220	838,186	
Bond premium	44,032	130,483	174,515	
Capital assets (net of accumulated depreciation):				
Land	3,645,899	6,835,741	10,481,640	
Equipment	23,922,864		23,922,864	
Buildings	5,003,500	5,756,900	10,760,400	
Improvements other than buildings	11,022,152	20,705,324	31,727,476	
Machinery and equipment	3,677,226	20,761,134	24,438,360	
Infrastructure	658,358	4,703,230	5,361,588	
Construction in progress	4,181,868	9,216,151	13,398,019	
Total assets	78,970,920	69,465,199	148,436,119	96,020
LIABILITIES				
Accounts payable	2,133,119	1,076,634	3,209,753	
Compensated absences	809,147	124,569	1,011,716	
Deposits payable	182,466	117,973	300,439	
Accrued interest payable	226,114	206,193	432,307	
Deferred revenue	925,435		925,435	
Noncurrent liabilities				
Due within one year	695,491	907,989	1,603,480	
Due in more than one year	17,339,519	18,592,255	35,931,774	
Total liabilities	22,402,231	21,118,633	43,520,864	
NET ASSETS				
Invested in capital assets, net of related debt	36,214,745	51,425,885	87,640,630	
Restricted for:				
Debt service	1,968,932	7,244,903	9,213,835	
Unrestricted	11,403,042	9,694,258	21,117,400	96,020
Total net assets	\$ 55,668,719	\$ 68,265,146	\$ 123,933,865	\$ 96,020

The notes to the basic financial statements are an integral part of this statement.

City of Eureka, California
Balance Sheet
Governmental Funds
June 30, 2004
(continued)

	Major Funds		Other Governmental Funds	Total Governmental Funds
	Redevelopment Debt Service	Redevelopment Capital Projects		
ASSETS				
Current assets:				
Cash and investments	\$ 2,209,207	\$ -	\$ 1,665,990	\$ 8,239,681
Receivables:				
Accounts	254,773	4,600	391,270	3,211,933
Interest	35,914	(38)	18,877	113,969
Intergovernmental	-	-	205,194	927,639
Due from other funds	5,567	-	-	48,530
Prepaid items	-	-	-	12,097
Land held for resale	-	6,121,179	-	6,121,179
Total current assets:	2,500,461	6,125,721	2,281,331	18,675,248
Restricted assets:				
Restricted cash and investments	1,862,844	-	25,782	1,958,932
Notes receivable	-	646,228	-	7,400,461
Advances to other funds	-	-	-	6,085,955
Total noncurrent assets:	1,862,844	646,228	25,782	15,455,348
Total assets	\$ 4,368,305	\$ 6,771,949	\$ 2,307,113	\$ 34,130,596
LIABILITIES AND FUND BALANCES				
Current liabilities:				
Accounts payable	\$ 63,977	\$ 18,121	\$ 418,527	\$ 1,397,917
Deferred revenue	16,530	-	-	925,435
Intergovernmental payable	-	-	-	279,492
Deposits payable	-	-	-	192,406
Due to other funds	-	5,567	42,963	48,530
Total current liabilities:	80,507	23,688	461,490	2,843,780
Noncurrent liabilities:				
Advances from other funds	11,921,299	-	-	12,053,404
Total noncurrent liabilities:	11,921,299	-	-	12,053,404
Total liabilities	12,001,802	23,688	461,490	14,897,184
Fund balances:				
Reserved for:				
Notes receivable	-	646,228	-	7,400,461
Advances	-	-	-	6,085,955
Land held for resale	-	6,121,179	-	6,121,179
Unreserved:				
Designated for approved capital projects	-	-	-	750,000
Designated for increase in fair value of investments	-	14,880	4,070	41,073
Unreserved, undesignated, reported in:				
General fund	-	-	-	1,821,466
Special revenue	-	-	1,824,763	4,664,011
Capital projects	-	(34,026)	-	(34,026)
Debt service	(7,633,497)	-	16,790	(7,616,707)
Total fund balances	(7,633,497)	6,748,261	1,841,623	19,233,412
Total liabilities and fund balances	\$ 4,368,305	\$ 6,771,949	\$ 2,307,113	\$ 34,130,596

The notes to the basic financial statements are an integral part of this statement.

City of Eureka, California
Reconciliation of the Balance Sheet for Governmental Funds
To the Statement of Net Assets
June 30, 2004

Fund Balances - Total Governmental Funds \$ 19,233,412

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:

Governmental capital assets	57,401,435
Less: Accumulated depreciation	(7,478,220)
	<u>49,923,215</u>

Governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.

Unamortized balance of deferred charge	572,907
Bond premium	44,032
	<u>616,939</u>

Accrued interest is not due and payable in the current period and therefore are not reported in the funds.

(226,114)

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Accrued compensated absences	\$ (838,523)
Net pension obligation	(2,132,868)
Capital lease obligations	(323,357)
Bonds payable	<u>(15,250,000)</u>
	<u>\$ (18,544,748)</u>

Long-term debt - due within one year	(630,590)
Long-term debt - due in more than one year	<u>(17,914,158)</u>
	<u>(18,544,748)</u>

Internal service funds are used by management to charge the costs of fleet management, risk management and information technology to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.

4,666,015

Net Assets - Governmental Activities

\$ 55,668,719

The notes to the basic financial statements are an integral part of this statement.

City of Eureka, California
 Statement of Revenues, Expenditures, and Changes in Fund Balances
 Governmental Funds
 For the Year Ended June 30, 2004

	Major Funds		
	General Fund	Housing	Low & Moderate Income Housing
REVENUES			
Taxes	\$ 12,515,454	\$ -	\$ -
Permits & franchise fees	709,067	-	-
Intergovernmental	1,657,842	1,025,620	-
Charges for services	2,590,512	-	-
Investment income	214,726	13,572	114,649
Miscellaneous revenue	46,470	96,987	(233)
Total revenues	<u>17,734,091</u>	<u>1,136,379</u>	<u>114,416</u>
EXPENDITURES			
Current:			
General government	3,268,805	-	-
Public safety	9,820,062	-	-
Community development	420,362	401,546	395,512
Community services	-	-	-
Culture - recreation	1,166,998	-	-
Public works	2,611,024	-	-
Debt service:			
Administrative charges	-	-	-
Interest	27,193	-	-
Principal retirement	89,480	-	-
Capital outlay:			
Capital outlay	449,940	803,425	41,207
Total expenditures	<u>17,953,864</u>	<u>1,204,971</u>	<u>436,719</u>
Excess (deficiency) of revenues over expenditures	(219,773)	(68,592)	(322,303)
OTHER FINANCING SOURCES (USES)			
Proceeds long term debt	-	-	-
Payment to refunded bond escrow agent	-	-	-
Advances to/from Redevelopment Agency	-	-	-
Transfers in	408,912	195,169	738,125
Transfers out	(673,149)	(86,193)	(24,945)
Total other financing sources and uses	<u>(264,237)</u>	<u>108,976</u>	<u>713,180</u>
Net change in fund balances	(486,010)	40,384	390,877
Fund balances - beginning, as restated (Note V. H.)	<u>8,261,322</u>	<u>3,914,057</u>	<u>6,152,395</u>
Fund balances - ending	<u>\$ 7,775,312</u>	<u>\$ 3,954,441</u>	<u>\$ 6,543,272</u>

The notes to the basic financial statements are an integral part of this statement. 18

City of Eureka, California
 Statement of Revenues, Expenditures, and Changes in Fund Balances
 Governmental Funds
 For the Year Ended June 30, 2004
 (continued)

	Major Funds		Other Governmental Funds	Total Governmental Funds
	Redevelopment Debt Service	Redevelopment Capital Projects		
REVENUES				
Taxes	\$ 3,308,372	\$ -	\$ -	\$ 15,823,826
Permits & franchise fees	-	-	-	709,067
Intergovernmental	-	-	2,442,045	5,125,707
Charges for services	-	24,000	157,782	2,772,294
Investment income	(52,360)	2,310	(11,749)	281,148
Miscellaneous revenue	-	-	3,481	146,685
Total revenues	<u>3,256,012</u>	<u>26,310</u>	<u>2,581,539</u>	<u>24,858,747</u>
EXPENDITURES				
Current:				
General government	-	-	-	3,368,805
Public safety	-	-	391,145	10,211,207
Community development	1,452,002	104,071	-	2,773,493
Community services	-	-	83,793	83,793
Culture - recreation	-	-	-	1,166,998
Public works	-	-	-	2,611,024
Debt service:				
Administrative charges	-	-	700,908	700,908
Interest	524,614	-	47,601	599,408
Principal retirement	800,000	-	-	889,480
Capital outlay:				
Capital outlay	-	76,696	2,274,948	3,646,216
Total expenditures	<u>2,776,616</u>	<u>180,767</u>	<u>3,498,395</u>	<u>26,051,332</u>
Excess (deficiency) of revenues over expenditures	479,396	(154,457)	(906,856)	(1,192,585)
OTHER FINANCING SOURCES (USES)				
Proceeds long term debt	-	-	15,250,000	15,250,000
Payment to refunded bond escrow agent	-	-	(13,900,000)	(13,900,000)
Advances to/from Redevelopment Agency	1,167,225	-	(1,167,225)	-
Transfers in	4,423	-	1,169,621	2,516,250
Transfers out	(1,316,802)	(100,000)	(420,546)	(2,623,635)
Total other financing sources and uses	<u>(145,154)</u>	<u>(100,000)</u>	<u>931,850</u>	<u>1,242,615</u>
Net change in fund balances	334,242	(254,457)	24,994	50,000
Fund balances - beginning, as restated (Note V. H.)	<u>(7,967,739)</u>	<u>7,002,718</u>	<u>1,820,629</u>	<u>19,183,382</u>
Fund balances - ending	<u>\$ (7,633,497)</u>	<u>\$ 6,748,261</u>	<u>\$ 1,845,623</u>	<u>\$ 19,233,412</u>

The notes to the basic financial statements are an integral part of this statement. 19

City of Eureka, California
 Reconciliation of the Statement of Revenues, Expenditures and
 Changes in Fund Balances to the Statement of Activities
 Governmental Funds
 For the Year Ended June 30, 2004

Net Change in Fund Balances - Total Governmental Funds \$ 50,030

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlay as expenditures. In the Statement of Activities, however, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Capital outlay 3,646,216

Depreciation expense on capital assets was reported in the Statement of Activities, but it did not require the use of current financial resources. Therefore, depreciation expense was not reported as expenditures in the governmental funds.

Depreciation expense
 General government (36,163)
 Public safety (180,789)
 Community development (151,567)
 Community services (2,435)
 Culture-recreation (120,418)
 Public works (163,647)
 Total depreciation expense (595,019)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. This amount is the net effect of these differences in the treatment of long-term debt and related items. (Capital lease/note payments include an adjustment of \$19,783 related to internal service fund activity.)

Capital lease/note payments 153,220
 Repayment of bond principal 13,890,000
 Costs of issuance 572,907
 Bond premium 44,032
 Proceeds of long-term debt (15,250,000)
 Total net effect of long-term debt and related items (589,841)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.

Compensated absences (97,118)
 Net pension obligation (57,839)
 Accrued interest expense (226,114)
(381,071)

Internal service funds are used by management to charge the costs of certain activities, such as fleet management, risk management, and information technology to individual funds. The net revenue (expense) of the internal service funds are reported with the governmental activities.

94,298

Change in Net Assets - Governmental Activities \$ 2,224,613

The notes to the basic financial statements are an integral part of this statement.

City of Eureka, California
 General Fund
 Statement of Revenues, Expenditures, and Changes in Fund Balance
 Budget (Budgetary Basis) and Actual
 For the Year Ended June 30, 2004

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Taxes	\$ 11,584,200	\$ 11,484,200	\$ 12,515,454	\$ 1,031,254
Permits and franchise fees	695,580	695,580	709,087	13,507
Fines and forfeits	235,000	235,000	310,658	75,658
Intergovernmental	1,637,358	1,842,753	1,857,842	(184,911)
Charges for services	2,145,530	2,228,727	2,279,854	51,127
Investment income	126,300	126,300	263,230	136,930
Miscellaneous revenue	7,450	6,393	46,470	40,077
Total revenues	<u>16,431,418</u>	<u>16,518,953</u>	<u>17,782,595</u>	<u>1,163,642</u>
EXPENDITURES:				
General government -				
Council	69,731	73,511	68,724	4,787
Mayor	25,946	26,379	25,120	1,259
City Manager	215,131	264,944	247,697	17,247
Personnel	250,352	253,396	247,988	5,408
City Clerk	116,375	123,649	121,033	2,616
Finance	693,854	703,884	676,494	27,390
City Attorney	205,354	213,881	189,663	24,218
Non-departmental	1,641,150	1,691,169	1,792,086	(100,917)
Public safety -				
Police	5,992,742	6,247,717	6,231,299	16,418
Fire	3,359,237	3,462,665	3,588,763	(126,098)
Public works -				
Engineering	1,002,343	989,801	893,391	96,410
Maintenance	1,778,434	1,849,563	1,741,738	107,825
Community development	425,388	437,831	420,362	17,469
Culture - recreation	1,122,943	1,143,630	1,142,893	737
Capital outlay	215,815	716,196	449,940	266,256
Debt service -				
Principal	37,983	37,983	98,463	(60,480)
Interest	9,524	9,524	27,193	(17,669)
Total expenditures	<u>17,162,302</u>	<u>18,245,723</u>	<u>17,962,847</u>	<u>282,876</u>

(continued)

The notes to the basic financial statements are an integral part of this statement.

City of Eureka, California
General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget (Budgetary Basis) and Actual
For the Year Ended June 30, 2004
(continued)

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Excess of revenues over (under) expenditures	(730,884)	(1,626,770)	(180,252)	1,446,518
OTHER FINANCING SOURCES (USES):				
Transfers in	1,490,557	1,490,557	461,376	(1,029,181)
Transfers out	(593,396)	(624,443)	(675,149)	(50,704)
Excess of revenues and other sources over (under) expenditures and other uses	166,277	(760,658)	(394,025)	366,633
Fund balance - beginning, as restated (Note V. H.)	8,261,322	8,261,322	8,261,322	-
Fund balance - ending, budgetary basis	<u>\$ 8,427,599</u>	<u>\$ 7,500,664</u>	7,867,297	<u>\$ 366,633</u>
Adjustment to USQAAP basis			(91,985)	
Fund balance - ending, USQAAP basis			<u>\$ 7,775,312</u>	

City of Eureka, California
Housing Special Revenue Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget (Budgetary Basis) and Actual
For the Year Ended June 30, 2004

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Intergovernmental	\$ 360,588	\$ 1,960,493	\$ 1,025,820	\$ (934,673)
Investment income	10,033	9,833	51,849	42,016
Miscellaneous revenue	367,732	367,732	677,221	309,489
Total revenues	<u>738,353</u>	<u>2,338,058</u>	1,754,890	<u>(583,168)</u>
EXPENDITURES:				
Current -				
Community development	1,180,889	1,500,856	745,766	755,090
Capital outlay	-	1,408,953	803,425	605,528
Total expenditures	<u>1,180,889</u>	<u>2,909,809</u>	1,549,191	<u>1,360,618</u>
Excess of revenues over (under) expenditures	(442,536)	(571,751)	205,699	777,450
OTHER FINANCING SOURCES (USES):				
Transfers in	-	-	195,169	195,169
Transfers out	-	-	(86,193)	(86,193)
Excess of revenues and other sources over (under) expenditures and other uses	(442,536)	(571,751)	314,575	886,427
Fund balance - beginning, as restated (Note V. H.)	<u>3,914,057</u>	<u>3,914,057</u>	3,914,057	-
Fund balance - ending, budgetary basis	<u>\$ 3,471,521</u>	<u>\$ 3,342,306</u>	4,228,732	<u>\$ 886,427</u>
Adjustment to USQAAP basis			(274,291)	
Fund balance - ending, USQAAP basis			<u>\$ 3,954,441</u>	

The notes to the basic financial statements are an integral part of this statement.

City of Eureka, California
 Low & Moderate Income Housing Special Revenue Fund
 Statement of Revenues, Expenditures, and Changes in Fund Balance
 Budget (Budgetary Basis) and Actual
 For the Year Ended June 30, 2004

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Investment Income	\$ 111,810	\$ 111,810	\$ 290,936	\$ 179,126
Miscellaneous revenue	45,138	45,138	471,687	426,549
Total revenues	156,948	156,948	762,623	605,675
EXPENDITURES:				
Current -				
Community development	1,267,342	1,302,918	420,512	882,406
Capital outlay	-	1,600	41,207	(39,607)
Total expenditures	1,267,342	1,304,518	461,719	842,799
Excess of revenues over (under) expenditures	(1,110,394)	(1,147,570)	300,904	1,448,474
OTHER FINANCING SOURCES (USES):				
Transfers in	645,000	645,000	738,125	93,125
Transfers out	-	-	(24,945)	(24,945)
Excess of revenues and other sources over (under) expenditures and other uses	(465,394)	(502,570)	1,014,084	1,516,654
Fund balance - beginning, as restated (Note V. H.)	6,152,395	6,152,395	6,152,395	-
Fund balance - ending, budgetary basis	\$ 5,687,001	\$ 5,649,825	7,166,479	\$ 1,516,654
Adjustment to USGAAP basis	-	-	(623,207)	-
Fund balance - ending, USGAAP basis	-	-	\$ 6,543,272	-

The notes to the basic financial statements are an integral part of this statement.

City of Eureka, California
 Statement of Net Assets
 Proprietary Funds
 June 30, 2004

	Major Funds			
	Business-type Activities - Enterprise Funds			
	Water Current Year	Water Prior Year	Wastewater Current Year	Wastewater Prior Year
ASSETS				
Current assets:				
Cash, cash equivalents, and investments	\$ 892,339	\$ 365,160	\$ 2,968,001	\$ 4,444,508
Receivables:				
Accounts	455,345	492,808	636,293	222,257
Interest	11,093	5,299	146,028	148,066
Intergovernmental	-	-	-	114,454
Due from other funds	-	-	1,237,002	96,261
Prepaid items	-	3,268	19,004	23,043
Total current assets	1,358,777	866,535	5,006,528	5,048,289
Noncurrent assets:				
Restricted cash, cash equivalents, and investments	4,918,703	9,774,647	1,699,468	4,648,030
Advances to other funds	396,598	379,764	5,601,528	5,413,652
Deferred bond issuance costs	225,750	249,702	39,479	45,864
Good premium	24,416	25,478	106,077	110,497
Capital assets:				
Land	5,870	5,870	3,220,839	3,253,839
Buildings	170,796	170,796	4,531,127	4,531,127
Improvements not buildings	4,567,479	4,567,479	18,844,035	19,982,490
Machinery and equipment	11,092,132	11,092,132	31,705,055	31,645,050
Infrastructure	1,775,078	1,451,151	2,977,841	2,839,569
Construction in progress	6,728,645	2,216,970	2,487,506	3,534,332
Accumulated depreciation	(7,335,755)	(6,045,593)	(29,510,579)	(28,622,044)
Total capital assets, net	17,004,245	13,458,405	34,288,824	34,164,397
Total noncurrent assets	22,569,712	23,887,596	41,735,376	44,382,436
Total assets	23,928,489	24,754,531	46,742,304	49,431,025
LIABILITIES AND FUND BALANCES				
Current liabilities:				
Accounts payable	528,374	495,642	408,328	509,426
Compensated absences	45,603	55,894	44,390	70,139
Claims and judgments payable	-	-	-	-
Capital lease payable	-	-	-	-
Intergovernmental payable	-	-	-	-
Accrued interest payable	148,519	-	40,072	-
Due to other funds	-	131,961	-	46,210
Deposits payable	117,973	102,576	-	-
Advances from other funds	-	-	-	-
Total current liabilities	840,469	785,273	492,790	625,775
Noncurrent liabilities:				
Intergovernmental payable	-	-	-	-
Revenue bonds payable	11,345,000	11,620,000	4,745,591	5,213,825
Total noncurrent liabilities	11,345,000	11,620,000	4,745,591	5,213,825
Total liabilities	12,185,469	12,405,273	5,238,381	5,839,600
NET ASSETS				
Invested in capital assets, net of related debt	5,659,245	1,706,444	29,542,833	28,904,358
Restricted for debt service	4,918,703	9,774,647	1,699,468	4,648,030
Unrestricted	1,165,072	867,167	10,261,222	10,039,037
Total net assets	\$ 11,743,020	\$ 12,348,258	\$ 41,503,523	\$ 43,591,425

The notes to the basic financial statements are an integral part of this statement.

City of Eureka, California
Statement of Net Assets
Proprietary Funds
June 30, 2004
(continued)

	Major Funds			
	Business-type Activities - Enterprise Funds			
	Transit Current Year	Transit Prior Year	Harbor Current Year	Harbor Prior Year
ASSETS				
Current assets:				
Cash, cash equivalents, and investments	\$ -	\$ 79,048	\$ -	\$ 2,094
Receivables:				
Accounts	7,970	34,008	21,752	22,745
Interest	(7,785)	1,134	(7,347)	(8,272)
Intergovernmental	708,346	234,000	-	-
Due from other funds	-	-	-	-
Prepaid items	-	95	-	634
Total current assets	710,533	348,285	14,405	17,401
Noncurrent assets:				
Restricted cash, cash equivalents, and investments	-	-	626,732	523,025
Advances to other funds	-	-	-	-
Deferred bond issuance costs	-	-	-	-
Bond premium	-	-	-	-
Capital assets:				
Land	-	-	5,157,567	5,160,446
Buildings	-	-	4,646,614	4,646,614
Improvements not buildings	-	-	10,577,025	10,577,025
Machinery and equipment	2,250,213	2,290,213	1,084,963	1,084,963
Infrastructure	-	-	-	-
Construction in progress	-	-	-	-
Accumulated depreciation	(1,644,706)	(1,336,096)	(4,377,308)	(3,981,397)
Total capital assets, net	645,507	754,117	17,089,251	17,487,631
Total noncurrent assets	645,507	754,117	17,715,983	18,010,676
Total assets	1,356,040	1,102,402	17,730,388	18,028,077
LIABILITIES AND FUND BALANCES				
Current liabilities:				
Accounts payable	63,850	48,300	46,759	24,374
Compensated absences	-	910	14,562	15,678
Claims and judgments payable	-	-	-	-
Capital lease payable	-	-	-	-
Intergovernmental payable	-	-	-	52,475
Accrued interest payable	-	-	106,602	-
Due to other funds	539,780	1,421	697,822	349,373
Deposits payable	-	-	-	10,800
Advances from other funds	-	-	30,677	30,677
Total current liabilities	603,430	50,631	896,822	483,377
Noncurrent liabilities:				
Intergovernmental payable	-	-	2,584,293	2,639,784
Revenue bonds payable	-	-	825,000	880,000
Total noncurrent liabilities	-	-	3,409,293	3,519,784
Total liabilities	603,430	50,631	4,306,115	4,003,161
NET ASSETS				
Invested in capital assets, net of related debt	105,727	752,696	15,566,429	13,535,342
Restricted for debt service	-	-	626,732	523,025
Unrestricted	645,883	299,075	(2,768,888)	(3,451)
Total net assets	\$ 752,610	\$ 1,051,771	\$ 13,424,273	\$ 14,024,916

The notes to the basic financial statements are an integral part of this statement.

City of Eureka, California
Statement of Net Assets
Proprietary Funds
June 30, 2004
(continued)

	Major Funds			
	Business-type Activities - Enterprise Funds			
	Building Current Year	Building Prior Year	Golf Current Year	Golf Prior Year
ASSETS				
Current assets:				
Cash, cash equivalents, and investments	\$ 318,997	\$ 191,829	\$ 109,791	\$ 79,593
Receivables:				
Accounts	4,368	2,612	-	-
Interest	3,683	2,750	1,283	1,142
Intergovernmental	4,484	-	-	-
Due from other funds	-	-	-	-
Prepaid items	-	666	-	14
Total current assets	331,532	197,877	111,074	80,749
Noncurrent assets:				
Restricted cash, cash equivalents, and investments	-	-	-	-
Advances to other funds	-	-	-	-
Deferred bond issuance costs	-	-	-	-
Bond premium	-	-	-	-
Capital assets:				
Land	-	-	418,075	418,075
Buildings	-	-	50,244	50,244
Improvements not buildings	-	-	243,087	243,087
Machinery and equipment	-	-	-	-
Infrastructure	-	-	-	-
Construction in progress	-	-	-	22,047
Accumulated depreciation	-	-	(158,759)	(146,090)
Total capital assets, net	-	-	551,651	587,367
Total noncurrent assets	-	-	551,651	587,367
Total assets	331,532	197,877	662,725	668,116
LIABILITIES AND FUND BALANCES				
Current liabilities:				
Accounts payable	8,923	6,388	20,000	4,594
Compensated absences	23,614	16,132	-	348
Claims and judgments payable	-	-	-	-
Capital lease payable	-	-	-	-
Intergovernmental payable	-	-	-	-
Accrued interest payable	-	-	-	-
Due to other funds	-	12,175	-	170
Deposits payable	-	-	-	-
Advances from other funds	-	-	-	-
Total current liabilities	32,537	34,695	20,000	5,112
Noncurrent liabilities:				
Intergovernmental payable	-	-	-	-
Revenue bonds payable	-	-	-	-
Total noncurrent liabilities	-	-	-	-
Total liabilities	32,537	34,695	20,000	5,112
NET ASSETS				
Invested in capital assets, net of related debt	-	-	551,651	587,197
Restricted for debt service	-	-	-	-
Unrestricted	298,995	163,182	91,074	75,807
Total net assets	\$ 298,995	\$ 163,182	\$ 642,725	\$ 663,004

The notes to the basic financial statements are an integral part of this statement.

City of Eureka, California
Statement of Net Assets
Proprietary Funds
June 30, 2004
(continued)

	Major Funds	
	Business-type Activities Enterprise Funds	Governmental Activities Internal Service Funds
	Totals Current Year	
ASSETS		
Current assets:		
Cash, cash equivalents, and investments	\$ 4,289,128	\$ 3,251,050
Receivables		
Accounts	1,125,728	4,327
Interest	148,955	32,085
Intergovernmental	712,832	
Due from other funds	1,237,602	
Prepaid items	19,004	20,000
Total current assets	7,533,249	3,307,462
Noncurrent assets:		
Restricted cash, cash equivalents, and investments	7,244,903	
Advances to other funds	5,998,126	
Deferred bond issuance costs	260,229	
Bond premium	130,493	
Capital assets:		
Land	8,835,741	
Buildings	9,398,761	429,246
Improvements not buildings	34,231,626	42,399
Machinery and equipment	46,172,363	7,000,707
Infrastructure	4,752,919	
Construction in progress	9,216,131	
Accumulated depreciation	(43,028,103)	(5,277,680)
Total capital assets, net	69,579,478	2,194,672
Total noncurrent assets	83,218,229	2,194,672
Total assets	90,751,478	5,502,134
LIABILITIES AND FUND BALANCES		
Current liabilities:		
Accounts payable	1,076,034	362,635
Compensated absences	128,569	50,624
Claims and judgments payable		93,074
Capital lease payable		329,785
Intergovernmental payable		
Accrued interest payable	295,193	
Due to other funds	1,237,602	
Deposits payable	117,973	
Advances from other funds	30,677	
Total current liabilities	2,866,048	836,119
Noncurrent liabilities:		
Intergovernmental payable	2,584,293	
Revenue bonds payable	16,915,991	
Total noncurrent liabilities	19,500,284	
Total liabilities	22,366,332	836,119
NET ASSETS		
Invested in capital assets, net of related debt	51,425,685	1,864,887
Restricted for debt service	7,244,903	
Unrestricted	9,694,358	2,801,128
Total net assets	\$ 68,364,946	\$ 4,666,015

The notes to the basic financial statements are an integral part of this statement.

City of Eureka, California
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2004

	Major Funds			
	Business-type Activities - Enterprise Funds			
	Water Current Year	Water Prior Year	Wastewater Current Year	Wastewater Prior Year
Operating revenues:				
Charges for services	\$ 3,928,744	\$ 3,385,867	\$ 3,477,421	\$ 3,127,043
Intergovernmental				
Miscellaneous	310,047		152,175	
Total operating	4,238,791	3,385,867	3,629,596	3,127,043
Operating expenses:				
Personal services	895,085	874,111	1,126,307	1,087,829
Materials & services	1,954,712	1,322,980	2,109,643	1,360,257
Capital outlay			53,018	14,268
Depreciation	291,825	278,103	1,492,731	1,377,685
Projects	19,504		164,081	12,548
Total operating expenses	3,162,526	2,475,194	4,945,780	3,852,587
Operating income (loss)	1,076,265	910,673	(1,316,184)	(725,544)
Nonoperating revenues (expenses):				
Investment income	97,043	167,857	251,522	418,782
Intergovernmental				228,613
Interest expense	(749,539)	(500,993)	(223,268)	(64,065)
Issuance costs	(23,952)	(24,803)	(18,623)	(29,540)
Total nonoperating revenue (expenses)	(676,448)	(357,939)	9,631	553,790
Income (loss) before transfers	399,817	552,734	(1,306,553)	(171,754)
Transfers in				
Transfers out		(79,147)		(397,202)
Change in net assets	399,817	473,587	(1,306,553)	(518,956)
Total net assets—beginning, as restated (Note V. H.)	11,343,203	11,874,671	42,810,076	44,110,381
Total net assets—ending	\$ 11,743,020	\$ 12,348,258	\$ 41,503,523	\$ 43,591,425

The notes to the basic financial statements are an integral part of this statement.

City of Eureka, California
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2004
(continued)

	Major Funds			
	Business-type Activities Enterprise Funds			
	Transit	Transit	Harbor	Harbor
	Current Year	Prior Year	Current Year	Prior Year
Operating revenues:				
Charges for services	\$ 265,502	\$ 215,124	\$ 507,927	\$ 490,872
Intergovernmental	1,109,640	1,218,825		
Miscellaneous			(4,476)	
Total operating	<u>1,375,142</u>	<u>1,433,949</u>	<u>503,451</u>	<u>490,872</u>
Operating expenses:				
Personal services	23,332	27,809	200,789	209,532
Materials & services	1,555,486	1,465,120	332,008	352,546
Capital outlay				
Depreciation	108,611	109,979	395,910	368,598
Projects			6,216	78,219
Total operating expenses	<u>1,687,429</u>	<u>1,602,904</u>	<u>934,923</u>	<u>1,008,895</u>
Operating income (loss)	<u>(312,287)</u>	<u>(168,955)</u>	<u>(431,472)</u>	<u>(518,023)</u>
Nonoperating revenues (expenses):				
Investment income	12,961	4,214	15,528	(20,273)
Intergovernmental				
Interest expense			(284,792)	(183,955)
Issuance costs				
Total nonoperating revenue (expenses)	<u>12,961</u>	<u>4,214</u>	<u>(269,264)</u>	<u>(204,228)</u>
Income (loss) before transfers	<u>(299,326)</u>	<u>(164,741)</u>	<u>(700,736)</u>	<u>(722,251)</u>
Transfers in			100,000	485,241
Transfers out		(1,337)		(8,105)
Change in net assets	<u>(299,326)</u>	<u>(166,078)</u>	<u>(600,736)</u>	<u>(235,115)</u>
Total net assets--beginning, as restated (Note V, H.)	<u>1,051,936</u>	<u>1,217,849</u>	<u>14,025,009</u>	<u>14,260,031</u>
Total net assets -- ending	<u>\$ 752,610</u>	<u>\$ 1,051,771</u>	<u>\$ 13,424,273</u>	<u>\$ 14,024,916</u>

The notes to the basic financial statements are an integral part of this statement.

City of Eureka, California
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2004
(continued)

	Major Funds			
	Business-type Activities Enterprise Funds			
	Building	Building	Golf	Golf
	Current Year	Prior Year	Current Year	Prior Year
Operating revenues:				
Charges for services	\$ 497,176	\$ 350,216	\$ 52,692	\$ 55,934
Intergovernmental				
Miscellaneous	(70)			
Total operating	<u>497,106</u>	<u>350,216</u>	<u>52,692</u>	<u>55,934</u>
Operating expenses:				
Personal services	246,431	267,259	2,864	3,100
Materials & services	164,018	86,859	7,256	6,649
Capital outlay		17,900		
Depreciation			13,669	14,813
Projects			25,465	10,830
Total operating expenses	<u>410,449</u>	<u>372,014</u>	<u>49,254</u>	<u>35,392</u>
Operating income (loss)	<u>86,657</u>	<u>(21,798)</u>	<u>3,438</u>	<u>20,542</u>
Nonoperating revenues (expenses):				
Investment income	(6,487)	10,042	(1,673)	4,459
Intergovernmental				
Interest expense				
Issuance costs				
Total nonoperating revenue (expenses)	<u>(6,487)</u>	<u>10,042</u>	<u>(1,673)</u>	<u>4,459</u>
Income (loss) before transfers	<u>80,170</u>	<u>(11,756)</u>	<u>1,765</u>	<u>25,001</u>
Transfers in	55,596	55,559		
Transfers out		(16,643)		(191)
Change in net assets	<u>135,766</u>	<u>27,160</u>	<u>1,765</u>	<u>24,810</u>
Total net assets--beginning, as restated (Note V, H.)	<u>163,229</u>	<u>136,022</u>	<u>640,960</u>	<u>638,194</u>
Total net assets -- ending	<u>\$ 298,995</u>	<u>\$ 163,182</u>	<u>\$ 642,725</u>	<u>\$ 663,004</u>

The notes to the basic financial statements are an integral part of this statement.

City of Eureka, California
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2004
(continued)

	Major Funds	
	Business-type Activities	Governmental
	Enterprise Funds	Activities- Internal Service Funds
	Totals	
	Current Year	
Operating revenues:		
Charges for services	\$ 8,729,462	\$ 4,253,030
Intergovernmental	1,109,640	
Miscellaneous	457,676	33,747
Total operating	10,296,778	4,286,777
Operating expenses:		
Personal services	2,495,808	689,364
Materials & services	6,123,123	2,839,932
Capital outlay	53,018	217,048
Depreciation	2,302,746	348,817
Projects	215,666	-
Total operating expenses	11,190,361	4,095,161
Operating income (loss)	(893,583)	191,616
Nonoperating revenues (expenses):		
Investment income	368,894	(46,979)
Intergovernmental	-	-
Interest expense	(1,257,599)	(2,128)
Issuance costs	(42,575)	-
Total nonoperating revenue (expenses)	(931,280)	(49,107)
Income (loss) before transfers	(1,824,863)	142,509
Transfers in	155,596	35,821
Transfers out	-	(84,032)
Change in net assets	(1,669,267)	94,296
Total net assets--beginning, as restated (Note V. H.)	70,034,413	4,571,717
Total net assets--ending	\$ 68,365,146	\$ 4,666,015

The notes to the basic financial statements are an integral part of this statement.

City of Eureka, California
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2004

	Major Funds			
	Business-type Activities - Enterprise Funds			
	Water	Water	Wastewater	Wastewater
Current Year	Prior Year	Current Year	Prior Year	
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers and users	\$ 3,984,454	\$ 3,370,191	\$ 3,063,385	\$ 3,342,359
Receipts from other governments	-	-	-	-
Receipts from other operating activities	310,047	-	266,629	-
Receipts from customer deposits	-	-	-	(22,225)
Payments to other governments	-	-	-	(1,088,209)
Payments to employees	(906,376)	(874,963)	(1,152,056)	(990,446)
Payments for interfund services	(736,437)	(476,127)	(886,063)	(590,446)
Payments to suppliers	(1,205,229)	(843,748)	(1,537,738)	(666,803)
Net cash provided (used) by operating activities	1,446,459	1,573,353	(245,843)	1,044,540
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Advances among funds	(16,834)	(19,099)	(187,876)	255,626
Payments from other governments	-	-	-	600,000
Transfers among funds	(131,961)	(79,147)	(1,187,551)	(68,447)
Net cash (used) by noncapital financing	(148,795)	(98,246)	(1,375,427)	787,179
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Construction of capital assets	(4,843,049)	(961,777)	(2,339,120)	155,231
Cash grants received from other governments	-	-	-	369,446
Principal paid on capital debt	(275,000)	(215,344)	(467,834)	-
Interest paid on capital debt	(599,358)	-	(191,014)	(86,320)
Purchase (disposition) of capital assets	320	(89,277)	(59,391)	(145,694)
Net cash (used) by capital and related financing activities	(5,717,677)	(2,036,398)	(3,007,359)	292,663
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received	91,249	167,713	253,560	434,283
Proceeds from capital lease	-	-	-	-
Net cash provided by investing activities	91,249	167,713	253,560	434,283
Net increase (decrease) in cash and cash equivalents	(4,328,765)	(933,278)	(4,425,069)	2,508,665
Balance - beginning of year	10,139,807	10,557,423	9,092,538	6,946,391
Prior period adjustment	-	(24,038)	-	(414,518)
Adjusted beginning balance	10,139,807	10,533,385	9,092,538	6,531,873
Balances - end of the year	\$ 5,811,042	\$ 10,139,807	\$ 4,667,469	\$ 9,092,538
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income (loss)	\$ 1,076,265	\$ 910,673	\$ (1,316,184)	\$ (725,544)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Depreciation	291,825	278,103	1,492,731	1,377,685
Changes in assets and liabilities:				
(Increase) decrease in accounts receivable	37,463	(15,876)	(414,036)	215,310
(Increase) decrease in intergovernmental receivables	-	-	114,454	-
(Increase) decrease in due from other funds	-	-	-	-
(Increase) decrease in prepaid items	3,268	(591)	4,039	(409)
Increase (decrease) in intergovernmental payables	-	-	-	-
Increase (decrease) in accounts payable	32,532	426,996	(101,098)	176,502
Increase (decrease) in deposits payable	15,397	-	-	-
Increase (decrease) in compensated absences payable	(10,291)	(852)	(25,749)	536
Increase (decrease) in claims and judgments payable	-	-	-	-
Increase (decrease) in due to other funds	-	(25,290)	-	-
Net cash provided (used) by operating activities	\$ 1,446,459	\$ 1,573,353	\$ (245,843)	\$ 1,044,540

The notes to the basic financial statements are an integral part of this statement.

City of Eureka, California
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2004
(continued)

	Major Funds			
	Business-type Activities - Enterprise Funds			
	Transit Current Year	Transit Prior Year	Harbor Current Year	Harbor Prior Year
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers and users	\$ 265,502	\$ 254,456	\$ 504,444	\$ 493,282
Receipts from other governments	661,329	988,917	-	-
Receipts from other operating activities	-	-	-	-
Receipts from customer deposits	-	-	-	10,800
Payments to other governments	-	-	-	-
Payments to employees	(24,242)	(27,279)	(201,505)	(208,708)
Payments for interfund services	(58,150)	(55,091)	(216,606)	(145,789)
Payments to suppliers	(1,481,801)	(1,411,100)	(161,674)	(228,708)
Net cash provided (used) by operating activities	(637,452)	(250,497)	(75,341)	(179,119)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Advances among funds	-	-	-	(1,882)
Payments from other governments	-	-	-	1,645
Transfers among funds	545,278	(1,337)	448,449	487,136
Net cash (used) by noncapital financing	545,278	(1,337)	448,449	486,899
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Construction of capital assets	-	-	-	-
Cash grants received from other governments	-	-	-	-
Principal paid on capital debt	-	-	(110,491)	-
Interest paid on capital debt	-	-	(178,190)	(183,955)
Purchases (disposition) of capital assets	-	(319,236)	2,580	(136,274)
Net cash (used) by capital and related financing activities	-	(319,236)	(286,101)	(320,229)
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received	13,126	11,747	14,606	(8,415)
Proceeds from capital lease	-	-	-	-
Net cash provided by investing activities	13,126	11,747	14,606	(8,415)
Net increase (decrease) in cash and cash equivalents	(79,048)	(559,323)	101,613	(20,859)
Balances - beginning of year	79,048	689,651	525,119	555,932
Prior period adjustment	-	(51,280)	-	(5,948)
Adjusted beginning balance	79,048	638,371	525,119	549,984
Balances - end of the year	\$ -	\$ 79,048	\$ 626,732	\$ 529,119
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income (loss)	\$ (312,287)	\$ (168,955)	\$ (431,472)	\$ (518,023)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Depreciation	108,611	109,979	396,910	368,598
Changes in assets and liabilities:				
(Increase) decrease in accounts receivable	26,038	43,024	993	2,967
(Increase) decrease in intergovernmental receivables	(474,348)	(234,000)	-	-
(Increase) decrease in due from other funds	-	-	-	-
(Increase) decrease in prepaid items	95	(16)	834	(283)
Increase (decrease) in intergovernmental payables	-	-	(52,475)	-
Increase (decrease) in accounts payable	15,349	(1,479)	22,385	(43,903)
Increase (decrease) in deposits payable	-	-	(10,800)	10,800
Increase (decrease) in compensated absences payable	(910)	526	(716)	825
Increase (decrease) in claims and judgments payable	-	-	-	-
Increase (decrease) in due to other funds	-	424	-	-
Net cash provided (used) by operating activities	\$ (637,452)	\$ (250,497)	\$ (75,341)	\$ (179,119)

The notes to the basic financial statements are an integral part of the statement.

City of Eureka, California
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2004
(continued)

	Major Funds			
	Business-type Activities - Enterprise Funds			
	Building Current Year	Building Prior Year	Golf Current Year	Golf Prior Year
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers and users	\$ 490,856	\$ 347,604	\$ 52,692	\$ 55,934
Receipts from other governments	-	-	-	-
Receipts from other operating activities	-	-	-	-
Receipts from customer deposits	-	-	-	-
Payments to other governments	-	-	-	-
Payments to employees	(238,949)	(267,452)	(3,212)	(3,049)
Payments for interfund services	(108,391)	(59,606)	(7,227)	(6,607)
Payments to suppliers	(52,406)	(53,676)	(10,074)	(6,268)
Net cash provided (used) by operating activities	91,120	(33,130)	32,179	40,010
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Advances among funds	-	-	-	-
Payments from other governments	-	-	-	-
Transfers among funds	43,421	38,916	(170)	(191)
Net cash (used) by noncapital financing	43,421	38,916	(170)	(191)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Construction of capital assets	-	-	-	-
Cash grants received from other governments	-	-	-	-
Principal paid on capital debt	-	-	-	-
Interest paid on capital debt	-	-	-	-
Purchases (disposition) of capital assets	-	-	-	(22,047)
Net cash (used) by capital and related financing activities	-	-	-	(22,047)
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received	(7,373)	9,006	(1,811)	3,923
Proceeds from capital lease	-	-	-	-
Net cash provided by investing activities	(7,373)	9,006	(1,811)	3,923
Net increase (decrease) in cash and cash equivalents	127,168	14,792	30,198	21,695
Balances - beginning of year	191,829	191,252	79,593	62,549
Prior period adjustment	-	(14,215)	-	(4,651)
Adjusted beginning balance	191,829	177,037	79,593	57,898
Balances - end of the year	\$ 318,997	\$ 191,829	\$ 109,791	\$ 79,593
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income (loss)	\$ 86,657	\$ (21,798)	\$ 3,438	\$ 20,542
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Depreciation	-	-	13,669	14,813
Changes in assets and liabilities:				
(Increase) decrease in accounts receivable	(1,756)	(2,612)	-	-
(Increase) decrease in intergovernmental receivables	(4,484)	-	-	-
(Increase) decrease in due from other funds	-	-	-	-
(Increase) decrease in prepaid items	686	203	14	(2)
Increase (decrease) in intergovernmental payables	-	-	15,406	-
Increase (decrease) in accounts payable	2,535	(9,205)	-	4,590
Increase (decrease) in deposits payable	-	-	-	-
Increase (decrease) in compensated absences payable	7,482	(197)	(348)	51
Increase (decrease) in claims and judgments payable	-	-	-	-
Increase (decrease) in due to other funds	-	479	-	16
Net cash provided (used) by operating activities	\$ 91,120	\$ (33,130)	\$ 32,179	\$ 40,010

The notes to the basic financial statements are an integral part of this statement.

City of Eureka, California
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2004
(continued)

	Major Funds	
	Business-type Activities Enterprise Funds	Governmental Activities Internal Service Funds
	Total	
	Current Year	
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers and users	\$ 8,361,343	\$ 4,253,744
Receipts from other governments	661,329	
Receipts from other operating activities	576,676	34,352
Receipts from customer deposits		
Payments to other governments		
Payments to employees	(2,526,349)	(691,272)
Payments for interfund services	(2,012,874)	(468,654)
Payments to suppliers	(4,449,012)	(2,574,799)
Net cash provided (used) by operating activities	611,122	553,371
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Advances among funds	(204,710)	
Payments from other governments		
Transfers among funds	(282,534)	(48,211)
Net cash (used) by noncapital financing	(487,244)	(48,211)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Construction of capital assets	(7,182,169)	
Cash grants received from other governments		
Principal paid on capital debt	(853,325)	
Interest paid on capital debt	(969,162)	(2,128)
Purchase (disposition) of capital assets	(56,482)	(522,696)
Net cash (used) by capital and related financing activities	(9,061,138)	(524,824)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	363,357	(29,734)
Proceeds from capital lease		329,785
Net cash provided by investing activities	363,357	300,051
Net increase (decrease) in cash and cash equivalents	(8,573,903)	280,387
Balances - beginning of year	20,107,534	2,970,663
Prior period adjustment		
Adjusted beginning balance	20,107,534	2,970,663
Balances - end of the year	\$ 11,534,031	\$ 3,251,050
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ (893,583)	\$ 191,616
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation	2,302,746	348,817
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(351,298)	586
(Increase) decrease in intergovernmental receivables	(364,378)	-
(Increase) decrease in due from other funds		733
(Increase) decrease in prepaid items	8,936	1,783
Increase (decrease) in intergovernmental payables	(37,069)	-
Increase (decrease) in accounts payable	(28,297)	9,116
Increase (decrease) in deposits payable	4,597	-
Increase (decrease) in compensated absences payable	(30,532)	11,771
Increase (decrease) in claims and judgments payable		2,628
Increase (decrease) in due to other funds		(13,679)
Net cash provided (used) by operating activities	\$ 611,122	\$ 553,371

The notes to the basic financial statements are an integral part of this statement.

City of Eureka, California
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2004

	Pension Benefits Trust
ASSETS	
Cash and cash equivalents	\$ 1,239,778
Interest receivable	14,142
Total assets	<u>1,253,920</u>
LIABILITIES	
Accounts payable	
Total liabilities	<u></u>
NET ASSETS	
Held in trust for pension benefits and other purposes	<u>\$ 1,253,920</u>

The notes to the basic financial statements are an integral part of this statement.

City of Eureka, California
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Year Ended June 30, 2004

	Pension Benefits Trust
ADDITIONS	
Contributions:	
Employer	\$ 425,000
Investment earnings:	
Investment income	8,820
Total additions	433,820
DEDUCTIONS	
Benefits	499,343
Administrative expenses	7,741
Total deductions	507,084
Change in net assets	(73,264)
Net assets--beginning, as restated (Note V. H.)	1,327,184
Net assets--ending	\$ 1,253,920

City of Eureka, California
Notes to the Basic Financial Statements
For the Year Ended June 30, 2004

I. Summary of Significant Accounting Policies

The basic financial statements of the City of Eureka have been prepared in conformity with accounting principles generally accepted in the United States of America (USGAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

A. Reporting Entity

The City of Eureka was incorporated as a town on April 18, 1856, under a special act of the legislature, reincorporated as a city on February 19, 1874, and incorporated under a Freeholder's Charter on February 8, 1895. The City operates under a Council-Manager form of government and is governed by an elected mayor and five elected city council members. The City provides the following services as authorized by its charter: public safety (police and fire), streets and highways, public improvements, land use, building and housing standards, culture-recreation programs, parks and recreation areas, utilities, public transit, and administrative and fiscal services.

As required by accounting principles generally accepted in the United States of America, these basic financial statements present financial information for the City of Eureka (the primary government) and its component units. Blended component units, although legally separate entities are, in substance, part of the City's operations and data from these units are combined with data of the City. Discretely presented component units, on the other hand, are reported in a separate column in the basic financial statements to emphasize their legal separateness from the City. Each blended component unit has a year end of June 30. The blended component units are included in the City's reporting entity because of the significance of their operational and financial relationships with the City.

Blended Component Units

The following blended component units are included in the reporting entity as though they were part of the primary government. Separate financial statements for the blended component units are on file at the offices of the City of Eureka at 531 K Street, Eureka, California 95501.

EUREKA REDEVELOPMENT AGENCY

The Eureka Redevelopment Agency was created by the City Council and given the authority and responsibility to redevelop and upgrade blighted areas of the City. The City Council also functions as the Board of the Eureka Redevelopment Agency, and these board members are therefore authorized to transact business of the Agency. The City performs all administrative, budgeting, and accounting functions of the Agency. The Agency's operations are governmental in nature and, as such, have been included in the major funds Low and Moderate Income Housing, Redevelopment Debt Service and Redevelopment Capital Projects.

EUREKA PUBLIC FINANCING AUTHORITY

The City created the Eureka Public Financing Authority to sell bonds and lend the proceeds of bond issues to Eureka Redevelopment Agency. The City Council also functions as the Board of the Eureka Public Financing Authority. The City performs all administrative, budgeting, and accounting functions of the Authority.

Discretely Presented Component Units

HUMBOLDT/DEL NORTE HAZARDOUS MATERIALS RESPONSE AUTHORITY

The Hazardous Materials Response Authority was created as a separate legal entity by a joint powers agreement between the County of Humboldt, the County of Del Norte, and the Cities of Eureka, Crescent City, Arcata, Blue Lake, Fortuna, Ferndale, Rio Dell, and Trinidad. The purpose of this joint venture is to pool resources of the participants to provide a united, coordinated, orderly, positive, and more effective means for aiding and assisting in the formulation, administration, implementation, and maintenance of an area-wide hazardous materials response team.

The Authority is governed by a board of directors composed of one member and an alternate appointed by each participant. The Authority adopts its own budget and has the power to incur debts, liabilities, or obligations. The City of Eureka is

City of Eureka, California
Notes to the Basic Financial Statements
For the Year Ended June 30, 2004

responsible for directing the operations of the Hazardous Materials Response Teams and for the accounting of the Authority. The Authority in turn reimburses the City for the costs of operation and accounting services. On commencement of the Authority, the participants agreed to contribute a proportionate share of the costs of operation based on population. The participants do not have an on-going equity interest in the Authority. However, the participants do share the operating costs of the Authority, and the current share of the City of Eureka is \$9,727, or 19.01%, based on population. At termination of the agreement, all surplus monies will be returned to the participants in proportion to the amounts received by the Authority; property shall be divided in a manner agreed upon by the participants. Complete financial statements for the Hazardous Materials Response Authority are on file at the offices of the City of Eureka at 531 K Street, Eureka, California 95501.

Related Organization

HOUSING AUTHORITY OF THE CITY OF EUREKA

The Housing Authority was created by the City of Eureka pursuant to the California Code. Board members are appointed by the Mayor with the approval of the City Council. However, the accountability of the City for the Housing Authority does not extend beyond making the appointments. Additionally, the City does not provide any financial or administrative support for the Housing Authority.

Joint Ventures

HUMBOLDT TRANSIT AUTHORITY

The Transit Authority was created as a separate legal entity by a joint powers agreement between the County of Humboldt and the cities of Fortuna, Eureka, Arcata, Trinidad, and Rio Dell. The governing board consists of a city council member and an alternate member appointed from each participating city, as well as two board members and up to two alternate members appointed by the Humboldt County Board of Supervisors. The Authority is responsible for adopting its own budget and has the power to incur debts, liabilities, or obligations. On commencement of operations of the Authority, the County contributed 50 percent of the initial equity, and the participating cities jointly contributed 50 percent based upon population data. The participants do not have an on-going equity interest in the Authority. However, the participants do share operating costs of the Authority, and the current share of the City of Eureka is 25.6 percent. At termination of the agreement, all surplus monies will be returned to the participants in proportion to the amounts received; and property shall be divided in a manner agreed upon by the parties. During the year ended June 30, 2004, the City's share of operating costs was \$655,259 to operate the Eureka Transit System and \$202,443 to operate the Redwood Transit System. Complete financial statements for Humboldt Transit Authority may be obtained at the offices of the Authority at 133 V Street, Eureka, California 95501.

HUMBOLDT WASTE MANAGEMENT AUTHORITY

The Humboldt Waste Management Authority was created as a separate legal entity by a joint powers agreement between the County of Humboldt and the cities of Arcata, Eureka, Blue Lake, Ferndale, and Rio Dell. The governing board consists of one director and one alternate appointed by each member of the Authority. The Authority is responsible for adopting its own budget and has the power to incur debts, liabilities, or obligations.

The Authority was formed in October 1999 for the purpose of providing economical coordination of solid waste management services and efficiently and fairly assuring against potential adverse effects of past solid waste management services within the service area. It is intended that the Authority shall develop and fund programs for the: (A) siting, permitting, developing, constructing, maintaining, operating, or contracting for the construction and/or operation of disposal sites, transfer facilities and equipment, materials recovery facilities, waste-to-energy facilities, and/or solid waste landfills; (B) preparing and implementing an Integrated Waste Management Plan and other planning documents; (C) disposal of waste generated in the incorporated and unincorporated area of the County and the granting of franchises for waste hauling; (D) planning, implementing, and supervising programs which serve all or most jurisdictions, including facilities, special wastes, and recycling market development. The general purpose also includes establishment of pooled insurance and other financial mechanisms to provide for the safe closure and long-term post-closure maintenance of the Cummings Road Sanitary Landfill (when closed). This may include ownership and/or management of the landfill during the final stages of the landfill's active life, during closure, and thereafter. Upon dissolution, the remaining assets of the Authority, after payment of or adequate provision for all debts, liabilities, and obligations of the Authority, shall be divided among the members in accordance with a unanimous agreement among them or in proportion to the total tonnage of solid waste each member caused to be delivered to the transfer facility. During the year ended June 30, 2004, the City's share of operating costs were \$0. Financial statements may be obtained at the Humboldt Waste Management Authority, located at 1059 West Hawthorne Street, Eureka, California 95501.

City of Eureka, California
Notes to the Basic Financial Statements
For the Year Ended June 30, 2004

B. Government-wide and Fund Financial Statements

Government-wide financial statements

The City's government-wide financial statements include a Statement of Net Assets and a Statement of Activities and Changes in Net Assets. These statements present summaries of governmental activities and business-type activities for the City, the primary government, accompanied by a total column. A Discretely Presented Component Unit Activities column is presented after the total column. Fiduciary activities of the City are not included in these statements.

These basic financial statements are presented on an "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all of the City's assets and liabilities, including capital assets, as well as infrastructure assets, and long-term liabilities, are included in the accompanying Statement of Net Assets. The Statement of Activities presents changes in net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

Certain types of transactions are reported as program revenues for the City in three categories:

- Charges for services
- Operating grants and contributions
- Capital grants and contributions

Certain eliminations have been made as prescribed by GASB Statement No. 34 in regards to interfund activities, payables and receivables. All internal balances in the Statement of Net Assets have been eliminated except those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total primary government column. In the Statement of Activities, internal service fund transactions have been eliminated; however, those transactions between governmental and business-type activities have not been eliminated. The following interfund activities have been eliminated:

- Due to, Due from other funds
- Advances to, Advances from other funds
- Transfers in, Transfers out

The City applies all applicable GASB pronouncements (including all NCGA Statements and Interpretations currently in effect) as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB) of the Committee on Accounting Procedure. The City applies all applicable FASB Statements and Interpretations issued after November 30, 1989, except those that conflict with or contradict GASB pronouncements.

Fund financial statements

Governmental fund financial statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds and non-major funds aggregated. An accompanying schedule is presented to reconcile and explain the differences in net assets as presented in these statements to the net assets presented in the government-wide financial statements.

All governmental funds are accounted for on a spending or "current financial resources" measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the balance sheet. The Statement of Revenues, Expenditures and Changes in Fund Balances presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period.

Revenues are recorded when received in cash, except that revenues subject to accrual (generally 60 days after year-end) are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the City, are property tax, sales tax, special assessments, intergovernmental revenues, other taxes, interest revenue, rental revenue, and certain charges for services. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

Deferred revenues arise when potential revenues do not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when the government receives resources before it has a legal claim to them, as when grant monies are received prior to incurring qualifying expenditures. In subsequent periods when both revenue

City of Eureka, California
Notes to the Basic Financial Statements
For the Year Ended June 30, 2004

recognition criteria are met or when the government has a legal claim to the resources, the deferred revenue is removed from the balance sheet and revenue is recognized.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The reconciliation of the Fund Financial Statements to the Government-wide Financial Statements is provided to explain the differences created by the integrated approach of GASB Statement No. 34.

Proprietary fund financial statements

Proprietary fund financial statements include a Statement of Net Assets, a Statement of Revenues, Expenses and Change in Net Assets, and a Statement of Cash Flows for all proprietary funds.

Columns representing internal service funds are also presented in these statements. However, internal service balances and activities have been combined with the governmental activities in the government-wide financial statements.

Proprietary funds are accounted for using the "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or noncurrent) are included on the Statement of Net Assets. The Statement of Revenues, Expenses and Change in Fund Net Assets presents increases (revenues) and decreases (expenses) in total net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which liability is incurred.

Operating revenues in the proprietary funds are those revenues that are generated from the primary operations of the fund. All other revenues are reported as nonoperating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as nonoperating expenses.

Fiduciary fund financial statements

Fiduciary fund financial statements include a Statement of Net Assets and Statement of Changes in Net Assets. The City's fiduciary funds are accounted for according to the nature of the fund. The City has one such fund, which is accounted for using "economic resources" measurement focus and the accrual basis of accounting as are the proprietary funds explained above.

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The government reports the following major governmental funds:

The General fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

City of Eureka, California
Notes to the Basic Financial Statements
For the Year Ended June 30, 2004

The Housing fund is used to account for all housing funds of the City, including: the proceeds of Community Development Block grants, as required by federal regulations; reimbursement of block grant economic development loans ("program income"); rental rehabilitation state grant funds; Home Investment Partnership Program (HOME) for loans of federal and state grant funds; and local housing to operate as a revolving loan fund. Funding sources for the housing loan programs include grants and loan repayments.

The Low and Moderate Income Housing fund is a Redevelopment Agency Fund established pursuant to California Redevelopment Law to account for the deposit of twenty percent of tax increment revenues received by the Redevelopment Agency. The funds are to be used to increase and improve the community's supply of low and moderate income housing.

The Redevelopment Debt Service fund accounts for three project areas of the Agency. The project areas are: Century III Phase I; Century III Phase II; and Eureka Tomorrow. Tax increment revenues are used to repay City advances, loans from the Eureka Public Financing Authority, for the Low and Moderate Income Housing Fund twenty percent setaside required by state law, and for other legitimate redevelopment activities, such as administration and tax collection fees, accounts for the redevelopment agency's activities, including debt service and capital projects, and low and moderate income housing activities.

The Redevelopment Capital Projects fund is used to account for capital improvements of the Redevelopment Agency which are financed by proceeds of tax allocation bonds, bank loans, and City advances. The Agency has three capital project areas: Century III Phase I; Century III Phase II; and Eureka Tomorrow.

The government reports the following major proprietary funds:

The Water fund is used to account for the operation and maintenance of the City's water utility. Revenues are primarily user charges. Rates are set periodically by the City Council.

The Wastewater fund is used to account for the operation and maintenance of the City's sewer utility. Revenues are primarily user charges. Rates are set periodically by the City Council.

The Transit fund is used for administration and operation of the Eureka Transit System and Dial-a-Ride/Lift program, as well as the City's share of a county-wide transit system.

The Harbor fund is used for administration and operation of the Humboldt Bay Harbor.

The Building fund is used for administration of construction regulation programs, building code enforcement, and public information programs.

The Golf fund is used for the administration of the Municipal Golf Course.

Additionally, the government reports the following fund types:

Internal service funds account for data processing, fleet management services, risk management, and redevelopment administration to other departments or agencies of the government on a cost reimbursement basis. Transactions for interfund services provided and used are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers.

The pension trust fund accounts for the activities of the public safety employees retirement system, which accumulates resources for pension benefit payments to qualified public safety employees.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

City of Eureka, California
Notes to the Basic Financial Statements
For the Year Ended June 30, 2004

Recognition of Interest Liability

Interest expenditures on long-term debt are recognized when payment is due. Proprietary fund interest expense is recognized as the liability is incurred.

Use of Estimates

The preparation of basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts and disclosures. Actual results could differ from these estimates and assumptions.

D. Assets, liabilities, and net assets or equity

1. Deposits and investments

The City pools its available cash for investment purposes. The City considers pooled cash and investment amounts, with original maturities of three months or less, to be cash equivalents.

In accordance with GASB Statement No. 31 "Accounting and Financial Reporting for Certain Investments and for External Investment Pools", highly liquid market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value. Market value is used as fair value for those securities for which market quotations are readily available.

Under provisions of the City's investment policy, the City may invest in any instruments authorized by Section 53601 of the California Government Code, which include the following types of investments:

- Securities of the U.S. Government, or its agencies or instrumentalities
- Bonds and other debt instruments issued by local agencies or the State of California
- Small Business Administration loans
- Negotiable certificates of deposit or time deposits
- Banker's acceptances
- Commercial paper
- Medium term notes issued by U.S. corporations or depository institutions
- Shares of beneficial interest issued by diversified management companies investing in the above securities
- Passbook savings account demand deposits
- Repurchase agreements
- Reverse repurchase agreements
- Mortgage pass-through securities
- Collateralized mortgage obligations
- Mortgage-backed bonds
- Equipment lease-backed certificates
- Consumer receivable pass-through certificates
- Consumer receivable-backed bonds

The City participates in an investment pool managed by the State of California titled Local Agency Investment Fund (LAIF) which has invested a portion of the pool funds in Structured Notes and Asset-backed Securities. LAIF's investments are subject to credit risk with the full faith and credit of the State of California collateralizing these investments. In addition, these Structured Notes and Asset-backed Securities are subject to market risk as to change in interest rates.

Monies held by bond trustees are invested, as allowed by California Government Code Section 53601(f), in accordance with the provisions of the respective bond indentures involved.

During the year, the City also held Structured Notes. Structured Notes are debt securities (other than Asset-backed Securities) whose cash-flow characteristics (coupon rate, redemption amount, or stated maturity) depend upon one or more indices and/or that have embedded forwards or options. They are issued by corporations and by government-sponsored enterprises such as the Federal National Mortgage Association (FNMA) and the Federal Home Loan Mortgage Corporation (FHLMC). These securities could be called prior to maturity, depending on changes in interest rates. As of June 30, 2004, the City held no Structured Notes.

City of Eureka, California
Notes to the Basic Financial Statements
For the Year Ended June 30, 2004

As of June 30, 2004, the City had \$3,221,478 (estimated fair value) invested in LAIF, which had invested in Structured Notes (see above definition) and Asset-backed Securities, the bulk of which were mortgage-backed securities. Asset-backed Securities entitle their purchasers to receive a share of the cash flows from a pool of assets such as principal and interest repayments from a pool of mortgages (such as CMOs) or credit card receivables.

For purposes of reporting cash flows, the City considers each fund's share in the cash and investments pool to be cash and cash equivalents including cash with fiscal agents.

2. Receivables and payables

Advances to other funds

For governmental fund types, noncurrent portions of long term interfund loans receivable are equally offset by a fund balance reservation which indicates that they do not constitute "available spendable resources" since they are not a component of net current assets. Current portions of long term interfund loans receivable are considered "available spendable resources."

3. Inventory and prepaid items

Inventories of supplies are expensed when purchased because the amounts are not considered to be material. Inventory of land held for resale is valued at the lower of cost or net realizable value. Payments made to vendors for services that will benefit periods beyond June 30, 2004, are recorded as prepaid items.

4. Restricted Assets

Fiscal agents acting on behalf of the city hold investment funds arising from the proceeds of long-term debt issuances. The funds may be used for specific capital outlays or for the payment of certain bonds, certificate of participation, or tax allocation bonds and have been invested only as permitted by specific State statutes or applicable City ordinance, resolution or bond indenture.

The balances of the restricted asset accounts in the enterprise funds are as follows:

Debt service - water	\$ 4,918,703
Debt service - wastewater	1,599,468
Debt service - harbor	<u>626,732</u>
Total restricted assets	\$ 7,244,903

Use of Restricted and Unrestricted Net Assets

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the City's policy is to apply restricted net assets first.

5. Capital Assets

Capital assets are valued at historical cost or estimated historical cost if actual historical cost was not available. Donated capital assets are valued at their estimated fair value on the date donated. City policy has set the capitalization threshold for reporting capital assets at \$5,000. Depreciation is recorded on a straight-line basis over estimated useful lives of the assets as follows:

Water system	20 - 50 years
Sewer system	15 - 50 years
Buildings	30 - 50 years
Improvements-not buildings	20 - 40 years
Machinery and equipment	3 - 20 years
Infrastructure	15 - 50 years

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34 which requires the inclusion of infrastructure capital assets in local governments' basic financial statements. In accordance with GASB Statement No. 34, the City has included infrastructure acquired during the 2002-03 and 2003-04 fiscal years in the 2002-03 and 2003-04 Basic Financial Statements, respectively. The City is electing to defer recording prior year infrastructure as allowed in GASB Statement No. 34, however, the City will record them by the 2005-06 fiscal year deadline.

City of Eureka, California
Notes to the Basic Financial Statements
For the Year Ended June 30, 2004

The City defines infrastructure as the basic physical assets that allow the City to function. The assets include streets, sewer, and park lands. Each major infrastructure system can be divided into subsystems. For example the street system can be subdivided into pavement, curb and gutters, sidewalks, medians, streetlights, landscaping, and land. These subsystems were not delineated in the basic financial statements. The appropriate operating department maintains information regarding the subsystems.

Interest accrued during capital assets construction, if any, is capitalized for the business-type funds as part of the asset cost.

6. Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the City does not have a policy to pay any amounts when employees separate from service with the City. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

7. Long-Term obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable premium or discount. Issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

8. Net Assets

Government-Wide Financial Statements

Invested in Capital Assets, Net of Related Debt - This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that is attributed to the acquisition, construction, or improvement of the assets.

Restricted Net Assets - This amount is restricted by external creditors, grantors, contributors, or laws or regulations of other governments.

Unrestricted Net Assets - This amount is all net assets that do not meet the definition of "invested in capital assets, net of related debt" or "restricted net assets."

Fund Financial Statements

Reservations of fund balances of governmental funds are created to either satisfy legal covenants, including State laws, that require a portion of the fund balance be segregated or identify the portion of the fund balance not available for future expenditures. Designation of fund balances represent tentative management plans that are subject to change.

II. Reconciliation of government-wide and fund financial statements

A. Explanation of certain differences between the governmental funds balance sheet and the government-wide statement of net assets

The governmental funds balance sheet includes a reconciliation between fund balance of total governmental funds and net assets of governmental activities as reported in the government-wide statement of net assets. Each element of the reconciliation is explained in detail on the face of the statement.

City of Eureka, California
Notes to the Basic Financial Statements
For the Year Ended June 30, 2004

B. Explanation of certain differences between the governmental funds statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities.

The governmental funds statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances of total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. Each element of the reconciliation is explained in detail on the face of the statement.

III Stewardship, compliance, and accountability

A. Budgetary Information

Annual appropriated budgets are adopted for all funds of the City. Appropriations include amounts encumbered at year-end as these encumbrances are not reappropriated in the following year. All annual appropriations lapse at fiscal year end. Legally adopted budgetary appropriations are enacted at the departmental level for current operating expenditures, with separate appropriations for capital and other projects, debt service, reserves, transfers, and contingencies. Expenditures cannot legally exceed appropriations at these control levels. Amendments to the budget at the legal appropriation level must be approved by City Council. Amendments to the budget at less than the legal appropriation level may be made by management.

Project-length financial plans are adopted for capital and other projects. Appropriations for these projects are included in the annual appropriated budgets for each of the applicable funds. Unspent project amounts are included in the annual budgets of subsequent years until project completion.

Budgetary basis financial statements include revenues and expenditures which are not presented in accordance with Generally Accepted Accounting Principles in the United States of America (USGAAP). Revenues include repayments of loans receivable and other items which on a USGAAP basis are considered as reclassifications of fund balance between reserved fund balance and unreserved fund balance.

Formal budgetary integration is employed as a management control device. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration. Encumbrances outstanding at year-end are reported as reservations of fund balances and do not constitute USGAAP basis expenditures or liabilities because the commitments will be re-appropriated and honored during the subsequent year.

B. Excess of expenditures over appropriations

For the year ended June 30, 2004, expenditures exceeded appropriations in the non-departmental and fire departments (the legal level of budgetary control) of the General Fund by \$100,917 and \$126,098, respectively, and debt service and transfers out of the General Fund by \$78,149 and \$50,704, respectively. These overexpenditures were funded by greater than anticipated revenues and the General Fund overall does not exceed the legal level of budgetary control. The Housing Fund exceeded appropriations for transfers out by \$86,193, however, overall does not exceed the legal level of budgetary control. The Low and Moderate Income Housing Fund exceeded appropriations by \$64,552, but also does not exceed this level. The Redevelopment Debt Service Fund expenditures exceeded appropriations for community development and debt service by \$401,617 and \$1,407,947, respectively, that were funded by greater than anticipated revenues. The Redevelopment Capital Projects Fund expenditures exceeded appropriations by \$34,364 and these were also funded by greater than anticipated revenues.

The fire department of the Special Fire Revenues Fund also exceeded appropriations by \$12,257. These overexpenditures were funded by greater than anticipated revenues. The Eureka Public Financing Authority debt service fund exceeded appropriations by \$1,006,880 due to the refinancing of debt and was funded by transfers in and proceeds of long-term debt.

C. Deficit fund equity

The Redevelopment Debt Service fund had a deficit fund balance of \$7,633,497 as of June 30, 2004. This is a result of interfund advances made to the Redevelopment Agency to finance operations. In prior years, the City reported interfund long-term debt (interfund loans) in the general long-term debt account group (GLTDAQ) as was suggested by authoritative accounting practices. However, in fiscal year 1998-1999, the Governmental Finance Officers Association (GFOA) issued an accounting and financial reporting pronouncement that such interfund loans should be accounted for in the funds that issued or are to repay the loans, and not be reported in the GLTDAQ. In fiscal year 1998-1999, the City complied with this change in accounting principle.

City of Eureka, California
Notes to the Basic Financial Statements
For the Year Ended June 30, 2004

IV. Detailed notes on all funds

A. Deposits and investments

Deposits

At year end, the carrying amount of the City's time and demand deposits was \$626,732, and the bank balance was \$85,784. Of that amount, \$85,784 was fully insured and \$0 was collateralized with securities held by the pledging institution's trust department in the City's name. California Government Code section 53652 requires California banks and savings and loan associations to secure a city's deposits by pledging government securities of at least 110% of the city's deposits as collateral. Collateral securities are held in safekeeping by a State-authorized "Agent of Depository." These securities are physically held in pools, by depository, for all California public local agency depositories.

California law also allows depositories to secure city deposits by pledging first trust deed mortgage notes having a value of 150% of a city's total deposits. The City may waive collateral requirements for deposits which are fully insured up to \$100,000 by the Federal Deposit Insurance Corporation (FDIC). On deposit was \$626,732 of State loan and grant funds for the City's Small Boat Basin reconstruction.

Summary of Cash and Investments

	Government-Wide Statement of Net Assets			Fiduciary Funds Statement of Net Assets	
	Governmental Activities	Business-type Activities	Total	Statement of Net Assets	Total
Cash and Investments	\$ 11,490,931	\$ 4,289,128	\$ 15,780,059	\$ 1,239,778	\$ 17,019,837
Restricted Cash and Cash Equivalents	1,968,932	7,244,903	9,213,835	-	9,213,835
Total	\$ 13,459,863	\$ 11,534,031	\$ 24,993,894	\$ 1,239,778	\$ 26,233,672

Investments held in the City's name:

	Category of Custodial Risk			Fair Value
	1	2	3	
Federal securities	\$ -	\$ 10,342,509	\$ -	\$ 10,342,509
Corporate notes	-	4,265,572	-	4,265,572
Total	\$ -	\$ 14,608,081	\$ -	14,608,081

Investments not subject to categorization:

Money-market mutual funds	54,233
State local agency investment fund	3,221,478
Total investments	17,883,792
Cash demand deposits	626,732
Total cash and investments	\$18,510,524

The investments that are represented by specific identifiable investment securities are classified as to custodial risk by three categories, as follows:

(1) insured or registered, or held by the City or its agent (other than the institution through which the City purchased the securities) in the City's name. Investments held "in the City's name" include securities held in a separate custodial or fiduciary account and identified as owned by the City in the custodian's internal accounting records.

City of Eureka, California
Notes to the Basic Financial Statements
For the Year Ended June 30, 2004

(2) uninsured and unregistered, with securities held in the City's name by the counterparty's agent (or trust department of the counterparty if the counterparty was a financial institution and another department of the institution purchased these securities for the City).

(3) uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the City's name.

Summary of Investments to Maturity

Investments held in the City's name are shown below grouped by maturity date at June 30, 2004.

	Maturity
Current to one year	\$5,400,905
One to three years	8,226,544
Three to five years	4,256,343
Total	\$17,883,792

Deposits and Investments with Fiscal Agent

Investments with fiscal agents are summarized below:

	Category of Custodial Risk			Fair Value
	1	2	3	
U.S. Treasury notes	\$ -	\$ 1,515,507	\$ -	\$ 1,515,507
Total	\$ -	\$ 1,515,507	\$ -	1,515,507
Money-market mutual funds				1,166,311
State local agency investment fund				5,041,330
Total investments				\$7,723,148

During the fiscal year ended June 30, 2004 the City did not borrow funds through the use of reverse-repurchase agreements, even though such transactions are authorized by the City's investment policy.

External Investment Pool

The City invests in Local Agency Investment Fund (LAIF) a State of California external investment pool. LAIF determines fair value on its investment portfolio based on market quotations for those securities where market quotations are readily available and based on amortized cost or best estimate for those securities where market value is not readily available. The City valued its investments in LAIF as of June 30, 2004, by multiplying its account balance with LAIF times a fair value factor determined by LAIF. This fair value factor was determined by dividing all LAIF participants total aggregate amortized cost by total aggregate fair value. Accordingly, as of June 30, 2004, the City's investments in LAIF at fair value amounted to \$8,262,808 using a LAIF fair value factor of .998384177.

City of Eureka, California
Notes to the Basic Financial Statements
For the Year Ended June 30, 2004

B. Receivables

Receivables as of year end for the government's individual major funds and nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	Accounts	Accrued Interest	Inter-Governmental	Totals
Governmental funds:				
General	\$ 2,291,309	\$ 10,938	\$ 27,031	\$ 2,329,278
Housing	180,346	8,619	695,414	884,379
Low & Moderate Income Housing	89,635	39,699	-	129,334
Redevelopment Debt Service	254,773	35,914	-	290,687
Redevelopment Capital Projects	4,600	(58)	-	4,542
Nonmajor	391,270	18,877	205,194	615,341
Internal Service allocation	4,327	32,085	-	36,412
Total - governmental funds	\$ 3,216,260	\$ 146,074	\$ 927,639	\$ 4,289,973

Governmental funds report deferred revenues in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenues recognition in connection with resources that have been received, but not yet earned. At June 30, 2004, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

Property taxes	\$ 884,956
Grants	40,479
Total deferred revenues	\$ 925,435

	Accounts	Accrued Interest	Inter-Governmental	Totals
Enterprise funds:				
Water	\$ 455,345	\$ 11,093	\$ -	\$ 466,438
Wastewater	636,293	146,028	-	782,321
Transit	7,970	(5,785)	708,348	710,533
Harbor	21,752	(7,347)	-	14,405
Building	4,368	3,683	4,484	12,535
Golf	-	1,283	-	1,283
Total - Enterprise funds	\$ 1,125,728	\$ 148,955	\$ 712,832	\$ 1,987,515

Revenues of the Water and Wastewater funds are reported net of nominal uncollectible amounts.

Notes Receivable

The following schedule summarizes notes receivable as of June 30, 2004:

Housing fund loans	\$ 2,858,630
Low/moderate income housing fund note receivable	3,895,603
Redevelopment capital projects fund notes receivable	646,228
Total notes receivable - Governmental Funds	\$ 7,400,461

City of Eureka, California
Notes to the Basic Financial Statements
For the Year Ended June 30, 2004

C. Capital Assets

Capital asset activity for the year ended June 30, 2004 was as follows:

Primary Government

	Balance July 1, 2003	Adjustments	Increases	Decreases	Balance June 30, 2004
Governmental Activities:					
Capital assets, not being depreciated:					
Land	\$ 3,608,056	\$ (11,157)	\$ -	\$ -	\$ 3,648,899
Infrastructure	23,922,864	-	-	-	23,922,864
Construction in progress	2,571,428	(668,134)	2,876,974	(598,380)	4,181,888
Total capital assets, not being depreciated	30,102,348	(679,291)	2,876,974	(598,380)	31,751,651
Capital assets, being depreciated:					
Buildings	8,752,190	-	72,005	(9,260)	8,814,935
Improvements other than buildings	13,201,964	254,571	73,979	-	13,530,514
Machinery and equipment	9,584,288	(243,414)	840,417	(77,812)	10,103,479
Infrastructure	268,396	-	476,536	(71,724)	673,208
Total capital assets, being depreciated	31,806,838	11,157	1,462,937	(158,796)	33,122,136
Less accumulated depreciation for:					
Buildings	(3,649,873)	(15,388)	(141,174)	-	(3,806,435)
Improvements other than buildings	(1,882,612)	(312,338)	(313,412)	-	(2,508,362)
Machinery and equipment	(6,162,420)	213,043	(476,876)	-	(6,426,253)
Infrastructure	(4,627)	2,151	(12,374)	-	(14,850)
Total accumulated depreciation	(11,699,532)	(112,532)	(943,826)	-	(12,755,900)
Total capital assets, being depreciated, net	20,107,306	(101,375)	519,101	(158,796)	20,366,236
Governmental activities capital assets, net	\$ 50,259,653	\$ (780,666)	\$ 3,396,075	\$ (757,176)	\$ 52,117,887
Business-type activities:					
Capital assets, not being depreciated:					
Land	\$ 8,838,230	-	-	\$ (2,485)	\$ 8,835,745
Infrastructure	2,190,845	-	-	-	2,190,845
Construction in progress	6,173,349	\$ (467,476)	\$ 7,182,169	(3,671,891)	9,216,151
Total capital assets, not being depreciated	17,202,424	(467,476)	7,182,169	(3,674,380)	20,242,737
Capital assets, being depreciated:					
Buildings	9,398,781	-	-	-	9,398,781
Improvements other than buildings	31,370,061	-	2,861,545	-	34,231,626
Machinery and equipment	46,112,359	-	60,005	-	46,172,364
Infrastructure	2,099,905	-	810,347	(348,178)	2,562,074
Total capital assets, being depreciated	88,981,126	-	3,731,897	(348,178)	92,364,845
Less accumulated depreciation for:					
Buildings	(3,456,228)	-	(185,585)	-	(3,641,793)
Improvements other than buildings	(12,629,537)	-	(866,155)	-	(13,525,692)
Machinery and equipment	(23,597,307)	(997,939)	(1,215,984)	-	(25,811,230)
Infrastructure	(18,544)	4,197	(35,042)	-	(49,389)
Total accumulated depreciation	(39,731,616)	(993,742)	(2,302,746)	-	(43,028,103)
Total capital assets, being depreciated, net	49,249,510	(993,742)	1,429,152	(348,178)	49,336,742
Proprietary fund capital assets, net	\$ 66,451,930	\$ (1,461,218)	\$ 8,611,321	\$ (4,022,566)	\$ 69,579,477

City of Eureka, California
Notes to the Basic Financial Statements
For the Year Ended June 30, 2004

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities	
General government	\$ 36,163
Public safety	180,789
Community development	151,567
Community services	2,435
Culture-recreation	120,418
Public works	103,647
Capital assets held by the City's internal service funds are charged to the various functions based on their usage of the assets	348,817
Total depreciation expense-governmental activities	\$ 943,836
Business-type activities	
Water	\$ 291,825
Wastewater	1,492,731
Transit	108,611
Harbor	395,910
Golf	13,669
Total depreciation expense-business-type activities	\$ 2,302,746
Construction commitments	
The City has active construction projects as of June 30, 2004. The following schedule summarizes these contractual commitments.	
Commitments and contracts for capital projects:	
Building maintenance and improvements	\$ 1,878
Harbor improvements	15,200
Street/sidewalk construction and maintenance	480,964
Water system improvements	3,004,463
Sewer system improvements	194,980
Miscellaneous projects	42,237
Total capital projects	\$ 3,739,722
Commitments and contracts for professional services:	
Studies	95,910
Engineering services	1,018,733
Design	64,311
Monitoring services	39,078
Total professional services	\$ 1,218,032
Other commitments and contracts:	
Economic development and housing loan programs	6,632
Major purchases of equipment	300,674
Total other commitments and contracts	\$ 307,306
Total commitments and contracts	\$ 5,265,060

City of Eureka, California
Notes to the Basic Financial Statements
For the Year Ended June 30, 2004

D. Interfund receivables, payables, and transfers

The composition of interfund balances as of June 30, 2004, is as follows:

Due to / from other funds:

Due from fund	Due to fund			Total Due from
	General	Redevelopment Debt Service	Wastewater	
Redevelopment capital projects fund	\$ -	\$ 5,567	\$ -	\$ 5,567
Nonmajor governmental funds	42,963	-	-	42,963
Transit fund	-	-	539,780	539,780
Harbor fund	-	-	697,822	697,822
Total due to	\$ 42,963	\$ 5,567	\$ 1,237,602	\$ 1,286,132

Advances to / from other funds:

Advances from other funds include the amounts of long-term advances from City funds to the Redevelopment Agency for project financing. Interest accrues on these advances at a variable rate based on current earnings for the City as a whole. At the end of the fiscal year, unpaid interest is added to the principal of the advances. These advances are represented by notes which are secured by Redevelopment Agency revenues, and are payable on demand. Also, during 1994-95 the General Fund borrowed \$199,930 from the Housing special revenue fund, for payment of a lease obligation. The City is repaying the advance over a twenty-year period with interest.

Receivable fund	Payable Fund			Total Advances Receivable
	General	Redevelopment Debt Service	Harbor	
Water	\$ -	\$ 396,598	\$ -	\$ 396,598
Wastewater	-	5,570,851	30,677	5,601,528
General	-	5,953,846	-	5,953,846
Housing	132,109	-	-	132,109
Total advances payable	\$ 132,109	\$ 11,921,295	\$ 30,677	\$ 12,084,081

Interfund transfers:

Transfers out	Transfers in				Total Transfers out
	General	Housing	Low & Moderate Income Housing	Redevelopment Debt Service	
General fund	\$ -	\$ -	\$ -	\$ -	\$ -
Housing fund	-	86,193	-	-	86,193
Low & moderate income housing fund	-	24,945	-	-	24,945
Redevelopment debt service fund	-	-	738,125	-	738,125
Nonmajor governmental funds	408,912	-	-	4,423	413,335
Redevelopment Administration fund	-	84,032	-	-	84,032
Total transfers in	\$ 408,912	\$ 195,169	\$ 738,125	\$ 4,423	\$ 1,346,629

Transfers out	Transfers in (continued)			Total Transfers out
	Nonmajor Governmental	Proprietary	Internal Service	
General fund	\$ 583,733	\$ 55,596	\$ 35,821	\$ 675,149
Redevelopment debt service fund	578,678	100,000	-	678,678
Nonmajor governmental funds	7,210	-	-	7,210
Total transfers in	\$ 1,169,621	\$ 155,596	\$ 35,821	\$ 1,361,038
Total transfers in				\$ 2,707,667

Interfund transfers are made on a routine basis for project expenditures and interfund debt service payments. In fiscal year 2003-04 non-routine transfers included a transfer from the General Fund into Capital Improvements (5963,294) for project expenditures.

City of Eureka, California
Notes to the Basic Financial Statements
For the Year Ended June 30, 2004

E. Leases

Operating Leases

The City leases (as lessee) equipment under operating leases. Total costs for such leases were \$15,791 for the year ending June 30, 2004. The future minimum lease payments are as follows:

Year Ending June 30	Amount
2005	\$ 15,791
2006	13,860
2007	4,320
2008	4,320
2009	4,320
2010-2014	21,600
Total	<u>\$ 64,231</u>

The City leases (as lessor) office facilities, hangar facilities, tidelands, oyster beds, buildings, and wharf facilities under operating leases to various entities and individuals. Total revenues from these leases for the year ending June 30, 2004 were \$265,423. Future estimated revenues from these leases are as follows:

Year Ending June 30	Amount
2005	\$ 254,499
2006	176,371
2007	149,707
2008	144,307
2009	141,607
2010-2014	594,593
2015-2019	592,593
2020-2024	506,219
Total	<u>\$ 2,559,896</u>

Capital Leases

During fiscal year 2001-02, the City entered into a lease purchase agreements for an aerial fire truck (\$492,246), an upgrade to the Police computer equipment (\$104,468), and a digital copier (\$40,553). During fiscal year 2003-04, the City entered into a lease purchase agreement for financial software (\$310,000). These lease agreements qualify as capital leases for accounting purposes, and therefore, have been recorded at the present value of the future minimum lease payments as of the date of their inception. As of June 30, 2004, the City had a balance of \$653,142 under capital leases.

The following is a schedule of the future minimum lease payments under these capital leases, and the present value of the net minimum lease payments at June 30, 2004:

Year Ending June 30	Amount
2005	\$ 186,814
2006	169,898
2007	149,572
2008	147,923
2009	72,270
Minimum lease payments	726,477
Amount representing interest	(73,335)
Present value of minimum lease payments	<u>\$ 653,142</u>

City of Eureka, California
Notes to the Basic Financial Statements
For the Year Ended June 30, 2004

F. Long-term debt

Changes in long-term debt

Long-term liability activity for the year ended June 30, 2004, was as follows:

	Balance July 1, 2003	Additions	Deletions	Balance June 30, 2004	Due Within One Year	Due In More Than One Year
Governmental activities:						
Revenue bonds payable, net	\$ 13,140,000	\$ 2,110,000	\$ -	\$ 15,250,000	\$ -	\$ 15,250,000
Capital leases	440,758	310,000	97,616	653,142	159,490	493,652
Notes payable	35,821	-	35,821	-	-	-
Harbor deepening loan payable	750,000	-	750,000	-	-	-
Net pension obligation	2,075,029	57,839	-	2,132,868	-	2,132,868
Compensated absences	773,746	544,378	428,978	889,146	428,000	461,146
Total governmental activities	<u>\$ 17,215,354</u>	<u>\$ 3,022,217</u>	<u>\$ 1,312,415</u>	<u>\$ 18,925,156</u>	<u>\$ 587,490</u>	<u>\$ 18,337,666</u>
Business-type activities:						
Revenue bonds payable (net)	\$ 17,713,825	\$ -	\$ 797,834	\$ 16,915,991	\$ 850,000	\$ 16,065,991
Intergovernmental loan payable	2,639,784	-	55,491	2,584,293	57,989	2,526,304
Compensated absences	159,101	78,716	109,248	128,569	109,000	19,569
Total business-type activities	<u>\$ 20,512,710</u>	<u>\$ 78,716</u>	<u>\$ 962,573</u>	<u>\$ 19,628,853</u>	<u>\$ 1,016,989</u>	<u>\$ 18,611,864</u>

Bonds payable as of June 30, 2004

Bonds payable are comprised of the following revenue bond issues:

Governmental Activities:

2003 Tax Allocation Revenue Refunding Bonds, issued by Eureka Public Financing Authority (Authority), in the amount of \$15,250,000. Of the total bonds issued, \$13,741,887 were refunding the Authority's \$13,140,000 outstanding 1993 Tax Allocation Revenue Refunding Bonds, \$817,188 were used to pay off a Six Rivers National Bank loan of \$750,000, used to assist in paying the local share of the cost of construction of a harbor deepening project, and the remainder was used to fund reserve accounts established under loan agreements between the Authority and the Eureka Redevelopment Agency (Agency) and to pay the costs of issuing the bonds. The bond issue consisted of the following: \$15,250,000 serial bonds carrying interest rates of 4.00% to 4.80% and maturing in annual increments of \$1,000,000 to \$1,600,000 with maturity dates November 1 each year from 2012 through 2023.

The refunding was completed during the 2003-04 fiscal year and the Agency reduced its total debt service payments by \$256,613 and obtained an economic gain (difference between the present values of the old and new debt) of \$259,198.

These bonds are secured by a first lien on and pledge of all the amounts payable by the Agency and the Authority pursuant to loan agreements between the Agency and the Authority, and other revenues specified in the indenture. Each loan agreement is secured by a first pledge of and lien on the incremental tax revenues received by the Agency from redevelopment project areas. Each loan is additionally secured by a first and exclusive pledge of and lien upon all of the money held in the Reserve Account established with respect to the related loan. These bonds are payable solely from the revenues discussed in this paragraph and are not secured by the general taxing power of the City of Eureka.

\$15,250,000

City of Eureka, California
Notes to the Basic Financial Statements
For the Year Ended June 30, 2004

Business-type Activities:

1973 Municipal Harbor Improvement Bonds due in annual installments of \$35,000 to \$105,000 through July 1, 2014; interest at 6.75%. Used to build a fish plant and dock facilities in Humboldt Bay. These bonds are payable exclusively from the revenues of an enterprise comprising the City's municipal harbor, and are secured by a lien and pledge of such revenues. The bonds are not secured by the taxing power of the City of Eureka.

\$825,000

1998 Wastewater Revenue Refunding due in annual installment of \$325,000 to \$410,000 through September 1, 2005; interest at 3.8% to 4.1%. (Nominal interest rate 4.047040%). Proceeds were used to defease \$4,835,000 of outstanding 1980 Wastewater Revenue Bonds, which were issued to finance the local share of the cost of construction of a wastewater treatment facility.

805,992

On April 18, 2000, June 25, 2002, and May 20, 2003 the City, along with other California cities, entered into installment purchase agreements with the California Statewide Communities Development Authority (CSCDA), a joint exercise of powers agency which issued bonds to finance and refinance certain public capital improvements of the program participants and to pay the costs incurred in issuing the bonds.

CSCDA Water and Wastewater Revenue Bonds (Pooled Financing Program), Series 2000A principal amount of \$7,995,000, due in annual installments of \$190,000 to \$590,000 through April 1, 2026; interest at 4.40% to 5.75%. Used to finance various Water Utility projects. These bonds are payable exclusively from the revenues of the City's Water Utility, and are secured by a lien and pledge of such revenues. The bonds are not secured by the taxing power of the City of Eureka.

7,805,000

CSCDA Water Revenue Bonds (Pooled Financing Program), Series 2002B principal amount of \$3,625,000, due in annual installments of \$131,938 to \$254,286 through April 1, 2028; interest at 4.00% to 5.25%. Used to finance various Water Utility projects. These bonds are payable exclusively from the revenues of the City's Water Utility, and are secured by a lien and pledge of such revenues. The bonds are not secured by the taxing power of the City of Eureka.

3,540,000

CSCDA Wastewater Revenue Bonds (Pooled Financing Program), Series 2003A principal amount of \$4,040,000 due in annual installments of \$233,339 to \$264,989 through April 1, 2029; interest at 2.00% to 5.25%. Used to finance various Wastewater Utility projects. These bonds are payable exclusively from the revenues of the City's Wastewater Utility, and are secured by a lien and pledge of such revenues. The bonds are not secured by the taxing power of the City of Eureka.

3,940,000

\$16,915,992

Summary of debt service requirement to maturity - bonded debt

The annual requirements to amortize outstanding bonded indebtedness as of June 30, 2004, are as follows:

Year Ending June 30	Business-type				Governmental
	CSCDA Bonds	Wastewater Bonds	Harbor Bonds	Total	1993 EPFA Bonds
2005	\$ 1,137,166	\$ 424,810	\$ 115,687	\$ 1,677,663	\$ 678,342
2006	1,137,392	418,405	116,638	1,672,435	678,342
2007	1,141,756	-	117,250	1,259,006	678,342
2008	1,135,017	-	117,525	1,252,542	678,342
2009	1,136,564	-	117,462	1,254,026	678,342
2010-2014	5,670,064	-	574,563	6,244,627	5,350,910
2015-2019	5,640,995	-	-	5,640,995	8,270,676
2020-2024	5,603,442	-	-	5,603,442	8,219,518
2025-2029	3,505,426	-	-	3,505,426	-
Total requirements	26,107,822	843,215	1,159,125	28,110,162	25,232,814
Less discount	-	(4,008)	-	(21,175)	-
Less interest	(10,822,822)	(33,215)	(334,125)	(467,250)	(9,982,814)
Total bonds payable June 30, 2004	<u>\$ 15,285,000</u>	<u>\$ 805,992</u>	<u>\$ 825,000</u>	<u>\$ 16,915,992</u>	<u>\$ 15,250,000</u>

City of Eureka, California
Notes to the Basic Financial Statements
For the Year Ended June 30, 2004

Intergovernmental loans payable are comprised of the following:

On September 26, 1996, the City and Redevelopment Agency jointly entered into a loan and operation contract with the California Department of Boating and Waterways for the purpose of repaving and refurbishing the Eureka Boat Basin. The loan of \$2,750,000 is payable at 4.5% interest, over 30 years. The balance outstanding on June 30, 2004 was \$2,584,292

\$2,584,293

Loans payable are comprised of the following:

On June 1, 1998, The Eureka Redevelopment Agency entered into a loan agreement with Six Rivers National Bank to borrow \$1 million, for the purpose of assisting the Humboldt Bay Harbor, Recreation and Conservation District in paying the local share of the cost of construction of a harbor deepening project. The loan is on a parity with, and secured in the same manner as the Eureka Public Financing loans to the Redevelopment Agency mentioned above. It is to be repaid in annual installments of \$45,000 to \$95,000 over a fifteen-year period at 5.5% interest. The loan was paid off during the fiscal year ended June 30, 2004.

Notes payable are comprised of the following:

On January 13, 1998, the City entered into a loan agreement with GE Capital Public Financing, Inc. to finance a telephone system. The loan of \$325,481 is payable at 5.71% interest over 5 years. The loan was paid off during the fiscal year ended June 30, 2004.

Summary of debt service requirement to maturity - loans/notes

Year Ending June 30	California Department of Boating
2005	\$ 174,282
2006	174,282
2007	174,282
2008	174,282
2009	174,282
2010-2014	871,410
2015-2019	871,410
2020-2024	871,410
2025-2029	871,418
Total requirements	4,357,058
Less interest	(1,772,765)
Total Loans/Notes payable June 30, 2004	<u>\$ 2,584,293</u>

City of Eureka, California
Notes to the Basic Financial Statements
For the Year Ended June 30, 2004

V. Other Information

A. Risk Management

The City of Eureka is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omission; injuries to employees; and natural disasters. The City participates in a public entity risk pool for workers' compensation, general liability, and property insurance coverage. During fiscal year 2003-04 there were no significant reductions in insurance coverage.

The cost of claims exceeding risk pool and commercial insurance coverage for the last three fiscal years is as follows:

	2003-04	2002-03	2001-02
Risk Management Fund			
Workers' Compensation Insurance			
Claims incurred prior to March 1, 1993	\$ 1,000	\$ 1,000	\$ 1,000
Claims incurred after March 1, 1993	34,532	44,367	43,958
Claims deductibles	161,220	183,118	108,957
Liability Insurance			
Claims deductibles	110,462	126,820	148,374
Group Health and Benefits			
Claims	(60)	233,062	1,783,693

Risk Pool Arrangements

The City is an associate member of the Redwood Empire Municipal Insurance Fund (REMIF), a public entity pool comprised of fifteen northern California charter and associate member cities. REMIF is organized under a Joint Powers Agreement pursuant to the California Government Code. The purpose of REMIF is to arrange and administer programs of insurance for the pooling of self-insured losses and to purchase excess insurance coverage.

For each of its insurance programs, REMIF has a multilevel risk sharing arrangement. Initially each individual charter or associate member city participating in a program assumes its own losses up to a predetermined deductible level. Losses and claims in excess of the deductibles and within REMIF's stated retention limits are paid out of a central pool maintained by REMIF. This central pool is funded by all of the cities participating in that program through premium assessments. REMIF purchases excess loss insurance policies (reinsurance) to provide coverage for losses and claims in excess of REMIF's stated retention limits up to specified amounts. Losses and claims ceded to reinsurers would represent a contingent liability to REMIF if the reinsurers were unable to meet their existing obligations under the reinsurance agreements. Losses and claims which surpass the limits of the excess of loss insurance policies are the responsibility of the individual city in which the loss or claim originates.

REMIF programs do not insure the City's losses resulting from events which occurred prior to the March 1, 1993, the date on which the City became an associate member of REMIF.

The City of Eureka participates in the following three REMIF programs:

General Liability Insurance - Annual premiums are paid by the member cities and are adjusted retrospectively to cover costs. The City of Eureka self-insures for the first \$25,000 of each loss and pays 100% of all losses incurred under \$25,000. The City does not share or pay for losses of other cities under a range of between \$5,000 to \$25,000, depending on the entity's deductible amount. Participating cities then share in the next \$25,000 to \$500,000 per loss occurrence. Specific coverage includes comprehensive and general automotive liability, personal injury, contractual liability, professional liability, and certain other coverage. REMIF is a member of the California Joint Powers Risk Management Authority, which provides REMIF with an additional \$9,500,000 liability insurance coverage over and above REMIF retention level of \$500,000.

City of Eureka, California
Notes to the Basic Financial Statements
For the Year Ended June 30, 2004

Worker's Compensation - Periodic deposits are paid by member cities and are adjusted retrospectively to cover costs. The City of Eureka is self-insured for the first \$10,000 of each loss and pays 100% of all losses incurred under \$10,000. The City does not share or pay for losses of other cities under \$10,000.

Losses of \$10,000 to \$300,000 are prorated among all participating cities. Losses in excess of \$300,000 are covered by excess insurance purchased by participating cities, as part of the pool, to State statutory limits.

Property Insurance - The City participates in REMIF's property insurance program. The annual deposits paid by participating member cities are based upon deductibility levels and are not subject to retroactive adjustments. The City of Eureka has a deductible level of \$10,000 and a coverage limit of \$60,000,000 declared value.

The following is a summary of the financial statements of REMIF as of and for the year ended June 30, 2004:

Total assets	\$ 14,247,118
Total liabilities	(12,984,714)
Members' equity	\$ 1,262,404
Total revenues	\$ 6,887,084
Total expenses	(7,824,645)
Operating income (loss)	\$ (937,561)

Other Insurance Programs

The City maintains the following programs for exposure to losses which are not covered by REMIF:

General Liability Insurance - Losses incurred after February 28, 1993, are covered by REMIF, as described in Paragraph A above. For losses incurred prior to March 1, 1993, the City accrues its share of general liability based on an analysis of past experience. The City self-insures for \$100,000 per occurrence. The City's excess coverage is \$1,000,000 per occurrence with \$5,000,000 annual general aggregate coverage on the primary policy. The total excess liability policy provides \$10,000,000 coverage per occurrence or in the aggregate annually.

Worker's Compensation Insurance - Losses incurred after February 28, 1993, are covered by REMIF, as described in Paragraph A above. For losses incurred prior to March 1, 1993, the City accrued workers' compensation liability is based on an actuarial evaluation of claims which was accomplished during the year ended June 30, 1996. The City self-insures claims up to \$90,000 during the first payment year following the date of the accident, \$50,000 during the second payment year, and \$40,000 during the third and each subsequent payment years following the date of the accident resulting in injury. Excess worker's compensation insurance coverage is maintained with a limit of \$2,000,000 to protect against catastrophic losses.

Group Health and Benefits - On August 1, 2002 the City terminated a self-insured group health and benefit program for its employees and eligible dependents. The self-insured group health and benefits "tail" claims were paid through June 30, 2003. City employees choose from a number of benefit plans (dental, health, vision, life insurance, long-term disability, 125 Plan medical and/or dependent care) available to them through the City using the monthly fringe benefit contribution from the City. Each plan requires an employee deductible amount and pays benefit percentages that vary depending on plan carrier.

City of Eureka, California
Notes to the Basic Financial Statements
For the Year Ended June 30, 2004

Accrued Claims Liability

The City maintains an internal service fund to account for general liability insurance, worker's compensation insurance, and group health and benefits insurance. The primary source of revenues for this fund consists of charges for services to the other funds of the City of Eureka. Claims liabilities are based on the requirements of Governmental Accounting Standards Board Statement Nos. 10 and 30, which require that claims liabilities, including IBNR (incurred but not reported claims), should be based on the estimated ultimate cost of settling the claims, using past experience adjusted for current trends and any other factors that would modify past experience. Claims liabilities include specific, incremental claim adjustment expenditures/expenses. Expenditures/expenses and liabilities may be estimated through a case by case review of all claims, the application of historical experience to the outstanding claims, or a combination of these methods. Estimates of IBNR losses are based on historical experience. Claims liability has not been accrued for risks of losses which have been transferred to the public entity risk pool (REMIF).

The following schedule presents changes in accrued claims payable for the years ended June 30, 2003 and June 30, 2004:

	General Liability Insurance	Worker's Compensation Insurance	Total
Accrued claims payable, July 1, 2002	\$ 87,438	\$ 51,755	\$ 139,193
Provision for insured events payments	450,359	606,015	1,056,374
Payments made to public entity risk pool	(519,488)	(227,485)	(746,973)
Direct payments made by City	(3,710)	(354,438)	(358,148)
Accrued claims payable, June 30, 2003	14,599	75,847	90,446
Provision for insured events payments	491,942	658,540	1,150,482
Payments made to public entity risk pool	(494,293)	(195,752)	(690,045)
Direct payments made by City	(2,248)	(458,189)	(460,437)
Accrued claims payable, June 30, 2004	\$ 10,000	\$ 80,446	\$ 90,446

City of Eureka, California
Notes to the Basic Financial Statements
For the Year Ended June 30, 2004

B. Employee retirement systems and pension plans

Local employees retirement system (LERS):

Plan description

The City of Eureka is the administrator of a single-employer public employee retirement system (LERS) originally established by the City in accordance with the City charter and state statutes for the benefit of its employees. This plan was formally terminated June 30, 1984, when its only remaining participants were retired members and employees who did not elect to be covered by the state public employees' retirement system at August 24, 1969. The last active member retired in 1988.

Members of the plan were given credit for service from their date of hire to the date of the plan termination. Active and retired members were given a one-time election to receive, in lieu of other benefits promised under the plan, a single-sum payment. The buy-out during fiscal year 1984-85 totaled \$9,513,214. There have been no additional buy-out payments since 1985.

LERS is included as part of the primary government and is included in the financial statements as a fiduciary fund. As of June 30, 2004, LERS membership consisted of 21 police and fire retirees and beneficiaries currently receiving benefits.

Under LERS, after twenty-five years or more of service, in the aggregate, or upon reaching the age of sixty-five years, each covered employee was entitled to receive a yearly pension, in semi-monthly installments, equal to one-half the amount of salary attached to the rank which he/she may have held in the Fire or Police Department. Any employee who had not worked the full period of twenty-five years before reaching the age of sixty-five was entitled to have the amount of pension prorated according to the number of years worked in proportion to the period of twenty-five years of active service required for the pension provision.

Summary of significant accounting policies and plan asset matters

Basis of Accounting - The City of Eureka LERS financial statements are prepared using the accrual basis of accounting. Employer contributions are recognized in the period in which the contributions are due. Benefit payments are recognized when due and payable in accordance with the terms of the plan.

Methods Used to Value Investments - Investments are reported at fair value. Cash and cash equivalents are reported at cost, which approximates fair value (see also Note 1, Section II). Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. Investments that do not have an established market are reported at estimated fair value.

Contributions required and contributions made

The City's Municipal Code, Title III, Chapter 34, assigns the authority to establish and amend the benefits provisions of the plan to the City Council.

Funding Policy - Actuarial determined funding policy provides for recommended period employer contributions for a projected forty-year cash flow under a thirty-year funding policy. During fiscal year 2003-04, contributions were not made in accordance with actuarially determined requirements. Contributions totalling \$425,004 were made to cover current benefits on a "pay as you go" basis. These contributions consisted of payments from the General Fund.

Annual Pension Cost and Net Pension Obligation - The City's annual pension cost and net pension obligation to LERS for the 2003-04 fiscal year were as follows:

City of Eureka, California
Notes to the Basic Financial Statements
For the Year Ended June 30, 2004

Annual required contribution	\$ 571,992
Interest on net pension obligation	124,502
Adjustments to annual required contribution	<u>(213,651)</u>
Annual pension cost	482,843
Contributions made	<u>(425,004)</u>
Increase (decrease) in net pension obligation	57,839
Net pension obligation beginning of year	<u>2,075,029</u>
Net pension obligation end of year	<u>\$ 2,132,868</u>

The annual required contribution for the fiscal year 2003-04 was determined as part of the June 30, 2003, actuarial valuation using the entry age actuarial cost method, with the determination of the initial unfunded actuarial liability as of June 30, 1988, and amortizing that value over the remaining portion of thirty years, with such thirty year period beginning with the date of the initial funding methods at July 1, 1975. The remaining amortization period at June 30, 2003 for this initial liability was 15 years.

The actuarial assumptions included: (a) Rate of return on the investment of present and future assets of six percent per year; (b) projected salary increases of four percent per year attributable to inflation, and; (c) post-retirement mortality rates based on the 1971 Group Annuity Mortality Table, with a five-year setback for women. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments.

There was a material change in actuarial method for fiscal year 1997-98 used to determine the Net Pension Obligation. The major change in the calculations dealt with the actuarial required contribution (ARC) for each of the years prior to 1997. The prior number was calculated with the recommended annual contributions being used as the ARC. Such recommended amounts amortized all gains and losses over a period that ended on June 30, 2013. The current calculations are based on the required contributions under the entry age normal cost method, with the initial unfunded liability amortized over a period of forty years starting on July 1, 1974, actuarial experience gains and losses being amortized over fifteen years from the date of recognition, and gains and losses created due to a change in actuarial assumptions being amortized over thirty years. There were no material changes in the actuarial assumptions nor benefit provisions.

Three year trend information

Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2002	\$ 526,557	78.15%	\$ 2,003,415
2003	521,614	86.27	2,075,029
2004	482,843	88.02	2,132,868

Schedules of Funding Progress of Employer Contributions for LERS are presented on page 69 and are identified as required supplementary information.

Public Employees Retirement System

Plan description

The City of Eureka contributes to the California Public Employees' Retirement System (PERS), an agent multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustment, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by State statute and City ordinance. The California Public Employees' Retirement System issues a separate financial report which can be obtained by writing to PERS, Executive Office, 400 P Street, Sacramento, CA 95814.

City of Eureka, California
Notes to the Basic Financial Statements
For the Year Ended June 30, 2004

Funding policy

Active plan members are required by State statute to contribute seven percent (nine percent for safety employees) of their annual covered salary. Safety and Miscellaneous employees make their own contributions. The City employer is required to contribute for fiscal year 2003-04 at an actuarially determined rate of 0 percent for non-safety employees, 6.308 percent for police employees, and 17.059 percent for fire employees of annual covered payroll.

Annual pension cost

For fiscal year 2003-04, the City's annual pension cost of \$478,061 for PERS was equal to the City's required and actual contributions. The required contribution was determined as of the June 30, 2001 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.75 percent investment rate of return (net of administrative expenses) and (b) projected overall salary increases of 3.25 to 14.45 percent, 3.0 percent per year attributable to inflation and projected annual salary increases that vary by duration of service. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a period of three years. PERS's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll. The unfunded liability for Safety Police and Fire personnel has a funding horizon of June 30, 2018, and for Miscellaneous employees June 30, 2015.

Three year trend information

Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2002	\$ 50,681	100.00%	-
2003	84,418	100.00	-
2004	478,061	100.00	-

Schedules of funding progress of employer contributions for PERS are presented on page 70 and are identified as supplementary information.

City of Eureka, California
Notes to the Basic Financial Statements
For the Year Ended June 30, 2004

C. Contingent liabilities

Amounts received from or receivable from grantor agencies

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected may constitute a liability of the applicable funds. The amount of expenditures which may be disallowed by the grantor agencies cannot be determined at this time.

D. Property taxes

The lien date for secured property taxes is January 1 of each year. Taxes are levied as of July 1 on all secured real property and are due and payable November 1 and February 1 of the following fiscal year. The City recognizes property tax revenues when they are due and payable. Humboldt County is responsible for assessing, collecting and distributing property taxes in accordance with enabling legislation. During 1993-94, an alternative method of property tax allocation (the "Teeter Plan") was adopted. Under this plan, the county auditor/controller distributes 100 % of current secured taxes billed to taxing entities during the current year, whether collected or not.

E. Compensated absences

Employees may accumulate up to 30 days of vacation leave, except management employees, who may accumulate up to 44 days. Employees may accumulate an indefinite amount of sick leave. Vacation leave accrues at a rate determined by the employee's years of service and whether they work an 8-hour or 24-hour shift. The number of hours that accrue per month varies from 8 to 22. Vacation leave vests as it is accrued and unused vacation leave is payable upon retirement or termination. Compensation hours (executive leave) accrue for management and mid-management at 9 and 6 days per year, respectively. Compensation hours also accrue for police, fire, and other specified employees in lieu of cash payments for overtime. A liability has been created to account for the accrued vacation and compensation leave in the government-wide financial statements. Vested vacation pay is expensed as earned in the proprietary fund types. The City's liability for earned vacation and compensation pay consisted of the following amounts as of June 30, 2004:

Governmental Funds	\$ 838,523
Business-Type Funds	128,569
Internal Service Funds	50,624
	<u>\$ 1,017,716</u>

Sick leave accrues at a rate of 8 and 12 hours per month for 8 and 24-hour shift employees, respectively. Unused sick leave at termination is forfeited. At retirement, service length is increased when calculating retirement benefits from PERS. As June 30, 2004 the City's unrecorded liability for accrued sick leave totaled \$3,710,108.

City of Eureka, California
Notes to the Basic Financial Statements
For the Year Ended June 30, 2004

F. Deferred compensation plans

The City offers its employees two deferred compensation plans in accordance with Internal Revenue Code Section 457 as follows:

Full-time employees

This plan is available to all City full-time employees and permits them to defer a portion of their salary until future years. Participation in the plan is optional.

Part-time employees

This plan covers part-time employees, who in lieu of paying FICA, contribute 7.5 percent of their earnings as retirement benefits.

The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. The City deducts deferred compensation from employee compensation and forwards it to the Plan's administrator on a semi-monthly basis. The City amended its Plan in order to conform to the amendments of the Internal Revenue Code. The amendments provide that the assets of the Plan shall be held for the exclusive benefit of the plan participants and their beneficiaries, and the assets shall not be diverted for any other purposes.

The City has little administrative involvement, does not have custody of the assets, and does not perform the investing function. In addition, the City has no liability for any losses that may be incurred by the Plan.

Assets in the plan totaled \$5,723,087 as of June 30, 2004 as follows:

	Plan A	\$ 4,337,661
	Plan B	1,385,426
Total		<u>\$ 5,723,087</u>

G. Intergovernmental payables

Intergovernmental payables consisted of the following amounts as of June 30, 2004:

General Fund	\$ 2,080
Special Revenue Funds -	
Deferred housing loans - payable to State of California	277,412
Enterprise Funds -	
Humboldt Bay Fund - loan payable - State of California	2,584,293
Total intergovernmental payables	<u>\$ 2,863,785</u>

City of Eureka, California
Notes to the Basic Financial Statements
For the Year Ended June 30, 2004

H. Adjustments to equity and net assets

Adjustments to equity and net assets at June 30, 2003 consists of the following items.

Fund	Fund Balance/ Net Assets June 30, 2003	Reclassification	Adjustments	Restated Balance July 1, 2003
Governmental activities:				
Major funds				
General	\$ 8,258,892		\$ 2,430	\$ 8,261,322
Redevelopment	4,634,639	\$ (4,634,639)		
Housing	3,885,203		28,854	3,914,057
Low & moderate income housing		6,152,354	41	6,152,395
Redevelopment debt service		(7,967,739)		(7,967,739)
Redevelopment capital projects		6,450,024	552,694	7,002,718
Non-major funds				
Special revenue funds:				
Gas tax/State highway	736,369		104	736,473
Habitat acquisition & restoration	33,954			33,954
Environmental programs	217,795		7	217,802
Special police	351,071		241,501	592,572
Capital improvement	(25,056)			(25,056)
Demolition projects	49,643			49,643
Airport	171,712		2	171,714
Special fire	43,427			43,427
Total Special revenue funds	1,578,915		241,614	1,820,529
Debt Service Funds:				
Eureka Public Financing Authority	100			100
Total debt service funds	100			100
Total non-major governmental funds	1,579,015		241,614	1,820,629
Total governmental funds	\$ 18,357,749	\$ -	\$ 825,633	\$ 19,183,382
Fiduciary funds:				
Fire and police retirement	\$ 1,327,096		\$ 88	\$ 1,327,184
Total fiduciary funds	\$ 1,327,096	\$ -	\$ 88	\$ 1,327,184
Business-type activities - enterprise funds:				
Water	\$ 12,348,258		\$ (1,009,055)	\$ 11,343,203
Wastewater	43,591,425		(781,349)	42,810,076
Transit	1,051,771		165	1,051,936
Harbor	14,024,916		93	14,025,009
Building	163,182		47	163,229
Golf	663,004		(22,044)	640,960
Total business-type activities	\$ 71,842,556	\$ -	\$ (1,808,143)	\$ 70,034,413

City of Eureka, California
Notes to the Basic Financial Statements
For the Year Ended June 30, 2004

Fund	Fund Balance/ Net Assets June 30, 2003	Reclassification	Adjustments	Restated Balance July 1, 2003
Internal service funds:				
Equipment operations	\$ 2,981,485		\$ (7,600)	\$ 2,973,885
Risk management	1,318,348		325	1,318,673
Information technology	197,230		17,510	214,740
Redevelopment	59,313		5,106	64,419
Total internal service funds	\$ 4,556,376	\$ -	\$ 15,341	\$ 4,571,717
Component unit:				
Hazardous materials	\$ 89,099	\$ -	\$ -	\$ 89,099
Total all fund types	\$ 96,172,876	\$ -	\$ (967,081)	\$ 95,205,795

Reclassifications

For reporting purposes, the City separated certain funds of the same type previously combined.

\$ -

Adjustments

Prior-year error in capitalization and depreciation of capital assets	\$ (636,140)
Prior-year error in deferred revenue	241,501
Prior-year errors in accruals	(4,188)
Prior-year addition of declining balance loans in housing funds-not previously reported	595,278
Prior-year error in capital lease	(27,922)
Prior-year error in construction in progress calculation	(1,135,610)
Total adjustments	\$ (967,081)

Adjustments to net assets on the government-wide statements at June 30, 2003 consists of the following items:

	Net Assets June 30, 2003	Adjustments to Fund Balance	Adjustments to Net Assets	Restated Balance July 1, 2003
Governmental activities				
Statement of Activities	55,567,562	840,974	(2,964,430)	\$ 53,444,106
Adjustments				
Prior-year error in capitalization and depreciation of capital assets				\$ (1,366,845)
Prior-year error in deferred revenue				(1,597,585)
Total adjustments				\$ (2,964,430)



City of Eureka, California
 Schedule of Funding Progress - Local and Public Retirement Systems
 For the Year Ended June 30, 2004

Local Employees' Retirement System (LERS)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (ALL)- Entry Age (b)	Unfunded ALL (GALE) (ba)	Funded Ratio (a/b)	Covered Payroll (c)	GALE as a Percentage of Covered Payroll (ba/c)
6/30/1995	\$ 1,494,238	\$ 7,082,219	\$ 5,587,981	21.1%	N/A	N/A
6/30/1996	1,500,695	6,955,634	5,454,939	21.6%	N/A	N/A
6/30/1997	1,485,314	6,851,822	5,366,508	21.7%	N/A	N/A
6/30/1998	1,477,852	7,013,672	5,535,819	21.1%	N/A	N/A
6/30/1999	1,177,209	6,883,361	5,706,152	17.1%	N/A	N/A
6/30/2000	1,271,710	6,178,759	4,907,049	20.6%	N/A	N/A
6/30/2001	1,426,952	6,078,856	4,651,914	23.5%	N/A	N/A
6/30/2002	1,521,478	6,648,840	5,127,362	22.9%	N/A	N/A
6/30/2003	1,318,755	6,517,915	5,207,160	20.1%	N/A	N/A
6/30/2004	1,253,920	5,749,458	4,495,538	21.0%	N/A	N/A

Schedule of Employer Contributions

Fiscal Year Ended June 30	Annual Required Contribution	Percentage Contributed
1995	\$ 594,989	84%
1996	590,603	85%
1997	590,603	89%
1998	616,279	89%
1999	616,275	24%
2000	596,724	90%
2001	596,724	90%
2002	607,686	68%
2003	607,686	74%
2004	571,992	74%

Information as of the latest actuarial valuation follows:

Valuation date	6/30/2004
Actuarial cost method	Entry Age
Amortization method	Straight Line Amortization - Closed
Reversing amortization period	15 years
Asset valuation method	Smoothed market value
Actuarial assumptions:	
Investment rate of return	6.0%
Projected salary increases	4.0%

City of Eureka, California
 Schedule of Funding Progress - Local and Public Retirement Systems
 For the Year Ended June 30, 2004

Public Employees' Retirement System (PERS)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)- Entry Age (b)	Unfunded AAL (UAAI) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAI as a Percentage of Covered Payroll ((b-a)/c)
6/30/1995	\$ 34,761,412	\$ 34,206,263	\$ (555,149)	101.6%	\$ 7,425,344	-7.5%
6/30/1996	39,427,986	38,035,063	(1,392,923)	103.7%	7,752,339	-18.0%
6/30/1997	45,904,848	39,401,930	(6,502,918)	116.5%	7,923,624	-82.1%
6/30/1998	54,837,721	44,100,224	(10,737,497)	124.3%	8,237,097	-130.4%
6/30/1999	62,079,337	47,595,731	(14,483,606)	130.4%	8,549,171	-169.4%
6/30/2000	70,984,270	56,627,850	(14,356,420)	125.4%	9,133,490	-157.2%
6/30/2001	73,100,622	65,976,391	(7,124,231)	110.8%	10,038,072	-71.0%
6/30/2002	68,356,206	71,971,108	3,614,902	95.0%	10,800,381	33.5%
6/30/2003	69,157,971	80,797,077	11,639,106	85.6%	11,581,686	100.5%

Information as of the latest actuarial valuation follows:

Valuation date	Police	Fire	Miscellaneous
	6/30/2003	6/30/2003	6/30/2003
Actuarial cost method	Entry Age	Entry Age	Entry Age
Amortization method	Level % of Payroll	Level % of Payroll	Level % of Payroll
Remaining amortization period	17 years	17 years	19 years
Asset valuation method	smoothed market	smoothed market	smoothed market
Actuarial assumptions:			
Investment rate of return	7.75%	7.75%	7.75%
Projected salary increases	3.25-13.15%	3.25-13.15%	3.25-14.45%
Inflation	3.0%	3.0%	3.0%
Cost-of-living adjustments	none	none	none

Historical trend information about the Local Employees' Retirement System (LERS) and Public Employees' Retirement System (PERS) is presented herewith as required supplementary information. This information is intended to help users assess LERS and PERS funding status, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other public employee retirement systems.

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Analysis of the dollar amounts of plan net assets, actuarial accrued liability, and unfunded actuarial accrued liability in isolation can be misleading. Expressing plan net assets as a percentage of the actuarial accrued liability provides one indication of LERS and PERS funding status on a going-concern basis. Analysis of this percentage over time indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the system.

For additional information regarding employee retirement systems and pension plans see Note V. B.

City of Eureka, California
 Water System
 Summary of Historic Operating Results
 June 30, 2004

	2001	2002	2003	2004
Revenues				
Service charges	\$ 2,330,115	\$ 2,790,272	\$ 3,353,210	\$ 3,863,424
Connection fees	37,781	46,529	32,657	62,470
Investment income	2,010	179,013	167,857	97,043
Miscellaneous	81,130	31,985	-	310,047
Total revenues	<u>2,451,036</u>	<u>3,047,799</u>	<u>3,553,724</u>	<u>4,332,984</u>
Expenses	<u>2,030,902</u>	<u>2,156,162</u>	<u>2,197,091</u>	<u>2,850,797</u>
System net revenues	<u>\$ 420,134</u>	<u>\$ 891,637</u>	<u>\$ 1,356,633</u>	<u>\$ 1,482,187</u>
Debt service				
CSCDA Series 2000A Revenue Bonds	\$ 413,263	\$ 433,745	\$ 433,745	\$ 619,565
CSCDA Series 2002B Revenue Bonds	-	-	131,938	255,393
Total debt service	<u>\$ 413,263</u>	<u>\$ 433,745</u>	<u>\$ 565,683</u>	<u>\$ 874,958</u>
Debt service coverage ratio	1.02	2.06	2.40	1.69

(1) Total revenues (including interest) exclusive of intergovernmental
 (2) Excludes depreciation, capital expenditures and debt service

Source: City of Eureka

City of Eureka, California
 Number of Water Connections by User Type
 June 30, 2004

User Type	2001	2002	2003	2004
Single family residential	7,261	7,282	7,781	7,854
Multiple family residential	657	664	686	655
Commercial / Industrial	1,411	1,426	1,166	1,096
Total	<u>9,329</u>	<u>9,372</u>	<u>9,633</u>	<u>9,605</u>

Source: City of Eureka

Sonoma County Sanitation Districts
Forestville
Occidental
Russian River
Sonoma Valley
South Park
Basic Financial Statements

Year Ended June 30, 2004

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Independent Auditors' Report

County of Sonoma
Sonoma County Sanitation Districts
Santa Rosa, California

We have audited the accompanying basic financial statements of the **Sonoma County Sanitation Districts** (including Fircrestville, Occidental, Russian River, Sonoma Valley and South Park), (the "Districts"), a component unit of the County of Sonoma, as of and for the year ended June 30, 2004, which collectively comprise the **Districts'** basic financial statements as listed in this table of contents. These basic financial statements are the responsibility of the **Districts'** management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. These 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 basic 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 basic financial statements referred to above present fairly, in all material respects, the financial position of the **Districts** as of June 30, 2004, and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 31, 2004, on our consideration of the **Districts'** internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis ("MD&A") on pages 3 - 12 is not a required part of the basic financial statements but is supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the MD&A. However, we did not audit the information and express no opinion on it.

Independent Auditors' Report (continued)
Sonoma County Sanitation Districts

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the **Sonoma County Sanitation Districts**. The accompanying information listed as supplementary information in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of the **Districts**. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Pisinski & Brinker LLP

Santa Rosa, California
August 31, 2004

Year Ended June 30, 2004

Management's Discussion and Analysis

As management of the Sonoma County Sanitation Districts (the Districts), we offer readers of the Districts' financial statements this narrative overview and analysis of the financial activities of the Districts for the fiscal year ended June 30, 2004. We encourage readers to consider the information presented here in conjunction with the Districts' financial statements (pages 13 - 17) and the accompanying notes to the financial statements (pages 18 - 39).

Reporting Entity

The Sonoma County Sanitation Districts are comprised of five (5) districts: Forestville, Occidental, Russian River, Sonoma Valley, and South Park. The Districts are managed by the Sonoma County Water Agency which provides administration, engineering, operational and maintenance services. The Districts are governed by a Board of Directors, which is the County of Sonoma Board of Supervisors, with the exception of Sonoma Valley which is governed by a three member board. The Districts are considered an integral part of the County of Sonoma's reporting entity, resulting in the Districts' financial statements being included in the County's annual financial statements.

Please refer to the reporting entity definition within the notes to the financial statements for additional detail.

Financial Highlights*Net Assets*

The assets of the Districts exceeded their liabilities at the close of the most recent fiscal year by \$90,987,587 (*net assets*). Of this amount, \$18,360,231 (*unrestricted net assets*) may be used to meet the Districts' ongoing obligations to citizens and creditors.

Revenues

The Districts recognized total revenues of \$18,420,271 during fiscal year 2003/04. Of this amount, \$13,135,105 consists of charges for services (operating revenues), and \$5,285,166 of non-operating revenues consisting of investment earnings, property taxes, connection fees, intergovernmental, conservation program revenues, capital grants, and an insurance reimbursement.

Expenditures

The Districts incurred expenses totaling \$13,031,229 during fiscal year 2003/04. Of this amount \$12,062,780 represents operating expenses related to the collection, treatment, disposal, and reclamation of effluent, as well as administrative and general expenses. The non-operating expenses total \$968,449 representing interest expense related to debt obligation and conservation program expenses.

Increase/(Decrease) in Net Assets

The Districts recorded operating income of \$1,072,325 for fiscal year 2003/04. Three of the districts, Forestville (\$203,766), Occidental (\$162,089), and Russian River (\$87,997) reported operating losses, while Sonoma Valley (\$855,001) and South Park (\$671,176) reported operating gains. The Districts recognized an overall increase in net assets of \$5,389,042 due to total revenues exceeding total expenses.

Sonoma County Sanitation Districts
Management's Discussion and Analysis

Year Ended June 30, 2004

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Districts' financial statements. The Districts' financial statements are comprised of three components: 1) Management's discussion and analysis, 2) basic financial statements, and 3) notes to the basic financial statements. This report also contains other supplementary information consisting of statements by District in addition to the basic financial statements themselves.

Management's discussion and analysis

The *Management's discussion and analysis* is intended to provide the narrative overview that users need to interpret the financial statements. Management's discussion and analysis also provides analysis of some key data presented in the financial statements.

Financial Statements

The Districts are engaged only in the business type activities of maintaining and operating sanitation collection systems, pump stations and treatment plants. The Districts account for their financial activity utilizing fund accounting, specifically enterprise fund accounting, to ensure and demonstrate compliance with finance-related legal requirements. An enterprise fund is a proprietary fund type used to report activities for which a fee is charged to external customers for goods or services provided. The focus of an enterprise fund is the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flow. The financial statements presented are the *statement of net assets*; the *statement of revenues, expenses, and changes in net assets*; and the *statement of cash flows*.

Notes to the financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 18- 39.

The supplementary information statements by District referred to earlier are presented immediately following the notes to the financial statements in the supplementary information section of this report. These statements can be found on pages 40 – 48.

Financial Analysis

Net assets may serve over time as a useful indicator of a Districts' financial position. In the case of the Districts, assets exceeded liabilities by \$90,987,587 at the close of the most recent fiscal year compared to net assets of \$85,598,545 at June 30, 2003.

The largest portion of the Districts' net assets (75.3% for 2004 compared to 75.4% for 2003) reflects their investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The Districts use these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the Districts' investment in their capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Sonoma County Sanitation Districts
Management's Discussion and Analysis

Year Ended June 30, 2004

Financial Analysis (continued)

Net Assets

	June 30, 2003	June 30, 2004	Percentage Change
Current and Other Assets	\$ 24,311,773	\$ 25,482,992	4.8 %
Capital Assets	93,340,031	97,930,277	4.9 %
Total Assets	117,657,804	123,413,269	4.9 %
Current Liabilities	3,590,881	4,020,699	12.0 %
Non-Current Liabilities	28,468,378	28,404,983	(0.1) %
Total Liabilities	32,059,259	32,425,682	1.1 %
Invested in Capital Assets Net of Related Debt	63,576,632	67,855,612	6.7 %
Restricted for conservation program	1,488,326	1,816,355	22.0 %
Restricted for debt service	2,187,851	2,158,257	(1.4) %
Restricted for capital projects	983,598	797,132	(19.0) %
Unrestricted	17,362,138	18,360,231	5.7 %
Total Net Assets	\$ 85,598,545	\$ 90,987,587	6.3 %

A portion of the Districts' net assets \$4,771,744 (5.2% for 2004) and \$4,659,775 (5.4% for 2003) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* of \$18,360,231 for 2004 and \$17,362,138 for 2003 may be used to meet the Districts' ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the Districts are able to report positive balances in all four categories of net assets, both for the Districts as a whole, as well as for each separate district with the exception of Forestville which reports a \$4,236 deficit for 2004 within unrestricted net assets.

Changes in Net Assets

	June 30, 2003	June 30, 2004	Percentage Change
Revenues:			
Program revenues			
Charges for services	\$ 12,147,450	\$ 13,135,105	8.1 %
General revenues			
Property taxes	1,44,854	150,106	11.3 %
Investment earnings	865,428	342,668	(60.4) %
Intergovernmental	401,264	457,718	14.1 %
Conservation program revenues	253,550	396,810	56.5 %
Contributions - connection fees	1,206,826	2,047,090	69.6 %
Capital grants	725,916	1,239,380	70.7 %
Other	50,000	651,394	1,202.8 %
Total Revenues	15,785,288	18,420,271	16.7 %

Sonoma County Sanitation Districts
Management's Discussion and Analysis

Year Ended June 30, 2004

Financial Analysis (continued)

Changes in Net Assets (continued)

	June 30, 2003	June 30, 2004	Percentage Change
Expenses			
Services and supplies	\$ 8,625,294	\$ 8,482,237	(1.7) %
Fiscal agent legal services	97,563	99,337	1.8 %
Depreciation amortization	2,869,344	3,287,831	14.6 %
Environmental investigation	180,308	193,375	7.2 %
Interest expense	540,784	899,668	66.4 %
Conservation program expense	81,591	68,781	(15.7) %
Total expenses	12,394,884	13,031,229	5.1 %
Increase in net assets	3,390,404	5,389,042	58.9 %
Net assets at beginning of year	82,208,141	85,598,545	4.1 %
Net assets at end of year	\$ 85,598,545	\$ 90,987,587	6.3 %

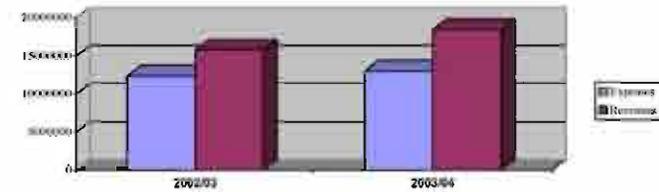
The Districts' net assets increased by \$5,389,042 during 2004 compared to \$3,390,404 during 2003. This increase is a result of total revenues for the Districts exceeding total expenses. The Districts' net assets increased for fiscal year 2003/04, by \$1,998,638 more than the increase in net assets for the preceding fiscal year. This is a result of increased revenues generated through charges for services, property taxes, connection fees and capital grants.

Sonoma County Sanitation Districts
Management's Discussion and Analysis

Year Ended June 30, 2004

Financial Analysis (continued)

Expenses and Revenues



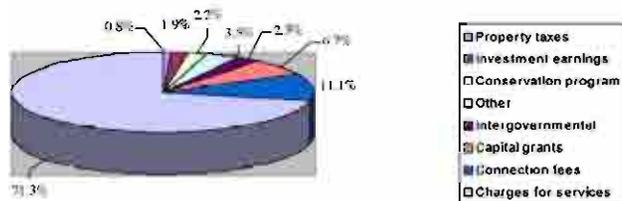
Total revenues of the Districts for fiscal year 2003/04 totaled \$18,120,271 representing an increase of \$2,634,983 from the preceding fiscal year revenues of \$15,785,288. The rate based charges for services, representing 71.3% of the Districts' total revenue, increased by \$987,655 (8.13%); property taxes, representing 0.8% of the Districts' total revenue, increased by \$15,252; connection fees, representing 11.1% of the Districts' total revenue, increased by \$840,264; capital grants accounted for an increase of \$513,464. Other revenue categories (intergovernmental and conservation program) increased by \$199,714. Investment earnings declined from the preceding year by \$522,760. Insurance reimbursement revenues totaling \$513,044 were received by the Sonoma Valley Sanitation District. The combined effect of these occurrences is an overall increase in revenues of 16.7%.

Total expenses for the Districts increased by \$636,345 to \$13,031,229 for fiscal year 2003/04 compared to the fiscal year 2002/03 of \$12,394,884. Interest expense increased 66.4% (\$358,884), and conservation program expenses decreased 15.7% (\$12,810). Environmental investigation costs related to the South Park HVOX plume investigation increased \$13,067 from the preceding year. Depreciation/amortization expenses increased 14.6% (\$418,487) as a result of the completion of numerous capital projects during the preceding year. Costs related to collection and administrative/general reflect only inflationary cost increases.

Year Ended June 30, 2004

Financial Analysis (continued)

Revenues by Source

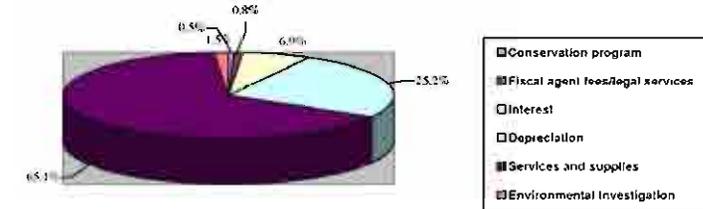


As previously mentioned, total revenues collected by the Districts for 2003/04 totaled \$18,420,271. Of this amount \$13,135,105, or 71.3%, was generated through charges for services. Charges for services represent sewer services charges to cover operations and maintenance costs, which are initially collected through the permitting process, then subsequently through the tax rolls. Connection fees, which accounted for 11.1% of the annual revenue, are also collected through the permitting process. Property tax revenues accounted for 0.8% of the annual revenues, and are collected through the tax rolls to satisfy debt service requirements. Investment earnings represent 1.9% of revenues and consist of earnings on pooled cash held with the Sonoma County Treasurer, as well as interest earnings on revenue bond reserve accounts held with trustees. Conservation program revenue which is received by Sonoma Valley via the permitting process accounted for 2.2% of revenues. Other revenues total 3.5% of revenues and includes the receipt of an insurance reimbursement received by Sonoma Valley towards the replacement of a generator destroyed in a fire. The 9.2% of revenue attributable to intergovernmental revenues and capital grants is related to Environmental Protection Agency Grants to the Forestville County Sanitation District for the advanced wastewater treatment upgrade, and to the Russian River County Sanitation District for the 3rd Unit Processes project.

Year Ended June 30, 2004

Financial Analysis (continued)

Expenses by Function



Total expenses for the Districts for fiscal year 2003/04 totaled \$13,031,229. Costs associated with the collection, treatment, and disposal of effluent represent 65.1% of the Districts' operating costs. The next largest functional area is the annual depreciation expense on capital assets and amortization and represents \$3,287,831 (25.2%) of total expenses. Interest expense totaling \$899,668 (6.9%) represents the cost of meeting current debt service obligations. Conservation program expenses totaling \$68,781 (0.5%) represents costs related to conservation activities in Sonoma Valley. The remaining 2.3% of expenses represents fiscal agent legal services fees of \$99,337, and environmental investigation costs of \$193,375.

Capital Asset and Debt Administration

Capital assets

The Districts' investment in capital assets as of June 30, 2004, amounts to \$97,930,277 (net of accumulated depreciation). This investment in capital assets includes land, buildings and systems, improvements, machinery and equipment, and construction in progress.

Major capital asset events during the current fiscal year included the following.

- Electrical service upgrade – Sonoma Valley (ongoing) – generator replacement at the district's treatment plant.
- 5th St / East Napa / East McMillan - Sonoma Valley (ongoing) – repair and replacement of the sewer collection system.
- Third unit processes project - Russian River (ongoing) - to increase the reliability of the treatment plant during wet weather conditions per directive of the North Coast Regional Water Quality Control Board.
- Advanced wastewater treatment - Forestville - to meet standards required by the North Coast Regional Water Quality Control Board, construction completed in 2003/04
- Kenmore Lane Collection System - South Park (ongoing) - collection system replacement along Kenmore Lane.

Sonoma County Sanitation Districts
Management's Discussion and Analysis

Year Ended June 30, 2004

Capital Asset and Debt Administration (continued)

Sonoma County Sanitation Districts' Capital Assets

	June 30, 2003	June 30, 2004	Percentage Change
Land	\$ 3,637,487	\$ 3,640,964	.01 %
Buildings and improvements	117,944,474	125,733,750	6.60 %
Machinery and equipment	290,510	303,481	4.50 %
Construction in progress	10,020,329	10,047,371	0.30 %
Accumulated depreciation	(38,546,769)	(41,795,289)	8.40 %
Total	\$ 93,346,031	\$ 97,930,277	4.90 %

Additional information on the Districts' capital assets can be found in Note D on page 26 and 27 of the financial statement footnotes.

Long term debt

At the end of the current fiscal year, the Districts had a total of \$30,174,665 in outstanding debt consisting of general obligation bonds, revenue bonds, and advances from other governments. Of this amount, \$1,855,000 comprises debt backed by the full faith and credit of the Districts, \$23,054,728 which are special obligations of the Districts payable solely from net revenues of Districts operations, and \$5,264,937 is related to advances from the County of Sonoma, the Sonoma County Water Agency, and the United States Department of Agriculture (USDA).

Sonoma County Sanitation Districts' Outstanding Current and Long Term Debt

	June 30, 2003	June 30, 2004	Percentage Change
General obligation bonds	\$ 1,950,000	\$ 1,855,000	(4.9) %
Revenue bonds	23,742,127	23,054,728	(2.9) %
Advances Due to	4,277,272	5,264,937	23.1 %
Total	\$ 29,969,399	\$ 30,174,665	.07 %

The Districts' total debt increased by \$205,266 during the current fiscal year.

Advances from other governments funds has increased by \$987,665 (23.1%) due to the issuance of a \$251,700 note to the County of Sonoma by the Forestville County Sanitation District, funding from the United States Department of Agriculture for the tertiary upgrade of the treatment plant (\$967,572), offset by the annual repayments of existing advances (\$231,607).

The general obligation and revenue bonds decrease in outstanding debt is related to the annual required payments.

Additional information on the Districts' current and long-term debt can be found in Notes E, F and G on pages 27 - 30 of this report.

Sonoma County Sanitation Districts
Management's Discussion and Analysis

Year Ended June 30, 2004

Next Year's Budgets and Rates

Budgeted gross expenditures for the Districts for fiscal year 2004/05 have decreased by \$2,806,516 (6.3%) for a total of \$41,327,901. Of the five Districts, Forestville, Russian River and Sonoma Valley reflect a significant reduction in budgeted expenditures from the preceding fiscal year. The reductions range from a 41.6% decrease (\$3,746,462) within Russian River to a 7.1% reduction (\$1,584,522) within Sonoma Valley. The major component of the reduction in budget expenditures is related to significantly lower anticipated capital expenditures due to the completion of capital projects during the current year. Increases in budgeted expenditures for Occidental and South Park are the result of significant increases in planned construction related to upgrades of treatment plant facilities.

Following is a comparison of 2003/04 and 2004/05 budgeted expenditures for the five Districts.

	2003/04	2004/05	Increase (Decrease)	Percentage Change
Forestville				
Operations	\$ 879,420	\$ 854,622	\$ (24,798)	(2.9) %
Construction	468,580	-	(468,580)	N/A
	1,348,000	854,622	(493,378)	(36.6) %
Occidental				
Operations	416,269	290,924	(125,345)	(30.1) %
General Obligation Bonds	510	510	-	N/A
Construction	3,865,000	6,951,000	3,086,000	179.8 %
	4,281,779	7,241,804	2,960,025	169.1 %
Russian River				
Operations	3,157,362	3,227,800	70,438	2.2 %
General Obligation Bonds	89,200	84,800	(4,400)	(4.9) %
Revenue Bonds	67,250	64,750	(2,500)	(3.7) %
Construction	5,690,000	1,880,000	(3,810,000)	(67.0) %
	9,003,812	5,257,350	(3,746,462)	(41.6) %
Sonoma Valley				
Operations	9,524,200	10,085,139	560,939	5.9 %
Construction	11,771,820	9,652,300	(2,119,520)	(18.0) %
Outfall line	12,675	11,669	(1,006)	(7.9) %
Glen Ellen Bonds	8,400	7,950	(450)	(3.4) %
Revenue Bonds	936,643	912,158	(24,485)	(2.6) %
	22,253,738	20,669,216	(1,584,522)	(7.1) %
South Park				
Operations	2,632,738	2,451,533	(181,205)	(6.8) %
Revenue Bonds	936,910	737,376	(199,534)	(21.3) %
Construction	3,677,440	4,116,000	438,560	11.9 %
	7,247,088	7,304,909	57,821	0.8 %
Total	\$ 41,134,417	\$ 41,327,901	\$ (2,806,516)	(6.3) %

Sonoma County Sanitation Districts

Management's Discussion and Analysis

Year Ended June 30, 2004

Basic Financial Statements

Next Year's Budgets and Rates (continued)

NOTE: Budgeted expenditures for fiscal year 2003/04 differ in several instances from the budgeted expenditures presented in the financial statements issued for the period ending June 30, 2003. These variances are due to Board approved budgetary adjustments made subsequent to the publication of the 2002/03 financial audit.

The sewer service fees were increased for the 2004 - 2005 budget year. The rates were increased by an average of 5.5%.

Following are tables showing the sanitation services rates and equivalent single dwellings by District.

Rate per Equivalent Single-Family Dwelling

	2003/04	2004/05	Percentage Change
District			
Forestville	\$930	\$970	4.3%
Occidental	930	976	4.9%
Russian River	782	816	4.4%
Sonoma Valley	455	486	6.8%
South Park	640	684	6.9%

Number of Equivalent Single-Family Dwelling by District

	2003/04	2004/05	Percentage Change
District			
Forestville	381	381	N/A
Occidental	271	271	N/A
Russian River	3,145	3,168	0.07%
Sonoma Valley	16,513	16,881	2.23%
South Park	3,888	3,999	2.85%

Request for Additional Information:

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Sonoma County Auditor-Controller's Office, ATTN: Fiscal Division, 585 Fiscal Drive, Room 101F, Santa Rosa, Ca. 95403

Sonoma County Sanitation Districts

Statement of Net Assets

June 30, 2004

Assets	
Current assets	
Cash and cash equivalents	\$ 18,431,145
Accounts receivable (net of allowance for uncollectibles of \$37,711)	1,727,357
Other receivables	12,758
Total current assets	20,171,260
Noncurrent assets	
Restricted cash, cash equivalents, and investments:	
Cash - conservation program	1,816,355
Cash - general obligation bond fund	121,696
Cash - revenue bond fund	409,369
Cash with trustee restricted for debt service	1,627,192
Cash with trustee restricted for capital projects	797,132
Total restricted assets	4,771,744
Other receivables	120,504
Other assets	419,484
Capital assets:	
Land	3,640,964
Buildings and improvements	125,733,750
Machinery and equipment	303,481
Construction in progress	10,047,371
Less accumulated depreciation	(41,795,289)
Total capital assets (net of accumulated depreciation)	97,930,277
Total noncurrent assets	103,242,009
Total assets	\$ 123,413,269

See accompanying Notes to Basic Financial Statements

Sonoma County Sanitation Districts

Statement of Net Assets (continued)

June 30, 2004

Liabilities	
Current liabilities payable from unrestricted assets	
Accounts payable and accrued expenses	\$ 1,749,897
Due to other governments	60,582
Advances from other related governments	973,100
Accrued interest payable	57,213
Total current liabilities payable from unrestricted assets	2,840,792
Current liabilities payable from restricted assets	
General obligation bonds payable	1,000
Revenue bonds payable	735,000
Accrued interest payable	443,907
Total current liabilities payable from restricted assets	1,179,907
Total current liabilities	4,020,699
Noncurrent liabilities	
General obligation bonds payable	1,854,000
Revenue bonds payable	22,319,728
Due to other governments	3,200,102
Advances from other related governments	1,031,153
Total noncurrent liabilities	28,404,983
Total liabilities	32,425,682
Net assets	
Invested in capital assets, net of related debt	67,855,612
Restricted for conservation program	1,816,355
Restricted for debt service	2,158,257
Restricted for capital projects	797,132
Unrestricted	18,360,231
Total net assets	\$ 90,987,587

See accompanying Notes to Basic Financial Statements

Sonoma County Sanitation Districts

Statement of Revenues, Expenses and Changes in Net Assets

Year Ended June 30, 2004

Operating revenues	
Flat charges	\$ 11,931,565
Charges for services	1,124,927
Other	78,613
Total operating revenue	13,135,105
Operating expenses	
Services and supplies	8,482,237
Fiscal agent fees and legal services	99,337
Depreciation and amortization	3,287,831
Environmental investigation	193,375
Total operating expenses	12,062,780
Operating income	1,072,325
Nonoperating revenues (expenses)	
Investment income	342,668
Interest expense	(899,668)
Intergovernmental	457,718
Property taxes	150,106
Conservation program revenue	396,810
Conservation program expense	(68,781)
Insurance reimbursement	513,044
Other	138,350
Net nonoperating revenue	1,030,247
Net income before contributions	2,102,572
Connection fees	2,047,090
Capital grants	1,239,380
Increase in net assets	5,389,042
Net assets at beginning of year	90,987,587
Net assets at end of year	\$ 96,376,629

See accompanying Notes to Basic Financial Statements

Sonoma County Sanitation Districts

Statement of Cash Flows

Year Ended June 30, 2004

Cash flows from operating activities	
Receipts from customers	\$ 13,137,154
Payments for interfund services used	(5,441,580)
Payments to suppliers	(3,378,071)
Net cash provided by operating activities	4,317,503
Cash flows from noncapital financing activities	
Taxes	288,456
Intergovernmental revenue	425,218
Proceeds from insurance	513,044
Conservation program	236,829
Principal payments - advances	(100,000)
Net cash provided by noncapital financing activities	1,363,547
Cash flows from capital and related financing activities	
Purchase of capital assets	(7,146,766)
Proceeds from Federal State grants	391,178
Proceeds from other related governments	70,000
Principal payments - other governments	(65,607)
Principal payments - bonds	(800,000)
Principal payments - advances	(66,000)
Interest paid on capital debt	(1,379,509)
Advances from other governments	1,418,919
Advances from other related governments	251,700
Connection fees	1,631,143
Net cash used in capital related financing activities	(5,694,942)
Cash flows from investing activities	
Interest received on pooled cash and investments	343,034
Net increase in cash and cash equivalents	329,142
Cash and cash equivalents at beginning of year	22,873,747
Cash and cash equivalents at end of year	\$ 23,202,889
Cash and cash equivalent includes the following at June 30, 2004:	
Cash and cash equivalents	\$ 18,431,145
Restricted cash and cash equivalents	4,771,744
	\$ 23,202,889

See accompanying Notes to Basic Financial Statements

Sonoma County Sanitation Districts

Statement of Cash Flows (continued)

Year Ended June 30, 2004

Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$	1,072,325
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense		3,287,831
Change in assets and liabilities:		
Decrease in accounts receivable		19,172
Increase in other receivable		(17,124)
Decrease in accounts payable and accrued expenses		(44,701)
Net cash provided by operating activities	\$	4,317,503
Noncash investing, capital and financing activities:		
Project costs included in accounts payable	\$	(194,761)
Net decrease in fair value of investment in County Treasurer's Pooled cash	\$	(235,323)

See accompanying Notes to Basic Financial Statements

Sonoma County Sanitation Districts

Notes to Basic Financial Statements

Year Ended June 30, 2004

The notes to the basic financial statements include a summary of significant accounting policies and other notes considered essential to fully disclose and fairly present the transactions and financial position of the Districts as follows:

- Note A. Defining the Financial Reporting Entity
- Note B. Summary of Significant Accounting Policies
- Note C. Cash and Investments
- Note D. Capital Assets
- Note E. Due to Other Governments
- Note F. Interfund Accounts
- Note G. Long-Term Obligations
- Note H. Accrued Interest Payable
- Note I. Segment Information
- Note J. Deficit in Unrestricted Net Assets
- Note K. Related Party Transactions
- Note L. Commitments and Contingencies
- Note M. Future Governmental Accounting Standards
- Note N. Subsequent Event

Year Ended June 30, 2004

Year Ended June 30, 2004

Note A. Defining the Financial Reporting Entity

The five Sonoma County Sanitation Districts (the "Districts") including Forestville, Occidental, Russian River, Sonoma Valley and South Park, are managed by the Sonoma County Water Agency, which provides engineering, administration, operational, and maintenance services. Prior to December 31, 1994, the Districts were managed by the Department of Transportation and Public Works. The Districts are responsible for maintaining and operating the local sanitation collection systems, pump stations, and treatment plants. Each District has an ordinance defining policies, including user fees.

An agreement for transfer of responsibility to the City of Santa Rosa of collection system operation and maintenance, and subsequent dissolution of South Park Sanitation District, was finalized on February 27, 1996 and amended February 1998 and June 2000. Under this agreement, 1) South Park will be dissolved no later than July 1, 2006, 2) the City of Santa Rosa shall acquire the unused capacity of South Park, and 3) South Park will upgrade the collection system to meet City of Santa Rosa standards. The agreement requires South Park to replace, slip-line, or repair 41,610 feet of the collection system and upgrade the Todd Road lift station before transfer of South Park to the City of Santa Rosa. On July 1, 1996, the City of Santa Rosa accepted responsibility for the operation and routine maintenance of the collection system.

The Sonoma County Water and Wastewater Financing Authority (the "Authority") was established in December 1995 and is a joint powers authority between the Sonoma County Water Agency and the Forestville County Sanitation District (the "Forestville CSD"), created under the laws of the State of California. The Authority was created for the purpose of assisting in the financing of certain public programs and projects of the Sonoma County Water Agency and the Forestville CSD, and for the purpose of aiding in the financing of public capital improvements. The Authority is administered by the Sonoma County Board of Supervisors. The Authority does not issue separate financial statements. The operations of the Authority are included in the Graton Sanitation Zone, an Enterprise Fund of the Sonoma County Water Agency.

Component Unit Reporting

The Districts (except for Sonoma Valley) are governed by the Board of Supervisors ("Board of Supervisors") of the County of Sonoma (the "County"). Sonoma Valley Sanitation District is governed by a three member board, including two County Supervisors. The exercise of this oversight responsibility causes the Districts to be an integral part of the County of Sonoma's reporting entity. Therefore, the Districts' financial statements have also been included in the County's annual financial statements.

There are no other organizations or agencies whose basic financial statements should be combined and presented with these basic financial statements.

Note B. Summary of Significant Accounting Policies

The Districts conform to accounting principles generally accepted in the United States of America as applicable to governmental units. A summary of significant accounting policies is included below:

Note B. Summary of Significant Accounting Policies (continued)*Government-wide and fund financial statements*

The government-wide financial statements (i.e., the statement of net assets and the statement of revenues, expenses and changes in net assets) displays information on the Districts as a whole. These financial statements include the financial activities of the District's nonfiduciary activities. For the most part, the effect of inter-district activity has been removed from these statements. The Districts do not have any activities that are considered government-type or fiduciary activities. The statement of net assets presents the financial condition of the business activities of the Districts at year end.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The Districts use a proprietary (enterprise) fund to account for their activities. Proprietary funds are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The District's financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. All assets and all liabilities associated with the operation of the Districts are included on the statement of net assets. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The District has elected under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, to apply all applicable GASB pronouncements as well as any applicable pronouncement of the Financial Accounting Standards Board or any Accounting Research Bulletins issued on or before November 20, 1989 unless those pronouncements conflict with or contradict GASB pronouncement. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncement (Statements and Interpretations), constitutes GAAP for governmental units.

Net assets (i.e. total assets net of total liabilities) are segregated into three components: 1) invested in capital assets, net of related debt, 2) restricted, and 3) unrestricted.

Year Ended June 30, 2004

Note B. Summary of Significant Accounting Policies (continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Districts are charges for services. Operating expenses for the Districts include expenses relating to the collection, treatment, disposal, and reclamation of effluent as well as administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted net assets are available, restricted resources are used only after the unrestricted resources are depleted.

Cash and Investments

The Districts' cash and investments are pooled with the Sonoma County Treasurer except for restricted funds held by an outside trustee. The Sonoma County Treasurer also acts as a disbursing agent for the Districts. The fair value of the investments in the pool is determined quarterly. Realized and unrealized gains or losses and interest earned on pooled investments are allocated quarterly to the appropriate funds based on their respective average daily balance for that quarter in the County Treasury Investment Pool (the "Treasury Pool"). The value of the Districts' pool shares is based on amortized cost, which is different than fair value. In accordance with GASB No. 31, interest income has been recorded in the fund that earned the interest. The Districts have not provided nor obtained any legally binding guarantees during the year ended June 30, 2004, to support the value of pool shares.

The Districts apply the provisions of Governmental Accounting Standards Board ("GASB") Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, which require governmental entities, including governmental external investment pools, to report certain investments at fair value in the statement of net assets and recognize the corresponding change in the fair value of investments in the year in which the change occurred. In accordance with GASB No. 31, the District has stated certain Treasury Pool investments at fair value.

Statement of cash flows are presented for proprietary fund types. For this purpose, the Districts consider all pooled cash and investments as cash and cash equivalents because the County Treasurer's investment pool is used as a demand deposit account. Cash with trustee, customer deposits and restricted cash and investments with a maturity of three months or less when purchased are also treated as cash and cash equivalents.

Accounts and Other Receivables

Accounts receivable consists of uncollected fees for sanitation services at June 30, 2004.

Other accounts receivables represents outstanding flat charges at June 30, 2004. These flat charges are established annually by the Board of Supervisors and billed through the County's property tax system.

Year Ended June 30, 2004

Note B. Summary of Significant Accounting Policies (continued)

Accounts and Other Receivables (continued)

All trade and property tax receivables are shown net of an allowance for uncollectibles. Trade accounts receivable in excess of one year comprise the allowance for uncollectibles.

Other receivables includes amounts to be collected for connection fees related to Russian River Ordinance #39. The Ordinance #39 receivables have 15 year lives with an interest rate of 5%.

Other Assets

Other assets are composed of debt issuance costs of \$394,022 and a deferred charge of \$25,463 from retirement of debt, net of accumulated amortization. These costs are amortized using a method which approximates the interest rate method over the terms of the related long-term debt.

Amortization expense amounted to \$39,311 for the year.

Restricted Assets

Restricted assets represent cash, investments and receivables maintained in accordance with bond resolutions and formal actions of the Board of Supervisors or by agreement, for the purpose of funding certain debt service payments, rebate programs and improvements and extensions to the wastewater treatment systems.

Capital Assets

Capital assets are stated at cost or estimated historical cost. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Depreciation has been provided, excluding land, using the straight-line method over estimated lives ranging from 3 to 50 years. Useful lives of machinery and equipment are generally estimated to be 3 to 15 years. Buildings and improvements are generally estimated to have useful lives ranging from 30 to 50 years.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives, are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed.

Bond and Certificates of Participation Discounts and Issuance Costs

Bond and certificates of participation discounts and issuance costs related to debt of proprietary fund types are deferred and amortized using a method which approximates the interest method over the term of issuance. These discounts and issuance costs are netted against the related debt.

Year Ended June 30, 2004

Note B. Summary of Significant Accounting Policies (continued)*Net Assets*

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets invested in capital assets, net of related debt, excludes \$797,132 in unspent debt proceeds for the year ended June 30, 2004. Net assets are reported as restricted when there are limitations imposed on their use, either through enabling legislation adopted through external restrictions imposed by creditors, grantors or laws or regulation of other governments.

Budget and Budgetary Accounting

The Board of Supervisors adopts a budget annually to be effective July 1st for the ensuing fiscal year for all governmental and proprietary fund types. The general manager of the Sonoma County Water Agency is authorized to transfer budgeted amounts within any District except for transfers between the major expenditure classes or transfers between fixed assets and operating expenses. Such transfers require approval by the County Administrator and/or the Board of Supervisors.

Property Tax Revenue

Property taxes, including tax rates, are regulated by the State and are administered locally by the County. The County is responsible for assessing, collecting and distributing property taxes in accordance with state law. The County is responsible for the allocation of property taxes to the Districts.

The County of Sonoma has adopted the Teeter Alternative Method of Property Tax Allocation known as the "Teeter Plan". The State Revenue and Taxation Code allows counties to distribute secured real property and supplemental property taxes on an accrual basis resulting in full payment to the Districts each fiscal year. Any subsequent delinquent payments and related penalties and interest will revert to Sonoma County.

Property taxes are recognized as revenue when they are levied because they are considered to be both measurable and available. Liens on real property are established January 1 for the ensuing fiscal year. The property tax is levied as of July 1 on all taxable property located in the County. Secured property taxes are due in two equal installments on November 1 and February 1, and are delinquent after December 10 and April 10, respectively. Additionally, supplemental property taxes are levied on a pro rata basis when changes in assessed valuation occur due to sales transactions or the completion of construction. Property tax collection and valuation information is disclosed in the County of Sonoma's financial statements.

Year Ended June 30, 2004

Note B. Summary of Significant Accounting Policies (continued)*Interfund Transactions*

The following is a description of the basic types of interfund transactions made during the year and the related accounting policies:

- 1) Quasi-external (charges for current services) - Transactions for services rendered or facilities provided. These transactions are recorded as revenue in the receiving fund and expenditures in the disbursing fund.

Interfund transactions occurring between the Districts are eliminated from the totals of the financial statements.

Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures expenses during the reporting period. Actual results could differ from these estimates.

Note C. Cash and Investments

The Districts follow the practice of pooling cash and investments of all funds with the County Treasurer except for funds required to be held by outside fiscal agents or trustees under the provisions of bond indentures and lease agreements. The Treasury Oversight Committee has regulatory oversight for all monies deposited into the Treasury Pool.

Interest income earned on pooled cash and investments is allocated quarterly to the various funds based on the average daily balances by fund during the quarter. Interest income from cash and investments with fiscal agents or trustees is credited directly to the related fund.

The Districts' investments at June 30, 2004, are categorized to give an indication of the level of risk assumed by the Districts. Category 1 includes investments that are insured or registered, or for which the securities are held by the Districts or its agent in the Districts' name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Districts' name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agency but not in the Districts' name. Investments in pools managed by other governments or in mutual funds are not required to be categorized.

At June 30, 2004, all of the Districts' investments are in pools managed by other governments and are therefore not subject to categorization.

Note C. Cash and Investments (continued)

Investment Guidelines

The District's pooled cash and investments are invested pursuant to investment policy guidelines established by the County Treasurer and approved by the Board of Supervisors. The objectives of the policy are, in order of priority: safety of capital, liquidity and maximum rate of return. The policy addresses the soundness of financial institutions in which the County will deposit funds, types of investment instruments as permitted by the California Government Code, and the percentage of the portfolio that may be invested in certain instruments with longer terms to maturity.

Permitted investments include the following:

- U.S. Treasury and Federal Agency securities
- Bonds issued by local agencies
- Registered State Warrants and Municipal Notes
- Negotiable certificates of deposit
- Bankers' acceptances
- Commercial paper
- Medium-term corporate notes
- Local Agency Investment Fund (State Pool) demand deposits
- Repurchase agreements
- Reverse repurchase agreements
- Shares of a mutual fund average life
- Collateralized mortgage obligations

A copy of the County Investment Policy is available upon request from the Treasurer at 585 Fiscal Drive, Room 100F, Santa Rosa, California, 95403.

At June 30, 2004, cash and investments included the following:

	Carrying Amount	Fair Value
Cash and investments in Sonoma County treasurer's pooled investment fund	\$ 20,840,396	\$ 20,778,565
Cash and investments with trustee	2,424,324	2,424,324
	<u>\$ 23,264,720</u>	<u>\$ 23,202,889</u>

Investment in County Treasurer's Pooled Cash

As of June 30, 2004, the weighted average maturity of the Treasury Pool was approximately one year. Sixty-one percent have maturities of zero to one year, thirty-five percent have maturities of one to three years, and four percent have maturities of three to five years.

Note C. Cash and Investments (continued)

Investment in County Treasurer's Pooled Cash (continued)

A portion of the securities in the Treasury Pool have variable interest rates that are tied to certain indices such as LIBOR (floating rate securities). Floating rate securities will influence the performance of the portfolio based on the increase/decrease occurring in interest rates over the short term.

Fair value fluctuates with interest rates, and increasing rates could cause fair value to decline below original cost. County management believes the liquidity in the portfolio is more than adequate to meet cash flow requirements and to preclude the County from having to sell investments below original cost for that purpose.

Cash and Investments with Trustee

Cash with fiscal agents is collateralized by securities held by the financial institutions acting as fiscal agent. Such securities are typically held in a pool for the purpose of providing collateral and are not held in the name of the individual districts. Funds are available for their designated purpose on short notice and are treated as a cash equivalent.

Note D. Capital Assets

Capital asset activity for the year ended June 30, 2004 was as follows:

	Beginning Balance July 1, 2003	Additions	Retirements	Transfers and Adjustments	Ending Balance June 30, 2004
Capital assets, not being depreciated:					
Land	\$ 3,637,487	\$ 2,515	\$ -	\$ 962	\$ 3,640,964
Construction in progress	(10,020,529)	7,821,668	-	(7,794,626)	10,047,571
Total capital assets, not being depreciated	13,657,816	7,824,183	-	(7,793,664)	13,688,335
Capital assets, being depreciated:					
Buildings and improvements	117,944,474	-	-	7,789,276	125,733,750
Machinery and equipment	290,510	12,971	-	-	303,481
Total capital assets being depreciated	118,234,984	12,971	-	7,789,276	126,037,231

Notes to Basic Financial Statements

Notes to Basic Financial Statements

Year Ended June 30, 2004

Year Ended June 30, 2004

Note D. Capital Assets (continued)

Capital asset activity for the year ended June 30, 2004 was as follows:

	Beginning Balance July 1, 2003	Additions	Retirements	Transfers and Adjustments	Ending Balance June 30, 2004
Less accumulated depreciation for:					
Buildings and improvements	(38,385,328)	(3,229,048)	-	-	(41,614,376)
Machinery and equipment	(161,441)	(19,472)	-	-	(180,913)
Total accumulated depreciation	(38,546,769)	(3,248,520)	-	-	(41,795,289)
Total capital assets, being depreciated, net	79,688,215	(3,235,549)	-	7,789,276	84,241,942
Total capital assets, net	\$ 93,346,031	\$ 4,588,634	\$ -	\$ (4,368)	\$ 97,930,277

Depreciation expense amounted to \$3,248,520 for the year.

The total interest expense incurred by the Sanitation Districts during the current fiscal year was \$1,390,905. Of this amount, \$491,237 was included as part of the cost of capital assets under construction in connection with wastewater treatment facilities construction projects.

Note E. Due to Other Governments

The United States Department of Agriculture and the State Water Resources Control Board have advanced funds to certain Sanitation Districts. Interest rates range from 2.7% to 5.0%.

Annual debt service requirements to maturity for amount due to other governments are as follows:

Year ending June 30,	Principal	Interest
2005	\$ 60,582	\$ 150,325
2006	62,784	149,095
2007	65,212	146,802
2008	67,668	144,411
2009	70,252	141,919
2010 - 2014	393,783	668,365
2015 - 2019	270,403	596,137
2020 - 2024	289,400	531,487
2025 - 2029	377,000	448,956
2030 - 2034	491,300	341,392
2035 - 2039	640,300	201,205
2040 - 2042	472,000	36,247
	\$ 3,260,684	\$ 3,536,341

Note E. Due to Other Governments (continued)

During fiscal year 1994-95, Sonoma Valley received a loan of \$760,992 from the State Water Resources Control Board for an outfall rehabilitation project. As of June 30, 2004, the outstanding balance is \$467,684. The loan is a State Revolving Loan with current payments of \$49,710, payable annually in July. The expected term is 20 years at an annual interest rate of 2.7% with the last payment scheduled for July 2014.

During fiscal year 2001-02, Forestville received a loan from the United States Department of Agriculture to help fund an upgrade of its wastewater treatment plant. This upgrade is necessary to comply with the North Coast Regional Water Quality Control Board's Basin Plan for the Russian River. As of June 30, 2004, Forestville had received \$2,838,300 from the United States Division of Agriculture and has a payable in the amount of \$2,793,000. The loan currently has semiannual payments of approximately \$68,849. The expected term is 40 years at an annual interest rate of between 4.75% and 5.0% with the last payment scheduled for February 2042. However, as mentioned in Note N, effective July 1, 2004, the Forestville Sanitation District will be dissolved. The Forestville Water District will take over and assume this liability.

Note F. Advances to (from) other related governments

Activity between related governments that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "advances to/from other related governments" (i.e., the non-current portion of interfund loans).

At June 30, 2004, interfund balances between the Districts, Sonoma County Water Agency, and the County of Sonoma are as follows:

Receivable Fund	Current Payable District	Amount
Sonoma County Water Agency General Fund	Forestville	\$ (807,100)
County of Sonoma General Fund	Russian River	(66,000)
County of Sonoma General Fund	South Park	(100,000)
		\$ (973,100)
Receivable Fund	Noncurrent Payable District	Amount
Sonoma County Water Agency General Fund	Forestville	\$ (563,000)
County of Sonoma General Fund	Occidental	(250,000)
County of Sonoma General Fund	Russian River	(218,133)
		\$ (1,031,133)

Note G. Long-Term Obligations

General Obligation Bonds

The government issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. The original amount of general obligation bonds issued in prior years was \$3,232,000. No new general obligation bonds were issued during the current fiscal year.

General obligation bonds are direct obligations and pledge the full faith and credit of the government. General obligation bonds currently outstanding are as follows:

District	Interest Rates	Amount
Occidental	4.75%	\$ 5,000
Russian River	5.00%	1,695,000
Sonoma Valley	5.00%	155,000
		<u>\$ 1,855,000</u>

Annual debt service requirements to maturity for general obligation bonds are as follows:

Year ending June 30,	Principal	Interest
2005	\$ 1,000	\$ 46,369
2006	96,000	90,315
2007	101,000	85,393
2008	107,000	80,195
2009	112,000	74,723
2010 - 2014	645,000	282,175
2015 - 2019	793,000	101,575
Total	\$ 1,855,000	\$ 760,745

Revenue Bonds

The government also issues bonds where the government pledges income derived from charges for services to pay debt service. The original amount of revenue bonds issued in prior years to finance construction projects to both expand existing wastewater treatment facilities and construct additional facilities was \$26,975,000. No new revenue bonds were issued during the current fiscal year.

Purpose	Interest Rates	Outstanding Amount
Wastewater treatment		
Russian River	5.00%	\$ 1,295,000
Sonoma Valley	4.00 - 5.00%	18,765,000
South Park	4.00 - 5.00%	3,335,000
		<u>\$ 23,395,000</u>

Note G. Long-Term Obligations (continued)

Revenue bonds (continued)

Revenue bond debt service requirements to maturity are as follows:

Year ending June 30,	Principal	Interest
2005	\$ 735,000	\$ 1,117,575
2006	750,000	1,086,834
2007	785,000	1,053,233
2008	830,000	1,017,198
2009	865,000	978,603
2010 - 2014	4,940,000	4,232,981
2015 - 2019	6,295,000	2,861,470
2020 - 2024	7,500,000	1,134,019
2025 - 2027	695,000	60,315
Total	\$ 23,395,000	\$ 13,542,228

Changes in Long-Term Obligations

Long-term obligation activity for the year ended June 30, 2004 was as follows:

	Beginning Balance July 1, 2003	Additions	Reductions	Ending Balance June 30, 2004	Due Within One Year
Bonds payable:					
General obligation bonds	\$ 1,950,000	\$ -	\$ (95,000)	\$ 1,855,000	\$ 1,000
Revenue bonds	24,100,000	-	(705,000)	23,395,000	735,000
Less deferred amounts:					
For issuance discounts	(357,873)	-	17,601	(340,272)	N/A
Total revenue bonds payable	23,742,127	-	(687,399)	23,054,728	735,000
Total bonds payable	\$ 25,692,127	\$ -	\$ (782,399)	\$ 24,909,728	\$ 736,000

Sonoma County Sanitation Districts

Notes to Basic Financial Statements

Year Ended June 30, 2004

Note H. Accrued Interest Payable

Interest payable consists of interest accrued on the following obligations:

Payable from current assets:	
United States Department of Agriculture	\$ 57,213
Payable from restricted assets:	
State Water Resources Control Board	12,627
Long-term bonds	431,280
Total accrued interest payable	\$ 501,120

Note I. Segment Information

Several of the Districts issued revenue bonds to finance treatment plant upgrades and construction. Investors in the revenue bonds rely solely on the revenue generated by the individual districts for repayment. Summary financial information for the individual districts is presented below.

	<i>Amounts in thousands</i>				
	Forestville	Occidental	Russian River	Sonoma Valley	South Park
Assets					
Current assets	\$ 434	\$ 104	\$ 1,237	\$ 13,001	\$ 5,399
Noncurrent assets:					
Restricted cash	-	5	523	3,379	866
Other receivables	-	-	121	-	-
Other assets	25	-	-	280	114
Capital assets (net of accumulated depreciation)	8,030	873	27,635	56,206	5,186
Total assets	\$ 8,489	\$ 982	\$ 29,516	\$ 72,866	\$ 11,565
Liabilities					
Current liabilities payable from unrestricted assets					
Due to other funds	\$ -	\$ 5	\$ -	\$ -	\$ -
Due to other governments	23	-	-	37	-
Due to other related governments	807	-	66	-	100
Other current liabilities	464	1	604	702	36
Total current liabilities payable from unrestricted assets	1,294	6	670	739	136

Sonoma County Sanitation Districts

Notes to Basic Financial Statements

Year Ended June 30, 2004

Note I. Segment Information (continued)

	<i>Amounts in thousands</i>				
	Forestville	Occidental	Russian River	Sonoma Valley	South Park
Liabilities (continued)					
Current liabilities payable from restricted assets	-	1	71	984	124
Total current liabilities	1,294	7	741	1,723	260
Noncurrent liabilities					
Due to other governments	2,770	-	-	431	-
Advances from other related governments	563	250	218	-	-
Other noncurrent liabilities	-	4	2,935	18,000	3,235
Total noncurrent liabilities	3,333	254	3,153	18,431	3,235
Total liabilities	4,627	261	3,894	20,154	3,495
Net assets					
Invested in capital assets, net of related debt	3,866	618	24,361	37,138	1,871
Restricted for:					
Conservation	-	-	-	1,816	-
Debt service	-	5	523	1,500	131
Capital projects	-	-	-	62	735
Unrestricted (deficit)	(4)	98	737	12,196	5,333
Total net assets	\$ 3,862	\$ 721	\$ 25,621	\$ 52,712	\$ 8,070
Operating revenues					
Flat charges	\$ 264	\$ 219	\$ 2,421	\$ 6,574	\$ 2,454
Charges for services	200	14	26	830	55
Other	-	-	7	15	56
Total operating revenue	464	233	2,454	7,419	2,565

Sonoma County Sanitation Districts

Notes to Basic Financial Statements

Year Ended June 30, 2004

Note I. Segment Information (continued)

	<i>Amounts in thousands</i>				
	Forestville	Occidental	Russian River	Sonoma Valley	South Park
Operating expenses					
Depreciation and amortization	96	30	894	2,122	146
Other operating expenses	572	365	1,648	4,442	1,748
Total operating expenses	668	395	2,542	6,564	1,894
Operating income (loss)	(204)	(162)	(88)	855	671
Nonoperating revenues (expenses)					
Investment income	-	-	50	216	66
Interest expense	-	-	(83)	(669)	(148)
Intergovernmental	275	150	-	(37)	70
Property taxes	-	-	134	16	-
Conservation program revenue	-	-	-	397	-
Conservation program expense	-	-	-	(69)	-
Other	-	1	-	513	138
Total nonoperating revenue	276	151	100	367	126
Income before contributions	72	(11)	22	1,222	797
Connection fees	-	2	71	1,866	108
Capital grants	651	-	478	-	110
Increase (decrease) in net assets	723	(9)	571	3,088	1,015
Net assets at beginning of year	3,139	730	25,050	49,624	7,055
Net assets at end of year	\$ 3,862	\$ 721	\$25,621	\$52,712	\$ 8,070

Sonoma County Sanitation Districts

Notes to Basic Financial Statements

Year Ended June 30, 2004

Note I. Segment Information (continued)

	<i>Amounts in thousands</i>				
	Forestville	Occidental	Russian River	Sonoma Valley	South Park
Net cash provided by (used in) operating activities	\$ (92)	\$ (135)	\$ 819	\$ 2,923	\$ 802
Net cash provided by noncapital financing activities	275	145	134	766	44
Net cash used in capital related financing activities	(482)	(29)	(1,941)	(3,158)	(84)
Net cash provided by investing activities	1	-	60	216	65
Net Increase (decrease) in cash and cash equivalents	(298)	(19)	(928)	747	827
Cash and cash equivalents at beginning of year	304	127	2,412	14,770	5,260
Cash and cash equivalents at end of year	\$ 6	\$ 108	\$ 1,484	\$15,517	\$ 6,087

Note J. Deficit in Unrestricted Net Assets

The Forestville County Sanitation District has incurred expenses in excess of revenues which result in a deficit unrestricted net assets of \$4,236 at June 30, 2004. Advances from the Sonoma County Water Agency have been used to cover losses due to the district's inability to increase revenues or to further reduce its cost of operations, and effective July 1, 2004, this district has been dissolved. See Note N.

Note K. Related Party Transactions

The Sanitation Districts are Special Districts under the Board of Supervisors, and as such, have the same or similar board members as the County of Sonoma.

The Districts are managed by the Sonoma County Water Agency, which provides administration, engineering, operational, and maintenance services. The Sonoma County Water Agency allocates overhead costs amongst the Districts via the use of a 55% overhead rate charged on all expenditures applicable to the Districts. The overhead rate is reviewed annually by management to determine its effectiveness.

Note K. Related Party Transactions (continued)

Forestville Sanitation District is the managing entity for a special assessment district, Mirabel Heights, that is expected to be annexed into Forestville in the next year (See Note N) The revenues from Mirabel Heights are transferred to Forestville to offset payment of this special assessment district's proportionate share of operations and maintenance expenses. The amount of revenue transferred during the year ended June 30, 2004 amounted to \$110,122.

The following schedule details approximate amounts paid to Sonoma County Water Agency for administrative support during the year ended June 30, 2004:

District	
Forestville	\$ 407,852
Occidental	269,754
Russian River	1,236,762
Sonoma Valley	3,173,951
South Park	34,248

A summary of additional related party transactions is as follows:

Receipt from	Payment to	Amount	Purpose
Sonoma County Water Agency General Fund	Forestville	\$ 275,000	Provide funding to allow Sanitation District to meet operating expenses
Sonoma County Water Agency General Fund	Occidental	150,000	Provide funding to allow Sanitation District to meet operating expenses
		<u>\$ 425,000</u>	

The above amounts have been included as intergovernmental revenue for the respective district.

Note L. Commitments and Contingencies

The government has active construction projects as of June 30, 2004. The projects include expansion and/or improvements of several wastewater treatment facilities. At year end, the Sanitation District's commitments to construction projects are as follows:

Project	Spent-to-date	Remaining Commitment
Forestville upgrade	\$ 6,225,170	\$ 4,728
Occidental installation	408,607	-
Russian River expansion	3,707,267	1,233,185
Sonoma Valley expansion	7,150,085	2,379,816
South Park improvements	773,231	24,828
Total	\$ 18,264,360	\$ 3,642,557

The commitments for wastewater treatment facilities are being financed by revenue bonds secured by wastewater revenues and by net assets.

South Park Sanitation District is required to pay \$125,000 per year for a period of five years to the North Coast Regional Water Quality Control Board (NCRWQCB). Payments began September 1, 1999 in order to cover administrative costs of the NCRWQCB for the purpose of ensuring progress in investigation, cleanup, outreach, and potentially responsible party identification in the volatile organic compound plume area within the District. Final payment to NCRWQCB was made in 2003/04.

Occidental County Sanitation District Board of Directors approved an agreement for a wastewater collection, treatment and disposal project. In connection with this project, Occidental County Sanitation District entered into a contract with consulting engineers in the amount of \$75,000. It is too early to predict the total level of cost for Occidental County Sanitation District to participate in the construction of this project.

On June 29, 2004, the Occidental County Sanitation District entered into an agreement with a consulting company for engineering and design services for Occidental County Sanitation District and Camp Meeker Wastewater Reclamation Project. Phase 1 of this project is in the amount of \$535,500, and will begin in the 2004-05 fiscal year.

On June 15, 2004, the Board of Directors of the Sonoma County Water Agency adopted a resolution to forgive an advance to the Forestville County Sanitation District in the amount of \$563,000, contingent upon the sale of two parcels of surplus property. The amount of the advance to be forgiven is based on the remaining funds available from the sale of the two surplus parcels less repayment of a \$807,100 note payable owed to the Sonoma County Water Agency. Based on appraisals and Managements' estimates, the two parcels, combined, are expected to sell for approximately \$935,000. Therefore, the estimated amount of the advance to be paid in cash is \$127,900, and the amount to be forgiven is \$435,100. As of August 31, 2004, these parcels had not been sold.

Year Ended June 30, 2004

Note L. Commitments and Contingencies (continued)

Risk Management

The Sanitation Districts are covered by the County's self-insurance program, which is accounted for in the County's Risk Management Internal Service Fund. The Sanitation Districts are covered under this program for general liability, auto liability, public employees performance dishonesty and property insurance.

The County maintains a self-insured retention of \$750,000 per occurrence for general and automobile liability. Excess liability coverage is maintained through participation in the California State Association of Counties, Excess Insurance Authority ("CSAC-EIA"). Limits of this coverage are \$10,000,000. Additional coverage with limits of \$5,000,000 excess of the underlying \$10,000,000 is maintained through a joint-purchase excess liability coverage provided by Lexington Insurance, administered through CSAC-EIA for a total limit per occurrence of \$15,000,000.

The County maintains "All Risk" property insurance including flood and earthquake through participation in the CSAC-EIA property insurance program. Limits of coverage are \$200,000,000 per occurrence including flood and \$50,000,000 per occurrence for earthquake. Deductibles for most perils are \$50,000 per occurrence, with flood at \$200,000 per county per occurrence and earthquake at 5% of total insured values per unit, per occurrence, subject to a \$500,000 minimum per occurrence. For losses within the deductible, the County maintains a deductible self-insured pool for losses in excess of \$5,000.

The Sanitation Districts pay administrative fees to the County for this insurance coverage. Settled claims have not exceeded this coverage for any of the past three fiscal years.

Pending Litigation, Claims, and Investigation

The Russian River Sanitation District is a defendant in a case entitled Burch v. Russian River County Sanitation District. The case arose from claims by Mr. and Mrs. Burch that the easement agreement signed in 1979 was breached and that the easement was overburdened by the Russian River Sanitation District. The Burches have demanded \$1,000,000 to settle the case. The Russian River Sanitation District recently obtained a defense verdict on a summary judgment. The Burches have filed an appeal which is currently pending.

In 1999, South Park County Sanitation District and the County of Sonoma entered into a plan of action with the California Regional Water Quality Control Board to investigate a groundwater plume of volatile organic compounds. The investigation was completed in February 2002. However, the District and Sonoma County may incur substantial costs in connection with remediation. It is too early to predict the amount of such costs.

In March, 2003, two enforcement orders issued by the North Coast Regional board against the Occidental County Sanitation District ("OCS D") and the Water Agency remain outstanding pending completion of capital improvements for the OCS D facility. The estimated cost of the approved project which consists of constructing an updated facility and collections system to treat sewage from Occidental and the nearby town of Camp Meeker is \$12,000,000 but it is too early to predict the level of cost for OCS D to participate in construction of this project. However, payment to the Regional Board for a fine of \$50,000 for previous violations will be required if facility improvements are not completed by OCS D in the next several years.

Year Ended June 30, 2004

Note L. Commitments and Contingencies (continued)

Pending Litigation, Claims, and Investigation (continued)

In March, 2003, the Northern California River Watch ("River Watch") notified its intention to file a citizen's suit action against the Water Agency and the Districts, except for Forestville County Sanitation District, for violation of Clean Water Act. In May, 2003, The Districts, except for the Forestville County Sanitation District, and the Water Agency entered into a six month tolling agreement with River Watch to give the parties additional time to review the alleged violations and explore avenues for settlements. Substantial costs may be incurred in connection with future proceedings based on the claims of violations of the Clean Water Act alleged by River Watch, or in connection with a settlement of any such claims. It is too early to predict the amount of these costs or the source of funds.

A complaint was filed in May 2004 against the City of Santa Rosa, the County of Sonoma and the South Park County Sanitation District alleging sewer lines owned and operated by each public entity in the vicinity of plaintiff's property have leaked, causing contamination to plaintiff's property and to the groundwater beneath plaintiff's property. The investigation regarding this allegation has not yet been completed, but if South Park County Sanitation District is held responsible for the contamination, it may be held responsible for substantial costs. At this time, it is too early to estimate South Park County Sanitation District's liability exposure.

Note M. Future Governmental Accounting Standards

New Pronouncements

The Governmental Accounting Standard Board ("GASB") issued Statement No. 40, *Deposit and Investment Risk Disclosures - an amendment of GASB Statement No. 3* in March 2003. This Statement addresses common deposit and investment risk related to credit risk, concentration of credit risk, interest rate risk and foreign currency risk. GASB No. 40 is effective for financial statements for years beginning after June 15, 2004. The Districts will complete their assessment of the effect of this standard on the financial statements and will comply with GASB No. 40 for the year ended June 30, 2005.

The Governmental Accounting Standard Board ("GASB") has also released the following new standards:

Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries* issued in November 2003. This Statement establishes accounting and financial reporting standards for impairment of capital assets and also clarifies and establishes accounting for insurance recoveries. GASB No. 42 is effective for financial statements for years beginning after December 15, 2004.

Note M. Future Governmental Accounting Standards (continued)

New Pronouncements (continued)

Statement No. 43, *Financial Reporting for Postemployment Benefit (OPEB) Plans Other than Pension Plans* issued in April 2004. This Statement establishes uniform financial reporting standards for OPEB plans focusing on reporting current financial information about plan net assets held in trust for OPEB and financial activities related to the administration of the trust. GASB No. 43 is effective for financial statements for years beginning after December 15, 2006.

Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefit Other than Pension* issued in June 2004. This Statement establishes standards for the measurement, recognition, and display of Postemployment Benefits expense expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers. GASB No. 45 is effective for financial statements for years beginning after December 15, 2007.

The impact on the financial statements of the Districts of these pronouncements which have been issued, but not yet adopted, is unknown at this time.

Note N. Subsequent Event

Effective July 1, 2004, the Forestville County Sanitation District was reorganized. The existing District was dissolved and the successor in interest is the combination of the Forestville County Sanitation District, as it was, and the Mirabel Heights Zone of Benefit of County Service Area No. 41. Both the Forestville County Sanitation District and the Mirabel Heights Zone of Benefit will be operated by the Forestville Water District.

Sonoma County Sanitation Districts
Statement of Net Assets, by District

June 30, 2004

Assets	Forestville	Oakdale	Russian River	Sonoma Valley	South Fork	Eliminations	Total
Current assets							
Cash and cash equivalents	\$ 6,033	\$ 103,710	\$ 914,319	\$ 12,138,172	\$ 5,221,412	\$ -	\$ 18,331,145
Accounts receivable (net of allowance)		427,834	406	202,733	81,117	173,147	1,227,357
Receivables of \$37,711		-	-	2,738	-	-	12,788
Other receivables	-	-	-	-	-	4,623	(4,623)
Due from other funds	-	-	-	-	-	-	-
Total current assets	433,869	504,176	1,237,330	13,001,339	5,799,182	(4,023)	20,171,209
Noncurrent assets							
Restricted cash, cash equivalents, and investments							
Cash - contribution program	-	-	-	1,876,533	-	-	1,876,533
Cash - forward obligation bond fund	-	4,639	3,281	3,789	-	-	121,076
Cash - reserve bond fund	-	-	403,369	-	-	-	403,369
Cash with trustee retained for debt service	-	-	-	1,197,513	130,399	-	1,627,422
Cash with trustee retained for capital projects	-	-	-	6,782	233,330	-	297,132
Total restricted assets	-	4,639	\$27,229	3,378,516	815,921	-	4,771,744

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Sonoma County Sanitation Districts
Statement of Net Assets, by District (continued)

June 30, 2004

Assets	Forestville	Oakdale	Russian River	Sonoma Valley	South Fork	Eliminations	Total
Other receivables							
Other assets	25,463	-	120,304	280,077	113,914	-	419,184
Capital assets							
Land	346,384	-	232,833	3,090,747	-	-	3,669,964
Buildings and improvements	8,521,000	1,018,198	38,137,029	70,863,003	6,078,816	-	125,751,956
Furniture and equipment	-	-	-	403,481	-	-	403,481
Construction in progress	19,059	370,736	5,587,039	5,224,722	739,765	-	10,067,121
Less accumulated depreciation	(867,241)	(571,697)	(18,595,319)	(23,308,118)	(2,542,583)	-	(41,884,958)
Total capital assets	8,029,732	873,169	27,635,433	56,205,917	5,188,026	-	97,930,277
Total investment assets	8,055,195	877,828	28,278,537	59,864,540	6,165,889	-	103,242,009
Total assets	\$ 8,489,051	\$ 982,004	\$ 20,515,897	\$ 72,865,869	\$ 11,505,071	\$ (4,023)	\$ 123,413,209

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Sonoma County Sanitation Districts

Statement of Net Assets, by District (continued)

June 30, 2004

	Forestville	Occidental	Russian River	Sonoma Valley	South Park	Eliminations	Total
Liabilities							
Current liabilities							
Accounts payable and accrued expenses	\$ 406,332	\$ 1,303	\$ 604,273	\$ 701,911	\$ 36,038	\$ -	\$ 1,749,867
Due to other funds	23,500	4,623	-	37,082	-	(4,623)	60,562
Due to other governments	897,100	-	66,000	-	110,000	-	973,100
Advances from other related governments	57,213	-	-	-	-	-	57,213
Accrued interest payable	-	-	-	-	-	-	-
Total current liabilities	1,294,165	5,926	670,273	738,993	136,038	(4,623)	2,840,772
Current liabilities payable from restricted assets							
General collection bonds payable	-	1,000	-	-	-	-	1,000
Revenue bonds payable	-	-	55,000	600,000	80,000	-	735,000
Accrued interest payable	-	-	16,088	303,791	41,928	-	461,807
Total current liabilities payable from restricted assets	-	1,000	71,088	903,791	121,928	-	1,179,807
Total current liabilities	1,294,165	6,926	741,361	1,722,784	257,966	(4,623)	4,020,069
Noncurrent liabilities							
General obligation bonds payable	-	4,000	1,625,000	150,000	-	-	1,854,000
Revenue bonds payable	-	-	1,240,000	178,518	3,234,610	-	4,453,128
Due to other governments	2,702,500	-	-	420,000	-	-	3,200,100
Advances from other related governments	543,000	250,000	218,153	-	-	-	1,011,153
Total noncurrent liabilities	3,332,500	254,000	3,153,153	184,518	3,234,610	-	28,464,383
Total liabilities	4,626,665	260,926	3,894,514	201,133,504	3,494,596	(4,623)	32,425,882

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Sonoma County Sanitation Districts

Statement of Net Assets, by District (continued)

June 30, 2004

	Forestville	Occidental	Russian River	Sonoma Valley	South Park	Eliminations	Total
Net assets							
Invested in capital assets, net of reserved share	3,866,632	618,169	24,561,280	37,138,115	1,871,416	-	67,055,612
Board fund for conservation program	-	-	-	1,816,355	-	-	1,816,355
Board fund for debt service	-	4,659	\$22,623	1,506,379	136,569	-	2,168,257
Board fund for capital projects	-	-	-	61,282	713,139	-	774,421
Unrestricted (deficit)	(4,246)	98,219	737,374	12,105,734	5,333,110	-	18,369,217
Total net assets	\$ 3,862,386	\$ 721,077	\$ 25,621,274	\$ 32,712,265	\$ 8,070,475	\$ -	\$ 90,267,887

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Sonoma County Sanitation Districts

Statement of Revenues, Expenses and Changes in Net Assets, by District

Year Ended June 30, 2004

	Forestville	Orcuttland	Rossdale Cover	Sonoma Valley	South Park	Total
Operating revenues						
Fees charged	264,036	218,800	2,421,444	6,875,512	2,435,975	11,095,865
Reimburse for services	200,055	14,633	25,873	829,648	55,029	1,124,927
Other	-	-	7,370	15,152	55,791	78,613
Total operating revenue	464,091	233,433	2,454,677	7,418,012	2,546,920	13,135,105
Operating expenses						
Services and supplies	454,155	354,373	1,603,306	4,499,801	1,541,662	8,462,337
Fuel, repair, lease and light services	18,775	11,240	44,807	11,796	12,740	90,317
Depreciation and amortization	95,077	20,966	894,261	2,122,034	144,691	3,287,019
Environmental investigation	-	-	-	-	193,375	193,375
Total operating expenses	667,899	396,521	2,542,374	6,563,611	1,893,417	12,062,797
Operating income (loss)	(203,766)	(162,889)	(87,297)	855,001	671,176	1,072,235
Nonoperating revenues (expenses)						
Maintenance revenue	1,273	393	59,475	215,841	65,686	342,668
Interest expense	-	-	(82,350)	(668,511)	(147,807)	(902,660)
Amortization	275,000	150,000	-	1,372,020	20,000	1,827,118
Property taxes	-	279	133,879	15,597	-	150,180
Commutative program revenue	-	-	-	396,810	-	396,810
Conservative program expense	-	-	-	(68,281)	-	(68,281)
Business reimbursements	-	-	-	515,034	-	515,034
Other	-	-	-	-	138,330	138,330
Net nonoperating revenue	276,273	150,663	110,694	367,078	136,229	1,030,247

Sonoma County Sanitation Districts

Statement of Revenues, Expenses and Changes in Net Assets, by District (continued)

Year Ended June 30, 2004

	Forestville	Orcuttland	Rossdale Cover	Sonoma Valley	South Park	Total
Net income (loss) before contributions	72,577	(11,426)	22,607	1,222,679	797,005	2,102,572
Contribution fees	-	2,930	70,013	1,806,437	107,740	2,617,190
Capital grants	169,300	-	478,381	-	1,101,676	1,749,357
Increase (decrease) in net assets	722,877	(9,426)	571,364	3,088,516	1,015,841	5,389,142
Net assets at beginning of year	3,139,389	730,903	25,049,570	40,422,849	7,083,654	87,605,345
Net assets at end of year	3,862,396	721,077	25,621,274	52,712,365	8,070,475	90,587,587

Sonoma County Sanitation Districts
Statement of Cash Flows, by District

Year Ended June 30, 2004

	Fairfield	Crocker-Helm	Rossini River	Sonoma Valley	South Fork	Eliminations	Total
Cash flows from operating activities							
Revenues from customers	\$ 469,072	\$ 239,528	\$ 2,450,276	\$ 7,422,155	\$ 2,394,534	\$ -	\$ 13,117,154
Revenues from interdistrict services received	(427,718)	(277,680)	(1,312,428)	(3,288,145)	(34,809)	-	(5,441,880)
Payments to suppliers	(133,743)	(56,863)	(223,608)	(1,110,630)	(1,715,827)	-	(3,328,071)
Net cash provided by (used in) operating activities	(92,389)	(135,215)	819,840	2,921,180	802,187	-	2,317,902
Cash flows from noncapital financing activities							
Issuance of bonds	-	279	133,879	15,927	138,180	-	288,156
Inter-governmental payments	-	-	-	218	-	-	42,528
Proceeds from insurance	275,000	1,501,000	-	\$13,044	-	-	1,789,044
Contingency Program	-	-	-	226,829	-	-	226,829
Principal payments - advances	-	-	-	-	(100,000)	-	(100,000)
Principal payments - leases	-	(5,305)	-	-	-	5,305	-
Principal received - leases	-	-	-	-	-	5,305	5,305
Net cash provided by noncapital financing activities	275,000	1,441,965	133,879	796,038	43,655	-	1,363,537

Sonoma County Sanitation Districts
Statement of Cash Flows, by District (continued)

Year Ended June 30, 2004

	Fairfield	Crocker-Helm	Rossini River	Sonoma Valley	South Fork	Eliminations	Total
Cash flows from capital and related financing activities							
Purchase of capital assets	(1,778,131)	(28,796)	(2,118,049)	(3,033,800)	(1,038,793)	-	(7,166,769)
Proceeds from Federal-State grants	227,129	-	-	-	304,610	-	531,739
Proceeds from other federal government	-	-	-	-	70,000	-	70,000
Principal payments - other government	(29,500)	-	-	(38,107)	-	-	(67,607)
Principal payments - bonds	-	(1,000)	(1,333,049)	(1,584,000)	(841,000)	-	(6,000,000)
Principal payments - advances	-	-	(968,808)	-	-	-	(968,808)
Advances from other governments	(1,211,130)	(956)	(1,566,230)	(683,794)	(1,777,373)	-	(11,579,809)
Advances from other related governments	967,872	-	481,317	-	-	-	1,449,189
Construction fees	251,790	-	82,884	1,438,519	107,740	-	1,681,143
Net cash used in capital related financing activities	(482,366)	(28,792)	(1,941,065)	(3,138,582)	(841,377)	-	(5,690,942)
Cash Flows From Investing Activities	1,276	394	59,836	21,5872	65,686	-	3,13,024
Interest received on pooled cash and investments	(278,479)	(18,708)	(927,510)	746,688	827,151	-	329,142
Net increase (decrease) in cash and cash equivalents	304,511	127,077	2,411,949	14,770,000	5,260,210	-	22,873,747
Cash and cash equivalents at beginning of year	\$ 6,032	\$ 108,349	\$ 1,881,489	\$ 13,516,688	\$ 6,087,361	\$ -	\$ 22,207,889
Cash and cash equivalents at end of year	\$ 6,032	\$ 108,349	\$ 1,881,489	\$ 13,516,688	\$ 6,087,361	\$ -	\$ 22,207,889

Sonoma County Sanitation Districts
Statement of Cash Flows, by District (continued)

Year Ended June 30, 2004

	Eastville	Oceidental	Rossini River	Sierra Valley	South Lake	Elimations	Total
Reconciliation of operating income (loss)							
to net cash provided (used) by operating							
activities:							
Operating income (loss)	\$ (303,766)	\$ (182,089)	\$ (87,977)	\$ 855,001	\$ 671,176	\$ -	\$ 1,072,225
Adjustments to reconcile operating income (loss) to net cash							
provided (used) by operating activities:							
Depreciation and amortization expense	95,927	29,298	894,261	2,122,144	145,691	-	3,287,321
Change in assets and liabilities:							
Increase (decrease) in accounts receivable	-	6,094	-	15,078	-	-	19,172
Increase (decrease) in other receivable	4,983	-	897	(8,935)	(14,070)	-	(17,124)
Increase (decrease) in accounts payable and							
accrued expenses	(10,467)	(9,228)	(12,679)	(58,679)	(610)	-	(44,301)
Net cash provided by (used) in operating activities	\$ (62,289)	\$ (155,115)	\$ 819,810	\$ 2,923,180	\$ 802,187	\$ -	\$ 4,317,803

Noncash investing, capital and financing activities:

Property costs included in accounts payable	\$ 572,133	\$ -	\$ (558,846)	\$ (176,991)	\$ (86,057)	\$ -	\$ (194,761)
Net decrease in fair value of investments in County	\$ (2,625)	\$ (1,410)	\$ (23,069)	\$ (1,546,689)	\$ (51,562)	\$ -	\$ (2,351,221)
Treasurer's bonded cash	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -



Independent Auditors' Report on Internal Control and on Compliance and Other Matters Over Financial Reporting Based on Audit of Financial Statements Performed in Accordance with Government Auditing Standards (continued)

This report is intended for the information of the management, Commission, County of Sonoma, and Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

PricewaterhouseCoopers LLP

Santa Rosa, California
August 31, 2004

Independent Auditors' Report on Internal Control and on Compliance and Other Matters Over Financial Reporting Based on Audit of Financial Statements Performed in Accordance with Government Auditing Standards

County of Sonoma Board of Supervisors
Board of Directors Sonoma Valley County
Sanitation District
Sonoma County Sanitation Districts
Santa Rosa, California

We have audited the basic financial statements of the **Sonoma County Sanitation Districts** (including Forestville, Occidental, Russian River, Sonoma Valley and South Park), (the "Districts"), a component unit of the County of Sonoma, as of and for the year ended June 30, 2004, and have issued our report thereon dated August 31, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the **Districts'** internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

Compliance

As part of obtaining reasonable assurance about whether the **Districts'** financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Sonoma County Sanitation Districts

Schedule of Findings and Questioned Costs

Year Ended June 30, 2004

Section I. Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:			<i>unqualified</i>	
Internal control over financial reporting:				
Material weaknesses identified	___	yes	<u> X </u>	no
Reportable conditions identified not considered to be material weaknesses	___	yes	<u> X </u>	no
Noncompliance material to financial statements noted	___	yes	<u> X </u>	no

Section II. Financial Statement Findings

All observations noted in last year's report have been resolved.

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Sonoma County Water Agency
Basic Financial Statements
Year Ended June 30, 2004

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Independent Auditors' Report (continued)
Sonoma County Water Agency

Independent Auditors' Report

To the Board of Directors
Sonoma County Water Agency
Santa Rosa, California

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Sonoma County Water Agency, (the "Water Agency"), a component unit of the County of Sonoma, as of and for the year ended June 30, 2004, which collectively comprise the Water Agency's basic financial statements as listed in the foregoing table of contents. These financial statements are the responsibility of the Water Agency's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 basic 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 respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Sonoma County Water Agency as of June 30, 2004, and the respective changes in financial position, and cash flows, where applicable, thereof, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 31, 2004, on our consideration of the Water Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis ("MD&A") on pages 3 – 14 and the budgetary comparison information on pages 59 - 62 are not required parts of the basic financial statements but are supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Sonoma County Water Agency's basic financial statements. The accompanying basic financial information listed as supplementary information in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of the Sonoma County Water Agency. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

Santa Rosa, California
August 31, 2004

Management's Discussion and Analysis

As management of the Sonoma County Water Agency (the "Water Agency"), we offer readers of the Water Agency's financial statements this narrative overview and analysis of the financial activities of the Water Agency for the fiscal year ended June 30, 2004. We encourage readers to consider the information presented here in conjunction with the Water Agency's financial statements (pages 15 - 28) and the accompanying notes to the financial statements (pages 29 - 58).

Financial Highlights

- The assets of the Water Agency exceeded its liabilities at the close of the most recent fiscal year by \$321,013,667 (net assets). Of this amount, \$32,748,4411 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets decreased by \$1,944,550 during the current fiscal year. The governmental activities accounted for \$1,743,765 of this decrease while the balance of \$200,785 was related to business type activities.
- As of the close of the current fiscal year, the Water Agency's governmental funds reported combined ending fund balances of \$103,676,991, a decrease of \$1,943,565 in comparison with the prior year. Approximately 28% of this total amount, \$29,460,919 is available for spending at the government's discretion (unreserved, undesignated fund balance).
- At the end of the current fiscal year, unreserved fund balance for the general fund, which includes Spring Lake Park and the Waste/Recycled Water Loan fund, was \$1,498,942, or 5.6% of total general fund expenditures.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Water Agency's basic financial statements. The Water Agency's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the Water Agency's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Water Agency's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Water Agency is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Overview of the Financial Statements (continued)*Government-wide financial statements (continued)*

Both the government-wide financial statements distinguish functions of the Water Agency that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Water Agency include general government, flood control, Warm Springs Dam and water storage. The business-type activities of the Water Agency include water transmission and sanitation services.

The government-wide financial statements can be found on pages 15 – 17 of this report.

Fund financial statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Water Agency, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Water Agency can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds

Governmental funds are used to account for essentially the same functions reported in governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Water Agency maintains four individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, special revenue funds (Flood Control and Warm Springs Dam), and the debt service fund, all of which are considered to be major funds.

The Water Agency adopts an annual appropriated budget for its general fund, special revenue funds, and debt service fund. Budgetary comparison statements have been provided for these funds to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 18 - 20 of this report.

Overview of the Financial Statements (continued)*Proprietary funds*

The Water Agency maintains two different types of proprietary funds: Enterprise Funds and Internal Service Funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Agency uses enterprise funds to account for its water and sanitation services. Internal service funds are an accounting device used to accumulate and allocate costs internally among the Water Agency's various functions. The Water Agency uses an internal service fund to account for equipment and facilities rental activities. Because both of these services predominantly benefit business-type rather than governmental functions, they have been included within business-type activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water and sanitation services, both of which are considered to be major funds. Information for the internal service fund is also provided in the proprietary fund financial statement. The basic proprietary fund financial statements can be found on pages 21 - 27.

Fiduciary funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the Water Agency's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statement can be found on page 28 of this report.

Notes to the financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 29 - 58.

The combining statements referred to earlier in connection with governmental funds and proprietary funds are presented immediately following the notes to the financial statements. Combining and individual fund statements and schedules can be found on pages 63 - 72.

Required supplementary information

Schedules presenting budgetary comparison information for the Water Agency's governmental funds can be found on pages 59 – 62.

The combining statements referred to earlier in connection with governmental funds and proprietary funds are presented immediately following the notes to the financial statements. Combining and individual fund statements and schedules can be found on pages 63 – 72.

Management's Discussion and Analysis

Management's Discussion and Analysis

Year Ended June 30, 2004

Year Ended June 30, 2004

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Water Agency, assets exceeded liabilities by \$321,013,667 at the close of the most recent fiscal year.

The largest portion of the Water Agency's net assets (53%) reflects its investment in capital assets (e.g., land, construction in progress, infrastructure, buildings, machinery and equipment), less any related debt used to acquire those assets that is still outstanding. The Water Agency uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Water Agency's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Sonoma County Water Agency's Net Assets

	Governmental		Business-Type		Total	
	2002/03	2003/04	2002/03	2003/04	2002/03	2003/04
Current and other assets	\$107,872,431	\$106,034,031	\$ 61,289,930	\$ 54,566,423	\$ 169,162,361	\$160,600,454
Capital assets	156,079,276	156,960,954	150,711,777	168,629,674	306,791,053	325,590,628
Total assets	263,951,707	262,994,985	212,001,707	223,196,097	475,953,414	486,191,082
Current liabilities	1,696,475	1,549,940	5,879,293	5,007,794	7,575,768	6,557,734
Noncurrent liabilities	118,148,741	119,082,319	27,270,688	39,537,362	145,419,429	158,619,681
Total liabilities	119,845,216	120,632,259	33,149,981	44,545,156	152,995,197	165,177,415
Invested in capital assets, net of related debt	40,294,542	40,697,360	123,077,994	128,198,941	163,372,536	168,896,301
Restricted	101,254,778	101,177,773	17,266,011	18,191,152	118,520,789	119,368,925
Unrestricted	2,557,171	487,593	38,507,721	32,260,848	41,064,892	32,748,441
Total net assets	\$ 144,106,491	\$142,362,726	\$178,851,726	\$178,650,941	\$ 322,958,217	\$321,013,667

A portion of the Water Agency's net assets, \$119,368,925 (37%), represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$32,748,441) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the Water Agency is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

The government's net assets decreased by \$1,944,550 during the current fiscal year. This decrease is a result of expenditures / expenses exceeding revenues in both the governmental and business-type activities.

Sonoma County Water Agency's Changes in Net Assets

	Governmental		Business-Type		Total	
	2002/03	2003/04	2002/03	2003/04	2002/03	2003/04
Revenues:						
Program Revenues:						
Charges for Services	\$ 474,301	\$ 677,927	\$ 29,713,808	\$ 31,165,957	\$ 30,188,109	\$ 31,843,884
Capital Grants and Contributions	297,021	39,875	1,657,149	928,444	1,954,170	968,319
General Revenues:						
Property Taxes	14,698,949	15,873,877	51,227	55,507	14,750,176	15,929,384
Investment Earnings (Loss)	13,142,242	(2,228,006)	1,750,110	584,162	14,892,352	(1,643,844)
Miscellaneous	29,947	141,360	102,383	31,361	132,330	172,721
Total Revenues	28,642,460	14,505,033	33,274,677	32,765,431	61,917,137	47,270,464
Expenses:						
General Government	2,862,770	3,973,647	-	-	2,862,770	3,973,647
Flood Control	3,943,085	3,421,076	-	-	3,943,085	4,421,076
Warm Springs Dam	663,930	644,307	-	-	663,930	644,307
Interest on long-term debt	3,719,065	3,734,026	-	-	3,719,065	3,734,026
Water Transmission	-	-	21,736,664	27,094,221	21,736,664	27,094,221
Water Supply	-	-	4,151,341	5,227,115	4,151,341	5,227,115
Sanitation	-	-	2,759,623	3,670,622	2,759,623	3,670,622
Total Expenses	11,188,850	12,773,056	28,647,628	35,991,958	39,836,478	48,765,014
Increase in Net Assets						
Before Transfers	17,453,610	1,731,977	4,627,049	(3,226,527)	22,080,659	(1,494,550)
Transfers	(4,521,100)	(3,475,742)	4,080,000	3,025,742	(441,100)	(450,000)
Change in Net Assets	12,932,510	(1,743,765)	8,707,049	(200,785)	21,639,559	(1,944,550)
Net Assets - beginning of year	131,173,981	144,106,491	170,144,677	178,851,726	301,318,658	322,958,217
Net Assets - end of year	\$ 144,106,491	\$ 142,362,726	\$178,851,726	\$ 178,650,941	\$ 322,958,217	\$ 321,013,667

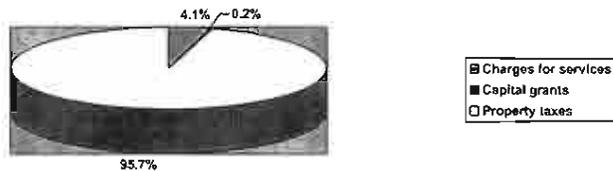
Governmental Activities

Governmental activities decreased the Water Agency's net assets by \$1,743,765, thereby accounting for 90% of the total decline in the net assets of the Water Agency. Key elements of the Agency's governmental activities are identified below.

- Property tax revenues of \$15,873,877, including \$3,586,411 received for the purpose of debt retirement and satisfaction of maintenance related assurances with the US Army Corps of Engineers for Warm Springs Dam.
- Investment losses totaling (\$2,228,006) due primarily to a \$2,605,093 decrease in the fair market value of STRIPS held by the Water Agency's debt service fund for the repayment of the contract with the US Army Corps of Engineers for Warm Springs Dam.
- Revenues for 2003-04 decreased by \$14,137,427 over the prior fiscal year while expenditures increased by \$1,584,206 over the same period. This revenue decrease is due primarily to investment losses while the increase in expenses is due primarily to higher operations and maintenance expenses for Warm Springs Dam.

Sonoma County Water Agency's Changes in Net Assets (continued)

Revenues by Source – Governmental Activities



Business-type activities

Business-type activities decreased the Water Agency's net assets by \$200,785 thereby accounting for 14% of the total decline in the net assets of the Water Agency.

Key elements of the Agency's Business-type activities are identified below.

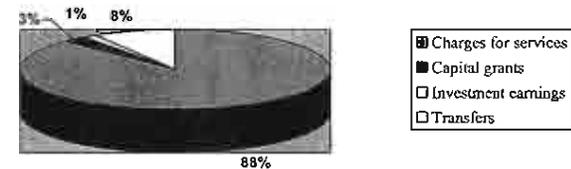
- Water sales revenues increased 12.8%, due primarily to an increase in the debt service component of the water rates.
- Sewer service revenues increased due to increases in the annual rates combined with increases in the total Equivalent Single Family Dwelling (ESDs) serviced by the Water Agency's five sanitation zones.
- Capital Grants and contributions totaling \$928,444 were received in fiscal year 03/04. Grants include funding for Mumford Dam fish passage, Prop 13 watershed restoration, North San Pablo Bay restoration, and North County Agricultural Reuse project.
- Transfers from the Water Agency's General Fund totaling \$3,025,742 were received during 2003-04. These transfers were for the purpose of financing various capital projects related to Russian River projects (\$1,925,742) and recycled water (\$1,100,000).
- Investment Earnings for FY 2003-04 totaled \$584,162.

Sonoma County Water Agency's Changes in Net Assets (continued)

Expenses and Program Revenues – Business-type Activities



Revenues by Source – Business-type activities



Financial Analysis of the Government's Funds

As noted earlier, the Water Agency uses fund accounting to ensure and demonstrate compliance with legal and governmental accounting requirements.

Governmental funds

The focus of the Water Agency's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Water Agency's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Water Agency's governmental funds reported combined ending fund balances of \$103,676,991 a decrease of \$1,943,565 in comparison with the prior year. Approximately 28% of this total amount (\$29,460,919) constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed 1) to pay debt service (\$70,376,585), 2) to liquidate contracts and purchase orders of the prior period (\$2,579,487), 3) for advances (\$1,185,000) and 4) for contingencies (\$75,000).

Financial Analysis of the Government's Funds (continued)*Governmental funds (continued)*

The general fund is the chief operating fund of the Water Agency. At the end of the current fiscal year, unreserved fund balance of the general fund, including Spring Lake Park and the Waste/Recycled Water Loan fund was \$1,498,942, while total fund balance reached \$2,999,218.

The special revenue fund, consisting of six (6) flood control zones and the Warm Springs Dam has a fiscal year end fund balance of \$30,301,188, of which \$27,961,977 is unreserved with the remaining fund balance of \$2,339,211 being reserved for encumbrances.

The Debt Service Fund has a total fund balance of \$70,376,585, all of which is reserved for the payment of debt service.

Proprietary funds

The Water Agency's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the water transmission services at the end of the year amounted to \$19,010,599. Water Supply amounted to \$2,502,836, and those for the sanitation services amounted to \$5,136,206. Other factors concerning the finances of these three funds have already been addressed in the discussion of the Water Agency's business-type activities.

General Fund Budgetary Highlights

The difference between the original budget and the final amended budget for the Water Agency's general fund reflected an increase in budgeted appropriations of \$725,742, while budget revenues were unchanged during the fiscal year.

The primary components of the increase in budgeted expenses consists of; 1) a \$1,150,742 increase in transfers related to financing requirements of the Agency's Water Supply enterprise funds, 2) a \$500,000 decrease in appropriations for contingencies towards services and supplies, 3) a \$260,000 increase within services and supplies related to higher than anticipated costs for various items including administration, and contributions to other governments, 4) a reduction of \$150,000 in salaries and benefits due to lower than anticipated costs for permanent positions, and 5) a \$35,000 reduction within capital outlay due to anticipated expenditures for various office/computer equipment not materializing.

Capital Asset and Debt Administration*Capital assets*

The Water Agency's investment in capital assets for its governmental and business type activities at June 30, 2004, amounts to \$325,590,628 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, machinery and equipment, dams, collection systems and water storage rights.

Major capital asset events during the current fiscal year included the following:

Governmental Activities:

- Improvements within Flood Control Zone 1A including:
 - Santa Rosa Avenue Conduit - \$2,285,000
 - Santa Rosa Creek revegetation - \$117,000
- Flood Control Zone 2A including Adobe Creek revegetation & sediment removal - \$64,000

Business Type Activities:

- Capital expansion within the Storage Facilities fund including:
 - Kawana Springs Pipeline - \$825,000
- Capital expansion within the Common Facilities fund including:
 - Wohler Generator replacement - \$768,000
 - Pump/Collector Capacity expansion - \$3,942,000
 - Water Transmission system diversion alternatives - \$211,700
 - Emergency Well improvement - \$196,000
- Capital expansion within the Pipeline Facilities fund including:
 - Eldridge/Madronc pipeline - \$411,000
- Russian River Projects including:
 - Mumford Dam fish passage - \$1,147,000
 - Crocker Creek fish passage - \$181,800

Management's Discussion and Analysis

Year Ended June 30, 2004

Capital Asset and Debt Administration (continued)

	Sonoma County Water Agency's Capital Assets (net of depreciation)					
	Governmental		Business-Type		Total	
	2002/03	2003/04	2002/03	2003/04	2002/03	2003/04
Water storage rights	\$ 102,371,000	\$ 102,371,000	\$ -	\$ -	\$ 102,371,000	\$ 102,371,000
Land	1,537,528	1,537,528	7,800,681	10,072,404	9,338,209	11,609,932
Buildings and improvements	2,463,776	2,377,710	98,585,618	95,708,917	101,049,394	98,086,627
Machinery and equipment	388,806	326,674	2,542,188	2,408,004	2,930,994	2,734,678
Construction in Progress	4,163,428	3,883,366	41,783,290	60,440,349	45,946,718	64,323,715
Infrastructure	45,154,738	46,464,676	-	-	45,154,738	46,464,676
Total	\$ 156,079,276	\$ 156,960,954	\$ 150,711,777	\$ 168,629,674	\$ 306,791,053	\$ 325,590,628

Additional information on the Water Agency's capital assets can be found in Note E on pages 41 – 44 of this report.

Long-term debt

At the end of the current fiscal year, the Water Agency had a total of \$158,771,772 in outstanding debt consisting of bonds, Federal contract payable, capital leases payable and compensated absences. Of this amount \$662,000 comprises debt backed by the full faith and credit of the government, \$21,685,000 is a special obligation payable from the Water Agency's operating income, \$116,263,594 is a federal contract payable related to the water storage rights at Warm Springs Dam, \$9,393,029 is related to capital leases, \$2,011,625 is comprised of amounts payable to employees for unused sick and vacation leave upon termination, and \$8,756,524 represents funds advanced to the Water Agency from other governmental entities.

Sonoma County Water Agency's Outstanding Current and Long Term Debt

	June 30, 2003	June 30, 2004	Change
General Obligation Bonds	\$ 694,000	\$ 662,000	(4.6) %
Capital Leases	806,836	9,393,029	1,164 %
Revenue Bonds	21,975,000	21,685,000	(1.3) %
Advances from other governments/Due to other funds	4,226,429	8,756,524	207 %
Federal Contract Payable	115,784,734	116,263,594	0.4 %
Compensated Absences	1,808,607	2,011,625	11.2 %
Total	\$ 145,295,606	\$ 158,771,772	9.3 %

The Water Agency's total debt increased by \$13,476,166 (9.3%) during the current fiscal year.

The outstanding total of capital leases increased substantially (1,164%) during fiscal year 03/04 and was due to the issuance of \$8,800,000 in new debt. A lease was entered into in October 2003 to finance the purchase of a building that will serve as Water Agency administration headquarters. The Water Agency also received an additional \$4,530,095 in loan proceeds from the state for financing the Collector 6 capital project.

Management's Discussion and Analysis

Year Ended June 30, 2004

Capital Asset and Debt Administration (continued)

The increase in the Federal contract payable is the net effect of principal reduction due to the annual debt payments, and the addition of accrued interest on the unpaid principal. The terms of the agreement with the Federal government stipulate that interest accrued on the contract prior to the time of the first payment be compounded annually and added to the principal.

Compensated absences increased due to sick and vacation leave being accrued in excess of the actual usage.

The decrease in general obligation and revenue bonds, as well as capital leases, is related to principal reduction due to the required annual debt payments.

Additional information on the Water Agency's current and long-term debt can be found in Note K on pages 48 – 54 of this report.

Next Year's Budgets and Rates

During the current year, unreserved fund balance in the general fund decreased to \$1,498,942. The Water Agency has appropriated \$178,168 of this amount for spending in the 2004-2005 fiscal year budget.

Both the water and sewer rates were increased for the 2004-2005 budget year. The water rates were increased by an average of 2.03%, while the sewer rates increased an average 5.27%.

Following are tables showing the rates charged for acre-foot of water used for municipal purposes by water contractors, along with sanitation services rates and equivalent single dwellings by sanitation district.

Charges per Acre-Foot for Water Used for Municipal Purposes by Water Contractors

	Santa Rosa Aqueduct	Petaluma Aqueduct	Forestville Aqueduct	Sonoma Aqueduct
Operations & Maintenance	\$ 339.71	\$ 339.71	\$ 339.71	\$ 339.71
Revenue Bonds Charges				
Aqueduct Rev. Bonds Charge	0.00	0.00	0.00	31.92
Storage Fac. Rev. Bonds Charge	7.84	7.84	7.84	7.84
Common Fac. Rev Bonds Charge	34.96	34.96	34.96	34.96
Aqueduct Capital Charge	20.00	40.00	00	.00
Total	\$ 402.51	\$ 422.51	\$ 382.51	\$ 414.43

Sonoma County Water Agency

Management's Discussion and Analysis

Year Ended June 30, 2004

Next Year's Budgets and Rates (continued)

Rate per Equivalent Single-Family Dwelling

	2003/04	2004/05	Change
Sanitation Zone			
Graton	\$ 765	\$ 795	3.92%
Sea Ranch	610	637	4.43%
Penngrove	585	635	8.55%
Geyserville	575	595	3.48%
Airport/Larkfield/Wikiup	370	392	5.95%

**Number of Equivalent Single-Family Dwellings
by Sanitation Zone**

	2003/04	2004/05	Change
Sanitation Zone			
Graton	637	639	.31%
Sea Ranch	529	560	5.86%
Penngrove	487	501	2.87%
Geyserville	334	344	2.99%
Airport/Larkfield/Wikiup	3,233	3,306	2.26%

Request for Additional Information:

This financial report is designed to provide a general overview of the Water Agency's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Sonoma County Auditor-Controller's Office, Fiscal Division, 585 Fiscal Drive, Room 101F, Santa Rosa, CA 95403.

Basic Financial Statements
Government-wide Financial Statements

Sonoma County Water Agency

Statement of Net Assets

June 30, 2004

	Governmental Activities	Business-type Activities	Total
Assets			
Current assets			
Cash and investments	\$ 104,723,408	\$ 34,497,966	\$ 139,221,374
Receivables	125,623	4,488,576	4,614,199
Inventories	-	206,441	206,441
Total current assets	104,849,031	39,192,983	144,042,014
Noncurrent assets			
Advances to other county districts, net of allowance	1,185,000	-	1,185,000
Restricted assets			
Cash - revenue bond funds	-	13,151,609	13,151,609
Cash and investments with trustee	-	1,779,025	1,779,025
Deposits with others	-	13,000	13,000
Total restricted assets	1,185,000	14,943,634	16,128,634
Deferred charges	-	429,806	429,806
Capital assets (net of accumulated depreciation):			
Inangible asset - water storage rights (Warm Springs Dam)	102,371,000	-	102,371,000
Land	1,537,528	10,072,404	11,609,932
Infrastructure	46,464,676	-	46,464,676
Buildings and improvements	2,377,710	95,708,917	98,086,627
Construction in progress	3,883,366	60,440,349	64,323,715
Equipment	326,674	2,408,004	2,734,678
Total capital assets	156,960,954	168,629,674	325,590,628
Total noncurrent assets	156,960,954	169,059,480	326,020,434
Total assets	262,994,985	223,196,097	486,191,082

The accompanying Notes to the Basic Financial Statements are an integral part of this Statement

Sonoma County Water Agency

Statement of Net Assets (continued)

June 30, 2004

	Governmental Activities	Business-type Activities	Total
Liabilities			
Current liabilities payable from unrestricted assets			
Accounts payable and accrued expenses	1,031,202	3,584,210	4,615,412
Accrued expenses	500,000	-	500,000
Deferred revenue	18,738	-	18,738
Total current liabilities payable from unrestricted assets	1,549,940	3,584,210	5,134,150
Current liabilities payable from restricted assets			
Deposits from others	-	4,230	4,230
Interest payable	-	525,983	525,983
General obligation bonds payable	-	32,000	32,000
Capital lease payable	-	401,371	401,371
Revenue bonds payable	-	460,000	460,000
Total current liabilities payable from restricted assets	-	1,423,584	1,423,584
Total current liabilities	1,549,940	5,007,794	6,557,734
Noncurrent liabilities			
Compensated absences	2,011,625	-	2,011,625
General obligation bonds payable	-	630,000	630,000
Capital leases payable	-	8,991,658	8,991,658
Revenue bonds payable	-	21,159,180	21,159,180
Long-term contracts payable	116,263,594	-	116,263,594
Advances from other related governments	807,100	-	807,100
Advances from other governments	-	8,756,524	8,756,524
Total noncurrent liabilities	119,082,319	39,537,362	158,619,681
Total liabilities	120,632,259	44,545,156	165,177,415
Net assets			
Invested in capital assets, net of related debt	40,697,360	128,198,941	168,896,301
Restricted for flood control	23,921,395	-	23,921,395
Restricted for Warm Springs Dam	6,879,793	-	6,879,793
Restricted for debt service	70,376,585	14,496,998	84,873,583
Restricted for recycled water/ water conservation	-	3,694,154	3,694,154
Unrestricted	487,593	32,260,848	32,748,441
Total net assets	\$ 142,362,726	\$ 178,650,941	\$ 321,013,667

The accompanying Notes to the Basic Financial Statements are an integral part of this Statement

Basic Financial Statements
Fund Financial Statements

Sonoma County Water Agency
Statement of Activities

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Charge for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business Type Activities	Total
Functions/Programs						
Governmental activities:						
General government	\$ 3,973,647	\$ 677,927	\$ -	\$ (3,286,305)	\$ -	\$ (3,286,305)
Flood control	4,421,076	-	-	(4,390,616)	-	(4,390,616)
Wama Springs Dam	644,307	-	-	(644,307)	-	(644,307)
Interest on long-term debt	3,734,026	-	-	(3,734,026)	-	(3,734,026)
Total governmental activities	12,773,056	677,927	-	(12,055,254)	-	(12,055,254)
Business-type activities:						
Water transmission	27,094,221	27,634,354	-	-	\$44,697	\$44,697
Water supply	5,227,115	1,041,791	-	-	(3,472,666)	(3,472,666)
Sanitation	3,670,622	2,489,812	-	-	(969,588)	(969,588)
Total business-type activities	35,991,958	31,165,957	-	(3,897,557)	(3,897,557)	(3,897,557)
Total business-type activities	\$ 48,765,014	\$ 31,843,884	\$ -	(12,055,254)	(3,897,557)	(15,952,811)
General revenues:						
Taxes:						
Property taxes, levied for general purposes				12,287,466	3,696,772	14,984,261
Property taxes, levied for debt service assurances				3,586,411	(200,785)	(1,944,580)
Restricted investment earnings (loss)				(2,228,066)	884,162	(1,643,844)
Miscellaneous				141,360	31,261	172,721
Transfers				(3,025,742)	3,025,742	-
Transfers to related governments				(450,000)	-	(450,000)
Total general revenues and transfers				10,311,489	3,696,772	14,008,261
Change in net assets				(1,743,765)	(200,785)	(1,944,580)
Net assets at beginning of year				144,106,491	178,851,726	322,958,217
Net assets at end of year				\$ 142,362,726	\$ 178,650,941	\$ 321,013,667

For the Year Ended June 30, 2004

The accompanying Notes to the Basic Financial Statements are an integral part of this Statement

**Sonoma County Water Agency
Balance Sheet
Governmental Funds**

June 30, 2004

	Special Revenue Funds				Total Governmental Funds
	General Fund	Flood Control	Warm Springs Dam	Debt Service Fund	
Assets					
Cash and investments	\$ 2,785,694	\$ 24,094,163	\$ 7,466,966	\$ 70,376,585	\$ 104,723,408
Accounts receivable	125,623	-	-	-	125,623
Advances to other county districts, net of allowance	1,185,000	-	-	-	1,185,000
Total assets	\$ 4,096,317	\$ 24,094,163	\$ 7,466,966	\$ 70,376,585	\$ 106,034,031
Liabilities and fund balances					
Liabilities					
Accounts payable	\$ 271,261	\$ 172,768	\$ 587,173	\$ -	\$ 1,031,202
Accrued expenses	-	500,000	-	-	500,000
Notes payable	-	-	-	-	-
Advances from other related governments	807,100	-	-	-	807,100
Deferred revenue	18,738	-	-	-	18,738
Total liabilities	1,097,099	672,768	587,173	-	2,357,040
Fund balances					
Reserved for:					
Encumbrances	240,276	2,339,211	-	-	2,579,487
Debt service	-	-	-	70,376,585	70,376,585
Advances	1,185,000	-	-	-	1,185,000
Unreserved					
Designated for contingencies	75,000	-	-	-	75,000
Undesignated	1,498,942	21,082,184	6,879,793	-	29,460,919
Total fund balances	2,999,218	23,421,395	6,879,793	70,376,585	103,676,991
Total liabilities and fund balances	\$ 4,096,317	\$ 24,094,163	\$ 7,466,966	\$ 70,376,585	
Amounts reported for governmental activities in the statement of net assets are different because:					
Capital assets used in governmental activities are not financial resources and are, therefore, not reported in the funds.					
					156,960,954
Some liabilities, including long-term contracts payable, are not due in the current period and, therefore, are not reported in the funds.					
					(118,275,219)
Net assets of governmental activities					\$ 142,362,726

The accompanying Notes to the Basic Financial Statements are an integral part of this Statement
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**Sonoma County Water Agency
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds**

Year Ended June 30, 2004

	Special Revenue Funds				Total Governmental Funds
	General Fund	Flood Control	Warm Springs Dam	Debt Service Fund	
Revenue					
Property taxes	\$ 4,819,839	\$ 7,467,627	\$ 3,586,411	\$ -	\$ 15,873,877
Investment earnings (loss)	58,070	234,837	55,805	(2,576,721)	(2,228,009)
Intergovernmental	9,415	30,460	-	-	39,875
Charges for services	677,927	-	-	-	677,927
Miscellaneous	141,360	-	-	-	141,360
Total revenue (loss)	5,706,611	7,732,924	3,642,216	(2,576,721)	14,505,030
Expenditures					
Current					
Salaries and benefits	20,177,565	-	-	-	20,177,565
Services and supplies	6,747,678	3,036,569	644,307	-	10,428,554
Costs applied	(23,338,903)	-	-	-	(23,338,903)
Capital outlay	36,089	2,414,383	-	-	2,450,472
Debt service					
Principal	-	-	-	1,178,844	1,178,844
Interest and fiscal charges	-	-	1,657,705	2,076,321	3,734,026
Total expenditures	3,622,429	5,450,952	2,302,012	3,255,165	14,630,558
Excess of revenue over (under) expenditures	2,084,182	2,281,972	1,340,204	(5,831,886)	(125,528)
Other financing sources (uses)					
Long-term contract proceeds	-	-	1,657,705	-	1,657,705
Transfers to related governments	(425,000)	(25,000)	-	-	(450,000)
Transfers in	-	-	-	1,000,000	1,000,000
Transfers out	(3,025,742)	-	(1,000,000)	-	(4,025,742)
Total other financing sources (uses)	(3,450,742)	(25,000)	657,705	1,000,000	(1,818,037)
Net changes in fund balances	(1,366,560)	2,256,972	1,997,909	(4,831,886)	(1,943,565)
Fund balances at beginning of year	4,365,778	21,164,423	4,881,884	75,208,471	105,620,556
Fund balances at end of year	\$ 2,999,218	\$ 23,421,395	\$ 6,879,793	\$ 70,376,585	\$ 103,676,991

The accompanying Notes to the Basic Financial Statements are an integral part of this Statement
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**Sonoma County Water Agency
Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances
of Governmental Funds to the Statement of Activities**

Year Ended June 30, 2004	
Net change in fund balances - total governmental funds (page 19)	\$ (1,943,565)
Amounts reported for governmental activities in the statement of activities (page 17) are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays (\$2,450,472) exceeded depreciation (\$1,568,794) in the current period.	881,678
Repayment of principal is an expenditure in the governmental funds, but the repayment reduces the long-term liabilities in the statement of net assets.	1,178,844
Change in compensated absences reported in the statement of activities does not require the use of current financial resources and therefore, is not reported as expenditures in governmental funds.	(203,018)
Long-term contract proceeds which increases the long-term liabilities in the statement of net assets.	(1,657,704)
Changes in net assets of governmental activities (page 17)	\$ (1,743,765)

The accompanying Notes to the Basic Financial Statements are an integral part of this Statement
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**Sonoma County Water Agency
Statement of Net Assets
Proprietary Funds**

June 30, 2004					
	Business-type Activities				
	Enterprise Funds				Internal Service Funds
	Water Transmission	Water Supply	Sanitation	Total	
Assets					
Current assets					
Cash and investments	\$ 21,238,236	\$ 2,420,588	\$ 5,088,586	\$ 28,747,410	\$ 5,750,556
Receivables	3,644,830	773,199	64,172	4,482,201	6,375
Inventories	206,441	-	-	206,441	-
Total current assets	25,089,507	3,193,787	5,152,758	33,436,052	5,756,931
Noncurrent assets					
Restricted assets					
Cash - revenue bond funds	12,861,685	-	289,924	13,151,609	-
Cash and investments with trustee	1,686,092	-	92,933	1,779,025	-
Deposits with others	13,000	-	-	13,000	-
Total restricted assets	14,560,777	-	382,857	14,943,634	-
Deferred charges	250,023	-	179,783	429,806	-
Capital assets (net of accumulated depreciation):					
Land	5,350,380	-	2,032,163	7,382,543	2,689,861
Construction in progress	45,019,269	5,532,707	539,905	51,091,881	9,348,468
Buildings and improvements	60,380,424	3,110,905	28,504,983	91,996,312	3,712,605
Equipment	296,693	-	37,878	334,571	2,073,433
Total capital assets	111,046,766	8,643,612	31,114,929	150,805,307	17,824,367
Total noncurrent assets	111,296,789	8,643,612	31,294,712	151,235,113	17,824,367
Total assets	150,947,073	11,837,399	36,830,327	199,614,799	23,581,298

The accompanying Notes to the Basic Financial Statements are an integral part of this Statement
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**Sonoma County Water Agency
Statement of Net Assets
Proprietary Funds (continued)**

June 30, 2004

	Business-type Activities				
	Enterprise Funds				Internal Service Funds
	Water Transmission	Water Supply	Sanitation	Total	
Liabilities					
Current liabilities payable from unrestricted assets					
Accounts payable and accrued expenses	\$ 2,634,777	\$ 690,951	\$ 196,335	\$ 3,522,063	\$ 62,147
Total current liabilities payable from unrestricted assets	2,634,777	690,951	196,335	3,522,063	62,147
Current liabilities payable from restricted assets					
Deposits from others	4,230	-	-	4,230	
Interest payable	338,979	-	103,427	442,406	83,577
General obligation bonds payable	-	-	32,000	32,000	-
Capital lease payable	-	-	43,810	43,810	357,561
Revenue bonds payable	310,000	-	150,000	460,000	-
Total current liabilities payable from restricted assets	653,209	-	329,237	982,446	441,138
Total current liabilities	3,287,986	690,951	525,572	4,504,509	503,285
Noncurrent liabilities					
General obligation bonds payable	-	-	630,000	630,000	-
Capital leases payable	-	-	721,930	721,930	8,269,728
Revenue bonds payable	15,196,771	-	5,962,409	21,159,180	-
Advance from other governments	8,756,524	-	-	8,756,524	-
Total noncurrent liabilities	23,953,295	-	7,314,339	31,267,634	8,269,728
Total liabilities	27,241,281	690,951	7,839,911	35,772,143	8,773,013

The accompanying Notes to the Basic Financial Statements are an integral part of this Statement
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**Sonoma County Water Agency
Statement of Net Assets
Proprietary Funds (continued)**

June 30, 2004

	Business-type Activities				
	Enterprise Funds				Internal Service Funds
	Water Transmission	Water Supply	Sanitation	Total	
Net assets					
Invested in capital assets, net of related debt	\$ 86,783,471	\$ 8,643,612	\$ 23,574,780	\$ 119,001,863	\$ 9,197,078
Restricted for debt service	14,217,568	-	279,430	14,496,998	-
Restricted for recycled water/water conservation	3,694,154	-	-	3,694,154	-
Unrestricted	19,010,599	2,502,836	5,136,206	26,649,641	5,611,207
Total net assets	123,705,792	11,146,448	28,990,416	163,842,656	14,808,285

Adjustment to reflect the consolidation of internal service funds net assets related to the enterprise funds

14,808,285

Total net assets of business-type activities

\$ 178,650,941

The accompanying Notes to the Basic Financial Statements are an integral part of this Statement
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Sonoma County Water Agency
Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Funds

Year Ended June 30, 2004

	Business-type Activities				
	Enterprise Funds				Internal Service Funds
	Water Transmission	Water Supply	Sanitation	Total	
Operating revenue					
Water sales	\$ 26,528,580	\$ 1,041,791	\$ -	\$ 27,570,371	\$ -
Water services	48,704	-	-	48,704	-
Power sales	1,057,070	-	-	1,057,070	-
Flat charges	-	-	2,354,017	2,354,017	-
Sanitation services	-	-	135,795	135,795	-
Equipment rental	-	-	-	-	1,510,776
Real estate rental	-	-	-	-	1,014,414
Miscellaneous	10,106	(12,021)	4,882	2,967	-
Total operating revenue	27,644,460	1,029,770	2,494,694	31,168,924	2,525,190
Operating expenses					
Services and supplies	24,612,669	5,100,397	2,162,698	31,875,764	1,342,213
Depreciation and amortization	2,468,368	125,741	1,137,024	3,731,133	910,951
Total operating expenses	27,081,037	5,226,138	3,299,722	35,606,897	2,253,164
Operating income (loss)	563,423	(4,196,368)	(805,028)	(4,437,973)	272,026
Nonoperating revenue (expenses)					
Taxes and assessments	-	-	55,507	55,507	-
Investment earnings	431,178	20,296	55,657	507,131	77,031
Interest expense	-	-	(368,910)	(368,910)	(288,177)
Gain on sale of assets	-	-	-	-	28,394
Intergovernmental revenue	4,564	712,658	-	717,222	-
Noncapital contributions	-	-	-	-	-
Connection fees	-	-	211,222	211,222	-
Total nonoperating revenue (expense)	435,742	732,954	(46,524)	1,122,172	(182,752)

The accompanying Notes to the Basic Financial Statements are an integral part of this Statement

Sonoma County Water Agency
Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Funds (continued)

Year Ended June 30, 2004

	Business-type Activities				
	Enterprise Funds				Internal Service Funds
	Water Transmission	Water Supply	Sanitation	Total	
Net income (loss) before transfers	999,165	(3,463,414)	(851,552)	(3,315,801)	89,274
Transfers in	-	3,025,742	-	3,025,742	-
Change in net assets	999,165	(437,672)	(851,552)	(290,059)	89,274
Net assets at beginning of year	122,706,627	11,584,120	29,841,968		14,719,011
Net assets at end of year	\$ 123,705,792	\$ 11,146,448	\$ 28,990,416		\$ 14,808,285
Adjustments to reflect the consolidation of internal service funds activities related to enterprise funds				89,274	
Change in net assets of business-type activities				\$ (200,785)	

The accompanying Notes to the Basic Financial Statements are an integral part of this Statement

Sonoma County Water Agency
Statement of Cash Flows
Proprietary Funds

Year Ended June 30, 2004

	Business-type Activities				
	Enterprise Funds				
	Water Transmission	Water Supply	Sanitation	Total	Internal Service Funds
Cash flows from operating activities					
Receipts from customers	\$ 27,436,422	\$ 928,961	\$ 2,485,796	\$ 30,851,179	\$ -
Payments for interfund services provided	-	-	-	-	2,526,608
Payments for interfund services used	(13,719,536)	(2,278,779)	(1,257,150)	(17,255,465)	(966,657)
Payments to suppliers	(11,377,353)	(2,932,103)	(861,919)	(15,171,375)	(356,334)
Net cash provided by (used in) operating activities	2,339,533	(4,281,921)	366,727	(1,575,661)	1,203,617
Cash flows from noncapital financing activities					
Taxes and assessments	-	-	55,507	55,507	-
Net cash provided by noncapital financing activities	-	-	55,507	55,507	-
Cash flows from capital and related financing activities					
Purchase of capital assets	(8,070,846)	(2,285,044)	(263,091)	(10,618,981)	(11,973,620)
Principal paid on capital debt	(145,000)	-	(218,096)	(363,096)	(172,711)
Interest paid on capital debt	(863,455)	-	(412,703)	(1,276,158)	(204,600)
Proceeds from long-term debt	4,530,095	-	-	4,530,095	8,800,000
Proceeds from Federal/State grants	32,840	488,396	-	521,236	-
Capital contributions - connection fees	-	-	211,222	211,222	-
Proceeds from sale capital assets	-	-	-	-	26,100
Transfers in	-	3,025,742	-	3,025,742	-
Net cash provided by (used in) capital and related financing activities	(4,516,366)	1,229,094	(682,668)	(3,969,940)	(3,524,831)
Cash flows from investing activities					
Interest income	431,178	20,296	55,657	507,131	77,031

The accompanying Notes to the Basic Financial Statements are an integral part of this Statement

Sonoma County Water Agency
Statement of Cash Flows
Proprietary Funds (continued)

Year Ended June 30, 2004

	Business-type Activities				
	Enterprise Funds				
	Water Transmission	Water Supply	Sanitation	Total	Internal Service Funds
Net decrease in cash and cash equivalents	(1,745,655)	(3,032,531)	(204,777)	(4,982,963)	(2,244,183)
Balances at beginning of year	37,531,668	5,453,119	5,676,220	48,661,007	7,994,739
Balances at end of year	\$ 35,786,013	\$ 2,420,588	\$ 5,471,443	\$ 43,678,044	\$ 5,750,556
Cash and cash equivalents includes the following at June 30, 2004:					
Cash and investments	\$ 21,238,236	\$ 2,420,588	\$ 5,088,586	\$ 28,747,410	\$ 5,750,556
Restricted cash and investments	14,547,777	-	382,857	14,930,634	-
	\$ 35,786,013	\$ 2,420,588	\$ 5,471,443	\$ 43,678,044	\$ 5,750,556
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:					
Operating income (loss)	\$ 563,423	\$ (4,196,368)	\$ (805,028)	\$ (4,437,973)	272,026
Adjustments to reconcile operating income (loss) to net cash provided by operating activities					
Depreciation expense and amortization expense	2,468,368	125,741	1,137,024	3,731,133	910,951
Change in assets and liabilities					
Receivables, net	(264,590)	(100,809)	(8,897)	(374,296)	1,418
Accounts payable and other payables	(481,673)	(110,485)	43,628	(548,530)	-
Accrued expenses	54,005	-	-	54,005	19,222
Net cash provided by (used in) operating activities	\$ 2,339,533	\$ (4,281,921)	\$ 366,727	\$ (1,575,661)	\$ 1,203,617
Noncash investing, capital and financing activities:					
Project costs included in accounts payable	\$ (869,780)	\$ 34,789	\$ (97,697)	\$ (932,688)	\$ (30,540)
Net decrease in fair value of investment in County Treasurer's pooled cash	\$ 410,184	\$ 53,893	\$ 63,797	\$ 527,874	\$ 85,564

The accompanying Notes to the Basic Financial Statements are an integral part of this Statement

**Sonoma County Water Agency
Statement of Fiduciary Assets and Liabilities
Fiduciary Funds**

June 30, 2004

	Agency Fund
Assets	
Current restricted assets	
Cash and investments	\$ 14,100
Total current restricted assets	\$ 14,100
Liabilities	
Current liabilities payable from restricted assets	
Deposits from others	\$ 14,100
Total current liabilities payable from restricted assets	\$ 14,100

Sonoma County Water Agency

Notes to the Basic Financial Statements

Year Ended June 30, 2004

The notes to the basic financial statements include a summary of significant accounting policies and other notes considered essential to fully disclose and fairly present the transactions and financial position of the Water Agency as follows:

- Note A. Defining the Financial Reporting Entity
- Note B. Summary of Significant Accounting Policies
- Note C. Stewardship, Compliance and Accountability
- Note D. Cash and Investments
- Note E. Capital Assets
- Note F. Employees' Retirement Plan
- Note G. Post Employment Benefits
- Note H. Deferred Compensation Plan
- Note I. Interfund Accounts
- Note J. Leases and Agreements
- Note K. Long-Term Obligations
- Note L. Net Assets
- Note M. Related Party Transactions
- Note N. Commitments and Contingencies
- Note O. Future Governmental Accounting Standard
- Note P. Subsequent Event

The accompanying Notes to the Basic Financial Statements are an integral part of this Statement

Note A. Defining the Financial Reporting Entity

The Sonoma County Water Agency (the "Water Agency") was created in 1949 by an act of the California Legislature. The Water Agency is a countywide special district responsible for domestic water supply delivery to eight prime contractors (the cities of Santa Rosa, Petaluma, Sonoma, Rohnert Park, and Cotati, as well as Valley of the Moon, Forestville, and North Marin Water Districts). The Water Agency designs, constructs and maintains flood control facilities. The Water Agency began generating electrical energy in 1988. The Water Agency operates and maintains Spring Lake Park via contract with the Sonoma County Regional Parks Department.

On January 1, 1995, as part of the countywide reorganization, seven county service areas were transferred from the County to the Water Agency. These sewer sanitation zones provide sanitation services.

The Water Agency is governed by the Board of Supervisors of the County of Sonoma, who act ex-officio as the Board of Directors of the Water Agency. The exercise of this oversight responsibility causes the Water Agency to be an integral part of the County of Sonoma's reporting entity. Therefore, the Water Agency's basic financial statements have also been included as a component unit in the County's annual financial report for the fiscal year ended June 30, 2004.

The Sonoma County Water and Wastewater Financing Authority (the "Authority") was established in December 1995 and is a joint powers authority between the Sonoma County Water Agency and the Forestville County Sanitation District (the "District"), created under the laws of the State of California. The Authority was created for the purpose of assisting in the financing of certain public programs and projects of the Water Agency and the District, and for the purpose of aiding in the financing of public capital improvements. The Authority is administered by the Sonoma County Board of Supervisors. The Authority does not issue separate financial statements. The operations of the Authority are included in the Graton Sanitation Zone, a sewer sanitation zone of the Sanitation Fund, an Enterprise Fund, of the Water Agency.

There are no other organizations or agencies whose basic financial statements should be combined and presented with these basic financial statements.

Note B. Summary of Significant Accounting Policies*Government-wide and fund financial statements*

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) displays information on the Sonoma County Water Agency as a whole. These financial statements include the financial activities of the Water Agency's nonfiduciary activities. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on user fees and charges for support.

Note B. Summary of Significant Accounting Policies (continued)*Government-wide and fund financial statements (continued)*

The statement of net assets presents the financial condition of the governmental activities of the Water Agency at year end. The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate fund financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary and fiduciary fund financial statements. All assets and all liabilities associated with the operations of the Water Agency are included on the statement of net assets. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the Water Agency receives (or gives) value without directly giving (or receiving) equal value in exchange, include property taxes and grants. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the Water Agency must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Water Agency on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Water Agency considers revenues to be available if they are collected within 360 days of the end of the current fiscal period. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Government fund financial statements, therefore, include reconciliations with brief explanations to better identify their relationship between the government-wide statements and the statements for governmental funds.

Note B. Summary of Significant Accounting Policies (continued)

Measurement focus, basis of accounting, and financial statement presentation (continued)

For its business-type activities and enterprise funds, the Water Agency uses the accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue and in the presentation of expenses versus expenditures. Under this basis of accounting, the Water Agency's enterprise fund types apply (a) all GASB pronouncements and (b) only FASB Statements and Interpretations, APB opinions, and Accounting Research Bulletins issued on or before November 30, 1989, except for those that conflict with a GASB pronouncement. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Water Transmission Fund, the Water Supply Fund and the Sanitation Fund are charges to customers for sales and services. Operating expenses include the cost of services and supplies and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted net assets are available, restricted resources are used only after the unrestricted resources are depleted.

The Water Agency's financials are presented utilizing the following major funds:

Governmental fund types: These are the funds through which most governmental functions typically are financed. The major funds included in this category are as follows:

General Fund: This fund is established to account for resources devoted to financing the general services that the Water Agency performs. General tax revenues and other sources of revenue used to finance the fundamental operations of the agency are included in this fund. The fund is charged with all costs of operating the agency for which a separate fund has not been established.

Special Revenue Funds: These funds are used to account for assets, liabilities, revenues and expenditures related to activities supported by specific taxes or other designated revenue sources. These funds are generally required by state, charter or ordinance to finance specific government functions.

Flood Control: This fund is established to account for the proceeds of specific revenue sources other than special assessments, expendable trusts, or major capital projects that are legally restricted to expenditures related to flood control. Six flood control zones account for the maintenance of existing flood control structures and the construction of new projects in the following areas: Zone 1A - Laguna Mark West, Zone 2A- Petaluma Basin, Zone 3A - Valley of the Moon, Zone 5A - Lower Russian River, Zone 7A - North Coast, Zone 8A - South Coast.

Note B. Summary of Significant Accounting Policies (continued)

Measurement focus, basis of accounting, and financial statement presentation (continued)

Special Revenue Funds (continued)

Warm Springs Dam: This fund is established for the purpose of accumulating resources for the payment of interest and principal on the long-term federal contract payable to the U.S. Army Corps of Engineers for Water Storage Rights at Warm Springs Dam.

Debt Service Fund: This fund includes the debt service annual obligations related to the Water Agency's contract with the U.S. Army Corps of Engineers for water supply storage space at Warm Springs Dam.

Proprietary fund types: These funds account for operations that are organized to be self-supporting through user charges. The major funds included in this category are as follows:

Water Transmission: This fund accounts for the transportation of water and generation of electrical power for services to eight prime contractors (the cities of Santa Rosa, Petaluma, Sonoma, Rohnert Park and Cotati, Valley of the Moon, Forestville, and North Marin Water Districts).

Water Supply: This fund accounts for the water supply and erosion control activities along the Russian River to secure and defend the Water Agency's appropriative water rights. This fund also includes program costs to convert recycled water to beneficial use.

Sanitation: This fund accounts for the sanitation services and for the engineering, administration and operational services of five zones: Graton, Sea Ranch, Penngrove, Geyserville and Airport-Larkfield-Wikiup.

Additionally, the Water Agency reports the following fund types:

Internal Service Funds: These funds are established to account for the financing of goods or services provided by one department or agency to other departments of the Water Agency or other governmental units on a cost reimbursement basis. These activities are recorded as operating revenue in the internal services funds, while expenses to provide the services are recorded as operating expenses. Nonoperating revenue and expenses include investment income, interest expenses and gain on sale of internal services fund assets. The Water Agency maintains separate internal service funds for equipment and facilities.

Agency Funds: These funds are used to account for assets held by the Water Agency on behalf of others as their agent. These funds are custodial in nature and do not involve measurement of results of operations. Funds held are surety deposits pertaining to river access for gravel mining.

Note B. Summary of Significant Accounting Policies (continued)*Encumbrances*

Encumbrance accounting is employed as an extension of the budgetary process. Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of funds are recorded to reserve that portion of the applicable appropriation, is employed in the governmental fund types. Encumbrances outstanding at year-end are reported as reservations of the fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

Cash and Investments

The Water Agency's cash and investments are pooled with the Sonoma County Treasurer except for restricted funds held by an outside trustee. The Sonoma County Treasurer also acts as a disbursing agent for the Water Agency. The fair value of the investments in the pool is determined quarterly. Realized and unrealized gains or losses and interest earned on pooled investments are allocated quarterly to the appropriate funds based on their respective average daily balance for that quarter in the County Treasury Investment Pool (the "Treasury Pool".) The value of the Water Agency's pool shares is based on amortized cost, which is different than fair value. In accordance with GASB No. 31, interest income has been recorded in the fund that earned the interest. The Water Agency have not provided nor obtained any legally binding guarantees during the year ended June 30, 2004, to support the value of pool shares.

The Water Agency applies the provisions of GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, which require governmental entities, including governmental external investment pools, to report certain investments at fair value in the balance sheet and recognize the corresponding change in the fair value of investments in the year in which the change occurred. In accordance with GASB Statement No. 31, the Water Agency has stated certain investments at fair value.

Receivables

The Water Agency's accounts receivable are reported at their estimated realizable value and consist primarily of water sales to local water districts and cities.

Inventories

Inventory for the proprietary fund is valued at average cost. Inventory in the Water Transmission Fund consists of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are consumed.

Restricted Assets - Enterprise Funds

Restricted assets in the Enterprise Funds primarily represent cash and investments in the Water Transmission, Water Supply and Sanitation funds that are restricted for debt service pursuant to various debt covenants. Restricted assets also include amounts for customer deposits.

Note B. Summary of Significant Accounting Policies (continued)*Capital Assets*

Capital assets (including infrastructure) are reported in the applicable governmental or business-type activity columns in the government-wide financial statements. Such assets are stated at cost or, if historical cost is not available, at engineering estimates. Donated capital assets are recorded at estimated fair value on the date of donation. The Water Agency defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Capital assets acquired are capitalized in the respective fund to which it applies. Interest incurred during the construction phase of the capital assets of business-type activities is reflected in the capitalized value of the asset constructed. Interest incurred is netted against interest earned on the invested proceeds over the same period only when proceeds of tax exempt debt is externally restricted to the acquisition or construction of specified assets.

Capital assets used in operations are depreciated using the straight-line method over the estimated useful lives in the government-wide statements and proprietary funds. Estimated useful lives of the assets are as follows: utility plant and equipment, 3 - 50 years; transmission system and reservoirs, 10 - 50 years; infrastructure, 35 - 75 years.

Bond and Certificates of Participation Discounts and Issuance Costs

Bond and certificates of participation discounts and issuance costs related to debt of proprietary fund types are deferred and amortized using a method which approximates the interest method over the term of issuance. These discounts and issuance costs are netted against the related debt.

Compensated Absences

Water Agency employees are entitled to certain compensated absences based on their length of employment. Vacation pay, which may be generally accumulated up to six weeks, is payable upon termination. Sick leave may be accumulated without limitation. The monetary equivalent of 25% of all unused sick leave is vested and payable to employees who separate from the Water Agency for reasons other than disability.

Vacation and sick leave expected to be paid in the ensuing year is accrued in the governmental fund types when an event such as termination or retirement is expected to occur. The accrued liability for vacation and sick leave relating to the proprietary funds and governmental activities is recorded in those funds in the period earned.

Property Tax Revenue

Property taxes, including tax rates, are regulated by the State and are administered locally by the County. The County is responsible for assessing, collecting and distributing property taxes in accordance with state law. The County is responsible for the allocation of property taxes to the Water Agency.

Note B. Summary of Significant Accounting Policies (continued)*Property Tax Revenue (continued)*

The County of Sonoma has adopted the Tectet Alternative Method of Property Tax Allocation known as the "Teeter Plan". The State Revenue and Taxation Code allows counties to distribute secured real property and supplemental property taxes on an accrual basis resulting in full payment to the Water Agency each fiscal year. Any subsequent delinquent payments and related penalties and interest will revert to Sonoma County.

Property taxes are recognized as revenue when they are levied because they are considered to be both measurable and available. Liens on real property are established January 1 for the ensuing fiscal year. The property tax is levied as of July 1 on all taxable property located in the County. Secured property taxes are due in two equal installments on November 1 and February 1, and are delinquent after December 10 and April 10, respectively. Additionally, supplemental property taxes are levied on a pro rata basis when changes in assessed valuation occur due to sales transactions or the completion of construction. Property tax collection and valuation information is disclosed in the County of Sonoma's financial statements.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets invested in capital assets, net of related debt, excludes unspent debt proceeds. Net assets are reported as restricted when there are limitations imposed on their use, either through enabling legislation adopted through external restrictions imposed by creditors, grantors or laws or regulation of other governments.

Interfund Transactions

Quasi-external transactions are accounted for as revenue, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers.

Costs applied consist of expenses incurred by the General Fund that have been allocated to the Water Agency's Special Revenue Funds and the Enterprise Fund. In addition, costs applied include amounts which have been reimbursed by the specific sanitation districts that have a contractual relationship with the Water Agency for certain expenses provided and reported in the General Fund. Transfers between governmental or proprietary funds are noted as part of the reconciliation to the government-wide presentation.

These amounts are eliminated in the governmental activities columns of the statement of net assets.

Note B. Summary of Significant Accounting Policies (continued)*Cash Flows*

Statement of cash flows are presented for proprietary fund types. For this purpose, the Water Agency considers all pooled cash and investments as cash and cash equivalents because the County Treasurer's investment pool is used as a demand deposit account. Cash with trustee and restricted cash and investments with a maturity of three months or less when purchased are also treated as cash and cash equivalents.

Estimates

The preparation of the basic financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

Note C. Stewardship, Compliance and Accountability*Budget and Budgetary Accounting*

The Board of Directors adopts a budget annually to be effective July 1st for the ensuing fiscal year for all governmental and proprietary fund types. The General Manager is authorized to transfer budgeted amounts within any fund except for transfers between the major expenditure classes or transfers between capital assets and operating expenses. Such transfers require approval by the county Administrator and/or Board of Directors. Revisions that change total appropriations must be approved by the Board of Directors. Annual appropriations that have not been encumbered lapse at year-end.

Budgetary data, as revised, is presented as required supplementary information for the General and Special Revenue Funds, since the operations of these funds are budgeted annually. Budgets are adopted on a non-GAAP basis. For the purpose of a budgetary presentation, actual GAAP expenditures have been adjusted to include current year encumbrances, to exclude expenditures against prior year encumbrances and to exclude other financing sources and off-setting expenditures related to capital lease additions. In addition, the budgetary presentation reflects the effect of reimbursements which are negative expenditures used to transfer costs between departments within the governmental funds. For GAAP purposes, reimbursements are recorded as expenditures/expenses in the reimbursing fund and as reductions of the expenditures/expenses in the fund that is reimbursed. Reimbursements primarily consist of charges initially incurred by departments responsible for communications, vehicles and data processing and eventually applied to other funds.

Notes to the Basic Financial Statements

Notes to the Basic Financial Statements

Year Ended June 30, 2004

Year Ended June 30, 2004

Note C. Stewardship, Compliance and Accountability (continued)

Budget and Budgetary Accounting (continued)

The results of "actual" operations on a budgetary basis are reconciled to the results of operations on a GAAP basis as follows:

	Special Revenue Funds			Total
	General Fund	Flood Control	Warm Springs Dam	
Excess of revenue and other sources over (under) expenditures and other uses - budgetary basis	\$(1,420,058)	\$ 617,498	\$2,022,309	\$ 1,719,749
Expenditure charges against prior year encumbrances	(186,778)	(699,737)	(24,400)	(910,915)
Current year encumbrances	240,276	2,339,211	-	2,579,487
Excess of revenue and other sources over (under) expenditures and other uses - GAAP basis	\$(1,366,560)	\$ 2,256,972	\$1,997,909	\$ 3,388,321

Note D. Cash and Investments

The Water Agency follows the practice of pooling cash and investments of all funds with the County Treasurer except for funds required to be held by outside fiscal agents or trustees under the provisions of bond indentures and lease agreements. The Treasure Oversight Committee has regulatory oversight for all monies deposited into the Treasury Pool.

Interest income earned on pooled cash and investments is allocated quarterly to the various funds based on the average daily balances by fund during the quarter. Interest income from cash and investments with fiscal agents or trustees is credited directly to the related fund.

Investment Guidelines

The Water Agency's pooled cash and investments are invested pursuant to investment policy guidelines established by the County Treasurer and approved by the Board. The objectives of the policy are, in order of priority: safety of capital, liquidity and maximum rate of return. The policy addresses the soundness of financial institutions in which the County will deposit funds, types of investment instruments as permitted by the California Government Code, and the percentage of the portfolio that may be invested in certain instruments with longer terms to maturity.

Note D. Cash and Investments (continued)

Permitted investments include the following:

- U.S. Treasury and Federal Agency securities
- Bonds issued by local agencies
- Registered State Warrants and Municipal Notes
- Negotiable certificates of deposit
- Bankers' acceptances
- Commercial paper
- Medium-term corporate notes
- Local Agency Investment Fund (State Pool) demand deposits
- Repurchase agreements
- Reverse repurchase agreements
- Shares of a mutual fund average life
- Collateralized mortgage obligations

A copy of the County Investment Policy is available upon request from the Sonoma County Treasurer at 585 Fiscal Drive, Room 100F, Santa Rosa, California, 95403.

Balance Sheet

A reconciliation of cash and investments shown on the accompanying statement of net assets is as follows:

Cash and investments	\$ 139,221,374
Restricted cash for revenue bonds	13,151,609
Restricted cash and investments with trustee	1,779,025
	\$ 154,152,008

This balance consists of \$750 in cash on hand and \$154,151,258 in investments.

Investments

The Water Agency's investments at June 30, 2004 are categorized to give an indication of the level of custodial credit risk assumed by the Water Agency. Category 1 includes investments that are insured or registered, or for which the securities are held by the Water Agency or its agent in the Water Agency's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Water Agency's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agency but not in the Water Agency's name. Investments in pools managed by other governments or in mutual funds are not required to be categorized. Investments held during the year did not vary from those held at year end in type or risk.

Notes to the Basic Financial Statements

Year Ended June 30, 2004

Note D. Cash and Investments (continued)

At June 30, 2004, investments included the following:

	Category			Carrying Amount
	1	2	3	
U.S. Treasury securities held by County Treasurer	\$ 68,471,398	\$ -	\$ -	\$ 68,471,398
Uncategorized:				
Cash and investments held by trustee				1,779,025
Investment in County Treasurer's pooled cash				83,900,835
				<u>\$ 154,151,258</u>

U.S. Treasury Securities

Included in the investments balance are zero-coupon U.S. Government securities which are to be used specifically to fund the repayment of the Water Agency's \$116,263,594 contract payable (see Note K). The securities have a yield of approximately 7.31%, with yield described as the percentage increase in fair value from the prior fiscal year-end. These securities mature in various years ranging from 2004 to 2022.

Investment in County Treasurer's Pooled Cash

As of June 30, 2004, the weighted average maturity of the Treasury Pool was approximately one year. Forty-eight percent of the securities in the Treasury Pool have maturities of zero to one year, thirty-one percent have maturities of one to three years, and twenty-one percent have maturities of three to five years.

A portion of the securities in the Treasury Pool have variable interest rates that are tied to certain indices such as LIBOR (floating rate securities). Floating rate securities will influence the performance of the portfolio based on the increase/decrease occurring in interest rates over the short term.

Fair value fluctuates with interest rates, and increasing rates could cause fair value to decline below original cost. County management believes the liquidity in the portfolio is more than adequate to meet cash flow requirements and to preclude the County from having to sell investments below original cost for that purpose.

Notes to the Basic Financial Statements

Year Ended June 30, 2004

Note D. Cash and Investments (continued)

Investment in County Treasurer's Pooled Cash (continued)

The net decrease in the fair value of the Water Agency's investments during fiscal year 2003-04 was \$3,619,094. This amount takes into account all changes in fair value (including purchases and sales) that occurred during the year. The unrealized gain on investments held at year-end amounted to \$55,082,855. Realized gain on investments that matured during fiscal year 2003-2004 amounted to \$591,816.

Net decrease in fair value of investments during the fiscal year 2003-04 by fund, and included in revenue - investment earnings, were as follows:

General Fund	\$ 40,361
Special Revenue Funds - Flood Control and Warm Springs Dam	329,429
Debt Service Fund	2,635,866
Enterprise Funds - Water Transmission, Water Supply and Sanitation	527,874
Internal Service Funds	85,564
	<u>\$ 3,619,094</u>

Note E. Capital Assets

Capital asset activity for the year ended June 30, 2004 was as follows:

	Beginning Balance July 1, 2003	Additions	Retirements	Transfers and Adjustments	Ending Balance June 30, 2004
<i>Governmental activities</i>					
Capital assets, not being depreciated:					
Intangible assets - water storage rights	\$ 102,371,000	\$ -	\$ -	\$ -	\$ 102,371,000
Land	1,537,528	-	-	-	1,537,528
Construction in progress	4,163,428	2,414,383	-	(2,694,445)	3,883,366
Total capital assets, not being depreciated	108,071,956	2,414,383	-	(2,694,445)	107,791,894

Sonoma County Water Agency

Notes to the Basic Financial Statements

Year Ended June 30, 2004

Note E. Capital Assets (continued)

	Beginning Balance July 1, 2003	Additions	Retirements	Transfers and Adjustments	Ending Balance June 30, 2004
<i>Governmental activities (continued)</i>					
Capital assets, being depreciated:					
Infrastructure	56,896,208	-	-	2,694,445	59,590,653
Buildings and improvements	3,419,740	-	-	-	3,419,740
Equipment	1,016,566	36,089	-	-	1,052,655
Total capital assets being depreciated	61,332,514	36,089	-	2,694,445	64,063,048
Less accumulated depreciation for:					
Infrastructure	(11,741,470)	(1,384,507)	-	-	(13,125,977)
Buildings and improvements	(955,964)	(86,066)	-	-	(1,042,030)
Equipment	(627,760)	(98,221)	-	-	(725,981)
Total accumulated depreciation	(13,325,194)	(1,568,794)	-	-	(14,893,988)
Total capital assets, being depreciated, net	48,007,320	(1,532,715)	-	2,694,445	49,169,060
Governmental activities capital assets, net	\$ 156,079,276	\$ 881,678	\$ -	\$ -	\$ 156,960,954

Warm Springs Dam Project

Pursuant to the Flood Control Act of 1962, a project was authorized for the construction of Warm Springs Dam and Lake Sonoma. The Warm Springs Dam has a total gross storage capacity of 381,000 acre-feet and total water supply storage of 355,000 acre-feet. The Water Agency has contracted for the right to the storage space for 212,000 acre-feet of water. The Water Agency uses the storage space to control and dispose of flood, storm and other waters. Since such flood control activities are a governmental function, the cost of the project has been capitalized as an inexhaustible intangible asset.

Sonoma County Water Agency

Notes to the Basic Financial Statements

Year Ended June 30, 2004

Note E. Capital Assets (continued)

Warm Springs Dam Project (continued)

In March 1992, the cost of the project to the Water Agency was established at \$102,371,000. The estimated cost of the Water Agency's portion of the project is 30.2% of the total project joint use construction costs and accrued interest. The liability for the contract is shown as a long term contract payable within the governmental activities (Note K). Repayment of this obligation comes from the proceeds of a countywide levied property tax.

The project became operational for water supply on November 1, 1994. The Water Agency does not own any part of the tangible dam facilities. The payments under the contract only entitle the Water Agency to permanent water storage rights.

	Beginning Balance July 1, 2003	Additions	Retirements	Transfers and Adjustments	Ending Balance June 30, 2004
<i>Business-type activities</i>					
Capital assets, not being depreciated:					
Land	\$ 7,800,681	\$ 2,271,723	\$ -	\$ -	\$ 10,072,404
Construction in progress	41,783,290	19,890,820	-	(1,233,761)	60,440,349
Total capital assets, not being depreciated	49,583,971	22,162,543	-	(1,233,761)	70,512,753
Capital assets, being depreciated:					
Buildings and improvements	144,708,404	-	-	1,042,483	145,750,887
Equipment	6,702,930	572,540	(101,170)	-	7,174,300
Total capital assets, being depreciated	151,411,334	572,540	(101,170)	1,042,483	152,925,187
Less accumulated depreciation for:					
Buildings and improvements	(46,122,786)	(3,919,184)	-	-	(50,041,970)
Equipment	(4,160,742)	(702,643)	97,089	-	(4,766,296)
Total accumulated depreciation	(50,283,528)	(4,621,827)	97,089	-	(54,808,266)

Notes to the Basic Financial Statements

Year Ended June 30, 2004

Note E. Capital Assets (continued)

	Beginning Balance July 1, 2003	Additions	Retirements	Transfers and Adjustments	Ending Balance June 30, 2004
<i>Business-type activities (continued)</i>					
Total capital assets, being depreciated, net	101,127,806	(4,049,287)	(4,081)	1,042,483	98,116,921
Business-type activities capital assets, net	\$ 150,711,777	\$ 18,113,256	\$ (4,081)	\$ (191,278)	\$ 168,629,674

The total amount of interest capitalized into capital assets of business-type activities during the year amounted to \$914,435.

Depreciation expense was charged to functions within the governmental and business-type activities as follows:

<i>Governmental activities</i>	
General government	\$ 100,264
Spring Lake Park	84,024
Flood Control Zones, including depreciation of infrastructure assets	1,384,506
Total depreciation expense - governmental activities	\$ 1,568,794
<i>Business-type activities</i>	
Water Transmission	\$ 2,458,249
Water Supply	125,741
Sanitation	2,037,837
Total depreciation expense - business-type activities	\$ 4,621,827

Notes to the Basic Financial Statements

Year Ended June 30, 2004

Note F. Employees' Retirement Plan

Plan Description

The Water Agency contributes to Sonoma County's single-employer public employee retirement plan (the "Plan") that is administered by the Sonoma County Employees' Retirement Association (the "Retirement Association"). The Water Agency joined the Retirement Association as of October 1, 1963. Substantially all full-time employees of the Water Agency participate in this plan. All permanent employees working at least half time of a full-time position for the Water Agency are eligible. Benefits are based on the employee's final average salary, years of service, and age at the time of retirement. The Plan is governed by the California Government Code, Title 3, Division 4, Part 3, Chapter 3.

The financial statements for the County of Sonoma (the primary government) contain additional financial information for the defined pension benefits, which is not presented here because the Water Agency portion cannot be separated from the whole. In addition, an audit report of the Retirement Association regarding the financial position of the Plan and other information for the year ended December 31, 2003, is on file at the County Auditors' Office.

Funding Status

Plan members were required to contribute 5% - 12%, depending upon their age at their date of entry, of their annual covered salary at June 30, 2004. The Water Agency is required to contribute at an actuarially determined rate which was 18.68% of annual covered payroll at June 30, 2004. The Water Agency's contributions to the Plan during the years ended June 30, 2002, 2003, and 2004 were \$1,526,474, \$1,742,286, and \$2,016,677 respectively, equal to the required contribution each year.

The Water Agency's total payroll for covered employees for the plan year ended December 31, 2003 was \$13,843,055, which represents approximately 5.32% of the Retirement Association's payroll for covered employees.

Note G. Post Employment Benefits

In addition to the pension benefits described in Note F, the Water Agency provides post-retirement health care benefits, in accordance with County resolutions, to all active, covered employees who retire from the Water Agency on or after attaining age 50 with at least 10 years of service. The Water Agency pays approximately 85% of the health care insurance premium for the retirees and their eligible dependents. The retiree can choose one of three health care providers. The Water Agency reimburses a fixed amount of \$66.60 per month for a Medicare supplement for each retiree aged 65 and over covered under Medicare Parts A and B. The cost of post-retirement health care benefits are recognized as an expenditure as the Water Agency reimburses the County for premiums paid. The financial statement for the County of Sonoma (the primary government) contains the financial information for the post-employment benefits, which is not presented here because the Water Agency portion cannot be separated from the whole.

Note H. Deferred Compensation Plan

The Water Agency participates in the County of Sonoma deferred compensation plan (the "Plan") which was created in accordance with California Government Code Section 53212 and Internal Revenue Code Section 457. The Plan, available to permanent employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or an unforeseeable emergency.

In 1998, the County amended the Plan's documents to comply with a new federal law. The Plan's assets have been placed into a trust for the exclusive benefit of the employees and their beneficiaries. The County is the administrator of the Plan but the assets are held by an independent investment manager and, therefore are not recorded as assets of the County. Each employee directs the investment of the assets in his or her account.

Note I. Interfund Accounts

Interfund Receivables/Payables

At June 30, 2004, interfund balances between the Water Agency, the Sonoma County Sanitation Districts and the County of Sonoma are as follows:

Government activities

Advances to/(from) other related governments

Receivable Fund	Payable Fund	Amount
County of Sonoma	Sonoma County Water Agency - General Fund	\$ (807,100)
Sonoma County Water Agency - General Fund	Forestville Sanitation District	807,100
Sonoma County Water Agency - General Fund	Occidental Sanitation District	250,000
Sonoma County Water Agency - General Fund	Forestville Sanitation District	563,000
Less allowance		(435,100)
Total		\$ 377,900

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other related governments" (i.e., the current portion of interfund loans) or "advances to/(from) other related governments" (i.e., the non-current portion of interfund loans).

Note I. Interfund Accounts (continued)

Government activities (continued)

On June 15, 2004 the Board of Directors resolved to forgive the debt owed by Forestville Sanitation District contingent upon the sale of two parcels of land. The total proceeds of the sale will go towards paying the debt currently owed to the Water Agency (\$1,370,100), and the remaining debt will be forgiven. An allowance of \$435,100 has been made to reflect the estimated amount of debt to be forgiven.

Transfers

A summary of transfer activity is as follows: -

Transfer from	Transfer to	Amount	Purpose
General Fund	Water Supply Fund	\$ 3,025,742	Provide funding to cover portion of Russian River projects (\$1,925,742) and recycled water projects (\$1,100,000).
Warm Springs Dam Fund	Debt Service Fund	1,000,000	Transfer funds for scheduled principal and interest payments.
		\$ 4,025,742	

Note J. Leases and Agreements

The Water Agency entered into a lease agreement on December 1, 1995 with the Sonoma County Water and Wastewater Financing Authority. The Sonoma County Water and Wastewater Financing Authority ("the Authority") is a joint powers authority created to provide financial assistance to the Water Agency by constructing and financing the Forestville and Graton Regional Wastewater Facilities Improvement Project, and by leasing these improvements to the Water Agency. The Authority is administered by the Board, whose members are the Board of Supervisors of the County, acting in its ex-officio capacity as the Board of Directors of the Water Agency.

The financing terms of this lease agreement have been disclosed in Note K as a capital lease payable.

Operating Lease

The Water Agency had a lease agreement for office facilities through January 2005. Operating costs and property taxes on the leased premises are included in the rental payments. Rental expense for 2004, amounted to \$392,003. Future minimum lease payments are as follows:

Year ending June 30, 2005	\$ 228,577
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Sonoma County Water Agency

Notes to the Basic Financial Statements

Year Ended June 30, 2004

Note K. Long-Term Obligations

Debt at June 30, 2004, consists of the following:

	Governmental Activities	Business-type Activities
General obligation bonds	\$ -	\$ 662,000
Capital lease payable	-	9,393,029
Water revenue bonds payable	-	15,535,000
Water and Wastewater revenue bonds payable	-	6,150,000
Advance from other governments	-	8,756,524
Long-term contracts payable	116,263,594	-
Compensated absences	2,011,625	-
	\$ 118,275,219	\$ 40,496,553

Business-type activities

General Obligation Bonds

	Maturity Dates	Interest Rates	Authorized & Issued	Outstanding June 30, 2004
<u>Sanitation Zones</u>				
1976 Graton	2016	5%	\$ 350,000	\$ 178,000
1977 Penngrove	2017	5%	300,000	172,000
1980 Geyserville	2020	5%	500,000	312,000
Total long-term obligation				\$ 662,000

Sanitation General Obligation Bonds are repaid from tax revenues.

Capital Lease Payable - Revenue Bonds, Series 1995

	Maturity Dates	Interest Rates	Authorized & Issued	Outstanding June 30, 2004
Forestville and Graton Regional Wastewater Facilities Improvement Project Revenue Bonds, Series 1995	2016	6.5%	\$ 1,031,364	\$ 765,740

Capital Lease Payable - LaSalle Bank

	Maturity Dates	Interest Rates	Authorized & Issued	Outstanding June 30, 2004
LaSalle Bank	2016	4.65%	\$ 8,800,000	\$ 8,627,289

Sonoma County Water Agency

Notes to the Basic Financial Statements

Year Ended June 30, 2004

Note K. Long-Term Obligations (continued)

The Forestville and Graton Regional Wastewater Facilities Improvement Project Revenue Bonds, Series 1995 are to be paid from the sewer revenues of the Graton Sanitation Zone, with interest payments made semi-annually.

Water Revenue Bonds Payable

	Maturity Date	Interest Rates	Authorized and Issued	Outstanding June 30, 2004
Water Revenue Bonds, 2003 Series A	2032	2.00 - 5.00%	\$ 15,680,000	\$ 15,535,000
Less deferred amount for unamortized discount				(28,229)
Total bonds payable, net of discount				\$ 15,506,771

The 2003 Series A Bonds are special obligations of the Water Agency, payable solely from Net Revenues of the Water Agency's Water Transmission System, and amounts on deposit in the related funds and accounts. Neither the full faith and credit nor the taxing power of the Water Agency is pledged to the payment of 2003 Series A Bonds or interest thereon. The 2003 Series A Bonds are not secured by a legal or equitable pledge of, or charge, or lien, or encumbrance upon, any of the property of the Water Agency or any of its income or receipts, except the Net Revenues of the Water Transmission System and amounts on deposit. These bonds proceeds will be used to construct and equip certain facilities and improvements known as Collection 6-Wohler/Forestville Pipeline, Kawana Springs Tank No. 2, the Eldridge to Madrone portion of the Annadel-Sonoma Pipeline, the funding of a reserve fund, and the payment of issuance costs. The facilities constructed with 2003 Series A Bond proceeds are part of the Water Supply and Transmission System Project.

Water and Wastewater Revenue Bonds Payable

	Maturity Date	Interest Rates	Authorized and Issued	Outstanding June 30, 2004
California Statewide Communities Development Authority (CSCDA)				
2000B Revenue Bonds	2026	4.0 - 5.65%	\$ 6,570,000	\$ 6,150,000
Less deferred amount for unamortized discount				(37,591)
Total bonds payable, net of discount				\$ 6,112,409

The terms covering the CSCDA 2000B Water and Wastewater Revenue Bonds provide that the revenue be irrevocably pledged and deposited with a trustee for the security and payment of interest and principal on the bonds. In addition, this pledge shall constitute a first lien on the revenues and such other money for the payment of the bonds. All funds and accounts held under this bond are required to be used for investments authorized by the CSCDA. These bond proceeds are being used to finance a portion of the cost of upgrades to the Airport-Larkfield-Wikiup Sanitation Zone's treatment plant, wastewater pipelines, storage ponds and irrigation system in connection with the Storage, Reclamation and Treatment Facilities Project.

Notes to the Basic Financial Statements

Notes to the Basic Financial Statements

Year Ended June 30, 2004

Year Ended June 30, 2004

Note K. Long-Term Obligations (continued)

Note K. Long-Term Obligations (continued)

Advances from Other Governments

Changes in Long-Term Obligations

The Water Agency is in process of constructing a collector well to be located adjacent to the Russian River at Wohler Road. The State of California Department of Water Resources is loaning \$15,858,989 to assist in the financing of this project. As of June 30, 2004, the Water Agency had received loan funds in the amount of \$8,756,524. Repayment of this loan will commence upon completion of the project.

A summary of changes in long-term obligations is as follows:

Governmental activities

Long-Term Contracts Payable	Maturity Dates	Interest Rates	Authorized and Issued	Outstanding June 30, 2004
1986 Federal contract payable	2034	3.225%	\$ 102,371,000	\$ 116,263,594

	Balance July 1, 2003	Increases	Decreases	Balance June 30, 2004	Amounts Due Within One Year
Governmental activities					
Long-term contracts payable	\$ 115,784,734	\$ 1,657,704	\$ 1,178,844	\$ 116,263,594	\$ -
Compensated absences	1,808,607	1,820,275	1,617,257	2,011,625	-
Total governmental activities	117,593,341	3,477,979	2,796,101	118,275,219	-
Business-type activities					
General Obligation Bonds	694,000	-	32,000	662,000	32,000
Capital Lease Payable - Revenue Bonds, Series 1995	806,836	-	41,096	765,740	43,810
LaSalle Bank	-	8,800,000	172,711	8,627,289	357,561
Water Revenue Bonds Series 2003A	15,680,000	-	145,000	15,535,000	310,000
Water and Wastewater Revenue Bonds Series 2000B	6,295,000	-	145,000	6,150,000	150,000
Advance from Other Governments	4,226,429	4,530,095	-	8,756,524	-
Total business-type activities	27,702,265	13,330,095	535,807	40,496,553	893,371
Total	\$ 145,295,606	\$ 16,808,074	\$ 3,331,908	\$ 158,771,772	\$ 893,371

The terms of the agreement with the Department of the Army Corps of Engineers stipulates that interest accrued on the contract prior to the time of the first payment be compounded annually and added to the principal. As a result of adding the accrued interest, the long-term contracts payable was increased by \$1,657,704 for 2004. This addition does not affect the operating funds of the Water Agency. As of June 30, 2004, total unpaid accrued interest that has been applied to principal per the terms of the agreement amounted to \$21,109,405.

Annual payments on the contract commenced on November 1, 1993, and will continue until 2034. The annual payments will include principal and interest at a rate of 3.225%. The payments of principal and interest are currently funded by property tax revenues of the Water Agency. The amount of the payments began at \$930,562 and will increase to \$6,285,571 during the life of the contract.

Compensated Absences

At June 30, 2004, vested vacation and an accrual for vested sick leave for Water Agency employees amounted to \$2,011,625. There were no compensated absences which are considered due or matured. The balance of this obligation is recorded as a noncurrent liability. Compensated absences are generally liquidated by the General Fund.

Sonoma County Water Agency

Notes to the Basic Financial Statements

Year Ended June 30, 2004

Note K. Long-Term Obligations (continued)

Annual Requirements

The annual principal and interest requirements on the long-term debt outstanding at June 30, 2004 (excluding compensated absences), are as follows at June 30 of each year listed:

General Obligation Bonds

Year ending June 30,	Principal	Interest	Total
2005	\$ 32,000	\$ 24,825	\$ 56,825
2006	34,000	31,325	65,325
2007	36,000	29,625	65,625
2008	37,000	27,825	64,825
2009	39,000	25,950	64,950
2010 - 2014	227,000	98,225	325,225
2015 - 2019	230,000	38,100	268,100
2020 - 2021	27,000	2,675	29,675
	\$ 662,000	\$ 278,550	\$ 940,550

Capital Leases Payable

Year ending June 30,	Principal	Interest	Total
2005	\$ 401,371	\$ 446,133	\$ 847,504
2006	421,086	426,419	847,505
2007	441,782	405,723	847,505
2008	463,510	383,994	847,504
2009	486,323	361,181	847,504
2010 - 2014	2,815,802	1,421,720	4,237,522
2015 - 2018	4,363,155	364,332	4,727,487
	\$ 9,393,029	\$ 3,809,502	\$ 13,202,531

Sonoma County Water Agency

Notes to the Basic Financial Statements

Year Ended June 30, 2004

Note K. Long-Term Obligations (continued)

Water Revenue Bonds

Year ending June 30,	Principal	Interest	Total
2005	\$ 310,000	\$ 674,859	\$ 984,859
2006	315,000	668,609	983,609
2007	320,000	662,099	982,099
2008	325,000	654,676	979,676
2009	335,000	645,589	980,589
2010 - 2014	1,855,000	3,043,104	4,898,104
2015 - 2019	2,255,000	2,629,756	4,884,756
2020 - 2024	2,805,000	2,063,178	4,868,178
2025 - 2029	3,520,000	1,315,850	4,835,850
2030 - 2032	3,495,000	360,375	3,855,375
	\$ 15,535,000	\$ 12,718,095	\$ 28,253,095

Water & Wastewater Revenue Bonds

Year ending June 30,	Principal	Interest	Total
2005	\$ 150,000	\$ 324,008	\$ 474,008
2006	160,000	317,708	477,708
2007	165,000	310,908	475,908
2008	170,000	303,813	473,813
2009	180,000	296,333	476,333
2010 - 2014	1,025,000	1,351,813	2,376,813
2015 - 2019	1,310,000	1,070,070	2,380,070
2020 - 2024	1,710,000	661,898	2,371,898
2025 - 2029	1,280,000	147,183	1,427,183
	\$ 6,150,000	\$ 4,783,734	\$ 10,933,734

Notes to the Basic Financial Statements

Notes to the Basic Financial Statements

Year Ended June 30, 2004

Year Ended June 30, 2004

Note K. Long-Term Obligations (continued)

Note M. Related Party Transactions

Long-Term Contracts Payable - 1986 Federal Contract

A summary of transfers to related governments is as follows:

Year ending June 30,	Principal	Interest	Total
2005	\$ 1,216,862	\$ 2,038,303	\$ 3,255,165
2006	1,256,106	1,999,059	3,255,165
2007	2,503,671	3,781,900	6,285,571
2008	2,584,415	3,701,157	6,285,572
2009	2,667,762	3,617,809	6,285,571
2010 - 2014	14,686,193	16,741,664	31,427,857
2015 - 2019	17,212,093	14,215,764	31,427,857
2020 - 2024	20,172,427	11,255,431	31,427,858
2025 - 2029	23,641,912	7,785,945	31,427,857
2030 - 2034	33,799,748	3,916,192	37,715,940
Total debt	119,741,189	69,053,224	188,794,413
Future accrued interest to be applied to principal	(3,477,595)	3,477,595	-
	\$ 116,263,594	\$ 72,530,819	\$ 188,794,413

Receipt from	Payment to	Amount	Purpose
General Fund	Forestville Sanitation District	\$ 275,000	Provide funding to allow Sanitation District to meet operating expenses
General Fund	Occidental Sanitation District	150,000	Provide funding to allow Sanitation District to meet operating expenses
Flood Control Fund - Zone 5A	County of Sonoma - Public Works	25,000	Provide funding to maintain the Rio Nido Geologic Hazard Abatement District for flood control maintenance of the landslide area
		\$ 450,000	

Note L. Net Assets

Note N. Commitments and Contingencies

Net assets consists of three components representing restricted and unrestricted amounts: 1) invested in capital assets, net of related debt, 2) restricted net assets, and 3) unrestricted net assets. Investment in capital assets, net of related debt represents the Water Agency's equity interest in its capital assets, while restricted net assets are those subject to restrictions beyond the Water Agency's control, such as those externally imposed by creditors or law. Any remaining balance of net assets is reported as unrestricted net assets.

Construction

The Water Agency has active construction projects as of June 30, 2004. The projects include expansion and/or improvements of several water storage and wastewater treatment facilities. At June 30, 2004, the Water Agency's commitments to construction projects are as follows:

Portions of unrestricted net assets, which are presented in the fund financial statements, may be designated to indicate tentative plans for financial resource utilization in a future period, such as for general contingencies or capital projects. Such plans or intent are subject to change, have not been legally authorized and may not result in expenditures.

Project	Spent-to-date	Remaining Commitment
Common Facilities	\$ 38,671,705	\$ 7,839,312
Russian River Projects	4,456,825	41,505
Water storage facilities	12,061,029	9,431
Pipeline Facilities	750,064	20,392
Total	\$ 55,939,623	\$ 7,910,640

Designated Fund Balance	
General Fund	
Contingencies	\$ 75,000

The balances spent-to-date include both internal expenses and expenses paid to outside contractors. The remaining commitment balances relate to commitments with outside contractors only.

The commitments for water storage and related facilities are being financed by revenue bonds and a construction loan provided by State of California Department of Water Resources secured by water and wastewater revenues. These projects are also being funded by existing resources from the business-type activities.

Notes to the Basic Financial Statements

Year Ended June 30, 2004

Note N. Commitments and Contingencies (continued)

Risk Management

The Water Agency is covered by the County of Sonoma's self-insurance program, which is accounted for in the County's Risk Management Internal Service Fund. The Water Agency is covered under this program for general liability, auto liability, public employees performance/dishonesty and property insurance.

The County maintains a self-insured retention of \$750,000 per occurrence for general and automobile liability. Excess liability coverage is maintained through participation in the California State Association of Counties, Excess Insurance Authority ("CSAC-EIA"). Limits of this coverage are \$15,000,000.

The County also maintains public employee faithful performance/employee dishonesty coverage through a joint-purchase program provided by National Union Fire Insurance Company and administered by CSAC-EIA with limits of \$5,000,000 and a \$25,000 deductible.

The County maintains "All Risk" property insurance including flood and earthquake through participation in the CSAC-EIA Property Insurance Program. Limits of coverage are \$200,000,000 per occurrence including flood and \$30,000,000 per occurrence for earthquake. Deductibles for most perils are \$50,000 per occurrence, with flood at \$200,000 per county per occurrence and earthquake at 5% of total insured values per unit, per occurrence, subject to a \$500,000 minimum per occurrence. For losses within the deductible, the County maintains a deductible self-insured pool for losses in excess of \$5,000.

During the fiscal year 2003-04, the Water Agency paid annual premiums to the County for this insurance coverage in the amount of \$79,962. Settlements have not exceeded coverages for each of the past three fiscal years.

Economic Dependence

Four major customers purchased water from the Water Agency during the year ended June 30, 2004. The water sales to, and accounts receivable from, those customers are as follows:

Sales		% of total water sales
Santa Rosa	\$ 9,586,665	34.6
Petaluma	4,674,590	16.9
Marin Municipal	3,809,251	13.8
North Marin County	3,931,167	14.2
	<u>\$ 22,001,673</u>	<u>79.5</u>

Notes to the Basic Financial Statements

Year Ended June 30, 2004

Note N. Commitments and Contingencies (continued)

Economic Dependence (continued)

Accounts Receivable at June 30, 2004		% of total accounts receivable
Santa Rosa	\$ 1,216,465	29.5
Petaluma	602,788	14.6
Marin Municipal	474,291	11.5
North Marin County	930,283	22.6
	<u>\$ 3,223,827</u>	<u>78.2</u>

Pending Litigations and Claims

The Water Agency is directly and indirectly involved in various claims, legal actions and complaints relating principally to violations of the Clean Water Act, environmental protection laws, property damage and disputes over water rights. The ultimate amount of liability is contingent upon the final settlement of these claims. The Water Agency is unable to determine the extent of such liabilities at this time and whether any may be covered by insurance.

Contingencies

The Water Agency is liable for clean-up costs related to lead-contaminated fill involving a certain parcel, purchased by the Water Agency as part of a litigation settlement in 2000, and the possible clean-up of the adjacent properties for some lengthy distance. At this time, the Water Agency is unsure as to when the clean-up will take place. The Water Agency estimates the clean-up costs to range from \$500,000 to \$1,250,000. A liability of \$500,000 has been recorded in accrued expenses for Flood Control Zone 1A.

Other Regulatory Matters

Proceedings before the Federal Energy Regulatory Commission ("FERC") could result in reductions in the amount of water diverted from the Eel River into the Russian River, thus reducing one of the Water Agency's sources of supply. Legal counsel, representing the Water Agency at these proceedings, as well as management cannot estimate the likelihood of reduced flows or the effect such reduction would have on the Water Agency's water supplies and water-sale revenues.

Sonoma County Water Agency

Notes to the Basic Financial Statements

Year Ended June 30, 2004

Note O. Future Governmental Accounting Standards

New Pronouncements

The Governmental Accounting Standards Board ("GASB") has released the following new standards.

The GASB issued Statement No. 40, *Deposit and Investment Risk Disclosures - an amendment of GASB Statement No. 3* in March 2003. This Statement addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. GASB No. 40 is effective for financial statements for years beginning after June 15, 2004. The Water Agency will comply with GASB No. 40 for the period ending June 30, 2005.

The Governmental Accounting Standards Board ("GASB") issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries* in November 2003. This Statement establishes accounting and financial reporting standards for impairment of capital assets and also clarifies and establishes accounting for insurance recoveries. GASB No. 42 is effective for financial statements for years beginning after December 15, 2004.

The Governmental Accounting Standards Board ("GASB") issued Statement No. 43, *Financial Reporting for Postemployment Benefit (OPEB) Plans Other than Pension Plans* in April 2004. This Statement establishes uniform financial reporting standards for OPEB plans focusing on reporting current financial information about plan net assets held in trust for OPEB and financial activities related to the administration of the trust. GASB No. 43 is effective for financial statements for years beginning after December 15, 2006.

The Governmental Accounting Standards Board ("GASB") issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefit Other than Pension* in June 2004. This Statement establishes standards for the measurement, recognition, and display of Postemployment Benefits expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers. GASB No. 45 is effective for financial statements for years beginning after December 15, 2007.

Note P. Subsequent Event

On July 1, 2004, the Agency will automatically transfer the Graton Sanitation Zone to the Graton Community Service District (the "District"), provided that the Agency continues to operate the sanitation enterprise until the District is prepared to assume full management responsibility or for a maximum of 18 months, whichever occurs first.

Required Supplementary Information

Budgetary Comparison

Sonoma County Water Agency
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - General Fund - Budgetary Basis

Year Ended June 30, 2004				
	Budgeted Amounts		Actual Amounts (Budgetary Basis) See Note C	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenue				
Property taxes	\$ 4,479,000	\$ 4,479,000	\$ 4,819,839	\$ 340,839
Fines, forfeitures and penalties	1,200	1,200	-	(1,200)
Investment earnings	145,600	145,600	58,070	(87,530)
Intergovernmental	176,000	176,000	9,415	(166,585)
Charges for services	290,300	290,300	677,927	387,627
Miscellaneous	104,000	104,000	141,360	37,360
Total revenue	5,196,100	5,196,100	5,706,611	510,511
Expenditures				
Current				
Salaries and employee benefits	20,447,921	20,297,921	20,177,565	120,356
Services and supplies	6,597,147	6,857,147	6,699,467	157,680
Costs applied	(23,500,000)	(23,500,000)	(23,338,903)	(161,097)
Capital outlay	175,000	140,000	137,798	2,202
Contingencies	500,000	-	-	-
Total expenditures	4,220,068	3,795,068	3,675,927	119,141
Excess of revenue over expenditures	976,032	1,401,032	2,030,684	629,652
Other financing uses				
Transfers to related governments	-	-	(425,000)	(425,000)
Transfers out	(2,500,000)	(3,650,742)	(3,025,742)	625,000
Total other financing uses	(2,500,000)	(3,650,742)	(3,450,742)	200,000
Net changes in fund balances	\$ (1,523,968)	\$ (2,249,710)	(1,420,058)	\$ 829,652
Fund balances at beginning of year			4,365,778	
Adjustment from budgetary basis to GAAP				
Timing difference: Encumbrances			53,498	
Fund balances at end of year			\$ 2,999,218	

Sonoma County Water Agency
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - Special Revenue Fund - Flood Control Zones - Budgetary Basis

Year Ended June 30, 2004				
	Budgeted Amounts		Actual Amounts (Budgetary Basis) See Note C	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenue				
Property taxes	\$ 6,697,500	\$ 6,697,500	\$ 7,467,627	\$ 770,127
Investment earnings	219,750	219,750	234,837	15,087
Intergovernmental	81,600	81,600	30,460	(51,140)
Total revenue	6,998,850	6,998,850	7,732,924	734,074
Expenditures				
Current				
Services and supplies	17,196,112	17,196,112	3,875,454	13,320,658
Capital outlay	-	-	3,214,972	(3,214,972)
Total expenditures	17,196,112	17,196,112	7,090,426	10,105,686
Excess (deficiency) of revenue over expenditures	(10,197,262)	(10,197,262)	642,498	10,839,760
Other financing uses				
Transfers out	(25,000)	(25,000)	(25,000)	-
Total other financing uses	(25,000)	(25,000)	(25,000)	-
Net changes in fund balances	\$(10,222,262)	\$(10,222,262)	617,498	\$ 10,839,760
Fund balances at beginning of year			21,164,423	
Adjustment from budgetary basis to GAAP				
Timing difference: Encumbrances			1,639,474	
Fund balances at end of year			\$ 23,421,395	

Sonoma County Water Agency
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - Special Revenue Fund - Warm Springs Dam - Budgetary Basis

	Year Ended June 30, 2004			
	Budgeted Amounts		Actual Amounts (Budgetary Basis) See Note C	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenue				
Property taxes	\$ 2,665,000	\$ 2,665,000	\$ 3,586,411	\$ 921,411
Investment earnings	100,000	100,000	55,805	(44,195)
Intergovernmental	37,000	37,000	-	(37,000)
Total revenue	2,802,000	2,802,000	3,642,216	840,216
Expenditures				
Current				
Services and supplies	857,695	1,289,671	619,907	669,764
Debt service				
Interest and fiscal charges	-	-	1,657,705	(1,657,705)
Total expenditures	857,695	1,289,671	2,277,612	(987,941)
Excess (deficiency) of revenue over expenditures	1,944,305	1,512,329	1,364,604	(147,725)
Other financing uses				
Long term contract proceeds	-	-	1,657,705	1,657,705
Transfers out	(1,000,000)	(1,000,000)	(1,000,000)	-
Total other financing uses	(1,000,000)	(1,000,000)	657,705	1,657,705
Net changes in fund balances	\$ 944,305	\$ 512,329	2,022,309	\$ 1,509,980
Fund balances at beginning of year			4,881,884	
Adjustment from budgetary basis to GAAP				
Timing difference: Encumbrances			(24,400)	
Fund balances at end of year			\$ 6,879,793	

Sonoma County Water Agency
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - Debt Service Fund - Budgetary Basis

	Year Ended June 30, 2004			
	Budgeted Amounts		Actual Amounts (Budgetary Basis) See Note C	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenue				
Property taxes	\$ -	\$ -	\$ -	\$ -
Investment earnings	50,000	50,000	(2,576,721)	(2,626,721)
Intergovernmental	-	-	-	-
Total revenue	50,000	50,000	(2,576,721)	(2,626,721)
Expenditures				
Current				
Services and supplies	1,000,000	1,000,000	-	1,000,000
Debt service				
Principal	1,142,014	1,142,014	1,178,844	(36,830)
Interest and fiscal charges	2,113,151	2,113,151	2,076,321	36,830
Total expenditures	4,255,165	4,255,165	3,255,165	1,000,000
Deficiency of revenue over expenditures	(4,205,165)	(4,205,165)	(5,831,886)	(1,626,721)
Other financing uses				
Transfers in	1,000,000	1,000,000	1,000,000	-
Total other financing uses	1,000,000	1,000,000	1,000,000	-
Net changes in fund balances	\$ (3,205,165)	\$ (3,205,165)	(4,831,886)	\$ (1,626,721)
Fund balances at beginning of year			75,208,471	
Adjustment from budgetary basis to GAAP				
Timing difference: Encumbrances			-	
Fund balances at end of year			\$ 70,376,585	

Supplementary Information

Sonoma County Water Agency

Combining Balance Sheet - Special Revenue Funds

June 30, 2004

Flood Control Fund										
	Zone 1A Laguna Mark West	Zone 2A Petaluma Bain	Zone 3A Valley of the Moon	Zone 5A Lower Russian River	Zone 7A North Coast	Zone 8A South Coast	Total Flood Control Fund	Warm Springs Dam Fund	Total	
Assets										
Cash and investments	\$ 13,703,770	\$ 7,070,452	\$ 1,071,814	\$ 1,179,986	\$ 66,106	\$ 1,002,035	\$ 24,094,163	\$ 7,466,966	\$ 31,561,129	
Total assets	\$ 13,703,770	\$ 7,070,452	\$ 1,071,814	\$ 1,179,986	\$ 66,106	\$ 1,002,035	\$ 24,094,163	\$ 7,466,966	\$ 31,561,129	
Liabilities and Fund balances										
Liabilities	\$ 154,939	\$ 13,663	\$ 4,166	\$ -	\$ -	\$ -	\$ 172,768	\$ 587,173	\$ 750,941	
Accounts payable	\$ 500,000						\$ 500,000		\$ 500,000	
Accrued expenses										
Total liabilities	654,939	13,663	4,166	-	-	-	672,768	587,173	1,299,941	
Fund balances										
Reserved for encumbrances	1,697,846	591,365	50,000	-	-	-	2,339,211	-	2,339,211	
Unreserved	11,350,985	6,465,424	1,017,648	1,179,986	66,106	1,002,035	21,082,184	6,879,793	27,961,977	
Undergranted							23,421,395	6,879,793	30,301,188	
Total fund balances	13,048,831	7,056,789	1,067,648	1,179,986	66,106	1,002,035	23,421,395	6,879,793	30,301,188	
Total liabilities and Fund balances	\$ 13,703,770	\$ 7,070,452	\$ 1,071,814	\$ 1,179,986	\$ 66,106	\$ 1,002,035	\$ 24,094,163	\$ 7,466,966	\$ 31,561,129	

**Sonoma County Water Agency
Combining Statement of Revenues, Expenditures and Changes in Fund Balances -
Special Revenue Funds**

Year Ended June 30, 2004

	Flood Control Fund										Total	Warm Springs Dam Fund	Total	
	Zone 1A Laguna Mark West	Zone 2A Pedluma Basin	Zone 3A Valley of the Moon	Zone 5A Lower Russian River	Zone 7A North Coast	Zone 8A South Coast	Flood Control Fund	Spring Dam Fund	Warm Springs Dam Fund	Total				
Revenue														
Property taxes	\$ 5,360,283	\$ 1,346,633	\$ 548,069	\$ 118,237	\$ -	\$ 94,403	\$ 7,467,627	\$ 3,586,411	\$ 11,054,038					
Investment earnings	117,112	57,325	15,100	23,991	1,384	19,925	234,837	55,805	290,642					
Intergovernmental	30,460	-	-	-	-	-	30,460	-	30,460					
Total revenue	5,507,855	1,403,960	563,169	142,228	1,384	114,328	7,732,924	3,642,216	11,375,140					
Expenditures														
Current:														
Services and supplies	2,464,779	430,580	73,017	61,811	-	6,382	3,036,569	644,307	3,680,876					
Capital outlay	2,458,405	164,059	(208,081)	-	-	-	2,414,383	-	2,414,383					
Debt service	-	-	-	-	-	-	-	-	-					
Interest and fiscal charges	-	-	-	-	-	-	-	-	-					
Total expenditures	4,923,184	594,639	(135,064)	61,811	-	6,382	5,450,952	2,302,012	7,752,964					
Excess of revenue over expenditures	584,671	809,321	698,233	80,417	1,384	107,946	2,281,972	1,340,204	3,622,176					
Other financing sources (uses)														
Long-term contract proceeds	-	-	-	-	-	-	-	-	1,657,705	1,657,705				
Transfer to related governments	-	-	-	-	(25,000)	-	(25,000)	-	(25,000)	(25,000)				
Transfer out	-	-	-	-	-	-	-	-	(1,000,000)	(1,000,000)				
Total other financing sources (uses)	-	-	-	(25,000)	-	(25,000)	(25,000)	657,705	632,705					
Net change in fund balances	584,671	809,321	698,233	55,417	1,384	107,946	2,256,972	1,997,909	4,254,881					
Fund balances at beginning of year	12,464,160	6,247,468	369,415	1,124,569	64,722	894,089	21,164,423	4,881,984	26,056,307					
Fund balances at end of year	\$ 13,048,831	\$ 7,056,789	\$ 1,067,648	\$ 1,179,986	\$ 66,106	\$ 1,002,035	\$ 23,421,395	\$ 6,879,793	\$ 30,301,188					

**Sonoma County Water Agency
Combining Statement of Net Assets-
Enterprise Funds**

June 30, 2004

	Sanitation Fund										Total	
	Graton	Sea Ranch	Penngrove	Gayversville	Airport Landfill	Wilkup	Total Sanitation Fund	Water Transmission Fund	Water Supply Fund	Total		
Assets												
Current assets												
Cash and investments	\$ 1,078,760	\$ 1,249,828	\$ 955,660	\$ 706,861	\$ 1,097,477	\$ 5,088,386	\$ 21,239,236	\$ 2,420,388	\$ 28,747,410			
Receivable	8,633	5,997	7,957	8,773	32,760	64,172	3,644,830	773,199	4,482,201			
Inventories	-	-	-	-	-	-	208,441	-	208,441			
Total current assets	1,087,393	1,255,825	963,617	715,634	1,130,237	5,152,758	25,089,507	3,193,587	33,436,052			
Noncurrent assets												
Restricted assets												
Cash - revenue bond funds	26,578	-	21,034	64,424	177,888	289,924	12,361,683	-	13,151,699			
Cash and investment with unaccrue	92,933	-	-	-	-	92,933	1,686,092	-	1,779,025			
Deposits with others	-	-	-	-	-	-	13,000	-	13,000			
Total restricted assets	119,511	-	21,034	64,424	177,888	382,857	14,560,777	-	14,943,634			
Deferred charges	17,265	-	-	-	102,518	179,783	230,023	-	429,806			
Capital assets (net of accumulated depreciation):												
Land	417,205	-	-	106,213	1,508,745	2,022,103	5,330,380	-	7,282,543			
Construction in progress	43,188	371,206	43,293	-	82,238	539,505	45,019,269	-	51,071,881			
Buildings and improvements	2,108,893	437,018	833,702	1,148,843	23,954,525	28,504,983	60,380,424	3,110,903	91,996,312			
Equipment	-	7,240	-	-	30,638	37,878	296,693	-	334,571			
Total capital assets	2,569,286	815,464	898,995	1,255,056	25,576,146	31,114,979	111,046,766	8,643,612	150,805,307			
Total noncurrent assets	2,586,551	815,464	898,995	1,255,056	25,738,664	31,294,712	111,296,789	8,643,612	151,235,113			
Total assets	3,793,489	2,071,289	1,862,612	2,035,114	27,046,789	36,830,377	150,947,073	11,837,299	189,614,799			

Sonoma County Water Agency
Combining Statement of Net Assets-
Enterprise Funds (continued)

June 30, 2004

	Sanitation Fund									
	Graton	Sea Ranch	Ferngrove	Geyserville	Airport Landfield Wkipup	Total Sanitation Fund	Water Transmission Fund	Water Supply Fund	Total	
Liabilities										
Current liabilities payable from unrestricted assets										
Accounts payable and accrued expenses	\$ 10,361	\$ 16,402	\$ 120,786	\$ 774	\$ 48,012	\$ 196,335	\$ 2,634,777	\$ 690,951	\$ 3,522,063	
Total current liabilities payable from unrestricted assets	10,361	16,402	120,786	774	48,012	196,335	2,634,777	690,951	3,522,063	
Current liabilities payable from restricted assets										
Deposits from others	-	-	-	-	-	-	-	-	4,230	
Interest payable	19,538	-	2,867	-	81,002	103,427	338,979	-	442,406	
General obligation bonds payable	10,000	-	9,000	13,000	-	32,000	-	-	32,000	
Capital lease payable	43,810	-	-	-	-	43,810	-	-	43,810	
Revenue bonds payable	-	-	-	-	150,000	150,000	-	-	150,000	
Total current liabilities payable from restricted assets	73,368	-	11,867	13,000	231,002	329,237	633,209	-	982,446	
Total current liabilities	83,729	16,402	132,653	13,774	279,014	525,572	3,287,986	690,951	4,504,609	
Noncurrent liabilities										
General obligation bonds payable	168,000	-	163,000	299,000	-	630,000	-	-	630,000	
Capital leases payable	721,930	-	-	-	5,962,409	721,930	15,196,771	-	21,159,180	
Revenue bonds payable	-	-	-	-	-	5,962,409	8,756,524	-	8,756,524	
Advance from other governments	-	-	-	-	-	-	-	-	-	
Total noncurrent liabilities	889,930	-	163,000	299,000	5,962,409	7,314,339	23,953,295	-	31,287,634	
Total liabilities	\$ 973,659	\$ 16,402	\$ 295,653	\$ 312,774	\$ 6,241,423	\$ 7,839,911	\$ 27,241,281	\$ 690,951	\$ 35,772,143	66

Sonoma County Water Agency
Combining Statement of Net Assets-
Enterprise Funds (continued)

June 30, 2004

	Sanitation Fund									
	Graton	Sea Ranch	Ferngrove	Geyserville	Airport Landfield Wkipup	Total Sanitation Fund	Water Transmission Fund	Water Supply Fund	Total	
Net assets										
Invested in capital assets, net of related debt	\$ 1,625,528	\$ 815,464	\$ 726,995	\$ 943,056	\$ 19,463,737	\$ 23,574,780	\$ 86,783,471	\$ 8,643,612	\$ 119,601,863	
Restricted for debt service	99,953	-	18,167	64,434	96,886	279,430	14,217,268	-	14,496,998	
Restricted for recycled water conservation	1,094,349	1,239,423	842,831	714,860	1,244,743	5,136,206	3,694,154	2,207,826	3,694,154	
Unrestricted	-	-	-	-	-	-	19,010,999	-	26,649,641	
Total net assets	\$ 2,819,830	\$ 2,054,887	\$ 1,587,993	\$ 1,722,340	\$ 20,805,366	\$ 28,990,416	\$ 123,705,792	\$ 11,146,448	\$ 163,842,656	

Sonoma County Water Agency
Combining Statement of Revenues, Expenses and Changes in Net Assets -
Enterprise Funds

Year Ended June 30, 2004

	Sanitation Fund							Total	
	Graton	Sea Ranch	Penngrove	Geyserville	Airport Landfield W/keep	Sanitation Fund	Water Transmission Fund		Water Supply Fund
Operating revenue									
Water sales	\$	\$	\$	\$	\$	\$	\$	\$	
Water services	-	-	-	-	-	-	36,528,880	1,041,791	27,570,371
Power sales	-	-	-	-	-	-	48,704	-	48,704
Rail charges	483,039	315,306	280,263	188,098	1,087,311	2,354,017	1,057,070	1,057,070	
Sanitation services	5,936	6,761	6,193	1,725	115,180	135,795	-	2,354,017	2,354,017
Miscellaneous	-	-	-	-	-	4,882	10,106	(12,021)	135,795
	-	-	-	-	-	4,882	10,106	(12,021)	2,967
Total operating revenue	489,975	322,067	266,456	189,923	1,207,373	2,494,694	27,644,460	1,029,770	31,168,924
Operating expenses									
Services and supplies	313,890	204,976	365,851	135,947	1,052,029	2,162,698	24,612,669	5,100,397	31,875,764
Depreciation and amortization	113,235	36,404	38,823	72,805	875,757	1,177,034	2,448,368	125,741	3,731,133
Total operating expenses	427,125	331,380	404,674	208,747	1,927,796	3,299,722	27,081,037	5,226,138	35,606,897
Operating Income (loss)	61,850	(9,313)	(138,218)	(18,824)	(720,423)	(805,028)	563,423	(4,196,368)	(4,437,973)
Nonoperating revenue (expenses)									
Taxes and assessments	16,544	-	15,342	23,621	-	55,507	-	-	55,507
Investment earnings	20,966	23,093	21,113	14,288	(23,803)	53,657	431,178	20,296	507,131
Interest expense	(52,032)	21,425	(8,302)	(14,989)	(315,012)	(368,910)	4,564	712,658	(368,910)
Intergovernmental revenue	-	-	-	-	-	-	-	-	717,222
Noncapital contributions	-	-	-	-	-	-	-	-	-
Connection fees	12,882	-	16,800	-	181,540	211,222	-	-	211,222
Total nonoperating revenue (expenses)	(1,640)	44,518	44,953	22,920	(157,275)	(46,524)	435,742	732,954	1,122,172

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Sonoma County Water Agency
Combining Statement of Revenues, Expenses and Changes in Net Assets -
Enterprise Funds (continued)

Year Ended June 30, 2004

	Sanitation Fund							Total	
	Graton	Sea Ranch	Penngrove	Geyserville	Airport Landfield W/keep	Sanitation Fund	Water Transmission Fund		Water Supply Fund
Net income (loss) before transfers	60,210	35,205	(73,265)	3,996	(877,698)	(851,552)	999,165	(3,463,414)	(3,315,801)
Transfers in	-	-	-	-	-	-	-	3,025,742	3,025,742
Change in net assets	60,210	35,205	(73,265)	3,996	(877,698)	(851,552)	999,165	(437,672)	(290,059)
Net assets at beginning of year	2,759,620	2,019,682	1,661,258	1,718,344	21,689,064	29,841,968	122,706,627	11,584,120	164,135,715
Net assets at end of year	\$ 2,819,830	\$ 2,054,887	\$ 1,587,993	\$ 1,722,340	\$ 20,805,366	\$ 28,990,416	\$ 123,705,792	\$ 11,146,448	\$ 163,844,656

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Sonoma County Water Agency
Combining Statement of Cash Flows -
Enterprise Funds

Year Ended June 30, 2004

	Sanitation Fund							Total	
	Graton	Sea Ranch	Penngrove	Gaysville	Airport Landfield W/klup	Sanitation Fund	Water Transmission Fund		Water Supply Fund
Cash Flows From operating activities									
Receipts from customers	\$ 404,007	\$ 321,133	\$ 287,214	\$ 188,662	\$ 1,194,780	\$ 2,485,796	\$ 27,436,422	\$ 928,961	\$ 30,851,179
Payments for interfund services provided	(228,998)	(87,320)	(95,347)	(113,706)	(721,779)	(1,257,150)	(13,719,516)	(2,278,779)	(17,255,465)
Payments for interfund services used	(73,724)	(206,114)	(215,170)	(32,753)	(384,148)	(861,919)	(11,377,253)	(2,932,103)	(15,171,975)
Payments to suppliers									
Net cash provided by (used in) operating activities	181,275	27,699	(23,303)	42,203	138,853	366,727	2,339,533	(4,281,921)	(1,575,661)
Cash Flows From noncapital financing activities									
Financing activities	16,544	-	15,342	23,621	-	-	-	-	55,507
Taxes and assessments	-	-	-	-	-	-	-	-	-
Net cash provided by noncapital financing activities	16,544	-	15,342	23,621	-	-	-	-	55,507
Cash Flows From capital and related financing activities									
Purchase of capital assets	(2,711)	(53,487)	(42,920)	(42,894)	(121,079)	(263,091)	(8,070,846)	(2,285,044)	(10,618,281)
Principal paid on capital debt	(51,096)	-	(9,000)	(13,000)	(145,000)	(218,096)	(863,455)	-	(363,096)
Interest paid on capital debt	(60,977)	-	(8,825)	(15,925)	(327,016)	(412,703)	-	-	(1,276,158)
Proceeds from long term debt	-	-	-	-	-	-	4,530,095	-	4,530,095
Proceeds from Federal/State grants	-	-	-	-	-	-	32,840	-	488,396
Capital contributions - connection fees	12,882	-	16,800	-	181,540	211,222	-	-	521,236
Transfers in	-	-	-	-	-	-	-	3,025,742	3,025,742
Net cash provided by (used in) capital and related financing activities	(101,862)	(53,487)	(43,945)	(71,819)	(411,555)	(682,668)	(4,516,366)	1,229,094	(3,969,940)
Cash Flows From investing activities									
Interest income	20,966	23,093	21,113	14,288	(23,803)	55,657	431,178	20,296	507,131

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Sonoma County Water Agency
Combining Statement of Cash Flows -
Enterprise Funds (continued)

Year Ended June 30, 2004

	Sanitation Fund							Total	
	Graton	Sea Ranch	Penngrove	Gaysville	Airport Landfield W/klup	Sanitation Fund	Water Transmission Fund		Water Supply Fund
Net Increases (decrease) in cash and cash equivalents	116,973	(2,695)	(30,793)	8,293	(296,505)	(204,777)	(1,745,655)	(3,032,531)	(4,382,963)
Balances at beginning of year	1,081,348	1,252,523	1,007,487	762,992	1,571,870	5,676,220	37,231,668	5,453,119	48,661,007
Balances at end of year	\$ 1,198,271	\$ 1,249,828	\$ 976,694	\$ 771,285	\$ 1,275,365	\$ 5,471,443	\$ 35,786,013	\$ 2,420,588	\$ 43,678,044
Cash and cash equivalent includes the following at June 30, 2004:									
Cash and investments	\$ 1,078,760	\$ 1,249,828	\$ 955,660	\$ 706,861	\$ 1,097,477	\$ 5,088,586	\$ 21,238,226	\$ 2,420,588	\$ 28,747,410
Restricted cash and investments	119,511	-	21,024	64,424	1,77,888	382,857	14,547,777	-	14,930,634
	\$ 1,198,271	\$ 1,249,828	\$ 976,684	\$ 771,285	\$ 1,275,365	\$ 5,471,443	\$ 35,786,013	\$ 2,420,588	\$ 43,678,044
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:									
Operating income (loss)	\$ 61,850	\$ (9,313)	\$ (118,218)	\$ (18,924)	\$ (720,423)	\$ (805,028)	\$ 563,423	\$ (4,196,368)	\$ (4,437,973)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities									
Depreciation and amortization expense	113,235	36,404	38,823	72,805	875,757	1,137,024	2,468,368	125,741	3,731,133
Change in assets and liabilities									
Receivables, net	5,033	(924)	798	(1,161)	(12,593)	(8,897)	(264,590)	(100,809)	(374,296)
Accounts payable and other payables	1,157	1,542	55,334	(10,517)	(3,988)	43,638	(481,673)	(110,485)	(548,530)
Inventory	-	-	-	-	-	-	54,005	-	54,005
Net cash provided by (used in) operating activities	\$ 181,275	\$ 27,699	\$ (23,303)	\$ 42,203	\$ 138,853	\$ 366,727	\$ 2,339,533	\$ (4,281,921)	\$ (1,575,661)

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Sonoma County Water Agency
 Combining Statement of Cash Flows -
 Enterprise Funds (continued)

Year Ended June 30, 2004

	Sanitation Fund							Total
	Graton	Sea Ranch	Peatgrove	Geyerville	Airport Lanfield Whitup	Sanitation Fund	Water Transmission Fund	
Noncash Investing, capital and financing activities:								
Project costs included in accounts payable	\$	-	\$	-	\$	-	\$	(97,697)
								\$ (97,697)
Net decrease in fair value of investment in County Treasurers pooled cash	\$	3,289	\$	3,719	\$	2,906	\$	2,295
								\$ 51,588
								\$ 63,797
								\$ 410,184
								\$ 53,893
								\$ 577,874

Compliance



Independent Auditors' Report on Internal Control and Compliance and on Other Matters Over Financial Reporting Based on Audit of Financial Statements Performed in Accordance with Government Auditing Standards (continued)

This report is intended for the information of the management, Board of Supervisors, County of Sonoma, Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

Pisenti & Brinker LLP

Santa Rosa, California
August 31, 2004

Independent Auditors' Report on Internal Control and Compliance and on Other Matters Over Financial Reporting Based on Audit of Financial Statements Performed in Accordance with Government Auditing Standards

To the Board of Directors
Sonoma County Water Agency
Santa Rosa, California

We have audited the basic financial statements of the **Sonoma County Water Agency** as of and for the year ended June 30, 2004, and have issued our report thereon dated August 31, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered **Sonoma County Water Agency's** internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

Compliance

As part of obtaining reasonable assurance about whether the **Sonoma County Water Agency's** basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Sonoma County Water Agency

Schedule of Findings and Questioned Costs

Year Ended June 30, 2004

Section I. Summary of Auditors' Results

Basic Financial Statements

Type of auditors' report issued: *unqualified*

Internal control over financial reporting:

Material weaknesses identified yes no

Reportable conditions identified not considered
to be material weaknesses yes no

Noncompliance material to financial statements noted yes no

Section II. Financial Statement Findings

No matters were noted.

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APPENDIX B

INFORMATION REGARDING PROGRAM PARTICIPANTS

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CITY OF EUREKA

General

The City of Eureka (the "City"), located in Humboldt County, is a charter city initially incorporated as a town on April 18, 1856 and reincorporated as a city on February 19, 1874. The City adopted its Charter on February 8, 1895. The City's population as of January 1, 2005 was approximately 26,381 and for the fiscal year 2004-05, the City had a net assessed valuation of \$1,485,929,039. See "Economic and Demographic Information for the City of Eureka and the County of Humboldt" herein.

Governance and Management

The City is governed by a five member city council and Mayor. The current city council members and Mayor and the expiration dates of their terms are set forth below.

<u>Council Member</u>	<u>Title</u>	<u>Expiration of Term</u>
Peter La Vallee	Mayor	November 2006
Mary Beth Wolford	Council Member	November 2006
Virginia Bass-Jackson	Council Member	November 2008
Jeff Leonard	Council Member	November 2006
Chris Kerrigan	Council Member	November 2008
Mike Jones	Council Member	November 2006

The City Manager of the City is David W. Tyson. Mr. Tyson has been with the City for approximately 18 years and has 27 years of experience in city administration and management. Financial management of the City is provided byCarolynn Thomas, the City's Finance Director. Ms. Thomas has been with the City for approximately 4 years and has 25 years of experience in financial management.

Day-to-day management of the City's water system (the "System") is handled by the Public Works Director of the City, Mike Knight. Mr. Knight has been with the City for 5 years and has 12 years of experience in management of utility systems.

Water System Facilities and Water Supply

The System facilities include a twenty-one million gallon water storage facility, one treatment plant, and three boost stations. The capacity of the System is eight million gallons per day ("mgd"). The average daily demand on the System is 3.967 mgd.

The City purchases its water supply from the Humboldt Bay Municipal Water District ("HBMWD"), a wholesale water agency, pursuant to an agreement with an expiration date of June 30, 2019, with a negotiable extension to 2029, subject to the terms of a Safe Drinking Water Loan between HBMWD and the State of California, Department of Water Resources. HBMWD receives its water from the Mad River and Ruth Lake, a 48,000 acre foot capacity reservoir. HBMWD has up to 20 mgd of water available for sale to customers in the cities of Eureka and Arcata and the greater Humboldt bay area. The City projects that the supply of water will be adequate to supply long-term water source needs for its customers.

The main water supply to the City is delivered through the Mad River Pipeline. In recent years, the pipeline has developed a number of leaks, some of which resulted in major pipeline breaks. Repair of the pipeline involves replacement of sections with new pipe, rehabilitation of certain sections of the pipeline with a liner, and relocation of other sections through various phases. During the first phase of the pipeline project, completed in April 2004 and financed through the issuance of CSCDA Series 2002B Revenue Bonds (see "Financial Information" herein), the City repaired the portion of the pipeline between the Cities of Eureka and Arcata. See "Existing Long-Term Obligations and Planned Capital Improvements" herein.

Plan of Finance

The City plans to use its share of the CSCDA Series 2005C Revenue Bonds (the "Bonds") to advance refund the CSCDA Series 2000A Revenue Bonds, currently outstanding in the principal amount of \$7,605,000. This advance refunding will result in debt service savings.

Service Area and Customers

The System serves an area of approximately 17.71 square miles in the City of Eureka and surrounding areas.

The population of the service area is currently estimated to be approximately the same as that of the City. The tables below show the current number of connections of the System by user and revenues by class of user.

**Number of Connections by User
As of June 30,**

<u>User Type</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Single Family Residential	7,240	7,261	7,282	7,781	7,854
Multiple Family Residential	650	657	664	686	655
Commercial/Institutional	<u>1,396</u>	<u>1,411</u>	<u>1,426</u>	<u>1,166</u>	<u>1,096</u>
Total All Users	9,286	9,329	9,372	9,633	9,605

Source: City of Eureka.

**Revenues by Class of User
Water System
Fiscal Year 2003-04**

<u>User Type</u>	<u>Fiscal Year Revenue</u>	<u>Percentage of Revenue</u>
Single Family Residential	\$2,396,534	61%
Multiple Family Residential	471,449	12
Commercial/Institutional	864,324	22

Source: City of Eureka.

Largest Users. The table below shows the five largest users of the System based on revenues for the fiscal year 2003-04.

**Largest Users
Water System
Fiscal Year 2003-04**

<u>User</u>	<u>Type of Business</u>	<u>Revenue</u>	<u>Percentage of Revenue</u>
Pacific Choice	Food Processing	\$115,503	2.94%
St. Joseph Hospital	Hospital	37,722	0.96
Mission Linen Supply	Laundry Service	25,081	0.64
Broadway Trailer Court	Housing	13,671	0.35
Indianola Trailer Court	Housing	13,537	0.34

Source: City of Eureka.

Water Rates

The City has the power to establish rates and charges as needed to operate the System. Its charges are established by the City Council and are not subject to review or approval by any other agency. The City principally relies on the following charges and fees: charges for services, quantity charges, connection fees and miscellaneous charges.

User Charges. Current user charges through fiscal year 2008-09 were adopted by the City on August 17, 2004, effective September 1, 2004 and each July 1 of each year thereafter. The service charge is a readiness to serve charge for water services within the City, to which are added the charges for water used computed at the quantity rates shown in the Quantity Charge table below. The service charge for water service outside the City is computed at 2-1/2 times the rates shown below. Quantity charges are also payable by users in addition to applicable service charges based on meter size and location of water service, as shown below.

**Service Charges
(Minimum/Month)**

Meter Size (Inches)	<u>Minimum Service Charge (effective on dates specified)</u>			
	<u>July 1 2005</u>	<u>July 1 2006</u>	<u>July 1 2007</u>	<u>July 1 2008</u>
5/8 and 3/4	11.77	11.89	12.24	12.37
1	19.04	19.23	19.81	20.00
1-1/2	31.15	31.46	32.40	32.73
2	43.80	44.24	45.56	46.02
3	95.49	96.44	99.34	100.33
4	156.05	157.61	162.34	163.96
6	311.49	314.60	324.04	327.28
8	493.72	498.66	513.62	518.75

Source: City of Eureka

**Quantity Charge
(per 100 cubic feet of water)**

Residential Users (rate per 100 cubic feet):

<u>July 1</u> <u>2005</u>	<u>July 1</u> <u>2006</u>	<u>July 1</u> <u>2007</u>	<u>July 1</u> <u>2008</u>
2.70	2.73	2.81	2.84

Commercial Users (rate per 100 cubic feet):

<u>July 1</u> <u>2005</u>	<u>July 1</u> <u>2006</u>	<u>July 1</u> <u>2007</u>	<u>July 1</u> <u>2008</u>
1.88	1.90	1.96	1.98

Source: City of Eureka

Connection Fees. The following current connection fees were established by resolution, adopted by the City on March 18, 2003 and effective as of July 1, 2003.

	<u>Size</u>		
3/4"	Meter Charge	\$230.00	
	** Installation	700.00-1,300.00	\$1,395.00 or
	Capital Connection	465.00	\$1,995.00
1"	Meter Charge	\$ 310.00	
	** Installation	845.00-1,445.00	\$2,317.00 or
	Capital Connection	1,162.00	\$2,917.00
1.5"	Meter Charge	\$ 530.00	
	** Installation	1,275.00-1,875.00	\$4,130.00 or
	Capital Connection	2,325.00	\$3,550.00
2"	Meter Charge	\$1,495.00	
	** Installation	1,510.00-2,110.00	\$6,725.00 or
	Capital Connection	3,720.00	\$7,325.00
3"	Meter Charge	\$1,605.00	
	** Installation	2,120.00-2,720.00	\$8,725.00 or
	Capital Connection	5,000.00	\$9,325.00
4"	Meter Charge	\$2,560.00	
	** Installation	2,750.00-3,350.00	\$10,310.00 or
	Capital Connection	5,000.00	\$10,910.00
6"	Meter Charge		
	* Installation	at cost plus 20%	
	Capital Connection	5,000.00	
8"	Meter Charge		
	* Installation	at cost plus 20%	
	Capital Connection	5,000.00	

* Six-inch (6") and eight-inch (8") meters shall be furnished by the applicant and shall be subject to City approval.

** Installation fees vary since the water main is on one side of the street; the lower amount applies if installation is near the water main and the higher fee applies if installation is on the far side of street.

Source: City of Eureka.

Rate Comparisons. The table below shows comparative monthly residential water charges for surrounding areas.

**City of Eureka
Comparative Monthly Single Family Residential Water Charges for Surrounding Areas**

<u>Agency</u>	<u>Effective Date</u>	<u>Monthly Service Charge</u>	<u>Monthly Commodity Charge</u>	<u>Total Monthly Charge</u>	<u>Average Monthly Usage⁽¹⁾</u>
City of Arcata	7/1/2005	\$ 4.65	\$2.50	\$22.15	7
City of Eureka	7/1/2005	11.77	2.70	30.67	7
City of Fortuna	7/1/2004	12.21	1.55	23.06	7
Humboldt Community Services District	4/1/2002	8.05	1.45	22.55	10
Manila Community Services District	10/1/2002	15.75	0.22	17.73	9
McKinleyville Community Services District	7/1/2005	6.15	1.35	19.65	10

⁽¹⁾ Each unit is 100 cubic feet.

Source: City of Eureka. Prepared as of July 21, 2005.

Collections. The City has not experienced any significant uncollected delinquencies exceeding \$35,000 in any one fiscal year over the last 5 years. The City will terminate water service to a customer within 75 days of nonpayment of a water bill and due notice.

Regulatory Issues

The applicable drinking water standards for the System are provided in the California Domestic Water Quality and Monitoring Regulations, Title 22 of the California Administrative Code. These regulations incorporate the requirements of the U.S. Environmental Protection Agency in conformance with the Safe Drinking Water Act (PL 93-523). The standards specify water quality sampling frequencies and location as well as maximum concentrations of chemical constituents and are continuously revised and amended.

The State regulations contain requirements for both primary and secondary drinking water standards. The primary standards relate to those contaminants that, if exceeding the maximum contaminant levels ("MCL"), would present a health risk if used for drinking or culinary purposes. The secondary standards relate to contaminants that, if in excess of MCL, may be objectionable, but generally do not present a health risk.

The System's water purchased from HBMWD is generally of good quality, the water quality of the System meets all existing standards and the System is in compliance with all current Federal and State requirements.

Existing Long-Term Obligations and Planned Capital Improvements

The terms of the City's existing long-term parity obligations payable from water revenues as of the date of issuance of the Bonds, other than the Series 2000A Bonds to be defeased upon the issuance of the Bonds, are summarized in the table below.

<u>Name of Obligation</u>	<u>Total Amount Payable</u>	<u>Final Maturity Date</u>	<u>Security</u>
CSCDA Water and Wastewater Revenue Bonds Series 2002B	\$3,455,000	October 1, 2027	Water System Net Revenues

Other planned capital improvements to the System include additional improvements to the Mad River Pipeline, including replacement of sections with new pipe, rehabilitation of certain sections of the pipeline with a liner, and relocation of other sections through various phases. Total cost is estimated to be approximately \$10 million over the next 5 fiscal years. The City plans to finance these costs through future borrowing. See "Water System Facilities and Water Supply" herein.

Financial Information

Financial Statements. A copy of the most recent audited financial statements of the City prepared by the City and audited by Moss, Levy & Hartzheim (the "Auditor") is included in Appendix A hereto (the "Financial Statements"). The letter of the Auditor concludes that the audited financial statements present fairly, in all material respects, the financial position of the City as of June 30, 2004 and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. The Financial Statements should be read in their entirety. The Auditor has not reviewed or audited this Official Statement.

Historic Operating Results and Debt Service Coverage. The following table is a summary of consolidated operating results of the enterprise funds related to the System for the fiscal years ending June 30, 2002 through 2004. The results have been derived from the audited financial statements of the City and are qualified in their entirety by reference to such statements, including the notes thereto. All results exclude certain non-cash items and include certain other adjustments. The Auditor has not reviewed or audited the summary operating results or any other portion of this Official Statement.

**City of Eureka Water System
Summary of Historic Operating Results
Fiscal Years Ended June 30**

Revenues	<u>2002</u>	<u>2003</u>	<u>2004</u>
Charges for Services ⁽¹⁾	\$2,836,801	\$3,385,867	\$3,925,894
Investment Income	179,013	167,857	97,043
Miscellaneous	<u>31,985</u>	<u>0</u>	<u>310,047</u>
Total Revenues	\$3,047,799	\$3,553,724	\$4,332,984
 Expenses ⁽²⁾	 \$2,156,162	 \$2,197,091	 \$2,850,797
 System Net Revenues	 <u>\$891,637</u>	 <u>\$1,356,633</u>	 <u>\$1,482,187</u>
 Parity Debt Service			
CSCDA Series 2000A Revenue Bonds	\$433,745	\$433,745	\$619,565
CSCDA Series 2002B Revenue Bonds	<u>0</u>	<u>131,938</u>	<u>255,393</u>
Total Parity Debt Service	<u>\$433,745</u>	<u>\$565,683</u>	<u>\$874,958</u>
Total Parity Debt Service Coverage	<u>2.06</u>	<u>2.40</u>	<u>1.69</u>

⁽¹⁾ Includes connection fees.

⁽²⁾ Excludes depreciation, capital expenditures and debt service.

Source: City of Eureka.

Projected Operating Results and Debt Service Coverage. The City's projected consolidated operating results for the enterprise funds related to the System for the fiscal years ending June 30, 2005 through 2008 are set forth below, reflecting certain significant assumptions concerning future events and circumstances. The financial forecast represents the City's estimate of projected financial results based upon its judgment of the probable occurrence of future events. The assumptions set forth in part in the footnotes to the chart set forth below are material in the development of the City's financial projections, and variations in the assumptions may produce substantially different financial results. Actual operating results achieved during the projection period will vary from those presented in the forecast and such variations may be material.

**City of Eureka
Water System
Projected Operating Results
Fiscal Years Ended June 30**

	<u>2005⁽¹⁾</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Revenues ⁽²⁾				
Charges for Services	\$4,475,328	\$5,191,689	\$5,248,424	\$5,399,964
Investment Income	18,500	19,055	19,627	20,215
Miscellaneous	<u>10,700</u>	<u>20,547</u>	<u>17,166</u>	<u>18,851</u>
Total Revenues	\$4,504,528	\$5,231,291	\$5,285,217	\$5,439,030
Expenses ⁽³⁾	\$3,156,921	\$3,251,629	\$3,349,177	\$3,449,653
System Net Revenues	<u>\$1,347,607</u>	<u>\$1,979,662</u>	<u>\$1,936,040</u>	<u>\$1,989,377</u>
Parity Debt Service				
CSCDA Series 2000A Revenue Bonds ⁽⁴⁾	\$620,935	\$418,242	\$ 0	\$ 0
CSCDA Series 2002B Revenue Bonds	251,993	253,493	254,793	250,993
CSCDA Series 2005C Revenue Bonds	<u>0</u>	<u>189,373</u>	<u>600,678</u>	<u>618,111</u>
Parity Debt Service Total	<u>\$872,928</u>	<u>\$861,108</u>	<u>\$855,471</u>	<u>\$869,104</u>
Parity Debt Service Coverage	<u>1.54</u>	<u>2.30</u>	<u>2.26</u>	<u>2.29</u>

⁽¹⁾ Derived from actual interim results.

⁽²⁾ Includes an increase in operating revenue based on rate increase of 20% for fiscal year 2004-05, 13% for fiscal year 2005-06, 1% for fiscal year 2006-07 and 3% for fiscal year 2007-08.

⁽³⁾ Excludes depreciation, capital expenditures and debt service. Assumes a 3% annual increase in operating expenses.

⁽⁴⁾ The City plans to use its share of the Bonds to advance refund its portion of the CSCDA Series 2000A Revenue Bonds. See "Plan of Finance" herein.

Source: City of Eureka.

Debt Service Schedule

The following table shows the debt service requirements related to the City for the Bonds.

Annual Period Ending October 1	Principal	Interest	Total
2006	\$270,000.00	\$356,466.67	\$626,466.67
2007	295,000.00	327,167.50	622,167.50
2008	305,000.00	319,055.00	624,055.00
2009	310,000.00	310,515.00	620,515.00
2010	325,000.00	301,215.00	626,215.00
2011	330,000.00	290,815.00	620,815.00
2012	345,000.00	279,925.00	624,925.00
2013	355,000.00	268,195.00	623,195.00
2014	365,000.00	255,770.00	620,770.00
2015	380,000.00	242,447.50	622,447.50
2016	395,000.00	228,197.50	623,197.50
2017	410,000.00	212,990.00	622,990.00
2018	425,000.00	197,000.00	622,000.00
2019	440,000.00	180,000.00	620,000.00
2020	465,000.00	158,000.00	623,000.00
2021	490,000.00	134,750.00	624,750.00
2022	510,000.00	110,250.00	620,250.00
2023	540,000.00	84,750.00	624,750.00
2024	565,000.00	57,750.00	622,750.00
2025	590,000.00	29,500.00	619,500.00
Total	\$8,110,000.00	\$4,344,759.17	\$12,454,759.17

Litigation

The City states that there is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, threatened that may result in any material adverse change relating to the finances or operations of the City or the System.

Seismic Risks

The City is located in a seismically active region of northern California. The System and future planned capital improvements to the System have been or will be designed to meet all applicable seismic standards. However, there can be no assurance that seismic activity will not significantly damage the System or adversely affect the local economy.

Economic and Demographic Information for the City of Eureka and Humboldt County

The following economic and demographic information for the City and Humboldt County (the "County") is supplied as background information only. The City's portion of the CSCDA Series 2005C Revenue Bonds is payable only from the City's Installment Payments under its Installment Purchase Agreement with CSCDA. Further, information presented with respect to the County does not necessarily reflect the status of the City.

Population. The population of the City as of January 1, 2005 was estimated to be 26,381 which represents an increase of 0.9% from the population as of January 1, 2001 of 26,134. The following table shows the rate of population growth for the City as of January 1, 2001 through 2005.

**City of Eureka
Population
As of January 1**

2001	26,134
2002	26,125
2003	26,279
2004	26,342
2005	26,381

Source: State of California, Department of Finance.

The population as of January 1, 2005 of the County was estimated to be 131,334 which represents an increase of 3.0% from the population as of January 1, 2001 of 127,098. The following table shows the rate of population growth for the County as of January 1, 2001 through 2005.

**Humboldt County
Population
As of January 1**

2001	127,098
2002	127,986
2003	129,243
2004	130,392
2005	131,334

Source: State of California, Department of Finance.

Employment. As of May 2005, the annual average civilian labor force in the County was 61,600. This is an increase of 2.0% from the annual average civilian labor force of 60,600 for 2001. The table below shows figures for the civilian labor force and comparative unemployment rates from 2001 through May 2005.

**Humboldt County
Civilian Labor Force, Employment and Unemployment
Annual Averages⁽¹⁾**

<u>Annual Average</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005⁽²⁾</u>
Labor Force	60,600	61,100	61,200	61,000	61,600
Employment	57,000	57,000	57,000	57,000	58,400
Unemployment	3,600	4,100	4,200	4,000	3,200
Unemployment Rate	6.0	6.7	6.8	6.5	5.2

⁽¹⁾ March 2004 Benchmark; data not seasonally adjusted.

⁽²⁾ As of May 2005.

Source: State of California, Employment Development Department.

Personal Income. Between 1998 and 2003, the County’s median household effective buying income increased 25%. The table below summarizes the total effective buying income and the median household effective buying income for the County.

**Humboldt County
Effective Buying Income**

<u>Year</u>	<u>Total Effective Buying Income (000’s Omitted)</u>	<u>Median Household Effective Buying Income</u>
1998	\$1,607,034	\$23,917
1999	1,667,451	25,006
2000	1,781,498	27,505
2001	1,814,243	27,016
2002	1,903,878	29,055
2003	1,921,325	29,780

Source: Sales and Marketing Management, Survey of Buying Power.

Assessed Valuation. The following table shows the assessed valuations for the City for fiscal years 1999-00 through 2004-05.

**City of Eureka
Assessed Valuations**

	<u>Local Secured</u>	<u>Utility</u>	<u>Unsecured</u>	<u>Total Before Rdv. Increment</u>
2000-01	\$1,100,984,432	\$2,710,763	\$131,680,952	\$1,235,376,147
2001-02	1,136,731,894	3,017,813	141,895,475	1,281,645,182
2002-03	1,184,229,596	3,341,442	134,635,927	1,322,206,965
2003-04	1,251,596,692	3,341,442	132,405,212	1,387,343,346
2004-05	1,337,990,063	3,341,442	144,597,534	1,485,929,039

Source: California Municipal Statistics, Inc.

Major Employers. The following table shows the major employers in the County.

**Humboldt County
Major Employers
2005**

<u>Employer Name</u>	<u>Location</u>	<u>Industry</u>
Blue Lake Casino	Blue Lake	Casinos
CalTrans	Eureka	Government Offices-State
Cher-ae Heights Casino	Trinidad	Casinos
College of the Redwoods	Eureka	Schools-Universities & Colleges Academic
Eureka City Hall	Eureka	City Government-Executive Offices
Eureka High School	Eureka	Schools
Gain Program Dept-Social Svc	Eureka	Restaurants
HCAR	Eureka	Non-Profit Organizations
Humboldt County Education Ofc	Eureka	Schools
Humboldt County Health Dept	Eureka	County Government-Public Health Programs
Humboldt County Mental Health	Eureka	Crisis Intervention Service
Humboldt County Risk Mgmt	Eureka	Government Offices-County
Humboldt County Sheriff Dept	Eureka	Sheriff
Humboldt County Social Svc	Eureka	County Government-Social/Human Resources
Humboldt Mental Health Adm	Eureka	County Government-Public Health Programs
Mad River Community Hospital	Arcata	Hospitals
Pacific Choice Seafood Inc	Eureka	Prepared Fish & Seafood Products (Mfr)
Public Health Adm	Eureka	County Government-Public Health Programs
Redwood Community Action Agency	Eureka	Social Service & Welfare Organizations
Redwood Memorial Hospital	Fortuna	Hospitals
Sempervirens Inpatient 24 Hr	Eureka	Mental Health Services
Simpson Resource Co	Korbel	Logging Companies
St Joseph Health System	Eureka	Hospitals
St Joseph Hospital	Eureka	Hospitals
Sun Valley Floral Farms	Arcata	Greenhouses

Source: 2005 America's Labor Market Information System (ALMIS) Employer Database.

SONOMA VALLEY COUNTY SANITATION DISTRICT

General

The Sonoma Valley County Sanitation District (the "District") is located in Sonoma County (the "County"), approximately 40 miles north of the City and County of San Francisco. Incorporated in 1949, the District is a county sanitation district under the Community Sanitation District Act, Section 4700 *et seq.* of the California Health and Safety Code. The District provides wastewater collection, treatment and disposal service to over 30,000 residents in the Sonoma Valley area. The District service area includes the City of Sonoma (the "City") and several communities in the Valley of the Moon including Glen Ellen, Boyes Hot Springs and El Verano. There are four County Sanitation Districts in the County, which include Occidental, Russian River, the District and South Park (collectively, the "Sanitation Districts"). The Sanitation Districts are managed by SCWA which provides engineering, environmental, administration, operational and maintenance services. The Sanitation Districts are separate special districts responsible for maintaining and operating their local collection systems, pump stations, and treatment plants. Each District has an ordinance defining policies, including user fees.

The District is a separate legal entity from SCWA, the County and the three other Sanitation Districts with separate and independent finances and operations. Only the Net Revenues of the District will be available for payment of the Installment Payments relating to the District's financing (see "Plan of Finance" below) and no other revenues of SCWA or the County will be available for these Installment Payments.

Governance and Management

The District is governed by a three-member governing board. The District's board includes the Mayor of the City of Sonoma, the Chair of the County Board of Supervisors and the District 1 County Supervisor. The current directors and the expiration dates of their terms are set forth below.

<u>Member</u>	<u>Title</u>	<u>Expiration of Term</u>
Tim Smith	Chair	January 2009
Valerie Brown	Director	January 2009
Larry Barnett	Director	November 2006

Management of the District is provided by Randy Poole, General Manager/Chief Engineer of the Sonoma County Water Agency. Mr. Poole has been with SCWA since 1991 and managed utility systems for approximately 28 years.

Wastewater System

The District owns and operates the Sonoma Valley Wastewater Treatment Plant (the "Treatment Plant") located south of the City. The Treatment Plant has a dry weather design flow of 3.0 million gallons per day (mgd) and can treat up to 11.5 mgd during wet weather to secondary wastewater treatment standards. The plant discharges approximately 2.8 mgd average dry weather flow and an average annual effluent flow of 3.5 mgd. Wastewater is collected using a gravity collection system of pipes and mains, and flows to the District treatment plant for processing. Reclaimed water is discharged to the San Pablo Bay via Schell Slough during the winter, and used for irrigation of local crops during the summer.

In 1997, SCWA, in the capacity of its operational responsibility for the District, identified certain plant deficiencies, and prioritized the capital work necessary to keep the District's wastewater system operating at regulatory standards. SCWA developed a capital replacement program, requiring \$40 to \$50 million through fiscal year 2015-16. The largest component of the program was the replacement and rehabilitation of the collection system, which involved replacing approximately two miles of main truck lines every year for a total for 24.5 miles from fiscal years 1998-99 through 2013-14. SCWA identified that annual rate increases of approximately 5% were required to provide a revenue source to pay for the program. The balance of this program was funded through the issuance of \$21,410,000 in Sonoma County Water and Wastewater Financing Authority 1998 Special Revenue Bonds (the "1998 Bonds"). A portion of the CSCDA Water and Wastewater Bonds, Series 2005C (the "Bonds") will advance refund a portion of the 1998 Bonds. See "Plan of Finance" and Existing Long-Term Obligations and Planned Capital Improvements" below.

Plan of Finance

A portion of the proceeds of the District's share of the Bonds is being used to advance refund a \$11,095,000 portion of the 1998 Bonds, currently outstanding in the principal amount of \$17,555,000. This advance refunding will result in debt service savings. For a description of the project financed by the 1998 Bonds, see "Wastewater System" above.

Service Area and Customers

The System serves an area of approximately 7.03 square miles in the service area.

Population of the service area is currently estimated to be 32,000. The tables below show the current number of Equivalent Single-Family Dwelling Unit ("ESD") of the System by classification of user.

**Sonoma Valley County Sanitation District
Number of Customers by Category
as of June 30, 2003 to 2005**

<u>User Type</u>	2003		2004		2005	
	<u>ESD</u>	<u>% of Total</u>	<u>ESD</u>	<u>% of Total</u>	<u>ESD</u>	<u>% of Total</u>
Residential	12,249	74.4	12,404	74.4	12,488	74.0
Commercial	1,888	11.5	1,917	11.5	1,951	11.6
Industrial	837	5.1	850	5.1	863	5.1
Irrigated Farm	7	0.0	7	0.0	7	0.0
Dry Farm	5	0.0	5	0.0	5	0.0
Recreational	85	0.5	85	0.5	85	0.5
Institutional	293	1.8	293	1.8	361	2.1
Miscellaneous	11	0.1	11	0.1	11	0.1
Government	1,099	6.7	1,099	6.6	1,099	6.5
Total All Users	16,474	100.0 ⁽¹⁾	16,671	100.0	16,870	100.0 ⁽¹⁾

⁽¹⁾ Totals may not add due to rounding.

Source: Sonoma Valley County Sanitation District.

Largest Users. The table below shows the ten largest users of the System based on revenues for the fiscal year 2003-04.

**Sonoma Valley County Sanitation District
Largest Users
Fiscal Year 2003-04**

<u>User</u>	<u>Type of Business</u>	<u>Revenue</u>	<u>Percentage of Revenue</u>
Sonoma Development Center	State Medical Facility	\$452,460.06	6.69%
Sebastiani Vineyards	Winery	266,532.12	3.94
De Anza Moon Valley LLC	Mobile Home Park	96,033.65	1.42
Cathedral Canyon Mobile Estates	Mobile Home Park	90,852.48	1.34
Sonoma Mission Inn	Hotel	78,960.42	1.17
Vivani, Lawrence P. & Jacquelyn	Cheese Factory	80,928.72	1.20
Rancho Vista	Mobile Home Park	65,124.00	0.96
Sonoma Valley Unified School District	School	57,785.40	0.85
Sonoma LLC	Hotel	55,593.54	0.82
Aquirre, Hal C. TR	Mobile Home Park	49,377.60	0.73
Total		\$1,293,647.99	19.13% ⁽¹⁾

⁽¹⁾ Totals may not add due to rounding.

Source: Sonoma Valley County Sanitation District.

Wastewater Rates

The District has the power to establish rates and charges as needed to operate the wastewater system. Its charges are established by its governing board and are not subject to review or approval by any other agency. The District principally relies on the following charges and fees: service charges and connection fees.

Ordinance No. 72 of the District, adopted April 19, 2005 established the present service charges which have been in effect since July 1, 2005. Service charges for each fiscal year are, pursuant to Section 5473 of the Health and Safety Code of the State of California, collected on the tax roll of Sonoma County, or, in some cases, invoiced directly by the District. The Board of the District annually prepares a written report for the County Tax Collector which contains a description of each parcel receiving sewer service and the amount of the charge for each parcel for such fiscal year, in conformance with Ordinance No. 51. The charge appears as a separate item on the tax bill, and is collected at the same time and in the same manner as ordinary County ad valorem property taxes, and is subject to the same penalties and the same procedure and sale in case of delinquency as provided for such taxes. If the District determines that a user is exceeding the use for which the user is charged on its tax bill, the District may impose an additional service charge. In addition, the District may recalculate the user's Annual Service Charge (defined below) and charge additional connection fees. Such additional charges and fees may be invoiced or collected on the tax bill. If additional charges and fees are invoiced and not paid within 30 days of the invoice, a basic penalty of ten percent for nonpayment and an additional penalty of 1 1/2 % per month are added to the charges and/or fees due.

Service Charges. Rates charged to residential and commercial users are calculated by multiplying the ESD of each user by the Annual Sewer Service Charge. Ordinance No. 51 defines "Annual Sewer Service Charge" as a charge for use of the sewer system for a period of one year to each user and based on the estimated or actual usage of the Wastewater System. The Annual Sewer Service Charge is established by the estimated annual cost of operating, maintaining, and replacing the sewer system, as submitted by the Board of the District each year. For fiscal year 2004-05, an Annual Sewer Service Charge of \$486 per ESD, and the average flow of 200 gallons per day, was set by Ordinance 69. The table below illustrates the change in Annual Sewer Service Charges since fiscal year 2000-01.

**Sonoma Valley County Sanitation District
Annual Sewer Service Charges
Fiscal Years 2000-01 through 2004-05**

<u>Fiscal Year</u>	<u>Charge Per ESD</u>	<u>Percent Increase</u>
2000-01	\$377	5.6%
2001-02	400	6.1
2002-03	427	6.8
2003-04	455	6.6
2004-05	486	6.8

Ordinance No. 63 establishes various use categories and the corresponding ESD. Single-family and condominiums have an ESD of 1.00; multi-family, mobile homes and other residential uses have an ESD of 0.80. Commercial uses have ESDs ranging from 0.01 (for churches, halls and lodges) to 2.59

per seat and pre thousand square feet for eat-in and take-out restaurants. Schools have ESDs of 0.05 per student day (elementary) and 0.07 per student day (high school).

When requested by a user with five or more ESDs of capacity for any one parcel, the District's General Manager/Chief Engineer may allow the Annual Service Charges to be based on actual measured usage of the sewer system. The methodology used to calculate service charge for this option is as follows:

Wastewater Flow	0.0048 per gallon/day x 365 days
Biochemical Oxygen Demand	0.2828 per pound/day x 365 days
Total Suspended Solids	0.0503 per pound/day x 365 days

The General Manager/Chief Engineer may bill the sewer service charge for industrial or unusual commercial users on a more frequent basis than annually.

Connection Fees. Sewage system connection fees must be paid by all users, prior to the issuance of a permit to connect. Connection fees are currently calculated by multiplying the ESD of each user by a connection fee of \$9,057.91. Pursuant to the District's Water Conservation Program, a credit of \$1,500 per ESD is granted for offsetting an equal quantity of flow by retrofitting existing facilities with water-saving devices as stipulated by the Water Conservation Program. The connection fee may be adjusted each July 1 in proportion to the change in the *Engineering News Record Construction Cost Index* for San Francisco. The table below shows the change in connection fees since fiscal year 2000-01.

**Sonoma Valley County Sanitation District
Annual Connection Fees
Fiscal Years 2000-01 through 2004-05**

<u>Fiscal Year</u>	<u>Charge per ESD</u>	<u>Percent Increase</u>
2000-01	\$7,797.40	4.90%
2001-02	8,109.30	4.00
2002-03	8,360.69	3.10
2003-04	8,561.35	2.40
2004-05	9,057.91	5.80

Delinquencies. The District has not experienced any significant delinquencies exceeding 4% over the last 5 years. Delinquency rates are insignificant because revenues for services are assessed and collected on tax rolls.

Permits

The District operates under Regional Water Quality Control Board Order No. R2-2002-0046, permit number CA0037800. The permit expires on February 28, 2007. The District is in compliance with the requirements of the permit.

Existing Long-Term Obligations and Planned Capital Improvements

As of the date of issuance of the Bonds, the terms of the District's existing long-term obligations payable from wastewater revenues are summarized in the table below.

<u>Name of Obligation</u>	<u>Total</u>	<u>Final Maturity Date</u>	<u>Security</u>	<u>Priority</u>
Sonoma County Water and Wastewater Financing Authority 1998 Special Revenue Bonds ⁽¹⁾	\$6,460,000	August 2023	Wastewater Net Revenues	Parity
State Revolving Loans	\$392,518	July 2014	Wastewater Net Revenues	Parity

⁽¹⁾ A portion of this obligation will be advanced refunded with the CSCDA Water and Wastewater Revenue Bonds Series 2005C. See "Plan of Finance" above.

Planned capital improvements to the System include, but are not limited to, the replacement of certain trunk mains, participation in the multidistrict Napa-Sonoma Salt Marsh Project through which the District expects to provide recycled water and finance a portion of the total cost of the Napa-Sonoma Salt Marsh Project, the construction of a Bio-Solids Handling Facility, the Recycled Water Project, which will consist of the construction of a series of pipelines from the Treatment Plant to areas in the Sonoma Valley and the rehabilitation of certain collection systems. Such capital improvements are estimated to cost approximately \$17 to \$28 million in fiscal years 2005 through 2016. The District plans to finance these costs through service charges and connection fees. Planned capital improvements to the System also include upgrading to tertiary treatment, which is expected to be funded by a future State Revolving Loan Fund in the amount of \$6.5 million. See "Wastewater System" above and "Financial Information- Projected Operating Results and Debt Service Coverage" below.

Financial Information

Financial Statements. A copy of the most recent audited financial statements of the Sanitation Districts prepared by the Sanitation Districts and audited by the Sanitation Districts’ accountant (the "Auditor") is included in Appendix A hereto (the "Financial Statements"). The Auditor’s letter concludes that the audited financial statements present fairly, in all material respects, the financial position of the Sanitation Districts as of June 30, 2004 and the results of their operations and cash flows for the year then ended in conformity with generally accepted accounting principles. The Financial Statements should be read in their entirety. The Auditor has not reviewed or audited this Official Statement.

Historic Operating Results. The following table is a summary of operating results of the District for the fiscal years ending June 30, 2002 through 2004. The results have been derived from the audited financial statements of the District and are qualified in their entirety by reference to such statements, including the notes thereto. All results exclude certain non-cash items and include certain other adjustments. The Auditor has not reviewed or audited the summary operating results or any other portion of this Official Statement.

**Sonoma Valley County Sanitation District
Summary of Historic Operating Results
Fiscal Years Ended June 30**

	<u>2002</u>	<u>2003</u>	<u>2004</u>
Revenues			
Service Charges	\$5,657,808	\$6,075,113	\$6,573,512
Charges for Services	640,657	687,894	829,648
Interest Earnings	706,248	554,683	215,841
Other	<u>577</u>	<u>4,495</u>	<u>15,452</u>
Total Revenues	\$7,005,290	\$7,322,185	\$7,634,453
Operating Expenses ⁽¹⁾	\$4,564,018	\$4,759,324	\$4,441,567
System Net Revenues	<u>\$2,441,272</u>	<u>\$2,562,861</u>	<u>\$3,192,886</u>
Parity Debt Service			
Sonoma County Water and Wastewater Financing Authority 1998 Special Revenue Bonds ⁽²⁾	\$1,462,243	\$1,460,609	\$1,427,511
State Revolving Loans	<u>50,000</u>	<u>50,000</u>	<u>49,895</u>
Total Parity Debt Service	<u>\$1,512,243</u>	<u>\$1,510,609</u>	<u>\$1,477,406</u>
Total Parity Debt Service Coverage	<u>1.61</u>	<u>1.70</u>	<u>2.16</u>

⁽¹⁾ Excludes depreciation and capital expenditures as well as transfers between the District's funds.

⁽²⁾ Net of interest earnings.

Source: Sonoma County Sanitation Districts.

Projected Operating Results and Debt Service Coverage. The District's estimate of projected operating results for the System for the fiscal years ending June 30, 2005 through 2008 are set forth below, reflecting certain significant assumptions concerning future events and circumstances. The financial forecast represents the District's estimate of projected financial results based upon its judgment of the probable occurrence of future events. The assumptions set forth in part in the footnotes to the chart set forth below are material in the development of the District's financial projections, and variations in the assumptions may produce substantially different financial results. Actual operating results achieved during the projection period will vary from those presented in the forecast and such variations may be material.

**Sonoma Valley County Sanitation District
Wastewater System
Projected Operating Results
Fiscal Years Ended June 30**

	<u>2005⁽¹⁾</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Revenues				
Service Charges	\$7,024,589	\$7,372,337	\$7,911,781	\$8,490,622
Charges for Services	967,309	910,000	976,586	1,048,035
Interest Earnings ⁽²⁾	268,560	75,000	108,019	118,712
Other Revenues	<u>74,022</u>	<u>80,000</u>	<u>80,000</u>	<u>80,000</u>
Total Revenues	\$8,334,480	\$8,437,337	\$9,076,386	\$9,737,369
Operating Expenses ⁽³⁾	\$5,074,266	\$5,398,800	\$5,614,752	\$5,839,342
System Net Revenues	<u>\$3,260,214</u>	<u>\$3,038,537</u>	<u>\$3,461,634</u>	<u>\$3,898,027</u>
Parity Debt Service				
Sonoma County Water and Wastewater Financing Authority 1998 Special Revenue Bonds ⁽⁴⁾	\$1,478,793	\$1,043,396	\$306,850	\$306,850
State Revolving Loan ⁽⁵⁾	49,894	49,894	49,894	49,894
CSCDA 2005C Wastewater Revenue Bonds	<u>0</u>	<u>198,343</u>	<u>966,893</u>	<u>994,555</u>
Total Parity Debt Service	<u>\$1,528,687</u>	<u>\$1,291,633</u>	<u>\$1,323,637</u>	<u>\$1,351,299</u>
Total Parity Debt Service Coverage	<u>2.13</u>	<u>2.35</u>	<u>2.62</u>	<u>2.88</u>

⁽¹⁾ Derived from adopted budget; preliminary and unaudited.

⁽²⁾ Assumes 2.5% rate of interest on cash balance.

⁽³⁾ Excludes depreciation, capital expenditures and debt service. Assumes 4% annual increase in operating expenses.

⁽⁴⁾ A portion of the proceeds of the District's share of the Bonds is being used to advance refund a portion of the 1998 Bonds. See "Plan of Finance" above.

⁽⁵⁾ Financed an outfall rehabilitation project. See the Financial Statements related to the District included in Appendix A attached hereto.

Source: Sonoma County Water Agency.

Debt Service Schedule

The following table shows the debt service requirements of the Bonds related to the District.

Annual Period Ending October 1	Principal	Interest	Total
2006	\$625,000.00	\$373,352.00	\$998,352.00
2007	670,000.00	333,767.50	1,003,767.50
2008	690,000.00	315,342.50	1,005,342.50
2009	705,000.00	296,022.50	1,001,022.50
2010	730,000.00	274,872.50	1,004,872.50
2011	755,000.00	251,512.50	1,006,512.50
2012	775,000.00	226,597.50	1,001,597.50
2013	805,000.00	200,247.50	1,005,247.50
2014	830,000.00	172,072.50	1,002,072.50
2015	860,000.00	141,777.50	1,001,777.50
2016	895,000.00	109,527.50	1,004,527.50
2017	930,000.00	75,070.00	1,005,070.00
2018	970,000.00	38,800.00	1,008,800.00
Total	\$10,240,000.00	\$2,808,962.00	\$13,048,962.00

Litigation

Other than as described below, the District states that there is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, threatened that may result in any material adverse change relating to the finances or operations of the District or the System.

In December 2004, Northern California River Watch ("River Watch") filed a citizen action alleging violations of the Federal Clean Water Act, naming the District as a defendant. The complaint was not served on the District. In January 2005, River Watch entered into a Tolling Agreement with the District and other defendants to attempt to negotiate a settlement of the action. As part of the Tolling Agreement, River Watch has withdrawn its complaint and agreed not to re-file a complaint during the negotiation period. The District cannot predict what costs or liabilities may arise from these alleged violations.

Seismic Risks

The District is located in a seismically active region of northern California. The System and future planned capital improvements to the System have been or will be designed to meet all applicable seismic standards. However, there can be no assurance that seismic activity will not significantly damage the System or adversely affect the local economy.

Other Information

On June 9, 1998, the Board of Directors of the District adopted a resolution declaring that until the existing capital improvement program plan of the District is substantially completed, the District is unable to serve properties outside of the District's boundaries. As such, the District has determined not to consent to the annexation of additional territory to its service area until substantial completion of such

capital improvement program, subject to certain exceptions. The District does not anticipate that such action will adversely affect its operations or its ability to generate sufficient revenues to pay its obligations related to the Bonds.

Economic and Demographic Information for Sonoma County

Population. The population for Sonoma County as of January 1, 2005 was estimated to be 478,440, an increase of 3% above the population of 464,764 as of January 1, 2001. The following table shows the rate of growth for the County as of January 1, 2001 through January 1, 2005.

**Sonoma County
Population
as of January 1**

2001	464,764
2002	469,069
2003	471,644
2004	474,993
2005	478,440

Source: State of California, Department of Finance.

Employment. As of May 2005, the civilian labor force in the County reached 256,900. This is a decrease of 0.6% over the civilian labor force of 258,400 for 2001. The table below lists figures for the civilian labor force and comparative unemployment rates for 2001 through May 2005.

**Sonoma County
Civilian Labor Force, Employment and Unemployment**

<u>Annual Average</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005⁽¹⁾</u>
Labor Force	258,400	258,300	255,400	257,500	256,900
Employment	249,000	245,200	241,500	244,800	246,800
Unemployment	9,400	13,100	13,900	12,700	10,100
Unemployment Rate	3.6%	5.1%	5.4%	4.9%	3.9%

⁽¹⁾ Data through May.

Source: State of California, Employment Development Department
March 2004 Benchmark; data are not seasonally adjusted.

Personal Income. Between 1999 and 2003, the County’s median household effective buying income increased 13%. The table below summarizes the total effective buying income and the median household effective buying income for the County.

**Sonoma County
Effective Buying Income
as of January 1**

<u>Year</u>	Total Effective Buying Income (000's Omitted)	Median Household Effective Buying Income
1999	\$8,713,893	\$42,479
2000	9,990,942	47,956
2001	10,096,031	47,908
2002	10,167,530	47,085
2003	10,340,723	48,008

Source: Survey of Buying Power, Sales and Marketing Management.

Assessed Valuation. The following table shows the assessed valuations for the County from fiscal years 2000-01 through 2004-05.

**Sonoma County
Assessed Valuations**

	Non-Unitary		Total Before <u>Unsecured</u>	Unitary	
	<u>Local Secured</u>	<u>Utility</u>		<u>Rdv. Increment</u>	<u>Utility Valuation</u>
2000-01	34,044,892,664	3,363,840	1,647,402,225	35,695,658,729	660,796,655
2001-02	38,443,110,290	8,360,309	1,894,683,375	40,346,153,974	628,307,973
2002-03	41,793,083,472	8,132,840	2,093,704,089 (1)	43,894,920,401	724,606,272
2003-04	45,433,401,576	5,298,095	2,186,395,452 (1)	47,625,095,123	639,353,562
2004-05	49,316,843,153	5,341,095	2,134,188,378	51,456,372,626	606,454,153

(1) Includes aircraft valuations.

Source: California Municipal Statistics, Inc.

Major Employers. The following table shows the major employers in the County of Sonoma.

**Sonoma County Major Employers
2005**

<u>Employer</u>	<u>Location</u>	<u>Industry</u>
Advanced Fibre Communications	Petaluma	Telecommunications Services
Agilent Technologies Inc.	Rohnert Park	Computers-Electronic-Manufacturers
Amy's Kitchen Inc.	Santa Rosa	Frozen Food Processors
Army National Guard	Santa Rosa	State Government-National Security
Arterial Vascular Engineering	Santa Rosa	Physicians & Surgeons Equip & Supls-Whol
Kaiser Foundation Hospital	Santa Rosa	Hospitals
Medtronic Interventional Vsclr	Santa Rosa	Physicians & Surgeons Equip & Supls-Mfrs
Petaluma Valley Hospital	Petaluma	Hospitals
Recreation & Parks Adm	Santa Rosa	Parks
Santa Rosa Junior College	Santa Rosa	Schools-Universities & Colleges Academic
Santa Rosa Memorial Hospital	Santa Rosa	Hospitals
Sola Optical USA Inc.	Petaluma	Optical Goods-Manufacturers
Sola Optical USA Inc.	Petaluma	Optical Goods-Wholesale
Sonoma County Human Svc Dept	Santa Rosa	County Government-Social/Human Resources
Sonoma County Sheriff	Santa Rosa	Sheriff
Sonoma Developmental Ctr	Eldridge	Hospitals
Sonoma Mission Inn & Spa	Sonoma	Hotels & Motels
Sonoma State University-Anthro	Rohnert Park	Schools
Sonoma Valley Hospital	Sonoma	Hospitals
State Farm Insurance	Cotati	Insurance
Sunrise Industries	Eldridge	Assembly & Fabricating Service
Sutter Medical Ctr-Santa Rosa	Santa Rosa	Hospitals
Us Coast Guard	Petaluma	Federal Government-National Security
Washington Mutual	Santa Rosa	Real Estate Loans

Source: 2005 America's Labor Market Information System (ALMIS) Employer Database.

**AIRPORT-LARKFIELD-WIKIUP SANITATION ZONE
OF THE SONOMA COUNTY WATER AGENCY**

General

The Airport-Larkfield-Wikiup Sanitation Zone (the "Zone") is a sanitation zone within the Sonoma County Water Agency ("SCWA"). SCWA is a public entity established under special enabling legislation, California Water Code Appendix 53-1 *et seq.* The Zone was established on December 7, 1982 and is a separate enterprise fund of SCWA. SCWA is located in Sonoma County (the "County").

Only the Net Revenues of the Zone will be available for payment of the Installment Payments relating to the Zone's financing (see "Plan of Finance" below) and no other revenues of SCWA or the County will be available for these Installment Payments.

Governance and Management

SCWA, the Zone and the County are governed by a five-member governing board of directors. The current directors and the expiration dates of their terms are set forth below.

<u>Member</u>	<u>Title</u>	<u>Expiration of Term</u>
Tim Smith	Chair	January 2009
Paul Kelley	Vice-Chair	January 2007
Valerie Brown	Director	January 2009
Mike Kerns	Director	January 2007
Mike Reilly	Director	January 2009

Management of the Zone is provided by Randy Poole, General Manager/Chief Engineer. Mr. Poole has been with SCWA since 1991 and has approximately 28 years experience operating utility systems.

Wastewater System

The Zone's wastewater system (the "System") facilities include a wastewater collection system, treatment plant, recycled water pipelines, storage ponds, and an irrigation system. The treatment capacity of the System is .9 million gallons per day ("mgd"). The average daily demands on the System is .75 mgd. The peak flow is 2.0 mgd. See "Permits and Other Regulations" below.

Plan of Finance

A portion of the proceeds of the Zone's share of the CSCDA Series 2005C Revenue Bonds (the "Bonds") is being used to advance refund the Zone's portion of the CSCDA Series 2000B Revenue Bonds, currently outstanding in the principal amount of \$6,000,000. This advance refunding will result in debt service savings.

Service Area and Customers

The System serves an area of approximately 4.63 square miles in the unincorporated area north of Santa Rosa and south of the Town of Windsor.

Population of the service area is currently estimated to be 4,255. The tables below show the current number of connections/Dwelling Unit Equivalents ("DUEs") of the System by classification of user and revenues by class of user.

**Airport-Larkfield-Wikiup Sanitation Zone
Number of Connections and DUEs by Classification of User
As of June 30, 2001 to 2004**

<u>User Type</u>	2001		2002		2003		2004	
	<u>Connections</u>	<u>DUEs</u>	<u>Connections</u>	<u>DUEs</u>	<u>Connections</u>	<u>DUEs</u>	<u>Connections</u>	<u>DUEs</u>
Single Family Residential	1,611	1,601	1,618	1,620	1,618	1,620	1,635	1,635
Multiple Family Residential	68	511	78	607	67	563	67	563
Commercial/Institutional	145	690	145	690	165	777	172	755
Other	19	299	19	299	19	299	19	299
Total All Users	1,843	3,101	1,860	3,216	1,869	3,259	1,893	3,252

Source: Sonoma County Water Agency.

**Airport-Larkfield-Wikiup Sanitation Zone
Revenues by Class of User
Fiscal Year 2003-04**

<u>User Class</u>	<u>Fiscal Year Revenue</u>	<u>Percentage of Operating Revenue</u>
Single Family Residential	\$640,920	50%
Multiple Family Residential	220,692	17
Commercial/Industrial	295,960	24
Other	117,208	9

Source: Sonoma County Water Agency.

Largest Users. The table below shows the five largest users of the System based on revenues for the fiscal year 2003-04.

**Airport-Larkfield-Wikiup Sanitation Zone
Largest Users
Fiscal Year 2003-04**

<u>User</u>	<u>Type of Business</u>	<u>Revenue</u>	<u>Percentage of Revenue</u>
County of Sonoma	Airport	\$58,808	4.9%
Lee, Stephen & Susan, et al.	Residential Units	26,970	2.2
Lilli Ann Properties	Residential Units	25,272	2.1
Mark West Union School District	School	23,896	1.9
Fio Rio, Robert & Elizabeth	Mobile Home Park	18,001	1.5

Source: Sonoma County Water Agency.

Wastewater Rates

SCWA has the power to establish rates and charges as needed to operate the System. Its charges are established by its governing board and are not subject to review or approval by any other agency. SCWA principally relies on the following charges and fees: charges for services, connection fees and miscellaneous charges.

Charges and Connection Fees. The following annual charges and connection fees were established for residential and commercial wastewater service by Ordinance No. 45 adopted by the Board of Directors of SCWA (the "Board") on April 19, 2005, which became effective on July 1, 2005. The service charges and connection fees are based on Equivalent Single-Family Dwelling ("ESD") as defined in Section 2.01 of Ordinance No. 15 of SCWA.

Household Service Charge. The annual household service charge is \$415 and has been in effect since July 1, 2005.

Household Connection Fee. The Zone's current household connection fee is \$8,056 per ESD.

Commercial Service Charge. The Zone's current commercial service charge is \$415 per ESD.

Commercial Connection Fee. The Zone's current commercial connection fee is \$8,056 per ESD.

Delinquencies. The Zone has not experienced any significant delinquencies exceeding 6% over the last 5 years. Delinquency rates are insignificant because revenues for services are assessed and collected on tax rolls.

Permits

The Zone operates under Regional Water Quality Control Board ("RWQCB") Order No. R1-2001-69. An NPDES permit is not required for the Zone, as it operates as a "zero-discharge" treatment plant. The Zone is in compliance with the RWQCB order.

Existing Long-Term Obligations and Planned Capital Improvements

As of the date of issuance of the Bonds, SCWA will have no other existing long-term obligations payable from wastewater revenues of the Zone.

Planned capital improvements to the System include, but are not limited to, the replacement of underground fuel storage with above ground tanks, the removal of settling pond sludge, the replacement of certain filter modules, the construction of a fourth aeration basin to treat incoming flows, the construction of a chlorine gas scrubber system and the construction of a storage pond for secondary effluent. Such capital improvements are estimated to cost approximately \$1.1 to 4.9 million in fiscal years 2005 through 2015. SCWA plans to finance these costs through service charges and connection fees. Planned capital improvements to the System also include a photovoltaic project, which will provide solar power to the Zone. A portion of the costs of the photovoltaic project is expected to be financed through a master lease purchase agreement. The remaining balance of the costs (approximately \$1.6 million) is expected to be funded with a rebate from Pacific Gas & Electric. See "Financial Information- Projected Operating Results and Debt Service Coverage" below.

Financial Information

Financial Statements. A copy of the most recent audited financial statements of SCWA prepared by SCWA and audited by SCWA's accountant (the "Auditor") is included in Appendix A hereto (the "Financial Statements"). The Auditor's letter concludes that the audited financial statements present fairly, in all material respects, the financial position of SCWA as of June 30, 2004 and the results of its operations and cash flows for the year then ended in conformity with generally accepted accounting principles. The Financial Statements should be read in their entirety. The Auditor has not reviewed or audited this Official Statement.

Historic Operating Results. The following table is a summary of operating results of the Zone for the fiscal years ending June 30, 2002 through 2004. The Zone is accounted for as an enterprise fund of SCWA. These results have been derived from the audited financial statements of SCWA and are qualified in their entirety by reference to such statements, including the notes thereto. All results exclude certain non-cash items and include certain other adjustments. The Auditor has not reviewed or audited the summary operating results or any other portion of this Official Statement.

**Airport-Larkfield-Wikiup Sanitation Zone Wastewater System
Summary of Historic Operating Results
Fiscal Years Ended June 30**

	<u>2002</u>	<u>2003</u>	<u>2004</u>
Revenues			
Service Charges	\$1,009,921	\$1,097,737	\$1,202,491
Connection Fees	358,111	274,168	181,540
Interest Earnings	129,391	67,961	(23,803)
Other	<u>0</u>	<u>3,228</u>	<u>4,882</u>
Total Revenues	\$1,497,423	\$1,443,094	\$1,365,110
Operating Expenses ⁽¹⁾	\$815,802	\$961,217	\$1,052,039
System Net Revenues	<u>\$681,621</u>	<u>\$481,877</u>	<u>\$313,071</u>
Parity Debt Service			
CSCDA 2000B Wastewater Revenue Bonds ⁽²⁾	<u>\$473,385</u>	<u>\$471,460</u>	<u>\$470,512</u>
Total Parity Debt Service Coverage ⁽³⁾	<u>1.44</u>	<u>1.02</u>	<u>0.67</u>

⁽¹⁾ Excludes depreciation and capital expenditures.

⁽²⁾ Net of interest earnings.

⁽³⁾ Connection fees included in the calculation of net revenues reflect a significant amount of new development occurring within the Zone. Due to the sporadic nature of connection fees, the Zone did not meet its bond debt service coverage requirement during fiscal years 2002-03 and 2003-04. User fees were increased in each of these fiscal years to attempt to meet the 120% debt service coverage requirement, but connection fees were significantly lower than projected due to an unanticipated delay in receipt of development fees. Debt service was paid on time and in full from excess Zone reserves.

Source: Sonoma County Water Agency.

Projected Operating Results and Debt Service Coverage. The Zone's estimate of projected operating results for the System for the fiscal years ending June 30, 2005 through 2008 are set forth below, reflecting certain significant assumptions concerning future events and circumstances. The financial forecast represents the Zone's estimate of projected financial results based upon its judgment of the probable occurrence of future events. The assumptions set forth in part in the footnotes to the chart set forth below are material in the development of the Zone's financial projections, and variations in the assumptions may produce substantially different financial results. Actual operating results achieved during the projection period will vary from those presented in the forecast and such variations may be material.

**Airport-Larkfield-Wikiup Sanitation Zone
Wastewater System
Projected Operating Results
Fiscal Years Ended June 30**

	<u>2005⁽¹⁾</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Revenues				
Service Charges	\$1,124,307	\$1,288,079	\$1,351,583	\$1,432,583
Connection Fees ⁽²⁾	1,472,660	379,630	383,221	387,115
Interest Earnings ⁽³⁾	<u>18,987</u>	<u>15,000</u>	<u>18,000</u>	<u>20,500</u>
Total Revenues	\$2,615,954	\$1,682,709	\$1,752,804	\$1,840,198
Operating Expenses ⁽⁴⁾	\$1,278,599	\$1,101,420	\$1,145,476	\$1,191,295
System Net Revenues	<u>\$1,337,355</u>	<u>\$581,289</u>	<u>\$607,328</u>	<u>\$648,903</u>
Parity Debt Service				
CSCDA 2000B Wastewater Revenue Bonds ⁽⁵⁾	\$470,858	\$318,854	\$ 0	\$ 0
CSCDA 2005C Wastewater Revenue Bonds	<u>0</u>	<u>145,926</u>	<u>445,046</u>	<u>459,689</u>
Total Parity Debt Service	<u>\$470,858</u>	<u>\$464,780</u>	<u>\$445,046</u>	<u>\$459,689</u>
Total Parity Debt Service Coverage	<u>2.84</u>	<u>1.25</u>	<u>1.36</u>	<u>1.41</u>

⁽¹⁾ Derived from estimated actual results; preliminary and unaudited.

⁽²⁾ A large development project contributed \$1,426,755 during fiscal year 2004-05. User fees were increased by 5.9% in fiscal year 2005-06 to collect sufficient revenue to meet the 120% debt service coverage requirement. Future fees will be set at a sufficient level to meet this requirement.

⁽³⁾ Assumes 2.5% rate of interest on cash balance.

⁽⁴⁾ Excludes depreciation, capital expenditures and debt service. Assumes 4% annual increase in operating expenses.

⁽⁵⁾ A portion of the proceeds of the Zone's share of the Bond is being used to advance refund the Zone's portion of the CSCDA Series 2000B Revenue Bonds. See "Plan of Finance" above.

Source: Sonoma County Water Agency.

Debt Service Schedule

The following table shows the debt service requirements of the Bonds related to the Zone.

Annual Period Ending October 1	Principal	Interest	Total
2006	\$190,000.00	\$274,684.00	\$464,684.00
2007	210,000.00	252,576.25	462,576.25
2008	215,000.00	246,801.25	461,801.25
2009	220,000.00	240,781.25	460,781.25
2010	230,000.00	234,181.25	464,181.25
2011	235,000.00	226,821.25	461,821.25
2012	245,000.00	219,066.25	464,066.25
2013	255,000.00	210,736.25	465,736.25
2014	260,000.00	201,811.25	461,811.25
2015	275,000.00	192,321.25	467,321.25
2016	280,000.00	182,008.75	462,008.75
2017	290,000.00	171,228.75	461,228.75
2018	305,000.00	159,918.75	464,918.75
2019	315,000.00	147,718.75	462,718.75
2020	335,000.00	131,968.75	466,968.75
2021	345,000.00	115,218.75	460,218.75
2022	365,000.00	97,968.75	462,968.75
2023	380,000.00	79,718.75	459,718.75
2024	405,000.00	60,718.75	465,718.75
2025	420,000.00	40,468.75	460,468.75
2026	445,000.00	19,468.75	464,468.75
Total	\$6,220,000.00	\$3,506,186.50	\$9,726,186.50

Litigation

The Zone states that there is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, threatened that may result in any material adverse change relating to the finances or operations of the Zone or the System.

In December 2004, Northern California River Watch ("River Watch") filed a citizen action alleging violations of the Federal Clean Water Act, naming the Zone as a defendant. The complaint was not served on the Zone. In January 2005, River Watch entered into a Tolling Agreement with the District and other defendants to attempt to negotiate a settlement of the action. As part of the Tolling Agreement, River Watch has withdrawn its complaint and agreed not to re-file a complaint during the negotiation period. The Zone cannot predict what costs or liabilities may arise from these alleged violations.

Seismic Risks

The Zone is located in a seismically active region of northern California. The System and future planned capital improvements to the System have been or will be designed to meet all applicable seismic

standards. However, there can be no assurance that seismic activity will not significantly damage the System or adversely affect the local economy.

Economic and Demographic Information for Sonoma County

Population. The population for Sonoma County as of January 1, 2005 was estimated to be 478,440, an increase of 3% above the population of 464,764 as of January 1, 2001. The following table shows the rate of growth for the County as of January 1, 2001 through January 1, 2005.

**Sonoma County
Population
as of January 1**

2001	464,764
2002	469,069
2003	471,644
2004	474,993
2005	478,440

Source: State of California, Department of Finance.

Employment. As of May 2005, the civilian labor force in the County reached 256,900. This is a decrease of 0.6% over the civilian labor force of 258,400 for 2001. The table below lists figures for the civilian labor force and comparative unemployment rates for 2001 through May 2005.

**Sonoma County
Civilian Labor Force, Employment and Unemployment**

<u>Annual Average</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005⁽¹⁾</u>
Labor Force	258,400	258,300	255,400	257,500	256,900
Employment	249,000	245,200	241,500	244,800	246,800
Unemployment	9,400	13,100	13,900	12,700	10,100
Unemployment Rate	3.6%	5.1%	5.4%	4.9%	3.9%

⁽¹⁾ Data through May.

Source: State of California, Employment Development Department March 2004 Benchmark; data are not seasonally adjusted.

Personal Income. Between 1999 and 2003, the County’s median household effective buying income increased 13%. The table below summarizes the total effective buying income and the median household effective buying income for the County.

**Sonoma County
Effective Buying Income
as of January 1**

<u>Year</u>	Total Effective Buying Income (000’s Omitted)	Median Household Effective Buying <u>Income</u>
1999	\$8,713,893	\$42,479
2000	9,990,942	47,956
2001	10,096,031	47,908
2002	10,167,530	47,085
2003	10,340,723	48,008

Source: Survey of Buying Power, Sales and Marketing Management.

Assessed Valuation. The following table shows the assessed valuations for the County from fiscal years 2000-01 through 2004-05.

**Sonoma County
Assessed Valuations**

	Non-Unitary		Total Before <u>Unsecured</u>	Unitary	
	<u>Local Secured</u>	<u>Utility</u>		<u>Rdv. Increment</u>	<u>Utility Valuation</u>
2000-01	34,044,892,664	3,363,840	1,647,402,225	35,695,658,729	660,796,655
2001-02	38,443,110,290	8,360,309	1,894,683,375	40,346,153,974	628,307,973
2002-03	41,793,083,472	8,132,840	2,093,704,089 (1)	43,894,920,401	724,606,272
2003-04	45,433,401,576	5,298,095	2,186,395,452 (1)	47,625,095,123	639,353,562
2004-05	49,316,843,153	5,341,095	2,134,188,378	51,456,372,626	606,454,153

(1) Includes aircraft valuations.

Source: California Municipal Statistics, Inc.

Major Employers. The following table shows the major employers in the County of Sonoma.

**Sonoma County Major Employers
2005**

<u>Employer</u>	<u>Location</u>	<u>Industry</u>
Advanced Fibre Communications	Petaluma	Telecommunications Services
Agilent Technologies Inc.	Rohnert Park	Computers-Electronic-Manufacturers
Amy's Kitchen Inc.	Santa Rosa	Frozen Food Processors
Amy's Kitchen Inc.	Santa Rosa	Frozen Food Processors
Army National Guard	Santa Rosa	State Government-National Security
Arterial Vascular Engineering	Santa Rosa	Physicians & Surgeons Equip & Supls-Whol
Kaiser Foundation Hospital	Santa Rosa	Hospitals
Medtronic Interventional Vscrlr	Santa Rosa	Physicians & Surgeons Equip & Supls-Mfrs
Petaluma Valley Hospital	Petaluma	Hospitals
Recreation & Parks Adm	Santa Rosa	Parks
Santa Rosa Junior College	Santa Rosa	Schools-Universities & Colleges Academic
Santa Rosa Memorial Hospital	Santa Rosa	Hospitals
Sola Optical USA Inc.	Petaluma	Optical Goods-Manufacturers
Sola Optical USA Inc.	Petaluma	Optical Goods-Wholesale
Sonoma County Human Svc Dept	Santa Rosa	County Government-Social/Human Resources
Sonoma County Sheriff	Santa Rosa	Sheriff
Sonoma Developmental Ctr	Eldridge	Hospitals
Sonoma Mission Inn & Spa	Sonoma	Hotels & Motels
Sonoma State University-Anthro	Rohnert Park	Schools
Sonoma Valley Hospital	Sonoma	Hospitals
State Farm Insurance	Cotati	Insurance
Sunrise Industries	Eldridge	Assembly & Fabricating Service
Sutter Medical Ctr-Santa Rosa	Santa Rosa	Hospitals
US Coast Guard	Petaluma	Federal Government-National Security
Washington Mutual	Santa Rosa	Real Estate Loans

Source: 2005 America's Labor Market Information System (ALMIS) Employer Database.

SOUTH PARK COUNTY SANITATION DISTRICT

General

The South Park County Sanitation District (the "District") located in Sonoma County (the "County") is a county sanitation district under the Community Sanitation District Act, Section 4700 *et seq.* of the California Health and Safety Code.

There are four County Sanitation Districts in the County, which include Occidental, Russian River, Sonoma Valley and South Park (collectively, the "Sanitation Districts"). The Sanitation Districts are managed by the Sonoma County Water Agency ("SCWA") which provides engineering, environmental, administration, operational and maintenance services. The Sanitation Districts are separate special districts responsible for maintaining and operating their local collection systems, pump stations, and treatment plants. Each District has an ordinance defining policies, including user fees.

An agreement for dissolution of the District and transfer to the City of Santa Rosa ("Santa Rosa") was finalized on February 27, 1996 and amended in February 1998 and April 2004. Under the amended agreement, the parties specified that: 1) dissolution of the District shall become effective on June 30, 2011; 2) Santa Rosa shall acquire the unused capacity of the District; and 3) the District will upgrade portions of the collection system to meet City of Santa Rosa standards. Consequently, on June 30, 2011, Santa Rosa is expected to become the successor to the District with respect to the District's obligations to pay the Installment Payments.

The District is a separate legal entity from SCWA, the County and the three other Sanitation Districts with separate and independent finances and operations. Only the Net Revenues of the District will be available for payment of the Installment Payments relating to the District's financing (see "Plan of Finance" below) and no other revenues of SCWA or the County will be available for these Installment Payments.

Governance and Management

The District is governed by a five-member governing board (the "Board"). The Board has the same members as the board of SCWA and the County. The Board's current directors and the expiration dates of their terms are set forth below.

<u>Member</u>	<u>Title</u>	<u>Expiration of Term</u>
Tim Smith	Chair	January 2009
Paul Kelley	Vice-Chair	January 2007
Valerie Brown	Director	January 2009
Mike Kerns	Director	January 2009
Mike Reilly	Director	January 2009

Management of the District is provided by Randy Poole, General Manager/Chief Engineer of the Sonoma County Water Agency. Mr. Poole has been with SCWA since 1991 and managed utility systems for approximately 28 years.

Wastewater System

The District's wastewater system (the "System") facilities include a wastewater collection system. The District provides service to the South Park area of unincorporated Sonoma County using a gravity collection system and lift station at Todd Road. Wastewater from the District is treated and disposed of by Santa Rosa at the Laguna Subregional Treatment Plant on Llano Road. The capacity of the System is 21.3 million gallons per day ("mgd"), dry weather flow. The average daily demand on the System is 16.5 mgd. The peak flow/demand on the system is 66.9 mgd.

Plan of Finance

A portion of the proceeds of the District's share of the CSCDA Series 2005C Revenue Bonds (the "Bonds") is being used to advance refund the District's portion of the CSCDA Series 2000B Revenue Bonds, currently outstanding in the principal amount of \$3,255,000. This advance refunding will result in debt service savings.

Service Area and Customers

The System serves an area of approximately 1.67 square miles in the unincorporated area south of Santa Rosa and north of the City of Rohnert Park.

Population of the service area is currently estimated to be 4,969. The tables below show the current number of connections/Dwelling Unit Equivalents ("DUEs") of the System by classification of user and revenues by class of user.

South Park County Sanitation District Number of Connections and DUEs by Classification of User as of June 30, 2001 to 2004

<u>User Type</u>	2001		2002		2003		2004	
	<u>Connections</u>	<u>DUEs</u>	<u>Connections</u>	<u>DUEs</u>	<u>Connections</u>	<u>DUEs</u>	<u>Connections</u>	<u>DUEs</u>
Single Family Residential	1,608	1,627	1,614	1,645	1,573	1,598	1,573	1,598
Multiple Family Residential	299	857	361	914	350	921	338	964
Commercial/ Institutional	186	1,327	186	1,327	183	1,327	164	1,280
Other	9	63	9	63	8	63	8	63
Total All Users	2,102	3,874	2,170	3,949	2,114	3,909	2,083	3,905

Source: South Park County Sanitation District.

**South Park County Sanitation District
Revenues by Class of User
Fiscal Year 2003-04**

<u>User Class</u>	<u>Fiscal Year Revenue</u>	<u>Percentage of Operating Revenue</u>
Single Family Residential	\$1,089,766	41%
Multiple Family Residential	659,376	25
Commercial/Industrial	875,520	33
Other	43,092	1

Source: South Park County Sanitation District.

Largest Users. The table below shows the five largest users of the System based on revenues for the fiscal year 2003-04.

**South Park County Sanitation District
Largest Users
Fiscal Year 2003-04**

<u>User</u>	<u>Type of Business</u>	<u>Revenue</u>	<u>Percentage of Revenue</u>
Mighty MHP, Inc.	Mobile Home Park	\$75,514	3.0%
Patterson, Janice E TR, et al.	Mobile Home Rented Site	68,400	2.7
ICL Industrial Leasing Corp	Motel over 50 units w/shops	49,942	2.0
Rich, William & Barbara TR	Mobile Home Park	44,870	1.8
Aldridge, Bernard	72-unit apartments	39,398	1.6

Source: South Park County Sanitation District.

Wastewater Rates

The District has the power to establish rates and charges as needed to operate the System. Its charges are established by the Board and are not subject to review or approval by any other agency. The District principally relies on the following charges and fees: charges for services, connection fees and miscellaneous charges.

User Charges and Connection Fees. The following charges, fees and rates were established for residential and commercial wastewater service by Ordinance No. 62 adopted by the Board on May 17, 2005, which became effective on July 1, 2005. The service charges are based on an Equivalent Single Family Dwelling Unit ("ESD") as defined in Section 2.01 of Ordinance No. 35 of the South Park County Sanitation District.

Household Service Charge. The annual household service charge is \$684 per ESD and has been in effect since July 1, 2004.

Household Connection Fee. The District's current household connection charge is \$2,000 per ESD.

Commercial Service Charge. The District's current commercial service charge is \$684 per ESD.

Commercial Connection Fee. The District's current commercial connection fee is \$2,000 per ESD.

Delinquencies. The District has not experienced any significant delinquencies exceeding 4% over the last 5 years. Delinquency rates are insignificant because revenues for services are assessed and collected on tax rolls.

In May 2005, ratepayers in the District submitted a majority protest of the annual wastewater service fee increase proposed by the District pursuant to Section 6 of Proposition 218. The proposed fee would have increased the annual wastewater fee to \$725.00 from \$684.00 per average family household. Although the legal applicability of Section 6 of Proposition 218 to wastewater fees is not clear at this time, the Board determined to honor the protest and not raise the fee to ensure compliance.

The District has sufficient reserves to allow for continued operations and capital replacement program expenditures without a fee increase for Fiscal Year 2005-06. The District plans an outreach program prior to submission of its next proposed rate increase to ensure users are aware of the reasons for periodic increases in operational and capital improvement expenditures, as well as the consequences of future rate protests on the services provided by the District.

Permits

The District operates under Regional Water Quality Control Board Order No. 2000-03; permit number CA0022764, which is held by Santa Rosa. The permit expired on March 31, 2005, but has been administratively extended. The District is in compliance with the requirements of the permit.

Existing Long-Term Obligations and Planned Capital Improvements

As of the date of issuance of the Bonds, the District will have no other existing long-term obligations payable from wastewater revenues.

Planned capital improvements to the System include, but are not limited to, the replacement of portions of the District's collection system. Such capital improvements are estimated to cost approximately \$4 to \$7 million in fiscal years 2005 through 2010. The District plans to finance these costs through service charges, grants and the remaining proceeds attributable to the District from the California Statewide Communities Development Authority Water and Wastewater Revenue Bonds (Pooled Financing Program), Series 2000B.

Financial Information

Financial Statements. A copy of the most recent audited financial statements of the Sanitation Districts prepared by the Sanitation Districts and audited by the Sanitation Districts' accountant (the "Auditor") is included in Appendix A hereto (the "Financial Statements"). The Auditor's letter concludes that the audited financial statements present fairly, in all material respects, the financial

position of the Districts as of June 30, 2004 and the results of their operations and cash flows for the year then ended in conformity with generally accepted accounting principles. The Financial Statements should be read in their entirety. The Auditor has not reviewed or audited this Official Statement.

Historic Operating Results. The following table is a summary of operating results of the District for the fiscal years ending June 30, 2002 through 2004. The results have been derived from the audited financial statements of the District and are qualified in their entirety by reference to such statements, including the notes thereto. All results exclude certain non-cash items and include certain other adjustments. The Auditor has not reviewed or audited the summary operating results or any other portion of this Official Statement.

**South Park County Sanitation District
Summary of Historic Operating Results
Fiscal Years Ended June 30**

	<u>2002</u>	<u>2003</u>	<u>2004</u>
Revenues			
User Fees	\$2,140,537	\$2,330,405	\$2,508,802
Interest Earnings	171,081	154,780	65,686
Other	<u>100</u>	<u>54,652</u>	<u>55,791</u>
Total Revenues	<u>\$2,311,718</u>	<u>\$2,539,837</u>	<u>\$2,630,279</u>
Operating Expenses ⁽¹⁾	\$2,003,153	\$1,850,945	\$1,847,726
System Net Revenues	<u>\$308,565</u>	<u>\$688,892</u>	<u>\$782,553</u>
Parity Debt Service			
CSCDA 2000B Wastewater Revenue	<u>\$257,857</u>	<u>\$254,801</u>	<u>\$256,543</u>
Bonds ⁽²⁾			
Total Parity Debt Service Coverage	<u>1.20</u>	<u>2.70</u>	<u>3.05</u>

⁽¹⁾ Excludes depreciation and capital expenditures and includes certain cost related to the HVOC remediation. See "Other Information" below and the Financial Statements of the District attached as Appendix A hereto.

⁽²⁾ Net of interest earnings.

Source: South Park County Sanitation District.

Projected Operating Results and Debt Service Coverage. The District's estimate of projected operating results for the System for the fiscal years ending June 30, 2005 through 2008 are set forth below, reflecting certain significant assumptions concerning future events and circumstances. The financial forecast represents the District's estimate of projected financial results based upon its judgment of the probable occurrence of future events. The assumptions set forth in part in the footnotes to the chart set forth below are material in the development of the District's financial projections, and variations in the assumptions may produce substantially different financial results. Actual operating

results achieved during the projection period will vary from those presented in the forecast and such variations may be material.

**South Park County Sanitation District
Wastewater System
Projected Operating Results
Fiscal Years Ended June 30**

	<u>2005⁽¹⁾</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Revenues				
User Fees	\$2,582,429	\$2,583,468	\$2,758,885	\$2,898,332
Interest Earnings ⁽²⁾	118,837	37,500	46,435	58,410
Other Revenues	<u>94,245</u>	<u>50,000</u>	<u>50,000</u>	<u>50,000</u>
Total Revenues	\$2,795,511	\$2,670,968	\$2,855,320	\$3,006,742
Operating Expenses				
General ⁽³⁾	\$1,593,062	\$1,825,300	\$1,989,312	\$2,074,244
Roseland Action Team ⁽⁴⁾	213,222	200,000	200,000	200,000
County Loan Repayment ⁽⁴⁾	<u>100,000</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Operating Expenses	\$1,906,284	\$2,025,300	\$2,189,312	\$2,274,244
System Net Revenues	<u>\$889,227</u>	<u>\$645,668</u>	<u>\$666,008</u>	<u>\$732,498</u>
Parity Debt Service				
CSCDA 2000B Wastewater Revenue Bonds ⁽⁵⁾	\$255,546	\$171,176	\$ 0	\$ 0
CSCDA 2005C Wastewater Revenue Bonds	<u>0</u>	<u>76,205</u>	<u>233,179</u>	<u>240,366</u>
Total Parity Debt Service	<u>\$255,546</u>	<u>\$247,381</u>	<u>\$233,179</u>	<u>\$240,366</u>
Total Parity Debt Service Coverage	<u>3.48</u>	<u>2.61</u>	<u>2.86</u>	<u>3.05</u>

⁽¹⁾ Derived from estimated actual results, preliminary and unaudited.

⁽²⁾ Assumes 2.5% rate of interest on cash balance.

⁽³⁾ Excludes depreciation, capital expenditures and debt service and includes certain cost related to the HVOC remediation. See "Other Information" below and the Financial Statements of the District attached as Appendix A hereto. Assumes 4% annual increase in operating expenses.

⁽⁴⁾ See "Other Information" below and the Financial Statements of the District attached as Appendix A hereto.

⁽⁵⁾ A portion of the proceeds of the District's share of the Bonds is being used to advance refund the District's portion of the CSCDA Series 2000B Revenue Bonds. See "Plan of Finance" above.

Source: South Park County Sanitation District.

Other Information

The District is responsible for investigation of a plume of halogenated volatile organic compound ("HVOC") in the groundwater underlying the District, which allegedly resulted from leakage through cracks in the District's wastewater system pipe. The District has completed the majority of the investigation. The initial cost of this investigation was approximately \$2 million, of which \$1.5 million was paid for out of District funds. A loan from the County in the amount of \$500,000 paid for the balance of the investigation costs, which has been repaid from District funds in five equal annual installments. The District is working with the California Regional Water Quality Control Board for the North Coast Region (the "Regional Board") to require other potentially responsible parties to conduct investigations of HVOC source areas on their properties. Pursuant to an agreement with the City of Santa Rosa, the District is currently scheduled to be transferred over to Santa Rosa in June 2011. See "General" above. The District and the City of Santa Rosa are currently negotiating the division of costs between the District and the City of Santa Rosa for any remaining investigation and/or remediation. The estimated costs of remediation will be determined upon completion of the investigations of the HVOC plume area.

Debt Service Schedule

The following table shows the debt service requirements of the Bonds related to the District.

Annual Period Ending October 1	Principal	Interest	Total
2006	\$100,000.00	\$143,444.00	\$243,444.00
2007	110,000.00	131,878.75	241,878.75
2008	115,000.00	128,853.75	243,853.75
2009	115,000.00	125,633.75	240,633.75
2010	120,000.00	122,183.75	242,183.75
2011	125,000.00	118,343.75	243,343.75
2012	125,000.00	114,218.75	239,218.75
2013	130,000.00	109,968.75	239,968.75
2014	140,000.00	105,418.75	245,418.75
2015	140,000.00	100,308.75	240,308.75
2016	145,000.00	95,058.75	240,058.75
2017	155,000.00	89,476.25	244,476.25
2018	160,000.00	83,431.25	243,431.25
2019	165,000.00	77,031.25	242,031.25
2020	170,000.00	68,781.25	238,781.25
2021	180,000.00	60,281.25	240,281.25
2022	190,000.00	51,281.25	241,281.25
2023	200,000.00	41,781.25	241,781.25
2024	210,000.00	31,781.25	241,781.25
2025	220,000.00	21,281.25	241,281.25
2026	235,000.00	10,281.25	245,281.25
Total	\$3,250,000.00	\$1,830,719.00	\$5,080,719.00

Litigation

Other than as described below and as specified in "Other Information" above, the District states that there is no action, suit, proceeding, inquiry or investigation, at law or in equity, threatened or before or by any court, that may result in any material adverse change relating to the finances or operations of the District or the System.

A complaint was filed by owners of certain property in May 2004 against the City of Santa Rosa, the County and the District alleging wastewater lines owned and operated by each public entity in the vicinity of the property caused contamination to such property and to the groundwater beneath such property. While the case was withdrawn by plaintiffs in January 2005, there can be no assurance that another contamination lawsuit will not be filed. In such case, there can be no assurance that the District would not be found liable for such contamination, resulting in substantial costs.

Seismic Risks

The District is located in a seismically active region of northern California. The System and future planned capital improvements to the System have been or will be designed to meet all applicable

seismic standards. However, there can be no assurance that seismic activity will not significantly damage the System or adversely affect the local economy.

Economic and Demographic Information for Sonoma County

Population. The population for Sonoma County as of January 1, 2005 was estimated to be 478,440, an increase of 3% above the population of 464,764 as of January 1, 2001. The following table shows the rate of growth for the County as of January 1, 2001 through January 1, 2005.

**Sonoma County
Population
as of January 1**

2001	464,764
2002	469,069
2003	471,644
2004	474,993
2005	478,440

Source: State of California, Department of Finance.

Employment. As of May 2005, the civilian labor force in the County reached 256,900. This is a decrease of 0.6% over the civilian labor force of 258,400 for 2001. The table below lists figures for the civilian labor force and comparative unemployment rates for 2001 through May 2005.

**Sonoma County
Civilian Labor Force, Employment and Unemployment**

<u>Annual Average</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005⁽¹⁾</u>
Labor Force	258,400	258,300	255,400	257,500	256,900
Employment	249,000	245,200	241,500	244,800	246,800
Unemployment	9,400	13,100	13,900	12,700	10,100
Unemployment Rate	3.6%	5.1%	5.4%	4.9%	3.9%

⁽¹⁾ Data through May.

Source: State of California, Employment Development Department
March 2004 Benchmark; data are not seasonally adjusted.

Personal Income. Between 1999 and 2003, the County’s median household effective buying income increased 13%. The table below summarizes the total effective buying income and the median household effective buying income for the County.

**Sonoma County
Effective Buying Income
as of January 1**

<u>Year</u>	Total Effective Buying Income (000's Omitted)	Median Household Effective Buying <u>Income</u>
1999	\$8,713,893	\$42,479
2000	9,990,942	47,956
2001	10,096,031	47,908
2002	10,167,530	47,085
2003	10,340,723	48,008

Source: Survey of Buying Power, Sales and Marketing Management.

Assessed Valuation. The following table shows the assessed valuations for the County from fiscal years 2000-01 through 2004-05.

**Sonoma County
Assessed Valuations**

	Non-Unitary		Total Before <u>Unsecured</u>	Unitary	
	<u>Local Secured</u>	<u>Utility</u>		<u>Rdv. Increment</u>	<u>Utility Valuation</u>
2000-01	34,044,892,664	3,363,840	1,647,402,225	35,695,658,729	660,796,655
2001-02	38,443,110,290	8,360,309	1,894,683,375	40,346,153,974	628,307,973
2002-03	41,793,083,472	8,132,840	2,093,704,089 ⁽¹⁾	43,894,920,401	724,606,272
2003-04	45,433,401,576	5,298,095	2,186,395,452 ⁽¹⁾	47,625,095,123	639,353,562
2004-05	49,316,843,153	5,341,095	2,134,188,378	51,456,372,626	606,454,153

⁽¹⁾ Includes aircraft valuations.

Source: California Municipal Statistics, Inc.

Major Employers. The following table shows the major employers in the County of Sonoma.

**Sonoma County Major Employers
2005**

<u>Employer</u>	<u>Location</u>	<u>Industry</u>
Advanced Fibre Communications	Petaluma	Telecommunications Services
Agilent Technologies Inc.	Rohnert Park	Computers-Electronic-Manufacturers
Amy's Kitchen Inc.	Santa Rosa	Frozen Food Processors
Army National Guard	Santa Rosa	State Government-National Security
Arterial Vascular Engineering	Santa Rosa	Physicians & Surgeons Equip & Supls-Whol
Kaiser Foundation Hospital	Santa Rosa	Hospitals
Medtronic Interventional Vsclr	Santa Rosa	Physicians & Surgeons Equip & Supls-Mfrs
Petaluma Valley Hospital	Petaluma	Hospitals
Recreation & Parks Adm	Santa Rosa	Parks
Santa Rosa Junior College	Santa Rosa	Schools-Universities & Colleges Academic
Santa Rosa Memorial Hospital	Santa Rosa	Hospitals
Sola Optical USA Inc.	Petaluma	Optical Goods-Manufacturers
Sola Optical USA Inc.	Petaluma	Optical Goods-Wholesale
Sonoma County Human Svc Dept	Santa Rosa	County Government-Social/Human Resources
Sonoma County Sheriff	Santa Rosa	Sheriff
Sonoma Developmental Ctr	Eldridge	Hospitals
Sonoma Mission Inn & Spa	Sonoma	Hotels & Motels
Sonoma State University-Anthro	Rohnert Park	Schools
Sonoma Valley Hospital	Sonoma	Hospitals
State Farm Insurance	Cotati	Insurance
Sunrise Industries	Eldridge	Assembly & Fabricating Service
Sutter Medical Ctr-Santa Rosa	Santa Rosa	Hospitals
Us Coast Guard	Petaluma	Federal Government-National Security
Washington Mutual	Santa Rosa	Real Estate Loans

Source: 2005 America's Labor Market Information System (ALMIS) Employer Database.

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APPENDIX C

DEFINITIONS AND SUMMARY OF LEGAL DOCUMENTS

The following is a brief summary of certain of the definitions and provisions of the Indenture and the Installment Purchase Agreements. Except where indicated, Installment Purchase Agreements are substantially similar and their terms are collectively summarized in this Appendix. This summary is not intended to be comprehensive or definitive, and reference is made to the actual documents for the complete terms thereof.

DEFINITIONS

The following are summaries of certain of the definitions in the Indenture and the Installment Purchase Agreements. This summary is not intended to be comprehensive or definitive, and reference is made to the actual documents for the complete terms thereof.

Agreement

The term "Agreement" means the Installment Purchase Agreements, by and between the Participants and the Authority, as originally executed and as such may from time to time be amended or supplemented.

Annual Debt Service

The term "Annual Debt Service" means, for any Fiscal Year, the sum of (1) the interest accruing on all Parity Debt during such Fiscal Year, assuming that all Parity Debt is retired as scheduled, plus (2) the principal amount (including principal due as sinking fund installment payments) allocable to all Parity Debt in such Fiscal Year, calculated as if such principal amounts were deemed to accrue daily during such Fiscal Year in equal amounts from, in each case, each payment date for principal or the date of delivery of such Parity Debt (provided that principal shall not be deemed to accrue for greater than a 365-day period prior to any payment date), as the case may be, to the next succeeding payment date for principal, *provided*, that the following adjustments shall be made to the foregoing amounts in the calculation of Annual Debt Service:

(A) with respect to any such Parity Debt bearing or comprising interest at other than a fixed interest rate, the rate of interest used to calculate Annual Debt Service shall be (i) with respect to such Parity Debt then outstanding, one hundred ten per cent (110%) of the greater of (1) the daily average interest rate on such Parity Debt during the twelve (12) calendar months next preceding the date of such calculation (or the portion of the then current Fiscal Year that such Parity Debt has borne interest) or (2) the most recent effective interest rate on such Parity Debt prior to the date of such calculation or (ii) with respect to such Parity Debt then proposed to be issued, the then current 20-Bond GO Index rate as published in The Bond Buyer (or if The Bond Buyer or such index is no longer published, such other published similar index);

(B) with respect to any such Parity Debt having twenty-five per cent (25%) or more of the aggregate principal amount thereof due in any one Fiscal Year, Annual Debt Service shall be calculated for the Fiscal Year of determination as if the interest on and principal of such Parity Debt were

being paid from the date of incurrence thereof in substantially equal annual amounts over a period of twenty (20) years from the date of such Parity Debt provided, however that the full amount of such Parity Debt shall be included in Annual Debt Service if the date of calculation is within 24 months of the actual maturity of the payment;

(C) with respect to any such Parity Debt or portions thereof bearing no interest but which are sold at a discount and which discount accretes with respect to such Parity Debt or portions thereof, such accreted discount shall be treated as due when scheduled to be paid;

(D) Annual Debt Service shall not include interest on Parity Debt which is to be paid from amounts constituting capitalized interest;

(E) if an interest rate swap agreement is in effect with respect to, and is payable on a parity with, any Parity Debt to which it relates, no amounts payable under such interest rate swap in excess of debt service payable under such Parity Debt agreement shall be included in the calculation of Annual Debt Service unless the sum of (i) the interest payable on such Parity Debt, plus (ii) the amounts payable by the Participant under such interest rate swap agreement, less (iii) the amounts receivable by the Participant under such interest rate swap agreement, are greater than the interest payable on such Parity Debt, in which case the amount of such payments to be made that exceed the interest to be paid on such Parity Debt shall be included in such calculation, and for this purpose, the variable amount under any such interest rate swap agreement shall be determined in accordance with the procedure set forth in subparagraph (A) of this definition; and

(F) Repayment Obligations proposed to be entered into as Parity Debt shall be deemed to be payable at the scheduled amount due under such Repayment Obligation as calculated under this definition.

Authorized Investments

"Authorized Investments" means any of the following obligations which at the time of investment are legal investments of funds of the Participants under the laws of the State of California for the money proposed to be invested under the Indenture:

(1) (a) Direct obligations (other than an obligation subject to variation in principal repayment) of the United States of America ("United States Treasury Obligations") (b) obligations fully and unconditionally guaranteed as to timely payment of principal and interest by the United States of America, (c) obligations fully and unconditionally guaranteed as to timely payment of principal and interest by any agency or instrumentality of the United States of America when such obligations are backed by the full faith and credit of the United States of America, or (d) evidences of ownership of proportionate interests in future interest and principal payments on obligations described above held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor and the underlying government obligations are not available to any person claiming through the custodian or to whom the custodian may be obligated. These include, but are not necessarily limited to:

U.S. Treasury obligations
All direct or fully guaranteed obligations

Farmers Home Administration
Certificates of beneficial ownership

General Services Administration
Participation certificates

U.S. Maritime Administration
Guaranteed participation certificates
Guaranteed pool certificates

Government National Mortgage Association (GNMA)
GNMA-guaranteed mortgage-backed securities
GNMA-guaranteed participation certificates

U.S. Department of Housing & Urban Development
Local authority bonds

Washington Metropolitan Area Transit Authority
Guaranteed transit bonds

(2) Federal Housing Administration debentures.

(3) The listed obligations of government-sponsored agencies which are not backed by the full faith and credit of the United States of America:

-Federal Home Loan Mortgage Corporation (FHLMC)
Participation certificates (excluding stripped mortgage securities which are purchased at prices exceeding their principal amounts)

Senior debt obligations

-Farm Credit Banks (formerly: Federal Land Banks, Federal Intermediate Credit Banks and Banks for Cooperatives)
Consolidated system wide bonds and notes

-Federal Home Loan Banks (FHL Banks)
Consolidated debt obligations

-Federal National Mortgage Association (FNMA)
Senior debt obligations
Mortgage-backed securities (excluding stripped mortgages securities which are purchased at prices exceeding their principal amounts)

-Student Loan Marketing Association (SLMA)
Senior debt obligations (excluding securities that do not have a fixed par value and/or the terms of which do not promise a fixed dollar amount at maturity or call date)

-Financing Corporation (FICO)
Debt obligations

-Resolution Funding Corporation (REFCORP)
Debt obligations

(4) Unsecured certificates of deposit, deposit accounts, time deposits, and bankers' acceptances (having maturities of not more than 30 days) of any bank the short-term obligations of which are rated "A-1" or better by Standard & Poor's.

(5) Deposits the aggregate amount of which are fully insured by the Federal Deposit Insurance Corporation (FDIC), in banks which have capital and surplus of at least \$5 million.

(6) Commercial paper (having original maturities of not more than 270 days) rated "A-1+" by Standard & Poor's and "Prime-1" by Moody's.

(7) Money market funds rated "AAm" or "AAm-G" by Standard & Poor's, or better, including funds which the Trustee or an affiliate manages, sponsors and advises.

(8) Repurchase agreements with (1) any domestic bank, or domestic branch of a foreign bank, the long term debt of which is rated at least "A" by S&P and Moody's; or (2) any broker-dealer with "retail customers" or a related affiliate thereof which broker-dealer has, or the parent company (which guarantees the provider) of which has, long-term debt rated at least "A" by S&P and Moody's, which broker-dealer falls under the jurisdiction of the Securities Investors Protection Corporation; or (3) any other entity rated "A" or better by S&P and Moody's and acceptable to the Bond Insurer, provided that:

- A. The market value of the collateral is maintained at levels and upon such conditions as would be acceptable to S&P to maintain an "A" rating in an "A" rated structured financing (with a market value approach);
- B. The Trustee or a third party acting solely as agent therefor or for the Authority (the "Holder of the Collateral") has possession of the collateral or the collateral has been transferred to the Holder of the Collateral in accordance with applicable state and federal laws (other than by means of entries on the transferor's books);
- C. The repurchase agreement shall state and an opinion of counsel shall be rendered at the time such collateral is delivered that the Holder of the Collateral has a perfected first priority security interest in the collateral, any substituted collateral and all proceeds thereof (in the case of bearer securities, this means the Holder of the Collateral is in possession);
- D. All other requirements of S&P in respect of repurchase agreements shall be met;

- E. The repurchase agreement shall provide that if during its term the provider's rating by either Moody's or S&P is withdrawn or suspended or falls below "A-" by S&P or "A3" by Moody's, as appropriate, the provider must, at the direction of the Authority or the Trustee (who shall give such direction if so desired by the Bond Insurer), within 10 days of receipt of such direction, repurchase all collateral and terminate the agreement, with no penalty or premium to the Authority or Trustee.

Notwithstanding the above, if a repurchase agreement has a term of 270 days or less (with no evergreen provision), collateral levels need not be as specified in (A) above, so long as such collateral levels are 103% or better and the provider is rated at least "A" by S&P and Moody's, respectively.

(9) State Obligations, which means:

(i) Direct general obligations of any state of the United States or any subdivision or agency thereof to which is pledged the full faith and credit of a state the unsecured general obligation debt of which is rated "A3" by Moody's and "A" by Standard & Poor's, or better, or any obligation fully and unconditionally guaranteed by any state, subdivision or agency whose unsecured general obligation debt is so rated.

(ii) Direct, general short-term obligations of any state agency or subdivision described in (a) above and rated "A-1+" by Standard & Poor's and "Prime-1" by Moody's.

(iii) Special Revenue Bonds (as defined in the United States Bankruptcy Code) of any state, state agency or subdivision described in (a) above and rated "AA" (without regard to subcategories) or better by Standard & Poor's and "Aa" (without regard to subcategories) or better by Moody's.

(10) Investment agreements with a domestic or foreign bank or corporation (other than a life or property casualty insurance company) the long-term debt of which, or, in the case of a guaranteed corporation the long-term debt, or, in the case of a monoline financial guaranty insurance company, claims paying ability, of the guarantor is rated at least "AA"(without regard to subcategories) by S&P and "Aa" (without regard to subcategories) by Moody's; *provided* that, by the terms of the investment agreement:

- A. interest payments are to be made to the Trustee at times and in amounts as necessary to pay debt service (or, if the investment agreement is for the Project Fund, construction draws) on the Bonds;
- B. the invested funds are available for withdrawal without penalty or premium, at any time upon not more than seven days' prior notice; the Authority and the Trustee agree to give or cause to be given notice in accordance with the terms of the investment agreement so as to receive funds thereunder with no penalty or premium paid;
- C. the investment agreement shall state that is the unconditional and general obligation of, and is not subordinated to any other obligation of, the provider thereof or, if the provider is a bank, the agreement or the opinion of counsel shall state that the obligation of the provider to make payments thereunder ranks *pari passu* with the obligations of the provider to its other depositors and its other unsecured and unsubordinated creditors;

- D. the Authority or the Trustee receives the opinion of domestic counsel (which opinion shall be addressed to the Authority and the Bond Insurer) that such investment agreement is legal, valid, binding and enforceable upon the provider in accordance with its terms and an opinion of foreign counsel (if applicable, which opinion shall be addressed to the Authority and the Bond Insurer) in form and substance acceptable to the Bond Insurer and addressed to the Authority and the Bond Insurer;
- E. the investment agreement shall provide that if during its term
- i) the provider's rating by either S&P or Moody's falls below "AA-" or "Aa3", respectively, the provider shall, at its option, within 10 days of receipt of publication of such downgrade, either (i) collateralize the investment agreement by delivering or transferring in accordance with applicable state and federal laws (other than by means of entries on the provider's books) to the Authority, the Trustee or a third party acting solely as agent therefor (the "Holder of the Collateral") collateral free and clear of any third-party liens or claims the market value of which collateral is maintained at levels and upon such conditions as would be acceptable to S&P to maintain an "A" rating in an "A" rated structured financing (with a market value approach); or (ii) repay the principal of and accrue but unpaid interest on the investment, and
 - ii) the provider's rating by either S&P or Moody's is withdrawn or suspended or falls below "A-" or "A3", respectively, the provider must, at the direction of the Authority or the Trustee (who shall give such direction if so directed by the Bond Insurer), within 10 days of receipt of such direction, repay the principal of and accrued but unpaid interest on the investment, in either case with no penalty or premium to the Authority or Trustee;
- F. the investment agreement shall state and an opinion of counsel shall be rendered, in the event collateral is required to be pledged by the provider under the terms of the investment agreement, at the time such collateral is delivered, that the Holder of the Collateral has a perfected first priority security interest in the collateral, any substituted collateral and all proceeds thereof (in the case of bearer securities, this means the Holder of the Collateral is in possession);
- G. the investment agreement must provide that if during its term:
- i) the provider shall default in its payment obligations, the provider's obligations under the investment agreement shall, at the direction of the Authority or the Trustee (who shall give such direction if so directed by the Bond Insurer), be accelerated and amounts invested and accrued but unpaid interest thereon shall be repaid to the Authority or Trustee, as appropriate, and

- ii) the provider shall become insolvent, not pay its debts as they become due, be declared or petition to be bankrupt, etc. ("event of insolvency"), the provider's obligations shall automatically be accelerated and amounts invested and accrued but unpaid interest thereon shall be repaid to the Authority or Trustee, as appropriate.

(11) Pre-funded municipal obligations rated "AAA" by Standard & Poor's and "Aaa" by Moody's meeting the following requirements:

(i) the municipal obligations are (i) not subject to redemption prior to maturity or (ii) the trustee for the municipal obligations has been given irrevocable instructions concerning their call and redemption and the issuer of the municipal obligations has covenanted not to redeem such municipal obligations other than as set forth in such instructions;

(ii) the municipal obligations are secured by cash or United States Treasury obligations which may be applied only to payment of the principal of, interest and premium on such municipal obligations;

(iii) the principal of and interest on the United States Treasury Obligations (plus any cash in the escrow) has been verified by the report of independent certified public accountants to be sufficient to pay in full all principal of, interest, and premium, if any, due and to become due on the municipal obligations ("Verification");

(iv) the cash or United States Treasury Obligations serving as security for the municipal obligations are held by an escrow agent or trustee in trust for owners of the municipal obligations;

(v) no substitution of a United States Treasury Obligation shall be permitted except with another United States Treasury obligation and upon delivery of a new Verification; and

(vi) the cash or the United States Treasury Obligations are not available to satisfy any other claims, including those by or against the trustee or escrow agent.

(12) Subject to the prior written consent of the Bond Insurer, local California agency investment pools, so long as such pool is rated in one of the two highest rating categories by S&P and Moody's.

(13) The Local Agency Investment Fund administered by the State of California.

(14) Other forms of investments approved in writing by the Bond Insurer.

Installment Payments

"Installment Payments" means the installment payments due under the Installment Purchase Agreements.

Maximum Annual Debt Service

The term "Maximum Annual Debt Service" means, as of any date of calculation, the largest Annual Debt Service during the period from the date of such calculation through the final maturity date of all Parity Debt.

Net Proceeds

The term "Net Proceeds" means, when used with respect to any casualty insurance or condemnation award, the proceeds from such insurance or condemnation award remaining after payment of all expenses (including attorneys' fees) incurred in the collection of such proceeds.

Operation and Maintenance Costs

The term "Operation and Maintenance Costs" means the reasonable and necessary costs paid or incurred by the Participant for maintaining and operating the System, determined in accordance with Generally Accepted Accounting Principles, including all reasonable expenses of management and repair and all other expenses necessary to maintain and preserve the System in good repair and working order, and including all administrative costs of the Participant that are charged directly or apportioned to the operation of the System, such as salaries and wages of employees, overhead, taxes (if any) and insurance premiums (including payments required to be paid into any self-insurance funds), and including all other reasonable and necessary costs of the Participant or charges required to be paid by it to comply with the terms of the Agreement or of any Supplemental Agreement or of any resolution authorizing the execution of any Parity Debt, such as compensation, reimbursement and indemnification of the Trustee and the Authority and fees and expenses of Independent Certified Public Accountants; but excluding in all cases (i) payment of Parity Debt and Subordinate Obligations, (ii) costs of capital additions, replacements, betterments, extensions or improvements which under Generally Accepted Accounting Principles are chargeable to a capital account, and (iii) depreciation, replacement and obsolescence charges or reserves therefor and amortization of intangibles.

Parity Debt

The term "Parity Debt" means the Installment Payments and any Parity Obligations.

Parity Obligation Payments

The term "Parity Obligation Payments" means the payments scheduled to be paid by the Participant under and pursuant to the Parity Obligations, which payments are secured by a pledge of System Net Revenues on a parity with the Installment Payments.

Parity Obligations

The term "Parity Obligations" means all obligations of the Participant authorized and executed by the Participant other than the Installment Payments, the Parity Obligation Payments under which are secured by a pledge of the System Net Revenues on a parity with the Installment Payments, including but not limited to any Repayment Obligations secured by System Net Revenues on a parity with the Installment Payments.

Prior Liens

The term "Prior Liens" means those liens, if any, on the System Revenues which are senior to the pledge under the Agreement.

Project

"Project" means the public capital improvements of the Participants financed or refinanced under the Installment Purchase Agreements.

Purchase Price

The term "Purchase Price" means the principal amount plus interest thereon owed by the Participant to the Authority under the terms of the Agreement.

Record Date

"Record Date" means the close of business on the 15th day of the month preceding any Interest Payment Date, whether or not such day is a Business Day.

Repayment Obligation

"Repayment Obligation" means the reimbursement obligation or any other payment obligation under a written agreement between the Participant and a credit provider to reimburse the credit provider for amounts paid pursuant to a credit facility for the payment of the principal amount or purchase price of and/or interest on any Parity Debt.

Reserve Account

"Reserve Account" means the accounts established within the Reserve Fund relating to the obligations under each separate Installment Purchase Agreements.

Reserve Account Requirement

The term "Reserve Account Requirement" means the amount required to be on deposit in each Reserve Account as provided in the Indenture; *provided*, that notwithstanding any provision hereof to the contrary, with the prior written consent of the Bond Insurer, all or any portion of the Reserve Account Requirement for any Reserve Account may (following written notification to the rating agencies then rating the Bonds) be satisfied by the provision of a policy of insurance, a surety bond, a letter of credit or other comparable credit facility, or a combination thereof, which, together with money on deposit in such

Reserve Account, provide an aggregate amount equal to the Reserve Account Requirement, so long as (i) the provider of any such policy of insurance, surety bond, letter of credit or other comparable credit facility is rated in one of the two highest rating categories (at all times) by Moody's and by S&P, (ii) in the case of a substitution of cash for a credit facility, the Trustee has received an opinion of counsel of recognized standing in the field of law relating to municipal bonds substantially to the effect that such substitution is authorized or permitted under the Indenture and will not adversely affect the exclusion from gross income of interest on the Bonds for federal income tax purposes, (iii) if such credit facility is not an irrevocable surety bond in the highest rating category of both Moody's and S&P, the Trustee has received written confirmation from Moody's and S&P that such substitution will not cause a lowering or withdrawal of any ratings on the Bonds, and (iv) the Trustee has received an opinion of counsel to the effect that the credit facility to be substituted is a valid, binding and legally enforceable obligation; and *provided further*, that in the event that any previously funded cash portion of the Reserve Account Requirement is satisfied by the provision of such a policy of insurance, surety bond, letter of credit or other comparable credit facility, or a combination thereof, the amount of money then in such Reserve Account equal to the portion of the Reserve Account Requirement then being satisfied by such credit facility shall (upon receipt of a Written Request of the related Participant) be withdrawn by the Trustee from such Reserve Account and transferred to the related Participant.

Reserve Fund

"Reserve Fund" means the fund by that name that is held by the Trustee.

Revenues

"Revenues" means all Installment Payments received or receivable by the Authority.

Subordinate Obligations

The term "Subordinate Obligations" means the obligations of the Participant that are subordinate in payment to the Installment Payments.

Supplemental Agreement

The term "Supplemental Agreement" means any agreement then in full force and effect which has been entered into by the Participant and the Trustee, amendatory of or supplemental to the Agreement; but only if and to the extent that such Supplemental Agreement is specifically authorized under the Agreement.

System or Systems

The term "System" or "Systems" means the whole and each and every part of the water and/or wastewater system of the Participant, including the portion thereof existing on the date of the Agreement, and including all additions, betterments, extensions and improvements to such system or any part thereof and hereafter acquired or constructed.

System Net Revenues

The term "System Net Revenues" means for any period System Revenues less Operation and Maintenance Costs for such period; *provided* that certain adjustments in the amount of System Net Revenue deemed collected during a Fiscal Year may be made in connection with amounts deposited in the Rate Stabilization Fund.

System Revenues

The term "System Revenues" means all gross income and revenue received or receivable by the Participant from the ownership or operation of the System, determined in accordance with Generally Accepted Accounting Principles, including all fees (including connection fees), rates, charges and all amounts paid under any contracts received by or owed to the Participant in connection with the operation of the System and all proceeds of insurance relating to the System and investment income allocable to the System and all other income and revenue howsoever derived by the Participant from the ownership or operation of the System or arising from the System, subject to and after satisfaction of any Prior Liens.

SUMMARY OF INDENTURE

The following is a summary of certain of the provisions of the Indenture. This summary is not intended to be comprehensive or definitive, and reference is made to the actual document for the complete terms thereof.

Procedure for Amendment of the Indenture. The Indenture and the rights and obligations of the Authority and of the Owners under the Indenture and any Installment Purchase Agreement and the rights and obligations of the Participant and Authority under the Indenture may be amended at any time by a Supplemental Indenture or Supplemental Agreement which shall become binding when the written consents of the Owners of at least sixty per cent (60%) in aggregate principal amount of the Bonds then Outstanding (exclusive of Bonds disqualified as provided in the Indenture) and the written consent of the Bond Insurer are filed with the Trustee; *provided* that so long as the Municipal Bond Insurance Policy is in effect, the Bond Insurer may give consent to amendments in place of the Owners of the Bonds. No such amendment shall (1) extend the maturity of or reduce the interest rate on, or otherwise alter or impair the obligation of the Authority to pay the interest or principal or redemption premium, if any, of any Bond or reduce the scheduled Installment Payments to come due, without the express written consent of the Owner of the affected Bond, or (2) permit the creation by the Authority of any mortgage, pledge or lien upon the Revenues superior to or on a parity with the pledge and lien created for the benefit of the Bonds or (3) permit the creation by any Participant of any mortgage, pledge or lien upon the System Revenues (as defined in the Installment Purchase Agreements) superior to or on a parity with the pledge and lien created by an Installment Purchase Agreement, (4) reduce the percentage of Bonds required for the written consent to any such amendment, or (5) modify the rights or obligations of the Trustee without its prior written assent thereto.

The Indenture and the rights and obligations of the Authority and of the Owners and any Installment Purchase Agreement and the rights and obligations of the Participant and the Authority thereunder may also be amended at any time by a Supplemental Indenture or Supplemental Agreement which shall become binding upon execution, without the consent of any Owners but only to the extent permitted by law and only for any one or more of the following purposes:

(a) To add to the agreements and covenants of the Authority or a Participant other agreements and covenants thereafter to be observed, or to surrender any right or power reserved to or conferred upon the Authority or the Participant;

(b) To make such provisions for the purpose of curing any ambiguity, or of curing, correcting or supplementing any defective provision, or in regard to questions arising thereunder, as may deem necessary or desirable and not inconsistent therewith, and which shall not materially adversely affect the interests of the Owners of the Outstanding Bonds;

(c) To modify, amend or supplement the Indenture in such manner as to permit the qualification under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute, and which shall not materially adversely affect the interests of the Owners of the Bonds;

(d) To maintain the exclusion under the Code of interest on the Bonds from gross income for federal income tax purposes;

(e) To the extent necessary to maintain any then existing rating by Moody's (if Moody's is then rating the Bonds) or S&P (if S&P is then rating the Bonds) or in connection with placing a credit facility in the Reserve Fund or;

(f) For any other purpose that does not materially adversely affect the interests of the Owners of the Outstanding Bonds.

Events of Default and Acceleration of Maturities. If one or more of the following events (an "Event of Default") shall happen, that is to say:

(a) If default shall be made in the due and punctual payment of the interest on any Bond or when and as the same shall become due and payable; or

(b) If default shall be made in the due and punctual payment of the principal of or redemption premium, if any, on or of any Sinking Fund Installment for any Bond when and as the same shall become due and payable, whether at maturity as therein expressed, by declaration or otherwise; or

(c) If an Event of Default shall occur under one of the Installment Purchase Agreements;

then, and in each and every such case during the continuance of such Event of Default, the Trustee may, and upon the written request of the Owners of not less than twenty-five per cent (25%) in aggregate principal amount of the Bonds at the time Outstanding, shall, by notice in writing to the Authority, declare the principal of all of the Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same shall become and shall be immediately due and payable, anything contained in the Indenture or in the Bonds to the contrary notwithstanding; *provided*, any such declaration shall be limited to those Bonds corresponding in principal amount and maturity date to the principal components of delinquent Installment Payments related to such default (Bonds to be selected by lot within a maturity if necessary); *provided further*, that any such declaration shall be subject

to the prior written consent of the Bond Insurer; and *provided further* that if, at any time after the principal of the Bonds shall have been so declared due and payable and before any judgment or decree for the payment of the money due shall have been obtained or entered, there shall be deposited with the Trustee a sum sufficient to pay all principal on the Bonds matured prior to such declaration and all matured installments of interest (if any) upon all the Bonds, and the expenses of the Trustee, including attorneys' fees, together with interest on any such amounts advanced as provided in the Indenture, and any and all other defaults known to the Trustee (other than in the payment of interest and principal on the Bonds due and payable solely by reason of such declaration) shall have been made good or cured or provision shall have been made therefor, then, and in every such case, the Owners of at least a majority in aggregate principal amount of the Bonds then Outstanding, by written notice to the Agency and to the Trustee, may, on behalf of the Owners of all the Bonds, rescind and annul such declaration and its consequences; except that no such rescission or annulment shall occur without the prior written consent of the Bond Insurer, and no such rescission or annulment shall extend to or shall affect any subsequent default or shall impair or exhaust any right or power consequent thereon.

Discharge of Bonds. If there shall be paid, to the Owners of all or a portion of the Outstanding Bonds the interest thereon and principal thereof and redemption premiums, if any, thereon at the times and in the manner stipulated therein and in the Indenture, then the owners of such Bonds shall cease to be entitled to the pledge of Revenues as provided in the Indenture, and all agreements, covenants and other obligations of the Authority to the Owners of such Bonds shall thereupon cease, terminate and become void and be discharged and satisfied.

Any Outstanding Bonds for the payment of which money shall have been set aside to be held in trust by the Trustee for such payment at the maturity or redemption date thereof shall be deemed, as of the date of such setting aside, to have been paid.

SUMMARY OF THE INSTALLMENT PURCHASE AGREEMENTS

The following is a collective summary of certain of the terms of the Installment Purchase Agreements. This summary is not intended to be comprehensive or definite, and reference is made to the actual documents for the complete terms thereof.

Changes to the Project. The Participant may at any time substitute other public capital improvements for the System the then existing components of the Project by submitting a Written Request of the Participant to the Authority and the Trustee specifying the components of the Project to be substituted and the new components.

Covenant Against Encumbrances. The Participant will not mortgage or otherwise encumber, pledge or place any charge upon any of the System Net Revenues except as provided in the Agreement, and will not issue any obligations secured by System Net Revenues senior to the Parity Debt; *provided*, that the Participant may at any time issue any Subordinate Obligations.

Covenant Against Sale or Other Disposition of the System. Except as provided in the Indenture, the Participant will not sell or otherwise dispose of the System or any part thereof essential to the proper operation of the System or to the maintenance of the System Net Revenues, unless the Installment Payments have been fully paid or provision has been made therefor. The Participant will not enter into any lease or agreement which impairs the operation of the System or any part thereof necessary

to secure adequate System Net Revenues for the payment of the Installment Payments, or which would otherwise impair the rights of the Owners with respect to the System Net Revenues or the operation of the System.

Covenant Regarding Maintenance and Operation of System. The Participant will maintain and preserve the System in good repair and working order at all times and will operate the System in an efficient and economical manner.

Insurance. The Participant will procure and maintain at all times insurance on the System against such risks (including accident to or destruction of the System) as are usually insured in connection with operations similar to the System and, to the extent such insurance is available for reasonable premiums from a reputable insurance company, such insurance shall be adequate in amount and, as to the risks insured against, shall be maintained with responsible insurers; *provided*, that such insurance coverage may be satisfied under a self-insurance program which is actuarially sound.

The Participant shall procure and maintain or cause to be procured and maintained public liability insurance covering claims against the Participant (including its directors, officers and employees) for bodily injury or death, or damage to property occasioned by reason of the Participant's operations, including any use of the System, and such insurance shall afford protection in such amounts as are usually covered in connection with operations similar to the System; *provided*, that such insurance coverage may be satisfied under a self-insurance program which is actuarially sound.

If all or any part of the System shall be damaged or destroyed the Net Proceeds realized by the Participant therefrom shall be deposited by the Participant with the Trustee in a special fund which the Trustee shall establish as needed in trust and applied by the Participant to the cost of acquiring and constructing additions, betterments, extensions or improvements to the System if (A) the Participant first secures and files with the Trustee a Certificate of the Participant showing (i) the loss in annual System Revenues, if any, suffered, or to be suffered, by the Participant by reason of such damage or destruction, (ii) a general description of the additions, betterments, extensions or improvements to the System then proposed to be acquired and constructed by the Participant from such proceeds, and (iii) an estimate of the additional System Revenues to be derived from such additions, betterments, extensions or improvements; and (B) the Trustee has been furnished a Certificate of the Participant, certifying that such additional System Revenues will sufficiently offset on a timely basis the loss of System Revenues resulting from such damage or destruction so that the ability of the Participant to pay Installment Payments when due will not be substantially impaired, and such Certificate of the Participant shall be final and conclusive, and any balance of such proceeds not required by the Participant for such purpose shall be deposited in the System Revenue Fund; *provided*, that if the foregoing conditions are not met, then such proceeds shall be deposited with the Trustee and applied to make Installment Payments as they come due and Parity Obligation Payments as they shall become due; *provided further* that the foregoing procedures for the application of Net Proceeds shall be subject to any similar provisions for Parity Debt on a pro rata basis.

If such damage or destruction has had no effect, or at most an immaterial effect, upon the System Revenues and the security of the Installment Payments, and a Certificate of the Participant to such effect has been filed with the Trustee, then the Participant shall forthwith deposit such proceeds in the System Revenue Fund.

Eminent Domain Proceeds. If all or any part of the System shall be taken by eminent domain proceedings, the Net Proceeds realized by the Participant therefrom shall be deposited by the Participant with the Trustee in a special fund which the Trustee shall establish as needed in trust and applied by the Participant to the cost of acquiring and constructing additions, betterments, extensions or improvements to the System if (A) the Participant first secures and files with the Trustee a Certificate of the Participant showing (i) the loss in annual System Revenues, if any, suffered, or to be suffered, by the Participant by reason of such eminent domain proceedings, (ii) a general description of the additions, betterments, extensions or improvements to the System then proposed to be acquired and constructed by the Participant from such proceeds, and (iii) an estimate of the additional System Revenues to be derived from such additions, betterments, extensions or improvements; and (B) the Trustee has been furnished a Certificate of the Participant, certifying that such additional System Revenues will sufficiently offset on a timely basis the loss of System Revenues resulting from such eminent domain proceedings so that the ability of the Participant to pay Installment Payments when due will not be substantially impaired, and such Certificate of the Participant shall be final and conclusive, and any balance of such proceeds not required by the Participant for such purpose shall be deposited in the System Revenue Fund, *provided*, that if the foregoing conditions are not met, then such proceeds shall be deposited with the Trustee and applied to make Installment Payments as they come due and Parity Obligation Payments as they shall become due *provided further* that the foregoing procedures for the application of Net Proceeds shall be subject to any similar provisions for Parity Debt on a pro rata basis.

If such eminent domain proceedings have had no effect, or at most an immaterial effect, upon the System Revenues and the security of the Installment Payments, and a Certificate of the Participant to such effect has been filed with the Trustee, then the Participant shall forthwith deposit such proceeds in the System Revenue Fund.

Events of Default and Acceleration of Maturities. If one or more of the following Events of Default shall happen, that is to say --

(1) if default shall be made by the Participant in the due and punctual payment of any Installment Payment or any Parity Debt when and as the same shall become due and payable;

(2) if default shall be made by the Participant in the performance of any of the other agreements or covenants required in the Agreement to be performed by it, and such default shall have continued for a period of thirty (30) days after the Participant shall have been given notice in writing of such default by the Authority, the Bond Insurer or the Trustee; *provided* that such default shall not constitute an Event of Default, if the Participant shall commence to cure such default within such thirty (30) day period and thereafter diligently and in good faith shall proceed to cure such default within a reasonable period of time, *provided*, such period shall not extend beyond a total of 90 days except with the prior consent of the Bond Insurer;

(3) if the Participant shall file a petition or answer seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if a court of competent jurisdiction shall approve a petition filed with or without the consent of the Participant seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if under the provisions of any other law for the relief or aid of debtors any court of

competent jurisdiction shall assume custody or control of the Participant or of the whole or any substantial part of its property; or

(4) if payment of the principal of any Parity Debt is accelerated in accordance with its terms;

then and in each and every such case during the continuance of such Event of Default specified in clauses (3) and (4) above, the Authority shall, and for any other such Event of Default the Authority may (and at the direction of the Bond Insurer shall), by notice in writing to the Participant, declare the entire principal amount of the unpaid Installment Payments and the accrued interest thereon to be due and payable immediately, and upon any such declaration the same shall become immediately due and payable; *provided* that any such declaration of acceleration shall be subject to the prior written consent of the Bond Insurer. This paragraph however, is subject to the condition that if at any time after the entire principal amount of the unpaid Installment Payments and the accrued interest thereon shall have been so declared due and payable and before any judgment or decree for the payment of the moneys due shall have been obtained or entered the Participant shall deposit with the Authority a sum sufficient to pay the unpaid principal amount of the Installment Payments or the unpaid payment of any other Parity Debt referred to in clause (1) above due prior to such declaration and the accrued interest thereon, with interest on such overdue installments, at the rate or rates applicable to the remaining unpaid principal balance of the Installment Payments or such other Parity Debt if paid in accordance with their terms, and the reasonable expenses of the Authority and the Bond Insurer, and any and all other defaults known to the Authority (other than in the payment of the entire principal amount of the unpaid Installment Payments and the accrued interest thereon due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Authority and the Bond Insurer or provision deemed by the Authority and the Bond Insurer to be adequate shall have been made therefor, then and in every such case the Authority and the Bond Insurer, by written notice to the Participant, may rescind and annul such declaration and its consequences; but no such rescission and annulment shall extend to or shall affect any subsequent default or shall impair or exhaust any right or power consequent thereon.

Amendments. The Agreement may only be amended in accordance with the terms of the Indenture.

Covenant by South Park County Sanitation District to Maintain its Existence. The following covenant appears only in the Installment Purchase Agreement relating to the South Park County Sanitation District: South Park County Sanitation District will use all means legally available to maintain its existence, except that it may merge with the City of Santa Rosa if the following conditions are satisfied: (i) all of the obligations under the related Installment Purchase Agreement must be assumed by the surviving entity and (ii) the pledge of Net Revenues under the related Installment Purchase Agreement must become a lien on parity with the senior outstanding obligations of the wastewater system of the City of Santa Rosa, unless the Bond Insurer otherwise consents in writing

APPENDIX D

FORM OF BOND COUNSEL'S OPINION

Upon the delivery of the Bonds, Hawkins Delafield & Wood LLP, San Francisco, California, Bond Counsel, proposes to render a final approving opinion in substantially the following form:

_____, 2005

California Statewide Communities Development Authority
Sacramento, California 95814

\$27,820,000
California Statewide Communities Development Authority
Water and Wastewater Revenue Bonds
(Pooled Financing Program)
Series 2005C

Members of the Governing Board:

We have acted as Bond Counsel in connection with the issuance by the California Statewide Communities Development Authority (the "Authority") of \$27,820,000 aggregate principal amount of California Statewide Communities Development Authority Water and Wastewater Revenue Bonds (Pooled Financing Program) Series 2005C (the "Bonds") under and pursuant to the provisions relating to the joint exercise of powers found in Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California (the "Law"), and under and pursuant to the Indenture, dated as of September 1, 2005 (the "Indenture"), by and between the Authority and Union Bank of California, as trustee (the "Trustee").

We have reviewed originals or copies identified to our satisfaction as being true copies of the Indenture and certain other records of the Authority. As to questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications of Authority officers furnished to us without undertaking to verify the same by independent investigations.

Based upon the foregoing and after the examination described above and after examination of such questions of law as we have deemed relevant in the circumstances, but subject to the limitations set forth above, we are of the opinion that:

1. The Authority has lawful authority under the Law to enter into the Indenture, and the Authority has duly authorized, executed and delivered the Indenture and, assuming due authorization, execution and delivery by the respective other parties thereto, the Indenture is a legal, valid and binding obligation of the Authority enforceable in accordance with its terms. The Indenture creates a valid pledge of the Revenues (as defined in the Indenture), subject to the provisions thereof permitting the application thereof for the purposes and on the terms and conditions set forth therein.

2. The Authority has lawful authority to issue the Bonds and the Bonds have been duly and validly authorized and issued by the Authority in accordance with the Constitution and statutes of the State of California, including the Law and the Indenture. The Bonds constitute legal, valid and binding special obligations of the Authority payable solely from Revenues and amounts on deposit in certain funds and

accounts held under the Indenture. The Bonds are not an obligation of the State of California, any public agency thereof (other than the Authority payable solely from the Revenues), the Participants (as defined under the Indenture) or any member of the Authority; and neither the faith and credit nor the taxing powers of the State of California or any public agency thereof or any member of the Authority is pledged for the payment of the Bonds. The Authority has no taxing power.

3. Under existing statutes and court decisions, interest on the Bonds is not included in gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"). Under the Code, interest on the Bonds is not treated as a preference item in calculating alternative minimum taxable income for purposes of the alternative minimum tax applicable to individuals and corporations; such interest, however, is includable in the adjusted current earnings of certain corporations for purposes of computing the alternative minimum tax imposed on such corporations by the Code. In rendering the opinions in this paragraph 3, we have relied upon and assumed (i) the material accuracy of the representations, statements of intention and reasonable expectations, and certifications of fact, contained in the Tax Certificate delivered on the date hereof by the Authority and the Participants with respect to the use of proceeds of the Bonds and the investment of certain funds, and other matters affecting the non-inclusion of interest on the Bonds in gross income for Federal income tax purposes under Section 103 of the Code, and (ii) compliance by the Authority and the Participants with procedures and covenants set forth in the Tax Certificate and with the tax covenants set forth in the Indenture as to such matters. Under the Code, failure to comply with such procedures and covenants may cause the interest on the Bonds to be included in gross income for Federal income tax purposes, retroactive to the date of issuance of the Bonds, irrespective of the date on which such noncompliance occurs or is ascertained.

4. In addition, we are further of the opinion that, under existing statutes, interest on the Bonds is exempt from State of California personal income taxes.

Except as stated in paragraphs 3 and 4 above, we express no opinion as to any Federal, state or local tax consequences arising with respect to the Bonds or the ownership or disposition thereof. Furthermore, we express no opinion as to the effect of any action hereafter taken or not taken in reliance upon an opinion of counsel other than ourselves on the exclusion from gross income for Federal income tax purposes of interest on the Bonds, or under State and local tax law.

This opinion is issued as of the date hereof, and we assume no obligation to update, revise or supplement this opinion to reflect any action hereafter taken or not taken, or any facts or circumstances, or any changes in law or in interpretations thereof, that may hereafter arise or occur, or for any other reason.

The opinions expressed herein are based upon our analysis and interpretation of laws, regulations, rulings and judicial decisions as they exist on the date hereof and cover certain matters not directly addressed by such authorities. We call attention to the fact that the rights and obligations under the Indenture and the Bonds are subject to bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar laws affecting creditors' rights, to the application of equitable principles if equitable remedies are sought, to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against public agencies in the State of California.

Respectfully submitted,

APPENDIX E

FORM OF MUNICIPAL BOND INSURANCE POLICY

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**FINANCIAL
SECURITY
ASSURANCE®**

MUNICIPAL BOND INSURANCE POLICY

ISSUER:

Policy No.: -N

BONDS:

Effective Date:

Premium: \$

FINANCIAL SECURITY ASSURANCE INC. ("Financial Security"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of Financial Security, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which Financial Security shall have received Notice of Nonpayment, Financial Security will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by Financial Security, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in Financial Security. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by Financial Security is incomplete, it shall be deemed not to have been received by Financial Security for purposes of the preceding sentence and Financial Security shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, Financial Security shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by Financial Security hereunder. Payment by Financial Security to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of Financial Security under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless Financial Security shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment

made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to Financial Security which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

Financial Security may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to Financial Security pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to Financial Security and shall not be deemed received until received by both and (b) all payments required to be made by Financial Security under this Policy may be made directly by Financial Security or by the Insurer's Fiscal Agent on behalf of Financial Security. The Insurer's Fiscal Agent is the agent of Financial Security only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of Financial Security to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, Financial Security agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to Financial Security to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of Financial Security, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, FINANCIAL SECURITY ASSURANCE INC. has caused this Policy to be executed on its behalf by its Authorized Officer.

[Countersignature]

FINANCIAL SECURITY ASSURANCE INC.

By _____

By _____
Authorized Officer

A subsidiary of Financial Security Assurance Holdings Ltd.
31 West 52nd Street, New York, N.Y. 10019

(212) 826-0100

Form 500NY (5/90)



**FINANCIAL
SECURITY
ASSURANCE®**

**ENDORSEMENT NO. 1 TO
MUNICIPAL BOND
INSURANCE POLICY
(California Insurance
Guaranty Association)**

ISSUER:

Policy No.: -N

BONDS:

Effective Date:

Notwithstanding the terms and provisions contained in this Policy, it is further understood that the insurance provided by this Policy is not covered by the California Insurance Guaranty Association established pursuant to Article 14.2 (commencing with Section 1063) of Chapter 1 of Part 2 of Division 1 of the California Insurance Code.

Nothing herein shall be construed to waive, alter, reduce or amend coverage in any other section of the Policy. If found contrary to the Policy language, the terms of this Endorsement supersede the Policy language.

In witness whereof, FINANCIAL SECURITY ASSURANCE INC. has caused this Endorsement to be executed on its behalf by its Authorized Officer.

FINANCIAL SECURITY ASSURANCE INC.

By: _____
Authorized Officer

A subsidiary of Financial Security Assurance Holdings Ltd.
31 West 52nd Street, New York, N.Y. 10019

(212) 826-0100

Form 560NY (CA 1/91)

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APPENDIX F

INFORMATION CONCERNING DTC

The information in this Appendix F concerning The Depository Trust Company ("DTC"), New York, New York, and DTC's book entry system has been obtained from DTC and the Authority takes no responsibility for the completeness or accuracy thereof. The Authority cannot and does not give any assurances that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Bonds, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Bonds, or that they will so do on a timely basis, or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Appendix. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedures" of DTC to be followed in dealing with DTC Participants are on file with DTC.

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Bonds. The Bonds will be issued as fully registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered security certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation, (respectively, "NSCC," "FICC," and "EMCC," also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org; nothing contained in such websites is incorporated into this Official Statement.

Purchases of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Security ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of the Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. The conveyance of notices and other communications by DTC to DTC Participants, by DTC Participants to Indirect Participants and by DTC Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Any failure of DTC to advise any DTC Participant, or of any DTC Participant or Indirect Participant to notify a Beneficial Owner, of any such notice and its content or effect will not affect the validity of the redemption of the Bonds called for redemption or of any other action premised on such notice. Redemption of portions of the Bonds by the Authority will reduce the outstanding principal amount of Bonds held by DTC. In such event, DTC will implement, through its book-entry system, a redemption by lot of interests in the Bonds held for the account of DTC Participants in accordance with its own rules or other agreements with DTC Participants and then DTC Participants and Indirect Participants will implement a redemption of the Bonds for the Beneficial Owners.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the issuer as soon as possible after the record date. The

Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal of, premium, if any, and interest evidenced by the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC (nor its nominee), the Trustee, or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal of, premium, if any, and interest evidenced by the Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

THE AUTHORITY, THE PARTICIPANTS OR THE TRUSTEE WILL NOT HAVE ANY RESPONSIBILITY OR OBLIGATION TO DTC PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS WITH RESPECT TO THE PAYMENTS OR THE PROVIDING OF NOTICE TO DTC PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS OR THE SELECTION OF BONDS FOR PREPAYMENT.

None of the Authority, the Participants or the Trustee can give any assurances that DTC, DTC Participants, Indirect Participants or others will distribute payments of principal of, premium, if any, and interest on the Bonds paid to DTC or its nominee, as the registered Owner, or any redemption or other notice, to the Beneficial Owners or that they will do so on a timely basis or that DTC will serve and act in a manner described in this Official Statement.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the Authority or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.

The Authority may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered.

The information in this appendix concerning DTC and DTC's book-entry system has been obtained from sources that the Authority believes to be reliable, but the Authority takes no responsibility for the accuracy thereof.

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APPENDIX G

FORMS OF CONTINUING DISCLOSURE CERTIFICATES

FORM OF PARTICIPANT CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the _____ (the "Participant"), dated _____, 2005 in connection with the issuance of \$27,820,000 California Statewide Communities Development Authority Water and Wastewater Revenue Bonds (Pooled Financing Program), Series 2005C (the "Bonds"). The Bonds are being issued pursuant to the Indenture, dated as of September 1, 2005 (the "Indenture"), by and between the California Statewide Communities Development Authority and Union Bank of California, N.A., as trustee (the "Trustee"). The Participant has entered into an Installment Purchase Agreement, dated as of September 1, 2005 (the "Installment Purchase Agreement") with the Authority. Under the Installment Purchase Agreement the Participant will pay Installment Payments (the "Installment Payment") which will secure in part the Bonds. The Participant covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the Participant for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriter in complying with S.E.C. Rule 15c2-12(b)(5).

SECTION 2. Definitions. In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the Participant pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

"Beneficial Owner" shall mean any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income tax purposes.

"Dissemination Agent" shall mean Union Bank of California, N. A., or any successor Dissemination Agent designated in writing by the Participant and which has filed with the Participant a written acceptance of such designation.

"Listed Events" shall mean any of the events listed in Section 5(a) of this Disclosure Certificate.

"National Repository" shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. The National Repositories currently approved by the Securities and Exchange Commission (the "SEC") are listed in the SEC website at <http://www.sec.gov/info/municipal/nrmsir.htm>.

"Official Statement" shall mean the Official Statement relating to the Bonds, dated August 22, 2005.

"Participating Underwriter" shall mean the original purchaser of the Bonds required to comply with the Rule in connection with offering of the Bonds.

"Repository" shall mean each National Repository and each State Repository.

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

"State" shall mean the State of California.

"State Repository" shall mean any public or private repository or entity designated by the State as a state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Certificate, there is no State Repository.

SECTION 3. Provision of Annual Reports.

(a) The Participant shall, or shall cause the Dissemination Agent to, not later than 210 days after the end of the Participant's fiscal year (presently such fiscal year ends June 30), commencing with the report for the fiscal year ending June 30, 2005, provide to each Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; *provided* that the audited financial statements of the Participant may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the Participant's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c).

(b) Not later than fifteen (15) Business Days prior to said date, the Participant shall provide the Annual Report to the Dissemination Agent (if other than the Participant). If the Participant is unable to provide to the Repositories an Annual Report by the date required in subsection (a), the Participant shall send a notice to each Repository in substantially the form attached as Exhibit A.

(c) The Dissemination Agent shall:

(i) determine each year prior to the date for providing the Annual Report the Name and address of each National Repository and the State Repository, if any; and

(ii) (if the Dissemination Agent is other than the Participant), file a report with the Participant certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, stating the date it was provided and listing all the Repositories to which it was provided.

SECTION 4. Content of Annual Reports. The Participant's Annual Report shall contain the CUSIP numbers of the Bonds and contain or include by reference the:

1. The audited financial statements of the Participant for the prior fiscal year, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the

Participant's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

2. Updates for the last fiscal year of the information in the following tables from the Section relating to the Participant in Appendix B to the Official Statement presented in substantially the same format as such tables (to the extent the Official Statement contains accurate information regarding the fiscal year covered by an Annual Report, no update shall be necessary):

- (a) Number of Connections as shown on page __ of the Official Statement;
- (b) Revenues by Class of User as shown on page __ of the Official Statement;
- (c) Largest Users as shown on page __ of the Official Statement (this information is only required to the extent the revenues generated by one or more users constitutes __% or more of the Participant's annual System revenue); and
- (d) Results for the most recent fiscal year presented in the same format as the Projected Operating Results as shown on page __ of the Official Statement (no updates of projections are required).

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the Participant or related public entities, which have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The Participant shall clearly identify each such other document so included by reference.

SECTION 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the Participant shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Installment Purchase Agreement or its obligations in relation to the Bonds, if material:

- 1. principal and interest payment delinquencies;
- 2. non-payment related defaults; and
- 3. adverse tax opinions or events affecting the tax-exempt status of the Bonds.

(b) Whenever the Participant obtains knowledge of the occurrence of a Listed Event, the Participant shall as soon as possible determine if such event would be material under applicable federal securities laws.

(c) If the Participant determines that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the Participant shall promptly file a notice of such occurrence with the Repositories.

SECTION 6. Use of Central Post Office. The Participant may satisfy its obligations hereunder to file any notice, document or information with a National Repository or State Repository by filing the same with any agent which is responsible for accepting notices, documents or information for transmission to such National Repository or State Repository, to the extent permitted by the SEC or SEC staff (a "Central Post Office"). For this purpose, permission shall be deemed to have been granted by the SEC staff if and to the extent the Central Post Office has received an interpretive letter, which has not been revoked, from the SEC staff to the effect that using the Central Post Office to transmit information to the National Repositories and the State Repositories will be treated for purposes of the Rule as if such information were transmitted directly to the National Repositories and the State Repositories.

SECTION 7. Termination of Reporting Obligation. The Participant's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Installment Payments. If such termination occurs prior to the final maturity of the Bonds, the Participant shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

SECTION 8. Dissemination Agent. The Participant hereby appoints Union Bank of California, N.A. to serve as the Dissemination Agent hereunder. The Participant may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the Participant pursuant to this Disclosure Certificate.

SECTION 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the Participant from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the Participant chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the Participant shall have no obligation under this Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

The Participant acknowledges and understands that other state and federal laws, including but not limited to the Securities Act of 1933 and Rule 10b-5 promulgated under the Securities Exchange Act of 1934, may apply to the Participant, and that under some circumstances compliance with this Disclosure Certificate, without additional disclosures or other action, may not fully discharge all duties and obligations of the Participant under such laws.

SECTION 10. Default. In the event of a failure of the Participant to comply with any provision of this Disclosure Certificate, the sole legal remedy of any Holder or Beneficial Owner of the Bonds or the Participating Underwriter shall be an action to compel performance. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Indenture.

No Bondholder or Beneficial Owner may institute such action, suit or proceeding to compel performance unless they shall have first delivered to the Participant satisfactory written evidence of their status as such, and a written notice of and request to cure such failure, and the Participant shall have refused to comply therewith within a reasonable time.

SECTION 11. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the Participant agrees, to the extent permitted by law, to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys' fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the Participant under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

SECTION 12. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the Participant may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived with the consent of the Authority, provided that, in the opinion of nationally recognized bond counsel, such amendment or waiver is permitted by the Rule. In the event of any amendment or waiver of a provision of this Disclosure Certificate, the Participant shall describe such amendment in the same manner as for a Listed Event under Section 5(c).

SECTION 13. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Participant, the Dissemination Agent, the Participating Underwriter and Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

[PARTICIPANT]

By _____
Authorized Officer

Acknowledged as to Duties as Dissemination Agent:

UNION BANK OF CALIFORNIA, N.A.

By _____
Authorized Officer

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Obligated Party: [Participant]

Name of Bond Issue: California Statewide Communities Development Authority
Water and Wastewater Revenue Bonds (Pooled Financing
Program), Series 2005C

Date of Issuance: _____, 2005

NOTICE IS HEREBY GIVEN that an Annual Report with respect to the above-named Bonds was not released by the Participant by the date required in the Continuing Disclosure Certificate. [The Participant anticipates that the Annual Report will be filed by _____.]

Dated: _____

[Participant]

By [form only; no signature required] _____

FORM OF AUTHORITY CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the California Statewide Communities Development Authority (the "Authority"), dated _____, 2005, in connection with the issuance of \$27,820,000 California Statewide Communities Development Authority Water and Wastewater Revenue Bonds (Pooled Financing Program), Series 2005C (the "Bonds"). The Bonds are being issued pursuant to the Indenture, dated as of September 1, 2005 (the "Indenture"), by and between the California Statewide Communities Development Authority and Union Bank of California, N.A., as trustee (the "Trustee"). The Participants (as defined under the Indenture) have entered into Installment Purchase Agreements, dated as of September 1, 2005 (the "Installment Purchase Agreements") with the Authority. Under the Installment Purchase Agreements the Participants will pay Installment Payments (the "Installment Payments") which will secure in part the Bonds. The Authority covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the Authority for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriter in complying with S.E.C. Rule 15c2-12(b)(5).

SECTION 2. Definitions. In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Beneficial Owner" shall mean any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income tax purposes.

"Dissemination Agent" shall mean Union Bank of California, N.A., or any successor Dissemination Agent designated in writing by the Authority and which has filed with the Authority a written acceptance of such designation.

"Listed Events" shall mean any of the events listed in Section 3(a) of this Disclosure Certificate.

"National Repository" shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. The National Repositories currently approved by the Securities and Exchange Commission (the "SEC") are listed in the SEC website at <http://www.sec.gov/info/municipal/nrmsir.htm>.

"Official Statement" shall mean the Official Statement relating to the Bonds, dated August 22, 2005.

"Participating Underwriter" shall mean the original purchaser of the Bonds required to comply with the Rule in connection with offering of the Bonds.

"Repository" shall mean each National Repository and each State Repository.

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

"State" shall mean the State of California.

"State Repository" shall mean any public or private repository or entity designated by the State as a state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Certificate, there is no State Repository.

SECTION 3. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 3, the Authority shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

1. principal and interest payment delinquencies;
2. non-payment related defaults;
3. modifications to rights of Bondholders;
4. optional, contingent or unscheduled bond calls;
5. defeasances;
6. rating changes;
7. adverse tax opinions or events affecting the tax-exempt status of the Bonds;
8. unscheduled draws on the debt service reserves reflecting financial difficulties;
9. unscheduled draws on the credit enhancements reflecting financial difficulties;
10. substitution of the credit or liquidity providers or their failure to perform; and
11. release, substitution or sale of property securing repayment of the Bonds.

(b) Whenever the Authority obtains knowledge of the occurrence of a Listed Event, the Authority shall as soon as possible determine if such event would be material under applicable federal securities laws.

(c) If the Authority determines that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the Authority shall promptly file a notice of such occurrence with the Repositories. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(4) and (5) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of affected Bonds pursuant to the Indenture.

SECTION 4. Use of Central Post Office. The Authority may satisfy its obligations hereunder to file any notice, document or information with a National Repository or State Repository by filing the same with any agent which is responsible for accepting notices, documents or information for transmission to such National Repository or State Repository, to the extent permitted by the SEC or SEC staff (a "Central Post Office"). For this purpose, permission shall be deemed to have been granted by the SEC staff if and

to the extent the Central Post Office has received an interpretive letter, which has not been revoked, from the SEC staff to the effect that using the Central Post Office to transmit information to the National Repositories and the State Repositories will be treated for purposes of the Rule as if such information were transmitted directly to the National Repositories and the State Repositories.

SECTION 5. Termination of Reporting Obligation. The Authority's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Installment Payments. If such termination occurs prior to the final maturity of the Bonds, the Authority shall give notice of such termination in the same manner as for a Listed Event under Section 3(c).

SECTION 6. Dissemination Agent. The Authority hereby appoints Union Bank of California, N.A. to serve as the Dissemination Agent hereunder. The Authority may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the Authority pursuant to this Disclosure Certificate.

SECTION 7. Default. In the event of a failure of the Authority to comply with any provision of this Disclosure Certificate, the sole legal remedy of any Holder or Beneficial Owner of the Bonds or the Participating Underwriter shall be an action to compel performance. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Indenture.

No Bondholder or Beneficial Owner may institute such action, suit or proceeding to compel performance unless they shall have first delivered to the Authority satisfactory written evidence of their status as such, and a written notice of and request to cure such failure, and the Authority shall have refused to comply therewith within a reasonable time.

SECTION 8. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the Authority agrees, to the extent permitted by law, to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys' fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the Authority under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

SECTION 9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the Authority may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived with the consent of the Authority, provided that, in the opinion of nationally recognized bond counsel, such amendment or waiver is permitted by the Rule. In the event of any amendment or waiver of a provision of this Disclosure Certificate, the Authority shall describe such amendment in the same manner as for a Listed Event under Section 3(c).

SECTION 10. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Authority, the Dissemination Agent, the Participating Underwriter and Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

CALIFORNIA STATEWIDE COMMUNITIES
DEVELOPMENT AUTHORITY

By _____
Member of the Commission

Acknowledged as to Duties as Dissemination Agent:

UNION BANK OF CALIFORNIA, N.A.

By _____
Authorized Officer



FOR ADDITIONAL BOOKS: ELABRA.COM OR (888) 935-2272