

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.



\$17,795,000
CALIFORNIA STATEWIDE COMMUNITIES DEVELOPMENT AUTHORITY
WATER AND WASTEWATER REVENUE BONDS
SERIES 2005D
City of Calistoga (Napa County)
City of Healdsburg (Sonoma County)
City of South San Francisco (San Mateo 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 November 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
\$10,460,000 Serial Bonds

<u>Maturity (October 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Price/Yield</u>	<u>Maturity (October 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Price/Yield</u>
2006	\$ 350,000	2.750%	2.75%	2014	\$ 665,000	3.650%	3.80%
2007	525,000	2.750	2.85	2015	680,000	3.800	3.90
2008	550,000	2.900	3.00	2016	710,000	3.900	4.00
2009	570,000	3.000	3.10	2017	745,000	4.000	4.10
2010	570,000	3.125	3.25	2018	765,000	4.000	4.15
2011	590,000	3.300	3.40	2019	785,000	4.125	4.25
2012	620,000	3.400	3.50	2020	830,000	4.200	4.30
2013	640,000	3.500	3.65	2021	865,000	4.250	4.35

\$4,615,000 5.000% Term Bonds due October 1, 2026 Yield 4.45%*
 \$1,815,000 4.625% Term Bonds due October 1, 2030 Yield 4.70%
 \$905,000 4.625% Term Bonds due October 1, 2036 Yield 4.75%

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. 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 November 8, 2005.

HENDERSON CAPITAL PARTNERS, LLC

Dated: October 25, 2005

* Priced to call on October 1, 2015 @ 100%

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 2005D**

**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 Calistoga (Napa County)

City of Healdsburg (Sonoma County)

City of South San Francisco (San Mateo County)

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 Healdsburg- CSCDA 2000B Bonds)

The Bank of New York Trust Company, N.A.
San Francisco, California
(For City of Healdsburg- 1996 Certificates)

AUTHORITY COUNSEL

Orrick Herrington & Sutcliffe LLP

VERIFICATION AGENT

Grant Thornton LLP
Minneapolis, Minnesota

**CALIFORNIA STATEWIDE COMMUNITIES DEVELOPMENT AUTHORITY
WATER AND WASTEWATER REVENUE BONDS
SERIES 2005D
PARTICIPATING AGENCIES**

● Participating Cities

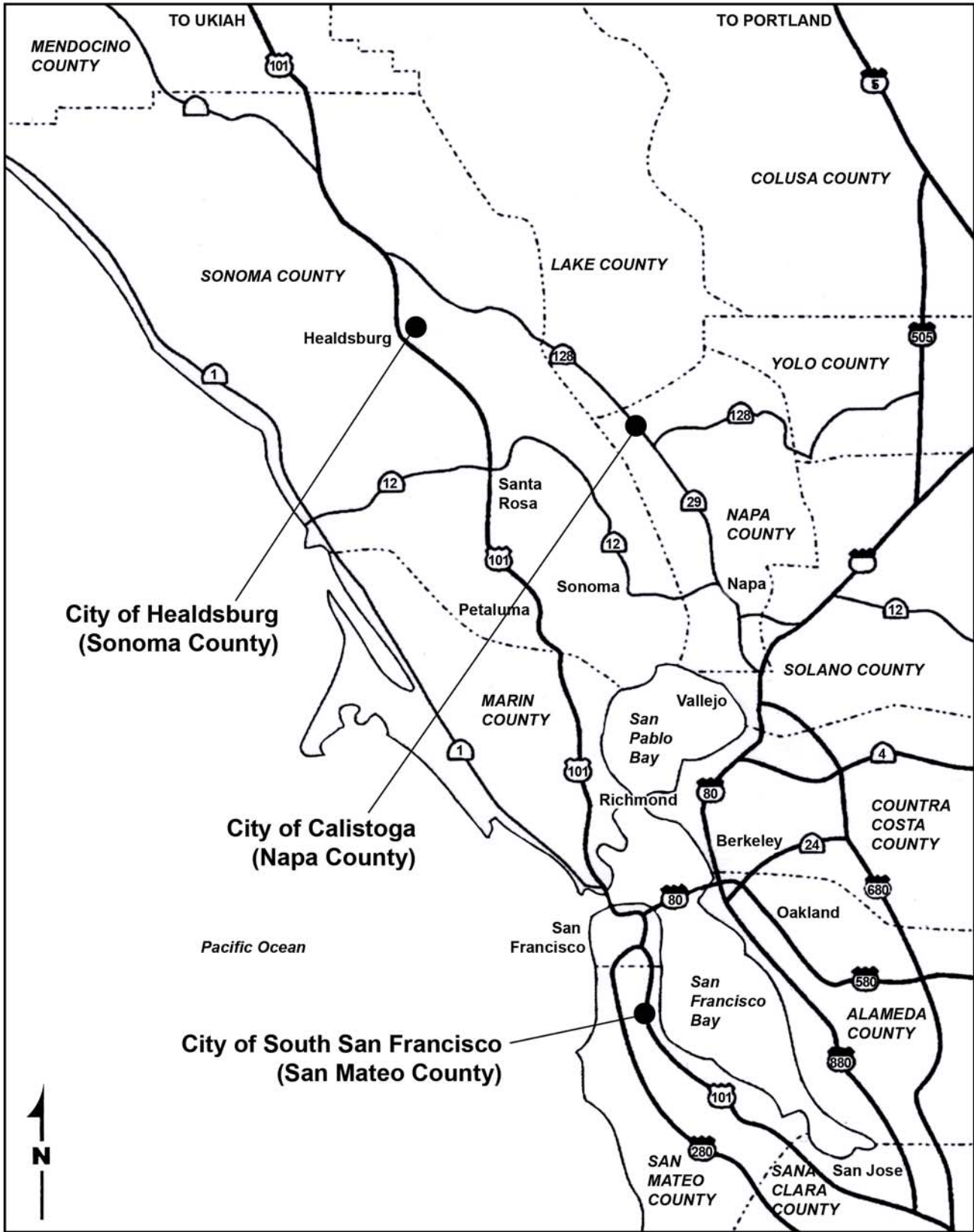


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\$17,795,000
CALIFORNIA STATEWIDE COMMUNITIES DEVELOPMENT AUTHORITY
WATER AND WASTEWATER REVENUE BONDS
(POOLED FINANCING PROGRAM)
SERIES 2005D

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 2005D (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 November 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 35 local agencies borrow an aggregate of approximately \$350 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 finance and refinance certain public capital improvements of the Program Participants (defined below) and to pay the costs incurred in issuing the Bonds. In connection with the financing of new capital improvements by certain of the Program Participants, a portion of the proceeds of the Bonds will be deposited into the Project Fund and used to acquire and construct new public capital improvements of certain of the Program Participants. 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 November 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 (as defined herein) of the Enterprise System of the respective Program Participant under such Installment Purchase Agreement. 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 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 requires 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 City of South San Francisco such System Net Revenues will be equal to 115% of the Installment Payments and other Parity Debt of the City of South San Francisco during each Fiscal Year and for the City of Healdsburg as related to its wastewater system such System Net Revenues will be equal to 115% of the Installment Payments and other Parity Debt of the City of Healdsburg as related to its wastewater system 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 Program 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 in 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. Amounts in each Reserve Account will only be available for delinquencies in Installment Payments of 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>Program 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 Calistoga	Water	Refunding and New Improvements	\$5,290,000	2036
City of Healdsburg	Wastewater	Refunding	\$3,375,000	2030
City of Healdsburg	Water	Refunding	\$3,130,000	2030
City of South San Francisco	Wastewater	New Improvements	\$6,000,000	2026

Financing of New Improvements. A portion of the proceeds of the Bonds will be deposited into the Project Fund established under the Indenture and used to acquire and construct certain public capital improvements of certain of the Program Participants. Within the Project Fund there shall be established separate, segregated Project Accounts with respect to such Program Participants. The chart below summarizes the financing of new improvements by such Program Participants, including the amount of proceeds of the Bonds to be deposited in each Program Participant's Project Account. See Appendix B for information concerning the public capital improvements of the applicable Program Participants.

Schedule of New Improvements

<u>Program Participant</u>	<u>Project</u>	<u>Project Account Amount</u>
City of Calistoga	Capital Improvements	\$1,500,000
City of South San Francisco	Capital Improvements	\$5,895,000

Refunding Plan. A portion of the proceeds from the sale of the Bonds will be used to prepay certain outstanding obligations of the City of Calistoga (the "Calistoga Refunded Obligations"). The Calistoga Refunded Obligations were issued to provide funds for the acquisition, construction and improvement of various public capital improvements of the City of Calistoga. The chart below summarizes the terms of the prepayment of the Calistoga Refunded Obligations. Upon the payment of such proceeds, the Calistoga Refunded Obligations will no longer be outstanding.

A portion of the proceeds from the sale of the Bonds will be used to defease and prepay certain outstanding obligations of the City of Healdsburg (the "Healdsburg Refunded Obligations"). The Healdsburg Refunded Obligations were issued to provide funds for the acquisition, construction and improvement of various public capital improvements of the City of Healdsburg. The chart below summarizes the terms of the refunding of the Healdsburg Refunded Obligations.

Under the financing plan, there shall be deposited in the respective escrow fund related to the Healdsburg Refunded Obligations (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 and, as applicable, moneys related to the Healdsburg Refunded Obligations. The amounts deposited in the Escrow Fund will enable the Escrow Agent to purchase federal securities which will be sufficient to pay the regularly scheduled payments with respect to the respective Healdsburg Refunded Obligations until the redemption date and to pay the

redemption price with respect to the respective Healdsburg Refunded Obligations on such date. Upon the deposit of such proceeds and said moneys into the respective Escrow Fund, the respective Healdsburg Refunded Obligations will no longer be deemed outstanding.

Schedule of Refunding

<u>Program Participant</u>	<u>Obligation</u>	<u>Principal Amount to be Redeemed</u>	<u>Prepayment Date</u>	<u>Prepayment Price</u>	<u>Final Maturity to be Redeemed</u>
City of Calistoga	1983 Water Revenue Bonds	\$3,575,000	11/10/2005	100%	1/1/2024
City of Healdsburg	Certificates of Participation 1996 Series B (Sewer System Improvement Project)	\$815,000	12/1/2006	102%	12/1/2026
City of Healdsburg-Wastewater System	California Statewide Communities Development Authority Water and Wastewater Revenue Bonds (Pooled Financing Program), Series 2000B	\$2,385,000	10/1/2009	102%	10/1/2030
City of Healdsburg-Water System	California Statewide Communities Development Authority Water and Wastewater Revenue Bonds (Pooled Financing Program), Series 2000B	\$2,865,000	10/1/2009	102%	10/1/2030

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	\$17,795,000.00
Original Issue Premium	74,722.95
Amounts Related to Healdsburg Refunded Obligations	<u>110,338.13</u>
Total Sources	<u>\$17,980,061.08</u>

Uses:

Project Fund ⁽¹⁾	\$7,395,000.00
Escrow Fund ⁽¹⁾⁽²⁾	10,068,239.07
Costs of Issuance ⁽³⁾	<u>516,822.01</u>
Total Uses	<u>\$17,980,061.08</u>

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

⁽²⁾ Includes pay-off amount of \$3,638,909.29 on November 10, 2005 of the City of Calistoga's 1983 Water Revenue Bonds.

⁽³⁾ 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, 2026 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, 2026

<u>Date</u> <u>(October 1)</u>	<u>Sinking Fund</u> <u>Installment</u>
2022	\$900,000
2023	950,000
2024	995,000
2025	865,000
2026*	905,000

*Maturity.

Sinking Fund Installments are established under the Indenture for the mandatory redemption and payment of the Term Bonds maturing on October 1, 2030 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, 2030

<u>Date (October 1)</u>	<u>Sinking Fund Installment</u>
2027	\$420,000
2028	440,000
2029	465,000
2030*	490,000

*Maturity.

Sinking Fund Installments are established under the Indenture for the mandatory redemption and payment of the Term Bonds maturing on October 1, 2036 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, 2036

<u>Date (October 1)</u>	<u>Sinking Fund Installment</u>
2031	\$135,000
2032	140,000
2033	145,000
2034	155,000
2035	160,000
2036*	170,000

*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.

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

Annual Period Ending October 1	City of Calistoga Installment Payments	City of Healdsburg (Wastewater) Installment Payments	City of Healdsburg (Water) Installment Payments	City of South San Francisco Installment Payments	Aggregate Principal	Aggregate Interest	Total
2006	\$351,332.41	\$230,953.18	\$207,626.95	\$221,009.39	\$350,000.00	\$660,921.93	\$1,010,921.93
2007	359,560.00	227,493.75	208,626.25	456,326.25	525,000.00	727,006.25	1,252,006.25
2008	360,572.50	235,018.75	211,426.25	455,551.25	550,000.00	712,568.75	1,262,568.75
2009	361,222.50	232,118.75	213,961.25	459,316.25	570,000.00	696,618.75	1,266,618.75
2010	356,572.50	229,118.75	206,261.25	457,566.25	570,000.00	679,518.75	1,249,518.75
2011	361,728.75	225,993.75	208,605.00	455,378.75	590,000.00	661,706.25	1,251,706.25
2012	361,283.75	232,693.75	210,635.00	457,623.75	620,000.00	642,236.25	1,262,236.25
2013	360,503.75	233,953.75	207,405.00	459,293.75	640,000.00	621,156.25	1,261,156.25
2014	364,378.75	229,928.75	209,080.00	460,368.75	665,000.00	598,756.25	1,263,756.25
2015	357,626.25	230,731.25	210,430.00	455,696.25	680,000.00	574,483.75	1,254,483.75
2016	360,596.25	231,171.25	211,440.00	455,436.25	710,000.00	548,643.75	1,258,643.75
2017	357,991.25	236,296.25	212,150.00	459,516.25	745,000.00	520,953.75	1,265,953.75
2018	359,991.25	230,896.25	207,550.00	457,716.25	765,000.00	491,153.75	1,256,153.75
2019	356,591.25	225,496.25	207,950.00	455,516.25	785,000.00	460,553.75	1,245,553.75
2020	362,722.50	229,927.50	208,000.00	457,522.50	830,000.00	428,172.50	1,258,172.50
2021	358,062.50	233,837.50	207,750.00	458,662.50	865,000.00	393,312.50	1,258,312.50
2022	358,075.00	232,250.00	207,225.00	459,000.00	900,000.00	356,550.00	1,256,550.00
2023	360,825.00	234,250.00	210,475.00	456,000.00	950,000.00	311,550.00	1,261,550.00
2024	362,825.00	230,750.00	208,225.00	457,250.00	995,000.00	264,050.00	1,259,050.00
2025	174,075.00	237,000.00	210,725.00	457,500.00	865,000.00	214,300.00	1,079,300.00
2026	174,075.00	232,500.00	212,725.00	456,750.00	905,000.00	171,050.00	1,076,050.00
2027	173,825.00	167,750.00	204,225.00	--	420,000.00	125,800.00	545,800.00
2028	173,737.50	166,275.00	206,362.50	--	440,000.00	106,375.00	546,375.00
2029	173,418.75	169,568.75	208,037.50	--	465,000.00	86,025.00	551,025.00
2030	177,868.75	167,400.00	209,250.00	--	490,000.00	64,518.75	554,518.75
2031	176,856.25	--	--	--	135,000.00	41,856.25	176,856.25
2032	175,612.50	--	--	--	140,000.00	35,612.50	175,612.50
2033	174,137.50	--	--	--	145,000.00	29,137.50	174,137.50
2034	177,431.25	--	--	--	155,000.00	22,431.25	177,431.25
2035	175,262.50	--	--	--	160,000.00	15,262.50	175,262.50
2036	177,862.50	--	--	--	170,000.00	7,862.50	177,862.50
Total:	\$8,936,623.66	\$5,533,373.18	\$5,226,146.95	\$9,369,000.64	\$17,795,000.00	\$11,270,144.43	\$29,065,144.43

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 Program 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 \$1,275,708.75 (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>Program Participant</u>	<u>Reserve Account Requirement</u>	<u>Bond Proceeds and/or Reserve Policy</u>
City of Calistoga	\$364,378.75	Reserve Policy
City of Healdsburg (Wastewater)	\$237,000.00	Reserve Policy
City of Healdsburg (Water)	\$213,961.25	Reserve Policy
City of South San Francisco	\$460,368.75	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(s) designated as the "System Revenue Fund", which fund(s) 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 to, 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 Program 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 the City of South San Francisco such shall produce a sum equal to at least 115% of the Maximum Annual Debt Service as calculated after the execution of such

Parity Debt and for the City of Healdsburg as related to its wastewater system such shall produce a sum equal to at least 115% 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% (115% for the City of South San Francisco and City of Healdsburg as related to its wastewater system) 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 June 30, 2005, the Bond Insurer's total policyholders' surplus and contingency reserves were approximately \$2,365,896,000 and its total unearned premium reserve was approximately \$1,719,641,000 in accordance with statutory accounting principles. At June 30, 2005, the Bond Insurer's total shareholder's equity was approximately \$2,819,103,000 and its total net unearned premium reserve was approximately \$1,404,195,000 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.: 31 West 52nd Street, New York, New York 10019, 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 XIII C and Article XIII D 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 Attorney 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 XIID. 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 XIIB, XIIC and XIID 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 Program Participants by not later than the 210 days following the end of the fiscal year (currently their fiscal years end on June 30) (the "Program 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 \$17,715,567.95 (which represents the principal amount of the Bonds plus net original issue premium of \$74,722.95 and less an Underwriter's discount of \$154,155.00).

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 Healdsburg Refunded Obligations (see "PROGRAM 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 CALISTOGA

By: /s/ David W. Spilman
 Administrative Services Director and City
 Treasurer

CITY OF HEALDSBURG

By: /s/ Tamera Haas
 Finance Director

CITY OF SOUTH SAN FRANCISCO

By: /s/ James Steele
 Director of Finance

APPENDIX A

EXCERPTS FROM PROGRAM PARTICIPANTS' FINANCIAL STATEMENTS

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CITY OF CALISTOGA, CALIFORNIA
Comprehensive Annual Financial Report
for the
Fiscal Year Ended June 30, 2004

Prepared By the Department of Finance

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**CITY OF CALISTOGA, CALIFORNIA
Comprehensive Annual Financial Report
for the
Fiscal Year Ended June 30, 2004**

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CITY OF CALISTOGA

1232 Washington Street • Calistoga, CA 94515
707.942.2800



October 8, 2004

To Citizens of the City of Calistoga and
The Honorable Mayor, Members of the City Council

The City follows a policy of preparing a complete set of financial statements in conformity with accounting principles generally accepted in the United States of America after the end of each fiscal year. A licensed certified public accounting firm audits these financial statements. The financial statement audit has been completed, and we hereby issue the Comprehensive Annual Financial Report of the City of Calistoga for the fiscal year ended June 30, 2004. The fiscal year covers financial transactions from July 1, 2003 to June 30 2004 on a modified or full accrual basis, depending on the fund type.

This report contains financial information and data using the new financial reporting format established for governments by the Governmental Accounting Standards Board (GASB). The GASB sets accounting and financial reporting standards for governments in the United States of America.

The new financial reporting standards require 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 the MD&A and should be read in conjunction with it. The City of Calistoga's MD&A can be found immediately following the report of the independent auditors.

This report consists of management's representations concerning the finances of the City of Calistoga. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the City of Calistoga has established a comprehensive internal control framework that is designed both to protect the City's assets from loss, theft, or misuse and to communicate sufficient reliable information for the City of Calistoga's financial statements in conformity with U.S. generally accepted accounting principles. Because the cost of internal controls should not out weigh their benefits, the City of Calistoga's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

Terry E. Krieg CPA, a licensed certified public accounting firm, has audited the City of Calistoga's financial statements. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Calistoga for the fiscal year ended June 30, 2004, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. Mr. Krieg has concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City of Calistoga's financial statements for the fiscal year ended June 30, 2004, are fairly presented in conformity with U.S. generally accepted accounting

principles. The independent auditor's report is presented as the first component of the financial section of this report.

PROFILE OF THE CITY AND ITS OPERATIONS

The City of Calistoga was incorporated in 1886 as a general law city in the County of Napa, State of California. The City is established as a Council-Manager form of local government and governed by an elected Mayor and a four member City Council, (the elected City Clerk and City Treasurer positions were changed to appointed positions by an approved ballot measure in March 2004). The Council is responsible, among other matters, for passing ordinances, adopting the City budget, appointing committees, and hiring the City Manager and City Attorney. The Council is elected on a non-partisan basis. Council members serve four year staggered terms, with two members elected every two years. The Mayor is elected to serve a two-year term.

The City Manager is responsible for carrying out the policies and ordinances of the City Council, for overseeing the daily operations of the City, hiring Department Heads and for appointing other employees and otherwise managing daily operations of the City.

The City of Calistoga provides a full range of services including police and fire protection, planning and building inspections, parks and recreation facilities and services, construction and maintenance of streets, public buildings and other infrastructure facilities, cemetery, water production and distribution, and wastewater collection and treatment. The City Council also exercises oversight of Calistoga Public Facilities Corporation; a non-profit public benefit corporation for the financing of City facilities and equipment, and this component unit is included in the City's financial statements as part of the primary governmental reporting entity.

The City of Calistoga is located about 75 miles north of San Francisco in the northern part of Napa County. The City is approximately 2.5 square miles with an estimated population of 5,192 as of January 1, 2004. However, an additional surrounding population of 2,000 to 3,000 is considered part of the greater Calistoga community. The 2000 US Census reflects an ethnic diversity with 55% of the population white, 38% Hispanic and 7% other non-white. The median age was 38.1 years and almost 30% of the population is over 55 years. The median income was \$44,320 with an estimated 29% employed in management, professional or related occupations, 23% in services, 21% in sales or office and 27% in other occupations. An estimated 78% have a high school education and 29% have a bachelor's degree or higher. Of the 2,042 housing units an estimated 27%, or 555, are mobile homes. The City has a diverse population with income, housing and employment reflecting a tourist, wine producing and retirement community.

Today the Napa Valley is considered to be one of the world's premier grape growing and wine producing regions and draws thousands of tourists each year to the area. Samuel Brannan, a California pioneer and entrepreneur, founded the Calistoga community in 1860's, as a tourist health resort with the natural geothermal water in the area. The City's primary economic base is still tourism. The vineyards and commercial wineries, fine shops, cafes and restaurants, world famous mineral hot springs and tourist accommodations featuring mud baths and spa treatments and scenic valley mountains, all combine to make the City of Calistoga a place to visit for tourists from around the world. The mild climate and beauty of the area has also drawn retirees to the four mobile home parks.

FACTORS AFFECTING FINANCIAL CONDITION

The information presented in the financial statements is perhaps best understood when it is considered in relationship to the City's specific environment and the City's plans for the future.

Local Economy

The Napa Valley attracts many visitors each year and the area is renowned for vineyards, wineries, restaurants and spas of national and international reputation. The City of Calistoga is a destination for many tourists whom come to visit the many geothermal spas.

The City has many lodging establishments, fine restaurants, a downtown with shops, and an attractive and enjoyable small City environment nestled among the hills of Napa Valley, and right in the heart of "wine country".

About 71 percent of the City's general fund revenues come from the local hotel tax, sales tax revenues, and local property taxes. In fiscal 2004, revenues from governmental activities on a net basis did not change compared to fiscal 2003 and remained stable at about \$5.8 million before special items.

The City expects that hotel tax and sales tax revenues will not grow significantly in the 2005 fiscal year; but we do expect that these revenues will show modest increases in fiscal 2005 as the national, state and local economy improves.

Budget

The City's multi year budget serves as the base for the City's financial planning and control systems. The two-year rolling budget cycle provides for multi year financial planning over a two to three year period. The fiscal year annual budget is reviewed and updated by City Council resolution each year. All departments of the City submit budget updates and requests to the City Manager each spring for the following two fiscal years. The Manager uses this information to update previously adopted budgets and develop a proposed budgets. The Manager presents updates and proposed budgets to the City Council in May or June of each year. The Council holds public hearings on the updates and proposed budgets and then adopts an annual budget resolution. The budget is adopted by fund at the department and project levels. The Council periodically reviews during the fiscal year the City's actual financial activity in relationship to the original budget, and as necessary amends the original budget to reflect changing conditions.

Budget to actual comparisons are provided in this report for each governmental fund for which an appropriated annual budget has been adopted. The general fund's comparison, a major fund under the new reporting standards, is presented as required supplementary information in a separate section of this report immediately following the notes to the financial statements. For the City's other governmental-type funds a budget to actual comparison schedule is presented as optional information in the section of this report containing combining financial statements and individual fund schedules.

Long-Term Financial Planning

The City, in fiscal 2005, expects the local economy to continue to recover from the economic slowdown in fiscal 2004 and prior years, and it is expected that revenue growth in transient occupancy taxes, sales taxes, and property taxes will continue into future fiscal years. This growth should be sufficient to fund the projected growth in operations.

In the past, the City has adopted water and wastewater system improvement plans that will need to be reviewed and updated to project the future improvement needs of the utilities. Recent rate studies have resulted in adoption of multi year user rates and connection fees that are anticipated to be sufficient to fund the needed improvements. The City needs to develop a comprehensive capital improvement plan that identifies needed public improvements to support the community needs and projected growth identified in the adopted General Plan.

While the general fund ended fiscal 2004 with a \$ 2.7 million fund balance, the City has relatively limited other sources to fund such a comprehensive capital improvement plan. To fund current and future capital improvements, the City will need to develop additional funding sources from grants, long term debt financing and development impact fees.

Cash Resources and Practices

During the year, all of idle cash was invested by the City in the State of California Local Agency Investment Fund (LAIF, a pooled investment arrangement administered by the State Treasurer's Office). Investment revenue did decline in fiscal 2004 as the LAIF rate of return declined along with the decline in general securities markets.

The City did end the fiscal year with about \$2.8 million in cash and investment holdings. This amount is more than sufficient to enable the City to move forward into the new fiscal year, conduct operations, and embark upon the planned capital improvement programs.

Risk Management

The City limits its exposure to losses from unfavorable events, employee injuries, and from the risk of damage to City property by participating with other governments in an insurance pool wherein the risk of substantial monetary loss is transferred from the City to the pool and also by the pool to commercial insurance companies.

The City is a member of the Public Agency Risk Sharing Authority of California (PARSAC), a joint powers authority, which provides joint protection programs for public entities covering automobile, general liability, errors and omission losses, and property. Under the general liability program, the City has a \$10,000 retention limit, similar to a deductible with the Authority being responsible for losses above that amount up to \$1 million. The Authority carries a purchased excess commercial liability policy of \$9 million in excess of its \$1 million retention limit to cover losses up to \$10 million. The Authority provides property coverage for buildings and contents, excluding earthquake, through commercial insurance jointly. The commercial coverage has a \$1 billion limit with various sub-limits by type of coverage and property for all of the participating agencies of the Authority.

The City is insured for workers compensation through participation in PARSAC Workers Compensation Program with a \$25,000 self-insured retention and the Authority is responsible for losses up to \$250,000 per claim. The Authority carries a purchased excess coverage of \$25 million

in excess of the \$250,000 retention limit.

Further information about this arrangement is included in the notes to the financial statements.

Long-Term Debt Administration

The City has about \$14.5 million in long-term debt outstanding including claims and compensated absences. Of this, about \$1.9 million is in the form of a capital lease, \$8 million is a State Loan and installment agreement related to the wastewater treatment plant project, and another \$3.8 million is water revenue bonds. All debt service requirements and payments were made as required during fiscal 2004. In addition, the City has borrowed \$1,650,000 as interim financing for the wastewater treatment project, and the City plans to convert the short-term loan to permanent long-term debt in the near future.

Retirement and Pension Benefits

The City participates in the State of California Public Employees Retirement System (PERS) for all full time employees. The City funds each year's required contribution to the miscellaneous and public safety plans as determined by the PERS based upon actuarial information. Over the last several years, the City has made changes in retirement benefits as a result of negotiated labor agreements. These changes and a decline in PERS investment returns have increased the contribution rates for both miscellaneous and public safety employees, which will continue to change in future years. In addition, as a result of the changes in investment returns and the impact on agency contributions, PERS has adopted new methodologies for all participants with less than 100 employees to be grouped into retirement pools and actuarial based on the total pool as well as the individual agency. This should provide for more stabilized rates in the future.

Additional information about the plan is included in the notes to the financial statements and in the required supplementary information section of this report.

The City also participates in Social Security for all full time and part time employees.

Challenges For Fiscal 2005

In fiscal 2005, the City expects to improve the cash position of the City's wastewater enterprise with the implementation of the multi year user rates and connection fee and completion of the funding of the Wastewater Treatment Plant Upgrade improvements. The water facilities projects are anticipated to begin construction and the City will implement the USDA loan and grant funding of the project with the issuance of interim short-term debt during the construction period.

The City will need to update the various development impact fees to reflect the adopted General Plan update and address the projected development from the additional wastewater capacity and adoption of Growth control measures.

Staff Contributions

The preparation of this report would not have been possible without the efficient and dedicated

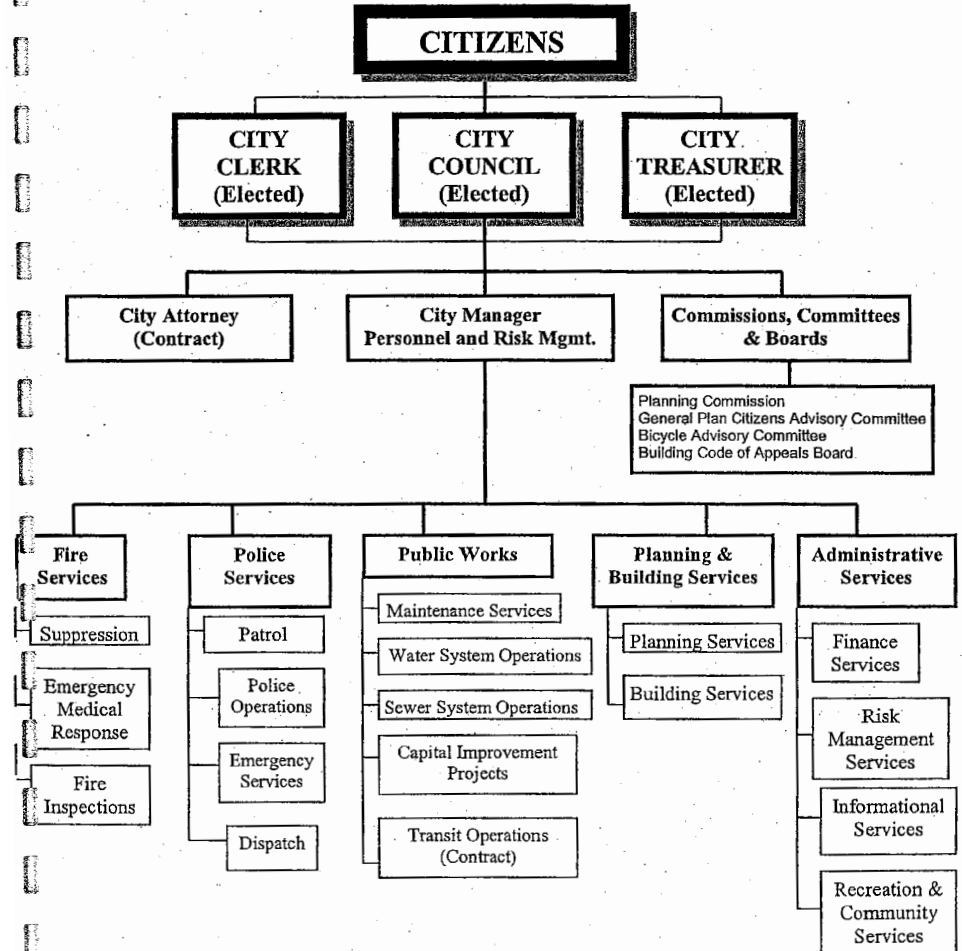
services of the entire staff of the finance and administration departments. We would like to express our appreciation to all members of the departments who assisted and contributed to the preparation of this report. Credit must also be given to the Mayor and the Members of the City Council, and the City Manager for their continued support for maintaining the highest standards of professionalism in the management of the City of Calistoga's financial affairs.

Respectfully submitted,

James C. McCann
 James C. McCann
 City Manager

David W. Spilman
 David W. Spilman
 Administrative Services Director/City Treasurer

ORGANIZATIONAL CHART



CITY OF CALISTOGA
List of Principal Officials
June 30, 2004

ELECTED OFFICIALS

Mayor
Vice Mayor
Councilmember
Councilmember
Councilmember

City Treasurer
City Clerk

APPOINTED OFFICIALS

City Manager
City Attorney

Police Chief
Fire Chief
Administrative Services Director
Planning and Building Director
Public Works Director & City Engineer

Dr. Andrew Alexander
Janice von Pohle
Karen Slusser
Jack Gingles
Doug Sterk

Louise Schmidt
Bob Hayes

James C. McCann
Michelle Marchetta Kenyon

Mike Dick
Gary Kraus
David Spilman
Rick Tooker
Stanley Townsend



Terry E. Krieg, CPA

Certified Public Accountant

50 Old Courthouse Square, Suite 603, Santa Rosa, CA 95404

(707) 544-5684
FAX (707) 544-5686

Independent Auditor's Report

City Council
City of Calistoga
Calistoga, 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 City of Calistoga, California, (the City) as of and for the 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 of Calistoga's management. Our responsibility is to express an opinion on these financial statements based on our audit.

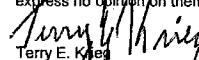
We conducted our audit in accordance with auditing standards generally accepted in United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining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

As discussed in Note 5F to the basic financial statements, the City adopted the provisions of Governmental Accounting Standards Board Statement Number 34, *Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments*, as of July 1, 2003. This results in a change to the City's method of accounting for certain revenues and expenses and a change in the format and content of the basic financial statements. The City also changed its method of accounting and reporting for budgetary activity, and changed its method of accounting for compensated absences in its proprietary enterprise funds.

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 City of Calistoga, California, 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.

The Management Discussion and Analysis and Budgetary Comparison information on pages 2 through 11 and pages 39 through 41 are not a required part of the basic financial statements but are 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 an opinion on the financial statements that collectively comprise the City of Calistoga's basic financial statements. The accompanying introductory section, combining nonmajor fund financial statements and schedules, other schedules, and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly presented, in all material respects, in relation to the basic financial statements taken as a whole. The introductory section and statistical tables 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.


Terry E. Krieg
Certified Public Accountant
October 8, 2004

**MANAGEMENT'S DISCUSSION AND ANALYSIS
AND
BASIC FINANCIAL STATEMENTS**

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the *City of Calistoga's* annual financial report presents our discussion and analysis of the City's financial performance during the fiscal year that ended on June 30, 2004. Please read it in conjunction with the City's audited financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The City's total net assets decreased about \$983,000 in fiscal 2004 after conducting all City operations and programs. The assets of the City exceeded its liabilities by about \$19.7 million at the end of the 2004 fiscal year. Of that amount, about \$1 million (the unrestricted net assets) may be used to meet the City's ongoing obligations and operating expenses for the next fiscal year. About 83 percent of the City's net assets are invested in capital assets such as the water and wastewater system.
- Overall City-wide revenues from all governmental and business-type activities increased by about \$ 1.1 million compared to the 2003 fiscal year for a 2004 total of about \$10.6 million. All of the increase was related to our business-type activities; and was derived from higher water and wastewater service fees, capital grants, and higher impact and connection fees. Governmental activity type revenues remained relatively stable at about \$5.9 million.
- The City's total expense of all programs in fiscal 2004 increased by about \$ 2.6 million compared to the 2003 fiscal year for a 2004 total of about \$11.1 million.
- The general fund reported a year end fund balance of \$ 2.7 million at the end of the 2004 year. Of that \$2.7 million, \$1.6 million is not available and represents cash loans made to other funds; primarily to the City's wastewater enterprise fund to help finance the expansion of the plant.
- The City enterprise funds ended the 2004 fiscal year with net assets of \$12.7 million. However, of that amount about \$14 million is invested in the water and wastewater facilities and systems (net of related debt) leaving a \$1.5 million deficit in unrestricted net assets. This deficit is essentially the \$1.6 million advance payable to the City's general fund.
- The City's other non-major governmental funds ended 2004 with about \$1.0 million available for special purposes; primarily streets, housing and other special purposes.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of five parts – a *management's discussion and analysis* (this section), the *basic financial statements*, *required supplementary information*, an optional section that presents *combining statements* for nonmajor governmental funds and budget to actual comparison statements and a *statistical* section. The basic financial statements include two kinds of statements that present different views of the City:

- The first two statements are *government-wide financial statements* that provide both long-term and short-term information about the City's *overall* financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the City government, reporting the City's operations in more detail than the government-wide statements.
 - The *governmental funds* statements tell how *general government* services like public safety, general government, community services, public works and other services were financed in the *short term* as well as what remains for future spending.
 - *Proprietary fund* statements offer *short- and long-term* financial information about the activities the government operates *like businesses*, such as the City's water and wastewater systems.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements. In addition to these required elements, we have included a section with *combining statements* that provide details about our nonmajor funds, each of which are added together and presented in single columns in the basic financial statements. Also included are optional budgetary comparison statements for the City's nonmajor governmental funds.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Figure A-1 summarizes the major features of the City's financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

Figure A-1
Major Features of City of Calistoga's Government-Wide and Fund Financial Statements

	Fund Statements		
	Government-Wide Statements	Governmental Funds	Proprietary Funds
Scope	Entire City government	The activities of the City that is not proprietary or fiduciary, such as police, fire, streets, general government, and community services	Activities the City operates similar to private businesses: the water and wastewater systems
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenses, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses, and changes in net assets • Statement of cash flows
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid

Government-wide Statements

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes *the entire* City's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the City's *net assets* and how they have changed. Net assets – the difference between the City's assets and liabilities – is one way to measure the City's financial health, or *position*.

MANAGEMENT'S DISCUSSION AND ANALYSIS

- Over time, increases or decreases in the City's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.

The government-wide financial statements of the City are reported in two categories:

- *Governmental activities* – All of the City's basic services are included here, such as general government, police, and fire, streets, public works, and community services. Property taxes, sales taxes, transient occupancy taxes, special and other taxes, user charges and fees and state, local and federal grants finance these activities.
- *Business-Type activities* - The City charges fees to customers to help cover the costs of certain services. The City's water and wastewater enterprises are reported here.

Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant funds – not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes.

- The City's major governmental fund, the *general fund*, is reported in separate column and all other governmental funds are aggregated in a single column. The City's water and wastewater funds are reported separately each as a major fund.
- The City Council establishes other funds to control and manage money for particular purposes (such as restricted donations). Some funds are maintained to demonstrate that the City is properly using certain specific fees for their intended purpose (such as landscape maintenance fees).
- Other funds are maintained for similar purposes but in addition demonstrate the City's ability to repay its long-term debt obligations such as capital lease obligations

The City has two kinds of funds:

- *Governmental funds* – The City's basic services are included in governmental funds, which focus on (1) *how cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed *short-term view* that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explains the relationship (or differences) between them.
- *Proprietary funds* - The City maintains two different types of proprietary funds. Enterprise funds are used to report the same functions reported as business-type activities in the government-wide financial statements; the City's water and wastewater operations. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City of Calistoga's various functions. The City uses an internal service fund to account for its fleet of vehicles and equipment. Because these services predominately benefit governmental rather than business-type functions, they have been included within the governmental activities in the government-wide financial statements. Proprietary funds provide the same type of information as the government-wide statements, only in more detail. The proprietary fund statements provide separate information for the City's water and wastewater operations, both of which are considered to be major funds of the City. The internal service funds are presented in a separate column alongside the totals for the City's proprietary enterprise funds.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net Assets. The City's combined net assets decreased about \$1 million between fiscal years 2003 and 2004. (See Table A-1.)

	Governmental Activities		Business-type Activities		Total		Total Percentage Change 2003-2004
	2004	2003	2004	2003	2004	2003	
Current and other assets	\$ 4.4	\$ 4.7	\$ 1.2	\$ 0.8	\$ 5.6	\$ 5.5	9.1%
Internal balances	1.6	1.7	(1.6)	(1.7)	-	-	-
Capital assets	4.2	4.3	27.1	26.5	31.3	30.8	1.6%
Total assets	10.2	13.0	26.7	25.6	36.9	36.3	1.7%
Long-term debt outstanding	2.4	2.1	11.8	11.9	14.2	14.0	-1.4%
Other liabilities	.7	1.0	2.3	.6	3.0	1.6	87.5%
Total liabilities	3.1	3.1	14.1	12.5	17.2	15.6	10.3%
Net assets							
Invested in capital assets	2.3	2.2	13.9	14.6	16.2	16.8	-2.3%
Restricted	2.1	2.0	.5	.3	2.5	2.3	8.7%
Unrestricted	2.7	3.4	(1.8)	(1.8)	1.0	1.6	-37.5%
Total net assets	\$ 7.1	\$ 7.6	\$ 12.6	\$ 13.1	\$ 19.7	\$ 20.7	-4.8%

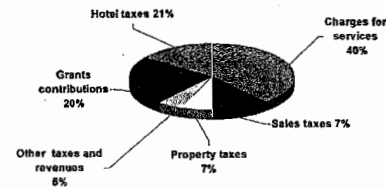
Net assets of the City's governmental and business-type activities decreased by 4.8 percent to \$ 19.7 million. About 81 % of the net assets of the City are represented by the City's net investment in its capital assets such as buildings, land, equipment and facilities. The remaining 19% is essentially represented by cash, investments and receivables. About 83 % of the City's total liabilities are represented by long-term obligations including water revenue bonds, a capital lease, installment agreement and a loan from the State of California to finance wastewater plant improvements.

Changes in net assets. The City's 2004 total revenues of about \$10.2 million was about \$1.1 million more than in 2003; about a 12 percent increase. (See Table A-2); this increase was the result of higher water and wastewater service charges, impact and connection fees, and grants. Virtually about 40 percent of the City's revenue comes from some type of taxes including property, sales, hotel, and other taxes. The rest comes from fees charged for services, state, local and federal aid, and contributions. The total cost of all programs and services in 2004 was about \$11.1 million and includes a wide range of services such as police and fire protection, streets, public works, general administration, community services, water, and wastewater operations.

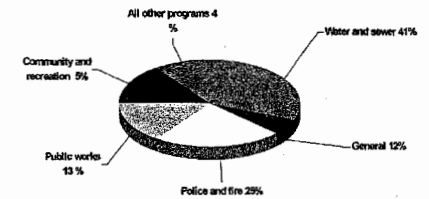
MANAGEMENT'S DISCUSSION AND ANALYSIS

The Sources of the City's major types of revenue and the areas where such resources are used is shown below in summary graphic form:

Sources of Revenue for Fiscal Year 2004



Functional Expenses for Fiscal Year 2004



Governmental and Business-Type Activities

Revenues from all governmental type activities in fiscal year 2004 were, on a net basis, stable at about \$5.9 million compared to 2003. About 38 percent of the revenue from governmental activities is derived from the hotel tax. The hotel tax declined slightly in 2004. Despite this drop in tax revenues, the City received increases in certain grants and allocations.

Also in fiscal 2004, there were two special items in the governmental activities. One was about a \$300,000 revenue item from the settlement and collection of a lien on property where the City had in the past incurred significant expenses to abatement certain conditions. The other item was the settlement of a claim relating to an underground tank issue and alleged environmental mitigation issues. This was settled by the City for about \$500,000 payable over the next five years.

As the above graph shows, the City's primary sources of revenue come from some kind of charge for service. About 40% of all City revenues are from water sales, wastewater fees and local charges for services.

The majority of the City's operating expenses are incurred to provide public safety, water and wastewater services. These three programs account for about 66 percent of the City's total operating expenses in fiscal 2004.

When all operations were concluded, the governmental activities function reported about a \$552,000 decrease in net assets for fiscal 2004 which decrease includes about a \$200,000 transfer out to the water enterprise fund. There was about a \$431,000 net decrease in the net assets of our business type-activities as a result of a one-time write off of replaced capital assets of about \$636,000.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Table A-2
Changes in the City of Callistoga's Net Assets
(in millions of dollars)

	Governmental Activities		Business-type Activities		Total		Total Percentage Change
	2004	2003	2004	2003	2004	2003	2003-2004
Revenues							
Program revenues							
Charges for services	\$.9	\$.7	\$3.2	\$ 3.0	\$4.1	\$3.7	10.8%
Grants and contributions	.9	.8	1.1	.3	2.0	1.1	81.2%
General revenues							
Transient occupancy taxes	2.2	2.3	-	-	2.2	2.3	(4.3%)
Sales and other taxes	1.7	1.7	-	-	1.7	1.7	0.0%
Other	.2	.3	-	-	.2	.3	(33.3%)
Total revenues	5.9	6.8	4.3	3.3	10.2	9.1	12.1%
Expenses							
General government	1.2	1.2	-	-	1.2	1.2	0.0%
Public safety	2.5	2.1	-	-	2.5	2.1	19.0%
Community services	.2	.2	-	-	.2	.2	0.0%
Housing	.1	-	-	-	.1	-	100.0%
Recreation services	.3	.3	-	-	.3	.3	0.0%
Public works	1.3	1.0	-	-	1.3	1.0	.30%
Planning	.3	.3	-	-	.3	.3	0.0%
Water	-	-	2.0	1.6	2.0	1.6	25.0%
Wastewater	-	-	3.0	1.6	3.0	1.6	87.5%
Other	.2	.2	-	-	.2	.2	0.0%
Total expenses	6.1	5.3	5.0	3.2	11.1	8.5	30.6%
Excess (deficiency) before transfers And special items:	(.2)	.5	(.7)	.1	(.9)	.6	(250.0%)
Special items:							
Lien recovery	.3	-	-	-	.3	-	100.0%
Claim settlement	(.5)	-	-	-	(.5)	-	(100.0%)
Transfers	(.2)	(.6)	.2	.6	-	-	-
Increase(decrease) in net assets	(.8)	(.1)	(.5)	.7	(1.0)	.6	(266.7%)
Net assets, beginning	7.6	7.7	13.1	12.4	20.7	20.1	
Net assets, ending	\$ 7.0	\$ 7.6	\$ 12.6	\$ 13.1	\$19.7	\$20.7	(4.8%)

Table A-3 presents the cost of each of the City's five largest programs – public safety, public works, general administration, water and wastewater

- The cost of all programs this year was \$ 11.1 million, compared to \$ 8.5 million in fiscal 2003; about a 31 percent increase for the year. For governmental activities, program costs increased in 2004 by about \$800,000 or about a 15 percent overall program cost increase. Most of that increase relates to higher pensions costs in fiscal 2004 and to capital asset maintenance costs expensed as such costs did not qualify to be capitalized as infrastructure.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Governmental Activities

- Users and contributors funded \$1.8 million of the \$6.1 million in costs of city's governmental activity programs leaving the City to fund the other \$ 4.3 million. General revenues, including the one special revenue item and before transfers out to the business-type activities, were sufficient to pay for this difference. The Users and contributors funded the expense of governmental services by:

- Those who directly benefited from or used the programs (about \$914,000), and
- Other governments and organizations that subsidized certain programs with grants and contributions (about \$ 913,000).

- The City had to use almost all of its \$ 4.4 million in general and tax revenues to pay the remaining operating costs, which is one reason why there was a net decrease of about \$552,000 in the governmental activities.

Table A-3
Cost of City of Callistoga's Programs
(in millions of dollars)

	Total Cost of Services		Percentage Change
	2004	2003	2003-2004
Public Safety	\$2.5	\$2.1	19.0%
General administration	1.2	1.2	0.0%
Public works	1.3	1.0	30.0%
Water	2.0	1.6	25.0
Wastewater	3.0	1.6	87.5
All other	1.1	1.0	0.0%
Total	\$11.1	\$8.5	30.6%

Business-Type Activities

The City's business-type activities (water and wastewater) generated a \$672,646 decrease in net assets before transfers in. The water and wastewater activities both had significant cost increases in fiscal 2004 compared to the prior years. Most of the cost increases were caused by higher depreciation expense in fiscal year 2004 (the upgraded wastewater treatment plant was placed in service in fiscal 2004) and by the additional expense of \$123,813 in the water fund and \$511,974 in the wastewater fund related to the write down of capital assets for the net book values of replaced facilities.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As the City completed the year, its governmental funds reported a combined fund balance of about \$3.8 million, about the same amount as was reported at the end of fiscal year 2003. The cost of the City's general fund operations were about \$187,000 more than general fund revenues. After transfers in and out, the general fund reported a net \$26,900 increase.

At year end, the City's general fund had a fund balance of about \$2.7 million. Of the \$2.7 million, about \$1.6 million was not available for use as it represents cash advanced to the City's wastewater enterprise to provide cash flow for the plant expansion. Excluding the advance to the wastewater enterprise, the general fund at the end of fiscal 2004 has about \$1.1 million available for future use.

In addition, the City's non major governmental funds ended the 2004 fiscal year with a combined fund balance of \$ 1 million which is to be used only for certain specific future purposes.

The water and wastewater enterprises at the end of fiscal 2004 had essentially no unrestricted cash available for future operations as all cash resources had been used for capital improvements.

General Fund Budgetary Highlights

Over the course of the year, the City Council revised the City budget several times. These budget amendments fall into two categories: changes made at the midyear budget review for unanticipated revenues and costs and increases in appropriations to prevent budget overruns. Even with these adjustments, actual general fund expenditures were \$225,707 less than final budget amounts. General fund expenditure budget changes were significant; and amounted to about a 7.5 percent decrease over the original budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2004, the City had invested \$ 31.4 million (net of accumulated depreciation in a broad range of capital assets, including land, vehicles, equipment, the water system, wastewater system and other capital assets. (See Table A-4.) This amount represents a net increase (including additions and deductions) of about \$700,000, or about 2.3 percent, over last year.

Table A-4
City of Calistoga's Capital Assets
(net of depreciation, in millions of dollars)

	Governmental Activities		Business-type Activities		Total		Total Percentage Change 2003-2004
	2004	2003	2004	2003	2004	2003	
Land	\$ 2.0	\$ 2.0	\$ 0.8	\$ 0.8	\$ 2.8	\$ 2.8	0.0%
Construction in progress	-	-	.6	13.8	.6	13.8	(95.7%)
Buildings	.7	.8	-	-	.7	.8	(12.5%)
Machinery and equipment	.4	.5	-	-	.4	.5	(20.0%)
Internal service equipment	.7	.6	-	-	.7	.6	16.6%
Other improvements	.4	.4	-	-	.4	.4	0.0%
Water utility system	-	-	8.5	8.8	8.5	8.8	(3.4%)
Wastewater system	-	-	17.2	3.0	17.2	3.0	473.3%
Total	\$ 4.2	\$ 4.4	\$ 27.1	\$ 26.4	\$ 31.4	\$ 30.7	2.3%

MANAGEMENT'S DISCUSSION AND ANALYSIS

This year's major capital assets additions

The most significant capital asset activity in fiscal 2004 was the placing in service of the City's wastewater treatment plant expansion project; this accounts for the more than 100 percent increases in wastewater system capital asset categories and the significant decrease in the construction in progress category. The City financed this expansion project with loans, grants and other borrowing in order to upgrade the treatment plant to meet present day regulatory requirements and provide for future service to City residents. The general fund has provided cash flow financing of this project. In terms of fiscal 2004 capital asset activity, the City expended about \$ 1.9 million on water and wastewater system improvements.

The City has implemented infrastructure accounting and reporting. This was done to comply with the new financial reporting standards required in connection with the implementation of this new financial reporting model. The City has not recaptured the estimated and or historical costs of other major infrastructure assets put in service subsequent to fiscal year 1980 and prior to June 30, 2003. The City, as a Phase 3 Implementation Government, is not required to do so and is not required to record such assets in its financial statements.

Long Term Debt

At the end of 2004, the City had about \$14.5 million in long-term debt obligations outstanding. Of the \$14.5 million, about 81 percent relates solely to the City's business-type activities, mainly the water and wastewater system, and the remaining 19 percent are applicable to governmental type financing activities. As to the business-type activities, about \$3.4 million is an installment loan agreement for wastewater system improvements, and a \$4.8 million state revolving loan obtained to provide financing for construction of the City's new wastewater treatment plant facility. The city's only bonded debt outstanding is \$3.7 million in water revenue bonds.

As to governmental-type activities, the major long-term debt consists of about \$1.9 million capital lease entered into in prior years to retire a previous capital lease used to build the City's current public safety facility. The capital lease payments are paid from general fund monies, and other available resources. In addition, the City obtained a \$1,650,000 loan from a commercial bank as a source of additional interim financing in regard to the wastewater treatment plant upgrade. This interim short term financing is part of a USDA backed capital lease issue to be completed in fiscal 2005. Additional information about the City's long-term obligations can be found starting on page 31 of the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

For the 2005 fiscal year, general fund revenue projections have been conservative compared to higher revenue projections in the past years.

- Overall general fund revenues are projected to increase by a net 2.0 percent over fiscal year 2004. There are no significant planned changes in tax rates or in other forms of revenue subject to adjustment by the City.
- The City expects that general fund revenues will exceed general fund spending in fiscal 2005 by about \$50,000
- Rate increases have been adopted for the water and wastewater systems in fiscal 2005.
- General fund in fiscal 2005 budgeted appropriations are set at \$ 6.9 million. This is a modest increase of only about 8% compared to 2004 appropriations. In 2005, the City expects that the employer's share of retirement contributions to the PERS will increase as the PERS investment returns have declined in recent years and the employer contribution rates are being adjusted to offset the decline.

MANAGEMENT'S DISCUSSION AND ANALYSIS

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Administrative Services Director, City of Calistoga, 1232 Washington Street, Calistoga, California 94515 or by e-mail at dspilman@ci.calistoga.ca.us.

CITY OF CALISTOGA
Statement of Net Assets
June 30, 2004

	Governmental Activities	Business Type Activities	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 2,296,424	\$ -	\$ 2,296,424
Net receivables	1,101,442	515,439	1,616,881
Inventory	7,391	-	7,391
Total current assets	3,405,257	515,439	3,920,696
Noncurrent assets:			
Restricted cash and cash equivalents	-	498,313	498,313
Internal balances	1,597,112	(1,597,112)	-
Receivables-long-term	987,703	-	987,703
Debt issuance costs	-	192,787	192,787
Net capital assets	4,221,366	27,129,675	31,351,241
Total noncurrent assets	6,806,181	26,223,663	33,030,044
Total assets	\$ 10,211,438	\$ 26,739,302	\$ 36,950,740
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 176,530	\$ 159,085	\$ 335,615
Accrued liabilities	38,908	-	38,908
Compensated absences	178,928	158,228	337,156
Notes payable	-	1,650,000	1,650,000
Deposits	331,115	181,218	512,333
Accrued interest payable	22,435	169,037	191,472
Bonds, leases and notes due in one year	225,315	388,311	613,626
Total current liabilities	971,231	2,705,879	3,677,110
Noncurrent liabilities:			
Compensated absences	-	-	-
Claims and settlements	468,546	-	468,546
Bonds, loans and leases	1,693,603	11,381,862	13,075,465
Total noncurrent liabilities	2,162,149	11,381,862	13,544,011
Total liabilities	3,133,380	14,087,741	17,221,121
NET ASSETS			
Invested in capital assets, net of related debt	2,342,283	13,902,489	16,244,772
Restricted for:			
Debt service	31	498,313	498,344
Streets, housing and other purposes	2,036,720	-	2,036,720
Unrestricted	2,699,024	(1,749,241)	949,783
Total net assets	7,078,058	12,651,561	19,729,619
Total liabilities and net assets	\$ 10,211,438	\$ 26,739,302	\$ 36,950,740

See accompanying notes to the basic financial statements

CITY OF CALISTOGA
Statement of Activities
For the Fiscal Year Ended June 30, 2004

Functions/Programs	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
City government				
Governmental activities:				
General government	\$ 1,205,406	\$ 267,230	\$ -	\$ -
Public safety	2,499,335	230,958	125,048	-
Community services	217,628	-	-	-
Housing	120,881	221,128	-	-
Recreation services	294,658	29,283	17,880	-
Public works	1,331,708	9,021	112,711	657,212
Planning and building	326,255	156,333	-	-
Interest on long-term debt	90,739	-	-	-
Total governmental activities	<u>6,086,610</u>	<u>913,953</u>	<u>255,639</u>	<u>657,212</u>
Business-Type Activities:				
Water	1,992,785	1,562,566	-	419,831
Wastewater	3,024,230	1,650,895	-	711,077
Total business-type activities	<u>5,017,015</u>	<u>3,213,461</u>	<u>-</u>	<u>1,130,908</u>
Total City government	<u>\$ 11,103,625</u>	<u>\$ 4,127,414</u>	<u>\$ 255,639</u>	<u>\$ 1,788,120</u>

General revenues:

Taxes:

Property taxes	744,203	-	744,203
Transient occupancy taxes	2,161,628	-	2,161,628
Sales taxes	680,882	-	680,882
Other taxes	300,007	-	300,007
Motor vehicle in lieu fees not restricted to a specific program	229,201	-	229,201
Transfers	(241,500)	241,500	-
Unrestricted investment earnings	2,317	-	2,317
Special items:			
Lien abatement recovery	339,216	-	339,216
Settlement environmental litigation	(508,379)	-	(508,379)
Total general revenues	<u>3,707,575</u>	<u>241,500</u>	<u>3,949,075</u>

Change in net assets

Net assets, beginning - (See Note 5F)
 Net assets, ending

Net (Expenses) Revenue and Changes in Net Assets		
City Government		
Governmental Activities	Business-type Activities	Total
\$ (938,176)	\$ -	\$ (938,176)
(2,143,329)	-	(2,143,329)
(217,628)	-	(217,628)
100,247	-	100,247
(247,495)	-	(247,495)
(552,764)	-	(552,764)
(169,922)	-	(169,922)
(90,739)	-	(90,739)
<u>(4,259,806)</u>	<u>-</u>	<u>(4,259,806)</u>
-	(10,388)	(10,388)
-	(682,258)	(682,258)
-	(672,646)	(672,646)
<u>(4,259,806)</u>	<u>(672,646)</u>	<u>(4,932,452)</u>
744,203	-	744,203
2,161,628	-	2,161,628
680,882	-	680,882
300,007	-	300,007
229,201	-	229,201
(241,500)	241,500	-
2,317	-	2,317
339,216	-	339,216
(508,379)	-	(508,379)
<u>3,707,575</u>	<u>241,500</u>	<u>3,949,075</u>
(552,231)	(431,146)	(983,377)
<u>7,630,289</u>	<u>13,082,707</u>	<u>20,712,996</u>
<u>\$ 7,078,058</u>	<u>\$ 12,651,561</u>	<u>\$ 19,729,619</u>

See accompanying notes to the basic financial statements

CITY OF CALISTOGA
Balance Sheet
Governmental Funds
June 30, 2004

	General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and investments	\$ 565,922	\$ 1,020,472	\$ 1,586,394
Taxes receivable	377,515	-	377,515
Accounts receivable	85,497	3,032	88,529
Due from other governments	594,588	32,465	627,053
Accrued interest receivable	7,027	-	7,027
Inventory	1,925	-	1,925
Internal balances-due from other funds	1,601,177	-	1,601,177
Notes receivable	-	987,703	987,703
Total assets	<u>\$ 3,233,651</u>	<u>\$ 2,043,672</u>	<u>\$ 5,277,323</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 144,290	\$ 6,921	\$ 151,211
Accrued expenses	36,908	-	36,908
Internal balances-due to other funds	-	4,066	4,066
Deposits	331,115	-	331,115
Deferred revenue	-	987,703	987,703
Total liabilities	<u>512,313</u>	<u>998,690</u>	<u>1,511,003</u>
Fund balances:			
Reserved	1,601,177	31	1,601,208
Unreserved, designated for:			
Other purposes	1,120,161	-	1,120,161
Unreserved, undesignated	-	-	-
Unreserved reported in nonmajor:			
Special revenue funds	-	1,044,951	1,044,951
Total fund balances	<u>2,721,338</u>	<u>1,044,982</u>	<u>3,766,320</u>
Total liabilities and fund balances	<u>\$ 3,233,651</u>	<u>\$ 2,043,672</u>	<u>\$ 5,277,323</u>
Total Governmental Fund Balances			\$ 3,766,320
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			3,562,481
Long-term receivables used in governmental activities are not current financial resources and are therefore are deferred in the funds			987,703
Deferred bond issuance costs in governmental activities are not current financial resources and are therefore not reported in the funds			-
The assets and liabilities of the internal service fund are included in the governmental activities in the statement of net assets			1,350,381
Some liabilities, including bonds, leases, compensated absences, and accrued interest are not due and payable in the current period and are therefore not reported in the funds			<u>(2,588,827)</u>
Net Assets of Governmental Activities			<u>\$ 7,078,058</u>

See accompanying notes to the basic financial statements

CITY OF CALISTOGA
Statements of Revenues, Expenditures, and
Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2004

	General Fund	Other Governmental Funds	Total Governmental Funds
REVENUES			
Property taxes	\$ 744,203	\$ -	\$ 744,203
Sales taxes	680,882	-	680,882
Transient occupancy taxes	2,161,628	-	2,161,628
Other taxes	299,836	-	299,836
Licenses and permits	80,133	-	80,133
Fines and forfeits	52,208	-	52,208
Intergovernmental	852,792	258,945	1,111,737
Interest and rents	2,321	39,079	41,400
Charges for services	378,005	111,941	487,946
Miscellaneous	75,328	88,968	164,296
Total revenues	<u>5,325,334</u>	<u>498,933</u>	<u>5,824,267</u>
EXPENDITURES			
Current:			
General government	1,164,658	2,212	1,166,870
Public safety	2,282,540	77,870	2,360,410
Community services	216,844	-	216,844
Housing	-	120,881	120,881
Recreation services	244,914	11,897	256,811
Public works	694,633	35,453	730,086
Planning and building	326,255	-	326,255
Debt service:			
Principal	-	177,305	177,305
Interest	-	91,738	91,738
Capital outlay	582,292	-	582,292
Total expenditures	<u>5,512,136</u>	<u>517,356</u>	<u>6,029,492</u>
Excess (deficiency) of revenues over expenditures	<u>(186,802)</u>	<u>(18,423)</u>	<u>(205,225)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	376,936	260,982	637,918
Transfers out	(502,450)	(326,988)	(829,418)
Total other financing sources (uses)	<u>(125,514)</u>	<u>(65,986)</u>	<u>(191,500)</u>
Special item:			
Recovery of abatement liens	339,216	-	339,216
Net change in fund balances	26,900	(84,409)	(57,509)
Fund balances, July 1	2,694,438	1,129,391	3,823,829
Fund balances, June 30	<u>\$ 2,721,338</u>	<u>\$ 1,044,982</u>	<u>\$ 3,766,320</u>

See accompanying notes to the basic financial statements

CITY OF CALISTOGA
Reconciliation of the Statement of Revenues,
Expenditures and Changes In Fund Balances of
Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2004

Net Change in Fund Balances - Total Governmental Funds	<u>\$ (57,509)</u>
Amounts reported for governmental activities in the statement of activities 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 as depreciation expense. This is the amount by which capital outlays \$ 0 exceed depreciation (\$173,781) in the current period.	(173,781)
Proceeds of long-term debt provide financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayments of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces liabilities in the statement of net assets. This is the amount by which repayments of debt exceed debt proceeds during the period.	177,305
Governmental funds report claim expenditures from litigation settlements when the payments are due, but in the statement of activities these expenses are recorded when it is probable that a liability has been incurred	(508,379)
Governmental funds report interest expenditures when due, but these costs are accrued as an expense in the statement of net assets	999
Governmental funds report compensated absences when payments are made or are immediately due. However, in the statement of activities these costs are recorded when incurred.	(19,461)
Internal service funds are closed by charging additional amounts or reducing charges to participating governmental activities to completely cover the internal service fund's costs for the year	(92,180)
Long-term receivables are deferred in the funds until collected and available for use. In the statement of activities, no revenues are recognized from the collection of receivables	<u>120,775</u>
Net differences	<u>(494,722)</u>
Change in Net Assets of Governmental Activities	<u>\$ (552,231)</u>

See accompanying notes to the basic financial statements

CITY OF CALISTOGA
Statement of Net Assets
Proprietary Funds
June 30, 2004

	Enterprise Funds			Governmental Activities- Internal Service Fund
	Water	Wastewater	Totals	
ASSETS				
Current assets:				
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ 710,030
Receivables(net)	233,493	281,946	515,439	1,318
Inventory	-	-	-	5,466
Total current assets	<u>233,493</u>	<u>281,946</u>	<u>515,439</u>	<u>716,814</u>
Noncurrent assets:				
Other assets:				
Restricted cash and cash equivalents	294,270	204,043	498,313	-
Debt issuance costs	-	192,787	192,787	-
Total other noncurrent assets	<u>294,270</u>	<u>396,830</u>	<u>691,100</u>	<u>-</u>
Capital assets:				
Land	316,932	464,108	781,040	-
Equipment and vehicles	633,329	518,088	1,151,397	1,815,790
Distribution and collection systems	10,048,402	18,790,508	28,838,910	-
Water rights	1,589,875	-	1,589,875	-
Construction in progress	585,550	-	585,550	-
Less accumulated depreciation	<u>(3,726,571)</u>	<u>(2,090,326)</u>	<u>(5,816,897)</u>	<u>(1,156,906)</u>
Net capital assets	<u>9,447,517</u>	<u>17,682,358</u>	<u>27,129,875</u>	<u>658,884</u>
Total noncurrent assets	<u>9,741,787</u>	<u>18,079,188</u>	<u>27,820,975</u>	<u>658,884</u>
Total assets	<u>\$ 9,975,280</u>	<u>\$ 18,361,134</u>	<u>\$ 28,336,414</u>	<u>\$ 1,375,698</u>
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 70,903	\$ 88,182	\$ 159,085	\$ 25,317
Compensated absences	79,114	79,114	158,228	-
Interim financing note payable	-	1,650,000	1,650,000	-
Deposits	79,420	101,798	181,218	-
Interest	-	169,037	169,037	-
Capital leases, agreements and bonds	119,000	269,311	388,311	-
Total current liabilities	<u>348,437</u>	<u>2,357,442</u>	<u>2,705,879</u>	<u>25,317</u>
Noncurrent liabilities:				
Internal balances	-	1,597,112	1,597,112	-
State revolving loan payable	-	4,400,862	4,400,862	-
Capital leases, agreements and bonds	<u>3,646,000</u>	<u>3,335,000</u>	<u>6,981,000</u>	<u>-</u>
Total noncurrent liabilities	<u>3,646,000</u>	<u>9,332,974</u>	<u>12,978,974</u>	<u>-</u>
Total liabilities	<u>3,994,437</u>	<u>11,690,416</u>	<u>15,684,853</u>	<u>25,317</u>
NET ASSETS				
Invested in capital assets, net of related debt	5,682,517	8,219,972	13,902,489	658,884
Restricted	294,270	204,043	498,313	-
Unrestricted	4,056	(1,753,297)	(1,749,241)	691,497
Total net assets	<u>\$ 5,980,843</u>	<u>\$ 6,670,718</u>	<u>\$ 12,651,561</u>	<u>\$ 1,350,381</u>

See accompanying notes to the basic financial statements

CITY OF CALISTOGA
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Fiscal Year Ended June 30, 2004

	Enterprise Funds			Governmental Activities-Internal Service Fund
	Water	Wastewater	Totals	
OPERATING REVENUES				
Sales of water	\$ 1,535,339	\$ -	\$ 1,535,339	\$ -
Service fees	-	1,638,391	1,638,391	96,550
Miscellaneous	25,341	-	25,341	37,245
Total operating revenues	1,560,680	1,638,391	3,199,071	133,795
OPERATING EXPENSES				
Maintenance and operations	772,587	856,205	1,628,792	173,590
Employee services	580,080	726,071	1,306,151	-
Interfund charges for services	94,500	91,600	186,100	-
Depreciation and amortization	230,730	548,314	779,044	155,094
Total operating expenses	1,677,897	2,222,190	3,900,087	328,684
Operating income (loss)	(117,217)	(583,799)	(701,016)	(194,889)
NON-OPERATING REVENUES (EXPENSES)				
Gain(Loss) on replacement of capital assets	(123,813)	(511,974)	(635,787)	6,050
Interest and investment revenue	1,886	12,504	14,390	4,460
Interest expense	(191,075)	(290,066)	(481,141)	-
Net nonoperating revenues (expenses)	(313,002)	(789,536)	(1,102,538)	10,510
Income (loss) before contributions and transfers	(430,219)	(1,373,335)	(1,803,554)	(184,379)
Contributions and transfers:				
Capital contributions	290,939	608,576	897,515	142,199
Capital grants	128,892	104,501	233,393	-
Transfers out	(87,500)	-	(87,500)	(50,000)
Transfers in	309,000	-	309,000	-
Net contributions and transfers	661,331	711,077	1,372,408	92,199
Change in net assets	231,112	(662,258)	(431,146)	(92,180)
Total net assets, July 1	5,749,731	7,332,976	13,082,707	1,442,561
Total net assets, June 30	\$ 5,980,843	\$ 6,670,718	\$ 12,651,561	\$ 1,350,381

See accompanying notes to the basic financial statements

CITY OF CALISTOGA
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2004

	Enterprise Funds				Governmental Activities-Internal Service Fund
	Water	Wastewater	Transit	Totals	
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	\$ 1,512,306	\$ 1,585,051	\$ -	\$ 3,097,357	\$ -
Payments to suppliers	(802,244)	(1,071,542)	(510)	(1,874,296)	(227,029)
Cash received from other funds for services	-	-	-	-	96,550
Payments to other funds for services	(94,500)	(91,600)	-	(186,100)	-
Payments to employees for services	(571,176)	(717,465)	-	(1,288,641)	-
Other operating receipts	25,341	50,000	-	75,341	37,935
Net cash provided by (used for) operating activities	69,727	(245,556)	(510)	(176,339)	(92,544)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Advances from other funds	(114,850)	(58,352)	-	(173,202)	-
Transfers to other funds	(67,500)	-	-	(67,500)	(50,000)
Transfers from other funds	309,000	-	-	309,000	-
Net cash provided by noncapital financing activities	126,650	(58,352)	-	68,298	(50,000)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Capital contributions and grants	485,706	711,077	-	1,196,783	19,350
Proceeds of interim note financing	-	1,650,000	-	1,650,000	-
Payments on long-term debt principal	(113,000)	(65,000)	-	(178,000)	-
Interest paid on long-term debt	(191,075)	(161,722)	-	(352,797)	-
Proceeds from the sale of capital assets	-	-	-	-	6,050
Purchases of capital assets	(398,063)	(1,638,908)	-	(2,036,971)	(135,848)
Net cash provided by (used for) capital and related financing activities	(216,432)	495,447	-	279,015	(110,448)
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest receipts	1,886	12,504	-	14,390	4,460
Net cash provided by investing activities	1,886	12,504	-	14,390	4,460
Net increase (decrease) in cash and cash equivalents	(18,169)	204,043	(510)	185,364	(248,532)
Balances-beginning of the year	312,439	-	510	312,949	958,562
Balances-end of the year	\$ 294,270	\$ 204,043	\$ -	\$ 498,313	\$ 710,030

See accompanying notes to the basic financial statements

CITY OF CALISTOGA
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2004

	Enterprise Funds				Governmental Activities- Internal Service Fund
	Water	Wastewater	Transit	Totals	
Reconciliation of operating income (loss) to net cash provided by operating activities:					
Operating income (loss)	\$ (117,217)	\$ (583,799)	\$ -	\$ (701,016)	\$(194,889)
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation expense	230,730	548,314	-	779,044	155,094
Change in assets and liabilities:					
Decrease(increase) in accounts receivable	(24,271)	(53,340)	-	(77,611)	690
Increase(decrease) in other liabilities	1,540	50,000	-	51,540	-
Increase(decrease) in accounts payable	(29,657)	(215,416)	(510)	(245,583)	(53,439)
Increase(decrease) in prepayments	8,602	8,685	-	17,287	-
Net cash provided by (used for) operating activities	\$ 69,727	\$ (245,556)	\$ (510)	\$ (176,339)	\$ (92,544)

Noncash capital financing activities:

During fiscal year 2004, the Internal Service Fund recognized \$120,097 in contributed capital assets.

See accompanying notes to the basic financial statements

CITY OF CALISTOGA
Notes to the Basic Financial Statements
June 30, 2004

1. Summary of Significant Accounting Policies

A. Reporting Entity

The City of Calistoga is a municipal corporation governed by an elected five-member City Council. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable.

The Calistoga Public Facilities Financing Corporation is a legally separate entities for which the City is financially accountable and it is governed by the elected City Council. The Authority was formed to provide a method of financing public improvements. The financial activities of the Authority are blended with those of the City and are reported in the City's governmental funds, and as capital assets of the City and debt obligations of the City.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the City. 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 fees and charges for support.

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*.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

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 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 collectible 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.

CITY OF CALISTOGA
Notes to the Basic Financial Statements
June 30, 2004

Note 1. Summary of Significant Accounting Policies (continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Property taxes, sales taxes, transient occupancy taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The City 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.

The City reports the following major proprietary funds:

The *water fund* accounts for the operations of the City's water treatment and distribution system. The *wastewater fund* accounts for the operation of the City's wastewater treatment plant and collection facilities.

Additionally, the City reports the following fund type:

The internal service fund is used to account for the City's general operating equipment and related services provided to other City departments, on a cost reimbursement basis.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in 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 government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City's water and wastewater function and other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

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 the proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise and internal service funds are charges to customers for sales and services. Operating expenses for the enterprise and internal service funds include the costs of sales and services, administration costs and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

CITY OF CALISTOGA
Notes to the Basic Financial Statements
June 30, 2004

Note 1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

The City is authorized by its most recent investment policy to invest in the State of California Local Agency Investment Fund, U.S. Treasury bonds, bills, and notes, obligations issued by US Government agencies, bankers acceptances, repurchase agreements, and time deposits and savings and demand accounts.

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short term investments with original maturities of three months or less from the date of acquisition.

Investments for the City are reported at fair value. The State Treasurer's Investment Pool operate in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

2. Receivables and Payables

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 funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable government funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are not shown net of an allowance for uncollectibles.

Property taxes are levied as of March 1 on property values assessed as of the same date. State statutes provide that the property tax rate be limited generally to one percent of market value, be levied by only the County, and be shared by applicable jurisdictions. The County of Napa collects the taxes and distributes them to taxing jurisdictions on the basis of assessed valuations subject to voter-approved debt. Property taxes are due on November 1 and March 1, and become delinquent on December 10 and April 10. The City receives property taxes pursuant to an arrangement with the County known as the "Teeter Plan". Under the plan, the County assumes responsibility for the collection of delinquent taxes and pays the full allocation to the City. The City recognizes property tax revenues in the fiscal year in which they are due to the City.

3. Inventories and Prepaid Items

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when used or consumed.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

CITY OF CALISTOGA
Notes to the Basic Financial Statements
June 30, 2004

Note 1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Net Assets or Equity (Continued)

4. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental-type or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$ 1,000(\$50,000 for infrastructure type assets) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Under the GASB 34 Implementation Rules, the City is a Phase 3 entity and was not required to record infrastructure assets existing or acquired prior to July 1, 2003 at the date these new financial reporting standards were implemented; and the City has not recorded such assets. The costs of normal maintenance and repairs that do not add to the value of 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 of the business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the City is depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Buildings and improvements	50
Public domain infrastructure	50
System infrastructure-Utility	50
Vehicles and equipment	5 - 10

5. Compensated Absences

It is the government's policy to permit employees to accumulate earned but unused vacation. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

6. Long-term Obligations

In the government-wide financial statements, and the 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.

7. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

CITY OF CALISTOGA
Notes to the Basic Financial Statements
June 30, 2004

8. Comparative Data

Comparative total data for the prior year have been presented in order to provide an understanding of the changes in net assets. Also, certain amounts presented in the prior year data have been reclassified to be consistent with the current years' presentation.

2. Reconciliation of Government-wide and Fund Financial Statements

A. Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Government-wide Statement of Net Assets

The governmental fund balance sheet includes a reconciliation between *fund balance – total governmental funds* and *net assets – governmental activities* as reported in the government-wide statements of net assets. One element of that reconciliation explains that "capital assets are not financial resources and are not reported in the funds." The details of this \$ 3,562,481 difference are as follows:

Capital assets	\$ 6,002,062
Less: Accumulated depreciation	<u>(2,439,581)</u>
Net adjustment to increase <i>fund balance – total governmental funds</i> to arrive at <i>net assets – governmental activities</i>	<u>\$ 3,562,481</u>

Another element of the reconciliation explains that "long-term liabilities" are not due and payable in the current period and are therefore not reported in the funds. The details of this \$2,588,827 difference are as follows:

Long-Term Debt Obligations and Related Interest:	
Capital lease obligation	\$ 1,879,085
Accrued interest on bonds	22,435
Claims and settlements	508,379
Compensated absences	<u>178,928</u>
Net adjustment to decrease fund balance total governmental Funds to arrive at net assets - governmental activities	<u>\$ (2,588,827)</u>

B. Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-wide Statement of Activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances – total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense." The details of this \$ 494,722 difference and other significant components of the difference are as follows:

Capital outlay; capitalized	\$ -
Depreciation expense	(173,781)
Repayment of long-term debt principal	177,305
Claims and settlements	(508,379)
Internal service fund loss	(92,180)
Long-term receivables-deferred revenues	120,775
Other items	<u>(18,462)</u>
Net adjustment to increase <i>net changes in fund balances – total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u>\$ (494,722)</u>

CITY OF CALISTOGA
Notes to the Basic Financial Statements
June 30, 2004

3. Stewardship, Compliance, and Accountability

A. Budgetary Information

Annual budgets are adopted on a basis of consistent with generally accepted accounting principles for all governmental funds and proprietary funds. Appropriations lapse at fiscal year end. The appropriated budget is prepared by fund, function and department. The City Manager may make transfers of appropriations within a department. Transfers between departments and other changes require City Council approval. The legal level of control is the department and fund level. The Council made supplemental appropriations during the fiscal year. Encumbrance accounting is not employed in governmental funds. The expenditures budgets were exceeded by \$883, \$280, \$11,897, \$318, and \$6447, in the asset forfeiture fund, abandoned vehicle fund, recreation donation fund, police donation fund, fire donation fund, respectively. These over expenditures were funded by available resources.

4. Detailed Notes on All Funds

A. Deposits and Investments

Deposits and investments at June 30, 2004 consisted of the following:

Demand deposits	\$ 454,494
Pooled investments	2,308,436
Investments with trustees	<u>31,806</u>
Total deposits and investments	<u>\$ 2,794,737</u>

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City's policy for deposits is that they will be made only in institutions in California, they shall be insured or collateralized with United States backed securities, and time certificates of deposit shall have a maturity of less than three years. At June 30, 2004, \$736,121 of the City's bank balances of \$ 880,507 was exposed to credit risk as follows:

Uninsured and collateral held by pledging banks agent	
But not in the City's name:	<u>\$ 736,121</u>

Investments - At June 30, 2004, the City had the following investments.

Investment	Maturity	Fair value
State Investment Pool	Average 212 days	\$ 2,308,436
Mutual funds	Average 90 days	<u>31,806</u>
Totals		<u>\$ 2,340,242</u>

Interest Rate Risk - As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's investment policy limits the City's investment portfolio to maturities prescribed in Sections 53600 through 53609 of the California Government Code.

Credit Risk - State law limits investments in various securities to certain level of risk ratings issued by nationally recognized statistical rating organizations. It is the City's policy to comply with State law as regards securities ratings. The City's investment in mutual funds was rated AAA and the State Investment Pool is unrated.

Custodial Credit Risk - For an investment, custodial credit risk is the risk that, in the event of the failure of a counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Investments in mutual funds and external investment pools are not subject to custodial credit risk because the City's investment is not evidenced by specific securities.

CITY OF CALISTOGA
Notes to the Basic Financial Statements
June 30, 2004

4. Detailed Notes on All Funds (Continued)

B. Receivables

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

	General Fund	Internal Service	Nonmajor Funds	Total Governmental	Water	Wastewater
Accounts	\$ 85,497	\$ 1,318	\$ 3,032	\$ 89,847	\$ 233,493	\$ 281,946
Taxes	377,515	-	-	377,515	-	-
Interest	7,027	-	-	7,027	-	-
Governments	594,588	-	32,465	627,053	-	-
Notes	-	-	987,703	987,703	-	-
Totals	<u>\$ 1,064,627</u>	<u>\$ 1,318</u>	<u>\$ 1,023,200</u>	<u>\$ 2,089,145</u>	<u>\$ 233,493</u>	<u>\$ 281,946</u>

C. Interfund Transfers, receivables and payables

1. The composition of interfund transfers of June 30, 2004, is as follows:

Transfers In:	General Fund	Non-Major Funds	Water Wastewater Funds	Total Transfers Out
Transfers Out:				
General fund	\$ -	\$ 260,950	\$ 241,500	\$ 502,450
Internal service	50,000	-	-	50,000
Nonmajor funds	326,936	32	-	326,968
Water/wastewater	-	-	67,500	67,500
Totals	<u>\$376,936</u>	<u>\$ 260,982</u>	<u>\$ 309,000</u>	<u>\$ 946,918</u>

The primary transfers out of the general fund were \$260,950 to the debt service fund for principal and interest payments for the fiscal year and \$241,500 to the water enterprise to subsidize costs of the water utility.

2. The composition of interfund balances was:

Receivable Fund	Payable Fund	Asset	Liability
	Wastewater- cash flow and capital costs	\$ -	\$ 1,597,112
	Police grants- cash flow purposes	-	4,065
General fund		<u>1,601,177</u>	-
Totals		<u>\$ 1,601,177</u>	<u>\$ 1,601,177</u>

CITY OF CALISTOGA
Notes to the Basic Financial Statements
June 30, 2004

4. Detailed Notes on All Funds (Continued)

D. Capital Assets

Capital asset activity relating to governmental activities for the year ended June 30, 2004 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated				
Land	\$ 1,964,744	\$ -	\$ -	\$ 1,964,744
Total capital assets, not being depreciated	1,964,744	-	-	1,964,744
Capital assets, being depreciated:				
Buildings	1,619,113	-	-	1,619,113
Machinery and equipment	1,325,326	-	-	1,325,326
Equipment- internal service fund	1,557,094	258,696	-	1,815,790
Improvements	1,092,880	-	-	1,092,880
Total capital assets being depreciated	5,594,413	258,696	-	5,853,109
Less accumulated depreciation for:				
Buildings	(858,693)	(50,982)	-	(909,675)
Machinery and equipment	(858,131)	(71,809)	-	(929,940)
Equipment-internal service	(1,001,813)	(155,094)	1	(1,156,906)
Improvements	(548,976)	(50,990)	-	(599,966)
Total accumulated depreciation	(3,267,613)	(328,875)	1	(3,596,487)
Total capital assets, being depreciated, net	2,326,800	(70,179)	-	2,256,622
Governmental activities capital assets, net	\$ 4,291,544	\$ (70,179)	\$ 1	\$ 4,221,366

CITY OF CALISTOGA
Notes to the Basic Financial Statements
June 30, 2004

4. Detailed Notes on All Funds (Continued)

D. Capital Assets

Capital asset activity relating to business-type activities for the year ended June 30, 2004 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities:				
Capital assets, not being depreciated				
Land	\$ 781,040	\$ -	\$ -	\$ 781,040
Water rights	1,589,875	-	-	1,589,875
Construction in progress	13,794,099	1,925,167	(15,133,716)	585,550
Total capital assets, not being depreciated	16,165,014	1,925,167	(15,133,716)	2,956,465
Capital assets, being depreciated:				
Wastewater collection and treatment	4,517,754	15,133,716	(860,962)	18,790,508
Water treatment and distribution system	10,305,367	45,020	(301,985)	10,048,402
Equipment-wastewater	446,980	71,088	-	518,068
Equipment-water	594,463	38,866	-	633,329
Total capital assets being depreciated	15,864,564	15,288,690	(1,162,947)	29,990,307
Less accumulated depreciation for:				
Wastewater collection and treatment system	(1,891,000)	(548,314)	348,988	(2,090,326)
Water treatment and distribution system	(3,674,011)	(230,730)	178,170	(3,726,571)
Total accumulated depreciation	(5,565,011)	(779,044)	527,158	(5,816,897)
Total capital assets, being depreciated, net	10,299,553	14,509,646	(635,789)	24,173,410
Business-type activities capital assets, net	\$ 26,464,567	\$ 16,434,813	\$ (15,769,505)	\$ 27,129,875

During fiscal year 2004, the City completed the wastewater treatment plant modernization and upgrade project. The \$511,974 loss from replacement of capital facilities in the wastewater enterprise fund represents the remaining net book value of the old plant prior to completion of the plant upgrade. The \$123,813 loss from replacement of capital facilities in the water enterprise represents the net book value of replaced water lines.

CITY OF CALISTOGA
Notes to the Basic Financial Statements
June 30, 2004

4. Detailed Notes on All Funds (Continued)
D. Capital Assets (Continued)

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

Governmental activities:	
General government	\$ 19,075
Public safety	96,745
Community services	784
Recreation services	37,847
Public works	19,330
Capital assets held by the City's internal service fund are charged to the various functions based on their usage of the assets	155,094
	<hr/>
Total depreciation expense-governmental activities	<u>\$ 328,875</u>
Business-type activities:	
Water	\$ 230,730
Wastewater	584,314
	<hr/>
Total depreciation expense-governmental activities	<u>\$ 779,044</u>

E. Capital Leases

The City entered a lease agreement in an original amount of \$2,253,011 as lessee for financing the advance refunding in fiscal 2003 of another lease arrangement and note payable. The original lease agreement qualified as capital leases for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments as of the inception dates. The assets have been capitalized as general capital assets and the related accumulated depreciation is recorded in the statement of net assets. The lease is payable to Zions First National Bank, bears interest at 4.65 percent per annum, and is payable in semi-annual installments of \$134,521 each October 1 and April 1 through 2012. Future minimum lease payments and the net present value of these minimum lease payments as of June 30, 2004 were as follows:

Fiscal Year Ending June 30	Minimum Lease Payments
2005	\$ 269,043
2006	269,043
2007	269,043
2008	269,043
2009	269,043
2010-2013	941,648
	<hr/>
Total minimum lease payments	2,286,863
	<hr/>
Less amounts representing interest	(407,778)
	<hr/>
Net present value of minimum lease payments	<u>\$ 1,879,085</u>

CITY OF CALISTOGA
Notes to the Basic Financial Statements
June 30, 2004

4. Detailed Notes on All Funds(Continued)

F. Long-Term Debt

Water Revenue Bonds

The City issued an original amount of \$5,200,000 in water revenue bonds to provide funds for water system improvements. The bonds bear interest at 5.0 percent per annum, and interest is payable each January 1 and July 1. Principal is due each December 1, through 2024. Annual debt service requirements to maturity for the Revenue Bonds are as follows:

Fiscal Year	Principal	Interest	Total
2005	\$ 119,000	\$ 185,275	\$304,275
2006	124,000	179,200	303,200
2007	130,000	172,850	302,850
2008	140,000	166,100	306,100
2009	145,000	158,975	303,975
2010-2014	817,000	877,325	1,494,325
2015-2019	1,000,000	452,500	1,452,500
2020-2024	1,290,000	167,500	1,457,500
	<hr/>	<hr/>	<hr/>
Totals	<u>\$ 3,765,000</u>	<u>\$2,159,725</u>	<u>\$5,924,725</u>

The revenue bonds are secured by a first pledge and lien on the system revenues of the water enterprise. The City is required to maintain a reserve fund of \$301,500. This requirement was met at June 30, 2004. The City may at its option prepay the entire amount of the revenue bonds at any interest payment date.

Installment Agreement Payable

The City entered into an installment purchase agreement, dated August 1, 2001 between the City and the California Statewide Communities development Authority wherein the Authority sold a pool of water and wastewater revenue bonds. A portion of the proceeds of the Authority's revenue bonds, in an original amount of \$3.5 million were provided to the City to finance expansion of the City's wastewater treatment plant. In exchange, the City agreed to purchase the plant expansion improvements from the Authority pursuant to the installment agreement. The City's obligations under the agreement are secured by a first pledge and lien on the wastewater system revenues. The City is obligated to fix, prescribe and collect wastewater system revenues in amounts sufficient to enable the City to pay all current operations and maintenance costs of the system, make all required payments on any parity debt and the installment payments, fund any reserve account requirements, and pay all other charges applicable to the system. The City is also required to fix rates such that system net revenues in any one year(subject to certain adjustments) are equal to 120 percent of the annual debt service of the system. In lieu of a monetary reserve, a reserve insurance policy was issued in an initial amount of \$227,978. The agreement bears interest at rates of from 3.25 to 5.125 percent per annum.

Future debt service on the on the agreement is:

Fiscal Year	Principal	Interest	Total
2005	\$ 65,000	\$159,692	\$224,692
2006	65,000	157,693	222,693
2007	70,000	155,488	225,488
2008	70,000	153,084	223,084
2009	75,000	150,434	225,434
2010-2014	415,000	704,888	1,119,888
2015-2019	525,000	599,184	1,124,184
2020-2024	660,000	450,826	1,110,826
2025-2029	840,000	263,000	1,103,000
2030-2032	615,000	47,125	662,125
	<hr/>	<hr/>	<hr/>
Totals	<u>\$ 3,400,000</u>	<u>\$2,841,414</u>	<u>\$6,241,414</u>

CITY OF CALISTOGA
Notes to the Basic Financial Statements
June 30, 2004

4. Detailed Notes on All Funds(Continued)

F. Long-Term Debt(Continued)

State of California Revolving Fund Loan

The City obtained a \$4,605,173 loan from the State of California Department of Water Resources under the State Revolving Loan Program for the purpose of obtaining financing to construction the City's wastewater treatment plant. The loan bears interest at 2.6 percent and is secured by a pledge of the City to maintain dedicated sources of revenue sufficient in amounts to provide for repayment of the loan. Principal and interest on the loan is payable in annual installments due each October 30 through 2023. Future debt service based upon the final principal loan balance of \$5,042,727 is:

Fiscal Year	Principal	Interest	Total
2005	\$ 204,311	\$ 121,631	\$ 325,942
2006	200,143	125,799	325,942
2007	205,347	120,595	325,942
2008	210,685	115,257	325,942
2009	218,163	109,779	325,942
2010-2014	1,168,100	481,610	1,629,710
2015-2019	1,328,056	301,654	1,629,710
2020-2024	1,509,922	119,788	1,629,710
Totals	\$ 5,042,727	\$1,476,113	\$ 6,518,840

Claims and Settlements

Pursuant to a settlement agreement with Crystal Geyser Water Company, the City has an obligation to pay \$508,379 (discounted amount at 2 %) over the next six years.

Fiscal Year	Principal	Interest	Total
2005	\$ 39,835	\$ 10,165	\$ 50,000
2006	65,829	9,371	75,000
2007	66,941	8,059	75,000
2008	93,281	6,719	100,000
2009	120,146	4,854	125,000
2009	122,547	2,453	125,000
Totals	\$ 508,379	\$ 41,621	\$ 550,000

Changes in Long-term liabilities

Long-term debt activity for the 2004 fiscal year was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Capital lease obligation	\$ 2,056,390	\$ -	\$ 177,305	\$ 1,879,085	\$ 185,480
Compensated absences	159,647	178,928	159,467	178,928	178,928
Claims and settlements	-	508,379	-	508,379	39,835
Total	\$ 2,215,857	\$ 687,307	\$ 336,772	\$ 2,566,392	\$ 404,243
Business-type Activities:					
Water revenue bonds	\$ 3,878,000	\$ -	\$ 113,000	\$ 3,765,000	\$ 119,000
Installment agreement	3,465,000	-	65,000	3,400,000	65,000
State Revolving Fund Loan	4,516,824	88,549	-	4,605,173	204,311
Compensated Absences	141,021	158,228	141,021	158,228	158,228
Total	\$ 12,000,645	\$ 246,777	\$ 319,021	\$ 11,928,401	\$ 546,539

CITY OF CALISTOGA
Notes to the Basic Financial Statements
June 30, 2004

5. Other Information

A. Short-Term Debt

On August 1, 2003, the City entered into an agreement with Zions First National Bank to obtain through a note payment agreement up to \$1,927,075 in funds for use as additional interim financing of the wastewater treatment plant upgrade project. The City in fiscal 2004, obtained \$1,650,000 under this arrangement which is due in full at August 1, 2004. The entire \$1,650,000 is shown as a current obligation of the City's wastewater enterprise. The City on August 1, 2004, entered into a similar agreement with the bank to obtain the \$1,650,000 to repay this obligation with a new maturity date of August 1, 2005.

B. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the City carries insurance. The City participates as a member of the Public Agency Risk Sharing Authority of California(PARSAC). The Authority is a joint powers agency providing joint protection programs for public entities.

The Authority provides general liability, workers compensation and property insurance coverage to member entities. Under the liability program, the City has a \$10,000 retention limit similar to a deductible with the Authority being responsible for losses above that amount up to \$1 million. The Authority carries purchased excess insurance above that amount to cover losses up to \$15 million. The City has a \$25,000 deductible for workers compensation claims, and PARSAC covers workers compensation claims up to the first \$250,000 per claim and carries excess commercial insurance above that amount to cover losses up to \$50 million. Property coverage is commercial insurance jointly purchased with other public entities throughout the State. The commercial coverage is \$750 million with various sub-limits by type of coverage and property. The City's obligation is to pay annual premiums billed by the Authority. The PARSAC periodically may make retrospective premium adjustments and the City would be required to pay its prorata share of such adjustments.

Liabilities of the City are reported in the statement of net assets for the governmental activities when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines, and damage awards. Accordingly, claims are reevaluated periodically to consider the effects of inflation, recent claim settlement trends (including frequency and amount of pay-outs), and other economic and social factors.

The estimate of the claims liability also includes amounts for incremental claim adjustment expenses related to specific claims and other claim adjustment expenses regardless of whether allocated to specific claims. Estimated recoveries, for example from salvage or subrogation, are another component of the claims liability estimate. Settlements have not exceeded coverage for each of the past three fiscal years except in fiscal 2004 when an uninsured settlement of \$508,379 was incurred and recorded by the City.

Changes in the balances of claims liabilities during the past two years are as follows:

	Year Ended 6/30/2003	Year Ended 6/30/2004
Unpaid claims, beginning of fiscal year	\$ -	\$ -
Incurred claims (including IBNRs)	-	508,379
Claim payments	-	-
Unpaid claims, end of fiscal year	\$ -	\$ 508,379

CITY OF CALISTOGA
Notes to the Basic Financial Statements
June 30, 2004

5. Other Information(Continued)

C. Contingencies and Commitments

Litigation. The City is involved in litigation incurred in the normal course of conducting City business. Although the outcome of these lawsuits is not presently determinable, in the opinion of the City's counsel the resolution of these matters will not have a material adverse effect on the financial condition of the City.

Grants and allocations. Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal and state government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

D. Public Employees Retirement System

Plan Description. The City of Calistoga contributes to the California Public Employees Retirement System (PERS), and agent, multiple-employer, public employee, defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, 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 the State statute and City ordinance. Copies of PERS annual financial report may be obtained from their executive office, 400 "P" Street, Sacramento, California 95814.

Funding Policy and Annual Pension Cost. The contribution requirements of plan members and the Town are established by and may be amended by PERS. The City's annual pension cost for the most recent year and related information for each plan is as follows:

	Annual Pension Cost and Related Information	
	Regular Employees	Safety Employees
Contribution rates:		
City	8.227%	21.811%
Plan members	7.00%	9.00%
Annual pension cost	\$165,252	\$221,846
Contributions made	\$165,262	\$221,846
Actuarial valuation date	June 30, 2003	June 30, 2003
Actuarial cost method	Entry Age	Entry Age
Amortization method	Level % pay, closed	Level % pay, closed
Remaining amortization period	17 years	316 years
Asset valuation method	3 year smoothed market	3 year smoothed market
Actuarial assumptions:		
Investment rate of return	7.75%	7.75%
Projected salary increases	3.25% to 14.46%	3.25% to 13.15%
Payroll growth	3.00%	3.00%
Inflation	3.25%	3.25%

CITY OF CALISTOGA
Notes to the Basic Financial Statements
June 30, 2004

5. Other Information(Continued)

D. Public Employees Retirement System(Continued)

Three-year Trend of Information

Plan	Year Ending	Annual Pension Cost	Percentage of APC Contributed	Net Pension Obligation
<i>Regular employees</i>				
	6/30/02	\$ 83,804	100%	\$ -
	6/30/03	\$ 144,666	100%	\$ -
	6/30/04	\$ 165,262	100%	\$ -
<i>Safety employees</i>				
	6/30/02	\$ 65,719	100%	\$ -
	6/30/03	\$ 64,613	100%	\$ -
	6/30/04	\$ 221,846	100%	\$ -

E. Restricted Net Assets and Designated Fund Balances

The \$ 2,036,751 restricted amount in the governmental activities and the \$ 498,313 in the business-type activities statement net assets represent amounts to be used only for specific purposes which restrictions are imposed by laws, formal agreements or other governments.

Reserved fund balances consisted of the following:

Purpose	General Fund	Nonmajor Funds
Advances to other funds	\$1,601,177	\$ -
Prepayments	-	-
Debt service	-	31
	<u>\$1,601,177</u>	<u>\$ 31</u>

Portions of unreserved fund balances 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 are subject to change, have not been legally authorized, and may not result in expenditures. Unreserved designated fund balances were:

Purpose	General Fund	Nonmajor Funds
Emergencies	\$ 498,460	\$ -
Contingencies	141,701	-
Bike lanes	5,000	-
Insurance	105,000	-
Infrastructure	370,000	-
Totals	<u>\$ 1,120,161</u>	<u>\$ -</u>

CITY OF CALISTOGA
Notes to the Basic Financial Statements
June 30, 2004

5. Other Information(Continued)

F. Change in Accounting Principle and Basis of Financial Statement Presentation

In the 2004 fiscal year, the City implemented GASB Statement No. 34 "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments." Statement No. 34 established new financial reporting requirements for all state and local governments and consists of the following:

- Management's discussion and analysis;
- Basic financial statements
- Government-wide financial statements, prepared using the economic resources measurement focus and the accrual basis of accounting;
- Fund financial statements, consisting of a series of statements that focus on a government's major governmental funds and enterprise funds;
- Notes to financial statements;
- Required supplementary information, which requires budgetary comparison schedules to be presented.

Additionally, this new statement required the recording of infrastructure, such as streets, roads, bridges, streetlights and similar type assets. Because the City's total revenues under the implementation rules were than \$10 million, the City is not required to record infrastructure assets existing prior to fiscal year 2004. The new statement does require that capital assets used in governmental activities be recorded in the new government-wide financial statements along with accumulated depreciation; and the City has implemented this requirement. Infrastructure acquired prior to June 30, 2003 has not been recorded in these basic financial statements.

GASB Interpretation 6 changed the amount of the liability for compensated absences, claims and judgments to be recognized in governmental funds using the modified accrual basis of accounting. The "Interpretation" requires that liabilities in governmental funds for compensated absences, claims and judgments should be limited to amounts expected to be liquidated with expendable available financial resources; the balance should be reported as a general long-term liability. The City has also implemented this requirement. The impact of these restatements on the governmental funds is as follows:

	General Fund	Other Governmental Funds	Total Governmental Funds
Governmental Activities:			
Fund balance June 30, 2003, as originally reported	\$2,694,438	\$1,129,391	\$3,823,829
Changes to record:			
Accrued interest			(23,434)
Deferred revenue- receivables			866,928
Internal service fund net assets			1,442,561
Compensated absences			(159,467)
Capital assets used in governmental activities			8,002,062
Accumulated depreciation on capital assets			(2,265,800)
Long-term debt obligations			(2,056,390)
Governmental activities net assets, June 30, 2003, As Restated			<u>\$7,630,289</u>

CITY OF CALISTOGA
Notes to the Basic Financial Statements
June 30, 2004

5. Other Information(Continued)

F. Change in Accounting Principle and Basis of Financial Statement Presentation

	Retained Earnings	Contributed Capital	Total Proprietary Funds	Net Assets Business-Type Activities
Business-type Activities:				
Equity balance June 30, 2003, as originally reported				
Proprietary enterprise funds	\$9,248,889	\$3,974,839	\$13,223,728	\$ -
Internal service fund	363,809	1,078,752	1,442,561	-
Subtotal as originally reported	9,612,698	5,053,591	14,666,289	-
Changes to record:				
Retained earnings as net assets	(9,248,889)	-	(9,248,889)	9,248,889
Contributed capital as net assets		(3,974,839)	(3,974,839)	3,974,839
Compensated absences payable				(141,021)
Internal service fund net assets, reported in governmental activities	(363,809)	(1,078,752)	(1,442,561)	-
Business-type activities net assets, June 30, 2003, As Restated	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,082,707</u>

Required Supplementary Information
CITY OF CALISTOGA
Budgetary Comparison Schedule - General Fund
For the Fiscal Year Ended June 30, 2004

REQUIRED SUPPLEMENTARY INFORMATION

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual Amounts	
Fund Balance, July 1	\$ 2,694,438	\$ 2,694,438	\$ 2,694,438	\$ -
Resources (inflows):				
Property taxes	700,000	737,000	744,203	7,203
Sales taxes	781,900	702,500	680,882	(21,618)
Transient occupancy taxes	2,600,000	2,200,000	2,161,628	(38,372)
Other taxes	343,600	306,500	299,836	(6,664)
License and permits	108,200	80,000	80,133	133
Fines and forfeits	55,200	41,000	52,206	11,206
Interest	150,000	85,000	2,321	(82,679)
Intergovernmental	924,550	783,984	852,792	68,808
Charges for services	355,600	400,600	376,005	(24,595)
Miscellaneous	76,150	135,750	75,328	(60,422)
Special items	-	325,000	339,216	14,216
Transfers in	134,250	272,100	376,936	104,836
Amounts available for charges to appropriations	<u>8,921,888</u>	<u>8,763,872</u>	<u>8,735,924</u>	<u>(27,948)</u>
Charges to appropriations:				
<i>General Government:</i>				
City council	45,100	33,300	27,847	5,453
Finance	214,300	215,400	215,727	(327)
City clerk	61,350	73,700	73,200	500
City treasurer	11,650	11,170	11,167	3
City attorney	211,300	228,900	228,760	140
City manager	185,700	178,350	178,394	(44)
Nondepartmental	99,200	73,300	74,307	(1,007)
Elections	5,300	17,950	18,350	(400)
Risk management	266,500	297,250	297,102	148
Personnel	61,900	39,650	39,804	(154)
<i>Public Safety:</i>				
Police services	1,365,700	1,383,250	1,370,927	12,323
Police dispatch	344,700	314,700	323,454	(8,754)
Emergency services	46,050	40,272	39,528	744
Fire protection	532,000	552,075	548,631	3,444
<i>Community Services</i>				
Chamber of Commerce	110,000	110,000	110,000	-
Other promotions	30,000	22,800	21,747	1,053
Community activities	26,100	26,750	26,763	(13)
Library services	79,300	49,750	49,711	39
Ambulance	34,650	-	-	-
Sharpsteen Museum	15,600	8,800	8,623	177
<i>Recreation Services</i>				
Recreation services	183,900	186,360	183,638	2,712
Education and recreation courses	37,700	38,550	36,153	2,397
Community resource commission	5,200	-	-	-
Senior activities	31,350	26,680	25,123	1,537
<i>Public Works</i>				
Administration	117,850	91,950	93,227	(1,277)
Streets	237,825	193,950	189,193	4,757
Park maintenance	230,350	193,200	185,026	8,174
Shop maintenance	30,225	29,850	30,202	(352)
Building maintenance	234,650	194,250	196,985	(2,735)
<i>Planning and building</i>				
Planning commission	3,200	2,800	2,354	446
Bicycle advisory	5,200	200	18	182
Planning	274,000	232,900	236,135	(3,235)
Building	126,850	88,150	87,748	402
Mobile home programs	10,100	-	-	-
<i>Capital outlay</i>	1,224,150	737,066	582,292	154,774
<i>Transfers out</i>	269,050	547,050	502,450	44,600
Total charges to appropriations	<u>6,748,000</u>	<u>6,240,293</u>	<u>6,014,586</u>	<u>225,707</u>
Fund Balance, June 30	<u>\$ 2,173,888</u>	<u>\$ 2,523,579</u>	<u>\$ 2,721,338</u>	<u>\$ 197,759</u>

CITY OF CALISTOGA
Budgetary Comparison Schedule - General Fund
Note to RSI
For the Fiscal Year Ended June 30, 2004

Note A. Explanation of Difference between Budgetary Inflows and Outflows and GAAP Revenues and expenditures:

Sources/inflows resources:

Actual amounts "available for appropriation" from budgetary comparison schedule:	\$ 8,735,924
Differences - budget to GAAP:	
The fund balance at the beginning of the year is a budgetary resource but is not a current year revenue for financial reporting purposes	(2,694,438)
Special items are reported separately from revenues in the statement of revenues, expenditures and changes in fund balances	(339,216)
Transfers in from other funds are inflows of budgetary resources but are revenues for financial reporting purposes	<u>(376,936)</u>

Total revenues as reported in the statement of revenues, expenditures and changes in fund balances - governmental funds \$ 5,325,334

Uses/outflows of resources:

Actual amounts "total charges to appropriations" from the budgetary comparison schedule	\$ 6,014,586
Differences - budget to GAAP:	
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes	(502,450)

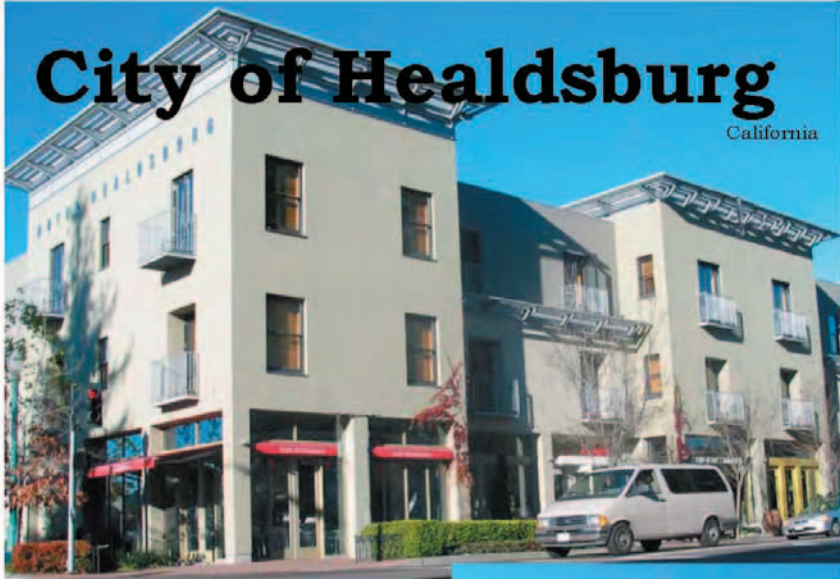
Total expenditures as reported in the statement of revenues, expenditures and changes in fund balances - governmental funds \$ 5,512,136

Required Supplementary Information
CITY OF CALISTOGA
Employees Retirement System
Schedule of Funding Progress
June 30, 2004
(Amounts in Thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL)- Entry Age (b)	Unfunded (overfunded) AAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL (Excess) as a Percentage of Covered Payroll [(b-a)/c]
Miscellaneous Plan						
6/30/2001	\$ 4,344	\$ 4,106	\$ (238)	105.8%	\$ 1,677	-14.2%
6/30/2002	\$ 4,233	\$ 4,987	\$ 754	84.9%	\$ 1,770	42.6%
6/30/2003	\$ 4,441	\$ 6,259	\$ 1,818	70.9%	\$ 2,035	89.3%
Police Plan						
6/30/2001	\$ 2,943	\$ 3,726	\$ 783	79.00%	\$ 715	109.50%
6/30/2002	\$ 2,914	\$ 4,271	\$ 1,357	68.20%	\$ 799	169.70%
6/30/2003	\$ 3,157	\$ 4,645	\$ 1,488	68.00%	\$ 954	155.90%

City of Healdsburg

California



Hotel Healdsburg

Serifem Building, 2003



Clock Tower



Comprehensive
Annual Financial Report
For the
Year Ended June 30, 2004

CITY OF HEALDSBURG
HEALDSBURG, CALIFORNIA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

WITH REPORT ON AUDIT BY
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

JUNE 30, 2004

Prepared by the Finance Department

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CITY OF HEALDSBURG
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**CITY OF HEALDSBURG
 ADMINISTRATION**

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December 27, 2004

To the Honorable Mayor, Members of the City Council, and Citizens of the City of Healdsburg:

We are pleased to submit to you the Comprehensive Annual Financial Report (CAFR) of the City of Healdsburg for the fiscal year ended June 30, 2004. This report is published in accordance with local ordinance and state law requirements that financial statements be presented in conformity with accounting principles generally accepted in the United States of America and audited in accordance with auditing standards generally accepted in the United States of America by a firm of licensed certified public accountants.

For the fiscal year ended June 30, 2004, the City of Healdsburg has complied with recent pronouncements of the Governmental Accounting Standards Board (GASB), including GASB Statement 34. Statement 34 established a new financial reporting model for state and local governments incorporating government-wide financial statements in addition to the customary fund statement presentation. Reconciliations of the fund financial statements to the Statement of Net Assets and Statement of Activities are provided in the financial section of this report.

The new reporting model provides financial report users with 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 the MD&A and should be read in conjunction with it. The City of Healdsburg's MD&A can be found in the financial section immediately following the report of the independent auditors.

This report consists of management's representations concerning the finances of the City of Healdsburg. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the City of Healdsburg has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City of Healdsburg's financial statements. Because the cost of internal controls should not outweigh their benefits, the City of Healdsburg's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

Diehl, Evans & Company, LLP, a firm of licensed certified public accountants, has audited the City of Healdsburg's financial statements. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Healdsburg for the fiscal year ended June 30, 2004 are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation.

The independent auditor concluded that there was a reasonable basis for rendering an unqualified opinion that the City of Healdsburg's financial statements for the fiscal year ended June 30, 2004, are fairly presented in conformity with accounting principles generally accepted in the United States of America. The independent auditor's report is presented as the first component of the financial section of this report.

The City of Healdsburg was not required to undergo an annual single audit in conformity with the provisions of the Single Audit Act of 1984 and the U.S. Office of Management and Budget's Circular A-133, Audits of State and Local Governments.

CITY OF HEALDSBURG PROFILE

The City of Healdsburg, incorporated in 1867, is located in Sonoma County, the center of California's north coast premium wine growing region. Healdsburg continues to show strength as a region retail, service and tourist destination.

The City operates under the Council-Manager form of government. Policymaking and legislative authority are vested in the City Council, which consists of a Mayor and a four member Council. The governing council is responsible for the City's ordinances, operating resolutions, adoption of the annual budget, appointing commissions and committees and hiring the City Manager, City Clerk and City Attorney. The City Manager is responsible for implementing the policies, ordinances and directives of the City Council, for overseeing the day-to-day operations of the City and for appointing the Assistant City Manager and the Directors of the City's departments. Council members are elected to four-year terms. Each year the mayor is elected by a majority vote of the City Council.

The City provides a full range of services and activities which is summarized as follows:

General Government Activities

Police and fire protection
Non-Enterprise capital projects

Redevelopment Activities

Economic development and business expansion
Preservation of low and moderate income housing and neighborhoods
Assistance toward development of affordable housing
Downtown revitalization and business retention
Project Area drainage, water and street projects

Enterprise Activities

Water Utility, including production and distribution
Sewer Utility, including collection and treatment of sanitary and storm drain waste water
Electric Utility
Planning and Building operations
Transit operations
Airport operations
Meeting Center Enterprise (Villa) and School Services
Parks and recreation, including a municipal golf course and pool
Maintenance of streets and roads

FACTORS AFFECTING FINANCIAL CONDITION

Annual budget. The City of Healdsburg operates on a fiscal year basis, beginning July 1 and ending June 30. The budget is prepared under the supervision of the City Manager and transmitted to the City Council for deliberation and adoption in June prior to the beginning of the fiscal year.

FACTORS AFFECTING FINANCIAL CONDITION

Annual budget. The City of Healdsburg operates on a fiscal year basis, beginning July 1 and ending June 30. The budget is prepared under the supervision of the City Manager and transmitted to the City Council for deliberation and adoption in June prior to the beginning of the fiscal year.

Upon adoption by the City Council, the City maintains budgetary controls to ensure compliance with legal provisions embodied in the annual budget. Budget to actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted. The City's budgetary procedures are further discussed in the Notes to the Basic Financial Statements and can be found in the financial section of this report.

AWARDS AND ACKNOWLEDGEMENTS

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

A certificate of Achievement is valid for a period of one year only. We believe that our current CAFR 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.

We believe our current report continues to conform to the program requirements, and are submitting it to CSMFO to determine its eligibility for another certificate.

The preparation of this report could not be accomplished without the efficient and dedicated services of the entire staff of the Finance Department. We would like to express our appreciation to other members of the City staff who assisted and contributed to its preparation. We would also like to thank the Mayor and City Council for their interest and support in planning and conducting the financial operations of the City in a responsible and progressive manner.

Respectfully submitted,


Chet Wystepok
City Manager

Certificate of Achievement for Excellence in Financial Reporting

Presented to

**City of Healdsburg,
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.



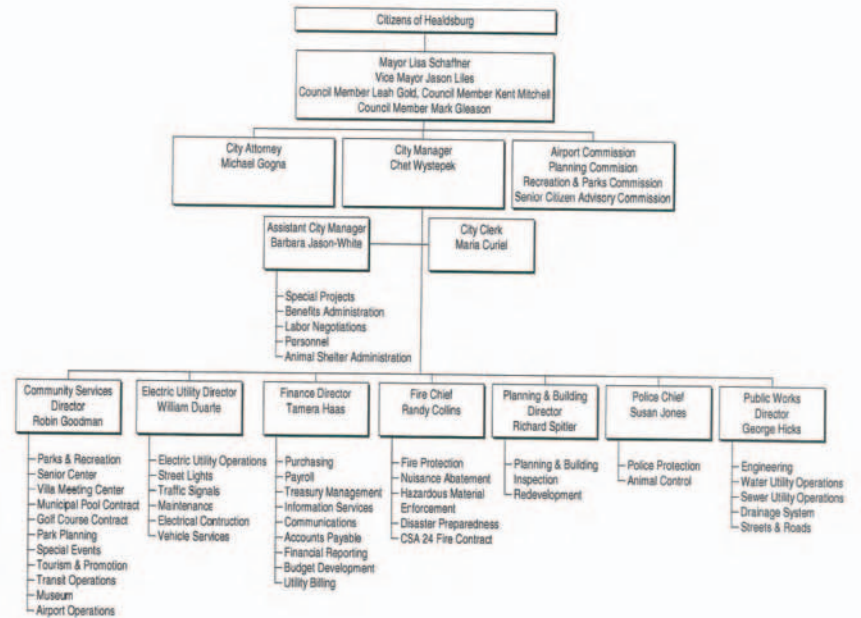
Nancy L. Zielle

President

Jeffrey R. Enos

Executive Director

City of Healdsburg Organization Chart



CITY OF HEALDSBURG

JUNE 30, 2004

Elected Officials

Lisa W. Schaffner
Mayor

Jason Liles
Vice Mayor

Kent Mitchell
Council Member

Leah Gold
Council Member

Mark Gleason
Council Member

Appointed Officials

Chet J. Wystepik
City Manager

Michael Gogna
City Attorney

Barbara Jason-White
Assistant City Manager

Tamera Haas
Finance Director

Robin Goodman
Community Services Director

Maria Curiel
City Clerk

Bill Duarte
Electric Utility Director

George Hicks
Public Works Director

Susan Jones
Police Chief

Randy Collins
Fire Chief

Richard Spitzer
Planning and Building Director



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*A PROFESSIONAL CORPORATION

November 10, 2004

INDEPENDENT AUDITORS' REPORT

The Honorable City Council
of the City of Healdsburg
Healdsburg, 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 City of Healdsburg, California, as of and for the 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 of Healdsburg'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 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, each major fund, and the aggregate remaining fund information of the City of Healdsburg, California, 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.

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In accordance with Government Auditing Standards, we have also issued our report dated November 10, 2004 on our consideration of the City of Healdsburg's internal control over financial reporting and 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 and the budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. 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 of Healdsburg's basic financial statements. The introductory section, other supplementary information and statistical section as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary 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. 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.

Diehl, Evans and Company, LLP

CITY OF HEALDSBURG
MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2004

As management of the City of Healdsburg (City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City 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, which can be found in the Introductory Section of this report.

FINANCIAL HIGHLIGHTS

- City assets exceeded its liabilities by \$126.1 million (net assets) at June 30, 2004. Of this amount, \$37.4 million (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- City total net assets increased by \$8.5 million during the fiscal year, compared to an increase of \$6.1 million in the prior year. The increase was primarily due to a decrease in community development expenses compared to the prior year.
- At the close of fiscal year 2003-04, City governmental funds reported combined ending fund balance of \$45.6 million, a decrease of \$2.9 million.
- At the end of fiscal year 2003-04, unreserved fund balance for the General Fund was \$4.0 million, or 75 percent of total General Fund expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the basic 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's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the City'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 is improving or deteriorating.

See independent auditors' report.

CITY OF HEALSDBURG
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)

June 30, 2004

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Government-wide financial statements (Continued)

The statement of activities presents information showing how the City'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, all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid (e.g., uncollected taxes or earned but unused vacation leave).

Government-wide financial statements distinguish City governmental activities that are principally supported by taxes and intergovernmental revenues from other business-type activities that are intended to recover all or a significant portion of their costs through user fees and charges. Governmental activities of the City and the Healdsburg Community Redevelopment Agency, a blended component unit, include general government, public safety, culture and recreation and community development. Business type activities of the city include water utility, sewer utility, electric utility, streets and other programs.

The government-wide financial statements can be found on pages 15 - 17 of this report.

Fund financial statements

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

See independent auditors' report.

CITY OF HEALSDBURG
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)

June 30, 2004

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Fund financial statements (Continued)

Governmental funds (Continued) The City maintains several individual governmental funds organized by their type (special revenue, debt service, capital projects and permanent 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, Community Redevelopment Agency Debt Service, Special Assessment Debt Service, Community Redevelopment Commercial/Industrial Capital Projects, Community Redevelopment Low/Moderate Income Capital Projects and General Capital Projects which are considered to be major funds. Data from the remaining governmental funds are combined into a single, aggregated presentation. Individual fund data for each of the other governmental funds is provided in the form of combining statements beginning on page 77 of this report.

The City adopts an annual appropriated budget for its General Fund, certain special revenue funds and debt service funds. Budgetary comparison statements have been provided to demonstrate compliance with this budget. These statements are on pages 75 and 90 - 100 of this report.

The basic governmental fund financial statements can be found on pages 18 - 25 of this report.

Proprietary funds are generally used to account for services for which the City charges outside customers, or internal departments of the City. Proprietary funds provide the same type of information as shown in the government-wide statements, only in more detail. The City maintains the following two 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 uses an enterprise fund to account for the operations of water, sewer, electric, streets and other programs.
- **Internal service funds** are used to report activities that provide internal services for the City. The City uses internal service funds to account for its insurance and benefits, vehicle service and replacement, information systems and equipment and government buildings. Because internal service funds predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements. The internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of combining statements beginning on page 109 of this report.

The basic proprietary fund financial statements can be found on pages 26 - 31 of this report.

See independent auditors' report.

CITY OF HEALSDBURG
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)
June 30, 2004

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Fund financial statements (Continued)

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 City's own programs.

The basic fiduciary fund financial statements can be found on page 32 of this report.

Notes to the basic 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 basic financial statements can be found on pages 34 - 73 of this report.

Other information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information that includes a Budgetary Comparison Schedule for the General Fund. Required supplementary information can be found on pages 75 and 76 of this report.

Combining statements for other governmental funds, internal service funds, and budgetary comparison schedules for certain individual funds are presented immediately following the required supplementary information. Combining financial statements and schedules can be found on pages 77 - 122 of this report.

See independent auditors' report.

CITY OF HEALSDBURG
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)
June 30, 2004

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Statement of Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. At June 30, city assets exceeded liabilities by \$126.1 million in 2004 and by \$117.6 million in 2003, as summarized below:

Condensed Statements of Net Assets
(In millions of dollars)

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	2004	2003	2004	2003	2004	2003
Assets:						
Current and other assets	\$ 54.9	\$ 59.6	\$ 35.2	\$ 34.8	\$ 90.1	\$ 94.4
Capital assets (net of accumulated depreciation)	34.1	28.1	76.7	73.7	110.8	101.8
Total Assets	89.0	87.7	111.9	108.5	200.9	196.2
Liabilities:						
Current and other liabilities	4.8	6.5	1.6	1.9	6.4	8.4
Noncurrent liabilities	50.4	51.7	18.0	18.5	68.4	70.2
Total Liabilities	55.2	58.2	19.6	20.4	74.8	78.6
Net Assets:						
Invested in capital assets, net of related debt	12.5	9.5	58.7	60.8	71.2	70.3
Restricted	11.5	16.3	6.0	6.3	17.5	22.6
Unrestricted	9.8	3.7	27.6	21.0	37.4	24.7
Total Net Assets	\$ 33.8	\$ 29.5	\$ 92.3	\$ 88.1	\$ 126.1	\$ 117.6

A more detailed Statement of Net Assets is shown on page 15.

The largest portion (56.4 percent) of the City's net assets reflects its investment of \$71.2 million in capital assets (land, buildings and improvements, equipment, infrastructure, and construction in progress, net of accumulated depreciation); less any related outstanding debt used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

See independent auditors' report.

CITY OF HEALSDBURG
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)
June 30, 2004

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

Statement of Net Assets (Continued)

Another portion of the City's net assets (\$17.5 million or 13.9 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, \$37.4 million (29.7 percent) may be used to meet the government's ongoing obligations to citizens, creditors, and to meet City imposed designations (e.g., reserves, pending litigations, contingencies, capital projects).

At the end of the current fiscal year, the City 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 activities and business-type activities. The same situation held true for the prior fiscal year.

Statement of Activities

The statement of activities shows how the government's net assets changed during fiscal year 2003-04 as compared to 2002-03.

The City's net assets increased overall by \$8.5 million during the current fiscal year.

Governmental activities increased the City's net assets by \$4.6 million before transfers for the current year. Compared to 2002-03, the City recognized a \$1.9 million increase in revenues, the majority of which is capital grants and contributions, and a decrease of \$1.6 million in expenses. Public safety is the largest expense function (43.1 percent), followed by community development (24.5 percent), interest on long-term debt (21.8 percent), general government (10.2 percent), culture and recreation (.2 percent) and unallocated depreciation (.2 percent). General revenues such as property and sales tax are not shown by program, but are effectively used to support program activities citywide.

Business-type activities increased the City's net assets by \$3.9 million before transfers for the current year. Compared to 2002-03, business-type activities generated \$1.3 million less in revenue, primarily due to a decrease in capital grants and contributions, and recognized \$0.2 million less in expenses. As shown on page 16, the Electric Fund had total expenses of \$8.4 million. The Electric utility fees provide the largest share of revenues of the business-type activity revenues (47 percent).

See independent auditors' report.

CITY OF HEALSDBURG
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)
June 30, 2004

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

Statement of Activities (Continued)

Condensed Statements of Activities (In millions of dollars)						
	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Revenues:						
Program revenues:						
Charges for services	\$ 0.9	\$ 0.9	\$ 19.0	\$ 18.6	\$ 19.9	\$ 19.5
Operating grants and contributions	1.6	1.5	0.9	0.8	2.5	2.3
Capital grants and contributions	1.6	0.1	0.5	2.3	2.1	2.4
General revenues	12.1	11.8	0.5	0.5	12.6	12.3
Total Revenues	16.2	14.3	20.9	22.2	37.1	36.5
Expenses:						
General government	1.2	0.9	0.0	0.0	1.2	0.9
Public safety	5.0	5.0	0.0	0.0	5.0	5.0
Community development	2.9	5.5	0.0	0.0	2.9	5.5
Interest on long-term debt	2.5	1.8	0.0	0.0	2.5	1.8
Water	0.0	0.0	3.2	3.0	3.2	3.0
Sewer	0.0	0.0	2.7	2.5	2.7	2.5
Electric	0.0	0.0	8.0	8.6	8.0	8.6
Streets	0.0	0.0	1.2	1.2	1.2	1.2
Other programs	0.0	0.0	1.9	1.9	1.9	1.9
Total Expenses	11.6	13.2	17.0	17.2	28.6	30.4
Change in Net Assets before Transfers						
Transfers	4.6	1.1	3.9	5.0	8.5	6.1
Transfers	(0.3)	(24.5)	0.3	24.5	0.0	0.0
Change in Net Assets						
	4.3	(23.4)	4.2	29.5	8.5	6.1
Net Assets Beginning of Year	29.5	52.9	88.1	58.6	117.6	111.5
Net Assets End of Year	\$ 33.8	\$ 29.5	\$ 92.3	\$ 88.1	\$ 126.1	\$ 117.6

A more detailed Statement of Activities is shown on pages 16 - 17.

See independent auditors' report.

CITY OF HEALSDBURG
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)

June 30, 2004

FINANCIAL ANALYSIS OF CITY FUNDS

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

Governmental funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the City'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. Refer to pages 18 - 25 for more detail of governmental funds.

As of June 30, 2004, the City's governmental funds reported combined ending fund balances of \$45.6 million, a decrease of \$2.9 million in comparison with the prior year. Of the \$45.6 million, \$10.4 million, or 23 percent, constitutes unreserved fund balance. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed to pay for debt service (\$4.4 million), redevelopment projects from bond funding (\$29.3 million) and for a variety of other purposes.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, the general fund reported a fund balance of \$4.0 million, compared with \$3.8 million last year, an increase of \$0.2 million. The increase was the result of an increase in revenues and a decrease in transfers out.

The City has two debt service funds that are used to report the accumulation of resources for and the payment of principal and interest of long-term debt. At June 30, 2004, the City's Community Redevelopment Debt Service fund reported a fund balance of \$2.9 million, and the Special Assessment Debt Service fund reported a fund balance of \$614 thousand, an increase of \$21 thousand from prior year.

The City's capital projects funds are used to account for capital outlay associated with the Community Redevelopment Commercial/Industrial improvements, Community Redevelopment Low/Moderate Income Housing projects, and General projects not supported by enterprise funds. The Community Redevelopment Commercial/Industrial Capital Projects fund balance was \$18.8 million at the end of the current year, a decrease of \$5.4 million from prior year. This decrease is due to the purchase of land and the funding of projects, including the construction of a local medical clinic.

See independent auditors' report.

CITY OF HEALSDBURG
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)

June 30, 2004

FINANCIAL ANALYSIS OF CITY FUNDS (CONTINUED)

Proprietary funds

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

The City's major enterprise funds include Water, Sewer, Electric and Streets funds. The major changes in enterprise net assets are a \$1.1 million increase to \$14.5 million in the Water Fund, a \$1.6 million increase to \$27.4 million in the Sewer Fund and a \$1.0 million increase to \$20.4 million increase in the Electric Fund. These increases are generally due to revenues exceeding expenditures and transfers out.

The City also maintains internal service funds to account for Insurance and Benefits, Vehicle Maintenance, Information Services and Building Maintenance. The Internal Service Funds had a decrease in net assets of \$0.6 million during the fiscal year ending with a balance of \$4.9 million. The majority of the decreases are due to expenses exceeding revenues by 0.4 million in the Insurance and Benefits Fund.

GENERAL FUND BUDGETARY HIGHLIGHTS

At June 30, 2004, unreserved general fund balance was \$4.0 million. Note that unreserved fund balance includes amounts designated by the City in accordance with the City's reserve policy. Unreserved fund balance, which includes designated funds, represents 75 percent of total General Fund expenditures.

For the City's General Fund, actual revenues for the year were \$5.5 million, \$0.7 million more than the final budgeted revenues. The majority of the variance was in intergovernmental revenues, which includes the motor vehicle license fee subvention. The City budgeted \$0.4 million but reported actual revenue of \$0.9 million. The other significant variance was in charges for services where the budgeted amount was \$0.2 million, but the City recognized revenue of \$0.3 million. Total expenditures exceeded the City's budgeted amount by \$0.1 million.

Overall, the City ended the year with a positive budget variance of \$0.7 million, having budgeted a \$0.4 million decrease to fund balance, but ending the year with a net increase of \$0.2 million.

See independent auditors' report.

CITY OF HEALSDBURG
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)
June 30, 2004

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets:

The City's investment in capital assets for its governmental and business-type activities as of June 30, 2004 amounts to \$110.8 million (net of accumulated depreciation). This investment in capital assets includes land, buildings & improvements, equipment, infrastructure, and construction in progress. The total increase in capital assets for fiscal year 2003-04 was \$9.1 million or 8 percent.

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

- Purchased land for commercial/industrial redevelopment projects, including a new medical center and downtown parking facilities.
- Completion of the medical center building.
- Completed ongoing streets and utility systems improvements.

Capital assets are summarized below:

Capital Assets (Net of Accumulated Depreciation)
(In millions of dollars)

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Land and land rights	\$ 12.4	\$ 8.4	\$ 3.8	\$ 3.8	\$ 16.2	\$ 12.2
Right of way	6.7	6.7	0.0	0.0	6.7	6.7
Construction in progress	0.6	3.9	9.6	11.0	10.2	14.9
Buildings	11.2	5.7	3.2	3.4	14.4	9.1
Streets	0.0	0.0	17.2	16.4	17.2	16.4
Utility systems	0.0	0.0	37.1	33.2	37.1	33.2
Drainage	0.0	0.0	3.9	4.2	3.9	4.2
Machinery and equipment	2.3	2.4	1.1	0.9	3.4	3.3
Operations	0.0	0.0	0.8	0.8	0.8	0.8
Infrastructure	0.9	0.9	0.0	0.0	0.9	0.9
Total Capital Assets, Net	\$ 34.1	\$ 28.0	\$ 76.7	\$ 73.7	\$ 110.8	\$ 101.7

Additional information on the City's capital assets can be found in Note 4 in the notes to the basic financial statements.

See independent auditors' report.

CITY OF HEALSDBURG
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)
June 30, 2004

CAPITAL ASSET AND DEBT ADMINISTRATION (CONTINUED)

Long-term debt:

At the end of fiscal year 2003-04, the City had total bonded debt outstanding of \$67.5 million. Outstanding debt is summarized as follows:

Outstanding Debt – General Obligation and Revenue Bonds
(In millions of dollars)

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
General obligation bonds	\$ 5.6	\$ 5.7	\$ 0.0	\$ 0.0	\$ 5.6	\$ 5.7
Tax allocation bonds	41.6	42.4	0.0	0.0	41.6	42.4
Special assessments	2.1	2.2	0.0	0.0	2.1	2.2
Certificates of participation	0.0	0.0	18.2	18.7	18.2	18.7
Total	\$ 49.3	\$ 50.3	\$ 18.2	\$ 18.7	\$ 67.5	\$ 69.0

The City's total bonds outstanding at the end of the year were \$67.5 million, a decrease of \$1.5 million from the prior year. This change was the net result of advance refunding the 1993 General Obligation Bonds in the amount of \$3.6 million and principle payments of \$1.5 million.

Additional information on the City's long-term debt can be found in Note 5 in the notes to the basic financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In preparing the budget for 2004-05, management looked at the following economic factors:

- The State of California has not resolved the budget crisis and is still faced with a \$17 billion shortfall that may take several years to resolve. The City revenues that continue to be at risk include motor vehicle license fees, property taxes, supplemental law enforcement funds and redevelopment tax increments.
- The slowing of sales tax revenue growth due to a weaker economy is expected to continue over the next several years. Sales tax revenue represents 43% of the General Fund revenue, the largest single source.

See independent auditors' report.

CITY OF HEALDSBURG
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)

June 30, 2004

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES (CONTINUED)

Economic Factors (Continued):

- The City's costs for the contribution to the Public Employee Retirement System (PERS), the retirement plan for City employees, are increasing significantly due to lower than projected earnings by the State managed retirement system. The higher pension costs will be a problem over the next several years.

Compared to prior year's budget, the City's General Fund expenditures are projected to decrease by 3% as the City continues to cut costs wherever possible. Staff salaries and benefits increased due to the annual CPI increase of 3.9%, a 10% increase in health care premiums, and workers' compensation and retirement contribution rates.

The City continues to grow with new hotels, and other commercial development, construction of street improvements, park construction, and various other projects. The 2004-05 budget is a reflection of the City's commitment to the residents of Healdsburg. The City's conservative approach has provided for a consistent high level of services that have continued through the use of one-time revenue sources. The City has made a commitment to allocate resources for public safety, cultural/social programs, and infrastructure improvements. A copy of the City's 2004-05 budget can be obtained by contacting the City's Finance Department.

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of City finances for all those with an interest in the government's finances. If you have questions about this report or need additional financial information, contact the City's Finance Department at City of Healdsburg offices at 401 Grove Street, Healdsburg, California or by calling (707) 431-3310.

See independent auditors' report.

CITY OF HEALDSBURG
STATEMENT OF NET ASSETS

June 30, 2004

	Governmental Activities	Business-type Activities	Total
ASSETS:			
Cash and investments (Note 2)	\$ 14,876,208	\$ 24,121,116	\$ 38,997,324
Receivables:			
Interest	141,924	-	141,924
Accounts	683,190	2,554,244	3,237,434
Taxes	848,718	-	848,718
Loans	1,840,225	-	1,840,225
Special assessments	2,065,000	-	2,065,000
Notes	35,668	-	35,668
Due from other governments	339,269	-	339,269
Internal balances	400,641	(400,641)	-
Inventory	38,676	1,293,472	1,332,148
Prepaid items	-	740,576	740,576
Deferred charges	485,057	868,692	1,353,749
Restricted assets:			
Cash and investments (Note 2)	33,148,108	6,025,750	39,173,858
Capital assets (Note 4):			
Land	12,439,005	3,830,804	16,269,809
Right of way	6,681,379	-	6,681,379
Infrastructure, net	925,373	-	925,373
Depreciable buildings, net	11,189,010	3,191,180	14,380,190
Depreciable streets, net	-	17,240,331	17,240,331
Depreciable utility systems, net	-	37,133,595	37,133,595
Depreciable drainage, net	-	3,926,653	3,926,653
Depreciable machinery and equipment, net	2,320,983	1,119,226	3,440,209
Depreciable operations, net	-	766,445	766,445
Construction in progress	583,693	9,506,507	10,090,200
TOTAL ASSETS	89,042,127	111,917,950	200,960,077
LIABILITIES:			
Accounts payable and accrued liabilities	1,759,426	1,033,690	2,793,116
Deposits payable	109,743	556,952	666,695
Deferred revenue	2,904,175	-	2,904,175
Claims payable	39,479	-	39,479
Noncurrent liabilities (Note 5):			
Due within one year	2,720,388	470,000	3,190,388
Due in more than one year	47,739,846	17,568,091	65,307,937
TOTAL LIABILITIES	55,273,057	19,628,733	74,901,790
NET ASSETS:			
Invested in capital assets, net of related debt	12,454,251	58,676,652	71,130,903
Restricted for:			
Debt service	4,413,894	-	4,413,894
Capital projects	-	6,025,750	6,025,750
Community development	6,813,923	-	6,813,923
Public safety	17,615	-	17,615
Culture and recreation	256,893	-	256,893
Unrestricted	9,812,494	27,586,815	37,399,309
TOTAL NET ASSETS	\$ 33,769,070	\$ 92,289,217	\$ 126,058,287

See independent auditors' report and notes to basic financial statements.

CITY OF HEALDSBURG
STATEMENT OF ACTIVITIES
For the year ended June 30, 2004

Functions/programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
PRIMARY GOVERNMENT:				
Governmental activities:				
General government	\$ 1,191,134	\$ 538,563	\$ 115,326	\$ -
Public safety	5,022,074	387,386	256,261	-
Culture and recreation	24,809	2,633	1,788	75,377
Community development	2,851,824	440	1,201,701	1,516,430
Unallocated infrastructure depreciation	22,852	-	-	-
Interest on long-term debt	2,534,572	-	-	-
Total governmental activities	11,647,265	929,022	1,575,076	1,591,807
Business-type activities:				
Water	3,250,531	4,410,089	-	-
Sewer	2,673,855	4,211,621	-	2,525
Electric	7,953,778	8,443,881	-	491,116
Street	1,249,962	835,553	-	-
Other programs	1,907,323	1,123,047	931,839	4,986
Total business-type activities	17,035,449	19,024,191	931,839	498,627
TOTAL PRIMARY GOVERNMENT	\$ 28,682,714	\$ 19,953,213	\$ 2,506,915	\$ 2,090,434

General revenues:

Taxes:

Property taxes, levied for general purposes	7,388,206	-	7,388,206
Franchise taxes	286,149	-	286,149
Sales tax	2,817,986	-	2,817,986
Motor vehicle in-lieu	719,701	-	719,701
Other revenues	239	-	239
Investment earnings	890,269	483,654	1,373,923
Transfers	(317,767)	317,767	-
Total general revenues and transfers	11,784,783	801,421	12,586,204
Change in net assets	4,233,423	4,220,629	8,454,052
Net assets - Beginning of year	29,535,647	88,068,588	117,604,235
Net assets - End of year	\$ 33,769,070	\$ 92,289,217	\$ 126,058,287

Net (Expense) Revenue and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (537,245)	\$ -	\$ (537,245)
(4,378,427)	-	(4,378,427)
54,989	-	54,989
(133,253)	-	(133,253)
(22,852)	-	(22,852)
(2,534,572)	-	(2,534,572)
(7,551,360)	-	(7,551,360)
-	1,159,558	1,159,558
-	1,540,291	1,540,291
-	981,219	981,219
-	(414,409)	(414,409)
-	152,549	152,549
-	3,419,208	3,419,208
(7,551,360)	3,419,208	(4,132,152)

See independent auditors' report and notes to basic financial statements.

CITY OF HEALDSBURG
BALANCE SHEET
GOVERNMENTAL FUNDS

June 30, 2004

	Debt Service Funds		
	General	Community Redevelopment	Special Assessment
ASSETS			
Cash and investments	\$ 3,139,061	\$ -	\$ 13,611
Receivables:			
Accounts	32,369	-	-
Taxes	721,735	-	-
Loans	-	-	-
Interest	17,035	-	68
Special assessments	-	-	2,065,000
Due from other governments	252,634	-	-
Due from other funds	125,231	-	-
Inventory	3,533	-	-
Restricted cash and investments	-	3,110,047	600,315
TOTAL ASSETS	\$ 4,291,598	\$ 3,110,047	\$ 2,678,994
LIABILITIES AND FUND EQUITY			
LIABILITIES:			
Accounts payable	\$ 15,248	\$ 3,710	\$ -
Deposits	109,490	-	-
Due to other funds	-	243,077	-
Deferred revenue	195,382	-	2,065,000
TOTAL LIABILITIES	320,120	246,787	2,065,000
FUND EQUITY:			
Reserved:			
Noncurrent notes receivable	-	-	-
Inventory	3,533	-	-
Low and moderate income housing	-	-	-
Debt service	-	2,863,260	613,994
Community and economic development	-	-	-
Multi-year programs	-	-	-
Unreserved, Reported In:			
General fund	3,967,945	-	-
Special revenue fund	-	-	-
Capital projects fund	-	-	-
Permanent fund	-	-	-
TOTAL FUND EQUITY	3,971,478	2,863,260	613,994
TOTAL LIABILITIES AND FUND EQUITY	\$ 4,291,598	\$ 3,110,047	\$ 2,678,994

See independent auditors' report and notes to basic financial statements

	Capital Projects Funds				
	Community Redevelopment Commercial/ Industrial	Community Redevelopment Low/Moderate Income	General	Other Governmental Funds	Total Governmental Funds
	\$ 3,730	\$ 1,166,728	\$ 2,680,622	\$ 2,969,553	\$ 9,973,305
	-	-	71,020	103,546	646,457
	439,522	-	-	52,198	848,718
	59,828	14,957	-	1,840,225	1,840,225
	-	-	6,816	23,757	141,924
	63,874	30,374	-	-	2,065,000
	-	-	-	86,635	339,269
	243,077	-	-	1,700,000	2,068,308
	-	-	-	-	3,533
	20,150,330	9,287,416	-	-	33,148,108
	\$ 20,960,361	\$ 10,499,475	\$ 2,758,458	\$ 6,775,914	\$ 51,074,847
	\$ 27,049	\$ 8,325	\$ 8,027	\$ 29,507	\$ 91,866
	253	-	-	-	109,743
	1,700,000	-	-	198,231	2,141,308
	388,467	-	-	450,708	3,099,557
	2,115,769	8,325	8,027	678,446	5,442,474
	-	-	-	1,465,225	1,465,225
	-	-	-	-	3,533
	-	10,491,150	-	-	10,491,150
	-	-	-	936,640	4,413,894
	16,637,521	-	-	-	16,637,521
	2,207,071	-	-	-	2,207,071
	-	-	-	-	3,967,945
	-	-	-	3,589,521	3,589,521
	-	-	2,750,431	17,649	2,768,080
	-	-	-	88,433	88,433
	18,844,592	10,491,150	2,750,431	6,097,468	45,632,373
	\$ 20,960,361	\$ 10,499,475	\$ 2,758,458	\$ 6,775,914	\$ 51,074,847

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CITY OF HEALDSBURG
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET ASSETS

June 30, 2004

Fund balances - total governmental funds		\$ 45,632,373
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet.		32,071,351
Long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.		195,382
Internal service funds are used by management to charge the costs of self-insurance and capital replacements to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.		4,923,691
Internal balances included in internal service funds which are receivable from the enterprise funds.		473,641
Long-term liabilities are not due and payable in the current period and, accordingly, are not reported as fund liabilities. All liabilities, both current and long-term are reported in the Statement of Net Assets:		
General obligation bonds	\$ (5,635,000)	
Tax allocation bonds payable	(41,640,000)	
Special assessment bonds payable	(2,065,000)	
Bond discount	285,154	
Deferred charges for issuance costs	485,057	
Total long-term liabilities	<u>(48,569,789)</u>	
Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.		<u>(957,579)</u>
Net assets of governmental activities		<u>\$ 33,769,070</u>

See independent auditors' report and notes to basic financial statements.

CITY OF HEALDSBURG

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

For the year ended June 30, 2004

	Debt Service Funds		
	General	Community Redevelopment	Special Assessment
REVENUES:			
Property taxes	\$ 662,888	\$ -	\$ -
Special assessments	-	-	342,135
Sales and other taxes	3,414,603	-	-
Charges for services	311,082	-	-
Intergovernmental revenue	904,009	-	-
Development fees and permits	-	-	-
Investment income	53,762	4,493	4,738
Miscellaneous fees and charges	162,641	-	-
Other revenues	13,272	-	-
TOTAL REVENUES	5,522,257	4,493	346,873
EXPENDITURES:			
Current:			
General government	687,077	-	-
Public safety	4,595,044	-	-
Culture and recreation	-	-	-
Community development	-	-	-
Capital outlay	-	-	-
Debt Service:			
Principal retirement	-	780,000	165,000
Interest and fees	-	1,870,085	160,726
Bond issue costs	-	-	-
Advance to refund bond escrow agent	-	-	-
TOTAL EXPENDITURES	5,282,121	2,650,085	325,726
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	240,136	(2,645,592)	21,147
OTHER FINANCING SOURCES (USES):			
Transfers in	-	2,651,878	-
Transfers out	(15,000)	-	-
General obligation bonds issued	-	-	-
Payment to refund bond escrow agent	-	-	-
Bond discount	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	(15,000)	2,651,878	-
NET CHANGE IN FUND BALANCES	225,136	6,286	21,147
FUND BALANCES - BEGINNING OF YEAR	3,746,342	2,856,974	592,847
FUND BALANCES - END OF YEAR	\$ 3,971,478	\$ 2,863,260	\$ 613,994

See independent auditors' report and notes to basic financial statements.

	Capital Projects Funds				Total Governmental Funds
	Community Redevelopment Commercial/ Industrial	Community Redevelopment Low/Moderate Income	General	Other Governmental Funds	
	\$ 4,866,356	\$ 1,216,988	\$ -	\$ 641,974	\$ 7,388,206
	-	-	-	-	342,135
	-	-	-	-	3,414,603
	-	-	-	-	311,082
	-	-	-	850,566	1,754,575
	-	-	-	85,949	85,949
	286,562	147,350	22,178	121,858	640,941
	192,216	-	-	-	354,857
	1,509,930	-	-	158,739	1,681,941
	6,855,064	1,364,338	22,178	1,859,086	15,974,289
	2,938	4,731	2,299	236,546	933,591
	-	-	-	6,546	4,601,590
	-	-	-	24,809	24,809
	4,609,087	333,607	-	96,102	5,038,796
	-	-	4,347,572	-	4,347,572
	-	-	-	120,000	1,065,000
	44,018	-	-	134,070	2,208,899
	-	-	-	93,863	93,863
	-	-	-	208,029	208,029
	4,656,043	338,338	4,349,871	919,965	18,522,149
	2,199,021	1,026,000	(4,327,693)	939,121	(2,547,860)
	162,793	60,000	7,457,528	1,249,535	11,581,734
	(7,760,372)	(1,623,299)	(720,932)	(1,847,716)	(11,967,319)
	-	-	-	3,620,000	3,620,000
	-	-	-	(3,470,000)	(3,470,000)
	-	-	-	(58,153)	(58,153)
	(7,597,579)	(1,563,299)	6,736,596	(506,334)	(293,738)
	(5,398,558)	(537,299)	2,408,903	432,787	(2,841,598)
	24,243,150	11,028,449	341,528	5,664,681	48,473,971
	\$ 18,844,592	\$ 10,491,150	\$ 2,750,431	\$ 6,097,468	\$ 45,632,373

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CITY OF HEALDSBURG
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES

For the year ended June 30, 2004

Net change in fund balances - total governmental funds		\$ (2,841,598)
Amounts reported for governmental activities in the statement of activities 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 as depreciation expense. This is the amount by which capitalizable capital outlays (\$6,635,915) exceeded depreciation (\$414,468) in the current period.	6,221,447	
Some revenues reported in the Statement of Activities are not considered to be available to finance current expenditures and therefore are not reported as revenues in the governmental funds.	195,382	
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. These amounts are the net effect of these differences in the treatment of long-term debt:		
Debt issued or incurred:		
Issuance of general obligation bonds	\$ (3,620,000)	
Payment to refund bond escrow agent	3,470,000	
Advance to refund bond escrow agent	115,000	
Bond issuance costs	93,863	
Bond discount	58,153	
Principal payments	<u>1,065,000</u>	
		1,182,016
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:		
Accrued interest	(197,764)	
Amortization of issuance costs	(21,886)	
Amortization of bond discount	<u>(12,994)</u>	
		(232,644)
Internal service funds are used by management to charge the costs of self-insurance and capital replacements to individual funds. A portion of the net loss of the internal service funds is reported with governmental activities.		<u>(291,180)</u>
Change in net assets of governmental activities		<u>\$ 4,233,423</u>

See independent auditors' report and notes to basic financial statements.

CITY OF HEALDSBURG
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS

June 30, 2004

ASSETS	Business-type Activities - Enterprise Funds			Business-type Activities - Enterprise Funds (Continued)			Governmental Activities -
	Water Fund	Sewer Fund	Electric Fund	Streets Fund	Other Enterprise Funds	Total Enterprise Funds	Internal Service Funds
CURRENT ASSETS:							
Cash and investments	\$ 4,179,337	\$ 6,705,922	\$ 8,220,676	\$ 2,864,283	\$ 2,150,898	\$ 24,121,116	\$ 4,902,903
Accounts receivable	721,995	563,095	1,138,076	15,259	115,819	2,554,244	36,733
Notes receivable	-	-	-	-	-	-	35,668
Due from other funds	-	-	87,008	-	67,080	154,088	-
Inventory	77,388	1,624	1,199,138	-	15,322	1,293,472	35,143
Prepaid items	-	-	740,576	-	-	740,576	-
TOTAL CURRENT ASSETS	4,978,720	7,270,641	11,385,474	2,879,542	2,349,119	28,863,496	5,010,447
NONCURRENT ASSETS:							
Deferred issuance cost	739,055	129,637	-	-	-	868,692	-
Restricted cash and investments	5,364,760	660,990	-	-	-	6,025,750	-
Capital assets:							
Land	285,780	682,880	48,360	-	2,813,784	3,830,804	-
Building	1,449,918	206,166	447,835	-	3,814,903	5,918,822	-
Streets	-	-	-	22,408,425	20,000	22,428,425	-
Utility systems	17,572,124	17,272,023	13,319,086	-	-	48,163,233	-
Drainage	-	8,666,790	-	-	-	8,666,790	-
Machinery and equipment	478,235	475,149	329,487	10,739	600,975	1,894,585	4,862,159
Operations	-	-	-	-	1,195,526	1,195,526	-
Construction in progress	3,305,538	2,340,185	1,166,972	2,182,268	511,544	9,506,507	-
Less accumulated depreciation	(4,491,937)	(6,871,942)	(5,893,713)	(5,189,705)	(2,442,654)	(24,889,951)	(2,794,067)
TOTAL NONCURRENT ASSETS	24,703,473	23,561,878	9,418,027	19,411,727	6,514,078	83,609,183	2,068,092
TOTAL ASSETS	29,682,193	30,832,519	20,803,501	22,291,269	8,863,197	112,472,679	7,078,539
LIABILITIES							
CURRENT LIABILITIES:							
Accounts payable and accrued liabilities	382,584	126,660	213,164	140,541	170,741	1,033,690	709,981
Deposits from others	5,151	-	161,815	72,467	317,519	556,952	-
Due to other funds	-	-	-	-	81,088	81,088	-
Claims payable	-	-	-	-	-	-	39,479
Compensated absences	-	-	-	-	-	-	1,405,388
Certificates of participation	405,000	65,000	-	-	-	470,000	-
TOTAL CURRENT LIABILITIES	792,735	191,660	374,979	213,008	569,348	2,141,730	2,154,848
NONCURRENT LIABILITIES:							
Certificates of participation	14,341,254	3,226,837	-	-	-	17,568,091	-
TOTAL LIABILITIES	15,133,989	3,418,497	374,979	213,008	569,348	19,709,821	2,154,848
NET ASSETS:							
Invested in capital assets, net of related debt	3,853,404	19,479,414	9,418,027	19,411,727	6,514,078	58,676,650	2,068,092
Restricted for capital projects	5,364,760	660,990	-	-	-	6,025,750	-
Unrestricted	5,330,040	7,273,618	11,010,495	2,666,534	1,779,771	28,060,458	2,855,599
TOTAL NET ASSETS	\$ 14,548,204	\$ 27,414,022	\$ 20,428,522	\$ 22,078,261	\$ 8,293,849	92,762,858	\$ 4,923,691
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds						(473,641)	
Net assets of business-type activities						<u>\$ 92,289,217</u>	

See independent auditors' report and notes to basic financial statements.

CITY OF HEALDSBURG

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS

For the year ended June 30, 2004

	Business-type Activities - Enterprise Funds		
	Water Fund	Sewer Fund	Electric Fund
OPERATING REVENUES:			
Charges for services	\$ 3,844,742	\$ 3,517,024	\$ 8,366,511
Development fees	554,190	628,082	47,926
Rental income	-	-	-
Miscellaneous	11,157	66,515	29,444
TOTAL OPERATING REVENUES	<u>4,410,089</u>	<u>4,211,621</u>	<u>8,443,881</u>
OPERATING EXPENSES:			
Purchased power	-	-	4,910,373
Operations	1,282,118	926,611	1,351,066
Administrative	815,028	983,338	1,197,543
Insurance premiums	-	-	-
Depreciation	367,010	496,859	353,922
TOTAL OPERATING EXPENSES	<u>2,464,156</u>	<u>2,406,808</u>	<u>7,812,904</u>
OPERATING INCOME (LOSS)	<u>1,945,933</u>	<u>1,804,813</u>	<u>630,977</u>
NONOPERATING REVENUES (EXPENSES):			
Taxes	-	-	-
Intergovernmental grants	-	-	-
Investment earnings	105,182	111,008	141,732
Loss on disposal of assets	(5,471)	-	(8,545)
Interest expense	(680,810)	(181,481)	-
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>(581,099)</u>	<u>(70,473)</u>	<u>133,187</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	<u>1,364,834</u>	<u>1,734,340</u>	<u>764,164</u>
CAPITAL CONTRIBUTIONS AND TRANSFERS:			
Capital contributions	-	2,525	491,116
Transfers in	-	-	1,714
Transfers out	(257,436)	(147,402)	(267,178)
TOTAL CAPITAL CONTRIBUTIONS AND TRANSFERS	<u>(257,436)</u>	<u>(144,877)</u>	<u>225,652</u>
CHANGE IN NET ASSETS	<u>1,107,398</u>	<u>1,589,463</u>	<u>989,816</u>
TOTAL NET ASSETS - BEGINNING OF YEAR	<u>13,440,806</u>	<u>25,824,559</u>	<u>19,438,706</u>
TOTAL NET ASSETS - END OF YEAR	<u>\$ 14,548,204</u>	<u>\$ 27,414,022</u>	<u>\$ 20,428,522</u>

Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds:

Change in net assets of business-type activities - prior years	(211,788)
Change in net assets of business-type activities - current year	(261,853)
Net assets of business-type activities	<u>\$ 92,289,217</u>

See independent auditors' report and notes to basic financial statements.

	Business-type Activities - Enterprise Funds (Continued)			Governmental Activities -
	Streets Fund	Other Enterprise Funds	Total Enterprise Funds	Internal Service Funds
	\$ -	\$ 201,533	\$ 15,929,810	\$ 5,556,354
	108,216	447,970	1,786,384	4,631
	-	311,797	311,797	-
	727,337	161,747	996,200	139,088
	<u>835,553</u>	<u>1,123,047</u>	<u>19,024,191</u>	<u>5,700,073</u>
	-	-	4,910,373	-
	631,244	1,322,433	5,513,472	1,611,496
	138,778	414,602	3,549,289	82,743
	-	-	-	4,253,217
	432,603	157,091	1,807,485	468,920
	<u>1,202,625</u>	<u>1,894,126</u>	<u>15,780,619</u>	<u>6,416,376</u>
	<u>(367,072)</u>	<u>(771,079)</u>	<u>3,243,572</u>	<u>(716,303)</u>
	-	931,839	931,839	-
	-	4,986	4,986	-
	47,164	33,789	438,875	73,561
	-	-	(14,016)	-
	-	-	(862,291)	-
	<u>47,164</u>	<u>970,614</u>	<u>499,393</u>	<u>73,561</u>
	<u>(319,908)</u>	<u>199,535</u>	<u>3,742,965</u>	<u>(642,742)</u>
	-	-	493,641	-
	1,198,064	434,557	1,634,335	124,709
	(604,632)	(111,811)	(1,388,459)	(35,000)
	<u>593,432</u>	<u>322,746</u>	<u>739,517</u>	<u>89,709</u>
	273,524	522,281	4,482,482	(553,033)
	<u>21,804,737</u>	<u>7,771,568</u>	<u>88,280,376</u>	<u>5,476,724</u>
	<u>\$ 22,078,261</u>	<u>\$ 8,293,849</u>	<u>92,762,858</u>	<u>\$ 4,923,691</u>

CITY OF HEALDSBURG
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the year ended June 30, 2004

	Business-type Activities - Enterprise Funds		
	Water Fund	Sewer Fund	Electric Fund
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers	\$ 4,302,355	\$ 4,111,711	\$ 8,590,763
Payments to suppliers	(924,597)	(1,484,820)	(6,502,178)
Payments to employees	(1,078,809)	(859,003)	(1,391,763)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	2,298,949	1,767,888	696,822
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Taxes	-	-	-
Intergovernmental grants	-	-	-
Cash received from other funds	-	-	1,714
Cash paid to other funds	(257,436)	(147,402)	(267,178)
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	(257,436)	(147,402)	(265,464)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Acquisition of capital assets - capital replacement	(1,518,478)	(1,575,152)	(475,379)
Capital contributions	-	2,525	491,116
Retirement of debt	(395,000)	(65,000)	-
Interest paid	(680,810)	(181,481)	-
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(2,594,288)	(1,819,108)	15,737
CASH FLOWS FROM INVESTING ACTIVITIES:			
Investment income	104,482	112,934	130,505
Loans collected (granted)	14,617	18,110	20,681
NET CASH PROVIDED (USED) INVESTING ACTIVITIES	119,099	131,044	151,186
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(433,676)	(67,578)	598,281
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	9,977,773	7,434,490	7,622,395
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 9,544,097	\$ 7,366,912	\$ 8,220,676
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating income (loss)	\$ 1,945,933	\$ 1,804,813	\$ 630,977
Depreciation	367,010	496,859	353,922
Change in assets and liabilities:			
(Increase) decrease in accounts receivable	(107,734)	(99,910)	146,882
(Increase) decrease in inventory	(2,467)	(831)	67,153
(Increase) decrease in prepaid items	1,058	394	(232,914)
Increase (decrease) in accounts payable	95,243	(433,437)	(45,072)
Increase (decrease) in deposits	(94)	-	(224,126)
Increase (decrease) in other accrued liabilities	-	-	-
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 2,298,949	\$ 1,767,888	\$ 696,822

See independent auditors' report and notes to basic financial statements.

	Business-type Activities - Enterprise Funds (Continued)			Governmental Activities - Internal Service Funds
	Streets Fund	Other Enterprise Funds	Total Enterprise Funds	Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES:				
Receipts from customers	\$ 824,376	\$ 1,023,200	\$ 18,852,405	\$ 5,690,542
Payments to suppliers	(257,675)	(920,710)	(10,089,980)	(5,673,761)
Payments to employees	(502,671)	(541,772)	(4,374,018)	(228,489)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	64,030	(439,282)	4,388,407	(211,708)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Taxes	-	931,839	931,839	-
Intergovernmental grants	-	4,986	4,986	-
Cash received from other funds	1,198,064	434,557	1,634,335	124,709
Cash paid to other funds	(604,632)	(207,208)	(1,483,856)	(35,000)
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	593,432	1,164,174	1,087,304	89,709
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Acquisition of capital assets - capital replacement	(921,704)	(328,162)	(4,818,875)	(296,497)
Capital contributions	-	-	493,641	-
Retirement of debt	-	-	(460,000)	-
Interest paid	-	-	(862,291)	-
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(921,704)	(328,162)	(5,647,525)	(296,497)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Investment income	47,700	32,748	428,369	58,256
Loans collected (granted)	-	78,874	132,282	(3,140)
NET CASH PROVIDED (USED) INVESTING ACTIVITIES	47,700	111,622	560,651	55,116
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(216,542)	508,352	388,837	(363,380)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	3,080,825	1,642,546	29,758,029	5,266,283
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 2,864,283	\$ 2,150,898	\$ 30,146,866	\$ 4,902,903
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:				
Operating income (loss)	\$ (367,072)	\$ (771,079)	\$ 3,243,572	\$ (716,303)
Depreciation	432,603	157,091	1,807,485	468,920
Change in assets and liabilities:				
(Increase) decrease in accounts receivable	(11,176)	(99,848)	(171,786)	(9,410)
(Increase) decrease in inventory	-	3,896	67,751	18,756
(Increase) decrease in prepaid items	-	30	(231,432)	-
Increase (decrease) in accounts payable	38,373	117,532	(227,361)	-
Increase (decrease) in deposits	(28,698)	153,096	(99,822)	-
Increase (decrease) in other accrued liabilities	-	-	-	26,329
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 64,030	\$ (439,282)	\$ 4,388,407	\$ (211,708)

CITY OF HEALDSBURG
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS

June 30, 2004

	Private Purpose Trust Funds
ASSETS:	
Cash and investments	\$ 842,593
Interest receivable	4,294
TOTAL ASSETS	846,887
LIABILITIES:	
Accounts payable	242
Deposits	2,206
TOTAL LIABILITIES	2,448
NET ASSETS:	
Held in trust for other purposes	\$ 844,439

See independent auditors' report and notes to basic financial statements.

CITY OF HEALDSBURG
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS

June 30, 2004

	Private Purpose Trust Funds
ADDITIONS:	
Contributions	\$ 23,167
Investment income	13,971
Fees and charges	31,418
Transfers in	50,000
TOTAL ADDITIONS	118,556
DEDUCTIONS:	
Community development	108,910
CHANGE IN NET ASSETS	9,646
NET ASSETS - BEGINNING OF YEAR	834,793
NET ASSETS - END OF YEAR	\$ 844,439

See independent auditors' report and notes to basic financial statements.

CITY OF HEALDSBURG

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2004

1. SIGNIFICANT ACCOUNTING POLICIES:

Description of the Reporting Entity - The basic financial statements of the City of Healdsburg (City) include the financial activities of the City and its component units: the Healdsburg Community Redevelopment Agency (CRA), Healdsburg Financing Authority (HFA) and the Healdsburg Public Improvement Corporation (HPIC).

The criteria used in determining the scope of the reporting entity are based on the provisions of Governmental Accounting Standards Board Statement (GASB) 14. The City of Healdsburg is the primary government unit. Component units are those entities which are financially accountable to the primary government, either because the City appoints a voting majority of the component units' Board, or because the component unit will provide a financial benefit or impose a financial burden on the City.

The component units have been accounted for as "blended" component units of the City. Despite being legally separate, these entities are so intertwined with the City that they are, in substance, part of the City's operations. Accordingly, the balances and transactions of these component units are reported within the funds of the City. Balances for the CRA are reported as separate funds in the Special Revenue, Debt Service, Capital Projects and Fiduciary Funds. HPIC transactions are included in the Water and Electric Enterprise Funds. HFA transactions are recorded in the Community Redevelopment Agency Debt Service Fund. The following criteria were used in determining that the component units were blended:

The members of the City Council or other members appointed by the City Council act as governing bodies of the CRA, HPIC and HFA. In addition, the CRA, HPIC and HFA provide services, which benefit the City.

The City and the CRA are financially interdependent, and the governing bodies of the city and CRA are the same.

The CRA and HFA are financially interdependent. The CRA makes annual payments to HFA, which are used for debt service on bonds issued by HFA.

The City and HPIC are financially interdependent. The City makes annual lease payments to HPIC, which are used for debt service on the certificates issued by HPIC.

Separate financial statements for the CRA and HPIC are available at the City's Administrative Offices.

See independent auditors' report.

CITY OF HEALDSBURG

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2004

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Description of Joint Powers Authorities Participation - The City participates in one joint power activity and a pooled arrangement through formally organized and separate entities. The financial activities of the Northern California Power Agency and the Redwood Empire Municipal Insurance Fund are not included in the accompanying basic financial statements as they are administered by boards separate from and independent of the City. (See Notes 9 and 10)

Government-Wide and Fund Financial Statements - The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information about the reporting government as a whole, except for its fiduciary activities. 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 fees and charges for support. Likewise, the primary government (including its blended component units) is reported separately from discretely presented component units for which the primary government is financially accountable. The City has no discretely presented component units. For the most part, the effect of interfund activity has been removed from these statements.

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 underlying accounting system of the City is organized and operated on the basis of separate funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Separate financial statements for the government's governmental, proprietary, and fiduciary funds are presented after the government-wide financial statements. These statements display information about major funds individually and other funds in the aggregate for governmental and proprietary funds. Fiduciary statements, even though excluded from the government-wide financial statements include financial information that primarily represent assets held by the City in a custodial capacity for other individuals or organizations.

See independent auditors' report.

CITY OF HEALDSBURG

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2004

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

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. Under the economic resources measurement focus, all assets and liabilities (whether current or noncurrent) associated with their activity are included on their balance sheets. Operating statements present increases (revenues) and decreases (expenses) in total net assets. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. 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. Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all the eligibility requirements have been satisfied. Operating expenses for proprietary funds include the cost of sales and services, 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 resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources, as they are needed.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under the current financial resources measurement focus, only current assets and current liabilities are generally included on their balance sheets. The reported fund balance (net current assets) is considered to be a measure of "available spendable resources". Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period. Noncurrent portions of long-term receivables due to governmental funds are reported on their balance sheets in spite of their spending measurement focus. However, special reporting treatments are used to indicate that they should not be considered "available spendable resources" since they do not represent net current assets. Recognition of governmental fund type revenue represented by noncurrent receivables is deferred until they become current receivables. Noncurrent portions of other long-term receivables are offset by fund balance reserve accounts.

See independent auditors' report.

CITY OF HEALDSBURG

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2004

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

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

Under the modified accrual basis of accounting, 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 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, except for principal and interest on long-term liabilities, claims payable, and compensated absences which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term liabilities are reported as other financing sources.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

All government-wide, business-type activities and proprietary funds of the City follow FASB Statements and Interpretations issued on or before November 30, 1989, Accounting Principles Board Opinions and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements.

Fund Classifications - The funds designated as major funds are determined by a mathematical calculation consistent with GASB Statement No. 34.

Major Governmental Funds

The General Fund is the primary operating fund of the City. It is used to account for all revenues and expenditures that are not required to be accounted for in another fund.

The Community Redevelopment Debt Service Fund accounts for the resources accumulated and payments made for principal and interest on long-term obligations of the Community Redevelopment Agency.

The Special Assessment Debt Service Fund accounts for the resources accumulated and payments made for principle and interest of the City's special assessment districts.

See independent auditors' report.

CITY OF HEALDSBURG
NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)
June 30, 2004

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Major Governmental Funds (Continued)

The Community Redevelopment Commercial/Industrial Capital Projects Fund accounts for revenues received from tax increments redevelopment projects.

The Community Redevelopment Low/Moderate Income Capital Projects Fund accounts for revenues received from tax increments for low to moderate income housing projects.

The General Capital Projects Fund accounts for non-enterprise projects acquired by the City.

Major Enterprise Funds

The Water Fund accounts for the activities of water utility to the residents of the city.

The Sewer Fund accounts for the activities of sewer utility to the residents of the city.

The Electric Fund accounts for the activities of the government's electric distribution operations.

The Streets Fund accounts for the activities of the government's street maintenance operations.

The City's fund structure also includes the following fund types:

Governmental Fund Types

The Special Revenue Funds are used to account for revenues derived from specific revenue sources. These funds are required by statute or ordinance to finance particular functions or activities of government.

The Debt Service Funds are used to account for accumulation of resources for the payment of long-term debt principal and interest.

The Capital Projects Funds are used to account for resources used for the acquisition of capital facilities by a government, except for those capital facilities financed by Enterprise Funds.

The Permanent Fund type is used to report resources that are legally restricted to the extent that only earnings, and not principal, are used for the benefit of the City.

See independent auditors' report.

CITY OF HEALDSBURG
NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)
June 30, 2004

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Proprietary Fund Type

The Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises- where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

The Internal Service Funds are used to account for the financing of special activities that provide services within the City. These activities include insurance and benefits, vehicle maintenance, information services and building maintenance.

Fiduciary Fund Type

Private Purpose Trust Funds are used to report trust arrangements under which principal and income benefits to support private organizations or other governments.

Encumbrance Accounting is employed as an extension of the budgetary process. This method records purchase orders, contracts and other commitments for the expenditure of funds in order to reserve that portion of the applicable appropriation. The City Council honors encumbrances outstanding at year-end.

Capital Assets (including infrastructure) are recorded at cost where historical records are available and at an estimated original cost where no historical records exist. Contributed capital assets are valued at their estimated fair market value at the date of contribution. Generally, capital asset purchases in excess of \$5,000 are capitalized if they have an expected useful life of 3 years or more.

Capital assets include additions to public domain (infrastructure) which includes certain improvements including pavement, curb and gutter, sidewalks, traffic control devices, bridges and right-of-way corridors within the City. The City has valued and recorded all infrastructure asset data as of June 30, 2004.

Capital assets used in operations are depreciated over their estimated useful lives using the straight-line method in the Government-wide Financial Statements and in the Fund Financial Statements of the Proprietary Funds. Depreciation is charged as an expense against operations and accumulated depreciation is reported on the respective balance sheet.

See independent auditors' report.

CITY OF HEALDSBURG
 NOTES TO BASIC FINANCIAL STATEMENTS
 (CONTINUED)
 June 30, 2004

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Capital Assets (Continued)

The lives used for depreciation purposes of each capital asset class are:

Buildings	10 to 30 years
Improvements other than buildings	10 years
Water distribution lines	10 to 50 years
Vehicles	3 to 15 years
Machinery and equipment	10 years
Office furniture, computers and equipment	3 to 10 years
Leased property	5 to 10 years
Infrastructure	50 years

Inventory is valued at cost using the first-in, first-out (FIFO) method. Inventory of the General Fund consists of expendable supplies held for consumption. The cost is recorded as an expenditure in the General Fund at the time individual inventory items are consumed rather than when purchased. Inventory of the Enterprise Funds consist principally of materials and supplies for utility operations.

Cash and Investments are pooled by the City for investment purposes. Investments are stated at fair value. Fair value is the value at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

Vested Vacation and Sick Leave obligations are fully funded and recorded in the Insurance and Benefit Internal Service Fund as accrued compensated absences.

Property Tax Levy, Collection and Maximum Rates - The State of California (State) Constitution Article XIII A provides that the combined maximum property tax rate on any given property may not exceed one percent of its assessed value unless an additional amount for general obligation debt has been approved by voters. Assessed value is calculated at 100 percent of market value as defined by Article XIII A and may be adjusted by no more than two percent per year unless the property is sold or transferred. The State Legislature has determined the method of distribution of receipts from a one percent tax levy among the counties, cities, school districts and other districts.

See independent auditors' report.

CITY OF HEALDSBURG
 NOTES TO BASIC FINANCIAL STATEMENTS
 (CONTINUED)
 June 30, 2004

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Property Tax Levy, Collection and Maximum Rates (Continued)

Sonoma County assesses properties, bills for and collects secured and unsecured property taxes as follows:

	Secured	Unsecured
Lien dates	January 1	January 1
Levy dates	July 1	July 1
Due dates	50% on November 1 50% on February 1	July 1
Delinquent as of	December 10 (for November) April 10 (for February)	August 31

The term "unsecured" refers to taxes on personal property. These taxes are secured by liens on the property being taxed.

The City accrues only those taxes, which are levied for the tax year and received within sixty days after year-end.

Statement of Cash Flows - For the purpose of the statements of cash flows, cash and cash equivalents include highly liquid investments with original maturities of three months or less, including investments in the California Local Agency Investment Fund, Sonoma County Investment Fund, Banker's Acceptances and Commercial Paper.

Claims Payable - The City reports its risk activities in the Insurance and Benefit Service Fund. When it is probable that a claim liability has been incurred at year-end, and the amount of the loss can be reasonably estimated, the City records the estimated loss, net of any insurance coverage under its self-insurance program. Estimated claims losses, if any, include an accrual for IBNR ("incurred but not reported") claims. Small dollar claims are recorded as expenditures when paid.

Deferred Revenue - The deferred revenue reported on the Governmental Funds Balance Sheet represents \$195,382 in funds not available to pay for current expenditures and \$2,904,175 in receivables for which the revenue has not been earned.

See independent auditors' report.

CITY OF HEALDSBURG
 NOTES TO BASIC FINANCIAL STATEMENTS
 (CONTINUED)
 June 30, 2004

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Use of Estimates - The preparation of 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 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 during the reporting period. Specifically, the City has made certain estimates and assumptions relating to the collectibility of its receivables (including accounts receivable, and notes receivable, the valuation of property held for resale, valuation of capital assets and depreciation expense, and the ultimate outcome of claims payable. Actual results could differ from those estimates and assumptions.

2. CASH AND INVESTMENTS:

Cash and Investments

Cash and investments at June 30, 2004 are classified in the accompanying financial statements as follows:

	Government- Wide Statement of Net Assets	Fiduciary Fund Statement of Net Assets	Total
Unrestricted assets:			
Cash and investments	\$ 38,997,324	\$ 842,593	\$ 39,839,917
Restricted assets:			
Cash and investments	<u>39,173,858</u>	<u>-</u>	<u>39,173,858</u>
Total Cash and Investments	<u>\$ 78,171,182</u>	<u>\$ 842,593</u>	<u>\$ 79,013,775</u>

Cash and investments at June 30, 2004 consisted of the following:

Cash on hand	\$ 1,350
Deposits with financial institutions	737,061
Investments	<u>78,275,364</u>
Total Cash and Investments	<u>\$ 79,013,775</u>

See independent auditors' report.

CITY OF HEALDSBURG
 NOTES TO BASIC FINANCIAL STATEMENTS
 (CONTINUED)
 June 30, 2004

2. CASH AND INVESTMENTS (CONTINUED):

Investment Authorized by the California Government Code and the City's Investment Policy

The table below identifies the investment types that are authorized for the City by the California Government Code (or the City's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the City's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustee that are governed by the provisions of debt agreements of the City, rather than the general provisions of the California Government Code or the City's investment policy.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of *Portfolio	Maximum Investment in One Issuer
U.S. Treasury Obligations	5 years	No Limit	No Limit
U.S. Government Sponsored Entities	5 years	No Limit	No Limit
Banker's Acceptances	180 days	40%	10%
Commercial Paper	180 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	10%
Repurchase Agreements	1 day	2.5%	10%
Medium-Term Notes	5 years	30%	10%
County Pooled Investment Funds	N/A	10%	10%
Local Agency Investment Fund (LAIF)	N/A	10%	10%

* - Excluding amounts held by bond trustee that are not subject to California Government Code restrictions.

See independent auditors' report.

CITY OF HEALDSBURG
 NOTES TO BASIC FINANCIAL STATEMENTS
 (CONTINUED)
 June 30, 2004

2. CASH AND INVESTMENTS (CONTINUED):

Investments Authorized by Debt Agreements

Investment of debt proceeds held by bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the City's investment policy. The table below identifies the investment types that are authorized for investments held by bond trustee. The table also identifies certain provisions of these debt agreements that address interest rate risk, credit risk, and concentration of credit risk.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Allowed</u>	<u>Maximum Investment in One Issuer</u>
U.S. Treasury Obligations	None	No Limit	No Limit
U.S. Government Sponsored Entities	None	No Limit	No Limit
Banker's Acceptances	30 days	No Limit	No Limit
Commercial Paper	270 days	No Limit	No Limit
Money Market Mutual Funds	N/A	No Limit	No Limit
Investment Contracts	30 years	No Limit	No Limit

See independent auditors' report.

CITY OF HEALDSBURG
 NOTES TO BASIC FINANCIAL STATEMENTS
 (CONTINUED)
 June 30, 2004

2. CASH AND INVESTMENTS (CONTINUED):

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the City manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the City's investments (including investments held by bond trustee) to market interest rate fluctuations is provided by the following table that shows the distribution of the City's investments by maturity:

<u>Investment Type</u>	<u>Remaining Maturity (in Months)</u>			<u>Total</u>
	<u>12 Months or Less</u>	<u>13 - 24 Months</u>	<u>25 - 60 Months</u>	
Local Agency Investment Fund	\$ 3,036,322	\$ -	\$ -	\$ 3,036,322
Sonoma County Investment Pool	239,457	-	-	239,457
Commercial Paper	2,891,589	-	-	2,891,589
Banker's Acceptance	3,992,014	-	-	3,992,014
Federal Farm Credit Bank	3,970,737	1,985,347	4,000,000	9,956,084
Federal Farm Loan Bank	12,912,240	8,486,484	15,986,003	37,384,727
U.S. Treasury Obligations	995,147	-	-	995,147
Money Market Mutual Funds	19,780,024	-	-	19,780,024
	<u>\$ 47,817,530</u>	<u>\$ 10,471,831</u>	<u>\$ 19,986,003</u>	<u>\$ 78,275,364</u>

See independent auditors' report.

CITY OF HEALDSBURG

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2004

2. CASH AND INVESTMENTS (CONTINUED):

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the City's investment policy, or debt agreements, and the actual rating as of year end for each investment type:

Investment Type	Total as of June 30, 2004	Minimum Legal Rating	AAA	A-1+	P-1	Unrated
Local Agency Investment Fund	\$ 3,036,322	N/A	\$ -	\$ -	\$ -	\$ 3,036,322
Sonoma County Investment Pool	239,457	N/A	-	-	-	239,457
Commercial Paper	2,891,589	A-1+	-	2,891,589	-	-
Banker's Acceptance	3,992,014	P-1	-	-	3,992,014	-
Federal Farm Credit Bank	9,956,084	AAA	9,956,084	-	-	-
Federal Farm Loan Bank	37,384,727	AAA	37,384,727	-	-	-
U.S. Treasury Obligations	995,147	AAA	995,147	-	-	-
Money Market Mutual Funds	19,780,024	N/A	-	-	-	19,780,024
Total	\$ 78,275,364		\$ 48,335,958	\$ 2,891,589	\$ 3,992,014	\$ 23,055,803

N/A - Not Applicable

See independent auditors' report.

CITY OF HEALDSBURG

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2004

2. CASH AND INVESTMENTS (CONTINUED):

Concentration of Credit Risk

The investment policy of the City contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Investments in any one issuer that represent 5% or more of total City's investments are as follows:

Issuer	Investment Type	Reported Amount
Bank of America	Banker's Acceptance	\$ 3,992,014
Federal Agency Securities	Federal Farm Credit Bank	9,956,084
Federal Agency Securities	Federal Farm Loan Bank	37,384,727

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. At June 30, 2004, the City deposits (bank balances) were insured by the Federal Depository Insurance up to \$100,000 and the remaining balance of the deposits of \$1,000,717 were collateralized under California Law. The difference between the bank balances and deposits represent deposits in transit and outstanding checks.

See independent auditors' report.

CITY OF HEALDSBURG

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2004

2. CASH AND INVESTMENTS (CONTINUED):

Investment in State Investment Pool

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the City's investment in this pool is reported in the accompanying financial statements at amounts based upon the City's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

Investment in County Investment Pool

The City is a voluntary participant in the Sonoma County Investment Fund (County Pool) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the County of Sonoma. The fair value of the City's investment in this pool is reported in the accompanying financial statements at amounts based upon the city's pro-rata share of the fair value provided by the County for the entire County portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County, which are recorded on an amortized cost basis.

3. INTERFUND RECEIVABLES/PAYABLES AND TRANSFERS:

Due to and from other funds at June 30, 2004 are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Other Governmental Funds	\$ 125,231
Community Redevelopment Commercial Industrial	Community Redevelopment Debt Service	243,077
Other Governmental Funds	Community Redevelopment Commercial Industrial	1,700,000
Electric Enterprise	Other Governmental Funds	73,000
	Other Enterprise Funds	14,008
Other Enterprise Funds	Other Enterprise Funds	<u>67,080</u>
		<u>\$ 2,222,396</u>

The amounts loaned between the funds represent temporary amounts advanced to pay for operating expenses.

See independent auditors' report.

CITY OF HEALDSBURG

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2004

3. INTERFUND RECEIVABLES/PAYABLES AND TRANSFERS (CONTINUED):

The compositions of the City's interfund transfer balances as of June 30, 2004 are as follows:

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
Community Redevelopment Debt Service	Community Redevelopment Commercial Industrial	\$ 1,902,878
	Community Redevelopment Low/Moderate Income	749,000
Community Redevelopment Commercial Industrial	Community Redevelopment Commercial Industrial	55,930
	Water Enterprise	9,955
	Streets Enterprise	96,908
Community Redevelopment Low/Moderate Income	General Capital Projects	60,000
General Capital Projects	Community Redevelopment Commercial Industrial	5,771,850
	Community Redevelopment Low/Moderate Income	874,299
	Other Governmental Funds	305,789
	Water Enterprise	223,333
	Sewer Enterprise	123,333
	Electric Enterprise	123,924
	Internal Service Funds	35,000
Other Governmental Funds	Streets Enterprise	507,724
	Other Enterprise Funds	111,811
	General Capital Projects	630,000
Electric Enterprise	General Capital Projects	1,714
Streets Enterprise	Community Redevelopment Commercial Industrial	21,114
	Other Governmental Funds	1,057,370
	Electric Enterprise	119,580

See independent auditors' report.

CITY OF HEALDSBURG
 NOTES TO BASIC FINANCIAL STATEMENTS
 (CONTINUED)
 June 30, 2004

3. INTERFUND RECEIVABLES/PAYABLES AND TRANSFERS (CONTINUED):

The compositions of the City's interfund transfer balances (Continued):

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
Other Enterprise Funds	Other Governmental Funds	\$ 434,557
Internal Service	General	15,000
	Community Redevelopment	
	Commercial Industrial	8,600
	General Capital Projects	29,218
	Water Enterprise	24,148
	Sewer Enterprise	24,069
	Electric Enterprise	23,674
Fiduciary	Other Governmental Funds	<u>50,000</u>
		<u>\$ 13,390,778</u>

The Community Redevelopment Debt Service Fund received funds to pay for debt service.

The General Capital Projects Fund received funds to pay for capital improvements.

The Other Governmental Funds received funds to pay for operating expenditures.

The Streets Enterprise Fund received funds to pay for street related improvements.

All other transfers between funds were used for payment of operating expenditures or expenses.

See independent auditors' report.

CITY OF HEALDSBURG
 NOTES TO BASIC FINANCIAL STATEMENTS
 (CONTINUED)
 June 30, 2004

4. CAPITAL ASSETS:

A summary of changes in the Governmental Activities capital assets at June 30, 2004 is as follows:

Governmental Activities:

	<u>Balance at June 30, 2003</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2004</u>
Capital assets, not being depreciated:				
Land	\$ 8,442,782	\$ 3,996,223	\$ -	\$ 12,439,005
Right of way	6,681,379	-	-	6,681,379
Construction in progress	<u>3,854,387</u>	<u>1,949,686</u>	<u>(5,220,380)</u>	<u>583,693</u>
Total capital assets, not being depreciated	<u>18,978,548</u>	<u>5,945,909</u>	<u>(5,220,380)</u>	<u>19,704,077</u>
Capital assets, being depreciated:				
Buildings	8,120,527	5,841,251	-	13,961,778
Machinery and equipment	5,138,323	388,723	(214,646)	5,312,400
Infrastructure	<u>1,143,453</u>	<u>-</u>	<u>-</u>	<u>1,143,453</u>
Total capital assets being depreciated	<u>14,402,303</u>	<u>6,229,974</u>	<u>(214,646)</u>	<u>20,417,631</u>
Less accumulated depreciation for:				
Buildings	(2,408,252)	(364,516)	-	(2,772,768)
Machinery and equipment	(2,686,969)	(496,007)	191,559	(2,991,417)
Infrastructure	<u>(195,211)</u>	<u>(22,869)</u>	<u>-</u>	<u>(218,080)</u>
Total accumulated depreciation	<u>(5,290,432)</u>	<u>(883,392)</u>	<u>191,559</u>	<u>(5,982,265)</u>
Total capital assets being depreciated, net	<u>9,111,871</u>	<u>5,346,582</u>	<u>(23,087)</u>	<u>14,435,366</u>
Governmental activities capital assets, net	<u>\$ 28,090,419</u>	<u>\$ 11,292,491</u>	<u>\$ (5,243,467)</u>	<u>\$ 34,139,443</u>

See independent auditors' report.

CITY OF HEALDSBURG
 NOTES TO BASIC FINANCIAL STATEMENTS
 (CONTINUED)
 June 30, 2004

4. CAPITAL ASSETS (CONTINUED):

A summary of changes in the Business-type Activities capital assets at June 30, 2004 is as follows:

Business-type Activities:

	Balance at June 30, 2003	Additions	Deletions	Balance at June 30, 2004
Capital assets, not being depreciated:				
Land and land rights	\$ 3,830,804	\$ -	\$ -	\$ 3,830,804
Construction in progress	<u>11,025,350</u>	<u>4,692,964</u>	<u>(6,211,807)</u>	<u>9,506,507</u>
Total capital assets, not being depreciated	<u>14,856,154</u>	<u>4,692,964</u>	<u>(6,211,807)</u>	<u>13,337,311</u>
Capital assets, being depreciated:				
Buildings	5,918,822	-	-	5,918,822
Streets	21,144,674	1,283,751	-	22,428,425
Utility systems	43,392,267	4,770,966	-	48,163,233
Drainage	8,664,262	2,528	-	8,666,790
Machinery and equipment	1,572,397	322,188	-	1,894,585
Operations	<u>1,195,526</u>	<u>-</u>	<u>-</u>	<u>1,195,526</u>
Total capital assets being depreciated	<u>81,887,948</u>	<u>6,379,433</u>	<u>-</u>	<u>88,267,381</u>
Less accumulated depreciation for:				
Buildings	(2,568,248)	(159,394)	-	(2,727,642)
Streets	(4,756,565)	(431,529)	-	(5,188,094)
Utility systems	(10,211,708)	(817,930)	-	(11,029,638)
Drainage	(4,473,535)	(266,602)	-	(4,740,137)
Machinery and equipment	(650,422)	(124,937)	-	(775,359)
Operations	<u>(409,191)</u>	<u>(19,890)</u>	<u>-</u>	<u>(429,081)</u>
Total accumulated depreciation	<u>(23,069,669)</u>	<u>(1,820,282)</u>	<u>-</u>	<u>(24,889,951)</u>
Total capital assets being depreciated, net	<u>58,818,279</u>	<u>4,559,151</u>	<u>-</u>	<u>63,377,430</u>
Business-type activities capital assets, net	<u>\$ 73,674,433</u>	<u>\$ 9,252,115</u>	<u>\$ (6,211,807)</u>	<u>\$ 76,714,741</u>

See independent auditors' report.

CITY OF HEALDSBURG
 NOTES TO BASIC FINANCIAL STATEMENTS
 (CONTINUED)
 June 30, 2004

4. CAPITAL ASSETS (CONTINUED):

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

Governmental Activities:

General government	\$ 108,717
Public safety	181,528
Community development	101,375
Unallocated infrastructure depreciation	22,852
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	<u>468,920</u>
Total depreciation expense - governmental activities	<u>\$ 883,392</u>

Business-type Activities:

Water	\$ 367,010
Sewer	496,859
Electric	353,922
Street	432,603
Other	<u>157,091</u>
Total depreciation expense - business-type activities	<u>\$ 1,807,485</u>

See independent auditors' report.

CITY OF HEALDSBURG
 NOTES TO BASIC FINANCIAL STATEMENTS
 (CONTINUED)
 June 30, 2004

5. LONG-TERM LIABILITIES:

The following is a summary of the Governmental Activities long-term liability transactions for the year ended June 30, 2004:

Governmental Activities:

	Balance at July 1, 2003	Additions	Reductions	Balance at June 30, 2004	Due Within One Year
General Obligation Bonds (GO):					
1998 Refunding	\$ 2,135,000	\$ -	\$ (120,000)	\$ 2,015,000	\$ 125,000
1993 Refunding	3,585,000	-	(3,585,000)	-	-
2003 Refunding	-	3,620,000	-	3,620,000	165,000
Total GO Bonds	5,720,000	3,620,000	(3,705,000)	5,635,000	290,000
Tax Allocation Bonds (TAB):					
1995 Series	3,490,000	-	(70,000)	3,420,000	75,000
2002 Series A	14,030,000	-	(270,000)	13,760,000	270,000
2002 Series C	5,530,000	-	(105,000)	5,425,000	105,000
2003 Series A	13,000,000	-	(210,000)	12,790,000	270,000
2003 Series B	6,370,000	-	(125,000)	6,245,000	125,000
Total TAB Bonds	42,420,000	-	(780,000)	41,640,000	845,000
Special Assessments:					
Foss Creek	310,000	-	(55,000)	255,000	70,000
Area A	1,920,000	-	(110,000)	1,810,000	110,000
Total Special Assessments	2,230,000	-	(165,000)	2,065,000	180,000
Compensated absences	1,520,012	-	(114,624)	1,405,388	1,405,388
Bond discount	(239,995)	(58,153)	12,994	(285,154)	-
Total governmental activities long-term liabilities	\$ 51,650,017	\$ 3,561,847	\$ (4,751,630)	\$ 50,460,234	\$ 2,720,388

See independent auditors' report.

CITY OF HEALDSBURG
 NOTES TO BASIC FINANCIAL STATEMENTS
 (CONTINUED)
 June 30, 2004

5. LONG-TERM LIABILITIES (CONTINUED):

The following is a summary of the Business-type Activities long-term liability transactions for the year ended June 30, 2004:

Business-type Activities:

	Balance at July 1, 2003	Additions	Reductions	Balance at June 30, 2004	Due Within One Year
Certificates of Participation (COP):					
1996 Sewer improvements	\$ 855,000	\$ -	\$ (20,000)	\$ 835,000	\$ 20,000
2000 B - CSCDA Water	3,030,000	-	(55,000)	2,975,000	55,000
2000 B - CSCDA Sewer	2,525,000	-	(45,000)	2,480,000	45,000
2001 A - CSCDA Water	6,745,000	-	(230,000)	6,515,000	235,000
2002 C - CSCDA Water/ Wastewater	5,510,000	-	(110,000)	5,400,000	115,000
Total COP Bonds	18,665,000	-	(460,000)	18,205,000	470,000
Bond discount	(173,628)	-	6,719	(166,909)	-
Total business-type activities long-term liabilities	\$ 18,491,372	\$ -	\$ (453,281)	\$ 18,038,091	\$ 470,000

Governmental Activities:

a. 1998 General Obligation Refunding Bonds:

In March 1998, the City issued \$2,675,000 in General Obligation Refunding Bonds to advance refund \$2,410,000 of outstanding 1990 Series B General Obligation Bonds. The net proceeds were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1990 Series B bonds. As a result, the 1990 Series B bonds are considered to be defeased, and the liability for those bonds has been removed from the long-term liabilities. Interest on bonds varies from 3.80% to 5.05% with semi-annual debt service payments on August 1 and February 1 of each year with principal maturing August 1, 1998 through August 1, 2015. Debt service payments are made from property tax levy authorized by the voters. The 1990 B General Obligation were redeemed on August 1, 2000.

See independent auditors' report.

CITY OF HEALDSBURG

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2004

5. LONG-TERM LIABILITIES (CONTINUED):

Governmental Activities (Continued):

b. 1993 General Obligation Refunding Bonds:

In December 1993, the City issued \$4,175,000 in General Obligation Refunding Bonds to advance refund the 1990 Series A General Obligation Bonds. The proceeds from the refunding issue were placed in an irrevocable trust with an escrow agent to provide the remaining debt service payments on the refunded debt. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's financial statements. Interest on the bonds varies between 4.3% to 5.375% with semi-annual debt service payments on February 1 and August 1 of each year with principal maturing August 1, 1994 through August 1, 2015. Debt service payments are made from property taxes levy authorized by the voters. The 1990 Series A General Obligation bonds were redeemed on August 1, 2000. The 1993 General Obligation Refunding Bonds were refunded in July 2003.

c. 2003 General Obligation Refunding Bonds:

In July 2003, the City issued \$3,620,000 in General Obligation Refunding Bonds to advance refund \$3,585,000 of outstanding 1998 General Obligation Bonds. The net proceeds were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1998 General Obligation Bonds. As a result, the 1998 General Obligation Bonds are considered to be defeased, and the liability for those bonds has been removed from the long-term liabilities. Interest on bonds varies from 2.5% to 3.6% with semi-annual debt service payments on August 1 and February 1 of each year with principal maturing August 1, 2004 through August 1, 2015. Debt service payments are made from property tax levy authorized by the voters. The 1998 General Obligation Bonds were redeemed on August 1, 2003. The advance refunding resulted in a cash flow decrease of \$1,092,000 (debt service payments between the old and new debt) and an economic gain of \$913,000 (difference between the present value of the old and new debt).

Future debt service requirements on these bonds are as follows:

Year Ending June 30,	Principal	Interest	Total
2005	\$ 290,000	\$ 198,376	\$ 488,376
2006	310,000	188,712	498,712
2007	325,000	178,403	503,403
2008	350,000	167,435	517,435
2009	385,000	154,914	539,914
2010-2014	2,460,000	539,739	2,999,739
2015-2016	1,515,000	63,130	1,578,130
	<u>\$ 5,635,000</u>	<u>\$ 1,490,709</u>	<u>\$ 7,125,709</u>

See independent auditors' report.

CITY OF HEALDSBURG

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2004

5. LONG-TERM LIABILITIES (CONTINUED):

Governmental Activities (Continued):

d. Tax Allocation Bonds:

1995 Series - In December 1995, the Agency issued \$3,900,000 1995 Tax Allocation Bonds. The Bonds were issued to finance improvements in the Sotoyome Project Area. Interest on the bonds varies from 4.20% to 7.50% with semi-annual debt service payments on June 1, and December 1 of each year with principal maturing annually December 1, 1996 through December 2025. Debt Service payments will be made from tax increment revenue received by the Agency.

2002 Series A - In March 2002, the Healdsburg Financing Authority issued \$14,290,000 in Tax Allocation Bonds on behalf of the Agency. The bonds were issued to finance improvements in the Sotoyome Project Area and to advance refund the 1993 Series A Certificates of Participation. Interest on the bonds varies from 1.7% to 5.125% with semi-annual debt service payments on February 1 and August 1 of each year with principal maturing annually August 1, 2002 through August 2031. Debt service payments will be made from tax increment revenue received by the Agency.

The amount of defeased 1993 Series A Certificates of Participation outstanding at June 30, 2004 was \$2,295,000.

2002 Series C - In March 2002, the Healdsburg Financing Authority issued on behalf of the Agency \$5,630,000 in Tax Allocation Bonds. The Bonds were issued to finance low and moderate income housing land acquisition and improvements in the Sotoyome Project Area. Interest on the bonds varies from 1.7% to 5.125% with semi-annual debt service payments on February 1, and August 1 of each year with principal maturing annually August 1, 2002 through August 2031. Debt Service payments will be made from tax increment revenue received by the Agency.

2003 Series A - In April 2003, the Agency issued \$13,000,000 Series A 2003 Tax Allocation Bonds. The Bonds were issued to finance certain redevelopment activities within or to the benefit of the Agency's Sotoyome Project Area, fund a reserve account and pay for costs of issuance of the Bonds. Interest on the bonds varies from 1.46% to 4.45% with semi-annual debt service payments on February 1 and August 1 of each year with principal maturing annually August 1, 2003 through 2031. Debt service payments will be made from tax increment revenue received by the Agency.

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CITY OF HEALDSBURG
 NOTES TO BASIC FINANCIAL STATEMENTS
 (CONTINUED)
 June 30, 2004

5. LONG-TERM LIABILITIES (CONTINUED):

Governmental Activities (Continued):

d. Tax Allocation Bonds (Continued):

2003 Series B - In April 2003, the Agency issued \$6,370,000 Series B 2003 Tax Allocation Bonds. The Bonds were issued to finance certain redevelopment activities within or to the benefit of the Agency's Sotoyome Project Area, fund a reserve account and pay for costs of issuance of the Bonds. Interest on the bonds varies from 1.46% to 4.45% with semi-annual debt service payments on February 1 and August 1 of each year with principal maturing annually August 1, 2003 through 2031. Debt service payments will be made from tax increment revenue received by the Agency and allocated to the Low/Moderate Income Housing Fund.

Future debt service requirements on these bonds are as follows:

Year Ending June 30,	Principal	Interest	Total
2005	\$ 845,000	\$ 2,110,387	\$ 2,955,387
2006	865,000	2,089,688	2,954,688
2007	880,000	2,064,427	2,944,427
2008	905,000	2,034,941	2,939,941
2009	930,000	2,001,287	2,931,287
2010-2014	5,195,000	9,364,444	14,559,444
2015-2019	6,425,000	7,943,078	14,368,078
2020-2024	8,120,000	6,006,983	14,126,983
2025-2029	10,160,000	3,504,128	13,664,128
2030-2032	7,315,000	626,679	7,941,679
	<u>\$ 41,640,000</u>	<u>\$ 37,746,042</u>	<u>\$ 79,386,042</u>

See independent auditors' report.

CITY OF HEALDSBURG
 NOTES TO BASIC FINANCIAL STATEMENTS
 (CONTINUED)
 June 30, 2004

5. LONG-TERM LIABILITIES (CONTINUED):

Governmental Activities (Continued):

e. Special Assessment Debt with Government Commitment:

Proceeds from the assessment bonds issued for each district were used to construct improvements that benefited the property owners in that district. Debt service payments are made from special assessment taxes collected from property owners by the County of Sonoma. The City has recorded the bonds as a liability because they may make temporary advance payment of debt service if sufficient funds have not been collected. Also, the assessments receivable have been recorded in a Debt Service Fund offset by an equal amount of deferred revenues in accordance with the provisions of GASB Statement 6.

Future debt service requirements on these bonds are as follows:

Year Ending June 30,	Principal	Interest	Total
2005	\$ 180,000	\$ 140,715	\$ 320,715
2006	210,000	126,806	336,806
2007	215,000	111,071	326,071
2008	140,000	97,995	237,995
2009	150,000	87,773	237,773
2010-2014	915,000	259,969	1,174,969
2015	<u>255,000</u>	<u>13,923</u>	<u>268,923</u>
	<u>\$ 2,065,000</u>	<u>\$ 838,252</u>	<u>\$ 2,903,252</u>

Business-type Activities:

f. 1996 Sewer Improvement Certificates:

The Certificates were authorized and issued by the Healdsburg Public Improvement Corporation in the amount of \$950,000 to provide funds for capital improvements to the City's sewer system. The interest on the Certificates varies from 4.50% to 8.50% with semi-annual debt service payments payable on June 1 and December 1 commencing June 1, 1997. Principal on the certificates is payable annually from December 1, 1997 through December 1, 2026. Revenues from the operation of the sewer utility will be used to make the debt service payments.

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CITY OF HEALDSBURG
 NOTES TO BASIC FINANCIAL STATEMENTS
 (CONTINUED)
 June 30, 2004

5. LONG-TERM LIABILITIES (CONTINUED):

Business-type Activities (Continued):

g. 2000 B Water and Sewer CSCDA Certificates:

The bonds were authorized and issued on July 25, 2000 by the California Statewide Communities Development Authority in the amount of \$3,130,000 for water and \$2,605,000 for sewer totaling \$5,735,000 to provide funds for capital improvements.

The interest on the bond varies from 4.10% to 5.15% with semi-annual debt service payments payable on April 1 and October 1 commencing October 1, 2000 through October 1, 2030. Revenues from the operation of the water and sewer utilities will be used to make debt service payments.

h. 2001 A Water CSCDA Certificates:

The bonds were authorized and issued by the California Statewide Communities Development Authority in the amount of \$7,170,000 of refunding revenue bonds on March 1, 2001. The interest on the bonds varies from 2.9% to 4.5% with semi-annual debt service payments payable on April 1 and October 1 of each year commencing October 1, 2001. Principal on the bonds is payable annually from October 1, 2001 through October 1, 2026. Revenues from the operation of the water utility will be used to make the debt service payments. The proceeds of \$6,886,409 (after the bond discount and payment of underwriter fees, insurance and other issuance costs of \$283,590) plus the debt service reserves of the refunded issues was used to purchase State and Local Government Securities (SLGS). These securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments for the following Certificates of Participation - 1992 Water, 1993 REFA Series C, 1995 Water and 1996 Water. All of these above-mentioned certificates are considered defeased and the liability for these have been removed from long-term debt. As of June 30, 2004, \$6,585,000 remained outstanding on these refunded issues.

i. 2003 C Water/Wastewater CSCDA Certificates:

The Bonds were authorized and issued by the California Statewide Communities Development Authority on behalf of the City in the amount of \$5,510,000 in October 2002. The proceeds are to be used for water improvement projects. The interest on the bonds varies from 2.0% to 3.6% with semi-annual debt service payments payable on April 1 and October 1 commencing April 1, 2003. Principal on bonds is payable annually from October 1, 2003 through October 1, 2032. Revenues from the operation of the water utility will be used to make the debt service payments.

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CITY OF HEALDSBURG
 NOTES TO BASIC FINANCIAL STATEMENTS
 (CONTINUED)
 June 30, 2004

5. LONG-TERM LIABILITIES (CONTINUED):

Business-type Activities (Continued):

j. Annual Debt Service Requirements:

Annual debt service requirements to maturity for proprietary long-term liabilities, including interest of \$13,344,051 are as follows:

Year Ending June 30,	Certificates of Participation		
	Principal	Interest	Total
2005	\$ 470,000	\$ 833,603	\$ 1,303,603
2006	480,000	818,341	1,298,341
2007	505,000	802,170	1,307,170
2008	505,000	785,104	1,290,104
2009	540,000	766,760	1,306,760
2010-2014	2,905,000	3,505,959	6,410,959
2015-2019	3,245,000	2,845,621	6,090,621
2020-2024	4,145,000	1,932,785	6,077,785
2025-2029	3,500,000	899,546	4,399,546
2030-2033	<u>1,910,000</u>	<u>154,162</u>	<u>2,064,162</u>
	<u>\$ 18,205,000</u>	<u>\$ 13,344,051</u>	<u>\$ 31,549,051</u>

6. CONDUIT DEBT:

Total bonds outstanding related to special facility revenue bonds is \$5,775,000 at June 30, 2004. These bonds were issued to provide hospital facilities. The City is not liable for repayment of the special facility revenue bonds, and accordingly, they are not reflected in the accompanying basic financial statements.

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CITY OF HEALDSBURG

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2004

7. EMPLOYEES' RETIREMENT PLAN:

Plan Description

The City of Healdsburg contributes to the California Public Employees' Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, 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. Copies of PERS' annual financial report may be obtained from their executive office: 400 P Street, Sacramento, CA 95814.

Funding Policy

The City is required to contribute at an actuarially determined rate; the current rate is 7.2% for miscellaneous employees and 7.525% for the period July 2003 to December 2003 and 20.51% for the period January 2004 to June 2004 for safety employees of annual covered payroll. The contribution requirements of plan members and the City are established and may be amended by PERS. The City, due to a collective bargaining agreement, also has a legal obligation to contribute 7% (9% for safety employees) of each participant's annual covered salary.

Annual Pension Cost

For 2004, the City's annual pension cost of \$693,895 for PERS was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2002, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 8.25% investment rate of return (net of administrative expenses), (b) projected annual salary increases that vary by duration of service, and (c) 3.50% per year cost-of-living adjustments, (d) 3.75% payroll growth, and (e) individual salary growth using a merit scale varying by duration of employment coupled with an assumed annual inflation component of 3.50% and an annual production growth of 0.25%. Both (a) and (b) included an inflation component of 3.75%. 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 four-year period (smoothed market value). PERS unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2003 was 22 years.

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CITY OF HEALDSBURG

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2004

7. EMPLOYEES' RETIREMENT PLAN (CONTINUED):

Three-Year Trend Information for the Miscellaneous and Safety Plans

Fiscal Year	Annual Pension Cost (APC)	Percentage APC Contributed	Net Pension Obligation
6/30/02	\$ 538,167	100%	\$ -
6/30/03	677,861	100%	-
6/30/04	693,895	100%	-

Schedule of Funding Progress for PERS

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Liability (AAL) Entry Age (B)	(Overfunded) Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a % of Covered Payroll [(B-A)/C]
6/30/01:						
Misc.	\$ 20,217,598	\$ 19,017,940	\$ (1,199,658)	106.3 %	\$ 4,833,438	(24.819) %
Safety	12,206,895	10,994,782	(1,212,113)	111.0 %	1,792,279	(67.629) %
Total	\$ 32,424,493	\$ 30,012,722	\$ (2,411,771)	108.0 %	\$ 6,625,717	(36.400) %
6/30/02:						
Misc.	\$ 19,491,095	\$ 21,188,667	\$ 1,697,572	92.0 %	\$ 5,483,146	30.960 %
Safety	11,674,901	14,001,327	2,326,426	83.4 %	1,833,680	126.872 %
Total	\$ 31,165,996	\$ 35,189,994	\$ 4,023,998	88.6 %	\$ 7,316,826	54.997 %
6/30/03:						
Misc.	\$ 20,063,233	\$ 25,214,165	\$ 5,150,932	79.6 %	\$ 5,735,518	89.808 %
Safety	11,891,319	15,026,183	3,134,864	79.1 %	2,008,844	156.053 %
Total	\$ 31,954,552	\$ 40,240,348	\$ 8,285,796	79.4 %	\$ 7,744,362	106.991 %

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CITY OF HEALDSBURG

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2004

8. RESERVES AND DESIGNATIONS OF FUND EQUITY:

The City may set up "reserves" of fund equity to segregate fund balances which are not appropriate for expenditure in future periods, or which are legally set aside for a specific future use. Fund "designations" may also be established to indicate tentative plans for financial resources utilization in a future period. Each of the City's reserves and designations are described below:

- a. Reserves for non-current notes receivable represents amounts which are not available for current expenditures.
- b. Reserve for inventory and prepaid items represents amounts, which are not available to meet current expenditures.
- c. Reserve for low and moderate income housing represents amounts setaside in the Community Redevelopment Low/Moderate Income Capital Projects Fund.
- d. Reserves for debt service represent amounts accumulated in accordance with bond indenture or similar covenant.
- e. Reserve for Community and Economic Development has been established to reflect bond proceeds restricted for Capital Improvements.
- f. Reserve for multi-year programs reserves are amounts set aside for long-term capital projects.

9. NORTHERN CALIFORNIA POWER AGENCY:

The City is a member of Northern California Power Agency (NCPA), which operates under a joint powers agreement among fourteen public agencies consisting of eleven cities with publicly owned electric distribution systems, one irrigation district, one public utility district, one port authority and four associate member entities. The purpose of NCPA is to use the combined strength of its members to purchase, generate, sell, and interchange electric energy and capacity through the acquisition and use of electrical generation and transmission facilities. Each NCPA member has agreed to fund a pro rata share of certain assessments by NCPA and enter into power supply contracts with NCPA to purchase power in support of bearing the costs of NCPA operations, energy and facilities. While governed by its members, none of NCPA's obligations are those of its members unless expressly assumed by them. Amounts paid by the City to NCPA during the year ended June 30, 2004, of \$4,057,538 included \$4,010,809 for purchased power and \$46,729 in advances and assessments and are reported as an expense of the Electric Fund.

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CITY OF HEALDSBURG

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2004

9. NORTHERN CALIFORNIA POWER AGENCY (CONTINUED):

The City's interest in NCPA projects and reserves, as computed by NCPA, was \$2.4 million at June 30, 2004. This amount represents the City's portion of funds which resulted from the reconciliations of several prior years' budgets for programs. It is recognized that all the funds credited to the City are linked to the collection of revenue from the City's ratepayers, or to the settlement of disputes relating to electric power supply and that the money was collected from the City's ratepayers to pay power bills. Additionally, the NCPA Commission identified and approved the funding of specific reserves for working capital, accumulated employee's post-retirement medical benefits, and billed property taxes for the geothermal project. The Commission also identified a number of contingent liabilities that may or may not be realized, the cost of which in most cases is difficult to estimate at this time. One such contingent liability is the steam field depletion which will require funding to cover debt service and operational costs in excess of the expected value of the electric power. The General Operating Reserve is intended to minimize the number and amount of individual reserves needed for each project, protect NCPA's financial condition and maintain its credit worthiness. These funds are available on demand but the City has left them with NCPA as a reserve against these contingencies identified by NCPA.

Members of NCPA may participate in an individual project of NCPA without obligation for any other project. Member assessments collected for one project may not be used to finance other projects of NCPA without the member's permission.

The City additionally purchased energy directly from the Western Area Power Administration totaling \$782,767 and paid assessments totaling \$69,868.

NCPA Geothermal Project

A purchase power agreement with NCPA obligates the City for a 3.31% share of the operating costs and debt service of two of NCPA's 110-megawatt steam powered generating plants, Project Number 2 and Project Number 3. Total outstanding debt of the NCPA Geothermal Project at June 30, 2004 is \$217,340 thousand.

NCPA's Geothermal project has experienced a greater than originally anticipated decline in steam production from geothermal wells on its leasehold property. Results of the continuing well analysis program indicate that the potential productive capacity of the geothermal steam reservoir is less than originally estimated. Therefore, NCPA has modified the operations of the Geothermal Project to reduce the average annual output from past levels. As a result, the per unit cost of energy generated by the projects will be higher than anticipated.

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CITY OF HEALDSBURG

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2004

9. NORTHERN CALIFORNIA POWER AGENCY (CONTINUED):

NCPA Geothermal Project (Continued)

NCPA will continue to monitor the wells while pursuing alternatives for improving and extending reservoir performance, including supplemental water reinjection, plant equipment modifications, and changes in operating methodology. NCPA, along with other steam field operators, has observed a substantial increase in steam production in the vicinity of reinjection wells and is attempting to increase water reinjection at strategic locations. NCPA, other steam developers, and the Lake County Sanitation District constructed a wastewater pipeline project that greatly increased the amount of water available for reinjection.

Calaveras Hydroelectric Project

In July 1981, NCPA agreed with the Calaveras County Water District to purchase the output of the North Fork Stanislaus River Hydroelectric Development Project and to finance its construction. Debt service payments began in February 1990 when the operating portions were declared substantially complete. Under a power purchase agreement with NCPA, the City is obligated to pay 1.66% of the debt service and operating costs. At June 30, 2004 approximately \$501,130 thousand in long-term debt used to finance this project was outstanding. NCPA has initiated a series of restructurings and early calls which will reduce annual debt service and comparative cost of energy from this resource. The City chose to lower debt service payment obligations by making a \$1,603,580 debt reduction payment in early 2002.

NCPA Combustion Turbine Project

In October 1984, NCPA financed a five-unit, 125-megawatt combustion turbine project. The project, built in three member cities, began full commercial operation in June 1986, providing reserve and peaking power. Under the NCPA power purchase agreement, the City is obligated to pay 3.5% of the debt service and operating costs. The Combustion Turbine Project was completed in June 1990. Project participation costs are substantially less than the cost of power which would otherwise be purchased. At June 30, 2004 approximately \$24,815 thousand in long-term debt related to this project was outstanding.

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CITY OF HEALDSBURG

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2004

9. NORTHERN CALIFORNIA POWER AGENCY (CONTINUED):

Geothermal Public Power Line

NCPA has entered into interest rate swaps and related agreements related to its hydro electric project. Additional information regarding NCPA debt is disclosed in NCPA's financial statements. In 1983, NCPA, Sacramento Municipal Utility District, Santa Clara, and the Modesto Irrigation District (joint owners) initiated studies for a Geothermal Public Power Line. The transmission line will carry power generated at several existing and planned geothermal plants in the Geysers area to a location where the joint owners can receive it for transmission to their load centers. NCPA has an 18.5% share of the project. The City has a 6.61% participation in NCPA's share. In 1989, the construction of the proposed Geothermal Public Power Line was discontinued. In December 1998, NCPA issued \$10 million in revenue bonds to defease the remaining variable rate refunding bonds used to finance this project. At June 30, 2004, approximately \$5,455 thousand in long-term debt related to this project was outstanding.

NCPA Condensed Financial Information

The information below summarizes NCPA's audited financial statements as of and for the year ended June 30, 2004 (in thousands):

Total assets	\$ 996,278
Total liabilities (excluding long-term debt)	228,526
Long-term debt	756,958
Accumulated net revenues	10,800
Revenues	218,277
Expenses (including refunds)	225,975
Decrease in accumulated net revenues	7,698

Maturities (Principal) of NCPA's long-term debt as of June 30, 2004 are as follows (in thousands) (audited):

2005	\$ 54,555
2006	56,505
2007	36,095
2008	37,060
2009	38,205
2010 and after	593,520
Less: unamortized net discount and premium	(4,427)
Current portion	<u>(54,555)</u>
Total	<u>\$ 756,958</u>

See independent auditors' report.

CITY OF HEALDSBURG
 NOTES TO BASIC FINANCIAL STATEMENTS
 (CONTINUED)
 June 30, 2004

9. NORTHERN CALIFORNIA POWER AGENCY (CONTINUED):

NCPA Condensed Financial Information (Continued)

The City does not include its net investment in NCPA in the proprietary fund financial statements because it is a separate legal entity and the JPA's obligations and liabilities are not those of the City.

NCPA Financial Information

NCPA'S financial statements can be obtained from NCPA, 180 Cirby Way, Roseville, CA 95678.

10. POOLED ARRANGEMENT:

In addition to NCPA, the City participates in a pooled insurance arrangement. A description of this agency follows:

Redwood Empire Municipal Insurance Fund (REMIF) is a governmental self-insurance cooperative organized under a joint powers agreement by certain California cities to provide liability coverage to its members as allowed under the California Government Code. REMIF is a "risk sharing pool", which pools risks and funds and which shares in the cost of losses. REMIF provides and administers liability coverage programs for seven member and nine associate member cities. Members and associate members have the option, with approval by the Board of Directors, of participating in any or all of seven programs which provide workers' compensation, general liability, property, health, dental, vision, and auto physical damage coverage.

The Redwood Empire Municipal Insurance Fund is in turn a member of the California Joint Powers Insurance Authority, a super self-insurance and insurance procurement joint powers authority.

The activities of REMIF include setting and collecting premiums for each program, negotiating excess insurance coverage administering and paying claims and related expenses, and investing each program's assets. REMIF engages the services of independent actuaries and claims administrators to assist in performing some of these activities.

See independent auditors' report.

CITY OF HEALDSBURG
 NOTES TO BASIC FINANCIAL STATEMENTS
 (CONTINUED)
 June 30, 2004

10. POOLED ARRANGEMENT (CONTINUED):

The information below summarizes the audited financial statements as of and for the year ended June 30, 2004, for the Redwood Empire Municipal Insurance Fund in which the City participates.

Total Assets	\$	14,247,118
Total Liabilities		12,984,716
Total Net Assets		1,262,402
Total Revenues		7,058,884
Total Expenses		7,996,449
Increase (Decrease) in Net Assets		(937,565)
Total Long-Term Debt		6,255,595

11. SELF-INSURANCE PLANS:

The City is a member of Redwood Empire Municipal Insurance Fund (REMIF) as described in Note 10. The City's general liability and workers compensation claims are covered as a member of REMIF. REMIF has a risk sharing arrangement for each insurance program. Each member participating in each program assumes its own losses up to its retention level. The City has a \$5,000 retention level for general liability and workers compensation. The excess amounts presently insured to statutory requirements of the State of California for workers compensation and \$10,000,000 for general liability through a pooled program. Each program's pool is funded by all of the members participating in that program through cash premiums. Excess losses up to the state limits are covered by commercial carriers or other agencies, which REMIF contracts for that purpose. Losses exceeding these excess coverage limits for each program are the responsibility of the individual member for which the loss or claim originated. Claims have not exceeded insurance coverage amounts over the last three fiscal years and there has been no reduction in insurance coverage since the last fiscal year.

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CITY OF HEALDSBURG
 NOTES TO BASIC FINANCIAL STATEMENTS
 (CONTINUED)
 June 30, 2004

12. INDIVIDUAL FUND DISCLOSURES:

a. The fund which has a deficit fund balance at June 30, 2004 was as follows:

Special Revenue Fund:	
North Area	\$ <u>61,268</u>

The City plans on removing the deficit in the North Area Special Revenue Fund through future development contributions and benefit assessments.

b. Funds where expenditures exceeded appropriations:

Special Revenue Funds:	
Gas Tax	\$ 89
Park Fees	238
TDA	5
Community Redevelopment Agency UDAG Loan	2,392
Debt Service Funds:	
Other General	41,127
Special Assessment	11,518

13. COMMITMENTS AND CONTINGENCIES:

There are pending claims and litigation against the City, which are considered normal to the City's operation. City management is of the opinion that potential claims against the City not covered by insurance resulting from such litigation would not materially affect the general purpose financial statements of the City beyond funded reserves.

The City has entered into long-term electric power purchase and electric transmission contracts. These contracts were entered into by Northern California Power Agency (NCPA) on behalf of various members (see Note 9) including the City. Under the terms of its NCPA joint venture agreement, the City is contingently liable for a portion of the bonded indebtedness issued by these agencies under take-or-pay or similar agreements. The City's estimated share of such debt outstanding at June 30, 2004 was \$17 million. Under certain circumstances, the City may also be responsible for a portion of the costs of operating these entities. Under certain circumstances, such as default or bankruptcy of other participants, the City may also be liable to pay a portion of the debt of these joint ventures on behalf of the other participants.

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CITY OF HEALDSBURG
 NOTES TO BASIC FINANCIAL STATEMENTS
 (CONTINUED)
 June 30, 2004

13. COMMITMENTS AND CONTINGENCIES (CONTINUED):

Seattle City Light

NCPA has negotiated a 21-year seasonal power exchange agreement with Seattle City Light for 60 MW of summer capacity and 90,580 MWh of energy and a return of 46 MW of capacity and 108,696 of energy in the winter. The City's share of the summer capacity is 1.6 MW. The net cost to the City is mitigated by the cost difference between supplying energy and receiving free capacity.

California-Oregon Transmission Project

The City is a member of the Transmission Agency of Northern California (TANC), a California joint powers agency. TANC, a combination of cities, Western and four other California Districts and authorities are participants in the California-Oregon Transmission Project (COTP). The COTP is a transmission project between southern Oregon and Central California. COTP provides a transmission path between the electric systems of the Pacific Northwest and those in California. The members of NCPA are entitled to 30.4 percent of the transfer capacity of COTP. The City's share is .21 percent. Each member of NCPA is responsible for developing its own uses for its share of the COTP transfer capability.

Western Area Power Administration

In addition to commitments for power purchase through NCPA, the City has entered into a contract with Western Area Power Administration (Western). Western is a federal Power Management Agency of the U.S. Department of Energy, which among other things is responsible for marketing electricity generated by the Central Valley Project. The contract with Western expires December 31, 2004 and the estimated annual commitment over the next two years for purchasing power is \$80,390. A supplemental agreement allows the City to utilize less than its contractual entitlement. The contract was extended to be effective through September 30, 2010.

Other Energy Contracts

The City, through NCPA and its member cities, has also arranged to procure additional power by participating in a contract with CalPine Corporation. The contract, which started in 2002 and expires in December 2011, provides 3 Megawatts of capacity at an average cost of \$63 per mwh.

See independent auditors' report.

CITY OF HEALDSBURG
NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2004

14. FACTORS AFFECTING THE UTILITY INDUSTRY:

Assembly Electric Bill 1890

In August 1996, the California legislature unanimously passed a bill related to the restructuring of certain elements of the electric utility industry for Investor Owned Utilities (IOUs). The bill was signed by the governor in September 1996. The bill codifies parts of the California Public Utility Commission's (CPUC) December 20, 1995 policy relating to restructuring, including implementation of direct access, establishment of an Independent System Operations (ISO) and Power Exchange (PX), recovery of competitive transition costs, and funding for public purpose programs. The bill also relates to and affects publicly owned electric utilities, utilities not subject to the CPUC's jurisdiction. The City of Healdsburg is a publicly owned utility under AB 1890 as the City Council retains autonomy and local control. Each publicly owned utility was given the choice of whether or not it would open its service territory to new generation suppliers. The California energy crisis that developed during 2000 has caused a suspension of any consideration of a competitive transition.

Financial Difficulties at Investor-Owned Utilities

In early 2001, Pacific Gas and Electric Corporation (PG&E), the major investor-owned power utility in Northern California declared bankruptcy. The City of Healdsburg Electric Utility does not have direct financial exposure to PG&E, however, because of the existing interconnection agreement through NCPA, there was risk that PG&E would not perform transmission service as called for in the agreement. The City, through NCPA, was able to replace the PG&E Interconnection Agreement with a new Transmission Agreement with the California ISO. The agreement became effective on October 1, 2002.

REQUIRED SUPPLEMENTARY INFORMATION

See independent auditors' report.

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CITY OF HEALDSBURG
 BUDGETARY COMPARISON SCHEDULE
 GENERAL FUND

For the year ended June 30, 2004

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Property taxes	\$ 616,599	\$ 616,599	\$ 662,888	\$ 46,289
Sales and other taxes	3,396,500	3,396,500	3,414,603	18,103
Charges for services	205,366	205,366	311,082	105,716
Intergovernmental revenues	413,328	413,328	904,009	490,681
Investment income	55,000	55,000	53,762	(1,238)
Miscellaneous fees and charges	71,692	71,692	162,641	90,949
Other revenues	14,825	14,825	13,272	(1,553)
TOTAL REVENUES	4,773,310	4,773,310	5,522,257	748,947
EXPENDITURES:				
Current:				
General government	369,774	369,774	687,077	(317,303)
Public safety	4,836,098	4,836,098	4,595,044	241,054
TOTAL EXPENDITURES	5,205,872	5,205,872	5,282,121	(76,249)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(432,562)	(432,562)	240,136	672,698
OTHER FINANCING USES:				
Transfers out	(15,000)	(15,000)	(15,000)	-
NET CHANGE IN FUND BALANCE	(447,562)	(447,562)	225,136	672,698
FUND BALANCE - BEGINNING OF YEAR	3,746,342	3,746,342	3,746,342	-
FUND BALANCE - END OF YEAR	\$ 3,298,780	\$ 3,298,780	\$ 3,971,478	\$ 672,698

See independent auditors' report and note to required supplementary information

CITY OF HEALDSBURG

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2004

I. BUDGETS AND BUDGETARY ACCOUNTING:

The City operates under the general laws of the State of California and annually adopts a budget to be effective July 1st for the ensuing fiscal year for certain governmental funds. From the effective date of the budget, which is adopted and controlled at the fund level, the amounts stated therein as proposed expenditures become appropriations to the City's various departments. The City Manager is authorized to transfer budgeted amounts between functional categories. The City Council may amend the budget by resolution during the fiscal year. All annual appropriations lapse at year-end.

Budget information is presented for the General, certain Special Revenue Funds and Debt Service Funds budgeted on a basis consistent with generally accepted accounting principles. No budgetary comparisons are presented for certain Special Revenue Funds, Capital Projects funds and the Permanent Fund as these funds do not have budgets adopted or the budgets adopted are primarily long-term budgets which emphasize capital outlay plans extending over one year. The City prefers to leave its original budget unaltered during the year. This enables the effectiveness of individual departments in meeting budget objectives to be evaluated, and the adequacy of the budget itself to be judged. The only exceptions to this are the appropriations of unanticipated revenues, the revision of appropriations to reflect major economic events materially affecting estimated revenues, and the refocusing of particular programs requiring the reallocation of existing resources. Several supplemental appropriations were approved during the course of the year. Expenditures in excess of budgeted amounts are allowed by law but must be approved individually by the City Council.

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See independent auditors' report.

CITY OF HEALDSBURG
SCHEDULE OF NET INCOME
WATER FUND
FOR THE YEARS ENDED JUNE 30, 1995-2004

	2004	2003	2002	2001
Operating Revenues:				
Utility service charges	\$ 3,844,742	\$ 3,444,666	\$ 2,909,292	\$ 2,671,027
Other	565,347	337,914	117,311	550,220
Total Operating Revenues	<u>4,410,089</u>	<u>3,782,580</u>	<u>3,026,603</u>	<u>3,221,247</u>
Operating Expenses:				
Operations	1,282,118	1,517,772	1,354,427	1,660,270
General and administrative	815,028	536,962	433,550	509,320
Depreciation	367,010	326,350	297,844	292,935
Miscellaneous	-	-	-	-
Total Operating Expenses	<u>2,464,156</u>	<u>2,381,084</u>	<u>2,085,821</u>	<u>2,462,525</u>
Income (Loss) from Operations	<u>1,945,933</u>	<u>1,401,496</u>	<u>940,782</u>	<u>758,722</u>
Non-operating Revenues (Expenses):				
Intergovernmental grant	-	-	-	-
Investment income	105,182	124,305	202,237	547,840
Interest expense	(680,810)	(620,906)	(472,959)	(451,480)
Loss in disposal of assets	(5,471)	-	-	(128,719)
Other expenses	-	-	-	-
Total Non-operating Revenues (Expenses)	<u>(581,099)</u>	<u>(496,601)</u>	<u>(270,722)</u>	<u>(32,359)</u>
Income (Loss) Before Transfers and Capital Contributions	1,364,834	904,895	670,060	726,363
Transfers In (Out)	<u>(257,436)</u>	<u>(181,761)</u>	<u>282,014</u>	<u>375,850</u>
Net Income Before Capital Contributions	1,107,398	723,134	952,074	1,102,213
Capital Contributions	-	21,161	233,840	202,854
Changes in Net Assets	<u>\$ 1,107,398</u>	<u>\$ 744,295</u>	<u>\$ 1,185,914</u>	<u>\$ 1,305,067</u>

Source: City of Healdsburg, Finance Department

	2000	1999	1998	1997	1996	1995
Operating Revenues:						
Utility service charges	\$ 2,455,946	\$ 2,224,131	\$ 1,860,618	\$ 1,743,286	\$ 1,555,991	\$ 1,359,348
Other	11,590	23,796	45,768	293	1,623	524
Total Operating Revenues	<u>2,467,536</u>	<u>2,247,927</u>	<u>1,906,386</u>	<u>1,743,579</u>	<u>1,557,614</u>	<u>1,359,872</u>
Operating Expenses:						
Operations	1,083,534	1,102,837	814,111	834,368	695,562	708,933
General and administrative	438,603	476,717	493,428	403,615	347,497	300,950
Depreciation	302,469	266,307	223,450	205,798	175,892	166,095
Miscellaneous	-	-	-	-	-	-
Total Operating Expenses	<u>1,824,606</u>	<u>1,845,861</u>	<u>1,530,989</u>	<u>1,443,781</u>	<u>1,218,951</u>	<u>1,175,978</u>
Income (Loss) from Operations	<u>642,930</u>	<u>402,066</u>	<u>375,397</u>	<u>299,798</u>	<u>338,663</u>	<u>183,894</u>
Non-operating Revenues (Expenses):						
Intergovernmental grant	-	2,183	15,155	371	29,049	78,981
Investment income	225,955	203,983	353,151	348,861	291,015	218,504
Interest expense	(420,335)	(437,190)	(471,541)	(396,073)	(324,277)	(207,803)
Loss in disposal of assets	(23,622)	(9,865)	(100,292)	(150)	(2,000)	-
Other expenses	-	-	-	(480)	-	(169,163)
Total Non-operating Revenues (Expenses)	<u>(218,002)</u>	<u>(240,889)</u>	<u>(203,527)</u>	<u>(47,471)</u>	<u>(6,213)</u>	<u>(79,481)</u>
Income (Loss) Before Transfers and Capital Contributions	424,928	161,177	171,870	252,327	332,450	104,413
Transfers In (Out)	<u>(98,200)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Income Before Capital Contributions	326,728	161,177	171,870	252,327	332,450	104,413
Capital Contributions	-	-	-	-	-	-
Changes in Net Assets	<u>\$ 326,728</u>	<u>\$ 161,177</u>	<u>\$ 171,870</u>	<u>\$ 252,327</u>	<u>\$ 332,450</u>	<u>\$ 104,413</u>

SCHEDULE OF CASH FLOWS
WATER FUND
FOR THE YEARS ENDED JUNE 30 1995-2004

	2004	2003	2002
Cash flows from operating activities:			
Operating income (loss)	\$ 1,945,933	\$ 1,401,496	\$ 940,782
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	367,010	326,350	297,844
Other revenue (expense)	-	-	-
Changes in operating assets and liabilities:			
(Increase) decrease in accounts receivable	(107,734)	16,243	(44,799)
(Increase) decrease in due from other governments	-	-	-
(Increase) decrease in deferred lease payments	(2,467)	(10,228)	11,098
(Increase) decrease in inventory	1,058	(1,058)	349
Increase (decrease) in accounts payable	95,243	(160,088)	113,979
Increase (decrease) in other accrued liabilities	-	-	-
Increase (decrease) in deposits	(94)	(8,396)	3,900
Total adjustments	353,016	162,823	382,371
Net cash provided (used) by operating activities	<u>2,298,949</u>	<u>1,564,319</u>	<u>1,323,153</u>
Cash flows from non-capital financing activities:			
Intergovernmental grant	-	-	-
(Increase) decrease in due from other funds	-	-	-
Increase (decrease) in due to other funds	-	353,281	-
Transfers in (out)	(257,436)	(535,042)	282,014
Net cash provided (used) by non-capital financing activities	<u>(257,436)</u>	<u>(181,761)</u>	<u>282,014</u>
Cash flows from capital and related financing activities:			
Acquisition of capital assets			
Developer financed	-	-	-
Capital replacement	(1,518,478)	(1,363,437)	(3,456,560)
Capacity expansion	-	-	-
Residual equity transfer	-	-	-
Contributed capital			
Development/connection/annexation fees	-	21,161	233,840
Contributed - other funds	-	-	-
Residual equity transfer	-	-	-
Developer contributions	-	-	-
Certificates of participation proceeds	-	5,510,000	-
Retirement of debt	(395,000)	(280,000)	(244,287)
Certificate issuance cost	-	-	-
Interest expense	(680,810)	(759,269)	(467,993)
Net cash provided (used) by capital and related financing activities	<u>(2,594,288)</u>	<u>3,128,455</u>	<u>(3,935,000)</u>
Cash flows from investing activities:			
Investment income	104,482	136,982	280,893
(Increase) decrease in investments	-	-	(357,562)
(Increase) decrease in interest receivables	-	-	-
(Increase) decrease in loans	14,617	-	-
Net cash provided (used) by investing activities	<u>119,099</u>	<u>136,982</u>	<u>(76,669)</u>
Net increase in cash and cash equivalents	(433,676)	4,647,995	(2,406,502)
Cash and cash equivalents at beginning of year	9,977,773	5,329,778	2,946,999
Cash and cash equivalents at end of year	<u>\$ 9,544,097</u>	<u>\$ 9,977,773</u>	<u>\$ 540,497</u>
Noncash capital and related financing activities			
Acquisition of capital assets	\$ -	\$ -	\$ -
Contributed capital by developer	-	-	-
Net noncash capital and related financing activities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Source: City of Healdsburg, Finance Department

	2001	2000	1999	1998	1997	1996	1995
Cash flows from operating activities:							
Operating income (loss)	\$ 758,722	\$ 642,930	\$ 402,066	\$ 375,397	\$ 313,527	\$ 338,663	\$ 183,894
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:							
Depreciation	292,935	302,469	266,307	223,450	205,798	175,892	166,095
Other revenue (expense)	-	-	-	-	(480)	-	(169,163)
Changes in operating assets and liabilities:							
(Increase) decrease in accounts receivable	(110,651)	(51,580)	(123,531)	4,893	(47,849)	(58,449)	(2,642)
(Increase) decrease in due from other governments	-	61,653	27,009	(73,824)	13,327	69,871	(98,036)
(Increase) decrease in deferred lease payments	(21,087)	(5,984)	(485)	6,878	(7,136)	9,365	3,959
(Increase) decrease in inventory	(23)	(10)	(13)	(7)	(296)	-	-
Increase (decrease) in accounts payable	194,320	(21,771)	(152,361)	144,952	16,085	73,448	(11,482)
Increase (decrease) in other accrued liabilities	-	-	-	-	-	-	-
Increase (decrease) in deposits	3,859	(2,700)	3,115	882	1,362	(234)	485
Total adjustments	359,353	282,097	20,041	307,224	180,811	269,893	(110,784)
Net cash provided (used) by operating activities	<u>1,118,075</u>	<u>925,027</u>	<u>422,107</u>	<u>682,621</u>	<u>494,338</u>	<u>608,556</u>	<u>73,110</u>
Cash flows from non-capital financing activities:							
Intergovernmental grant	-	-	2,183	-	371	29,049	78,981
(Increase) decrease in due from other funds	-	190,000	350,000	15,155	-	-	-
Increase (decrease) in due to other funds	-	-	-	(540,000)	-	-	-
Transfers in (out)	375,850	(98,200)	-	-	-	-	-
Net cash provided (used) by non-capital financing activities	<u>375,850</u>	<u>91,800</u>	<u>352,183</u>	<u>(524,845)</u>	<u>371</u>	<u>29,049</u>	<u>78,981</u>
Cash flows from capital and related financing activities:							
Acquisition of capital assets							
Developer financed	-	-	(1,177,121)	-	-	-	(9,430)
Capital replacement	(1,003,448)	(994,599)	-	(1,095,076)	(710,448)	(203,264)	(161,661)
Capacity expansion	-	-	-	(2,558,019)	(809,647)	(497,677)	(601,388)
Residual equity transfer	-	-	-	-	-	-	-
Contributed capital							
Development/connection/annexation fees	202,854	808,451	630,774	-	525,703	319,028	9,430
Contributed - other funds	-	-	-	468,544	-	-	379,389
Residual equity transfer	-	-	-	-	-	-	-
Developer contributions	-	-	-	-	-	-	450
Certificates of participation proceeds	10,136,304	-	-	(137,145)	2,256,982	(86,497)	1,871,100
Retirement of debt	(7,135,000)	(155,144)	(162,144)	-	(1,272)	-	(90,005)
Certificate issuance cost	-	-	-	-	(128,231)	-	(97,852)
Interest expense	(812,483)	(405,496)	(422,330)	(456,722)	(396,073)	(359,428)	(207,803)
Net cash provided (used) by capital and related financing activities	<u>1,388,227</u>	<u>(746,778)</u>	<u>(1,130,821)</u>	<u>(3,778,418)</u>	<u>737,014</u>	<u>(827,838)</u>	<u>1,092,230</u>
Cash flows from investing activities:							
Investment income	505,175	206,284	227,923	352,539	335,308	266,241	214,347
(Increase) decrease in investments	(1,480,698)	(500,000)	(505)	(145,777)	(390,632)	(730,283)	24,458
(Increase) decrease in interest receivables	-	-	-	-	-	-	-
(Increase) decrease in loans	39,410	(54,027)	-	-	-	-	-
Net cash provided (used) by investing activities	<u>(936,113)</u>	<u>(347,743)</u>	<u>227,418</u>	<u>206,762</u>	<u>(55,324)</u>	<u>(464,042)</u>	<u>238,805</u>
Net increase in cash and cash equivalents	1,946,039	(77,694)	(129,113)	(3,413,800)	1,176,399	(654,275)	1,483,126
Cash and cash equivalents at beginning of year	1,000,960	1,078,654	1,207,767	4,621,647	3,445,248	4,099,523	2,616,397
Cash and cash equivalents at end of year	<u>\$ 2,946,999</u>	<u>\$ 1,000,960</u>	<u>\$ 1,078,654</u>	<u>\$ 1,207,767</u>	<u>\$ 4,621,647</u>	<u>\$ 3,445,248</u>	<u>\$ 4,099,523</u>
Noncash capital and related financing activities							
Acquisition of capital assets	\$ (128,719)	\$ (23,622)	\$ -	\$ (100,291)	\$ -	\$ -	\$ -
Contributed capital by developer	-	-	-	-	-	-	-
Net noncash capital and related financing activities	<u>\$ (128,719)</u>	<u>\$ (23,622)</u>	<u>\$ -</u>	<u>\$ (100,291)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

CITY OF HEALDSBURG
 SCHEDULE OF WATER SOLD AND REVENUE PER HUNDRED CUBIC FEET
 LAST TEN FISCAL YEARS

Water Sold/Hundred Cubic Feet	1994-95	1995-96	1996-97	1997-98
July	118,685	108,472	122,066	119,625
August	113,624	114,116	131,962	139,487
September	120,337	131,329	121,255	112,813
October	96,208	96,509	101,461	92,941
November	66,631	86,171	80,801	75,646
December	46,518	61,056	49,770	45,455
January	42,918	44,547	47,217	44,931
February	39,739	42,181	41,516	39,433
March	41,429	40,255	47,892	38,803
April	45,163	47,948	63,923	40,930
May	51,226	72,286	83,648	50,155
June	79,329	86,467	104,167	63,595
Total	861,807	931,337	995,678	863,814
Total Billings	1994-95	1995-96	1996-97	1997-98
July	\$ 169,240	\$ 154,609	\$ 188,123	\$ 208,061
August	163,483	162,825	203,078	236,396
September	170,528	182,462	188,169	201,602
October	142,559	157,302	165,211	196,647
November	108,038	143,281	136,543	165,812
December	83,686	110,599	95,532	114,830
January	79,645	89,569	97,292	115,288
February	75,546	85,528	88,334	108,191
March	78,031	83,723	98,801	106,582
April	81,736	94,013	124,611	113,351
May	88,924	123,635	153,486	128,089
June	120,108	142,433	183,860	148,085
Total	\$ 1,361,524	\$ 1,529,979	\$ 1,723,040	\$ 1,842,934
Revenue/Hundred Cubic Feet	1994-95	1995-96	1996-97	1997-98
July	\$ 1.426	\$ 1.425	\$ 1.541	\$ 1.739
August	1.439	1.426	1.695	1.695
September	1.417	1.389	1.552	1.787
October	1.482	1.629	1.629	2.116
November	1.621	1.663	1.690	2.192
December	1.799	1.811	1.920	2.526
January	1.856	2.010	2.061	2.566
February	1.901	2.027	2.128	2.744
March	1.883	2.079	2.063	2.747
April	1.810	1.960	1.949	2.769
May	1.736	1.710	1.835	2.554
June	1.514	1.647	1.765	2.329
Average	\$ 1.580	\$ 1.643	\$ 1.731	\$ 2.133

Source: City of Healdsburg - Utility Department

	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04
July	94,098	124,006	120,565	122,998	129,426	124,590
August	135,762	125,072	119,845	120,704	134,202	143,876
September	119,448	103,036	217,593	128,824	132,107	116,375
October	103,846	103,860	8,651	96,824	105,646	111,873
November	76,280	77,746	71,730	70,075	88,514	79,424
December	48,932	50,628	151,493	48,562	47,080	52,184
January	52,084	55,095	47,985	49,833	48,905	41,876
February	38,840	44,171	42,371	43,534	44,149	46,506
March	39,852	34,009	42,520	46,318	39,681	49,917
April	46,017	61,625	56,940	54,006	64,949	69,719
May	64,504	75,098	82,539	84,024	48,948	92,292
June	104,760	96,390	127,578	117,528	102,559	185,732
Total	924,423	950,736	1,089,810	983,230	986,166	1,114,364
Total Billings	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04
July	\$ 203,715	\$ 277,183	\$ 290,991	\$ 316,829	\$ 377,692	\$ 417,302
August	277,541	284,246	292,455	314,358	388,593	469,705
September	249,641	232,324	540,325	328,654	383,287	392,080
October	228,998	247,081	18,874	271,307	335,532	371,512
November	181,375	201,201	201,770	213,148	296,673	300,077
December	131,430	145,122	154,596	168,193	185,751	227,693
January	138,061	145,569	155,795	174,432	203,678	202,241
February	113,418	131,064	140,012	161,461	187,490	208,838
March	118,801	128,168	143,159	167,578	181,951	223,287
April	128,293	169,873	169,252	189,216	255,351	271,034
May	163,752	194,035	224,054	258,382	212,741	338,499
June	238,927	239,254	317,661	336,732	352,706	386,976
Total	\$ 2,173,952	\$ 2,395,120	\$ 2,648,944	\$ 2,900,290	\$ 3,361,445	\$ 3,809,244
Revenue/Hundred Cubic Feet	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04
July	\$ 2.165	\$ 2.235	\$ 2.414	\$ 2.575	\$ 2.918	\$ 3.349
August	2.044	2.273	2.440	2.604	2.896	3.265
September	2.090	2.255	2.483	2.551	2.901	3.369
October	2.205	2.379	2.182	2.802	3.176	3.321
November	2.378	2.588	2.813	3.041	3.352	3.778
December	2.686	2.866	1.020	3.463	3.945	4.363
January	2.651	2.642	3.247	3.500	4.165	4.830
February	2.920	2.967	3.304	3.708	4.247	4.491
March	2.981	3.769	3.367	3.677	4.585	4.473
April	2.788	2.757	2.972	3.503	3.932	3.888
May	2.539	2.584	2.715	3.075	4.346	3.688
June	2.281	2.482	2.490	2.865	3.440	2.084
Average	\$ 2.352	\$ 2.519	\$ 2.431	\$ 2.950	\$ 3.409	\$ 3.418

CITY OF HEALDSBURG
SCHEDULE OF NET INCOME
SEWER FUND
FOR THE YEARS ENDED JUNE 30, 1995-2004

	2004	2003	2002	2001
Operating Revenues:				
Utility service charges	\$ 3,517,024	\$ 3,128,820	\$ 2,826,766	\$ 2,461,635
Other	694,597	951,379	446,407	790,121
Total Operating Revenues	<u>4,211,621</u>	<u>4,080,199</u>	<u>3,273,173</u>	<u>3,251,756</u>
Operating Expenses:				
Operations	926,611	806,290	699,797	682,268
General and administrative	983,338	958,426	853,289	746,544
Depreciation	496,859	462,182	461,567	434,226
Total Operating Expenses	<u>2,406,808</u>	<u>2,226,898</u>	<u>2,014,653</u>	<u>1,863,038</u>
Income (Loss) from Operations	<u>1,804,813</u>	<u>1,853,301</u>	<u>1,258,520</u>	<u>1,388,718</u>
Non-operating Revenues (Expenses):				
Intergovernmental grant	-	-	-	-
Investment income	111,008	131,172	191,295	501,221
Interest expense	(181,481)	(182,045)	(185,189)	(178,442)
Loss in disposal of assets	-	-	-	(190,477)
Other expenses	-	-	-	-
Total Non-operating Revenues (Expenses)	<u>(70,473)</u>	<u>(50,873)</u>	<u>6,106</u>	<u>132,302</u>
Income (Loss) Before Transfers and Capital Contributions	1,734,340	1,802,428	1,264,626	1,521,020
Transfers In (Out)	<u>(147,402)</u>	<u>(81,760)</u>	<u>(337,942)</u>	<u>(325,400)</u>
Net Income Before Capital Contributions	1,586,938	1,720,668	926,684	1,195,620
Capital Contributions	<u>2,525</u>	<u>47,261</u>	<u>410,448</u>	<u>440,261</u>
Changes in Net Assets	<u>\$ 1,589,463</u>	<u>\$ 1,767,929</u>	<u>\$ 1,337,132</u>	<u>\$ 1,635,881</u>

Source: City of Healdsburg, Finance Department

	2000	1999	1998	1997	1996	1995
Operating Revenues:						
Utility service charges	\$ 2,142,903	\$ 1,882,704	\$ 1,585,660	\$ 1,373,948	\$ 1,141,300	\$ 1,039,003
Other	642	42,902	91,628	14,092	-	-
Total Operating Revenues	<u>2,143,545</u>	<u>1,925,606</u>	<u>1,677,288</u>	<u>1,388,040</u>	<u>1,141,300</u>	<u>1,039,003</u>
Operating Expenses:						
Operations	801,228	848,612	647,522	535,866	633,629	530,317
General and administrative	443,019	500,628	443,145	405,181	375,655	344,987
Depreciation	475,136	418,628	366,880	340,035	308,598	293,756
Total Operating Expenses	<u>1,719,383</u>	<u>1,767,868</u>	<u>1,457,547</u>	<u>1,281,082</u>	<u>1,317,882</u>	<u>1,169,060</u>
Income (Loss) from Operations	<u>424,162</u>	<u>157,738</u>	<u>219,741</u>	<u>106,958</u>	<u>(176,582)</u>	<u>(130,057)</u>
Non-operating Revenues (Expenses):						
Intergovernmental grant	-	93	1,405	16	31,774	23,303
Investment income	178,311	75,980	179,167	38,765	40,921	59,214
Interest expense	(50,490)	(52,082)	(218,657)	(31,532)	-	-
Loss in disposal of assets	(39,624)	(8,616)	(1,573)	(152,018)	(3,282)	(10,163)
Other expenses	-	-	-	7,159	-	(39,658)
Total Non-operating Revenues (Expenses)	<u>88,197</u>	<u>15,375</u>	<u>(39,658)</u>	<u>(137,610)</u>	<u>69,413</u>	<u>32,696</u>
Income (Loss) Before Transfers and Capital Contributions	512,359	173,113	180,083	(36,521)	(107,169)	(97,361)
Transfers In (Out)	<u>434,800</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Income Before Capital Contributions	947,159	173,113	180,083	(36,521)	(107,169)	(97,361)
Capital Contributions	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Changes in Net Assets	<u>\$ 947,159</u>	<u>\$ 173,113</u>	<u>\$ 180,083</u>	<u>\$ (36,521)</u>	<u>\$ (107,169)</u>	<u>\$ (97,361)</u>

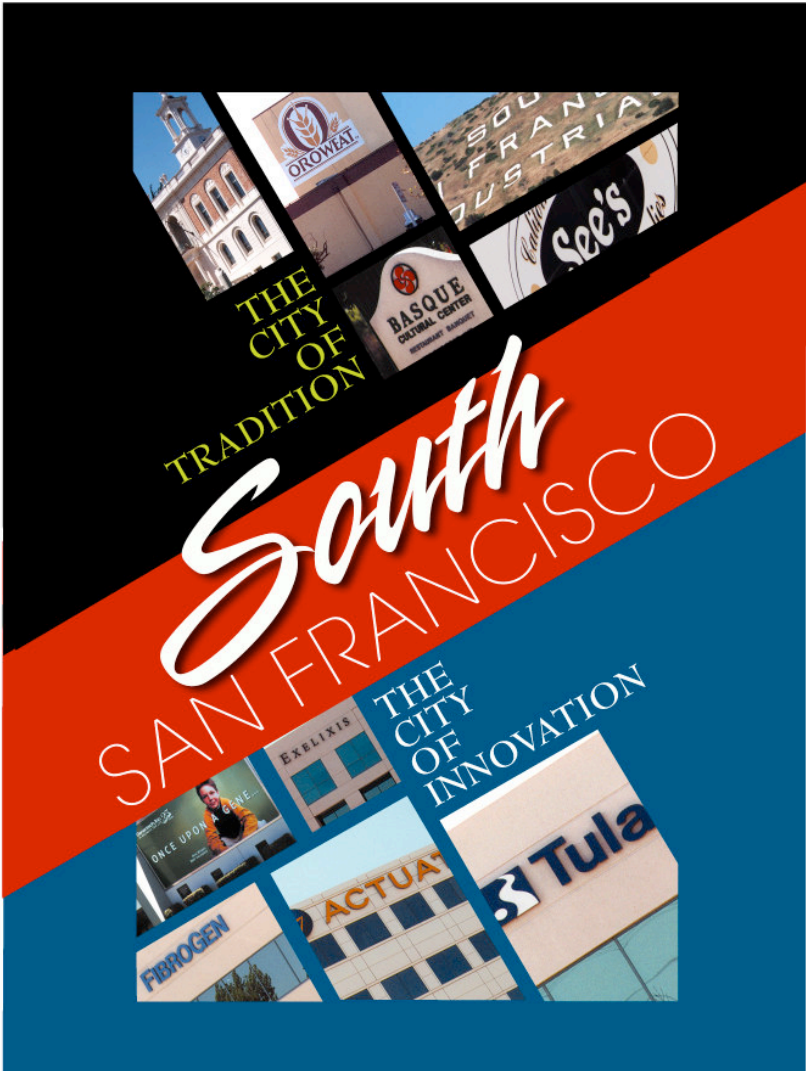
SCHEDULE OF CASH FLOWS
SEWER FUND
FOR THE YEARS ENDED JUNE 30 1995-2004

	2004	2003	2002	
Cash flows from operating activities:				
Operating income (loss)	\$ 1,804,813	\$ 1,853,301	\$ 1,258,520	\$
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation	496,859	462,182	461,567	
Other revenue (expenses)	-	-	-	
Changes in operating assets and liabilities:				
(Increase) decrease in accounts receivable	(99,910)	(129,344)	523	
(Increase) decrease in due from other governments	-	-	-	
(Increase) decrease in other current assets	-	-	-	
(Increase) decrease in inventory	(831)	(126)	254	
(Increase) decrease in prepaid costs	394	(394)	349	
Increase (decrease) in accounts payable	(433,437)	485,153	2,067	
Increase (decrease) in other accrued liabilities	-	-	-	
Increase (decrease) in deposits	-	(600)	-	
Total adjustments	(36,925)	816,871	464,760	
Net cash provided (used) by operating activities	<u>1,767,888</u>	<u>2,670,172</u>	<u>1,723,280</u>	
Cash flows from non-capital financing activities:				
Intergovernmental grant	-	-	-	
(Increase) decrease in due from other funds	-	3,282	-	
Transfers in (out)	(147,402)	(85,042)	(337,942)	
Net cash provided (used) by non-capital financing activities	<u>(147,402)</u>	<u>(81,760)</u>	<u>(337,942)</u>	
Cash flows from capital and related financing activities:				
Acquisition of capital assets				
Developer financed	-	-	-	
Capital replacement	(1,575,152)	(1,339,677)	(1,647,554)	
Capacity expansion	-	-	-	
Residual equity transfer	-	-	-	
Contributed capital				
Construction reimbursement	2,525	47,261	410,448	
Dev./connection/annexation fees	-	-	-	
Contributed - other funds	-	-	-	
Certificates of participation proceeds	-	-	-	
Certificate issuance cost	-	-	-	
Interest paid	(181,481)	(175,953)	(180,010)	
Residual equity transfer	-	-	-	
Proceeds from disposal of assets	-	-	-	
Developer contributions	-	-	-	
Retirement of debt	(65,000)	(60,000)	(54,090)	
Interest expense	-	-	-	
Net cash provided (used) by capital and related financing activities	<u>(1,819,108)</u>	<u>(1,528,369)</u>	<u>(1,471,206)</u>	
Cash flows from investing activities:				
Investment income	112,934	142,556	267,700	
(Increase) decrease in investments	-	-	(222,875)	
(Increase) decrease in interest receivables	-	-	-	
(Increase) decrease in loans	18,110	-	-	
Net cash provided (used) by investing activities	<u>131,044</u>	<u>142,556</u>	<u>44,825</u>	
Net increase in cash and cash equivalents	(67,578)	1,202,599	(41,043)	
Cash and cash equivalents at beginning of year	7,434,490	6,231,891	1,214,913	
Cash and cash equivalents at end of year	<u>\$ 7,366,912</u>	<u>\$ 7,434,490</u>	<u>\$ 1,173,870</u>	<u>\$</u>
Noncash capital and related financing activities				
Acquisition of capital assets	\$ -	\$ -	\$ -	\$
Contributed capital - other funds	-	-	-	
Contributed capital by developer	-	-	-	
Net noncash capital and related financing activities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$</u>

Source: City of Healdsburg, Finance Department

	2001	2000	1999	1998	1997	1996	1995
Cash flows from operating activities:							
Operating income (loss)	\$ 1,388,718	\$ 424,162	\$ 157,738	\$ 219,741	\$ 115,407	\$ (176,582)	\$ (130,057)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:							
Depreciation	434,226	475,136	418,628	366,880	340,035	308,598	293,756
Other revenue (expenses)	-	-	-	-	(7,159)	-	(39,658)
Changes in operating assets and liabilities:							
(Increase) decrease in accounts receivable	(33,873)	(41,075)	(42,437)	(45,837)	(3,860)	(32,412)	(9,639)
(Increase) decrease in due from other governments	-	12,866	10,895	(12,445)	18,052	10,544	(39,912)
(Increase) decrease in other current assets	-	-	-	-	-	-	-
(Increase) decrease in inventory	40	23	52	(95)	1,808	(1,694)	388
(Increase) decrease in prepaid costs	(23)	(10)	(13)	(7)	(296)	-	-
Increase (decrease) in accounts payable	(103,690)	(91,780)	253,582	(115,265)	88,851	4,862	(7,301)
Increase (decrease) in other accrued liabilities	-	-	-	-	-	-	-
Increase (decrease) in deposits	-	782	-	(182)	-	-	-
Total adjustments	296,680	355,942	640,707	193,049	437,431	289,898	197,614
Net cash provided (used) by operating activities	<u>1,685,398</u>	<u>780,104</u>	<u>798,445</u>	<u>412,790</u>	<u>552,838</u>	<u>113,316</u>	<u>67,557</u>
Cash flows from non-capital financing activities:							
Intergovernmental grant	-	-	93	1,405	16	31,774	23,303
(Increase) decrease in due from other funds	-	(190,000)	-	-	-	-	-
Transfers in (out)	(325,400)	434,800	(350,000)	540,000	-	-	-
Net cash provided (used) by non-capital financing activities	<u>(325,400)</u>	<u>244,800</u>	<u>(349,907)</u>	<u>541,405</u>	<u>16</u>	<u>31,774</u>	<u>23,303</u>
Cash flows from capital and related financing activities:							
Acquisition of capital assets							
Developer financed	-	-	(436,504)	-	-	-	(35,120)
Capital replacement	(2,348,656)	(417,787)	-	(239,048)	(1,539,799)	(914,135)	(109,725)
Capacity expansion	-	-	-	(2,137,278)	(1,480,888)	(169,580)	(326,088)
Residual equity transfer	-	-	-	-	-	-	-
Contributed capital							
Construction reimbursement	440,261	1,478,099	879,194	1,276,075	2,184,670	-	35,120
Dev./connection/annexation fees	-	-	-	-	-	380,855	413,522
Contributed - other funds	-	-	-	-	-	-	140,717
Certificates of participation proceeds	2,572,497	(14,684)	(14,683)	(14,683)	940,658	-	-
Certificate issuance cost	-	-	-	-	(67,097)	-	-
Interest paid	(263,346)	(48,215)	(49,808)	(216,382)	(31,532)	-	-
Residual equity transfer	-	-	-	-	-	-	-
Proceeds from disposal of assets	-	-	-	-	-	-	-
Developer contributions	-	-	-	-	-	-	-
Retirement of debt	-	-	-	-	-	-	(109)
Interest expense	-	-	-	-	-	-	-
Net cash provided (used) by capital and related financing activities	<u>400,756</u>	<u>997,413</u>	<u>378,199</u>	<u>(1,331,316)</u>	<u>6,012</u>	<u>(702,860)</u>	<u>118,317</u>
Cash flows from investing activities:							
Investment income	451,788	145,594	68,256	178,994	40,298	42,410	55,459
(Increase) decrease in investments	(1,245,800)	(2,986,273)	(602,993)	3,681	(1,041)	299,219	147,950
(Increase) decrease in interest receivables	-	-	-	-	-	-	-
(Increase) decrease in loans	7,066	(25,179)	-	-	-	-	-
Net cash provided (used) by investing activities	<u>(787,026)</u>	<u>(2,865,855)</u>	<u>(534,737)</u>	<u>182,675</u>	<u>39,257</u>	<u>341,629</u>	<u>203,409</u>
Net increase in cash and cash equivalents	973,728	(843,538)	292,000	(194,446)	598,123	(216,141)	412,586
Cash and cash equivalents at beginning of year	241,185	1,084,723	792,723	987,169	389,046	412,586	-
Cash and cash equivalents at end of year	<u>\$ 1,214,913</u>	<u>\$ 241,185</u>	<u>\$ 1,084,723</u>	<u>\$ 792,723</u>	<u>\$ 987,169</u>	<u>\$ 196,445</u>	<u>\$ 412,586</u>
Noncash capital and related financing activities							
Acquisition of capital assets	\$ (190,477)	\$ (39,624)	\$ (8,616)	\$ (1,573)	\$ -	\$ (2,473,636)	\$ (140,717)
Contributed capital - other funds	-	-	-	-	-	2,473,636	140,717
Contributed capital by developer	-	-	-	-	-	-	-
Net noncash capital and related financing activities	<u>(190,477)</u>	<u>(39,624)</u>	<u>(8,616)</u>	<u>(1,573)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

THE CITY OF
SOUTH SAN FRANCISCO, CALIFORNIA



COMPREHENSIVE ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2004

CITY OF SOUTH SAN FRANCISCO, CALIFORNIA



Comprehensive Annual Financial Report

For the Year Ended June 30, 2004

Prepared by:
Department of Finance
City Hall
P.O. Box 711
South San Francisco, California 94083

CITY OF SOUTH SAN FRANCISCO, CALIFORNIA

Comprehensive Annual Financial Report
For the Year Ended June 30, 2004

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Comprehensive Annual Financial Report
For the Year Ended June 30, 2004

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OFFICE OF THE
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December 30, 2004

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Honorable Mayor and Members
Of the City Council
City of South San Francisco
South San Francisco, California

The Comprehensive Annual Financial Report (CAFR) of the City of South San Francisco (the City) for the fiscal year ended June 30, 2004, is hereby submitted. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with the City. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the various funds and account groups of the City. All disclosures necessary to enable the reader to gain an understanding of the City's financial activities have been included.

ORGANIZATION OF THE REPORT

The Comprehensive Annual Financial Report is presented in three sections: Introductory, Financial, and Statistical.

1. The Introductory Section contains information on the City's organizational structure, it's scope of services, the City's economic outlook, and various accomplishments.
2. The Financial Section contains the independent auditor's report on the basic financial statements, Management's Discussion and Analysis (MD&A) of the fiscal year, the basic financial statements and notes that explain the City's financial position and operating results, and supplementary statements, schedules, and notes that provide additional detailed information relative to the basic financial statements. This transmittal letter, read in conjunction with the MD&A, assists readers in assessing the City's financial condition.
3. The Statistical Section includes pertinent financial and non-financial statistical data that present various financial, economic, and social trends and other information about the City for the last ten years.

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This report includes all financial activities (funds and account groups) of the City of South San Francisco, including financial information for the City, as the primary government, and for its component units, for which the City is considered financially accountable. The component units are included because of the significance of their governing, operational, and/or financial relationships with the City.

BACKGROUND OF THE CITY

The City encompasses approximately 9.5 square miles and has a population of 61,724. It employs approximately 403 full-time equivalent and 67 full-time equivalent part-time employees. South San Francisco is a full service city which includes public safety (police, fire and paramedics), libraries, parks, cultural and recreational activities, senior citizen services, public works, public improvements, engineering, planning, building regulation, economic development, drainage, street lighting, and general administrative services. Sewer service, downtown parking operations, and storm water management are accounted for in the City's enterprise funds. The Conference Center Authority is included in the financial statements by discrete presentation – that is, the Authority's financial data is reported in a column separate from the financial data of the City. Water and refuse services are provided by private and other governmental entities.

South San Francisco was incorporated and became a general law city of the State of California on September 19, 1908. The form of government is the Council-Manager plan. The Council is composed of a Mayor and four Council Members who are elected at large. Each Council Member serves a term of four years, with a rotating Mayor chosen by majority vote of the Council, for a term of one year. The City Manager is the administrative head of the government of the City, under the direction of the City Council. The offices of City Clerk and City Treasurer are elected. The City Attorney is appointed by the City Council.

All department heads are appointed and serve under the administrative direction of the City Manager. All other officers and employees of the City are appointed by the City Manager and serve under the administrative direction of their department heads.

ECONOMIC OUTLOOK

The nation's economy is still showing very weak signs of recovery and some economists, including the UCLA's Anderson Forecast, warn that the economy could slump again in 2005. The Conference Board's composite index of leading indicators slipped in September for the fourth straight month, signaling the economic soft patch will persist.

Locally, the Bay Area is still slowing overall tepid growth and has not added back significantly to the jobs lost in 2000-01. Semiconductor sales, one key indicator of

future Silicon Valley growth, which in turn impacts the entire Bay Area, are projected by the Semiconductor Industry Association to decline in 2005.

On a positive note, BT Commercial reports that office vacancies in South San Francisco was 27.7% in the third quarter of 2004, compared to 48.3% a year before. The Office/R&D vacancy rate in South San Francisco/Burlingame was 12.2% in the third quarter of 2004 compared to 10.9% a year before.

MAJOR ACCOMPLISHMENTS

In 2004, the City completed and opened the \$21.4 million freeway off-ramp from southbound U.S. Hwy 101 to Oyster Point Boulevard. It's opening allowed commuters to have easier access to South San Francisco's major biotechnology center.

In 2004, the Downtown Redevelopment Agency acquired a vacant building and real property at 480 North Canal Street for \$3.65 million. The plan is to convert the building and site into the new Central Fire Station and Fire administration headquarters and potentially house the Emergency Operations Center and Fire prevention offices, after securing additional funding.

The City of South San Francisco launched a new first time homebuyer program. This program is open to individuals and households who live or work in the City of South San Francisco. The program will provide qualified buyers a low-interest loan of up to \$100,000 to purchase a home on the open market or one of two Below Market Rate (BMR) homes in the new Oak Farms development.

Registration and payment for recreational classes can now be done on-line through the City's website.

FINANCIAL INFORMATION

In developing and appraising 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 assurance regarding: (1) the safeguarding of assets against loss from unauthorized use or disposition; (2) the reliability of financial records for preparing financial statements and maintaining accountability for assets; and (3) transactions being properly executed in accordance with management's authorization.

The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the evaluation of costs and benefits requires estimates and judgments by management.

Basic characteristics of sound internal accounting control include segregation of accounting duties, approvals of accounting transactions, and regular reconciliation of detail and control records.

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

The City adopts fiscal year budgets for its general, special revenue, debt service, enterprise, and capital project funds. Most budgets are prepared on a line item basis and controlled by monthly management reports. The government also maintains an encumbrance accounting system as one technique of accomplishing budgetary control. Encumbered amounts lapse at year-end. However, encumbrances generally are reappropriated as a part of the following year's budget.

Debt Administration. The City has outstanding tax allocation bonds, lease revenue bonds, special assessment debt, and certificates of participation that are supported by specific revenue sources. These are not considered to be general tax-supported obligations. There are also various capital leases and notes payable in governmental and proprietary funds.

Cash Management. The City pools all of its idle funds for investment purposes and manages its investments following objectives that maintain safety of principal, liquidity, and yield. June 30, 2004 investments and their weighting consisted of the San Mateo County investment pool (34%), the California Local Agency Investment Fund (19%), U.S. government agency obligations (19%), a money market pool of US securities (13%), an investment management fund (5%), medium-term notes (2%), with the remaining 8% in cash and bank accounts. The City held at fair value, \$94.7 million in investments and cash at June 30, 2004. Investments earned an average yield of 2.94%. The average days to maturity of the June 30 portfolio was 214 days.

Capital Assets of the City comprise land, buildings, infrastructure, machinery, equipment, furniture, fixtures, and vehicles owned and used by general government and proprietary functions. Assets are reported within the basic financial statements.

Risk Management. The City maintained a risk management program for workers' compensation, general liability, and property damage. As part of this comprehensive plan, monies have accumulated in the self-insurance internal service fund to meet potential losses. In addition, a safety committee of City employees reviews all accidents and recommends preventive measures to minimize future accident-related losses. The City self-insures the deductible or retention levels of its workers compensation, general liability and property damage insurance policies. A third party administrator handles worker compensation claims. The Association of Bay Area Governments' municipal pool insurance plan provides the City's general liability and property damage coverage along with claims and risk management services. An employers' casualty insurance company provides workers compensation coverage in excess of the deductible.

OTHER INFORMATION

Independent Audit. The City engaged an independent accounting firm to audit the books of accounts, financial records, transactions, and financial statements. Their report covering 2003-04 is in the Financial Section of this report.

Award. The City's comprehensive annual financial report for the fiscal year ended June 30, 2003 received a Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association. The award signified the report's attainment of easily readable and efficiently organized content and satisfaction of generally accepted accounting principles and legal requirements. The award is valid for a period of one year only. However, the City believes that this current report continues to conform to program eligibility requirements.

Acknowledgments. The preparation of the comprehensive financial report was made possible by the dedicated services of the entire staff of the Finance Department and our auditors. Each member of the department has our sincere appreciation for the contributions made in the preparation of this report.

Respectfully submitted,

Jim Steele
Director of Finance

Barry M. Nagel
City Manager

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Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of South San Francisco,
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.



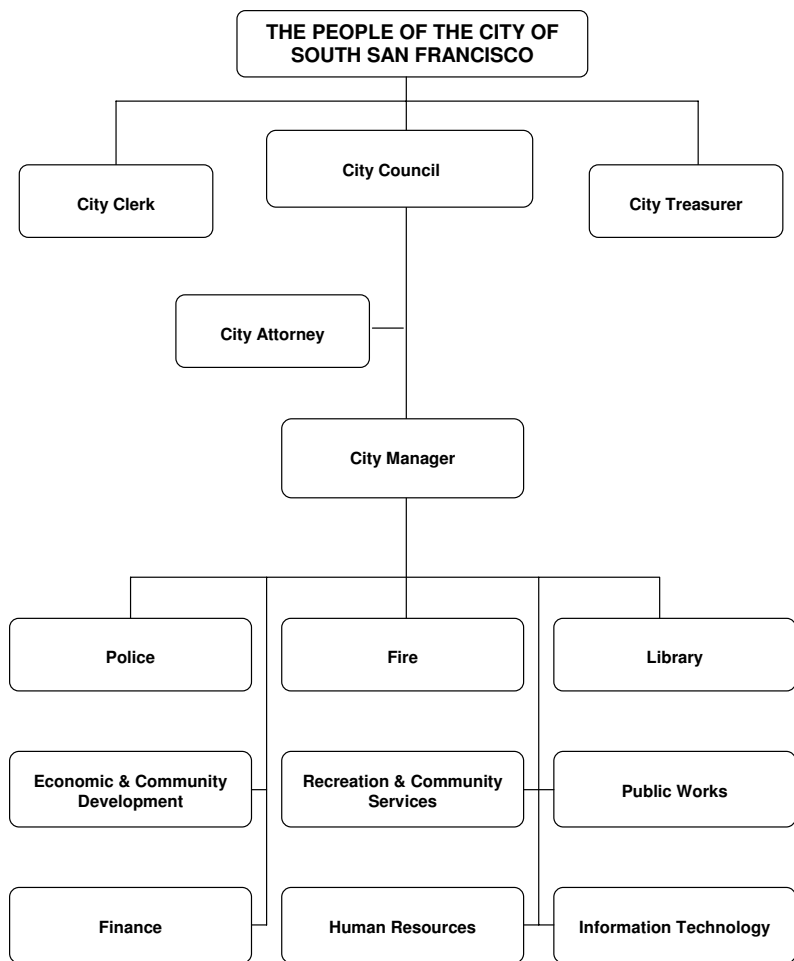
Nancy L. Zjelke

President

Jeffrey R. Enow

Executive Director

ORGANIZATION CHART



**CITY OF SOUTH SAN FRANCISCO
CITY COUNCIL AND DIRECTORY OF OFFICIALS**

*CITY COUNCIL**

	KARYL MATSUMOTO MAYOR	
JOSEPH A. FERNEKES COUNCILMAN	RAYMOND L. GREEN MAYOR PRO TEM	PEDRO GONZALEZ COUNCILMAN
	RICHARD A. GARBARINO, SR. COUNCILMAN	

CITY OFFICIALS

SYLVIA M. PAYNE CITY CLERK	BARRY M. NAGEL CITY MANAGER	RICHARD BATTAGLIA CITY TREASURER
	STEVEN T. MATTAS CITY ATTORNEY	

DEPARTMENT MANAGERS

	MARTY VAN DUYN ASSISTANT CITY MANAGER	
MARK J. RAFFAELLI CHIEF OF POLICE		PHILIP D. WHITE FIRE CHIEF
TERRY WHITE DIRECTOR OF PUBLIC WORKS		SHARON RANALS DIRECTOR OF RECREATION & COMMUNITY SERVICES
JIM STEELE DIRECTOR OF FINANCE		VALERIE SOMMER LIBRARY DIRECTOR
DOUG HOLLIS DIRECTOR OF INFORMATION TECHNOLOGY		ELAINE YAMANI HUMAN RESOURCES DIRECTOR (INTERIM)

* As of June 30, 2004

INDEPENDENT AUDITOR'S REPORT
ON BASIC FINANCIAL STATEMENTS

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

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To the Honorable Mayor and Members of the City Council
City of South San Francisco, California

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of South San Francisco as of and for the 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 an opinion on these financial statements based on our audit. We did not audit the component unit financial statements of the South San Francisco Conference Center Authority, California, which represents 2% and 3% of the assets and revenues and 3% and 4% of expenses and liabilities of the reporting entity, respectively. These component unit financial statements were audited by other auditors, whose report thereon has been furnished to us. Our opinion, insofar as it relates to the amounts included for this entity, is based solely on the report of these other auditors.

We conducted our audit in accordance with generally accepted auditing standards in the United States of America and the standards for 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 as to whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our 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 governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of South San Francisco as of June 30, 2004 and the respective changes in the financial position and cash flows, where applicable, thereof for the year then ended in conformity with generally accepted accounting principles in the United States of America.

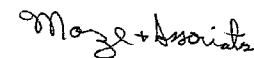
Management's Discussion and Analysis and Budget and Actual statements for the general fund and Federal Aviation Grant Special Revenue Fund are not a required part of the basic financial statements but are supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion on it.

In accordance with Government Auditing Standards, we have also issued reports dated November 19, 2004 on our consideration of the City's internal control structure and on its compliance with laws and regulation.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The supplemental information listed in the Table of Contents is presented for purposes of additional analysis and is not a required part of the basic statements of the City of South San Francisco. This 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.

The introductory section and statistical section listed in the Table of Contents 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.

November 19, 2004



A Professional Corporation

CITY OF SOUTH SAN FRANCISCO
MANAGEMENT'S DISCUSSION AND ANALYSIS
Required Supplementary Information (Continued)

Government Accounting Standards Board Statement 34 (GASB 34) requires the City of South San Francisco to provide this overview of its financial activities for the fiscal year. Please read this in conjunction with the accompanying Transmittal Letter and Basic Financial Statements.

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FISCAL 2003-04 FINANCIAL HIGHLIGHTS

While General Fund revenues exceeded last year by \$2.1 million, it was still \$2.2 million below the forecast used in the original adopted budget for 2003-04. When looking at overall City revenues that encompass other government activities and business enterprises such as Redevelopment Agency property taxes, gasoline and transportation taxes, capital and operating grants, and sewer wastewater fees, revenues declined to a lesser degree. The City was affected by the loss of a major sales tax provider and continuing sluggishness in business-to-business commerce and construction material segment. This resulted in sales taxes falling \$1.4 million below budget and negating any sales tax growth that the City had forecasted. Motor vehicle license fees fell \$0.8 million below budget because of the state's takeaway and borrowing of funds due to the City. Hotel (transient occupancy) taxes were stagnant as well, reflecting the general slowdown of the travel industry. General Fund investment earnings came in \$0.4 million below last year and the budget while overall City investment earnings came in \$2.9 million lower than last year. Both were due to upswings in the prevailing interest rate environment and due to the gradual repositioning of the City's investment portfolio out of corporate medium-term bonds. General Fund and Redevelopment Agency property taxes came in \$1.8 million better than last year. Overall charges for services rose \$3.1 million over last year.

The lower revenue picture pitted against rising wage and benefit costs resulting from CalPERS retirement benefit enhancements, health insurance increases, and salary increases in accordance with bargaining group contract formulas, resulted in the City adopting expenditure cuts and expenditure shifts of \$5.6 million in the adopted budget and in two other major budget amendments during the fiscal year. Financial highlights of the year include the following:

- The City's total net assets increased \$21 million during fiscal 2003-04 to an ending June 30, 2004 balance of \$185.1 million.
- Total City revenues, including program and general revenues, were \$100.3 million in fiscal 2003-04 down slightly from \$101.3 million in 2002-03. Total expenses were \$79.1 million compared to \$73 million last year.
- Net assets in governmental activities rose from \$137 million to \$157.8 million at June 30, 2004, while net assets in business-type activities inched upward from \$27.1 million to \$27.3 million.
- Governmental program revenues declined slightly from \$30.9 million to \$29.8 million in fiscal 2003-04. Program expenses rose from \$60.4 million to \$64.6 million.
- Revenues generated from business-type activities were \$14.6 million in fiscal 2003-04. Business-type expenses were \$14.5 million.
- General Fund revenues of \$49 million rose \$2.1 million from the previous year. Expenditures of \$51.5 million represented an increase of \$2 million over the prior year.
- The overall General Fund balance of \$12.7 million at June 30, 2004 represented a decrease of \$1.3 million from last year. The unreserved, undesignated portion of this balance decreased from \$4.3 million to \$3.9 million during the year ended June 30, 2004.

CITY OF SOUTH SAN FRANCISCO
MANAGEMENT'S DISCUSSION AND ANALYSIS
Required Supplementary Information (Continued)

CITY OF SOUTH SAN FRANCISCO
MANAGEMENT'S DISCUSSION AND ANALYSIS
Required Supplementary Information (Continued)

OVERVIEW OF THE COMPREHENSIVE ANNUAL FINANCIAL REPORT

This Comprehensive Annual Financial Report is in six parts:

- 1) The Introductory Section, which includes the Transmittal Letter and general information,
- 2) Management's Discussion and Analysis (this part),
- 3) The Basic Financial Statements, which include the Government-wide and the Fund financial statements, along with the notes accompanying these statements,
- 4) Required Supplementary Information and the accompanying notes,
- 5) Other Supplementary Information including combining statements for non-major governmental funds, internal service funds, other budgetary information, and a fiduciary statement of changes in assets and liabilities, and
- 6) The Statistical Section.

Basic Financial Statements

The Basic Financial Statements comprise the City-wide Financial Statements and the Fund Financial Statements. These two sets of financial statements provide two different views of the City's financial activities and financial position.

The City-wide Financial Statements provide a longer-term view of the City's activities as a whole, and comprise the Statement of Net Assets and the Statement of Activities. The Statement of Net Assets provides information about the financial position of the City as a whole, including all its capital assets and long-term liabilities on the full accrual basis, similar to that used by corporations. The Statement of Activities provides information about all the City's revenues and all its expenses, also on the full accrual basis, with the emphasis on measuring net revenues or expenses of each the City's programs. The Statement of Activities explains in detail the change in Net Assets for the year.

All of the City's activities are grouped into Government Activities and Business-type activities, as explained below. All the amounts in the Statement of Net Assets and the Statement of Activities are separated into Governmental Activities and Business-type Activities in order to provide a summary of these two activities of the City as a whole.

The Fund Financial Statements report the City's operations in more detail than the government-wide statements and focus primarily on the short-term activities of the City's General Fund and other Major Funds. The Fund Financial Statements measure only current revenues and expenditures and fund balances; they exclude capital assets, long-term debt and other long-term amounts.

Major Funds account for the major financial activities of the City and are presented individually, while the activities of Non-major funds are presented in summary, with subordinate schedules presenting the detail for each of these other funds. Major Funds are explained below.

The fiduciary statements provide financial information about the activities of Non-Obligated Assessment Districts, for which the City acts solely as agent.

Note 1 to the Basic Financial Statements provides a summary of the City's significant accounting policies, fund categories, fund types and account groups.

City-wide Financial Statements

The Statement of Net Assets and the Statement of Activities present information about the following:

- **Governmental activities**—All of the City's basic services are considered to be governmental activities, including general government, fire, police, public works, parks, recreation, maintenance services, library, and economic and community development. These services are supported by general City revenues such as taxes, and by specific program revenues from grants, contributions, and fees.
- The City's governmental activities include two separate legal entities, the City of South San Francisco Redevelopment Agency and the City of South San Francisco Capital Improvements Financing Authority, because the City Council governs both of these entities, with services provided solely to the City.
- **Business-type activities**—All the City's enterprise activities are reported here, including sewage treatment, parking, and storm water management. Unlike governmental services, user fees fully support these services.
- **Component Unit** - The City of South San Francisco Conference Center Authority comprises the component unit. The Authority serves the City and other interests and it has a governing body separate from the City Council.

Citywide financial statements are prepared on the accrual basis, which means they measure the flow of all economic resources of the City as a whole.

Fund Financial Statements

The Fund Financial Statements provide detailed information about each of the City's most significant funds, called Major Funds. The concept of major funds, and the determination of which are major funds, was established by GASB Statement 34 and replaces the concept of combining like funds and presenting them in total. Instead, each Major Fund is presented individually, with all Non-major Funds summarized and presented only in a single column. Subordinate schedules present the detail of these Non-major funds. Major Funds present the major activities of the City for the year, and may change from year to year as a result of changes in the pattern of City's activities.

Fund Financial Statements include governmental, enterprise and internal service funds as discussed below.

Governmental Fund Financial Statements are prepared on the modified accrual basis, which means they measure only current financial resources and uses. Capital assets and other long-lived assets, along with long-term liabilities, are not presented in the Governmental Fund Financial Statements.

Enterprise and Internal Service Fund financial statements are prepared on the full accrual basis, as in the past, and include all their assets and liabilities, current and long-term.

Since the City's Internal Service Funds provide goods and services only to the City's governmental and business-type activities, their activities are reported only in total at the Fund

CITY OF SOUTH SAN FRANCISCO
MANAGEMENT'S DISCUSSION AND ANALYSIS
 Required Supplementary Information (Continued)

level. Internal Service Funds may not be Major Funds because their revenues are derived from other City Funds. These revenues are eliminated in the citywide financial statements and any related profits or losses are returned to the activities, which created them, along with any residual net assets of the Internal Service Funds.

Comparisons of Budget and Actual financial information are presented only for the General Fund and other Major Funds that are Special Revenue Funds.

Fiduciary Statements

The City is the agent for certain assessment districts, holding amounts collected from property owners which await transfer to these Districts' bond trustees. The City's fiduciary activities are reported in the separate Statement of Fiduciary Net Assets and the Statement of Changes in Assets and Liabilities. These activities are excluded from the City's other financial statements because the City cannot use these assets to finance its own operations.

FINANCIAL ACTIVITIES OF THE CITY AS A WHOLE

This analysis focuses on the net assets and changes in net assets of the City's Governmental Activities (Table and Charts 1 through 5) and Business-type Activities (Tables 6 and 7) presented in the City-wide Statement of Net Assets and Statement of Activities. A comparative analysis is presented for fiscal years 2002-03 and 2003-04.

Governmental Activities

Governmental Net Assets

Table 1
Governmental Net Assets at June 30,
(in Millions)

	2004	2003
Cash and investments	\$ 90.6	\$ 96.7
Other assets	21.8	17.2
Capital assets	131.7	109.4
Total assets	\$ 244.1	\$ 223.3
Long-term debt outstanding	\$ 52.9	\$ 53.6
Other liabilities	33.5	32.7
Total liabilities	\$ 86.4	\$ 86.3
Net assets:		
Invested in capital assets, net of debt	\$ 88.9	\$ 76.4
Restricted	60.0	41.9
Unrestricted	8.8	18.7
Total net assets	\$ 157.7	\$ 137.0

The City's net assets from governmental activities (including Redevelopment) increased \$20.7 million to \$157.7 million at June 30, 2004. The increase from a revenue and expense

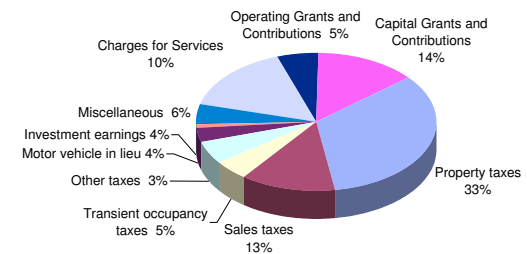
CITY OF SOUTH SAN FRANCISCO
MANAGEMENT'S DISCUSSION AND ANALYSIS
 Required Supplementary Information (Continued)

perspective is explained in Table 3, Change in Governmental Net Assets. Significant changes in assets and liabilities are explained as follows:

- Cash and investments decreased from \$96.7 to \$90.6 million. The net cash outflow contributed to the City's acquisition or construction of \$22.3 million in capital assets. This capital outlay also caused invested in capital assets, net of debt to increase by \$12.5 million.
- Other assets increased \$4.6 million to \$21.8 million primarily due to a short-term cash advance from the governmental Redevelopment Agency to the business-type Sewer Enterprise Fund prior to the Sewer Fund's receipt of loan proceeds on July 1, 2004 from the State Water Resources Control Board. Because the City operates on a pooled cash basis, capital outlays in the Sewer Fund may be fronted by another City fund prior to their reimbursement by loan proceeds.
- Restricted net assets increased \$18.1 million mostly due to a \$5.5 million increase in Redevelopment Agency capital project funds, \$3.9 million added to the Agency's bond retirement debt service account, and \$7.3 million in special revenue funds related to development impact fees, maintenance districts, and solid waste management that are shown as restricted net assets this year as opposed to them being shown as unrestricted net assets last year. This reclassification led to the decline in unrestricted net assets.

Change in Governmental Net Assets

Chart 2
Revenues by Source - Governmental Activities 2003-04



The percentage of 2003-04 revenues by source were consistent with the previous year, with the largest fluctuations being capital grants and contributions decreasing from 18% to 14% and property taxes increasing from 30% to 33%.

Table 3 below shows that total 2003-04 revenues of \$85.5 million for the City's governmental activities represented a \$2.5 million or 2.8% decrease from the previous year. General revenues dropped \$1.3 million. A \$0.9 million decline in sales taxes represented a severe hit in

CITY OF SOUTH SAN FRANCISCO
MANAGEMENT'S DISCUSSION AND ANALYSIS
 Required Supplementary Information (Continued)

the business-to-business and construction material sectors that make up much of the City's sales tax base. Due to the rise in market interest rates, the maturity of older medium-term bonds with high interest rates, due to the sale of certain investments due to weak investment ratings, and because of lower overall cash balances, investment earnings declined \$2.7 million from the previous year. Motor vehicle in-lieu taxes declined \$0.8 million due to the state's borrowing of these dollars from cities to alleviate the state's budget crunch. However some of these general revenue declines were offset by a \$1.8 million increase in property taxes, \$0.5 million of it from a refund of excess Educational Revenue Augmentation Fund (ERAF) reallocation amounts.

Program revenue areas decreased \$1.2 million during 2003-04. Because the City received a large County Transportation Authority grant in the previous year, capital grants and contributions decreased \$4.9 million, however this was mostly offset by a \$3.1 million increase in charges for services representing additional revenues for Fire department services, Police services, recreational programs, and building permit revenues.

Total governmental expenses increased \$4.4 million or 7.3% to \$64.8 million for 2003-04. The City incurred pay raises averaging 12.5% for police, 7.6% for fire, and 8.9% for others, based on surveys among other neighboring cities. The City adopted a retirement benefit enhancement and faced double-digit percentage growth in health insurance costs. The largest expense increases were in the fire, police, parks, recreation and maintenance areas, reflecting the large number of employees in those areas. To alleviate the effect, the City adopted \$3.2 million in budget cuts at the beginning of the fiscal year, including the freezing of 22 positions and adopted new service revenue and fee increases of \$3.1 million. After seeing that General Fund year-end revenues were going to be about \$2.2 million below budget, the City shifted \$1.4 million in expenses from the General Fund to other governmental funds primarily and charged \$0.2 million in additional administrative costs to other governmental funds.

Total revenues exceeded expenses by \$20.7 million, increasing governmental net assets by this amount. This increase was \$6.9 million below fiscal 2002-03's increase.

CITY OF SOUTH SAN FRANCISCO
MANAGEMENT'S DISCUSSION AND ANALYSIS
 Required Supplementary Information (Continued)

The Statement of Activities presents expenses, program revenues, and general revenues in detail. These elements effect the Change in Governmental Net Assets as follows:

Table 3
Change in Governmental Net Assets
 (in Millions)

	2003-04	2002-03
Expenses		
General government	\$ 7.1	\$ 7.7
Fire department	13.7	11.5
Police department	13.9	12.5
Public works department	2.3	2.5
Parks, recreation and maintenance	12.2	11.6
Library	4.7	4.2
Economic and community development	7.7	7.2
Interest on long-term debt	3.2	3.2
Total expenses	<u>\$ 64.8</u>	<u>\$ 60.4</u>
Revenues		
Program revenues:		
Charges for services	\$ 13.3	\$ 10.2
Operating grants and contributions	4.8	4.2
Capital grants and contributions	11.6	16.5
Total program revenues	<u>\$ 29.7</u>	<u>\$ 30.9</u>
General revenues:		
Taxes:		
Property taxes	\$ 28.8	\$ 27.0
Sales taxes	11.0	11.9
Transient occupancy taxes	3.9	3.9
Motor vehicle in lieu	2.8	3.6
Other taxes	4.6	4.1
Investment earnings	0.7	3.4
Miscellaneous	4.0	3.2
Total general revenues	<u>\$ 55.8</u>	<u>\$ 57.1</u>
Total revenues	<u>\$ 85.5</u>	<u>\$ 88.0</u>
Change in net assets	<u>20.7</u>	<u>27.6</u>
Net assets - beginning	<u>137.0</u>	<u>109.4</u>
Net assets - ending	<u><u>\$ 157.7</u></u>	<u><u>\$ 137.0</u></u>

CITY OF SOUTH SAN FRANCISCO
MANAGEMENT'S DISCUSSION AND ANALYSIS
 Required Supplementary Information (Continued)

Expense and Program Revenue Analysis

Chart 4
Expense and Program Revenue Comparison in Governmental Activities
 2003-04

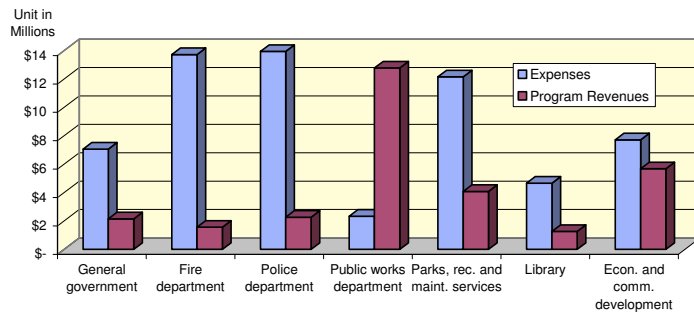


Table 5
Net (Expense) Revenue from Services
Governmental Activities
 (in Millions)

	2003-04	2002-03
General government	\$ (4.8)	\$ (6.0)
Fire department	(12.2)	(10.3)
Police department	(11.7)	(10.6)
Public works department	10.4	14.5
Parks, recreation and maintenance services	(8.1)	(8.1)
Library	(3.4)	(3.0)
Economic and community development	(1.8)	(2.7)
Interest on long-term debt	(3.2)	(3.2)
Total	\$ (34.8)	\$ (29.5)

The above Chart 4 and Table 5 illustrate the difference between program revenues and expenses. Program revenues consist of capital and operating grants and contributions and fees for services. General City revenues not shown in the chart, such as property taxes, sales and transient occupancy taxes, motor vehicle in-lieu taxes, and investment earnings, cover the shortfall between program revenues and expenses.

- General government includes the City Council, City Manager, City Treasurer, City Clerk, finance and human resource functions that are traditionally funded by general City revenues. General government expenditures dropped \$0.6 million in fiscal 2003-04 due to budget savings and department reorganizations.

CITY OF SOUTH SAN FRANCISCO
MANAGEMENT'S DISCUSSION AND ANALYSIS
 Required Supplementary Information (Continued)

- The \$2.2 million increase in Fire department expenses were partially offset by a \$0.4 million increase in inspection, permit and paramedic fees.
- Police expense increases of \$1.3 million were countered by a \$0.3 million increase in parking and traffic fines and police service charges.
- Public Works department expenses do not include capital outlays, which are funded by program revenues; such capital outlays are added directly to the City's capital asset base, as required by full accrual accounting principles. The City added \$32.3 million in governmental capital assets during 2003-04. To construct some of these assets, Public Works employed \$11.4 million in capital grants and contributions, down \$4.9 million from the previous year.
- A \$0.6 million increase in parks, recreation and maintenance expenses was offset by an equal increase in recreational activity charges, childcare fees, and facility rental fees.
- Library program revenues including an increase of \$0.1 million in various state grants helped offset a \$0.5 million increase in expenses.
- The Economic and Community Development department incurred \$0.5 million in additional expenses, but generated an additional \$1.2 million in building plan check review and permit fees and Community Development Block Grants.
- The City accrued and paid \$3.2 million in long-term debt interest in both fiscal years, resulting from the Redevelopment Agency's 1997 tax allocation bonds, the Agency's 1999 revenue bonds, the City's Capital Improvement Financing Authority's 1999 certificates of participation, federal Housing and Urban Development department loans, and the Price Club/Costco note payable that financed the City's acquisition of land underneath the retailer's parking lot.

Business-type Activities

Table 6
Business-type Net Assets at June 30 (in Millions)

	2004	2003
Cash and investments	\$ 1.8	\$ 7.1
Other current assets	8.3	1.3
Capital assets	85.7	77.2
Total assets	\$ 95.8	\$ 85.6
Long-term debt outstanding	\$ 64.2	\$ 56.1
Other liabilities	4.3	2.4
Total liabilities	\$ 68.5	\$ 58.5
Net assets:		
Invested in capital assets, net of debt	\$ 21.6	\$ 21.1
Restricted	1.9	1.9
Unrestricted	3.8	4.1
Total net assets	\$ 27.3	\$ 27.1

CITY OF SOUTH SAN FRANCISCO
MANAGEMENT'S DISCUSSION AND ANALYSIS
 Required Supplementary Information (Continued)

Table 7
Change in Business-type Net Assets
 (in Millions)

	2003-04	2002-03
Net Revenues from Business-type activities:		
Sewer Rental	\$ 0.1	\$ 0.3
Parking District	-	0.1
Storm Water	-	-
Total net revenues	<u>\$ 0.1</u>	<u>\$ 0.4</u>
General revenues:		
Investment earnings	<u>0.1</u>	<u>0.3</u>
Change in net assets	0.2	0.7
Net assets-beginning	<u>27.1</u>	<u>26.4</u>
Net assets-ending	<u>\$ 27.3</u>	<u>\$ 27.1</u>

The net assets of business-type activities increased \$0.2 million during fiscal 2003-04, resulting from \$0.1 million in net revenues from the City's Sewer Rental enterprise activity, plus an additional \$0.1 million in unrealized investment gains and interest income.

Sewer Rental net revenues were down from \$0.3 million from the last year. Depreciation expense jumped \$1.5 million from the previous year due to this being the first full year of depreciation on the Water Quality Control Plant expansion. The Parking District broke even after earning \$0.1 million in the previous year. With parking revenues remaining flat, the shifting of \$0.1 million in personnel costs from the General Fund brought down net revenues this year. The unchanged storm water assessment rates along with minor increases in personnel costs, kept the Storm Water Enterprise Fund at a break-even point.

Cash and investments plunged from \$7.1 million to \$1.8 million and other current assets rose from \$1.3 million to \$8.3 million because of \$6.2 million in State Water Resources Control Board loan proceeds that was received the day after the close of the fiscal year and booked as a receivable at June 30, 2004. This loan reimbursed and financed much of the current year's work-in-progress on the wet weather management program, resulting in a capital asset increase of \$8.5 million.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Governmental Funds

Governmental funds highlight the City's near-term inflows, outflows, and balances of *spendable* resources. Such information can be helpful in determining the City's financial status. *Unreserved fund balance* is a major indicator of designated and uncommitted resources available for spending in future fiscal years.

At June 30, 2004, the City's governmental funds (including Redevelopment) reported combined fund balances of \$83.8 million, which is a decrease of \$1 million compared with the prior year.

CITY OF SOUTH SAN FRANCISCO
MANAGEMENT'S DISCUSSION AND ANALYSIS
 Required Supplementary Information (Continued)

Governmental fund revenues decreased 1.3% or \$1.1 million this year to a new total of \$85.4 million, reflecting mixed results over several categories. Property taxes for the General Fund and Redevelopment Agency rose \$1.8 million or 6.7% to \$28.8 million, including \$0.5 million in refunds from the County of excess monies deposited into the Educational Revenue Augmentation Fund. Investment results caused interest and rental income to plunge 47.6% from \$6.3 million in the previous year to \$3.3 million this year. Higher market interest rates caused a drop in bond and US Treasury and federal agency security prices in the City's portfolio, meaning the market value declined and year-end portfolio totals include that decline in market value. The City also sold two medium-term bonds from the portfolio before their maturity because their investment ratings had fallen below the parameters of City's investment policy. These bonds along with other medium-term bonds that matured consisted of older issues with higher interest rates. The City is transitioning out of medium-term bonds as an investment holding to reduce investment risk in the portfolio. Average City cash balances were also lower. The combined effect was a drop in interest earnings and an increase in unrealized losses from investments. Charges for services rose \$0.9 million or 8.2% this year to \$10.2 million due to higher building permit fees, recreational fee revenues, police service revenues, and fire inspection and paramedic fees. Intergovernmental revenues rose \$0.7 million or 4%. Federal and local monies for capital projects declined, but grants and contributions for community development, parks, libraries, and local law enforcement task forces rose.

Governmental fund expenditures increased 7.2% or \$5.8 million this year to a new total of \$87.5 million. Of this increase, \$2.1 million was in the General Fund, \$2.4 million was in the Capital Improvement Fund, with the remainder primarily in the Redevelopment Agency. See the analysis of major governmental funds for further information on the increase.

In 2003-04, overall governmental fund revenues fell below expenditures by \$2.1 million. Combined with a positive \$1.1 million coming in from transfers and other financing sources, the June 30, 2004 fund balance dropped \$1 million from a year ago. In 2002-03, governmental fund revenues exceeded expenditures by \$4.9 million with \$1.8 million coming in from transfers and other financing sources.

Proprietary Funds

Enterprise Fund net assets totaled \$27.3 million at June 30, 2004, an increase of \$0.2 million from the previous year. This resulted from 2003-04 net income before transfers of \$0.2 million, slightly below last year's net income of \$0.6 million.

Enterprise operating revenues were \$14.6 million this year, up nearly \$1.6 million or 12.3% from last year. Enterprise Fund operating expenses were \$13 million in fiscal 2003-04, exceeding last year's expenses by \$1.8 million or 16.1%. 2003-04 combined non-operating revenues and expenses resulted in an additional expense of \$1.4 million. Last year, the two numbers combined resulted in \$1.1 million in expense. Further discussion is provided in the analysis of enterprise funds.

Analysis of Major Governmental Funds

General Fund

General Fund revenues were \$49 million this fiscal year, \$2.1 million or 4.5% above last year's results, but \$2.2 million below the General Fund's original budget for revenues. Higher property

CITY OF SOUTH SAN FRANCISCO
MANAGEMENT'S DISCUSSION AND ANALYSIS
Required Supplementary Information (Continued)

tax receipts and charges for services exceeded lower investment returns, flat sales and property taxes, and lower intergovernmental revenues.

Property taxes surged, increasing \$1.6 million or 17.1% from last year to reach \$11.3 million in 2003-04. However \$0.5 million of this was an ERAF refund from the County, a refund that may not continue next year. The remaining jump came from the non-secured tax roll rising higher than expected. The City had originally budgeted property taxes to rise \$0.5 million or 4.8%.

Other taxes of \$18.3 million remained unchanged from the prior year, however the City originally budgeted them to rise to \$20.5 million. Sales taxes did not grow as anticipated as business-to-business transactions and the sale of construction materials continued to lag in the City.

Intergovernmental revenues decreased \$0.9 million, or 18.4%, from the prior year to \$4 million, mostly resulting from the state's withholding and borrowing of motor vehicle license fees due to the City. This was \$0.9 million below the original budget.

The rise in market interest rates and investment portfolio repositioning discussed in the analysis of governmental funds above caused interest revenues, including unrealized gains, to decline from \$2.9 million last year to \$2.5 million this year.

License and permit revenues at \$4 million were mostly unchanged from last year. In forecasting an increase in permit and franchise fees and anticipating revenue from large development projects, the City had budgeted license and permit revenues to rise to \$4.7 million. However, the rise didn't occur as the economic slowdown continued to severely affect the number of building permits issued, electrical usage declined, natural gas rates lowered, and a higher proportion of fees from a large project went toward the Sewer Enterprise Fund rather than the General Fund.

Actual charge for service revenues at \$7.8 million surpassed the original budget by \$1.2 million and exceeded 2002-03 results by \$1.6 million due to healthy attendance in sports and recreational classes, increased police service revenues, and higher fire inspection and paramedic fees. Fines and forfeitures remained unchanged from last year and consistent with the budget.

As the City forecasted and responded to the decline in revenues at the end of the fiscal year, the City took \$1.62 million in additional budget actions comprising a mix of expenditure shifts and General Fund charges to the Redevelopment Agency, maintenance district special revenue funds, and enterprise funds. It also reduced the General Fund's revenue budget to more closely correspond to actual revenues realized at year-end. The following expenditure analysis comes after these shifts.

General Fund expenditures rose \$2 million or 3.9% from last year resulting from increases in PERS employer costs related to the 2.7% at 55-retirement enhancement for miscellaneous employees and the actuarial effect of the poor stock market performance of recent years. The increase is also due to wage increases and double-digit medical cost upswings. However, the resulting \$51.5 million in expenditures and encumbrances was \$1.5 million or 2.9% below final budget reflecting savings realized from the freezing of vacant positions, ongoing department saving efforts, and early retirements.

Major individual program fluctuations from last year were as follows: Fire Department expenditures increased \$2 million or 18%, reflecting a 7.6% wage increase and a PERS employer cost increase for Fire employees from 0% to 20.4% of covered payroll. Police

CITY OF SOUTH SAN FRANCISCO
MANAGEMENT'S DISCUSSION AND ANALYSIS
Required Supplementary Information (Continued)

expenditures rose \$1.3 million or 10% reflecting a 12.5% wage increase at mid-year and a PERS employer cost increase from 1.4% to 21.3% of covered payroll. City Attorney expenditures are down \$0.2 million or 21% because of the completion of last year's trial on land use. Library spending increased \$0.3 million or 8% due to new internal charges for technology support of the many computers used in the library system. Public Works dropped \$0.1 million or 13% from last year and realized budget savings of \$0.3 million due to department reorganization and a reduced capital program.

Economic and Community Development budget savings of \$0.3 million came from ongoing department savings and position vacancies. Human resources, at \$0.2 million, realized the next largest budget savings by trimming contract work and supplies, and by eliminating unnecessary recruitment and testing costs.

At June 30, 2004, the General Fund balance comprised \$3.9 million in unreserved, undesignated dollars, \$4.5 million for emergencies and economic contingencies, \$3.6 million for future economic development, and \$0.7 million for encumbrances and capital projects. The \$3.9 million unreserved, undesignated amount represents discretionary resources available for absorbing future expenditures that exceed revenues. This amount decreased by \$0.4 million from the prior year, to absorb some of the revenue reductions described above. The overall General Fund Balance decreased from \$14 million to \$12.7 million during 2003-04. \$1 million in net transfers into the fund offset \$2.3 million in excess expenditures over revenues.

Federal Aviation Grant Fund

Monies for the Aircraft Noise Insulation Program are received and expended in this fund, with the goal of improving the insulation of residential structures from jet noise emanating from San Francisco International Airport (SFO). The City is currently in the Program's eighteenth phase, covering multi-family units in Westborough, Buri Buri, Brentwood and Avalon. The \$0.5 million in project expenditures for fiscal 2003-04 was an increase from the \$0.4 million expended in the prior fiscal year. \$1.7 million was budgeted in this fund, entirely supported by Federal grants from SFO. Since this is a multi-year project, unspent appropriations will continue into the next fiscal year. In 2003-04, an additional 282 single-family homes were added to the program for construction or architectural work.

Capital Improvement Fund

The City consolidates and reports its governmental fund-type capital project expenditures in this fund. Resources consist of transfers from the general fund, major and non-major Redevelopment Agency funds and gasoline taxes and transportation sales taxes from non-major governmental funds. Resources also come from federal, state, and local grants, contributions from other cities, utilities and private enterprises. Entire capital projects are appropriated in one-year, but expended over multiple years, with unspent appropriations carried-forward year-to-year until completion. \$23.8 million was expended and \$5.6 million encumbered in 2003-04, compared with \$21.4 million and \$10.9 million, respectively, in fiscal 2002-03. This accounted for most of the \$22.3 million in governmental capital assets added in 2003-04. \$14.1 million in expenditures and \$6.1 million in encumbrances come from construction and design of the interchange at Oyster Point Boulevard and U.S. Highway 101. The flyover portion of the interchange is complete while construction of the hookramps will continue into fiscal 2004-05. \$1.9 million in infrastructure was accomplished, including street rehabilitation and repaving, traffic signal improvements, and pedestrian crosswalk improvements. \$7.5 million in public facility improvements were accomplished most notably the \$5 million land and building acquisition funded by the Downtown Redevelopment Agency for the

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Required Supplementary Information (Continued)

new Central Fire Station and Fire headquarters and \$2.2 million toward construction of the childcare center in the Gateway Redevelopment project area.

Gateway Debt Service Redevelopment Agency Fund

The South San Francisco Capital Improvements Financing Authority issued \$31,720,000 in 1999 Revenue Bonds that, in turn, purchased two bond series issued by the Redevelopment Agency (RDA): the \$28,045,000 1999 Tax Allocation Bonds Series A (Gateway Redevelopment Project) and the \$3,675,000 1999 Tax Allocation Bonds Series B (Housing Set-Aside Revenues), with all bonds maturing in 2018. In the Gateway Debt Service Fund, property tax revenues from the RDA Gateway project area pay debt service on the Series A bonds. Property tax revenues in excess of debt service are required by bond covenants to be reserved for bond defeasement, and those accumulated excess funds are held by an outside trustee. The City shows these reserves in the Gateway Debt Service fund. The Gateway Series A bonds refinanced the Gateway Redevelopment Project 1993 Tax Allocation bonds. \$1.2 million in interest and \$0.9 million in principal were paid on the Series A bonds in fiscal 2003-04. The \$4.9 million transferred in from the Gateway Capital Project RDA Fund represented the amount needed to cover this year's debt service payments and bond reserve. Last year, \$3.8 million from the Capital Project Fund went toward \$1.8 million in debt service payments and \$2 million in bond reserves. The bond reserve account rose from \$12.2 million in fiscal 2002-03 to \$15.1 million at the end of fiscal 2003-04. Note 5 in the accompanying Notes to Basic Financial Statements also discuss the bond issues.

Downtown Capital Project Redevelopment Agency Fund

The Redevelopment Agency's (RDA) project area covering Downtown Central is one of two RDA areas with the majority of property tax revenues. For fiscal 2003-04, \$6.7 million in tax increment, \$0.4 million in property rentals and investment income, and \$2.6 million in bond reserves went toward the following purposes: \$5 million transferred to the Capital Improvement Fund to acquire the land and building for the new Central Fire Station; \$1.4 million transferred to the Low and Moderate Income Housing RDA Fund, to meet the 20% housing set aside requirement; \$0.4 million in required pass-through tax increment payments paid to schools; \$1.6 million to operate and manage the RDA and its properties, including \$0.7 million in new 2003-04 costs assumed from the General Fund; \$0.8 million toward principal and interest payments on the Downtown Central Redevelopment Project 1997 tax allocation revenue bonds; and new debt payments assigned from the General Fund in 2003-04, in this case \$0.4 million in principal and interest on the Conference Center's 1999 Certificates of Participation. The bonds issued in 1997 financed land acquisitions, parking, and public infrastructure in the Downtown project area. The 1999 certificates of participation financed the land and improvements for the City's Conference Center. Note 5 in the accompanying Notes to Basic Financial Statements further explain the debt issues.

Due to ERAF shifts to the state, tax revenues fell below fiscal 2002-03's amount of \$7.2 million. Investment revenue was below last year's \$0.8 million due to the interest rate changes and portfolio activity discussed previously.

Low and Moderate Income Housing Capital Project Redevelopment Agency Fund

This fund holds the 20% in annual Redevelopment Agency (RDA) property tax increment that must be set aside for low and moderate income housing needs. The fund received \$3.5 million in such revenues, up slightly from \$3.4 million last year. The Housing fund provided and spent \$1.1 million in housing loans, grants and program costs and \$0.3 million in debt service on the

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Gateway RDA tax allocation revenue bonds, as mentioned in the Gateway Debt Service RDA Fund discussion above. \$13.1 million from current and prior years' revenues remain in reserves for planned or anticipated housing development, up from \$11.3 million a year ago. Last year's housing outlay was higher at \$2.8 million, because of the Willow Gardens, Commercial Avenue and Mission/ Chestnut projects. Debt service payments were unchanged.

Other Governmental Funds

Presented as a group in the Basic Financial Statements, these funds are individually presented as Supplementary Information.

Analysis of Enterprise Funds

Sewer Rental Fund

The Sewer Rental fund reported operating income of \$1.6 million in the current year, down slightly from an operating income of \$1.7 million in the prior year. Operating revenues increased \$1.6 million or 13% from the previous year to \$13.9 million, the result of increased capital outlay reimbursements from other cities that use the treatment plant and collection system. Operating expenses increased \$1.7 million this year or 16% to \$12.3 million mainly due to higher depreciation costs from the treatment plant expansion. Net non-operating expenses of \$1.4 million this year rose slightly from the \$1.2 million of last year, due to lower investment earnings. The operating income and net non-operating expense led to the net assets of this fund increasing \$0.2 million to approximately \$25 million. The four-stage, multi-year wet weather capital improvement program continued during the fiscal year, largely funded by the State Water Resources Control Board loan. The expansion and improvements to the wastewater collection system and pump stations will control sewer system overflows as ordered by the Regional Water Quality Control Board. In July 2004, the City Council adopted a five-year rate increase plan, to cover the capital outlays and debt service for these improvements.

A total of \$2 million of the \$25 million in this Fund's Net Assets was unrestricted at the fiscal year end. The unrestricted monies are earmarked for the capital improvements not covered by the State loan.

Parking District Fund

Operating income declined \$70,000 or 74% from last year to an operating income total of \$24,000 this year. Parking fee revenue increased slightly to \$313,000. Operating expenses rose significantly by \$77,000 to \$289,000 this year due to the shift of a parking enforcement officer from the General Fund. Interest income declined \$45,000 from last year's results. Total non-operating revenues of \$5,000 on top of the operating income results caused net assets to remain relatively unchanged from the previous year's value \$1.6 million. \$1.1 million of net assets are unrestricted but the City anticipates using it for future parking expansion.

Storm Water Fund

Current year operating revenues from County storm water assessment fees were flat at \$0.4 million compared to last year. Operating expenses remained unchanged at \$0.4 million. The fund broke even with operating income just as it did in 2002-03. Net assets, all unrestricted, at June 30, 2004, remained unchanged at \$0.6 million.

CITY OF SOUTH SAN FRANCISCO
MANAGEMENT'S DISCUSSION AND ANALYSIS
 Required Supplementary Information (Continued)

CAPITAL ASSETS

GASB Statement 34 requires the City to add infrastructure to its reportable capital assets. Infrastructure includes streets, drainage systems, and traffic control and safety devices. Previously, governments excluded the value of such property from their reports of fixed assets. The City has until the end of fiscal 2005-06 to fully report the depreciated value of all such assets acquired or built since 1980. Until the City can compile the list of infrastructure assets, the City shall report the infrastructure built or acquired annually and shall depreciate such assets over their useful lives. The City reports the depreciated book value of other types of capital assets such as buildings, land, equipment and furniture, on a City-wide Statement of Net Assets. Such information is summarized below and is more completely detailed in Note 3 to the Basic Financial Statements. The City depreciates all its capital assets, except land.

At June 30, 2004, the City had \$217.4 million, net of depreciation, invested in a broad range of capital assets used in governmental and business-type activities, as shown in Table 8 below:

Table 8
Capital Assets
(in Millions) at June 30

	2004	2003
Governmental Activities:		
Land	\$ 46.5	\$ 40.8
Buildings and improvements	53.9	47.9
Equipment and vehicles	11.7	12.1
Furniture and fixtures	1.3	1.3
Infrastructure – streets*	3.1	0.9
Infrastructure – traffic control devices*	0.3	0.3
Infrastructure – storm drains*	0.1	0.1
Construction in progress	33.6	23.4
Less accumulated depreciation	(18.8)	(17.4)
Totals	<u>\$ 131.7</u>	<u>\$ 109.4</u>
* Additions during the fiscal year only		
Business-type Activities		
Land	\$ 0.5	\$ 0.5
Clean water facilities and transmission lines	68.8	68.8
Buildings and improvements	10.4	10.4
Equipment and vehicles	9.0	9.0
Infrastructure – streets	1.4	-
Construction in progress	12.3	2.6
Less accumulated depreciation	(16.7)	(14.1)
Totals	<u>\$ 85.7</u>	<u>\$ 77.2</u>

The \$5 million North Canal Avenue parcel for the new Central Fire Station and the \$0.7 million parcel at 312 Miller Avenue, both acquired by the Redevelopment Agency, account for the rise in governmental land assets. Buildings and improvements in governmental funds jumped \$6 million due to the improvements at Orange Park, the Bay Trail improvement, the upgrade of a fire station, and the interior modification of the police station. The completion of the 2002 phase

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 Required Supplementary Information (Continued)

of street resurfacing accounts for the \$2.2 million increase in street infrastructure. The Oyster Point Boulevard and US 101 interchange project and the Gateway childcare center project account for much of the \$10.2 million increase in construction in progress.

Phase I of the Wet Weather program, funded by a State Water Resources Control Board loan to the Sewer Rental Enterprise Fund, accounts for the \$9.7 million increase in business-type construction in progress. Completion of the Colma Creek bridge improvement, part of the Wet Weather program, comprised the \$1.4 million infrastructure addition in business-type activities.

DEBT ADMINISTRATION

Each of the City's debt issues is discussed in detail in Note 5 to the Basic Financial Statements. A summary of the City's outstanding debt for the past two fiscal years is as follows:

Table 9
Outstanding Debt
(in Millions) at June 30

	2004	2003
Governmental activities		
Tax allocation, revenue bonds, and loans (issued and incurred by the Redevelopment Agency)	\$ 41.2	\$ 42.5
Certificates of participation	5.6	5.7
Notes payable	5.1	4.0
Revenue bonds	0.3	0.3
Special assessment debt with City commitment	-	0.1
Capital leases	0.6	0.9
	<u>\$ 52.8</u>	<u>\$ 53.5</u>
Business-type Activities		
State Water Resources Board loans	<u>\$ 64.2</u>	<u>\$ 56.1</u>

On September 11, 2001, the City entered into a long-term loan agreement with the San Mateo County Transportation Authority for the Oyster Point Project Phases II and IIIa, in an aggregate principal amount of not to exceed \$10.7 million. The note payable will have an interest rate equal to the rate of return on the Authority's investments and will be repaid in full by June 2008. Funds are drawn down as needed to advance funds needed for the developer fees that will pay for the City's share of the Oyster Point Boulevard exit and access ramps with U.S. Highway 101. The City received \$1.1 million in note proceeds during fiscal 2003-04.

To finance the expansion of the City's water quality control plant jointly owned with the City of San Bruno, and the improvement to the regional wastewater collection and treatment system, the State Water Resources Control Board has issued \$76.9 million in three loan packages to the City's Sewer Rental Enterprise fund. The City has employed \$66.1 million in loan proceeds since 1993, adding \$10.5 million during fiscal 2003-04. Principal and interest repayments commence on the loans upon completion of the project related to each loan package, with \$2.4 million in principal repaid this fiscal year. The three current loans outstanding have fixed interest of 3.0%, 2.6%, and 2.5% and are due in 2013, 2022 and 2025. Because of the regional benefits and equity interest in this project, the City of San Bruno shares in the loan repayments.

As mentioned in the analysis of major governmental funds, two Redevelopment Agency project areas have outstanding tax allocation and revenue bonds that were issued in 1997 and 1999 to

CITY OF SOUTH SAN FRANCISCO
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Required Supplementary Information (Continued)

fund various redevelopment projects. Bond principal repayments, covered by Agency property tax revenues, amounted to \$1.3 million for the current fiscal year.

In June 2003 the South San Francisco Capital Improvements Financing Authority issued \$5.865 million of Refunding Revenue Serial Bonds that bear interest at 2.0% to 4.0 % and are due in 2018. The proceeds from these Bonds defeased and refunded the Authority's outstanding 1993 Revenue Bonds that had previously refinanced 1991 bonds that supported the acquisition and construction of the City's conference center. Just as with the old bonds, the new debt will be paid with a \$2.50 per room, per night transient occupancy tax for the conference center levied and collected by the City. The South San Francisco Conference Center Authority, an independently governed component unit of the City that operates the conference center, reports the liability of this debt in its own separately issued financial statement.

Debt Without City Commitment

Special assessment districts in different parts of the City have also issued debt to finance infrastructure and facility construction in their respective districts.

At June 30, 2004, a total of \$1.9 million in special assessment district debt was outstanding, issued by three special assessment districts. This debt is secured by special assessments on the real property in the districts that issued the debt. Although the City bears no responsibility on the debt, it does act as the districts' agent in the collection and remittance of assessments. South San Francisco Magnolia Plaza Associates, a developer, is responsible for repaying a \$6.1 million Magnolia Plaza Senior Apartment note due in 2017 out of rent revenue received from the 1987 apartment development. Note 5 to the Basic Financial Statements provides further information on these debt issues outside of the City's liability to pay.

ECONOMIC OUTLOOK AND MAJOR ACCOMPLISHMENTS

The economic outlook and major accomplishments of the City are discussed in the accompanying Transmittal Letter.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This Comprehensive Annual Financial Report is intended to provide readers with a general overview of the City's finances. Questions about this report or requests for additional financial information should be directed to the City of South San Francisco Finance Department, P.O. Box 711, South San Francisco, CA 94083, phone (650) 877-8507. The City's website is at www.ssf.net.

Basic Financial Statements
Government-wide Financial Statements

CITY OF SOUTH SAN FRANCISCO

**STATEMENT OF NET ASSETS AND
STATEMENT OF ACTIVITIES**

The Statement of Net Assets and the Statement of Activities summarize the entire City's financial activities and financial position. They are prepared on the same basis as is used by most businesses, which means they include all the City's assets and all its liabilities, as well as all its revenues and expenses. This is known as the full accrual basis—the effect of all the City's transactions is taken into account, regardless of whether or when cash changes hands, but all material internal transactions between City funds have been eliminated.

The Statement of Net Assets reports the difference between the City's total assets and the City's total liabilities, including all the City's capital assets and all its long-term debt. The Statement of Net Assets presents similar information to the old balance sheet format, but presents it in a way that focuses the reader on the composition of the City's net assets, by subtracting total liabilities from total assets.

The Statement of Net Assets summarizes the financial position of all the City's Governmental Activities in a single column, and the financial position of all the City's Business-Type Activities in a single column; these columns are followed by a total column which presents the financial position of the entire City.

The City's Governmental Activities include the activities of its General Fund, along with all its Special Revenue, Capital Projects and Debt Service Funds. Since the City's Internal Service Funds service these Funds, their activities are consolidated with Governmental Activities, after eliminating inter-fund transactions and balances. The City's Business Type Activities include all its Enterprise Fund activities.

The Statement of Activities reports increases and decreases in the City's net assets. It is also prepared on the full accrual basis, which means it includes all the City's revenues and all its expenses, regardless of when cash changes hands. This differs from the "modified accrual" basis used in the Fund financial statements, which reflect only current assets, current liabilities, available revenues and measurable expenditures.

The format of the Statement of Activities differs considerably from those used in the past. It presents the City's expenses first, listed by program, and follows these with the expenses of its business-type activities. Program revenues—that is, revenues which are generated directly by these programs—are then deducted from program expenses to arrive at the net expense of each governmental and business-type program. The City's general revenues are then listed in the Governmental Activities or Business-type Activities column, as appropriate, and the Change in Net Assets is computed and reconciled with the Statement of Net Assets.

Both these Statements include the financial activities of the City, the City of South San Francisco Redevelopment Agency and the City of South San Francisco Capital Improvements Financing Authority, which are legally separate but are component units of the City because they are controlled by the City, which is financially accountable for their activities. Data for the South San Francisco Conference Center Authority is reflected as a discretely presented component unit of the City. This data is presented separately from other funds of the City to reflect operations under control of a governing body with a voting majority which is different from the City Council.

**CITY OF SOUTH SAN FRANCISCO
STATEMENT OF NET ASSETS
JUNE 30, 2004**

	Primary Government		Total	Component Unit
	Governmental Activities	Business-Type Activities		
ASSETS				
Cash and investments	\$63,980,144	\$1,772,294	\$65,752,438	\$1,359,900
Cash and investments with fiscal agent	421,944		421,944	491,467
Receivables:				
Accounts	4,043,945	1,251,523	5,295,468	370,636
Accrued interest	515,363	12,822	528,185	
Due from other governments	2,445,996	10,499,101	12,945,097	
Due from Conference Center	71,055		71,055	
Due from Primary Government				1,070
Internal balances	3,981,499	(3,981,499)		
Loans	10,424,006		10,424,006	
Deposit	171,010	559,937	730,947	
Inventory	34,364		34,364	
Unamortized bond discount				196,188
Prepaid items	63,740	700	64,440	
Restricted cash and investments	26,237,398		26,237,398	
Capital assets:				
Nondepreciable	80,180,465	12,872,103	93,052,568	
Depreciable, net accumulated depreciation	51,569,326	72,864,984	124,434,310	5,201,266
Total Assets	<u>244,140,255</u>	<u>95,851,965</u>	<u>339,992,220</u>	<u>7,620,527</u>
LIABILITIES				
Current liabilities:				
Accounts payable	3,384,192	2,542,265	5,926,457	133,947
Accrued salaries and benefits	1,663,357		1,663,357	
Accrued interest payable	6,198,686	1,285,645	7,484,331	
Due to primary government				71,055
Due to Conference Center	1,070		1,070	
Other payable	72,836	112	72,948	58,375
Deposits	1,632,762		1,632,762	182,838
Deferred Revenue	10,728,571	118,482	10,847,053	
Long-term liabilities due within one year:				
Compensated absences obligation	531,852	55,938	587,790	32,851
Debt and capital lease obligations	1,727,018	2,455,288	4,182,306	305,000
Matured bonds and interest payable	5,980		5,980	
Noncurrent liabilities:				
Accrued insurance losses	4,887,216		4,887,216	
Compensated absences obligation	4,378,340	371,123	4,749,463	
Noncurrent portion of long-term debt	51,157,208	61,740,278	112,897,486	4,866,001
Total Liabilities	<u>86,369,088</u>	<u>68,569,131</u>	<u>154,938,219</u>	<u>5,650,067</u>
NET ASSETS				
Invested in capital assets, net of related debt	88,960,212	21,541,521	110,501,733	30,265
Restricted for:				
Special revenue projects	9,733,350		9,733,350	
Debt service	17,475,299		17,475,299	491,467
Capital projects	32,728,474	1,935,907	34,664,381	
Total Restricted Net Assets	<u>59,937,123</u>	<u>1,935,907</u>	<u>61,873,030</u>	<u>491,467</u>
Unrestricted	8,873,832	3,805,406	12,679,238	1,448,728
Total Net Assets	<u>\$157,771,167</u>	<u>\$27,282,834</u>	<u>\$185,054,001</u>	<u>\$1,970,460</u>

See accompanying notes to financial statements

**CITY OF SOUTH SAN FRANCISCO
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2004**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities:				
General government	\$6,992,700	\$2,140,949	\$9,000	
Fire	13,722,509	1,562,388		
Police	13,944,144	1,861,660	397,843	
Public Works	2,392,790	175,712	1,249,518	\$11,353,163
Parks, recreation and maintenance services	12,159,195	3,209,976	871,489	
Library	4,662,937	154,795	1,110,048	
Economic and community development	7,515,708	4,225,062	1,181,090	274,953
Interest on long-term debt	3,235,435			
Total Governmental Activities	<u>64,625,418</u>	<u>13,330,542</u>	<u>4,818,988</u>	<u>11,628,116</u>
Business-type Activities				
Sewer rental	13,807,258	8,820,583	3,524,006	1,581,840
Parking District	290,314	312,875		
Storm Water	401,315	405,578		
Total Business-type Activities	<u>14,498,887</u>	<u>9,539,036</u>	<u>3,524,006</u>	<u>1,581,840</u>
Total Primary Government	<u>\$79,124,305</u>	<u>\$22,869,578</u>	<u>\$8,342,994</u>	<u>\$13,209,956</u>
Component Unit				
Conference Center	<u>\$2,672,414</u>	<u>\$1,114,088</u>		

General revenues:

Taxes:

 Property taxes

 Sales taxes

 Transient occupancy taxes

 Other taxes

 Motor vehicle in lieu

 Investment earnings

 Miscellaneous

Transfers

Total general revenues and transfers

Change in Net Assets

Net Assets - Beginning

Net Assets - Ending

Net(Expenses) Revenues and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-Type Activities	Total	Component Unit
(\$4,842,751)		(\$4,842,751)	
(12,160,121)		(12,160,121)	
(11,684,641)		(11,684,641)	
10,385,603		10,385,603	
(8,077,730)		(8,077,730)	
(3,398,094)		(3,398,094)	
(1,834,603)		(1,834,603)	
(3,235,435)		(3,235,435)	
<u>(34,847,772)</u>		<u>(34,847,772)</u>	
	\$119,171	119,171	
	22,561	22,561	
	4,263	4,263	
	<u>145,995</u>	<u>145,995</u>	
<u>(34,847,772)</u>	<u>145,995</u>	<u>(34,701,777)</u>	
			(\$1,558,326)
28,798,270		28,798,270	
10,990,867		10,990,867	
3,945,974		3,945,974	1,724,585
4,664,923		4,664,923	
2,782,118		2,782,118	
660,704	55,196	715,900	26,658
3,771,293		3,771,293	
6,938	(6,938)		
<u>55,621,087</u>	<u>48,258</u>	<u>55,669,345</u>	<u>1,751,243</u>
20,773,315	194,253	20,967,568	192,917
136,997,852	27,088,581	164,086,433	1,777,543
<u>\$157,771,167</u>	<u>\$27,282,834</u>	<u>\$185,054,001</u>	<u>\$1,970,460</u>

See accompanying notes to financial statements

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Basic Financial Statements

Fund Financial Statements

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FUND FINANCIAL STATEMENTS

Only individual major funds are presented, while non-major funds are combined in a single column. Major funds are defined generally as having significant activities or balances in the current year. No distinction is made between Fund types and the practice of combining like funds and presenting their totals in separate columns (Combined Financial Statements) has been discontinued, along with the use of the General Fixed Assets and General Long-term Debt Groups of Accounts.

The funds described below were determined to be Major Funds by the City for fiscal 2004. Individual non-major funds may be found in the Supplemental section.

GENERAL FUND

This fund accounts for resources traditionally associated with government, such as administration, public safety, library, parks maintenance, and recreation, outside of those accounted for in other funds.

FEDERAL AVIATION GRANT SPECIAL REVENUE FUND

This fund accounts for federal monies received for insulating structures against airport noise.

REDEVELOPMENT AGENCY FUNDS:

GATEWAY DEBT SERVICE FUND – This fund accounts for principal and interest associated with debt repaid by property tax increments from the Gateway project area. It is also a sinking fund required by 1999 bond covenants for bond retirement purposes.

DOWNTOWN CAPITAL PROJECT FUND – Accounts for property tax increment revenues used for capital projects connected with the Downtown project area.

LOW AND MODERATE INCOME HOUSING CAPITAL PROJECT FUND – This fund accounts for the 20% share of property tax increment revenue directed toward low and moderate income housing projects.

CAPITAL IMPROVEMENT FUND

To account for expenditures associated with the acquisition, construction, or improvement of City owned facilities and infrastructure. Funding comes from the general fund, special revenue funds, grants and fees.

**CITY OF SOUTH SAN FRANCISCO
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2004**

	General	Federal Aviation Grant	Redevelopment Agency Gateway Debt Service	Capital Improvement	Redevelopment Agency Downtown Capital Project	Redevelopment Agency Low Mod Housing Capital Project	Other Governmental Funds	Total Governmental Funds
ASSETS								
Cash and investments	\$11,270,351	\$5,258,034		\$1,104,272	\$6,489,742	\$10,443,586	\$18,496,126	\$53,062,111
Cash and investments with fiscal agent					2,400		419,544	421,944
Receivables:								
Accounts	1,848,354			1,891,576	23,831		276,727	4,040,488
Accrued interest	108,553	30,875	\$41,678	572	83,554	86,111	131,223	482,566
Due from other governments	2,075,983						370,013	2,445,996
Due from other funds					3,981,499			3,981,499
Advances to other funds					3,088,161		844,591	3,932,752
Due from Conference Center	71,055							71,055
Loans					565,402	8,818,565	1,040,039	10,424,006
Inventory	34,364							34,364
Prepaid items	59,390							59,390
Restricted cash and investments			15,078,973	83,725	1,785,997	3,866,401	5,422,302	26,237,398
Total Assets	\$15,468,050	\$5,288,909	\$15,120,651	\$3,080,145	\$16,020,586	\$23,214,663	\$27,000,565	\$105,193,569
LIABILITIES AND FUND BALANCES								
Liabilities:								
Accounts payable	\$582,382	\$2,001	\$1,000	\$1,874,719	\$266,834	\$7,660	\$232,531	\$2,967,127
Accrued salaries and benefits	1,663,357							1,663,357
Other payable	1,743			33			15	1,791
Deposits				592,448	500	27,055	1,012,759	1,632,762
Deferred Revenue	513,860	5,286,908		580,002	2,787,538	860,635	699,628	10,728,571
Due to Conference Center	1,070							1,070
Due to other funds							505,155	505,155
Advances from other funds							3,932,752	3,932,752
Matured bonds payable							5,000	5,000
Matured interest payable							980	980
Total Liabilities	2,762,412	5,288,909	1,000	3,047,202	3,054,872	895,350	6,388,820	21,438,565
Fund Balances:								
Reserved for:								
Encumbrances	270,693	60,792		5,666,575	67,598	427,896	1,175,593	7,669,147
Bond and note requirements							533,922	533,922
Advances, inventory and prepaid	93,754				3,088,161		844,591	4,026,506
Loans receivable					565,402	8,818,565	1,040,039	10,424,006
Future loan obligation						1,026,633		1,026,633
Restricted assets			15,119,651	75,728	1,806,161	9,128,124	4,820,334	30,949,998
Unreserved, reported in:								
General fund	12,341,191							12,341,191
Special revenue funds		(60,792)					9,174,880	9,114,088
Debt service funds							9,186	9,186
Capital projects funds				(5,709,360)	7,438,392	2,918,095	3,013,200	7,660,327
Total Fund Balances	12,705,638		15,119,651	32,943	12,965,714	22,319,313	20,611,745	83,755,004
Total Liabilities and Fund Balances	\$15,468,050	\$5,288,909	\$15,120,651	\$3,080,145	\$16,020,586	\$23,214,663	\$27,000,565	\$105,193,569

See accompanying notes to basic financial statements

CITY OF SOUTH SAN FRANCISCO
GOVERNMENTAL FUNDS
BALANCE SHEET - RECONCILIATION OF GOVERNMENTAL
FUND BALANCES TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2004

Total fund balances reported on the governmental funds balance sheet	\$83,755,004
<p>Amounts reported for Governmental Activities in the Statement of Net Assets are different from those reported in the Governmental Funds because of the following:</p>	
Capital assets used in Governmental Activities are not financial resources and, therefore, are not reported in the Governmental Funds.	128,608,542
Internal service funds are used by management to charge the cost of management of communication, telephone, building, fleet maintenance, equipment replacement, worker's compensation, employee benefits, insurance, and post-retirement healthcare benefits to individual funds. The assets and liabilities are included in Governmental Activities in the Statement of Net Assets.	7,394,215
Interest payable on long-term debt does not require the use of current financial resources and, therefore, are not reported in the Governmental Funds.	(6,198,686)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the Governmental Funds.	(52,236,337)
Non-current portion of compensated absences	<u>(3,551,571)</u>
Net assets of governmental activities	<u><u>\$ 157,771,167</u></u>

See accompanying notes to financial statements

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**CITY OF SOUTH SAN FRANCISCO
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2004**

	General	Federal Aviation Grant	Redevelopment Agency Gateway Debt Service	Capital Improvement	Redevelopment Agency Downtown Capital Project	Redevelopment Agency Low Mod Housing Capital Project	Other Governmental Funds	Total Governmental Funds
REVENUES								
Property taxes	\$11,269,815				\$6,674,343		\$10,854,112	\$28,798,270
Other taxes	18,349,855						877,791	19,227,646
Intergovernmental	4,000,804	\$519,235		\$9,963,214			2,704,730	17,187,983
Interest and rentals	2,484,077	19,705	\$134,463	2,103	389,041	\$144,900	156,124	3,330,413
Licenses and permits	4,039,527							4,039,527
Charges for services	7,773,204			886,733	4		1,526,769	10,186,710
Fines and forfeitures	1,061,231							1,061,231
Other	10,157			123,530			1,404,088	1,537,775
Total Revenues	<u>48,988,670</u>	<u>538,940</u>	<u>134,463</u>	<u>10,975,580</u>	<u>7,063,388</u>	<u>144,900</u>	<u>17,523,614</u>	<u>85,369,555</u>
EXPENDITURES								
Current:								
City Council	180,054							180,054
City Clerk	377,904							377,904
City Treasurer	34,734							34,734
City Attorney	754,158							754,158
City Manager	659,110							659,110
Finance	1,509,341						410	1,509,751
Non-departmental	744,307						642,474	1,386,781
Human Resources	758,337						7,115	765,452
Fire	13,427,723							13,427,723
Police	13,742,254						122,117	13,864,371
Public Works	1,312,628	538,940		18,834,787			291,826	20,978,181
Parks, recreation and maintenance	10,549,612						1,044,568	11,594,180
Library	4,469,947							4,469,947
Economic and Community Development	2,724,719				1,921,891	606,358	1,563,068	6,816,036
Information systems				1,429				1,429
Other	3,642						741,871	745,513
Capital outlay				5,007,603		717,183		5,724,786
Debt service:								
Principal repayments	12,308		945,000				599,866	1,557,174
Interest and fiscal charges	12,926		1,240,704		17,948		1,357,966	2,629,544
Total Expenditures	<u>51,273,704</u>	<u>538,940</u>	<u>2,185,704</u>	<u>23,843,819</u>	<u>1,939,839</u>	<u>1,323,541</u>	<u>6,371,281</u>	<u>87,476,828</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(2,285,034)</u>		<u>(2,051,241)</u>	<u>(12,868,239)</u>	<u>5,123,549</u>	<u>(1,178,641)</u>	<u>11,152,333</u>	<u>(2,107,273)</u>
OTHER FINANCING SOURCES (USES)								
Issuance of debt and capital leases				1,100,926				1,100,926
Proceeds from sale of capital assets	20,382			185,000	100			205,482
Transfers in	1,406,422		4,924,038	11,419,282		3,460,957	1,716,468	22,927,167
Transfers out	(429,097)				(7,671,375)	(350,690)	(14,709,067)	(23,160,229)
Total Other Financing Sources (Uses)	<u>997,707</u>		<u>4,924,038</u>	<u>12,705,208</u>	<u>(7,671,275)</u>	<u>3,110,267</u>	<u>(12,992,599)</u>	<u>1,073,346</u>
Net Change in Fund Balances	(1,287,327)		2,872,797	(163,031)	(2,547,726)	1,931,626	(1,840,266)	(1,033,927)
Fund balance, July 1	13,992,965		12,246,854	195,974	15,513,440	20,387,687	22,452,011	84,788,931
Fund balance, June 30	<u>\$12,705,638</u>		<u>\$15,119,651</u>	<u>\$32,943</u>	<u>\$12,965,714</u>	<u>\$22,319,313</u>	<u>\$20,611,745</u>	<u>\$83,755,004</u>

See accompanying notes to financial statements

CITY OF SOUTH SAN FRANCISCO
Reconciliation of the
NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS
with the
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2004

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS (\$1,033,927)

Amounts reported for Governmental Activities in the Statement of Activities are different because of the following:

Capital Assets Transactions

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is capitalized and allocated over their estimated useful lives and reported as depreciation expense.

Expenditures for capital assets 24,162,973
 Current year depreciation (1,772,326)

Long Term Debt Proceeds and Payments

Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. (1,100,926)

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. 1,557,174

Accrual of Non-Current Items

The amount below included in the Statement of Activities does not require the use of current financial resources and therefore is not reported as revenue or expenditures in governmental funds (net change):

Interest payable (604,888)
 Compensated absences 117,015

Allocation of Internal Service Fund Activity

Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue of the internal service fund is reported with governmental activities. (551,780)

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$20,773,315

See accompanying notes to financial statements

CITY OF SOUTH SAN FRANCISCO
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (NON GAAP LEGAL BASIS)
FOR THE YEAR ENDED JUNE 30, 2004

	Budgeted Amounts		Actual Amount	Variance with Final Budget Positive (Negative)
	Original	Final		
Resources (inflows):				
Property taxes	\$10,084,000	\$11,269,000	\$11,269,815	\$815
Other taxes	20,544,949	18,341,000	18,349,855	8,855
Intergovernmental	4,871,985	4,370,587	4,000,804	(369,783)
Interest and rentals	2,952,100	2,507,100	2,484,077	(23,023)
Licenses and permits	4,661,600	3,779,493	4,039,527	260,034
Charges for services	6,620,168	7,939,338	7,773,204	(166,134)
Fines and forfeitures	1,048,500	1,062,000	1,061,231	(769)
Other	435,000	15,000	10,157	(4,843)
Amounts available for appropriation	<u>51,218,302</u>	<u>49,283,518</u>	<u>48,988,670</u>	<u>(294,848)</u>
Charges to appropriations (outflows)				
City Council	195,002	208,172	180,054	28,118
City Clerk	406,497	405,841	377,904	27,937
City Treasurer	35,159	60,104	34,734	25,370
City Attorney	440,331	783,336	754,158	29,178
City Manager	748,707	693,851	659,387	34,464
Finance	1,655,534	1,538,938	1,512,841	26,097
Non-departmental	833,840	811,665	744,307	67,358
Human Resources	943,440	987,014	758,337	228,677
Fire	13,475,745	13,528,117	13,439,298	88,819
Police	14,264,946	13,809,146	13,782,541	26,605
Public Works	990,784	1,689,656	1,366,891	322,765
Parks, recreation and maintenance	11,015,314	10,648,265	10,549,612	98,653
Library	4,101,498	4,661,870	4,480,947	180,923
Economic and community development	2,685,168	3,140,518	2,824,800	315,718
Information systems				
Other	4,445	4,445	3,642	803
Debt service:				
Principal repayments	271,688	12,308	12,308	
Interest and fiscal charges	44,590	12,928	12,926	2
Lease purchases		2,198		2,198
Total charges to appropriations	<u>52,112,688</u>	<u>52,998,372</u>	<u>51,494,687</u>	<u>1,503,685</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of capital assets			20,382	20,382
Transfers in	1,095,400	1,225,956	1,406,422	180,466
Transfers out	(130,000)	(600,930)	(429,097)	171,833
Total Other Financing Sources (Uses)	<u>965,400</u>	<u>625,026</u>	<u>997,707</u>	<u>372,681</u>
Revenues in excess of charges to appropriations and other financing sources (uses)	<u>\$71,014</u>	<u>(\$3,089,828)</u>	<u>(1,508,310)</u>	<u>\$1,581,518</u>
Fund Balance, July 1			13,992,965	
Adjustment to budgetary basis:				
Encumbrance adjustments			220,983	
Fund Balance, June 30			<u>\$12,705,638</u>	

See accompanying notes to financial statements

**CITY OF SOUTH SAN FRANCISCO
FEDERAL AVIATION GRANT FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Intergovernmental	\$1,693,000	\$1,693,000	\$519,235	(\$1,173,765)
Interest and rental			19,705	19,705
Total Revenues	<u>1,693,000</u>	<u>1,693,000</u>	<u>538,940</u>	<u>(1,154,060)</u>
EXPENDITURES:				
Current:				
Public Works	<u>1,723,735</u>	<u>1,723,735</u>	<u>538,940</u>	<u>1,184,795</u>
Total Expenditures	<u>1,723,735</u>	<u>1,723,735</u>	<u>538,940</u>	<u>1,184,795</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(30,735)</u>	<u>(30,735)</u>		<u>30,735</u>
OTHER FINANCING SOURCES (USES)				
Transfers (out)		<u>(15,000)</u>		<u>15,000</u>
Total other financing sources (uses)		<u>(15,000)</u>		<u>15,000</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	<u>(\$30,735)</u>	<u>(\$45,735)</u>		<u>\$45,735</u>
Fund balance, July 1				
Fund balance, June 30				

See accompanying notes to financial statements

MAJOR PROPRIETARY FUNDS

Proprietary funds account for City operations financed and operated in a manner similar to a private business enterprise. The intent of the City is that the cost of providing goods and services be financed primarily through user charges.

The concept of *major funds* established by GASB Statement 34 extends to Proprietary Funds. The City reported all enterprise funds as major proprietary funds.

GASB 34 does not provide for the disclosure of budget versus actual comparisons regarding proprietary funds that are major funds.

SEWER RENTAL FUND

This fund accounts for user charges and debt proceeds supporting the operation, maintenance, and capital expansion of the wastewater collection and treatment system.

PARKING DISTRICT FUND

This fund accounts for meter and parking permit fees used to maintain parking facilities.

STORM WATER FUND

This fund accounts for user charges sustaining the Storm Water Management Program mandated by state and federal authorities.

CITY OF SOUTH SAN FRANCISCO
PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
JUNE 30, 2004

	Business-type Activities - Enterprise Funds				Governmental
	Sewer Rental	Parking District	Storm Water	Total	Internal Service Funds
ASSETS					
Current assets:					
Cash and investments		\$1,165,832	\$606,462	\$1,772,294	
Cash and investments with fiscal agent					\$10,918,033
Receivables:					
Accounts	\$1,247,356	30	4,137	1,251,523	3,457
Accrued interest	1,989	7,259	3,574	12,822	32,797
Due from other governments	10,499,101			10,499,101	
Due from other funds					505,155
Deposit	554,937	5,000		559,937	171,010
Prepaid Items	700			700	4,350
Inventory					
Total current assets	12,304,083	1,178,121	614,173	14,096,377	11,634,802
Noncurrent assets:					
Capital assets:					
Nondepreciable	12,595,571	276,532		12,872,103	
Depreciable, net accumulated depreciation	72,577,957	250,925	36,102	72,864,984	3,141,249
Total non-current assets	85,173,528	527,457	36,102	85,737,087	3,141,249
Total Assets	97,477,611	1,705,578	650,275	99,833,464	14,776,051
LIABILITIES					
Current liabilities:					
Accounts payable	2,537,039	175	5,051	2,542,265	417,065
Accrued interest payable	1,285,645			1,285,645	
Other payable	112			112	71,045
Due to other governments					
Due to other funds	3,981,499			3,981,499	
Deferred Revenue	118,482			118,482	
Compensated absences obligation	53,330		2,608	55,938	531,852
Current portion of long-term debt	2,455,288			2,455,288	167,818
Total current liabilities	10,431,395	175	7,659	10,439,229	1,187,780
Noncurrent liabilities:					
Accrued insurance losses					4,887,216
Compensated absences obligation	342,348	20,202	8,573	371,123	826,769
Noncurrent portion of long-term debt	61,740,278			61,740,278	480,071
Total noncurrent liabilities	62,082,626	20,202	8,573	62,111,401	6,194,056
Total Liabilities	72,514,021	20,377	16,232	72,550,630	7,381,836
NET ASSETS:					
Invested in capital assets, net of related debt	20,977,962	527,457	36,102	21,541,521	2,493,360
Restricted	1,935,907			1,935,907	
Unrestricted	2,049,721	1,157,744	597,941	3,805,406	4,900,855
Total Net Assets	\$24,963,590	\$1,685,201	\$634,043	\$27,282,834	\$7,394,215

See accompanying notes to financial statements

CITY OF SOUTH SAN FRANCISCO
PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2004

	Business-type Activities - Enterprise Funds				Governmental
	Sewer Rental	Parking District	Storm Water	Total	Internal Service Funds
OPERATING REVENUES					
Charges for services	\$8,820,583		\$405,578	\$9,226,161	\$10,448,594
Other cities' participation	3,523,976			3,523,976	
Connection and other fees	1,415,813			1,415,813	
Developer fees	166,027			166,027	
Parking fees		\$312,875		312,875	
Total Operating Revenues	13,926,399	312,875	405,578	14,644,852	10,448,594
OPERATING EXPENSES					
Personnel expenses	4,108,309	160,985	239,204	4,508,498	6,334,855
Professional services	892,635	215	44,002	936,852	522,289
Program supplies	875,891	20,566	13,843	910,300	737,072
Insurance	100,555	811	1,758	103,124	698,678
Self-insurance and claims					1,363,210
Repair and maintenance	502,603		15,185	517,788	663,983
Rents and leases	1,316,950			1,316,950	
Utilities	1,056,181	5,301	2,705	1,064,187	483,474
Administration	796,909	84,817	73,140	954,866	
Depreciation	2,614,227	16,457	6,944	2,637,628	508,773
Other	75,254		56	75,310	
Total Operating Expenses	12,339,514	289,152	396,837	13,025,503	11,312,334
Operating Income (Loss)	1,586,885	23,723	8,741	1,619,349	(863,740)
NONOPERATING REVENUES (EXPENSES)					
Interest income	47,812	4,899	2,485	55,196	22,240
Loss on sale of fixed assets					(6,647)
Interest expense	(1,416,013)			(1,416,013)	(1,003)
Other	30			30	
Total Nonoperating Revenues (Expenses)	(1,368,171)	4,899	2,485	(1,360,787)	14,590
Income (loss) before transfers	218,714	28,622	11,226	258,562	(849,150)
TRANSFERS					
Transfers in					240,000
Transfers out	(6,938)			(6,938)	
Change in Net Assets	211,776	28,622	11,226	251,624	(609,150)
Net Assets - July 1	24,751,814	1,656,579	622,817	27,031,210	8,003,365
Net Assets - June 30	\$24,963,590	\$1,685,201	\$634,043	\$27,282,834	\$7,394,215

See accompanying notes to financial statements

**CITY OF SOUTH SAN FRANCISCO
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2004**

	Business-type Activities - Enterprise Funds				Governmental
	Sewer Rental	Parking District	Storm Water	Total	Activities Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash received from customers	\$13,866,291	\$312,845	\$405,577	\$14,584,713	
Cash payment to suppliers for goods and services	(4,067,324)	(116,699)	(154,602)	(4,338,625)	(\$3,065,204)
Cash payment to employees for services	(4,190,782)	(158,180)	(238,315)	(4,587,277)	(6,216,137)
Cash received from interfund service provided					10,445,409
Cash payment for judgments and claims					(876,879)
Net Cash Provided by Operating Activities	<u>5,608,185</u>	<u>37,966</u>	<u>12,660</u>	<u>5,658,811</u>	<u>287,189</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Other receipts	30			30	
Interfund receipts	3,981,499			3,981,499	240,000
Interfund disbursements	(6,938)			(6,938)	(505,155)
Net Cash Provided by Noncapital Financing Activities	<u>3,974,591</u>			<u>3,974,591</u>	<u>(265,155)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Principal paid on long-term debt	(2,394,025)			(2,394,025)	(276,362)
Interest paid on long-term debt	(1,449,466)			(1,449,466)	(1,004)
Acquisition of capital assets	(11,178,447)			(11,178,447)	(477,725)
Net Cash Used in Capital and Related Financing Activities	<u>(15,021,938)</u>			<u>(15,021,938)</u>	<u>(755,091)</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest received	82,924	5,090	3,016	91,030	28,121
Net Cash Provided by Investing Activities	<u>82,924</u>	<u>5,090</u>	<u>3,016</u>	<u>91,030</u>	<u>28,121</u>
Net Increase (Decrease) in cash and cash equivalents	(5,356,238)	43,056	15,676	(5,297,506)	(704,936)
Cash and cash equivalents, July 1, 2003	5,356,238	1,122,776	590,786	7,069,800	11,622,969
Cash and cash equivalents, June 30, 2004	<u>\$1,165,832</u>	<u>\$606,462</u>	<u>\$1,772,294</u>	<u>\$1,772,294</u>	<u>\$10,918,033</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:					
Operating income (loss)	\$1,586,885	\$23,723	\$8,741	\$1,619,349	(\$863,740)
Adjustments to reconcile operating income (loss) to cash flows from operating activities:					
Depreciation	2,614,227	16,457	6,944	2,637,628	508,773
Net change in assets and liabilities:					
Accounts and lease receivables	(60,108)	(30)	(1)	(60,139)	(3,185)
Due from other government agencies					
Deposit	(554,937)	(5,000)		(559,937)	(10,800)
Prepaid Items	(700)			(700)	(4,350)
Accounts payable	2,157,201	11	(3,913)	2,153,299	81,522
Other payable	(530)			(530)	15,520
Due to other government agencies	(81,000)			(81,000)	
Deferred Revenue	29,620			29,620	
Accrued insurance losses					486,331
Compensated absence obligations	(82,473)	2,805	889	(78,779)	77,118
Net Cash Provided by (Used in) Operating Activities	<u>\$5,608,185</u>	<u>\$37,966</u>	<u>\$12,660</u>	<u>\$5,658,811</u>	<u>\$287,189</u>

See accompanying notes to basic financial statements

FIDUCIARY FUND

An agency fund is used to account for assets held by the City acting as an agent for another government entity. The financial activity of this fund, excluded from the Entity-wide financial statements, is presented in a separate Fiduciary Fund financial statement.

NONOBLIGATED ASSESSMENT DISTRICTS AGENCY FUND

This fund accounts for the collection of assessments and related repayments of the following special assessment bonds: the 1989 El Camino Plaza Assessment District Series 89A & 89B and the 1990 Pointe Grand Business Park Assessment District Series 90A.

CITY OF SOUTH SAN FRANCISCO
 FIDUCIARY FUNDS
 STATEMENT OF FIDUCIARY NET ASSETS
 JUNE 30, 2004

	<u>Agency Fund Non- Obligated Assessment Districts</u>
ASSETS	
Receivables:	
Accrued interest	\$5,229
Restricted cash and investments	899,206
Total Assets	<u>\$904,435</u>
LIABILITIES	
Deferred contributions from property owners	\$904,435
Total Liabilities	<u>\$904,435</u>

See accompanying notes to financial statements

Basic Financial Statements
 Notes to the Financial Statements.

**CITY OF SOUTH SAN FRANCISCO
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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- A. Description of the Financial Reporting Entity** - The City has presented those entities, which comprise the primary government along with its discretely presented component unit in the basic financial statements.

As required by generally accepted accounting principles, these financial statements present the City of South San Francisco (the City) as the Primary Government, with its component units for which the City is considered financially accountable. The component units discussed below are included in the City's reporting entity because of the significance of their operational and financial relationships with the City.

- B. Description of Blended Component Units** - The accompanying basic financial statements include all funds and boards and commissions that are controlled by the City Council. The basic financial statements include the City's blended component units, entities for which the City is considered to be financially accountable. A blended component unit, although a legally separate entity, is in substance, part of the City's operations and so data from this unit is combined with the City. The City's following blended component units are described below.

The **City of South San Francisco Redevelopment Agency** (the Agency) was established in 1981 to develop certain portions of the City's older industrial areas. The Agency is governed by the City Council in a separate capacity as members of the Redevelopment Agency Board. The City of South San Francisco Redevelopment Agency's component unit financial statements may be obtained from the City's Finance Department at 400 Grand Avenue, South San Francisco, CA 94080.

The **City of South San Francisco Capital Improvements Financing Authority** is a joint exercise of powers authority created in 1991 between the City and the City of South San Francisco Redevelopment Agency. The Financing Authority is authorized to borrow money through the purchase or issuance of bonds, notes, or other obligations for the purpose of making loans to the City and other public entities to finance capital improvements. The City Council members serve as the Board of Directors.

- C. Description of Discrete Component Unit** - The **City of South San Francisco Conference Center Authority** was established in 1992 to manage and operate the South San Francisco Conference Center. The Authority is governed by a Board of nine commissioners consisting of two Council members and seven representatives from various businesses appointed by City Council.

The Authority does not meet the criteria of a blended component unit, since the City Council is not the component unit's governing body and the Authority does not provide services entirely to the City. However the City is financially accountable and is able to impose its will on the Authority. The Authority is therefore considered a discrete component unit with its financial data reported separately from the financial data of the City.

The City of South San Francisco Conference Center Authority financial statements may be obtained from the Authority at 255 South Airport Boulevard, South San Francisco, CA 94080.

CITY OF SOUTH SAN FRANCISCO
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. *Basis of Presentation*

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

These Statements require that the financial statements described below be presented.

Government-wide Statements - The Statement of Net Assets and the Statement of Activities display information about the primary government (the City) and its component units. These statements include the financial activities of the overall City government, except for fiduciary activities. Interfund transfers and amounts owed between funds within the primary government have been eliminated from the statements. Amounts representing interfund services and uses remain in the statements. These statements distinguish between the *governmental* and *business-type activities* of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs, (b) grants and contributions that are restricted to meeting the operational needs of a particular program and (c) fees, grants and contributions that are restricted to financing the acquisition or construction of capital assets. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

CITY OF SOUTH SAN FRANCISCO
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Financial Statements: The fund financial statements provide information about the City's funds, including fiduciary funds and blended component units. Separate statements for each fund category – *governmental*, *proprietary*, and *fiduciary* – are presented. The emphasis of fund financial statements is on major individual governmental and enterprise funds, each of which is displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

Proprietary fund *operating* revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. *Nonoperating* revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

E. *Major Funds*

GASB Statement 34 defines major funds and requires that the City's major governmental and business-type funds be identified and presented separately in the fund financial statements. All other funds, called non-major funds, are combined and reported in a single column, regardless of their fund-type.

Major funds are defined as funds that have either assets, liabilities, revenues or expenditures/expenses equal to ten percent of their fund-type total and five percent of the grand total. The General Fund is always a major fund. The City may also select other funds it believes should be presented as major funds.

The City reported the following major governmental funds in the accompanying financial statements:

General Fund – Accounts for resources traditionally associated with government, such as administration, public safety, library, parks, maintenance, and recreation, outside of those accounted for in other funds.

Federal Aviation Grant Special Revenue Fund - Accounts for Federal monies received for insulating structures against airport noise.

Capital Improvement Fund - Accounts for expenditures associated with the acquisition, construction, or improvement of City-owned facilities and infrastructure. Funding comes from the General Fund, Special Revenue funds, grants and fees.

CITY OF SOUTH SAN FRANCISCO
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Redevelopment Agency Funds:

Gateway Debt Service Fund – Accounts for principal and interest associated with debt repaid by property tax increments from the Gateway project area. It is also a sinking fund required by 1999 bond covenants for bond retirement purposes.

Downtown Capital Project Fund – Accounts for property tax increment revenues used for capital projects connected with Downtown project areas.

Low and Moderate Income Housing Capital Project Fund – Accounts for the 20% share of property tax increment revenue directed toward low and moderate income housing projects.

The City reported all enterprise funds as major funds in the accompanying financial statements. The enterprise funds are:

Sewer Rental Fund - Accounts for user charges and debt proceeds supporting the operation, maintenance, and capital expansion of the wastewater collection and treatment system.

Parking District Fund - Accounts for meter and parking permit fees used to maintain parking facilities.

Storm Water Fund - Accounts for user charges sustaining the Storm Water Management Program mandated by state and federal authorities.

The City also reports the following fund types:

Internal Service Funds. These funds account for self insurance, health and retirement benefits, City services and equipment replacement; all of which are provided to other departments on a cost-reimbursement basis.

Fiduciary Funds. An agency fund is used to account for assets held by the City as an agent for special assessment districts that service debt for which the City is not obligated for repayment. The financial activities of this fund, excluded from the Government-wide financial statement, are presented in a separate Fiduciary Fund financial statement.

CITY OF SOUTH SAN FRANCISCO
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Basis of Accounting

The government-wide, proprietary, discretely presented component unit and fiduciary fund financial statements are reported using the *economic resources measurement focus* and the full *accrual basis* of accounting. Revenues are recorded when *earned* and expenses are recorded at the time liabilities are *incurred*, regardless of when the related cash flows take place.

Governmental funds are reported using the *current financial resources* measurement focus and the *modified accrual* basis of accounting. Under this method, revenues are recognized when *measurable and available*. The City considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, claims and judgments, and compensated absences, which are recognized as *expenditures* to the extent they have matured. General capital asset acquisitions are reported as *expenditures* in governmental funds. Proceeds from long-term debt and acquisitions under capital leases are reported as *other financing sources*.

Those revenues susceptible to accrual are property and sales taxes, certain intergovernmental revenues, interest revenue, licenses and permits, charges for services, fines and forfeitures. Sales taxes collected and held by the state at year end on behalf of the City are also recognized as revenue. Other receipts and taxes are recognized as revenue when the cash is received.

Non-exchange transactions, in which the City gives or receives value without directly, receiving or giving equal value in exchange, include taxes, grants, entitlements, and donations. On the accrual basis, revenue from taxes is recognized in the fiscal year for which the taxes are levied or assessed. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Under the terms of grant agreements, the City may fund certain programs with a combination of cost-reimbursement grants, categorical block grants, and general revenue. Thus, both restricted and unrestricted net assets may be made available to finance program expenditures. The City's policy is to first apply restricted grant resources to such programs, followed by general revenues if necessary.

The City considers restricted shared state revenues such as gasoline taxes and public safety sales taxes, restricted locally imposed transportation sales taxes, fines, forfeitures, licenses, permits, charges for services, and program grants as program revenues.

Certain indirect costs are included in program expenses reported for individual functions and activities.

CITY OF SOUTH SAN FRANCISCO
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The City follows statements and interpretations of the Financial Accounting Standards Board and its predecessors that were issued on or before November 30, 1989, in accounting for its business-type activities, unless they conflict with Government Accounting Standards Board pronouncements.

G. Budgets, Budgetary Accounting, And Encumbrances

The City is not legally required to budget any of its funds, but does so to enhance City management's effectiveness in their financial planning efforts and to enhance control over the City's operations. Budgets are adopted on a modified accrual basis, except for encumbrances and for the Capital Improvement Fund. Encumbrances are considered expenditures in the year of the purchase order issuance. The Capital Improvement Fund is adopted on a multi-year project basis with unexpended and unencumbered budgets reappropriated in the following year. The City operates under the general laws of the State of California (the State) and annually adopts a budget effective July 1 for the ensuing fiscal year for the General fund; Special Revenue funds except for the City Programs fund; Debt Service funds; Capital Projects funds except for the Inactive Bonds fund; and Enterprise funds.

The budget is adopted by the City Council and controlled at the department level for the General fund and at the fund level for all other funds with adopted budgets. From the effective date of the budget, the amounts stated therein as proposed expenditures become appropriations to the various City departments. The City Council may amend the budget by resolution during the fiscal year. The department heads may authorize transfers within one object category within the same department within a fund. The City Manager may authorize transfers between object categories and departments within a fund, or between capital projects with the same funding source.

All appropriations lapse at year-end, except for capital projects and encumbrances. Original adopted budgets and final amended budgets are presented in the basic financial statements. Supplementary budget appropriations were necessary during the year ended June 30, 2004.

Encumbrance accounting, under which, purchase orders, contracts and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of the budgetary process. Encumbrances outstanding at year-end are reported as reservations of fund balances since they do not constitute expenditures or liabilities. Encumbrances are reappropriated in the following year.

The budgetary comparison statements present comparisons of the legally adopted budget with actual charges to appropriations on a budgetary basis. In order to provide a meaningful comparison, the actual charges on a budgetary basis include encumbrances, which is a basis that differs significantly from those used to present financial statements in conformity with generally accepted accounting principles.

H. Cash Equivalents - For purposes of the statement of cash flows, the City considers all highly liquid investments (including all restricted assets) with maturity of three months or less when purchased to be cash equivalents. The City maintains a cash and investment pool that is available for use by all funds. As the proprietary funds' share of this pool is readily available when needed, such share is also considered to be cash equivalent. Deposit assets in the proprietary funds are related to

CITY OF SOUTH SAN FRANCISCO
NOTES TO BASIC FINANCIAL STATEMENTS

insurance and benefits and are not considered cash equivalents for purposes of the statement of cash flows.

I. Inventory and Prepaid Items consist of consumable supplies. Inventory is stated at cost (first-in, first-out method). The costs are recorded as expenditures at the time the individual inventory or prepaid item is consumed. Reported inventory and prepaid items are equally offset by a fund balance reservation, which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

J. Capital Assets

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated fair market value on the date contributed.

GASB Statement 34 allows the City up to four years to record all its infrastructure assets at June 30, 2003. With the implementation of GASB 34 the City has recorded additions and improvements to infrastructure classified as streets, storm drains, and traffic control devices since fiscal 2003. Historical value for infrastructure assets acquired in prior years since 1980 will be retroactively recorded by June 30, 2006.

GASB Statement 34 requires that all capital assets with limited useful lives be depreciated over their estimated useful lives. Alternatively, the "modified approach" may be used for certain capital assets. Depreciation is not provided under this approach, but all expenditures on these assets are expensed, unless they are additions or improvements.

The purpose of depreciation is to spread the cost of capital assets equitably among all users over the life of these assets. The amount charged to depreciation expense each year represents that year's pro rata share of the cost of capital assets.

**CITY OF SOUTH SAN FRANCISCO
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Buildings	50 years
Clean water facilities and transmission lines	40 years
Improvements	30 years
Machinery and equipment	5-20 years
Furniture and fixtures	12 years
Infrastructure	20-40 years

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

Capital assets, excluding infrastructure, are recorded if acquisition or construction costs exceeds \$5,000. The similar threshold for infrastructure is \$100,000.

- K. *Vacation and sick pay*** are accrued as earned. Upon termination, employees are paid for all unused vacation at their current hourly rates. After five to twenty years of employment, one half of accumulated sick leave becomes vested, up to a maximum amount as specified under labor contract provisions. The vested portion is available for current use or, if unused, is payable at termination or retirement.

The City's liability for compensated absences, such as vacation and sick leave, is recorded in proprietary funds. The liability for compensated absences is determined annually. For all governmental funds, amounts expected to be paid out of current financial resources are recorded as liabilities of the Health and Retirement Benefits Internal Service fund and charged-out to the governmental funds; the long-term portion is recorded in the Statement of Net Assets. Proprietary fund liabilities are recorded within their respective funds.

**CITY OF SOUTH SAN FRANCISCO
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The changes of the compensated absences were as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Beginning Balance	\$4,950,089	\$505,840	\$5,455,929
Additions	286,310	15,208	301,518
Payments	<u>(326,207)</u>	<u>(93,987)</u>	<u>(420,194)</u>
Ending Balance	<u>\$4,910,192</u>	<u>\$427,061</u>	<u>\$5,337,253</u>
Current Portion	<u>\$531,852</u>	<u>\$55,938</u>	<u>\$587,790</u>

Compensated absences are liquidated by the fund that has recorded the liability. The long-term portion of governmental activities compensated absences is liquidated primarily by the Health and Retirement Benefits Internal Service Fund.

- L. *Property Tax Levy, Collection and Maximum Rates*** - State of California Constitution Article XIII A provides that the combined maximum property tax rate on any given property may not exceed 1% of its assessed value unless an additional amount for general obligation debt has been approved by voters. Assessed value is calculated at 100% of market value as defined by Article XIII A and may be adjusted by no more than 2% per year unless the property is sold, transferred, or substantially improved. The State Legislature has determined the method of distribution of receipts from a 1% tax levy among the counties, cities, school districts and other districts. The County of San Mateo assesses properties, bills for and collects property taxes on the schedule that follows:

	<u>Secured</u>	<u>Unsecured</u>
Valuation/lien dates	January 1	January 1
Levy dates	July 1	July 1
Due dates (delinquent as of)	50% on November 1 (December 10) 50% on February 1 (April 10)	July 1 (August 31)

The term "unsecured" refers to taxes on personal property other than land and buildings. These taxes are secured by liens on the property being taxed.

Property taxes levied are recorded as revenue and receivables when they are collected during the fiscal year of levy or within 60 days of year-end.

Pension Costs are funded currently as determined each July 1 by an actuary.

**CITY OF SOUTH SAN FRANCISCO
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Unbilled Services - for the Sewer Rental Enterprise Fund are accrued at year-end.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent asset and liabilities at the dates of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting periods. Actual results could differ from those estimates.

NOTE 2 - CASH AND INVESTMENTS

The City's goal is to invest at the maximum yield, consistent with safety and liquidity, while individual funds can process payments for expenditures at any time. The City's investments are carried at fair value, as required by generally accepted accounting principles. The City adjusts the carrying value of its investments to reflect their fair value at each fiscal year end, and it includes the effects of these adjustments in income for that fiscal year.

A. Categorization of Credit Risk of Securities Instruments

The City and its fiscal agents invest in individual investments and in investment pools. Individual investments are evidenced by specific identifiable pieces of paper called *securities instruments*, or by an electronic entry registering the owner in the records of the institution issuing the security, called the *book entry* system. In order to maximize security, the City employs the trust department of a bank as the custodian of all City managed investments, regardless of their form.

The City categorizes its individual securities instruments in ascending order to reflect the relative risk of loss of these instruments. This risk is called Credit Risk, the lower the number, the lower the risk. The three levels of risk prescribed by generally accepted accounting principles are described below:

Category 1 - Securities instruments in this category are in the City's name and are in the possession of the trust department of the bank employed by the City solely for this purpose. The City is the registered owner of securities held in book entry form by the bank's trust department.

Category 2 - Securities instruments and book entry form securities in this category are in the bank's name as the City's agent, but are held by its trust department in the City's name.

Category 3 - Investments in this category include only City-owned securities instruments or book entry form securities which were not in the City's name or not held by the bank's trust department.

Pooled Investments - Pooled investments are not categorized because of their pooled, rather than individual, nature.

**CITY OF SOUTH SAN FRANCISCO
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 2 - CASH AND INVESTMENTS (Continued)

Investments are carried at fair value and were categorized as follows at June 30, 2004:

	Category 1	Category 2	Non- Categorized	Total
City Treasury:				
Securities of the U. S.				
Government or its agencies	\$14,031,966	\$3,262,566		\$17,294,532
Repurchase agreements			\$125,000	125,000
Investment agreements			4,258,550	4,258,550
Medium term corporate notes	2,215,296			2,215,296
Money market pool (US Securities)			12,076,115	12,076,115
San Mateo County Investment Pool			31,493,617	31,493,617
Local Agency Investment Fund			17,959,373	17,959,373
	<u>16,247,262</u>	<u>3,262,566</u>	<u>65,912,655</u>	<u>85,422,483</u>
Cash Deposits			7,879,383	7,879,383
Petty Cash			9,120	9,120
	<u>16,247,262</u>	<u>3,262,566</u>	<u>73,801,158</u>	<u>93,310,986</u>
South San Francisco				
Conference Center Authority:				
Local Agency Investment Fund			1,251,504	1,251,504
Petty Cash			100	100
Cash Deposits			108,296	108,296
	<u>16,247,262</u>	<u>3,262,566</u>	<u>73,801,158</u>	<u>93,310,986</u>
Total South San Francisco				
Conference Center Authority			1,359,900	1,359,900
	<u>\$16,247,262</u>	<u>\$3,262,566</u>	<u>\$75,161,058</u>	<u>\$94,670,886</u>
Financial Statement Presentation:				
Cash and investments available for operations				\$65,752,438
Cash and investments with fiscal agent				421,944
Restricted cash and investments				<u>26,237,398</u>
				<u>92,411,780</u>
Total City Cash and Investments				
South San Francisco Conference Center				1,359,900
Fiduciary Fund restricted cash and investments				<u>899,206</u>
				<u>\$94,670,886</u>

The City does not allocate investments by fund. Each proprietary fund's portion of Cash and Investments Available for Operations is in substance a demand deposit available to finance operations, and is considered a cash equivalent in preparing the statement of cash flows.

**CITY OF SOUTH SAN FRANCISCO
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 2 - CASH AND INVESTMENTS (Continued)

B. Cash Deposits

Cash in banks is entirely insured (category 1) or collateralized by an agent of the institution holding the deposit in the City's name (category 2). California law requires banks and savings and loan institutions to pledge government securities with a market value of 110% of the deposit or first trust deed mortgage notes with a value of 150% of the deposit as collateral for all municipal deposits. This collateral remains with the institution, but is considered to be held in the City's name and places the City ahead of general creditors of the institution. The City has waived collateral requirements for the portion of deposits covered by federal deposit insurance.

The following is a summary of the City's cash deposit at June 30, 2004:

	<u>Carrying Amount</u>	<u>Bank Balance Before Reconciling Items</u>	<u>Bank Balance Insured</u>	<u>Bank Balance Collateralized</u>
City Government	\$7,879,383	\$8,338,317	\$162,561	\$8,175,756
Component Unit:				
South San Francisco Conference Center Authority	108,296	166,265	100,000	66,265

**CITY OF SOUTH SAN FRANCISCO
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 2 - CASH AND INVESTMENTS (Continued)

C. Authorized Investments

The City's Investment Policy and the California Government Code allow the City to invest in the following, provided the credit ratings of the issuers are acceptable to the City.

- U.S. Treasury Securities
- Obligations issued by agencies of the U.S. Government
- Banker's Acceptances
- Commercial Paper
- Certificate of Deposit
- Repurchase Agreements
- Local Agency Investment Fund
- San Mateo County Investment Fund
- Mutual Funds
- Medium Term Notes

Commercial paper must be rated 'A-1' by Standard and Poor's or 'P-1' by Moody's. Medium-term notes must be rated 'A' or better by Standard and Poor's. The City's normal practice is to hold investments until maturity. For medium-term corporate notes, however, the City may sell them before maturity if the bond ratings on the notes fall below 'A'.

D. Local Agency Investment Fund

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The City reports its investment in LAIF at the fair value amount provided by LAIF. The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF's investment portfolio are collateralized mortgage obligation, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, and corporations.

E. San Mateo County Investment Fund

The City is a voluntary participant in the San Mateo County Investment Fund (SMCIF) that is regulated by California Government Code Section 53600 under the oversight of the treasurer of the County of San Mateo. The City reports its investment in SMCIF at the fair value amount provided by SMCIF. The balance available for withdrawal is based on the accounting records maintained by SMCIF, which are recorded on an amortized cost basis. Included in SMCIF's investment portfolio are U.S. Treasury Notes, obligations issued by agencies of the U.S. Government, LAIF, corporate notes, commercial paper, mortgage-backed securities, other asset-backed securities, and floating rate securities issued by federal agencies, government-sponsored enterprises, and corporations.

**CITY OF SOUTH SAN FRANCISCO
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 3 - CAPITAL ASSETS

Capital Asset Changes – Changes in capital assets during the fiscal year consist of:

	Balance July 1, 2003	Additions	Retirements	Transfers	Balance June 30, 2004
Governmental activities					
Capital assets not being depreciated:					
Land	\$40,840,638	\$5,724,786			\$46,565,424
Construction in Progress	23,405,287	18,489,541	(\$66,998)	(\$8,212,789)	33,615,041
Total capital assets not being depreciated	64,245,925	24,214,327	(66,998)	(8,212,789)	80,180,465
Capital assets being depreciated:					
Buildings and Improvements	47,873,783			6,019,537	53,893,320
Infrastructure - Streets	943,590			2,193,252	3,136,842
Infrastructure - Storm Drains	134,725				134,725
Infrastructure - Traffic Control Devices	299,043				299,043
Equipment & Vehicle	5,273,971		(514,801)		4,759,170
Furniture and Fixtures	1,298,407		(5,508)		1,292,899
Total capital assets being depreciated	55,823,519		(520,309)	8,212,789	63,515,999
Less accumulated depreciation for:					
Buildings and Improvements	(9,709,363)	(1,313,440)			(11,022,803)
Infrastructure - Streets	(15,727)	(68,007)			(83,734)
Infrastructure - Storm Drains	(1,684)	(3,368)			(5,052)
Infrastructure - Traffic Control Devices	(7,476)	(14,952)			(22,428)
Equipment & Vehicle	(3,715,566)	(282,682)	532,969		(3,465,279)
Furniture and Fixtures	(401,733)	(89,877)	2,984		(488,626)
Total accumulated depreciation	(13,851,549)	(1,772,326)	535,953		(15,087,922)
Net Governmental Fund Program Capital Assets Being Depreciated	41,971,970	(1,772,326)	15,644	8,212,789	48,428,077
Internal Service Fund Capital Assets					
Equipment & Vehicle	6,859,598	525,449	(489,254)		6,895,793
Accumulated depreciation	(3,680,654)	(508,773)	434,883		(3,754,544)
Net Internal Service Capital Assets Being Depreciated	3,178,944	16,676	(54,371)		3,141,249
Governmental activity capital assets, net	\$109,396,839	\$22,458,677	(\$105,725)		\$131,749,791

**CITY OF SOUTH SAN FRANCISCO
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 3 - CAPITAL ASSETS (Continued)

	Balance July 1, 2003	Additions	Retirements	Transfers	Balance June 30, 2004
Business-type activities					
Capital assets, not being depreciated:					
Land	\$544,400	\$17,820			\$562,220
Construction in Progress	2,644,974	11,143,219	(\$26,354)	(\$1,451,956)	12,309,883
Total capital assets not being depreciated	3,189,374	11,161,039	(26,354)	(1,451,956)	12,872,103
Capital assets, being depreciated:					
Buildings and Improvements	10,369,347				10,369,347
Clean Water Facilities & Lines	68,774,439	10,367		66,557	68,851,363
Infrastructure - Streets				1,385,399	1,385,399
Equipment & Vehicle	9,002,002	33,394	(18,325)		9,017,071
Furniture and Fixtures	31,154				31,154
Total capital assets being depreciated	88,176,942	43,761	(18,325)	1,451,956	89,654,334
Less accumulated depreciation for:					
Buildings and Improvements	(2,950,305)	(212,121)			(3,162,426)
Clean Water Facilities & Lines	(4,744,315)	(1,740,482)			(6,484,797)
Infrastructure - Streets					(23,090)
Equipment & Vehicle	(6,465,111)	(659,339)	18,325		(7,106,125)
Furniture and Fixtures	(10,316)	(2,596)			(12,912)
Total accumulated depreciation	(14,170,047)	(2,637,628)	18,325		(16,789,350)
Net capital assets being depreciated	74,006,895	(2,593,867)		1,451,956	72,864,984
Business-type activity capital assets, net	\$77,196,269	\$8,567,172	(\$26,354)		\$85,737,087
Component Unit:					
South San Francisco Conference Center					
Buildings and Improvements	\$8,037,676	\$16,426			8,054,102
Furniture and Fixtures	621,236				621,236
Machinery and equipment	239,737				239,737
Total:	8,898,649	16,426			8,915,075
Less accumulated depreciation	(3,344,691)	(369,118)			(3,713,809)
Component unit, net	\$5,553,958	(\$352,692)			\$5,201,266

Capital Asset Contributions - Some capital assets may have been acquired using federal and State grant funds, or were contributed by developers or other governments. GASB Statement 34 requires that these contributions be accounted for as revenues at the time the capital assets are contributed.

Depreciation Allocation - Depreciation expense is charged to functions and programs based on their usage of the related assets. The amounts allocated to each function or program are as follows:

**CITY OF SOUTH SAN FRANCISCO
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 3 - CAPITAL ASSETS (Continued)

	Depreciation Expense
<i>Governmental Activities</i>	
Governmental Fund Programs	
General government	\$432,807
Economic & Community Development	798,208
Police	18,377
Fire	100,957
Library	57,327
Maintenance	26,359
Recreation	338,291
Internal Service Funds	<u>508,773</u>
Total Governmental Activities	<u><u>\$2,281,099</u></u>
<i>Business-Type Activities</i>	
Sewer Rental	\$2,614,227
Parking	16,457
Storm Water	<u>6,944</u>
Total Business-Type Activities	<u><u>\$2,637,628</u></u>

NOTE 4 - INTER-FUND TRANSACTIONS

A. Inter-fund Receivables and Payables

Amounts due to or due from other funds reflect inter-fund balances for services rendered or short-term loans expected to be repaid in the next fiscal year. Advances due to or due from other funds are long-term loans between Redevelopment Agency project areas that are to be repaid in their entirety over several years.

At June 30, 2004, inter-fund receivables and payables consisted of:

	Advances from Other Funds	Advances to Other Funds	Due from Other Funds	Due to Other Funds
Internal Service Funds			\$505,155	
Sewer Rental Enterprise Fund				\$3,981,499
Non-major Governmental Funds	\$3,932,752	\$844,591		505,155
Redevelopment Agency Downtown Capital Project		3,088,161	3,981,499	
Total	<u><u>\$3,932,752</u></u>	<u><u>\$3,932,752</u></u>	<u><u>\$4,486,654</u></u>	<u><u>\$4,486,654</u></u>

As of June 30, 2004, the South San Francisco Conference Center owed the City General Fund \$71,055, with the General Fund owing back \$1,070 to the Conference Center.

**CITY OF SOUTH SAN FRANCISCO
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 4 - INTER-FUND TRANSACTIONS (Continued)

In the late 1990's the General Fund advanced funds to the Shearwater Redevelopment Agency Capital Project Fund as seed money for the Oyster Point Boulevard widening done in the 1990's and to the El Camino Redevelopment Agency Capital Project Fund, for traffic improvements made in the late 1990's. In the last two fiscal years, the Downtown Redevelopment Agency Capital Project Fund and the Shearwater Redevelopment Agency Fund repaid the General Fund for these advances and assumed the receivable, restructuring them as advances between Redevelopment Agency project areas. As of June 30, 2004, Shearwater owed \$3,088,161 to Downtown and El Camino owed \$844,591 to Shearwater. The outstanding balances will be paid off by 2033 with property tax increments, at a variable interest rate equal to the earnings rate of the City's overall investment portfolio.

- B. Internal Balances** - Internal balances are presented in the Entity-wide financial statements only. They represent the net interfund receivables and payables remaining after the elimination of all such balances within governmental and business-type activities.
- C. Transfers** - Resources may be transferred from one City fund to another. Transfers routinely fund capital projects or capital outlays, lease or debt service payments, operating expenses and low and moderate-income housing projects.

**CITY OF SOUTH SAN FRANCISCO
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 4 - INTER-FUND TRANSACTIONS (Continued)

Transfers between funds during the fiscal year ended June 30, 2004 were as follows:

<u>FROM FUND:</u>	<u>TO FUND:</u>	<u>AMOUNT:</u>	
General Fund	Capital Improvement Fund	\$85,930	(A)
	Other City Obligations Debt Service Funds	103,167	(B)
	Self Insurance Internal Service Fund	240,000	(C)
Capital Project Funds: Redevelopment Agency (RDA) Gateway	RDA Gateway Debt Service Funds	4,924,038	(B)
	Capital Improvement Fund	5,558,711	(A)
	RDA Low Mod Housing Capital Project Fund	1,260,312	(D)
RDA Downtown	Capital Improvement Fund	5,007,603	(A)
	RDA Low Mod Housing Capital Project Fund	1,401,162	(D)
	Other City Obligations Debt Service Funds	403,595	(B)
	RDA Downtown & Low Mod Housing Debt Service Funds	859,015	(B)
RDA Low Mod Housing	Other City Obligations Debt Service Funds	55,716	(B)
	RDA Low Mod Housing Debt Service Fund	294,974	(B)
RDA Shearwater	RDA Low Mod Housing Capital Project Fund	452,689	(D)
RDA EL Camino	Capital Improvement Fund	32,594	(A)
	RDA Low Mod Housing Capital Project Fund	346,794	(D)
Nonobligated Capital Project	Capital Improvement Fund	69,912	(A)
Non-major Governmental Funds	General Fund	1,406,422	(E)
	Capital Improvement Fund	657,595	(A)
Sewer Rental Enterprise Fund	Capital Improvement Fund	6,938	(A)
	Total	\$23,167,167	

The reasons for these transfers are set forth below:

- (A) For capital projects
- (B) For debt service
- (C) For general liability increase
- (D) Set aside 20% of property tax increment for low and moderate housing
- (E) For maintenance and operating expenses

**CITY OF SOUTH SAN FRANCISCO
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 5 - LONG-TERM OBLIGATIONS

A summary of governmental and business-type activities transactions for the fiscal year ended June 30, 2004, follows:

	<u>Authorized and Issued</u>	<u>Balance at June 30, 2003</u>	<u>Additions</u>	<u>Repayments</u>	<u>Balance at June 30, 2004</u>	<u>Current Portion</u>
Governmental Activities:						
Redevelopment Agency (1):						
2000 HUD Section 108, 4.4 to 6.6%, due 8/1/23 (2)	\$1,750,000	\$1,750,000			\$1,750,000	\$12,000
1999 Revenue Bonds, 3.3 to 5.0%, due 9/1/18 (3)	31,720,000	30,175,000		\$1,090,000	29,085,000	1,160,000
1997 Downtown Tax Allocation Bonds, 3.75 to 5.25%, due 9/1/27 (4)	11,590,000	10,610,000		220,000	10,390,000	230,000
Total Redevelopment Agency		42,535,000		1,310,000	41,225,000	1,402,000
1999 Certificates of Participation, 3.2 to 5.0%, due 4/1/29 (5)	6,145,000	5,710,000		120,000	5,590,000	125,000
1989 California Health Facilities Financing Authority (CHEFA) Revenue Bonds, 7.2%, due 9/23/11 (6)	563,000	328,330		29,881	298,449	32,200
1988 Costco (Price Club) Notes, 8.5%, due 12/6/06 (7)	2,270,000	2,270,000			2,270,000	
2003 San Mateo County Transportation Authority Note, rate varies, due 10/1/08 (8)	2,852,888	1,751,962	\$1,100,926		2,852,888	
Total Other Bonds and Notes		10,060,292	1,100,926	149,881	11,011,337	157,200
Special Assessment Debt with City Commitment:						
1978 Gellert Boulevard Extension Project, 5.6-5.75%, repaid 7/2/03 (9)	954,000	85,000		85,000		
Total Governmental Activities Debt		52,680,292	1,100,926	1,544,881	52,236,337	1,559,200
Capital Leases (10):						
1997 Ambulance, 5.625%, repaid 10/03		12,308		12,308		
1997 Quint, 5.25%, repaid 1/10/04		89,065		89,065		
1998 Ambulance, 5.375%, due 9/25/04		38,338		25,218	13,120	13,120
1998 Quint, 4.57 to 5.0%, due 12/23/08		389,933		63,700	326,233	66,648
2000 Fire Truck, 5.72%, due 7/14/10		246,445		27,157	219,288	28,733
2000 Ambulance & Sweeper, 5.72%, due 7/05		141,558		54,240	87,318	57,387
1998-2000 Various Copier, 7.7%-11.5%, due various		18,911		16,981	1,930	1,930
Total Capital Leases		936,558		288,669	647,889	167,818
Net Governmental Long-Term Obligations		\$53,616,850	\$1,100,926	\$1,833,550	\$52,884,226	\$1,727,018
Business-Type Activities (11):						
1993 State Water Resources Loan, 3.0%, due 10/8/13	\$7,899,017	\$5,536,708		\$432,292	\$5,104,416	\$445,261
1999 State Water Resources Loan, 2.6%, due 8/1/22	47,721,252	50,553,782		1,961,733	48,592,049	2,010,027
2004 State Water Resources Loan, 2.5%, due 10/15/25	21,258,529		\$10,499,101		10,499,101	
Total Enterprise Fund Debt		\$56,090,490	\$10,499,101	\$2,394,025	\$64,195,566	\$2,455,288
Component Unit - Conference Center (12):						
2003 Revenue Bonds, 2.25% to 4.0%, due 9/1/18	\$5,865,000	\$5,865,000		\$325,000	\$5,540,000	\$305,000
Unamortized refunding loss on 2003 bonds		(392,913)		(23,914)	(368,999)	
Total Conference Center		\$5,472,087		\$301,086	\$5,171,001	\$305,000

CITY OF SOUTH SAN FRANCISCO
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 5 - LONG-TERM OBLIGATIONS (Continued)

(1) The City has pledged incremental property taxes (related to the specific properties) of the Redevelopment Agency

(2) In May 2000, the City and Redevelopment Agency secured a "Contract for Loan Guarantee Assistance under Section 108 of the Housing and Community Development Act of 1974, in the aggregate principal amount of \$1,750,000 (the **2000 HUD Section 108 Loan**). The proceeds of the HUD Section 108 Loan were used to finance the acquisition of real property (and related relocation), the rehabilitation of rental housing, and the rehabilitation of a public facility, pursuant to 24 CFR Statute 570.703(a), (d), (h) and (l).

Under the Contract, the City and the Redevelopment Agency pledge: (a) all allocations or grants under Section 106 of Title I, or Section 108 (q) of Title I; (b) program income, as defined at 24 CFR Section 570.500 (a); (c) tax increment revenues and receipts available to the Redevelopment Agency; (d) all proceeds from foregoing; and (e) all funds or investments in accounts established by the Contract.

(3) On February 1, 1999, the City of South San Francisco Capital Improvements Financing Authority (CIFA) issued \$31,720,000 of **1999 Revenue Bonds** to provide funds to pay loans (Homart Development), to finance redevelopment and housing activities and to refund the 1993 Gateway tax allocation bonds, which were due in 2018. The 1999 revenue bonds are obligations of the CIFA although the Redevelopment Agency is required to make bond principal and interest payments from tax increment revenue. The 1999 Revenue Bonds are, in substance, obligations of the Redevelopment Agency, and have therefore been recorded as such in these financial statements.

The 1999 Revenue Bonds were issued Net proceeds of \$9,614,978 plus an additional \$956,470 of 1993 bond reserve funds were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1993 bonds. As a result, the 1993 bonds are considered to be defeased and the liability for those bonds has been removed. As of June 30, 2004, \$8,365,000 of principal remained outstanding on the 1993 bonds.

(4) On September 1, 1997, the Redevelopment Agency of the City of South San Francisco (the Agency) issued \$11,590,000 of Downtown/Central Redevelopment Project **1997 Downtown Tax Allocation Bonds** to finance land acquisition, parking improvements and public infrastructure improvements by the Agency in connection with the Project Area, to fund a reserve fund for the Bonds, and to pay the issuance costs relating to the Bonds.

CITY OF SOUTH SAN FRANCISCO
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 5 - LONG-TERM OBLIGATIONS (Continued)

(5) On February 1, 1999, the City issued \$6,145,000 of **1999 Certificates of Participation (COPs)** to finance the acquisition of the land and improvements used and operated as the City of South San Francisco Conference Center. During fiscal 2003/04, pursuant to a resolution of the Redevelopment Agency Board, tax increment revenues were pledged to pay debt service on the 1999 COPS.

(6) **1989 California Health Facilities Financing Authority Revenue Bonds** - In April 6, 1989 the City received \$563,000 from the California Health Facilities Financial Authority for construction of the adult day care facility in the Magnolia Senior Center. Debt service payments are made from general revenues of the General Fund and interest revenues from the Capital Improvements Fund.

(7) **1988 Costco (Price Club) Notes** - In 1988 the City borrowed money from a retail company then known as Price Club to purchase land from a third party adjacent to their store located in the City, which now operates as a Costco Wholesale store. The City leases the land back to the company for lease payments equaling a percentage of Costco's gross annual sales at the location. The note bears interest at 8.5%, and matures in December 2006. The lease payments made to the City by Costco, are offset against the City's obligation to Costco, first for interest, then for principal. Costco will forgive any outstanding balances at maturity. At June 30, 2004, outstanding principal of the notes was \$2,270,000.

(8) On September 11, 2001, the City entered into a long-term "Funding Agreement" with **San Mateo County Transportation Authority** for the Oyster Point Project Phase II-IIIa, in the aggregate principal amount of \$10,752,000. The note has an interest rate equal to the rate of return on the Authority's investments (6.036% at June 30, 2004) and will be repaid in full by October 1, 2008. In fiscal 2003 the City began to draw down proceeds of this note in order to construct the Oyster Point Boulevard flyover from U.S. Hwy 101. Funding for the repayment will first come from Oyster Point developer fees. Shearwater redevelopment project area tax increment or other sources of funding can be used if needed to repay the loan by 2008.

(9) **Special Assessment Debt with City Commitment** - Debt service payments are made from special assessment tax levies from the specific special assessment district property owners. In the event of a delinquency in the payment of an installment in the assessments levied, the City must purchase the delinquent property and pay from available funds the amount of the delinquency. At June 30, 2004 all remaining outstanding principal were repaid in full.

(10) The City has entered into long-term **capital leases** with various financing agencies. Under these capital leases, all leased assets shall be distributed to the City at the end of the lease terms and shall thereafter remain the sole property of the City. Therefore, these capital leases have been recorded at the present value of the future minimum lease payments at the date of inception of the lease, and the corresponding assets have been included in the Statement of Net Assets as appropriate. Capital lease payments are made from revenues of the Equipment Replacement Internal Service Fund, Redevelopment Agency and General Fund.

**CITY OF SOUTH SAN FRANCISCO
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 5 - LONG-TERM OBLIGATIONS (Continued)

(11) The three loans were authorized by the **State Water Resources Control Board** to improve and expand the City's wastewater treatment plant. Loan proceeds were issued as the projects progressed and debt service payments commenced one year after project completion. Sewage treatment user fees support the debt service payments. One third of the annual debt service payment on the 1993 loan is reimbursable from the City of San Bruno through a joint construction and ownership agreement of the wastewater treatment plant. The City is currently developing an amended agreement with the City of San Bruno to reimburse the City for a portion of the 1999 debt service payments

(12) On June 1, 2003, the City of South San Francisco Capital Improvement Financing Authority (the CIFA) issued \$5,865,000 of **2003 Revenue Bonds**. The CIFA was created through a joint exercise of powers agreement between the City and the City of South San Francisco Financing Authority for the purpose of obtaining financing for capital improvements. The 2003 revenue bonds are obligations of the CIFA although the Authority is required to make the bond principal and interest payments in return for the use and ownership of the improvements to the leased buildings that comprise the Conference Center's facilities. The Authority has pledged the \$2.50 tax imposed on the City's hotel occupants on a per day per room basis as the sole source of repayment of these obligations. The 2003 revenue bonds are, in substance, obligations of the Authority and have therefore been recorded as such in these discretely presented component unit financial statements.

The 2003 revenue bonds were issued for the purpose of refunding prior 1993 revenue bonds, which were due in 2018. The refunding reduced required interest payments and did not extend the maturities on the bonds. The proceeds from these bonds are transferred to a trustee to be placed in an irrevocable trust to redeem the 1993 revenue bonds. The funds were invested in U.S. Treasury Notes with a cost of \$5,082,742, which represents the amount necessary to pay the redemption price and interest through the call date. Accordingly, the 1993 revenue bonds were removed from the balance sheet at June 1, 2003. The advance refunding reduced the Authority's total debt service payments over the next 15 years by \$881,056 and resulted in an economic loss of \$392,913, which has been deferred in accordance with GASB Statement No. 23, *Accounting and Financial Reporting for Refunding of Debt Reported by Proprietary Activities*. This loss is being amortized over the remaining life of the old debt. As of June 30, 2004, approximately \$5,150,000 of principal remained outstanding on the defeased 1993 revenue bonds.

**CITY OF SOUTH SAN FRANCISCO
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 5 - LONG-TERM OBLIGATIONS (Continued)

Future debt service requirements, including interest and capital leases, at June 30, 2004, were as follows:

For the Year Ended June 30	Governmental Activities		Business-Type Activities		Component Unit Conference Center Authority	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$1,727,018	\$2,294,679	\$2,455,288	\$1,416,525	\$305,000	\$161,431
2006	1,791,830	2,218,680	2,520,907	1,350,908	310,000	154,513
2007	4,249,729	8,646,171	2,999,294	1,546,007	320,000	147,426
2008	4,955,997	2,506,184	3,078,754	1,466,546	325,000	140,169
2009	2,191,258	1,951,376	3,160,327	1,384,974	335,000	133,162
2010-2014	12,613,394	8,090,323	17,103,187	5,623,318	1,810,000	536,090
2015-2019	16,595,000	4,478,184	16,316,659	3,417,881	2,135,000	212,203
2020-2024	4,315,000	1,747,157	15,263,054	1,198,065		
2025-2029	4,445,000	561,506	1,298,096	48,879		
Totals	\$52,884,226	\$32,494,260	\$64,195,566	\$17,453,103	\$5,540,000	\$1,484,994

Certificates of Participation and Capital Leases are issued for the purpose of financing the construction or acquisition of projects defined in each leasing arrangement. Projects are leased to the City for lease payments which, together with unspent proceeds of the leasing arrangement, will be sufficient to meet the debt service obligations of the leasing arrangement. At the termination of the leasing arrangement title to the project will pass to the City.

Leasing arrangements are similar to debt; they allow investors to participate in a share of guaranteed payments which are made by the City. Because they are similar to debt, the present value of the total of the payments to be made by the City is recorded as long-term debt. The City's leasing arrangements are included in long term obligations discussed above.

A summary of capital assets leased through the issuance of leasing arrangements follows:

Leasing Arrangement	Fund/Activity	Net Book Value
Capital Leases	Governmental Activity	\$1,484,941
1999 Certificates of Participation	Governmental Activity	5,325,000

**CITY OF SOUTH SAN FRANCISCO
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 6 - DEBT WITHOUT CITY COMMITMENT

The City has sponsored the issuance of the following debt, for which the City is not liable for repayment but is only acting as agent for the property owners and bondholders:

	Balance at July 1, 2003	Repayments	Balance at June 30, 2004	Current Portion
1989 El Camino Plaza Assessment District Series 89A, 6.5 to 7.2%, due 9/2/09	\$310,000	\$35,000	\$275,000	\$40,000
1989 El Camino Plaza Assessment District Series 89B, 9.5 to 9.75%, due 9/2/09	205,000	20,000	185,000	25,000
1990 Pointe Grand Business Park Assessment District Series 90A, 7.0 to 7.75%, due 9/2/11	1,625,000	135,000	1,490,000	145,000
1987 Magnolia Plaza Senior Apartments variable interest rates, due 5/1/17	6,100,000		6,100,000	
Total	<u>\$8,240,000</u>	<u>\$190,000</u>	<u>\$8,050,000</u>	<u>\$210,000</u>

For all debt issues above, bond principal and interest payments will be made from installment payments on unpaid assessments on properties within the assessment districts. For Magnolia Plaza Senior Apartments, the bond will be repaid by South San Francisco Magnolia Plaza Associates (a developer) out of rent revenue received from the project, pursuant to the Developer Loan made by the City of South San Francisco to the developer.

**CITY OF SOUTH SAN FRANCISCO
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 7 - NET ASSETS AND FUND BALANCES

GASB Statement 34 adds the concept of Net Assets, which is measured on the full accrual basis, to the concept of Fund Balance, which is measured on the modified accrual basis.

A. Net Assets

Net Assets is the excess of all the City's assets over all its liabilities, regardless of fund. Net Assets are divided into three captions under GASB Statement 34. These captions apply only to Net Assets, which is determined only at the Government-wide level, and are described below:

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

Restricted describes the portion of Net Assets which is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions which the City cannot unilaterally alter. These principally include assets restricted due to Redevelopment Agency bond covenants or low and moderate income housing loan agreements.

Unrestricted describes the portion of Net Assets which is not restricted to use.

B. Fund Balance

In the fund financial statements, fund balances represent the net current assets of each fund. Net current assets generally represent a fund's cash and receivables, less its liabilities. Portions of a fund's balance may be reserved or designated for future expenditure.

C. Reservations

Reserves are restrictions placed by outside entities, such as other governments, which restrict the expenditures of the reserved funds to the purpose intended by the entity which provided the funds. The City cannot modify or remove these restrictions or reserves.

Reserve for **encumbrances** represents the portion of fund balance set aside for open purchase orders.

Reserve for **bond/note requirements** represents amounts required to be held in reserve per bond covenants.

Reserves for **advances, inventory and prepaid** are the portions of fund balance that are not available for appropriation due to funds being advanced to other City funds, assets held in inventory and assets committed for future expenses.

Reserve for **loans receivable** represents fund balances that cannot be appropriated because the assets have been loaned out in various City improvement programs.

Reserve for **future loan obligations** represents fund balances set aside strictly for potential future loans, as required by the various loan programs.

**CITY OF SOUTH SAN FRANCISCO
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 7 - NET ASSETS AND FUND BALANCES (Continued)

Reserve for **restricted assets** is the portion of fund balance legally restricted for the payment of principal and interest on long-term obligations.

D. Designations

The unreserved-designated fund balances include amounts which have been internally designated to be set aside and are not considered to be available for immediate appropriation. The components of the unreserved fund balance for the Governmental Funds at June 30, 2004 are as follows:

	General Fund	Redevelopment Agency Capital Project		Other Governmental Funds
		Downtown	Low Mod Housing	
Unreserved, designated for:				
Economic contingencies	\$3,500,000			
Potential catastrophic events	1,000,000			
Capital projects and maintenance	388,544	\$1,500,000	\$2,918,095	\$4,652,168
Future economic development	3,600,000			
City programs				976,073
Total unreserved, designated	8,488,544	1,500,000	2,918,095	5,628,241
Total unreserved, undesignated	3,852,647	5,938,392		6,569,025
Total unreserved fund balances	\$12,341,191	\$7,438,392	\$2,918,095	\$12,197,266

E. Net Deficit

The Self Insurance Internal Service Fund had a net deficit in the amount of \$2,525,962 at June 30, 2004. The City Council adopted a reserve policy to fund, at a minimum, fifty percent of its potential future liabilities in the Self Insurance Fund. The above deficit results in a 50% funding level at June 30, 2004. City management believes that this is a prudent funding level considering the anticipated cash flow requirements and the probability of the liabilities.

**CITY OF SOUTH SAN FRANCISCO
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 8 - RETIREMENT BENEFITS

A. CALPERS Safety and Miscellaneous Employees Plans

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

	Police	Fire	Miscellaneous
	5 Years service	5 Years of service	5 Years service
Benefit vesting schedule	Monthly for life	Monthly for life	Monthly for life
Benefit payments	50	50	50
Retirement age	3.0%	3.0%	2.0%-2.7%
Monthly benefits, as a % of annual salary	9%	9%	8%
Required employee contribution rates	21.291%	20.446%	4.15%
Required employer contribution rates			

All qualified permanent and probationary employees are eligible to participate in PERS. A credited service year is one year of full time employment. The City's labor contracts require it to pay the employees contributions as well as its own. These benefit provisions and all other requirements are established by state statute and City ordinance. Contributions necessary to fund PERS on an actuarial basis are determined by PERS and its Board of Administration.

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

CALPERS used the 3-year smoothed market method of valuing the Plan's assets. An investment rate of return of 8.25% was assumed, including inflation at 3.5%. Annual salary increases were assumed to vary by duration of service. Changes in liability due to plan amendments, changes in actuarial assumptions, or changes in actuarial methods were amortized as a level percentage of payroll on a closed basis over 20 years. Investment gains and losses were accumulated as they were realized and 10 percent of the net balance was amortized annually.

**CITY OF SOUTH SAN FRANCISCO
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 8 - RETIREMENT BENEFITS (Continued)

Actuarially required contributions for fiscal years 2004, 2003 and 2002 were, \$3,437,093, \$1,346,316, and \$1,176,078, respectively. The City made these contributions as required, together with certain immaterial amounts required as the result of the payment of overtime and other additional employee compensation.

The Plans' actuarial value (which differs from market value) and funding progress over the most recent three years available is set forth below at their actuarial valuation date of June 30:

Miscellaneous Plan:

Actuarial						
Valuation Date	Entry Age Accrued Liability	Actuarial Value of Assets	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) Liability as % of Payroll
2000	\$56,624,205	\$73,257,546	(\$16,633,341)	129.4%	\$13,898,605	(119.7%)
2001	62,920,438	75,216,691	(12,296,253)	119.5%	15,781,106	(77.9%)
2002	76,715,527	70,448,463	6,267,064	91.8%	17,234,400	36.4%

Safety Fire

Actuarial						
Valuation Date	Entry Age Accrued Liability	Actuarial Value of Assets	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) Liability as % of Payroll
2000	\$54,647,310	\$63,396,005	(\$8,748,695)	116.0%	\$5,512,609	(158.7%)
2001	65,181,958	64,966,460	215,498	99.7%	6,249,324	3.4%
2002	69,484,064	61,096,703	8,387,361	87.9%	6,610,338	126.9%

Safety Police

Actuarial						
Valuation Date	Entry Age Accrued Liability	Actuarial Value of Assets	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) Liability as % of Payroll
2000	\$50,052,948	\$58,267,307	(\$8,214,359)	116.4%	\$5,161,619	(159.1%)
2001	61,102,731	59,743,756	1,358,975	97.8%	5,377,957	25.3%
2002	64,805,390	55,484,205	9,321,185	85.6%	5,924,051	157.3%

**CITY OF SOUTH SAN FRANCISCO
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 8 - RETIREMENT BENEFITS (Continued)

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

	Safety Police	Safety Fire	Miscellaneous
Beginning balance June 30, 2001	\$59,743,756	\$64,966,460	\$75,216,691
Contributions received	535,663	593,333	1,140,811
Benefits and refunds paid	(1,982,085)	(2,694,833)	(2,381,084)
Transfers and miscellaneous adjustments paid	2,859	794	20,426
Expected investment earnings credited	4,870,493	5,274,796	6,156,055
Expected actuarial value of assets, June 30, 2002	<u>\$63,170,686</u>	<u>\$68,140,550</u>	<u>\$80,152,899</u>
Market value of assets June 30, 2002	<u>\$50,440,186</u>	<u>\$55,542,457</u>	<u>\$64,044,057</u>
Actuarial value of assets June 30, 2002	<u>\$55,484,205</u>	<u>\$61,096,703</u>	<u>\$70,448,463</u>

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

CITY OF SOUTH SAN FRANCISCO
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 8 - RETIREMENT BENEFITS (Continued)

B. Deferred Compensation Plan

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

The laws governing deferred compensation plan assets require plan assets to be held by a Trust for the exclusive benefit of plan participants and their beneficiaries. Since the assets held under these plans are not the City's property and are not subject to City control, they have been excluded from these financial statements.

C. Other Post-Employment Benefits

The City provides certain health care benefits for all employees who retire after attaining age 50 with at least five years of service. Benefits are provided as authorized by various memorandums of understanding entered into by the City and its employees. This program covered 222 retirees as of June 30, 2004. The City provides fully paid medical coverage under various health care plans. The City pays premiums on behalf of retirees monthly. Expenditures are recognized as premiums are incurred. During the year, expenditures of \$480,000 were recognized for postretirement health care.

NOTE 9 – JOINTLY GOVERNED ORGANIZATIONS

The City participates in the jointly governed organizations discussed below through formally organized and separate entities established under the Joint Exercise of Powers Act of the State of California. As separate legal entities, these entities exercise full powers and authorities within the scope of the related Joint Powers Agreements including the preparation of annual budgets, accountability for all funds, the power to make and execute contracts and the right to sue and be sued. Each joint organization is governed by a board consisting of representatives from member municipalities. Each board controls the operations of the respective joint organization, including selection of management and approval of operating budgets, independent of any influence by member municipalities beyond their representation on that board. Obligations and liabilities of this joint organization are not the City's responsibility and the City does not have an equity interest in the assets of each joint organization except upon dissolution of the joint organization.

- A. Oyster Point Marina (OPM)** was established in 1977 by the City and the San Mateo County Harbor District (Harbor District) for the purpose of expanding, improving and operating the Oyster Point Marina and Park. The governing board consists of two of the City's council members and two Harbor District commissioners. The Harbor District operates OPM. Operation of the Marina provides revenues for the marina's operations. The City retains title to the land; however, the City is not liable for any obligations of the San Mateo County Harbor District. Condensed unaudited financial information may be obtained from San Mateo County Harbor District, #1 Johnson Pier, Half Moon Bay, CA 94019.

CITY OF SOUTH SAN FRANCISCO
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 9 – JOINTLY GOVERNED ORGANIZATIONS (Continued)

- B. Peninsula Traffic Congestion Relief Alliance (PTCRA)** was formed from the merger of The Inter City Transportation Systems Management Agency and Multi-City Transportation Systems Management Agency (MCTSMA) in 2000. The members are Cities of South San Francisco, Brisbane, Colma, Daly City, Half Moon Bay, Millbrae, Pacifica and San Bruno and seven other members for the purpose of mitigating traffic congestion. The governing board consists of one council member from each member city. The finance director of Daly City acts as the treasurer and controller of PTCRA. The individual cities are not liable for the debts, liabilities or obligations of PTCRA. Each member city has an equal interest in PTCRA. Condensed accrual basis unaudited financial information may be obtained from the City of Daly City Finance Department, 333 90th Street, Daly City, CA 94015.
- C. Mobile Air Compressor Unit (MACU)** was established in 1989 by the Cities of South San Francisco, Daly City, San Bruno, Pacifica, Brisbane and the Colma Fire Protection District for the purpose of purchasing and maintaining certain specialized fire equipment for the use of members. Purchase of equipment is funded by members in proportion to each member's share of interest. Routine maintenance is funded annually by a \$1,500 charge to each member. Unusual costs are shared by members according to each member's share of interest. The City's proportionate share of interest is 28.6%. The entire entity is presented as part of the Inter-Agency Special Revenue Fund.
- D. City/County Association of Governments (C/CAG)** was established in 1990 by the County of San Mateo and the Cities of San Mateo County for preparation, adoption, monitoring and enforcing of Countywide state mandated plans. A Board of Directors consisting of one council member from each member city and one member from the County Board of Supervisors governs C/CAG. The city treasurer of San Carlos acts as the treasurer of C/CAG. The individual cities and the County are not liable for the debts, liabilities, or obligations of C/CAG. Condensed unaudited cash basis financial information may be obtained from the City of San Carlos Finance Department, 666 Elm Street, San Carlos, CA 94070.

NOTE 10 - RISK MANAGEMENT

A. Insurance Coverage

The City participates in Association of Bay Area Governments (ABAG) Plan Corporation, a non profit benefit corporation established to provide liability insurance coverage, claims and risk management, and legal defense to its participating members. ABAG Plan provides \$10,000,000 of general liability coverage per occurrence and is responsible for paying claims in excess of the City's \$100,000 deductible. For the year ended June 30, 2004, the City paid ABAG Plan \$489,000 in premiums and did not receive a refund of premiums paid in prior years. ABAG Plan has not determined the value of the City's interest in its net assets. Financial statements may be obtained from ABAG Services, P.O. Box 2050, Oakland, CA 94694-2050.

The City has also purchased excess coverage insurance for worker's compensation claims from CSAC Excess Insurance Authority \$500,000 self-insured retention. For the past three fiscal years, general liability and worker compensation settlements did not exceed insurance coverage.

**CITY OF SOUTH SAN FRANCISCO
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 10 - RISK MANAGEMENT (Continued)

B. Liability for Uninsured Claims

The City provides for the uninsured portion of claims and judgments in the Self Insurance Internal Service Fund. Claims and judgments, including a provision for claims incurred but not reported, are recorded when a loss is deemed probable of assertion and the amount of the loss is reasonably determinable. As discussed above, the City has coverage for such claims, but it has retained the risk for the deductible or uninsured portion of these claims.

The City's liability for uninsured claims is limited to workers' compensation and general liability claims, as discussed above, and was estimated by management based on prior years claims experience as follows:

	Fiscal 2003-2004			Fiscal
	Workers' Compensation	General Liability	Total	2002-2003 Total
Balance, beginning of year	\$4,200,000	\$200,885	\$4,400,885	\$4,247,656
Current year claims and changes in estimates	1,091,191	594,496	1,685,687	1,252,278
Claims Paid	(1,091,191)	(108,165)	(1,199,356)	(1,099,049)
Balance, end of year	<u>\$4,200,000</u>	<u>\$687,216</u>	<u>\$4,887,216</u>	<u>\$4,400,885</u>

NOTE 11 - COMMITMENTS AND CONTINGENCIES

The City is subject to litigation arising in the normal course of business. In the opinion of the City Attorney there is no pending litigation which is likely to have a material adverse effect on the financial position of the City.

The City participates in Federal and State grant programs. These programs have been audited by the City's independent auditors in accordance with the provisions of the Federal Single Audit Act of 1984 including 1996 amendments and applicable State requirements. No cost disallowances were proposed as a result of these audits; however, these programs are still subject to further examination by the grantors and the amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time. The City expects such amounts, if any, to be immaterial.

**CITY OF SOUTH SAN FRANCISCO
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 11 - COMMITMENTS AND CONTINGENCIES (Continued)

A. Operating Lease

The City has entered into operating leases for temporary buildings for after school programs, for vehicles and for copiers. Some of the leases terminated during the current fiscal year, while others continue up through 2014. City expenditures were \$179,162 for operating leases during the fiscal year ended June 30, 2004. Future minimum operating lease commitments are as follows:

Year ending June 30	
2005	\$171,131
2006	158,258
2007	140,968
2008	79,203
2009	17,567
2010-2014	<u>35,134</u>
	<u>\$602,261</u>

NOTE 12 - RENTAL REVENUES FROM USE OF CITY PROPERTY

The Conference Center Authority, a discrete component unit, leases land from the City under an operating lease commencing on January 1, 1999, with a 30-year term from February 1, 1999, to January 31, 2029. The rent amount is subject to re-negotiation at the option of either party between January 1 and February 28, 2009 and 2019. These leases are considered for accounting purposes to be operating leases. Property lease revenue from the Conference Center Authority during the year fiscal year ended June 30, 2004, was \$420,000. The cost and carrying amount of leased land under this lease receivable is \$5,325,000. Future minimum lease payments from the Conference Center Authority land leases are as follows:

Year ending June 30	Component Unit Conference Center
2005	\$420,000
2006	420,000
2007	420,000
2008	420,000
2009	420,000
2010-2014	2,100,000
2015-2019	2,100,000
2020-2024	2,100,000
2025-2029	<u>2,100,000</u>
Total	<u>\$10,500,000</u>

**CITY OF SOUTH SAN FRANCISCO
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 12 - RENTAL REVENUES FROM USE OF CITY PROPERTY (Continued)

Related to a long-term obligation mentioned in Note 5 to the Basic Financial Statements, Costco, a retailer, uses a parking lot on real property leased from the City. Lease payments are based on a percentage of Costco's gross annual sales, with minimum annual rent set at \$400,000, payable in monthly installments of \$33,333. In fiscal 2004 lease payments were \$503,167.

The City Redevelopment Agency leases land to South San Francisco Magnolia Plaza Associates (Magnolia Plaza), upon which Magnolia Plaza has constructed a multifamily rental housing development. The period of the lease is 75 years beginning May 1, 1987. At expiration or termination of the lease, title to all improvements on the land shall vest in the Agency. In fiscal 2004 lease payments were \$51,800.

The City leases land to the County of San Mateo for the County Health Center. The period of the lease is 7 years beginning April 4, 2000. At expiration or termination of the lease, title to all improvements on the land shall vest in the City. In fiscal 2004 lease payments were \$99,366.

The City leases land to Sitike Counseling Center for general office use. The period of the lease is 10 years beginning December 2, 1996. At expiration or termination of the lease, title to all improvements on the land shall vest in the Agency. In fiscal 2004 lease payments were \$82,596.

Future minimum lease revenues for the Costco, Magnolia Plaza, County Health and Sitike leases are as follows:

Year ending June 30:	Costco	Magnolia Plaza	County Health	Sitike	Total
2005	\$400,000	\$51,800	\$99,804	\$82,596	\$634,200
2006	400,000	51,800	99,804	82,596	634,200
2007	173,151	51,800	99,804	61,947	386,702
2008		51,800	99,804		151,604
2009		51,800	99,804		151,604
2010-2014		259,000	232,876		491,876
2015-2019		259,000			259,000
2020-2024		259,000			259,000
2025-2029		259,000			259,000
2030-2034		259,000			259,000
2035-2039		259,000			259,000
2040-2044		259,000			259,000
2045-2049		259,000			259,000
2050-2054		259,000			259,000
2055-2059		259,000			259,000
2060-2064		103,600			103,600
Total	\$973,151	\$2,952,600	\$731,896	\$227,139	\$4,884,786

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APPENDIX B

INFORMATION REGARDING PROGRAM PARTICIPANTS

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CITY OF CALISTOGA

General

The City of Calistoga (the "City") located in the County of Napa (the "County") is about 75 miles north of San Francisco in the northern part of the Napa Valley. It is a general law city incorporated in 1886. The City is approximately 2.5 square miles with an estimated population of 5,223 as of January 1, 2005. The City operates under a City Council/City Manager form of government.

Napa Valley is considered to be one of the world's premier grape growing and wine producing regions and draws thousands of tourists each year to the area. Samuel Brannan, a California pioneer and entrepreneur, found the Calistoga community in the 1860's, as a tourist health resort with the natural geothermal water in the area. The City's primary economic base is still tourism. The City has many lodging establishments, vineyards and commercial wineries, shops, cafes and restaurants, mineral hot springs and tourist accommodations featuring mud baths and spa treatments.

See "Economic and Demographic Information for the City of Calistoga and the County of Napa" herein.

Governance and Management

The City is governed by a five-member city council. The current city council members and the expiration dates of their terms of office are set forth below.

<u>Council Member</u>	<u>Title</u>	<u>Expiration of Term</u>
Dr. Andrew Alexander	Mayor	November 2006
Jack Gingles	Vice Mayor	November 2008
Michael Dunsford	Member	November 2008
Karen Slusser	Member	November 2006
Janice von Pohle	Member	November 2006

The City Manager of the City is James C. McCann. Mr. McCann has been with the City for approximately eight years and has 22 years of experience in city administration, planning and management. Financial management of the City is provided by David W. Spilman, the City's Administrative Services Director and City Treasurer. Mr. Spilman has been with the City for approximately six years and has 32 years of experience in financial management.

The City's water system (the "System") is managed by Paul Wade, PE, the City's Director of Public Works and City Engineer. Mr. Wade has been with the City for almost one year and has 15 years of experience in public works, water systems and wastewater systems. Day-to-day management of the system is handled by Steve Anderson, the City's Plant Superintendent. Mr. Anderson has been with the City for 33 years and has 33 years of experience in management of utility, water and wastewater systems.

Water System Facilities and Water Supply

The System provides service to approximately 1,550 accounts (in excess of 2,200 customers), serving a population of 5,700 and delivering approximately 245 million gallons of potable water

annually. See "Service Area and Customers" herein. This water is derived from two sources: (i) impounded water collected and distributed from Kimball Reservoir (a 1.3 million gallon manmade reservoir constructed in 1939), and (ii) imported water purchased from the State Water Project collected at the Sacramento River and conveyed through the Napa Aqueduct system into Calistoga. The City also has a municipal well at Feige Canyon, which is presently unusable due to high levels of antimony and a 1 million gallon water storage tank at Feige Canyon. The City is currently acquiring land to build a 1.5 million gallon water tank. See "Plan of Finance" below.

Plan of Finance

The City plans to use its share of the CSCDA Series 2005D Revenue Bonds (the "Bonds") to finance new improvements to the System, including, but not limited to, the land acquisition related to and a portion of the construction of a 1.5 million gallon water tank at Mt. Washington and to refund the City's 1983 Water Revenue Bonds, currently outstanding in the principal amount of \$3,575,000.

In connection with the construction of the water tank, the City has complied with all relevant provisions of the California Environmental Quality Act.

Service Area and Customers

The System serves an area of approximately 2.5 square miles in the City of Calistoga and an estimated 90 primarily residential parcels located just outside 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>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Single Family Residential	1,090	1,072	1,070	1,088	1,188
Multiple Family Residential	129	124	128	126	127
Mobile Home ⁽¹⁾	4	4	4	4	4
Commercial/Institutional	212	238	232	206	229
Other	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>
Total All Users	1,440	1,443	1,439	1,429	1,553

⁽¹⁾ Represents 555 individual mobile homes.
Source: City of Calistoga.

**Revenues by Class of User
Water System
Fiscal Year 2004-05**

<u>User Type</u>	<u>Fiscal Year Revenue</u>	<u>Percentage of Revenue</u>
Single Family Residential	\$756,223	42%
Multiple Family Residential	223,051	12
Mobile Home ⁽¹⁾	128,476	7
Commercial/Institutional	586,900	32
Other	<u>113,700</u>	<u>6</u>
Total	\$1,808,350	100% ⁽²⁾

⁽¹⁾ Represents 555 individual mobile homes.

⁽²⁾ Total may not add due to rounding.

Source: City of Calistoga.

Largest Users. The table below shows the five largest users of the System based on revenues for the fiscal year 2004-05.

**Five Largest Users
Water System
Fiscal Year 2004-05**

<u>User</u>	<u>Type of Business</u>	<u>Revenue</u>	<u>Percentage of Revenue</u>
Calistoga Mineral Water	Bottling Works	\$111,155	6.15%
Indian Springs	Lodging & Spa	33,927	1.88
Crystal Geysers	Bottling Works	30,566	1.69
Calistoga Health Care	Residential Medical Care	28,185	1.56
Napa County Fair Grounds	Campgrounds & Fair Use	21,902	1.21

Source: City of Calistoga.

Calistoga Mineral Water, a division of Nestle Waters – North America, is the largest user of the System, averaging 8% of total annual water use over the last several years. In Fiscal Year 2004-05, Calistoga Mineral Water averaged 6.5% of total water use due to conservation efforts. Since 1983, Calistoga Mineral Water, with 110 employees, has produced Calistoga Mineral and Mountain Spring Water and Arrowhead Mountain Spring Water at its facility located in the City. Calistoga Mineral Water has proposed an increase of use related to the construction of a 89,000 square feet warehouse building to consolidate inventory storage and shipping from off-site facilities in the City of Napa. It is projected that such additional water use from this new facility will be minimal.

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: monthly service charges, volume charges and connection fees. On April 16, 2002 the City Council adopted Ordinance No. 581 which established new water rates through 2006 and on November 6, 2002, the City Council adopted Ordinance No. 586, amending single family residential conservation volume charges.

Monthly Service Charges. The following summarizes monthly service charges for 2005 and 2006 adopted pursuant to Ordinance No. 581.

<u>Meter Size</u>	<u>2005</u>	<u>2006</u>
5/8" or 3/4"	\$15.96	\$17.56
1"	\$39.90	\$43.90
1.5"	\$79.80	\$87.80
2"	\$127.68	\$140.48
3"	\$239.40	\$263.40
4"	\$399.00	\$439.00
6"	\$798.00	\$878.00

Volume Charges. The following summarizes monthly base volume charges for 2005 and 2006, except for single family residential accounts, adopted pursuant to Ordinance No. 581. Peak charge rates are applied to these base volume charges for each service unit of water consumption in excess of a Peak Service Unit Demand established by Ordinance No. 581.

<u>Volume Charge per service unit (hcf)</u>	<u>2005</u>	<u>2006</u>
	\$4.15	\$4.61

The following summarizes single family residential conservation volume charges for 2005 and 2006 adopted pursuant to Ordinance No. 586.

<u>Amount of Bi-monthly Water service unit use in each tier</u>	<u>2005</u>	<u>2006</u>
Tier #1 0-8 hcf	\$3.11	\$3.46
Tier #2 9-14 hcf	\$3.74	\$4.15
Tier #3 15-22 hcf	\$4.15	\$4.61
Tier #4 23-30 hcf	\$4.15	\$4.61
Tier #5 31-50 hcf	\$4.15	\$4.61
Tier #6 51+ hcf	\$5.51	\$6.12

Connection Fees. Ordinance No. 581 established a fee of \$26,350 per acre foot of water allocation per year for each new connection or expanded use of an existing connection to the Water System.

Collections. The City bills for water and wastewater on the same bill. The City has not experienced any significant uncollected delinquencies exceeding \$2,300 (0.1% of total collections) in any one fiscal year over the last 5 years. The City will terminate water service to a customer within 180 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.

In August 1996, the City received a State Compliance Order from the Department of Water Resources. The Order required development of additional source capacity and certain improvements to ensure reliable delivery of water. In 2001, the City acquired an additional 925 acre feet of water allocation from the State Water Project to be conveyed through the North Bay Aqueduct ("NBA") system. The improvements related to the Order include the replacement of the Fiege Canyon main and the current replacement of the Kimball Reservoir main. Future planned improvements include the dredging of the Kimball reservoir, land acquisition related to and a portion of the construction of a 1.5 million gallon water storage tank on Mt. Washington (which the City plans to partially finance with a portion of the CSCDA Series 2005D Revenue Bonds- See "Plan of Finance"), upgrading of the Water Treatment Plant at Kimball and upgrading of the NBA system facilities with other participating agencies through Napa County and City of Napa. See "Existing Long-Term Obligations and Planned Capital Improvements" herein.

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 obligations payable from water revenues as of the date of issuance of the Bonds are summarized in the table below.

<u>Name of Obligation</u>	<u>Principal Amount</u>	<u>Final Maturity Date</u> *	<u>Security</u>
1972 Water Revenue Bonds	\$71,000	January 1, 2012	Water Net Revenues

* The City plans to prepay this obligation with cash on the date of issuance of the Bonds. See "Financial Information- Projected Operating Results and Debt Service Coverage" herein.

Planned additional parity debt includes a 40-year, \$2,515,000 U.S. Department of Agriculture ("USDA") backed installment obligation at an average rate of 4.5% for the funding of the Kimball pipeline replacement and water treatment plant upgrades (in addition, a \$1 million USDA grant has been awarded for these projects). The issue is proposed to close in Fiscal Year 2006-07. Further, an application to USDA is planned in Fiscal Year 2006-07 for a separate USDA backed issue of 40-year, \$3,534,000 in installment obligations at an average rate of 5.0% for a portion of the construction of a 1.5 million gallon water tank at Mt. Washington with funding expected in Fiscal Year 2007-08. The City plans to finance the land acquisition related to and a portion of the construction of this water tank with proceeds of the CSCDA 2005 Revenue Bonds. See "Plan of Finance" herein.

Other planned capital improvements to the System include various main replacements, major maintenance of Feige water storage tank, Feige well upgrade and various NBA system improvements. Total cost is estimated to be approximately \$2 million over the next three to five fiscal years. All of the improvements are designed to improve the water system reliability and capacity. The City plans to finance these costs through connection fees and long term financing as appropriate. See "Water System Facilities and Water Supply" and "Financial Information- Projected Operating Results and Debt Service Coverage" herein.

Financial Information

Financial Statements. A copy of the most recent audited financial statements of the City prepared by the City and audited by Terry E. Krieg (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 Calistoga Water System
Summary of Historic Operating Results
Fiscal Years Ended June 30**

Revenues	<u>2002</u>	<u>2003</u>	<u>2004</u>
Sales of Water	\$1,420,470	\$1,417,388	\$1,535,339
Connection Fees	17,376	24,157	290,939
General Fund Residential Credit ⁽¹⁾	58,800	282,000	241,500
Other ⁽²⁾	<u>69,539</u>	<u>31,675</u>	<u>27,227</u>
Total Revenues	\$1,566,185	\$1,755,220	\$2,095,005
 Expenses ⁽³⁾	 \$1,289,473	 \$1,211,625	 \$1,447,167
 System Net Revenues	 <u>\$276,712</u>	 <u>\$543,595</u>	 <u>\$647,838</u>
 Parity Debt Service			
1972 and 1983 Water Revenue Bonds ⁽⁴⁾	\$304,375	\$304,375	\$304,375
Total Parity Debt Service	<u>\$304,375</u>	<u>\$304,375</u>	<u>\$304,375</u>
Total Parity Debt Service Coverage	<u>0.91</u>	<u>1.79</u>	<u>2.13</u>

⁽¹⁾ General Fund contributions adopted by the City pursuant to Resolutions 2002-058 and 2002-117 on April 16, 2002 and October 1, 2002, respectively, effective until January 1, 2007 to provide bi-monthly residential credits to reduce impact of rate restructuring.

⁽²⁾ Includes investment income.

⁽³⁾ Excludes depreciation, capital expenditures and debt service.

⁽⁴⁾ A portion of the proceeds of the City's share of the Bond is being used to refund the City's 1983 Water Revenue Bonds. See "Plan of Finance" above. The City plans to prepay the City's 1972 Water Revenue Bonds with cash on the date of issuance of the Bonds. See "Existing Long-Term Obligations and Planned Capital Improvements."

Source: City of Calistoga.

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 Calistoga
Water System
Projected Operating Results
Fiscal Years Ended June 30**

	<u>2005⁽¹⁾</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Revenues				
Sales of Water ⁽²⁾	\$1,630,623	\$1,795,400	\$1,989,150	\$2,243,700
Connection Fees	177,726	881,600 ⁽³⁾	286,200	286,200
General Fund Residential Credit ⁽⁴⁾	177,727	150,000	104,000	0
Other ⁽⁵⁾	<u>54,900</u>	<u>47,000</u>	<u>47,000</u>	<u>47,000</u>
Total Revenues	\$2,040,976	\$2,874,000	\$2,426,350	\$2,576,900
Expenses ⁽⁶⁾	\$1,444,300	\$1,540,500	\$1,579,270	\$1,619,787
System Net Revenues	<u>\$596,676</u>	<u>\$1,333,500</u>	<u>\$847,080</u>	<u>\$957,113</u>
Parity Debt Service				
1972 and 1983 Water Revenue Bonds ⁽⁷⁾	\$304,275	--	--	--
CSCDA Series 2005D Revenue Bonds	--	\$86,921	\$371,691	\$357,566
Future Parity Debt ⁽⁸⁾	<u> --</u>	<u> --</u>	<u>140,000</u>	<u>350,000</u>
Parity Debt Service Total	<u>\$304,275</u>	<u>\$86,921</u>	<u>\$511,691</u>	<u>\$707,566</u>
Parity Debt Service Coverage	<u>1.96</u>	<u>15.34</u>	<u>1.66</u>	<u>1.35</u>

⁽¹⁾ Fiscal Year 2004-05 derived from unaudited, preliminary results.

⁽²⁾ Assumes rate increase of 5% in Fiscal Year 2006-07 and 7% in Fiscal Year 2007-08.

⁽³⁾ Reflects one-time connection fee pursuant to the terms of a development agreement between Palisades Resort, LP and the City for the development of a resort to include a spa, restaurant, 89 guest cottages, recreational facilities and administrative and meeting spaces on 26 acres located off of Silverado Trail. The resort will be managed by Auberge Resorts, LLC, whose properties include the Auberge de Soleil in Rutherford and the El Dorado Hotel in Sonoma. The development approvals have been completed and construction has begun at the site. The projected opening is in January 2007.

⁽⁴⁾ General Fund contributions adopted by the City pursuant to Resolutions 2002-058 and 2002-117 on April 16, 2002 and October 1, 2002, respectively, effective until January 1, 2007 to provide bi-monthly residential credits to reduce impact of rate restructuring.

⁽⁵⁾ Includes investment income.

⁽⁶⁾ Excludes depreciation, capital expenditures and debt service. Assumes a 2.5% annual increase in operating expenses.

⁽⁷⁾ A portion of the proceeds of the City's share of the Bond is being used to refund the City's 1983 Water Revenue Bonds. See "Plan of Finance" above. The City plans to prepay the City's 1972 Water Revenue Bonds with cash on the date of issuance of the Bonds. See "Existing Long-Term Obligations and Planned Capital Improvements."

⁽⁸⁾ See "Existing Long-Term Obligations and Planned Capital Improvements." Future Parity Debt Service is estimated and subject to change, and based on an issue of 40-year, \$2,515,000 in installment obligations for the funding of the Kimball pipeline replacement and water treatment plant upgrades at an estimated average rate of 4.5% in Fiscal Year 2006-07 and an issue of 40-year, \$3,534,000 in installment obligations for the water tank storage improvements at an estimated average rate of 5% in Fiscal Year 2007-08.

Source: City of Calistoga.

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	Annual Total
2006	\$155,000.00	\$196,332.41	\$351,332.41
2007	145,000.00	214,560.00	359,560.00
2008	150,000.00	210,572.50	360,572.50
2009	155,000.00	206,222.50	361,222.50
2010	155,000.00	201,572.50	356,572.50
2011	165,000.00	196,728.75	361,728.75
2012	170,000.00	191,283.75	361,283.75
2013	175,000.00	185,503.75	360,503.75
2014	185,000.00	179,378.75	364,378.75
2015	185,000.00	172,626.25	357,626.25
2016	195,000.00	165,596.25	360,596.25
2017	200,000.00	157,991.25	357,991.25
2018	210,000.00	149,991.25	359,991.25
2019	215,000.00	141,591.25	356,591.25
2020	230,000.00	132,722.50	362,722.50
2021	235,000.00	123,062.50	358,062.50
2022	245,000.00	113,075.00	358,075.00
2023	260,000.00	100,825.00	360,825.00
2024	275,000.00	87,825.00	362,825.00
2025	100,000.00	74,075.00	174,075.00
2026	105,000.00	69,075.00	174,075.00
2027	110,000.00	63,825.00	173,825.00
2028	115,000.00	58,737.50	173,737.50
2029	120,000.00	53,418.75	173,418.75
2030	130,000.00	47,868.75	177,868.75
2031	135,000.00	41,856.25	176,856.25
2032	140,000.00	35,612.50	175,612.50
2033	145,000.00	29,137.50	174,137.50
2034	155,000.00	22,431.25	177,431.25
2035	160,000.00	15,262.50	175,262.50
2036	170,000.00	7,862.50	177,862.50
Total:	\$5,290,000.00	\$3,646,623.66	\$8,936,623.66

Litigation

The City is involved in an eminent domain action related to the acquisition of 9.63 acres, known as Mt. Washington, for the construction of a 1.5 million gallon underground water storage tank. The City Council adopted a Resolution of Necessity after a duly noticed hearing to proceed with the eminent

domain action in accordance with state law and has obtained an Order of Prejudgment Possession that is now in effect. The City is currently participating in negotiations and judicial proceedings regarding the amount of compensation to be paid to the property owner for the 9.63 acres. The City does not expect the amount of such compensation to result in any material adverse change relating to the finances or operations of the City or the System.

The City states that there is no other 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. Northern Napa County is an area of several major earthquake faults including the Rodgers Creek Fault, the Macaama Fault, the West Napa Fault, and the Concord/Green Valley Fault as well as the Clearlake volcanic field subsurface active magma flows.

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 Calistoga and Napa County

Population. As of January 1, 2005, the City's population was estimated to be 5,223. The following table shows the population for the City for the years 2001 to 2005.

**City of Calistoga
Population
As of January 1**

2001	5,223
2002	5,240
2003	5,256
2004	5,201
2005	5,223

Source: State of California, Department of Finance.

As of January 1, 2005, the population for the County of Napa (the "County") was 133,294, a 5.7% increase over the 2001 population level of 126,074. The following table shows the population for the County for the years 2001 to 2005.

**Napa County
Population
As of January 1**

2001	126,074
2002	128,266
2003	130,241
2004	131,837
2005	133,294

Source: State of California, Department of Finance.

Unemployment Rate. As of April 2005, the civilian labor force in the County reached an estimated 72,900. This is an increase of 2.1% from the 2001 annual average civilian labor force of 71,400. The annual average unemployment rate decreased 0.6% over the same period. The table below lists figures for the civilian labor force and comparative unemployment rates for the years 2001 to April 2005.

**Napa County
Civilian Labor Force, Employment and Unemployment
Annual Average⁽¹⁾**

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005⁽²⁾</u>
Labor Force	71,400	71,600	71,400	72,400	72,900
Employment	68,900	68,400	68,000	69,100	70,000
Unemployment	2,500	3,200	3,400	3,300	2,900
Unemployment Rate	4.5%	4.4%	4.7%	4.6%	3.9%

⁽¹⁾ Benchmark March 2004; data not seasonally adjusted.

⁽²⁾ Data as of April 2005.

Source: State of California, Employment Development Department.

Personal Income. Between 1999 and 2003, the County's median household effective buying income increased 8.1%. The table below summarizes the total effective buying income and the median household effective buying income for the County for the years 1999 through 2003.

**Napa County
Effective Buying Income**

<u>Year</u>	<u>Total Effective Buying Income (000's Omitted)</u>	<u>Median Household Effective Buying Income</u>
1999	\$2,541,101	\$43,363
2000	2,813,132	49,281
2001	2,849,759	49,515
2002	2,783,040	46,369
2003	2,935,278	46,878

Source: Sales and Marketing Management, Survey of Buying Power.

Assessed Valuation. The following table shows the assessed valuations for the City from fiscal years 2000-01 through 2004-05.

**City of Calistoga
Assessed Valuations**

	<u>Local Secured</u>	<u>Utility</u>	<u>Unsecured</u>	<u>Total</u>
2000-01	\$341,423,924	\$0	\$ 8,307,023	\$349,730,947
2001-02	367,019,350	0	11,874,075	378,893,425
2002-03	404,727,441	0	12,959,863	417,687,304
2003-04	437,107,799	0	12,656,147	449,763,946
2004-05	468,932,260	0	12,323,675	481,255,935

Source: California Municipal Statistics, Inc.

Major Employers. The following table shows the major employers in the County.

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**County of Napa
Major Employers
2005
(in alphabetical order)**

<u>Employer Name</u>	<u>Location</u>	<u>Industry</u>
Beringer Blass Wine Estates	Saint Helena	Wineries
Cap Candy	Napa	Product Development & Marketing
Delicato Family Vineyards	Napa	Wineries
Dey LP	Napa	Physicians & Surgeons Equip & Supls-Mfrs
Domaine Chandon	Yountville	Wineries
Health & Human Svc	Napa	County Government-Public Health Programs
Health & Human Svc Agency	Napa	County Government-Social/Human Resources
Ligouri Associates Inc.	Napa	Security Guard & Patrol Service
Meadowood Napa Valley	Saint Helena	Resorts
Meadowood Sales Office	Saint Helena	Hotels & Motels
Napa County Health & Human Svc	Napa	County Government-Public Health Programs
Napa Pipe Corp	Napa	Pipe Bending & Fabricating
Napa State Hospital	Napa	Hospitals
Napa Valley College	Napa	Schools-Universities & Colleges Academic
Pacific Union College	Angwin	Schools-Universities & Colleges Academic
Pacific Union College	Angwin	Schools-Universities & Colleges Academic
Queen of the Valley Hospital	Napa	Hospitals
Robert Mondavi Winery	Napa	Wineries
Silverado Country Club-Resort	Napa	Resorts
Stone Bridge Cellars Inc.	Saint Helena	Wines Brandy & Brandy Spirits (Mfrs)
Trinchero Family Estates	Saint Helena	Wineries
Veterans Home of CA	Yountville	Government-Specialty Hosp Ex Psychiatric
Veterans of Foreign Wars 9472	Not Available	Veterans' & Military Organizations
Wal-Mart	Napa	Department Stores
Yolano Engineers Inc	Napa	Engineers-Civil

Source: 2005 America's Labor Market Information System (ALMIS) Employer Database.

CITY OF HEALDSBURG (WASTEWATER SYSTEM)

General

The City of Healdsburg (the "City"), located in the County of Sonoma (the "County"), is a general law city incorporated in 1867. The City is located approximately 69 miles north of the City and County of San Francisco and 15 miles northwest of the City of Santa Rosa and is adjacent to the Russian River. The City operates under a City Council/City Manager form of government.

The City is located in the center of California's north coast premium wine growing region, and is a regional retail and service center and tourist destination. The City encompasses approximately 3.56 square miles (2,276.5 acres) and, as of January 1, 2005, the City had an estimated population of 11,711. See "Economic and Demographic Information for the City of Healdsburg and the County of Sonoma" herein.

Governance and Management

The City is governed by a five-member city council. The current city council members and the expiration dates of their terms of office are set forth below.

<u>Council Member</u>	<u>Title</u>	<u>Expiration of Term</u>
Jason Liles	Mayor	November 2006
Mike McGuire	Vice Mayor	November 2008
Kent Mitchell	Member	November 2006
Gary Plass	Member	November 2008
Lisa W. Schaffner	Member	November 2008

The City Manager of the City is Chet Wystepek. Mr. Wystepek has been with the City for 10 years and has 17 years of experience in city administration and management. Financial management of the City is provide by Tamera Haas, the City's Finance Director. Ms. Haas has been with the city for 2 years and has 12 years of experience in financial management.

Management of the City's wastewater system (the "Wastewater System") is provided by George Hicks, City Engineer/Director of Public Works. Mr. Hicks has been with the City for 6 year as the manager of the utility system and has over 15 years of experience with management of utility systems.

Wastewater System

The City's Wastewater System is comprised of a wastewater collection, treatment and disposal facilities that serve the incorporated area of the City. The treatment facilities include biological secondary treatment utilizing four aerated ponds followed by two sedimentation ponds and disinfection prior to discharge to an inactive open pit gravel pond owned by Syar Industries, Inc. (the "Basalt Pond"). The collection system includes a total of 11 lift stations. One of these lift stations, the Magnolia Lift Station, pumps all of the City's wastewater flows to the wastewater treatment plant.

The capacity of the wastewater treatment plant is 1.4 million gallons per day of average dry weather flow ("ADWF"). The actual flow/demand on the wastewater treatment plant is 1.0 million gallons per day (ADWF).

Plan of Finance

The City plans to apply its Wastewater System share of the CSCDA Series 2005D Revenue Bond proceeds to advance refund the City's portion of the CSCDA Series 2000B Revenue Bonds related to the Wastewater System, currently outstanding in the principal amount of \$2,385,000, and the Certificates of Participation 1996 Series B (Sewer System Improvement Project), currently outstanding in the amount of \$815,000. These advance refundings will result in debt service savings.

Service Area and Customers

The City serves an estimated population of 11,711 persons through 4,464 sewer connections in the incorporated area of the City. The Wastewater System serves an area of approximately 3.5 square miles in the City.

The tables below show the number of connections of the Wastewater System by classification of user for fiscal years 2001 through 2005 and revenues by class of user for fiscal year 2004-05.

**City of Healdsburg
Wastewater System
Number of Connections by Classification of User
As of June 30**

<u>User Type</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Single Family Residential	3,746	3,789	3,767	3,863	3,929
Multiple Family Residential	6	6	6	6	6
Commercial/ Institutional	<u>518</u>	<u>520</u>	<u>524</u>	<u>529</u>	<u>529</u>
Total All Users	4,270	4,315	4,297	4,398	4,464

Source: City of Healdsburg.

**City of Healdsburg
Wastewater System
Revenues by Class of User
Wastewater System
Fiscal Year 2004-05**

<u>User Class</u>	<u>Fiscal Year Revenue</u>	Percentage of Operating <u>Revenue</u>
Single Family Residential	\$2,370,513	63%
Multiple Family Residential	120,958	3
Commercial/Institutional	<u>1,292,529</u>	<u>34</u>
Total	\$3,784,000	100%

Source: City of Healdsburg.

Largest Users. The table below shows the five largest users of the Wastewater System based on revenues for the fiscal year 2004-05.

**City of Healdsburg
Wastewater System
Revenues by Class of User
Wastewater System
Fiscal Year 2004-05**

<u>User</u>	<u>Type of Business</u>	<u>Revenue</u>	Percentage of <u>Revenue</u>
Hotel Healdsburg	Hotels & Motels	\$81,190	2.2%
Burbank NT		55,227	1.5
Oak Grove Apartments	Apartments	47,702	1.3
Healdsburg Unified School District	School	47,539	1.3
Bear Republic Brewing	Brewery	43,891	1.2

Source: City of Healdsburg

Wastewater Rates

The City has the power pursuant to applicable law to establish rates and charges 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 City principally relies on the following charges and fees: charges for services, connection fees and impact fees. On April 19, 2004, the City Council approved a wastewater service charge increase of 3% quarterly through the April 2006 billing cycle. Current connection fees were established by Resolution No. 74-97 adopted by the City Council on August 4, 1997 which became effective on December 1, 1997. Connection fees related to building permits issued after July 3, 2006 were established by Resolution No. 98-2005 adopted by the City Council on September 6, 2005. Certain rates are based on amount per Hundred Cubic Feet ("HCF").

Monthly Household Service Charge. The current monthly household service charge is a fixed rate of \$53.33 (\$45.33 for low income households).

Household Connection Fee. The City’s current household connection fee is \$2,863 per dwelling unit. Connection fees related to residential building permits issued after July 3, 2006 are \$14,242 per dwelling unit.

Commercial Service Charge. The City’s current commercial service charge ranges from \$0.59 to \$35.55 per HCF with applicable minimum charges.

Commercial Connection Fee. The City’s current commercial connection fee is \$2,863 per 6.7 HCF estimated to be used during peak summer months as defined in the City's Code. Connection fees related to commercial building permits issued after July 3, 2006 are \$14,242 per equivalent residential unit.

Rate Comparisons. The table below shows comparative wastewater monthly service charges for residential customers in surrounding areas.

**City of Healdsburg
Comparative Wastewater System Service Charges in Surrounding Areas
as of April 19, 2004
(in alphabetical order)**

<u>Service Provider</u>	<u>Service Charge</u>
Cloverdale, City of	\$24.50
Healdsburg, City of ⁽¹⁾	46.00
Rohnert Park, City of	36.50
Santa Rosa, City of	53.66
Sebastopol, City of	43.41
Windsor, City of	41.03

⁽¹⁾ Does not reflect adopted annual increase in rates of 12% in Fiscal Years 2004-05. See "Wastewater Rates" above.
Source: City of Healdsburg.

Collections. The City bills and collects payments for water, wastewater and electricity on the same monthly bill. The City has not experienced any significant uncollected delinquencies related to wastewater service exceeding 0.5% or \$20,000 over the last 5 years. The City will terminate water service to a customer within 45 days of nonpayment of a bill and past due notice.

Permits

The City operates its Wastewater System under two permits, a National Pollutant Discharge Elimination System ("NPDES") issued by the North Coast Regional Water Quality Control Board ("NCRWQCB") in November 2004 (Order No. R1-2004-0111), and a Permit to Operate issued by the Northern Sonoma County Air Pollution District (Permit No. 01-28.) The NPDES permit expires on October 6, 2009, while the Permit to Operate does not expire.

Prior to the issuance of the NPDES permit in 2004, the City operated its Wastewater System under a "Waste Discharge Requirements" issued by the NCRWQCB. The conversion to a NPDES permit occurred as a result of a federal court decision in January 2004. See "Litigation" below. The conversion to the NPDES permit presents short-term and long-term compliance issues for the City, summarized as follows:

- Violations of effluent limits pursuant to NPDES permits are subject to mandatory minimum penalties ("MMPs") under California state law, as well as citizens' lawsuits brought under the federal Clean Water Act. Neither of these liabilities existed under the prior Waste Discharge Requirements.
- The NPDES permit requires the City to upgrade its wastewater treatment from secondary to advanced wastewater treatment ("AWT") by January 1, 2008, and also cease the discharge to the Basalt Pond during the period of May 15 through September 30 by October 2009. The permit further requires internal milestone deadlines for construction of the AWT facility. The City completed and certified an environment impact report for a project to comply with these requirements in July 2005, and is currently preparing plans and specifications for construction of the AWT facility. Compliance with the seasonal discharge prohibition will also require construction of a separate reclaimed water irrigation system. The City has estimated the combined cost of the AWT facility and the reclaimed water irrigation system at approximately \$30 to \$35 million. See "Existing Long-Term Obligations and Planned Capital Improvements" and "Financial Statements- Projected Operating Results and Debt Service Coverage" herein. Although the City has accelerated its project schedule to meet the internal milestone deadlines, there is some risk that the City may not meet some or all of these deadlines, and that the City could be subjected to corresponding penalties from the NCRWQCB. The amount of any such penalties for failure to meet these deadlines is uncertain.
- The NPDES permit includes new secondary effluent limits for the City's existing wastewater treatment facility that apply until the new AWT facility is constructed and operational in January 2008. However, the City's existing wastewater treatment facility was not designed to meet and cannot consistently comply with these limits. This has resulted in violations and corresponding MMPs liability. The City has vigorously pursued temporary regulatory relief from the NCRWQCB for these requirements in the form of a compliance schedule contained in a separate Cease and Desist Order ("CDO"), which would temporarily protect the City from MMPs liability. The NCRWQCB has recently agreed to consider this relief, and has tentatively scheduled adoption of such a CDO in December 2005. The City estimates that it has incurred MMPs liability totaling approximately \$150,000 since the NPDES permit's issuance in November 2004. If the NCRWQCB fails to adopt the CDO in December 2005, the City estimates that it could incur

between \$400,000 and \$600,000 in additional MMPs liability before the new AWT facility is completed in January 2008.

- While the NPDES permit allows continued discharge to the Basalt Pond other than during the period of May 15 through September 30, the permit includes conditions on the discharge which the City is uncertain can be met in the long-term. As a result, there is a possibility that the City may seek other discharge alternatives. The City has estimated that these alternatives could cost up to \$22 million.

Existing Long-Term Obligations and Planned Capital Improvements

As of the date of issuance of the Bonds, the City will have no other existing long-term obligations payable from wastewater revenues.

Other planned capital improvements to the Wastewater System include construction of the AWT facility and reclaimed water irrigations system. See "Permits" herein. These additional capital improvements are estimated to cost approximately \$30 to 35 million over the next five fiscal years. The City plans to finance these costs through a combination of future borrowing, service charges and connection fees. See "Financial Statements- Projected Operating Results and Debt Service Coverage" herein.

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Financial Information

A copy of the most recent audited financial statements of the City prepared by the City and audited by Diehl, Evans & Company, LLP (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 Wastewater 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 Healdsburg Wastewater System Summary of Historic Operating Results Fiscal Years Ended June 30

	<u>2002</u>	<u>2003</u>	<u>2004</u>
Revenues			
Service Charges	\$2,826,766	\$3,128,820	\$3,517,024
Connection Fees	432,532	874,065	628,082
Interest Earnings	191,295	131,172	111,008
Other	<u>13,875</u>	<u>77,314</u>	<u>66,515</u>
Total Revenues	\$3,464,468	\$4,211,371	\$4,322,629
Operating Expenses ⁽¹⁾	\$1,553,086	\$1,764,716	\$1,909,949
Wastewater System Net Revenues	<u>\$1,911,382</u>	<u>\$2,446,655</u>	<u>\$2,412,680</u>
Parity Debt Service			
1996 COPs, Series B ⁽²⁾	\$63,046	\$66,559	\$64,859
CSCDA 2000B Water Revenue Bonds ⁽²⁾	<u>177,650</u>	<u>176,030</u>	<u>179,276</u>
Total Parity Debt	<u>\$240,696</u>	<u>\$242,589</u>	<u>\$244,135</u>
Total Parity Debt Service Coverage	<u>7.94</u>	<u>10.09</u>	<u>9.88</u>

⁽¹⁾ Excludes depreciation and capital expenditures.

⁽²⁾ A portion of the proceeds of the City's share of the Bond is being used to advance refund the City's portion of the CSCDA Series 2000B Revenue Bonds related to the Wastewater System and the Certificates of Participation 1996 Series B (Sewer System Improvement Project). See "Plan of Finance" above.

Source: City of Healdsburg.

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 Healdsburg 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 ⁽²⁾	\$3,784,000	\$4,238,000	\$4,874,000	\$5,653,599
Connection Fees ⁽²⁾	505,000	350,000	350,000	350,000
Interest Earnings	28,000	100,000	150,000	96,000
Other	<u>14,000</u>	<u>5,000</u>	<u>5,000</u>	<u>5,000</u>
Total Revenues	\$4,331,000	\$4,693,000	\$5,379,000	\$6,104,599
Operating Expenses ⁽³⁾	\$2,099,000	\$2,611,000	\$3,081,000	\$3,358,290
Wastewater System Net Revenues	<u>\$2,232,000</u>	<u>\$2,082,000</u>	<u>\$2,298,000</u>	<u>\$2,746,309</u>
Parity Debt Service				
1996 COPs, Series B ⁽⁴⁾	\$63,558	--	--	--
CSCDA Series 2000B Bonds ⁽⁴⁾	177,398	\$115,726	--	--
CSCDA Series 2005D Bonds	--	55,763	\$243,938	\$226,256
Future Parity Debt Service ⁽⁵⁾	<u>--</u>	<u>126,480</u>	<u>1,193,600</u>	<u>2,021,368</u>
Total Parity Debt Service	<u>\$240,956</u>	<u>\$297,969</u>	<u>\$1,437,538</u>	<u>\$2,247,624</u>
Parity Debt Service Coverage	<u>9.26</u>	<u>6.99</u>	<u>1.60</u>	<u>1.22</u>

⁽¹⁾ Derived from unaudited actual results for Fiscal Year 2004-05.

⁽²⁾ Reflects adopted annual increase in rates of 12% in Fiscal Years 2004-05 and 2005-06 and assumes future annual increases in rates of 15% in Fiscal Year 2006-07 and 16% in Fiscal Year 2007-08. See "Water Rates" herein.

⁽³⁾ Excludes depreciation, capital expenditures and debt service. Assumes 24%, 18% and 9% annual increase in operating expenses for Fiscal Years 2005-06 and 2006-07 and 2007-08, respectively.

⁽⁴⁾ A portion of the proceeds of the City's share of the Bond is being used to advance refund the City's portion of the CSCDA Series 2000B Revenue Bonds related to the Wastewater System and the Certificates of Participation 1996 Series B (Sewer System Improvement Project). See "Plan of Finance" above.

⁽⁵⁾ See Existing Long-Term Obligations and Planned Capital Improvements." Future Parity Debt Service is estimated and subject to change and based on two issues of 30-year, \$16,320,000 revenue bonds issued at 4.65% in Fiscal Year 2005-06 and Fiscal Year 2006-07.

Source: City of Healdsburg.

Debt Service Schedule

The following table shows the debt service requirements related to the City's Wastewater System for the Bonds.

Annual Period Ending October 1	Principal	Interest	Annual Total
2006	\$105,000.00	\$125,953.18	\$230,953.18
2007	90,000.00	137,493.75	227,493.75
2008	100,000.00	135,018.75	235,018.75
2009	100,000.00	132,118.75	232,118.75
2010	100,000.00	129,118.75	229,118.75
2011	100,000.00	125,993.75	225,993.75
2012	110,000.00	122,693.75	232,693.75
2013	115,000.00	118,953.75	233,953.75
2014	115,000.00	114,928.75	229,928.75
2015	120,000.00	110,731.25	230,731.25
2016	125,000.00	106,171.25	231,171.25
2017	135,000.00	101,296.25	236,296.25
2018	135,000.00	95,896.25	230,896.25
2019	135,000.00	90,496.25	225,496.25
2020	145,000.00	84,927.50	229,927.50
2021	155,000.00	78,837.50	233,837.50
2022	160,000.00	72,250.00	232,250.00
2023	170,000.00	64,250.00	234,250.00
2024	175,000.00	55,750.00	230,750.00
2025	190,000.00	47,000.00	237,000.00
2026	195,000.00	37,500.00	232,500.00
2027	140,000.00	27,750.00	167,750.00
2028	145,000.00	21,275.00	166,275.00
2029	155,000.00	14,568.75	169,568.75
2030	160,000.00	7,400.00	167,400.00
Total:	\$3,375,000.00	\$2,158,373.18	\$5,533,373.18

Litigation

Northern California Riverwatch brought a lawsuit against the City alleging that the Basalt Pond was subject to the requirements of the federal Clean Water Act as "waters of the United States". The U.S. District Court for the Northern District of California rendered a decision in favor of the plaintiff on January 23, 2004, resulting in the determination that the Basalt Pond was subject to the federal Clean Water Act and, thus, the discharge of wastewater to the Basalt Pond required a NPDES permit. The City has filed an appeal to the U.S. Ninth Circuit Court of Appeals, which is expected to be heard in November 2005.

In compliance with the District Court's decision, the City submitted an application to the NCRWQCB in May 2004 for a NPDES permit. The NCRWQCB issued a NPDES permit for the wastewater treatment plant on October 6, 2004, which was amended on November 29, 2004 with minor modifications. Under the NPDES permit, the NCRWQCB treats the Basalt Pond as a tributary of the Russian River that is subject to the seasonal prohibition of discharges during the period of May 15 through September 30. As result of the federal court decision and the subsequent NPDES permit issuance, the City has incurred new liability with respect to operation of its wastewater treatment facility. See "Permits "above.

While the City has appealed the decision, the City intends to proceed with construction of the AWT facility and reclaimed water irrigations system, regardless of the outcome of the appeal.

Other than as described above, 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 Wastewater System.

Seismic Risks

The City is located in a seismically active region of northern California. The Wastewater System and future planned capital improvements to the Wastewater 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 Wastewater System or adversely affect the local economy.

Economic and Demographic Information for the City of Healdsburg and the County of Sonoma

Population. The population for the City as of January 1, 2005 was estimated to be 11,711, an increase of approximately 3% above the population of 11,381 as of January 1, 2001. The following table shows the rate of growth for the City as of January 1, 2001 through January 1, 2005.

**City of Healdsburg
Population
as of January 1**

2001	11,381
2002	11,652
2003	11,634
2004	11,651
2005	11,711

Source: State of California, Department of Finance.

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>	<u>Total Effective Buying Income (000's Omitted)</u>	<u>Median Household Effective Buying 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 City from fiscal years 2000-01 through 2004-05.

	<u>Local Secured</u>	<u>Utility</u>	<u>Unsecured</u>	<u>Total</u>
2000-01	\$ 734,835,258	\$0	\$56,077,265	\$ 790,912,523
2001-02	855,622,105	0	55,855,269	911,477,374
2002-03	958,458,941	0	63,996,250	1,022,455,191
2003-04	1,051,348,102	0	68,679,924	1,120,028,026
2004-05	1,156,126,775	0	65,928,840	1,222,055,615

Source: California Municipal Statistics, Inc.

Major Employers. The following table shows the major employers in the City.

<u>Employer</u>	<u>Industry</u>
Capital Lumber Co.	Building Materials
Garrett Hardware & Plumbing	Hardware
Healdsburg Lumber Company	Lumber Products
McConnell Chevrolet/Olds/Geo	Auto Sales
Opperman & Son Used Trucks	Auto Sales
Safeway Stores	Grocery Store
W.C. Sanderson Ford	Auto Sales
Silveira Pontiac/Buick/GMC	Auto Sales
Syar Industries	Building Materials
Velero Service Station	Service Station

Source: State Board of Equalization.

The following table shows the major employers in the County of Sonoma.

**County of Sonoma
Major Employers
2005
(in alphabetical order)**

<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
Kaiser Foundation Hospital	Santa Rosa	Hospitals
Medtronic Interventional Vscrl	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.

CITY OF HEALDSBURG (WATER SYSTEM)

General

The City of Healdsburg (the "City"), located in the County of Sonoma (the "County"), is a general law city incorporated in 1867. The City is located approximately 69 miles north of the City and County of San Francisco and 15 miles northwest of the City of Santa Rosa and is adjacent to the Russian River. The City operates under a City Council/City Manager form of government.

The City is located in the center of California's north coast premium wine growing region, and is a regional retail and service center and tourist destination. The City encompasses approximately 3.56 square miles (2,276.5 acres) and, as of January 1, 2005, the City had an estimated population of 11,711. See "Economic and Demographic Information for the City of Healdsburg and the County of Sonoma" herein.

Governance and Management

See "CITY OF HEALDSBURG (WASTEWATER SYSTEM)" above.

Water System Facilities and Water Supply

The distribution facilities of the City's water system (the "Water System") include 8 storage tanks with a total capacity of 7.9 million gallons, 5 pump stations and the necessary water mains and appurtenances for purveying water within the service area. The 8 tanks serve 6 separate pressure zones within the distribution system. Three of the eight storage tanks are referred to as the Tayman Park Tanks. The Tayman Park Tanks are filled from the Fitch Mountain well field during the summer, and from the Dry Creek well field during the winter. These tanks have capacities of 0.32, 0.40 and 1.0 million gallons ("MG"), and all serve a pressure zone referred to as the South Zone. The South Zone generally covers the low-lying area in the southern portion of the City and includes approximately 1950 residential and commercial connections. With the exception of a small number of under-developed parcels, the South Zone is nearly built-out. The capacity of the Water System is 6 million gallons per day ("mgd") (safe yield). The average daily demand on the Water System is 2.25 mgd. The peak demand on the Water System is 4 mgd (peak day).

The City's incorporated area is located along the Russian River just above its confluence with one of its largest tributaries, Dry Creek. The Water System is supplied from three well fields; one on Dry Creek with three operational wells; and two on the Russian River with a total of eight operational wells. All three well fields draw from river underflow and are sustained by river recharge to the underlying aquifers. At each of the well fields, water is treated with chlorine, fluoride and orthophosphate for corrosion control. The City's water production is considered to be diversion of surface water and is subject to water rights from the California State Water Resources Control Board ("CSWRCB"). Flows in the Russian River and Dry Creek are maintained throughout the year by Lake Mendocino and Lake Sonoma, respectively, both of which are federal reservoir projects. The Sonoma County Water Agency controls water supply releases from both reservoirs, and is required by terms in its water supply permits to release adequate water to meet the needs of upstream users such as the City. The City holds appropriate water rights issued by the CSWRCB for the Russian River and Dry Creek. See "Permits" below.

Plan of Finance

The City plans to apply its Water System share of the CSCDA Series 2005D Revenue Bond proceeds to advance refund the City's portion of the CSCDA Series 2000B Revenue Bonds related to the Water System, currently outstanding in the principal amount of \$2,865,000. This advance refunding will result in debt service savings.

Service Area and Customers

The City serves an estimated population of 11,711 persons through 4,267 metered service connections in the incorporated area of the City. The City also supplies water to Sonoma County Service Area 41 ("CSA 41") in the Fitch Mountain area through 2 metered service connections. CSA 41 serves approximately 325 additional connections. The Water System serves an area of approximately 3.5 square miles in the City.

The tables below show the number of connections of the Water System by classification of user for fiscal years 2001 to 2005 and revenues by class of user for fiscal year 2004-05.

**City of Healdsburg Water System
Number of Connections by Classification of User
as of June 30**

<u>User Type</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Single Family Residential	3,493	3,546	3,541	3,565	3,586
Multiple Family Residential	135	133	132	134	160
Commercial/ Institutional	<u>510</u>	<u>518</u>	<u>530</u>	<u>512</u>	<u>521</u>
Total	4,138	4,197	4,203	4,211	4,267

Source: City of Healdsburg.

**City of Healdsburg Water System
Revenues by Class of User
Water System
Fiscal Year 2004-05**

<u>User Class</u>	<u>Fiscal Year Revenue</u>	<u>Percentage of Operating Revenue</u>
Single Family Residential	\$2,205,855	59%
Multiple Family Residential	432,580	12
Commercial/Institutional	<u>1,070,565</u>	<u>29</u>
Total	\$3,709,000	100%

Source: City of Healdsburg.

Largest Users. The table below shows the five largest users of the Water System based on revenues for the fiscal year 2004-05.

**City of Healdsburg Water System
Largest Users
Water System
Fiscal Year 2004-05**

<u>User</u>	<u>Type of Business</u>	<u>Revenue</u>	<u>Percentage of Revenue</u>
Healdsburg Unified School District	School	\$108,633	2.9%
City of Healdsburg	Municipal	72,935	2.0
Sonoma County Department of Public Works	Public Utility	62,758	1.7
Burbank Housing Development	Housing	51,088	1.4
Oak Grove Apartments	Apartments	39,752	1.1

Source: City of Healdsburg.

Water Rates

The City has the power pursuant to applicable law to establish rates and charges to operate the Water System. Its charges are established by its governing board 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 and connection fees. On April 19, 2004, the City Council approved a water service charge increase of 1.5% quarterly through the April 2006 billing cycle. Current connection fees were established by Resolution No. 74-97 adopted by the City Council on August 4, 1997 which became effective on December 1, 1997. Connection fees related to building permits issued after July 3, 2006 were established by Resolution No. 98-2005 adopted by the City Council on September 6, 2005. Certain rates are based on amount per Hundred Cubic Feet ("HCF").

Monthly Household Service Charge. The monthly household service charge for a meter sized an inch or less is a minimum of \$31.45 (\$26.73 for low income households) while the monthly household service charge for a meter sized 1¼ inches to 1½ inches is a minimum of \$35.44 and monthly household service charge for a 2 inch meter is a minimum of \$54.11. The minimum monthly household service charge covers the first 5 HCF with a charge of \$2.80 for each HCF above 5 (\$2.37 per HCF for low income households).

Household Connection Fee. The City's current household connection fee is \$4,399 per dwelling unit. Connection fees related to residential building permits issued after July 3, 2006 are \$7,213 per dwelling unit.

Commercial Service Charge. The City's current commercial service charge for a 2-inch meter is a \$31.35 flat rate, plus \$4.10 per HCF.

Commercial Connection Fee. The City's current commercial connection fee is \$4,399 per 17 HCF estimated to be used during peak summer months as defined in the City's Code. Connection fees related to residential building permits issued after July 3, 2006 are \$7,213 per equivalent residential unit.

Rate Comparisons. The table below shows comparative water monthly service charges for residential customers in surrounding areas.

**City of Healdsburg
Comparative Water System Service Charges in Surrounding Areas
as of April 19, 2004
(in alphabetical order)**

<u>Service Provider</u>	<u>Service Charge</u>
Cloverdale, City of	\$32.79
Healdsburg, City of ⁽¹⁾	47.32
Rohnert Park, City of	40.60
Santa Rosa, City of	38.13
Sebastopol, City of	50.41
Windsor, City of	30.69

⁽¹⁾ Does not reflect adopted annual increase in rates of 6% in Fiscal Year 2004-05. See "Water Rates" above.
Source: City of Healdsburg.

Collections. The City bills and collects payments for water, wastewater and electricity on the same monthly bill. The City has not experienced any significant uncollected delinquencies exceeding 0.5% or \$20,000 over the last 5 years. The City will terminate water service to a customer within 45 days of nonpayment of a bill and past due notice.

Regulatory Issues

The applicable drinking water standards for the Water 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 Water System's water is generally of high quality, the water quality of the Water System meets all existing standards and the Water System is in compliance with all current Federal and State requirements.

Permits

The City operates its Water System pursuant to permits under both California Department of Health Services ("DHS"), Domestic Water Supply Permit No. 02-02-99P49015, and the CSWRCB, Appropriate Water Rights Permit Nos. 007847 and 011039. None of the permits have expiration dates, and the DHS permit is revised, modified or re-issued as necessary. The City is in compliance with the requirements of the Water System permits.

Existing Long-Term Obligations and Planned Capital Improvements

The table below includes information on various outstanding obligations of the City's Water System payable from water revenues as of the date of issuance of the Bonds, other than the Series 2000B Bonds to be defeased upon the issuance of the Bonds.

<u>Obligation</u>	<u>Principal Amount Outstanding</u>	<u>Final Maturity Date</u>	<u>Security</u>	<u>Priority</u>
CSCDA 2001A Water Revenue Bonds	\$6,040,000	2026	Water System Net Revenues	Parity
CSCDA 2002C Water Revenue Bonds	\$5,170,000	2032	Water System Net Revenues	Parity

Financial Information

A copy of the most recent audited financial statements of the City prepared by the City and audited by Diehl, Evans & Company, LLP (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 Water 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 Healdsburg Water System
Summary of Historic Operating Results
Fiscal Years Ended June 30**

	<u>2002</u>	<u>2003</u>	<u>2004</u>
Revenues			
Service Charges	\$2,909,292	\$3,444,666	\$3,844,742
Development Fees	113,590	322,990	554,190
Interest Earnings	202,237	124,305	105,182
Other	<u>3,721</u>	<u>14,924</u>	<u>11,157</u>
Total Revenues	\$3,228,840	\$3,906,885	\$4,515,271
Operating Expenses ⁽¹⁾	\$1,788,077	\$2,054,734	\$2,097,146
Water System Net Revenues	<u>\$1,440,763</u>	<u>\$1,852,151</u>	<u>\$2,418,125</u>
Parity Debt Service			
CSCDA 2000B Water Revenue Bonds ⁽²⁾	\$215,305	\$213,280	\$216,114
CSCDA 2001A Water Revenue Bonds	522,544	526,283	519,383
CSCDA 2002C Water Revenue Bonds	<u> --</u>	<u>101,500</u>	<u>329,020</u>
Total Parity Debt Service	<u>\$737,849</u>	<u>\$841,063</u>	<u>\$1,064,517</u>
Total Parity Debt Service Coverage	<u>1.95</u>	<u>2.20</u>	<u>2.27</u>

⁽¹⁾ Excludes depreciation and capital expenditures.

⁽²⁾ A portion of the proceeds of the City's share of the Bond is being used to advance refund the City's portion of the CSCDA Series 2000B Revenue Bonds related to the Water System. See "Plan of Finance" above.

Source: City of Healdsburg.

Projected Operating Results and Debt Service Coverage. The City's projected consolidated operating results for the enterprise funds related to the Water 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 Healdsburg
Water 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 ⁽²⁾	\$3,709,000	\$3,932,000	\$4,207,000	\$4,501,000
Development Fees ⁽²⁾	238,000	300,000	300,000	300,000
Interest Earnings	28,000	28,000	28,000	28,000
Other	<u>500</u>	<u>500</u>	<u>500</u>	<u>500</u>
Total Revenues	\$3,975,500	\$4,260,500	\$4,535,500	\$4,829,500
Operating Expenses ⁽³⁾	\$2,418,000	\$2,664,000	\$2,930,400	\$3,164,800
Water System Net Revenues	<u>\$1,557,500</u>	<u>\$1,596,500</u>	<u>\$1,605,100</u>	<u>\$1,664,700</u>
Parity Debt Service				
2000B CSCDA Bonds ⁽⁴⁾	\$213,818	\$133,831	--	--
2001A CSCDA Bonds	517,058	514,338	\$521,043	\$512,182
2002C CSCDA Bonds	331,770	329,470	332,120	329,660
2005D CSCDA Bonds	<u>--</u>	<u>52,076</u>	<u>219,864</u>	<u>207,526</u>
Total Parity Debt Service	<u>\$1,062,646</u>	<u>\$1,029,715</u>	<u>\$1,073,027</u>	<u>\$1,049,368</u>
Debt Service Coverage	<u>1.46</u>	<u>1.55</u>	<u>1.50</u>	<u>1.59</u>

⁽¹⁾ Derived from unaudited actual results for Fiscal Year 2004-05.

⁽²⁾ Reflects adopted annual increase in rates of 6% in Fiscal Years 2004-05 and 2005-06 and assumes future annual increases in rates of 7% in Fiscal Years 2006-07 and 2007-08. See "Water Rates" herein.

⁽³⁾ Excludes depreciation, capital expenditures and debt service. Assumes 10%, 10% and 8% annual increase in operating expenses for Fiscal Years 2005-06 and 2006-07 and 2007-08, respectively.

⁽⁴⁾ A portion of the proceeds of the City's share of the Bond is being used to advance refund the City's portion of the CSCDA Series 2000B Revenue Bonds related to the Water System. See "Plan of Finance" above.

Source: City of Healdsburg.

Debt Service Schedule

The following table shows the debt service requirements related to the City's Water System for the Bonds.

Annual Period Ending October 1	Principal	Interest	Annual Total
2006	\$90,000.00	\$117,626.95	\$207,626.95
2007	80,000.00	128,626.25	208,626.25
2008	85,000.00	126,426.25	211,426.25
2009	90,000.00	123,961.25	213,961.25
2010	85,000.00	121,261.25	206,261.25
2011	90,000.00	118,605.00	208,605.00
2012	95,000.00	115,635.00	210,635.00
2013	95,000.00	112,405.00	207,405.00
2014	100,000.00	109,080.00	209,080.00
2015	105,000.00	105,430.00	210,430.00
2016	110,000.00	101,440.00	211,440.00
2017	115,000.00	97,150.00	212,150.00
2018	115,000.00	92,550.00	207,550.00
2019	120,000.00	87,950.00	207,950.00
2020	125,000.00	83,000.00	208,000.00
2021	130,000.00	77,750.00	207,750.00
2022	135,000.00	72,225.00	207,225.00
2023	145,000.00	65,475.00	210,475.00
2024	150,000.00	58,225.00	208,225.00
2025	160,000.00	50,725.00	210,725.00
2026	170,000.00	42,725.00	212,725.00
2027	170,000.00	34,225.00	204,225.00
2028	180,000.00	26,362.50	206,362.50
2029	190,000.00	18,037.50	208,037.50
2030	200,000.00	9,250.00	209,250.00
Total:	\$3,130,000.00	\$2,096,146.95	\$5,226,146.95

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 Water System.

Seismic Risks and Other Natural Events

The City is located in a seismically active region of northern California. The Water System and future planned capital improvements to the Water 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 Water System or adversely affect the local economy.

Two of the City's well fields (Fitch and Gauntlett) are subject to occasional flooding from the Russian River. The electrical equipment for these wells has been constructed on elevated platforms above the 10-year flood level. Some equipment is subject to flooding from the 100-year flood, however this equipment is relatively minor and is easily repaired.

Economic and Demographic Information for the City of Healdsburg and the County of Sonoma

See "CITY OF HEALDSBURG (WASTEWATER SYSTEM)" above.

CITY OF SOUTH SAN FRANCISCO

General

The City of South San Francisco (the "City") was incorporated as a city on September 19, 1908 and is located in San Mateo County (the "County"), approximately 10 miles south of San Francisco. The City is a full service city operating under a council-manager form of government. The City encompasses an area of approximately 9.5 square miles and had a population of 61,661 as of January 1, 2005. See "Economic and Demographic Information for the City of South San Francisco and San Mateo County" herein.

Local Economy and Growth

The City consists of approximately 5,000 acres of residential (33%), industrial (25%) and commercial, including office and research and development (42%) space. In recent years, the City has experienced growth in the area of biotechnology business. Currently, over 65 biotechnology firms are located in the City, including Genentech and Celera. See "Service Area and Customers- Largest Users" herein. Since 1995, biotechnology employment in the City has grown nearly 60 percent, increasing from 3,875 in 1995 to 6,150 in 2000 and generating approximately \$250 million in construction activity. From 1999-2005, the development of 7.2 million square feet of research and development space in the City was approved with 1.2 million square feet of research and development space being constructed between 2002 and 2005. According to BT Commercial Real Estate, the City's research and development space vacancy rate was 6.8% in the second quarter of 2005 with an average rental rate of \$2.37 per square feet. Finally, 2,041 hotel rooms were constructed within the City from 1999-2005 and the average occupancy rate was 74% for Fiscal Year 2004-05. Continued growth in biotechnology companies located within the City is currently planned and may result in continued growth in construction.

The City has policies directed at attracting and retaining business and employment. The City has four active redevelopment project areas (three of which are east of U.S. 101 within the City) which have contributed to infrastructure improvements to aid in the development of the biotechnology industry.

The expansion of the South San Francisco/San Bruno Water Quality Control Plant (the "Plant"), located within the City, along with a major freeway interchange improvement that has just been completed, are expected to serve the development needs of future biotechnology businesses and other businesses within the City and the City's residents. See "Wastewater System" below.

Governance and Management

The City is a General Law City and operates under the Council-City Manager form of government. The City Council is the governing body and has the power to make and enforce all laws and set policy related to municipal affairs. The City Manager is responsible for carrying out the policies of the City Council and for the management of municipal activities. The City Manager directs and manages the various departments and municipal services

through appointed Department Heads who directly supervise and administer the various City programs, services, and activities.

The City Manager is the administrative head of the government of the City responsible for providing general administrative management of the City; providing a liaison between the City Council and Staff; carrying out, on behalf of the City Council, its policies, rules, regulations and laws; supervising the preparation of the annual budget; and overseeing the preparation of council agendas and material for Council Meetings. City Clerk services are also provided by this department.

The City Attorney is responsible for providing legal advice to the City Council and staff in carrying out their duties in the operations of the City government. The City Attorney, or special counsel supervised by the City Attorney, defends the City in all legal actions and brings about suits on behalf of the City. The City Attorney is not a public defender of citizens.

The current City Council members and the expiration dates of their terms of office are set forth below.

<u>Council Member</u>	<u>Title</u>	<u>Expiration of Term</u>
Raymond L. Green	Mayor	November 2005
Joseph A. Fernekes	Vice-Mayor	November 2007
Richard A. Garbarino Sr.	Council Member	November 2007
Pedro Gonzalez	Council Member	November 2005
Karyl M. Matsumoto	Council Member	November 2005

Barry Nagel serves as the City Manager. Mr. Nagel has been with the City for 20 years and has over 15 years of municipal management experience.

James Steele serves as Director of Finance. Mr. Steele has been with the City for 6 years and has 20 years of experience with financial management.

Management of the City's wastewater system (the "Wastewater System") is provided by Terry White, the City's Public Works Director. Mr. White has been with the City for 14 years and has 26 years of experience with management of utility systems. Management of the Plant is provided by David Castagnola, the City's Superintendent of the Plant. David Castagnola has been with the City for 33 years and has 23 years of experience with management of utility systems.

Wastewater System

The Wastewater System consists of gravity collection lines, pump stations, the Plant and a disposal system. The Plant is designed for an average dry weather flow ("ADWF") of up to 13 million gallons per day ("mgd"). The present ADWF is 8.5 mgd. The City's share of the designed ADWF is 9.5 mgd and the City has a present ADWF of 5.8 mgd.

The Plant, located in the City, is jointly owned by the City and the City of San Bruno and serves both cities through the treatment and discharge of wastewater. This joint ownership

has existed for over 50 years and the cities recently completed expansion of the Plant to accommodate the cities' joint capacity for the next twenty to thirty years. Under the terms of a joint operating agreement between the City and the City of San Bruno (the "Agreement"), the City operates the Plant and is paid quarterly in advance for the City of San Bruno's share of the Plant's operating expenses. The Agreement has no termination date or termination provision. In Fiscal Year 2004-05, this operating expense payment amounted to approximately \$1.8 million or approximately 12% of the Wastewater System's revenues. Pursuant to the agreement, the allocation of cost of capital projects related to the Plant are agreed to between the City and the City of San Bruno, and the factors dictating such allocation include engineering estimates of flow and capacity. Allocations have tended to fluctuate from year to year depending on the nature of the improvement. In Fiscal Year 2004-05, this payment for capital projects amounted to approximately \$148,000 or approximately 1% of the Wastewater System's revenues. Finally, pursuant to the Agreement, the City of San Bruno reimburses the City for a portion of the debt service payments on its State Water Resources Control Board Loans. See "Existing Long-Term Obligations and Planned Capital Improvements." In Fiscal Year 2004-05, this reimbursement amounted to approximately \$1.4 million or approximately 9% of the Wastewater System's revenues and included two years of reimbursement to the City for debt service on the 2004 State Water Resources Control Board Loan. Annual reimbursement received by the City from the City of San Bruno constitutes 13% of the aggregate State Water Resources Control Board Loan payments. The City's share of the CSCDA Series 2005D Revenue Bonds (the "Bonds") will be used solely to finance the City's allocation of certain costs of capital projects and, thus, the debt service requirements for the Bonds will be funded solely by the City.

In addition to the services provided to the City of San Bruno through the Plant, the City also provides treated effluent discharge services for the cities of San Bruno, Millbrae and Burlingame, and the San Francisco International Airport ("SFO"). These services are provided under the terms of a 1973 North Bayside System Unit ("NBSU") Joint Powers Agreement. Under that agreement, the City operates a joint effluent pump station, an outfall force main, and submarine outfall facilities for discharge into the San Francisco Bay. In Fiscal Year 2004-05, payments pursuant to this agreement amounted to approximately \$224,000 or approximately 1.5% of the Wastewater System's revenues. This agreement can be terminated by any party to the agreement at any time, provided that the terminating party provides notice of termination to the other parties no less than two years preceding the termination. The cities of Millbrae and Burlingame and SFO treat their own effluent and transport the effluent to the NBSU facilities located within the City for discharge into the San Francisco Bay.

The following table shows historical payments received by the City pursuant to the Agreement and joint powers agreement discussed above as well as from contracted services for the fiscal years ending June 30, 2002 through 2004.

<u>Payee</u>	<u>2001-02</u>	<u>2002-03</u>	<u>2003-04</u>
City of San Bruno Operating Expenses	\$1,592,220	\$1,692,417	\$1,773,836
City of San Bruno Capital Project Costs	157,000	963,000	675,000
City of San Bruno Debt Service Payments	63,003	115,305	382,016 ⁽¹⁾
NBSU Joint Powers Agreement Payments	256,170	219,745	693,124 ⁽²⁾
Contracted sale of services ⁽³⁾	<u>612,745</u>	<u>628,559</u>	<u>444,647</u>
Total	<u>\$2,681,138</u>	<u>\$3,619,026</u>	<u>\$3,968,623</u>

⁽¹⁾ Repayments related to the 1999 State Water Resources Control Board Loan commenced Fiscal Year 2003-04. See "Wastewater System" and "Existing Long-Term Obligations and Planned Capital Improvements."

⁽²⁾ Reflects higher capital expenditure reimbursement for improvements to the NBSU effluent pump station, switch gear building, and dechlorination facility related to the expansion of the Plant.

⁽³⁾ Reflects contracted sale of services to the Town of Colma and Serramonte neighborhood of Daly City. Sale of services to the Serramonte neighborhood in Daly City was discontinued in Fiscal Year 2003-04 as new development near that neighborhood allowed Daly City to connect that neighborhood to Daly City's own treatment plant.

Source: City of South San Francisco.

In 1997, the City received a Cease and Desist order from the San Francisco Regional Water Quality Control Board (the "Board") to upgrade the Wastewater System to improve and protect the environmental quality of the San Francisco Bay. Since 2000, the City has made improvements to the Plant and operations in compliance with Federal and State clean water programs. In 2003, the Plant's capacity was increased from 9 to 13 million gallons per day, allowing the Plant to accommodate more wastewater treatment capacity during heavier wet weather flows. The City expects this increase in capacity to accommodate future residential and commercial development and meet the requirements of the City's National Pollutant Discharge Elimination ("NPDES") permit. See "Permits" below.

The completion of the remaining projects required to meet the Board's requirements under the Cease and Desist order is required by November 2007. The projects, known collectively as the "Wet Weather Program" consist of four remaining phases of improvements to pump stations and pipelines with the goal of reducing the potential for raw sewage overflows from sanitary sewers during severe rain storms. These phases include the design or construction of an effluent storage basin and mains, pump station improvements and general sanitary sewer rehabilitation. See "Plan of Finance" and "Existing Long-Term Obligations and Planned Capital Improvements" herein.

Plan of Finance

The City funded the majority of the Plant expansion and certain Wet Weather Program components and plans to fund the majority of the remaining Wet Weather Program components from State Water Resources Control Board loans. However, these loans only finance a fixed portion of design, engineering services and construction management. A portion of the proceeds of the CSCDA Series 2005D Revenue Bonds is being used to finance certain additional capital costs related to the Wet Weather Program such as right of way acquisitions, as well as to pay for certain future capital costs through Fiscal Year 2006-07, including, but not limited to, improvements to pump stations, force mains and miscellaneous collection systems. Some of these costs have already been incurred and will be reimbursed

through the terms of reimbursement resolutions approved by the City Council. See "Wastewater System" and "Existing Long-Term Obligations and Planned Capital Improvements" herein.

In connection with the Wet Weather Program, the City has complied with all relevant provisions of the California Environmental Quality Act ("CEQA"). Specifically, in July 2002, a Mitigated Negative Declaration was certified by the City.

Service Area and Customers

The tables below show the number of connections of the Wastewater System by user type and sewer service fee revenues by class of user.

**City of South San Francisco
Wastewater System
Number of Connections by User Type
as of June 30**

	2001	2002	2003	2004	2005
Residential	17,400	17,700	17,730	16,940	17,000
Commercial	1,480	1,520	1,520	1,419	1,400
Restaurants	92	99	99	94	92
Industrial	44	45	50	60	66
Institutional	57	57	57	57	56

Source: City of South San Francisco.

**City of South San Francisco
Wastewater System
Sewer Service Fee Revenues by Class of User
Fiscal Year 2005-06**

<u>User Type</u>	<u>Revenue</u>	<u>Percentage of Total Annual Sewer Service Fee Revenue</u>
Residential	\$5,000,000	41.9%
Commercial	2,762,000	23.1
Restaurants	697,000	5.8
Industrial	3,334,000	27.9
Institutional	<u>151,000</u>	<u>1.3</u>
Total	\$11,944,000	100.0%

Source: City of South San Francisco.

Largest Users. The table below shows the five largest users of the Wastewater System based on sewer service fee revenues for the fiscal year 2005-06.

**City of South San Francisco
Wastewater System
Five Largest Users by Sewer Service Fee Revenues
Fiscal Year 2005-06***

<u>User</u>	<u>Type of Business</u>	<u>Sewer Service Fee Revenue</u>	<u>Percentage of Total Annual Sewer Service Fee Revenue</u>
Genentech	Bio-technology	\$1,642,000	13.7 %
SF Sausage(Columbus Salame)	Food Process	389,000	3.3
Medical Linen	Laundry	193,000	1.6
See's Candies	Candy Maker	165,000	1.4
Royal Laundry	Laundry	158,000	1.3

* Represents largest users of the City only. The Plant also provides services to the City of San Bruno. The City of San Bruno reports that no individual City of San Bruno wastewater service user accounts for more than 4% of the City of San Bruno's treatment capacity.

Source: City of South San Francisco.

Genentech is a biotechnology company. Genentech reports that it manufactures and commercializes multiple biotechnology products directly in the United States and licenses several additional products to other companies. Since its founding in 1976, Genentech has made its headquarters in the City, and reports that it has manufacturing facilities in Vacaville and Oceanside, California and Porriño, Spain. Genentech's site in the City has a reported 48 buildings, which includes a research center, manufacturing operations and various business functions, and houses approximately 5,700 employees.

Wastewater Rates

Service Charges. The City has the power pursuant to law to establish wastewater service charges to operate the Wastewater System. The wastewater service charges are established by the City Council and are not subject to review or approval by any other agency. On July 14, 2004, the City Council approved a wastewater service charge increase of 25% for Fiscal Year 2004-05 and future rate increase of up to 9% per year for each of the following four years through Fiscal Year 2008-09. Wastewater service charges were most recently established by Resolution No. 68-2005, adopted by the City Council on June 22, 2005 and effective on and after July 1, 2005, as described below. The City believes that these charges were enacted in compliance with the procedures under Proposition 218.

Residential Class. The annual rate for single-family is \$296.00 per dwelling per year and for multi-family dwellings is \$296.00 per dwelling per unit per year.

Institutional Class. The annual rate for schools, colleges, rest homes, hospitals, clubs, lodges and similar class of users is a minimum charge of \$296.00 per year or a volume charge based on water consumed (metered inflow) of \$3.169 per 100 cubic feet of water consumed or a volume charge based on water consumed (metered effluent) of \$3.521 per 100 cubic feet of water consumed.

Commercial and Nonmonitored Industrial Class. The annual rate for certain commercial and nonmonitored industrial classes is determined by the strength of use. For light strength use, the annual rate is a minimum charge of \$296.00 per facility per year or a volume charge based on water consumed (metered inflow) of \$3.928 per 100 cubic feet of water consumed or a volume charge based on water consumed (metered effluent) of \$4.364 per 100 cubic feet of water consumed. For moderate strength use, the annual rate is a minimum charge of \$296.00 per facility per year or a volume charge based on water consumed (metered inflow) of \$6.147 per 100 cubic feet of water consumed or a volume charge based on water consumed (metered effluent) of \$6.830 per 100 cubic feet of water consumed. The annual rate for restaurants, cafes and other eating places is a minimum charge of \$296.00 per year or a volume charge based on water consumed (metered inflow) of \$8.981 per 100 cubic feet of water consumed or a volume charge based on water consumed (metered effluent) of \$9.979 per 100 cubic feet of water consumed.

Monitored and Industrial Class. The annual rate for certain monitored and industrial classes is a minimum charge of \$296.00 per year or a combination of volume charge based on water consumed (metered inflow) of \$2.354 per 100 cubic feet of water consumed or a volume charge based on water consumed (metered effluent) of \$2.615 per 100 cubic feet of water consumed. The annual suspended solids surcharge rate for certain monitored and industrial classes is \$0.790 per pound of suspended solids discharged while the annual chemical oxygen demand ("COD") surcharge is \$0.244 per pound of COD discharged.

The annual rate for septage waste haulers is a minimum charge of \$296.00 per year and volume charge based on waste water discharge of \$0.168 per gallon discharged.

Connection Fees. When a building permit is issued, a connection fee is charged to the user or parcel owner for connection to the Wastewater System. Connection fees of \$1,554 per equivalent dwelling unit were most recently established by Resolution No. 113-00, adopted by the City Council on September 27, 2000.

Impact Fees. The City has also adopted wastewater impact fees to finance \$21 million in Wastewater System improvements identified under a Master Plan for Wastewater System upgrades and projects required to serve new development in the area east of U.S. 101 within the City. These impact fees were adopted pursuant to Resolution No. 97-2002 adopted October 23, 2002.

Collections. The City's wastewater charges and fees are included on the official tax assessment roll, together with all regular municipal real property taxes. Unpaid wastewater charges and fees are, therefore, a lien on real property that will be foreclosed upon by the County pursuant to laws governing real property tax collection. As the County of San Mateo participates in the Teeter Plan, the City receives 100% of all levied amounts.

Rate Comparisons. The table below shows comparative annual, residential wastewater service charges for surrounding areas as of May 4, 2005.

**City of South San Francisco
 Comparative Annual, Residential Wastewater System Service Charges
 for Surrounding Areas,
 As of May 4, 2005
 (in alphabetical order)**

<u>Service Provider</u>	<u>Annual Service Charge</u>
Daly City, City of	\$326
Redwood City, City of	\$287*
San Mateo, City of	\$312
San Bruno, City of	\$359
South San Francisco, City of	\$296*

* Flat Charge per year. Does not reflect individual water consumption.
 Source: City of South San Francisco.

Permits

The City operates the Plant under NPDES Permit No. CA0038130. Permit No. CA0038130 has an expiration date of March 31, 2008. See "Wastewater System" for a description of a Cease and Desist order relating to the permit.

Existing Long-Term Obligations and Planned Capital Improvements

The terms of the City's existing long-term obligations payable from wastewater revenues as of June 30, 2005 are summarized in the table below. See "Wastewater System" and "Plan of Finance" herein.

<u>Name of Obligation</u>	<u>Total</u>	<u>Final Maturity Date</u>	<u>Security</u>	<u>Priority</u>
1993 State Water Resources Control Board Loan ⁽¹⁾	\$4,659,155	10/8/13	Wastewater Net Revenues	Parity
1999 State Water Resources Control Board Loan ⁽¹⁾	\$46,582,022	8/1/22	Wastewater Net Revenues	Parity
2004 State Water Resources Control Board Loan ⁽¹⁾	\$22,030,828	10/15/25	Wastewater Net Revenues	Parity

⁽¹⁾ The City has entered into a joint operating agreement with the City of San Bruno through which the City of San Bruno reimburses the City for a portion of the debt service payments on these loans. Repayments related to the 2004 State Water Resources Control Board Loan commence Fiscal Year 2006-07. See "Wastewater System" herein.

In addition to the capital improvements financed by existing State Water Resources Control Board Loans and the Bonds (see "Wastewater System" and "Plan of Finance" herein), planned capital improvements to the Wastewater System include, but are not limited to, remaining components of the Wet Weather Program and the rehabilitation of pump stations, pipelines and manholes. These additional capital improvements are estimated to cost approximately \$6.6 million in fiscal years 2005-06 through 2008-09. The City plans to finance these costs through future State Water Resources Control Board Loans and/or additional bond financing. See "Financial Information- Projected Operating Results and Debt Service Coverage" herein.

Financial Information

Financial Statements. A copy of the most recent audited financial statements of the City prepared by the City and audited by Maze & Associates, an independent auditor (the "Auditor") is included in Appendix A hereto (the "Financial Statements"). The Auditor's letter concludes that the primary government financial statements present fairly, in all material respects, the financial position of the primary government of the City as of June 30, 2004 and the results of its operations and cash flows of its proprietary fund types for the year then ending 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 Wastewater System for the fiscal years ending June 30, 2002 through 2004. These 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 South San Francisco
Wastewater System
Summary of Historic Operating Results
Fiscal Year Ending**

	<u>2002</u>	<u>2003</u>	<u>2004</u>
Revenues			
Service Charges	\$7,820,651	\$8,091,687	\$8,375,936
Connection and Other Fees	1,002,071	262,182	1,415,813
Interest Income	196,258	217,841	47,812
Developer Fees	189,357	314,136	166,027
Other Cities' Participation ⁽¹⁾	<u>2,681,138</u>	<u>3,619,026</u>	<u>3,968,623</u>
Total Revenues	<u>\$11,889,475</u>	<u>\$12,504,872</u>	<u>\$13,974,211</u>
Operating Expenses ⁽²⁾	\$8,338,248	\$9,489,780	\$9,732,225
Wastewater System Net Revenues	<u>\$3,551,227</u>	<u>\$3,015,092</u>	<u>\$4,241,986</u>
Parity Debt Service			
State Water Resources Control Board Loans ⁽³⁾	<u>\$1,428,603</u>	<u>\$1,420,582</u>	<u>\$3,871,814</u>
Parity Debt Service Coverage	<u>2.49</u>	<u>2.12</u>	<u>1.10⁽⁴⁾</u>

⁽¹⁾ Primarily consists of payments from the City of San Bruno. The City of San Bruno is a co-owner of the Plant and pays the City in advance on a quarterly basis for the City of San Bruno's share of operating costs. See "Wastewater System" herein.

⁽²⁾ Excludes depreciation, capital expenditures and debt service.

⁽³⁾ See "Existing Long-Term Obligations and Planned Capital Improvements."

⁽⁴⁾ Does not reflect adopted increase in rates for Fiscal Year 2004-05 of 25% per Resolution No. 68-2004, adopted by the City Council on July 14, 2004 and effective on and after July 1, 2004. See "Wastewater Rates" herein.

Source: City of South San Francisco.

Projected Operating Results and Debt Service Coverage. The City's estimate of projected operating results for the Wastewater System for the fiscal years ending June 30, 2005 through 2009 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 South San Francisco
Wastewater System
Projected Operating Results
Fiscal Year Ending**

	<u>2005⁽¹⁾</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Revenues ⁽²⁾					
Service Charges	\$10,692,000	\$11,930,000	\$12,715,000	\$13,930,000	\$15,260,000
Connection and Other Fees	566,000	250,000	250,000	250,000	250,000
Interest Income	80,000	46,000	92,000	91,000	125,000
Developer Fees	335,000	165,000	155,000	155,000	155,000
Other Cities' Participation	<u>4,381,000</u>	<u>4,851,000</u>	<u>5,216,000</u>	<u>4,471,000</u>	<u>4,687,000</u>
Total Revenues	\$16,054,000	\$17,242,000	\$18,428,000	\$18,897,000	\$20,477,000
Operating Expenses ⁽³⁾	\$10,609,000	\$11,358,000	\$11,692,000	\$11,786,000	\$12,140,000
Wastewater System Net Revenues	<u>\$5,445,000</u>	<u>\$5,884,000</u>	<u>\$6,736,000</u>	<u>\$7,111,000</u>	<u>\$8,337,000</u>
Parity Debt Service					
State Water Resources Control Board Loans ⁽⁴⁾	\$3,871,000	\$3,871,000	\$5,317,000	\$5,317,000	\$5,317,000
CSCDA Series 2005D Revenue Bonds	--	97,846	246,326	453,439	452,434
Future Parity Debt ⁽⁴⁾	-----	-----	-----	-----	<u>452,000</u>
Total Parity Debt	<u>\$3,871,000</u>	<u>\$3,968,846</u>	<u>\$5,563,326</u>	<u>\$5,770,439</u>	<u>\$6,221,434</u>
Total Parity Debt Service Coverage	<u>1.41</u>	<u>1.48</u>	<u>1.21</u>	<u>1.23</u>	<u>1.34</u>

⁽¹⁾ Derived in part from unaudited, estimated actual results.

⁽²⁾ Reflects an adopted increase in rates for Fiscal Year 2004-05 of 25% per Resolution No. 68-2004, adopted by the City Council on July 14, 2004 and effective on and after July 1, 2004 and an adopted increase in rates for Fiscal Year 2005-06 of 9% per Resolution No. 68-2005, adopted by the City Council on June 22, 2005 and effective on and after June 22, 2005 and assumes annual increase in rates for Fiscal Years 2006-07 and 2007-08 of approximately 9%. See "Wastewater Rates" above.

⁽³⁾ Excludes depreciation, capital expenditures and debt service. Assumes 3% annual increase in operating expenses per fiscal year.

⁽⁴⁾ Repayments related to the 2004 State Water Resources Control Board Loan commence Fiscal Year 2006-07. Future Parity Debt is estimated and subject to change. See "Existing Long-Term Obligations and Planned Capital Improvements" herein.

Source: City of South San Francisco.

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	Annual Total
2006	--	\$221,009.39	\$221,009.39
2007	\$210,000.00	\$246,326.25	\$456,326.25
2008	215,000.00	240,551.25	455,551.25
2009	225,000.00	234,316.25	459,316.25
2010	230,000.00	227,566.25	457,566.25
2011	235,000.00	220,378.75	455,378.75
2012	245,000.00	212,623.75	457,623.75
2013	255,000.00	204,293.75	459,293.75
2014	265,000.00	195,368.75	460,368.75
2015	270,000.00	185,696.25	455,696.25
2016	280,000.00	175,436.25	455,436.25
2017	295,000.00	164,516.25	459,516.25
2018	305,000.00	152,716.25	457,716.25
2019	315,000.00	140,516.25	455,516.25
2020	330,000.00	127,522.50	457,522.50
2021	345,000.00	113,662.50	458,662.50
2022	360,000.00	99,000.00	459,000.00
2023	375,000.00	81,000.00	456,000.00
2024	395,000.00	62,250.00	457,250.00
2025	415,000.00	42,500.00	457,500.00
2026	435,000.00	21,750.00	456,750.00
Total:	\$6,000,000.00	\$3,369,000.64	\$9,369,000.64

Litigation

The owners of a warehouse building at 130 Beacon Street in the City have served the City with a complaint for inverse condemnation for alleged damage to their real property arising out of the City's installation of a sewer line in connection with the Wet Weather Program. To date, the extent of the plaintiffs' alleged damages are unclear. At a recent mediation, the plaintiffs claimed they would seek damages in the amount of \$1.65 million.

The case is set for a settlement conference on November 8, 2005 and trial on November 28, 2005. The City intends to vigorously defend itself in this lawsuit. However, the City can not predict the outcome of the lawsuit at this time. The City has tendered this lawsuit to the contractor working on the Wet Weather Program. The contractor and the related insurance company have advised the City that they will accept the tender, defend the lawsuit and indemnify the City. However, neither the contractor or insurance company have confirmed acceptance of the tender in writing.

The owners of a warehouse building at 1334 Lowrie Street in the City have served the City with a complaint for negligence for alleged damage to their real property arising out of the City's installation of a sewer line in connection with the Wet Weather Program. To date, the extent of the plaintiffs' alleged damages are unclear, but the plaintiffs have claimed such damage to be approximately \$280,000.

The case is set for trial in February 2006. The City intends to vigorously defend itself in this lawsuit. However, the City can not predict the outcome of the lawsuit at this time. The City has tendered this lawsuit to the contractor working on the Wet Weather Program. The contractor and the associated insurance company have advised the City that they will accept the tender and defend the lawsuit and indemnify the City. However, neither the contractor or insurance company have confirmed acceptance of the tender in writing.

Other than as described above, 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 Wastewater System.

Seismic Risks

The City is located in a seismically active region of northern California. The Wastewater System and future planned capital improvements to the Wastewater 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 Wastewater System or adversely affect the local economy.

Economic and Demographic Information for the City of South San Francisco and San Mateo County

Population. As of January 1, 2005, the City's population was estimated to be 61,661, an approximately 1% increase from the 2001 population of 60,838. The following table shows the population for the City for the years 2001 to 2005.

City of South San Francisco Population As of January 1

2001	60,838
2002	60,718
2003	60,760
2004	60,951
2005	61,661

Source: State of California, Department of Finance.

As of January 1, 2005, the population for the County of San Mateo (the "County") was 723,453, an approximately 2% increase over the 2001 population level of 712,327. The following table shows the population for the County for the years 2001 to 2005.

**San Mateo County
Population
As of January 1**

2001	712,327
2002	714,788
2003	716,619
2004	718,993
2005	723,453

Source: State of California, Department of Finance.

Unemployment Rate. As of August 2005, the civilian labor force in the County reached an estimated 940,400. This is a decrease of 6% from the 2001 annual average civilian labor force of 1,001,600. The annual average unemployment rate increased 0.2% over the same period. The table below lists figures for the civilian labor force and comparative unemployment rates for the years 2001 to August 2005.

**San Mateo County
Civilian Labor Force, Employment and Unemployment
Annual Average⁽¹⁾**

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005⁽²⁾</u>
Labor Force	1,001,600	964,100	933,900	919,200	940,400
Employment	957,600	904,100	875,900	870,400	896,800
Unemployment	44,000	60,000	58,000	48,800	43,500
Unemployment Rate (%)	4.4	6.2	6.2	5.3	4.6

⁽¹⁾ Benchmark March 2004; data not seasonally adjusted.

⁽²⁾ Data as of August 2005.

Source: State of California, Employment Development Department.

Personal Income. Between 1999 and 2003, the County's median household effective buying income increased 7%. The table below summarizes the total effective buying income and the median household effective buying income for the County for the years 1999 through 2003.

**San Mateo County
Effective Buying Income**

<u>Year</u>	<u>Total Effective Buying Income (000's Omitted)</u>	<u>Median Household Effective Buying Income</u>
1999	\$18,721,334	\$56,443
2000	20,511,262	65,565
2001	21,193,515	64,766
2002	20,903,988	60,071
2003	21,239,098	60,516

Source: Sales and Marketing Management, Survey of Buying Power.

Assessed Valuation. The following table shows the assessed valuations for the City from fiscal years 2000-01 through 2004-05.

**City of South San Francisco
Assessed Valuations**

	<u>Local Secured</u>	<u>Utility</u>	<u>Unsecured</u>	<u>Total Before Rdv. Increment</u>	<u>Total After Rdv. Increment</u>
2000-01	\$5,705,764,724	\$ 7,037,781	\$1,074,589,375	\$6,787,391,880	\$5,909,208,199
2001-02	6,357,507,970	16,871,277	1,187,427,857	7,561,807,104	6,342,089,460
2002-03	6,985,846,680	14,746,743	1,318,423,903	8,319,017,326	6,706,229,422
2003-04	7,636,095,696	13,181,558	1,538,948,040	9,188,225,294	7,454,755,986
2004-05	8,191,226,453	13,627,091	1,202,572,127	9,407,425,671	7,587,702,887

Source: California Municipal Statistics, Inc.

Major Employers. The following table shows the major employers in the County.

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**County of San Mateo
Major Employers
2005
(in alphabetical order)**

<u>Employer</u>	<u>Location</u>	<u>Industry</u>
Applied Biosystems Group	Foster City	Laboratory Analytical Instruments (Mfrs)
Bay Meadows Racecourse	San Mateo	Horse Racing
Cingular Wireless*	South San Francisco	Cellular Telephones-Equipment & Supls
College of San Mateo	San Mateo	Schools-Universities & Colleges Academic
Electronic Arts Inc	Redwood City	Electronic Equipment & Supplies-Retail
Electronics for Imaging Inc	Foster City	Electronic Equipment & Supplies-Whol
Franklin Resources Inc	San Mateo	Financial Advisory Services
Franklin Templeton Distr Inc	San Mateo	Investment Securities
Franklin Templeton Investments	San Mateo	Financial Advisory Services
Franklin Templeton Svc Inc	San Mateo	Financial Advisory Services
Franklin Trust Co	San Mateo	Mutual Funds
Franklin-Templeton Group-Funds	San Mateo	Investment Management
Genentech Inc	South San Francisco	Commercial Physical Research
Gilead Sciences Inc	Foster City	Pharmaceutical Research Laboratories
Kaiser Foundation Medical Grp	South San Francisco	Hospitals
Kaiser Permanente Medical Ctr	Redwood City	Hospitals
Monster Cable Products	Brisbane	Electronic Connectors (Manufacturers)
Oracle Corp	Redwood City	Computer Software-Manufacturers
Rudolph & Sletten Inc	Foster City	Building Contractors
San Mateo County Human Svc	Belmont	County Government-Social/Human Resources
San Mateo Health Svc	San Mateo	County Government-Public Health Programs
Seton Medical Ctr	Daly City	Hospitals
SRI International Inc	Menlo Park	Physicians & Surgeons Equip & Supls-Mfrs
US Interior Dept	Menlo Park	Federal Government-Conservation Depts
Visa International	San Mateo	Credit Card & Other Credit Plans

*Cingular Wireless re-located outside of the City in the second quarter of 2005.

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.

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

\$17,795,000
California Statewide Communities Development Authority
Water and Wastewater Revenue Bonds
(Pooled Financing Program)
Series 2005D

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 \$17,795,000 aggregate principal amount of California Statewide Communities Development Authority Water and Wastewater Revenue Bonds (Pooled Financing Program) Series 2005D (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 November 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:

BONDS:

Policy No.: -N

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 \$17,795,000 California Statewide Communities Development Authority Water and Wastewater Revenue Bonds (Pooled Financing Program), Series 2005D (the "Bonds"). The Bonds are being issued pursuant to the Indenture, dated as of November 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 November 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 October 25, 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, 200_, provide to each Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate (the first report for fiscal year ending June 30, 200_ shall not be required to include the items described in Section 4(2) herein). 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 B-__ of the Official Statement;
- (b) Revenues by Class of User as shown on page B-__ of the Official Statement;
- (c) Largest Users as shown on page B-__ 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 B-__ 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 2005D

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 \$17,795,000 California Statewide Communities Development Authority Water and Wastewater Revenue Bonds (Pooled Financing Program), Series 2005D (the "Bonds"). The Bonds are being issued pursuant to the Indenture, dated as of November 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 November 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 October 25, 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