

CAMBRIA COMMUNITY SERVICES DISTRICT

BASIC FINANCIAL STATEMENTS

June 30, 2005

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FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Cambria Community Services District
Cambria, California

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Cambria Community Services District (the District) as of June 30, 2005, and for the fiscal year then ended, which collectively comprise the District's basic financial statements as listed in the foregoing table of contents. These financial statements are the responsibility of the management of the Cambria Community Services District. 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. 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 financial position of the governmental activities, the business-type activities, and each major fund of the Cambria Community Services District, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund, for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis on pages 2 through 14, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

MOSS, LEVY & HARTZHEIM

September 9, 2005

CAMBRIA COMMUNITY SERVICES DISTRICT

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2005

Effective for fiscal year end June 30, 2004, the Cambria Community Services District implemented the provisions, Governmental Accounting Standards Board Statement No. 34 (GASB 34), "Basic financial Statements – and Management's Discussion & Analysis, for State and Local Governments." Implementation dates were based on total revenues of the reporting agency, with June 30, 2004 the date for agencies with revenues under \$10 million. With revenues under \$10 million the implementation date for the Cambria Community Services was June 30, 2004.

GASB 34 requires changes in financial reporting format, one of which is the Discussion and Analysis of financial activities. The Management's Discussion & Analysis is to be read in conjunction with the financial statements of the District. The discussion is to identify financial trends and significant changes in the financial information.

The primary focus on GASB 34 is general government functions. Proposition 218 and other restrictions are a challenge for general government to increase revenue sources. Enterprise functions are business like in nature. Service fees can be increased to cover the cost of providing service.

The Cambria Community Services District is a multi-purpose special district formed on December 9, 1976. Formation took place under the Community Services District Law, Section 61000, et. seq. of the California Government Code. At the time of formation it absorbed and combined the responsibilities of five existing special districts. These independently operated Districts were as follows:

- The Cambria Community Services District - Moonstone Beach Drive area
- The Cambria County Water District
- The Cambria Fire Protection District
- The Cambria Garbage Disposal District
- San Luis Obispo County Service Area No. 6 - Street lighting Service

The incorporation of the Fire Protection District allowed the District to receive property tax as general fund revenue.

The District is a political subdivision of the State of California and operates under a Board of Directors-Manager form of government. A five member Board of Directors who serves four-year terms governs it. The District boundary has a population of 6,300 residents. Tourism in the summer months and on holiday weekends creates seasonal increases in the population.

Fiscal Year 2004/2005 Financial Highlights

| | <u>Governmental Activities</u> | | <u>Business-type Activities</u> | |
|------------|--------------------------------|------------|---------------------------------|------------|
| Net Assets | \$ | 23,958,655 | \$ | 20,608,256 |
| Revenues | \$ | 4,712,146 | \$ | 3,927,562 |
| Expenses | \$ | 3,601,593 | \$ | 4,626,915 |
| Results | \$ | 1,110,553 | \$ | (699,353) |

Results indicate an excess of revenues over expenses for governmental activities and a deficit for the business-type activities. The water and wastewater fund combined have a \$699,353 deficit. The expenditures in the governmental fund excludes depreciation but includes principal and interest on debt service. Total depreciation for the business-type activities is \$1,058,711.

The largest component of the net assets balance is invested in capital assets net of accumulated depreciation. Net assets serve over time as an indicator of an entity's financial condition. Results above display a revenue stream unable to cover the cost of depreciation of assets.

For the fiscal year ending June 30, 2005, water and sewer had increases in depreciable and non-depreciable asset expenditures of \$2,472,370. The expenditure figure for the general fund was an increase of \$644,486.

In the water fund expenditures for Water Master Plan, Pine Knolls Tank, East West Pipeline, Build Out Reduction, and Meter Replacement Program, accounted for most of the asset increase.

Enterprise revenues for the 2004 / 2005 period were \$129,540 less than the 2003 / 2004 period. The decrease is the result of rate surcharge imposed July 1, 2004 for two billing periods. The District monitors well levels, which dropped due to lack of rain allowing well replenishment. A heavy rainfall in late fall and early winter enabled the District to lift the surcharge effective November 1, 2004. The customer base is not expanding due lack of development resulting from the water moratorium.

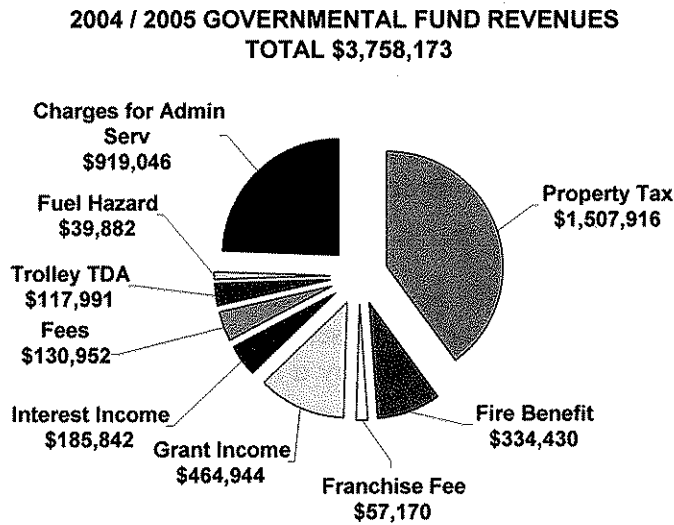
Enterprise fund expenses include depreciation expense, which is not included in the rate structure. General government includes Cross Town Trail expenses incurred that will be reimbursed by Chevron at a later date.

General government revenues for the 2004 / 2005 year were \$4,712,146 or an increase of \$221,535 over the 2003 / 2004 fiscal year. The largest sources of revenue were property taxes, grants, and fire benefit assessment.

A source of revenue for the general government is charging other departments for administrative services. General government received \$919,046 from the water and sewer departments for the 2004 / 2005 year.

Increased property tax revenue and interest income offset reductions in grant revenue accounted for the increase in 04 / 05. Property values in Cambria followed the housing burst nationwide. This was reflected in higher tax revenue due to housing sales. Chevron settlement funds are the reason interest income was higher.

The following graph displays the sources of revenue by type of revenue:



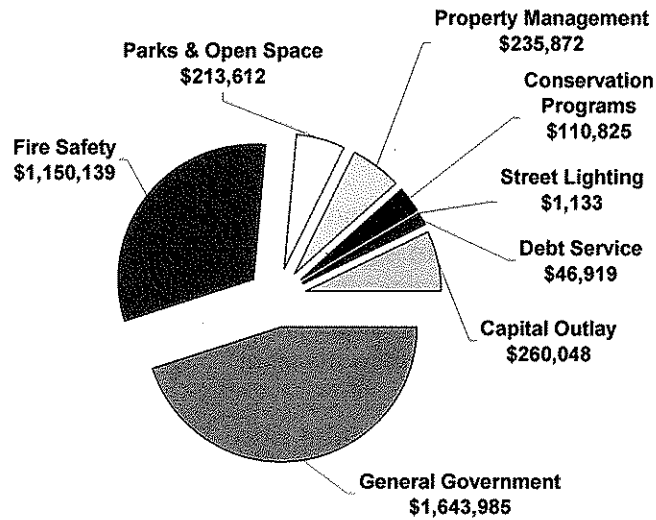
Property tax revenue and grant revenue increased in the 04 / 05 period. Interest income also increased due to the Chevron settlement. The 04 / 05 period had a full year of interest earning on the settlement. In addition, deposits earned a higher rate of return in 2004 / 2005 compared to the previous year.

General fund total expenditures for the 2004 / 2005 year were \$3,662,533. This is a decrease of \$644,486 over the 2003 / 2004 period. The administrative cost of managing the District is the largest cost. The other is the cost of providing fire safety and related fire department activities. The function cost does not include administrative overhead allocated to the functions.

Capital outlay decrease is due to the Cross Town Trail. The 2003 / 2004 period had the majority of the Trail expenses.

The following graph indicates expenditures by function.

**2004 / 2005 GOVERNMENTAL EXPENDITURES BY FUNCTION
TOTAL \$3,662,533**



Chevron MtBE Litigation

In October 2003, the District and Chevron reached an agreement culminating a legal struggle that began in 2000. The issue was MtBE groundwater contamination in the potable water supply for the residents of Cambria. The settlement amount was \$9,100,000, and split as follows - \$8.4million water contamination; \$700,000 donation to the Cross Town Trail. The trail donation is paid over four years.

Net settlement after litigation fees was \$6,554,000, and was received by wire transfer on December 15, 2003. Of the total settlement, \$1,231,319 reimbursed the water department and the balance went to the general fund.

The District received a \$1,520,710 loan from the Department of Health Services to construct a well, SR-4, at the high school. The loan is non-interest bearing with repayment dependant on the outcome to the litigation with Chevron. The loan is a liability on the water fund financial statements.

The District has made contact with the Department of Health Services regarding the loan. The agreement with the high school is a ten year lease, which expires June 30, 2010. It is possible the well will need to be re-located at expiration of the lease. The District hopes

the Department of Health Services will allow the District to keep the funds as contingency for the re-location.

Property Tax

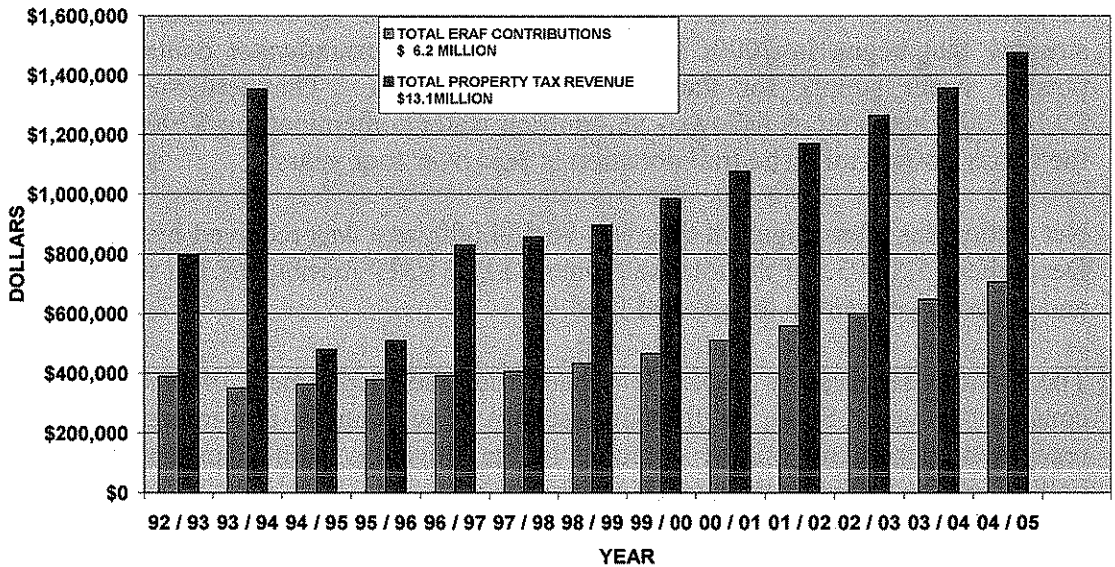
As the general government revenue chart indicates, the District received \$1,507,916 in property tax revenue for the 2004 / 2005 year. The fire department is the largest recipient of the tax revenue.

Other departments that receive a portion of the property tax revenue are property management, parks & recreation, and administration.

Since 1992, the District has made contributions to the Educational Revenue Augmentation Fund (ERAF). In 1992, the State of California initiated a revenue take away program from cities, counties, and special districts to help balance the state budget. The District contribution to the fund since 1992 is \$6.2 million, or approximately one-third of the tax revenue reverts to the state.

The graph below depicts the contribution since 1992. Property tax revenue does increase each year as property values increase. This also results in a corresponding increase in the ERAF contribution.

PROPERTY TAX / ERAF 1992- 2005



Reserves

The District reserves are on deposit with the State Treasurer's Office. It is a pooled money investment account under Local Agency Investment Fund (LAIF). At year-end June 30, 2005, the balance in the account was \$10,894,323.

A three-year summary of the reserve balance in LAIF is as follows:

| | |
|-----------------|--------------|
| ➤ June 30, 2003 | \$10,820,163 |
| ➤ June 30, 2004 | \$12,989,202 |
| ➤ June 30, 2005 | \$10,894,323 |

Reserves in LAIF dropped \$2,094,879 in the fiscal year-end June 30, 2005. And the enterprise funds are in a deficit position. These financial developments caused the auditor to insert note 11 in the audit report.

To address the crunch between increase costs and stable revenue, the District is sending out a request for proposal on a comprehensive water and wastewater rate and user fee study.

LAIF serves as a savings account for the District. Funds are transferred in and out based on cash flow requirements.

The Chevron settlement funds were transferred to LAIF and are included in the year-end balance. Included in the balance is a loan due to the Department of Health Services of \$1,520,710. The Department of Health Services loaned the District the funds to construct a replacement well, SR 4, due to the MtBE contamination.

The average yield for the 2004 / 2005 year was 2.85%.

Investment Policy

The District has an investment policy. All District surplus funds are invested with the State Treasurer or LAIF.

Basic Financial Statements

The basic financial statements of the District are grouped into three categories.

- Government – wide financial statements
- Fund financial statements
- Notes to the basic financial statements

Government-wide Financial Statements

These statements display financial information about the reporting governmental entity as a whole. It includes the general government activities and enterprise or business type activities. General government activity includes the following functions:

- Fire Department
- Administration
- Property Management
- Parks & Open Space

The four general government functions have a number of activities. The fire department has the Fuel Hazard Reduction Program and Ocean Surf Rescue. Under the auspices of the administration function is the trolley service, franchise fees, and assessments. Property management includes open space on East / West Ranch, Vets Hall, public restrooms, and ranch houses.

Effective July 1, 2005, the Regional Transit Authority assumed responsibility for the trolley service in Cambria.

The largest asset in general government is the East West Ranch land with a value of \$11,153,350. A number of funding sources were used to acquire the land. The District contributed \$2 million toward the purchase. Private donations contributed \$1,125,000 and the Land Conservancy the balance.

The enterprise activity is the water and sewer departments.

Fund Financial Statements

The accounting system of the District is organized and operated on a fund basis. A fund is considered a separate self-balancing entity with assets, liabilities, fund equity, revenues, and expenditures/expenses.

The basis of accounting depends on the fund. Basis of accounting refers to “when” revenues and expenses are recognized in the accounts and reported in the financial statements.

Governmental funds use the modified – accrual basis of accounting. Revenues are recognized when measurable and available as net current assets. Measurable means the amounts can be estimated or determined. Available means the amounts were collected during the reporting period or soon enough to finance the expenditures accrued for the reporting period.

Enterprise or business-like funds use the accrual basis of accounting. Revenues, expenses, assets and liabilities are recognized when the event happens.

Long Term Debt

At fiscal year end June 30, 2005, the District had long-term outstanding debt of \$5,945,482 in water and sewer. Following is the detail of each debt item in the enterprise funds:

| | <u>Water</u> | <u>Sewer</u> | <u>Interest Rate</u> | <u>Maturity</u> | <u>Issue Date</u> |
|----|--------------|--------------|----------------------|-----------------|-------------------|
| 1. | \$1,527,500 | | 4.9% / 6% | May 2015 | 1995 |
| 2. | | \$ 822,500 | 4.9% / 6% | May 2015 | 1995 |
| 3. | | \$1,985,000 | 5.1% / 5.7% | October 2024 | 1999 |
| 4. | | \$1,610,482 | 3.0% | May 2016 | 1996 |

Items 1 & 2 are Revenue Bonds for the original water and sewer infrastructure when the District was formed. It is a refinance of Farmer Home Loan debt.

Item 3 is a Revenue Bond to pay for the upgrade to the wastewater treatment plant bringing plant capacity to one million gallon per day treatment capability.

Item 4 is a 3.0% note from the State Water Resources Control Board under the State Revolving Fund Loan Program. It was to also used to fund the upgrade to the wastewater treatment plant.

The Revenue Bonds have a coverage ratio of 1.10. Under the terms of the debt structure, the District covenants it will charge fees for services to provide sufficient coverage.

At fiscal year end June 30, 2005, the District had long-term debt of \$323,229 in general governmental activities. General fund debt is \$129,222 for the fire tender and \$194,007 for compensated balances.

The District entered into a lease purchase agreement for a Pierce Fire Tender in 2002. The District is responsible for the payments but is reimbursed by Chevron. It is part of the MtBE settlement between the District and Chevron. The lease payment agreement is for five years.

Except for compensated balances there were no additions to long term liabilities in the 2004/2005 fiscal year. The following table provides a reconciliation of the debt activity for the fiscal year for the enterprise funds:

| | <u>Balance</u> <u>July 1, 2004</u> | <u>Additions</u> | <u>Reductions</u> | <u>Balance</u> <u>June 30, 2005</u> |
|---------------------|---------------------------------------|------------------|-------------------|--|
| Water Revenue Bonds | \$1,644,500 | \$ 0 | \$117,000 | \$1,527,500 |
| Sewer Revenue Bonds | \$2,925,500 | \$ 0 | \$118,000 | \$2,807,500 |

| | | | | |
|----------------------|--------------------|-------------|------------------|--------------------|
| Sewer SWCRB Loan | \$1,732,562 | \$ 0 | \$122,080 | \$1,610,482 |
| Compensated Balances | <u>\$ 85,527</u> | <u>\$ 0</u> | <u>\$ 1,838</u> | <u>\$ 83,689</u> |
| Totals | <u>\$6,388,089</u> | <u>\$ 0</u> | <u>\$359,418</u> | <u>\$6,029,171</u> |

The following table provides a reconciliation of debt activity for the general fund. The addition to the debt activity was compensated balances.

| | <u>Balance</u> <u>July 1, 2004</u> | <u>Additions</u> | <u>Reductions</u> | <u>Balance</u> <u>June 30, 2005</u> |
|----------------------|---------------------------------------|------------------|-------------------|--|
| Capital Lease | \$168,717 | \$ 0 | \$39,495 | \$129,222 |
| Compensated Balances | <u>\$158,208</u> | <u>\$35,799</u> | <u>\$ 0</u> | <u>\$194,007</u> |
| Totals | <u>\$326,925</u> | <u>\$35,799</u> | <u>\$39,495</u> | <u>\$323,229</u> |

Compensated balances are the employee accumulated sick and vacation leave. District policy allows employees to accumulate earned but unused vacation and sick pay. Unused vacation and sick leave are paid at termination of employment. One half of sick leave is paid up to maximum of 320 hours. Accrued leave balances are an obligation of the District. Under new reporting requirements this is part of long term liabilities.

Operating Budget

On May 27, 2004, the District adopted a two-year budget for the July 1, 2004 to June 30, 2006 fiscal years.

A mid-year budget review was presented on January 27, 2005. The review amended the budget for the year-end June 2005 and June 2006

Management objectives in the 2004 - 2006 budget process were as follows:

- To produce a document that meets the evolving needs of the District considering the constraints of increasingly limited resources.
- Department managers identified priority maintenance and repair issues, staffing needs, and began to address the issue of replacement of aging fleet vehicles and equipment.
- Clear separation between operating and infrastructure activity.
- Identify levels of services and implement a cost recovery fee structure.

A workshop is also held with the Executive Committee of the Board summarizing the department requests status of the budget. This provides an opportunity for the Board to give direction on program and policy issues to either include or exclude from the budget process.

In addition to the mid year review, quarterly budget status reports are prepared and reviewed with each department head. The monitoring process does not focus on line item or category totals. Shifts can be made internally, provided the total approved budget does not increase.

Budget Highlights

A 5.5% rate increase was implemented on September 2002 and September 2003. The rate adjustments were the first rate adjustments since September 1992, or a ten year span with no revenue enhancements.

Effective January 1, 2003, the sewer rate went from a fixed rate to one based on volume. A customer's sewer charge was based on the volume of water that flowed through the meter and consequently into the sewer system. The rate per unit of water was \$1.50 and increased to \$1.60 in July 2003.

In July 2003, the District adopted Ordinance 02-2003 setting a revised fee schedule as well as establishing new fees for services. The fee schedule in use had not kept pace with the cost of providing service. New fees were established to cover the cost of services the District was providing and not collecting.

On June 19, 2003, the residents of Cambria voted to extend the Fire Benefit Assessment. The process was a mail-in ballot with a majority of the votes needed to pass. Resolution 27-2003 confirmed the assessment and vote tally. The final tally was 74% yes and 26% no.

The assessment is placed on the tax roll each year and supports the operations of the fire department. The assessment increases each year per the Los Angeles, Anaheim and Riverside consumer Price Index. The assessment generated \$334,430 for the year-end June 30, 2005.

Other items impacting the 2004 - 2006 budget were as follows:

- Two additional Fire Engineers
- No rate increases
- No new customers due to the water moratorium
- Completed the conversion of the parcel land data base
- District wide computer and network upgrade
- Decreases in workers' compensation rates
- Increases in health cost and retirement rates
- Deferred maintenance in water and wastewater
- Reserves needed to balance enterprise funds
- Replacement reserves

A general fund function comparison between the adopted budget, amended budget, and operating results for the year-end June 30, 2005 is shown below. The budget was adopted on May 2004, and amended at the mid-year review done January 2005.

| | <u>Adopted</u> | <u>Amended</u> | <u>Actual</u> | <u>Variance</u> |
|--|----------------|----------------|---------------|-----------------|
| Revenues | \$2,999,185 | \$3,278,440 | \$3,758,173 | \$ 479,733 |
| Expenditures | | | | |
| General Government | 1,578,371 | 1,541,726 | 1,643,985 | (102,259) |
| Public Safety | 1,087,324 | 1,023,873 | 1,150,139 | (126,266) |
| Street Lighting | 0 | 0 | 1,133 | (1,133) |
| Park & Recreation | 30,900 | 104,259 | 213,612 | (109,353) |
| Facilities Mgmt | 204,108 | 221,660 | 235,872 | (14,212) |
| Conservation Program | 162,696 | 120,472 | 110,825 | 9,647 |
| Capital Outlay | 2,800 | 187,037 | 260,048 | (73,011) |
| Debt Service | 39,420 | 39,420 | 46,919 | (7,499) |
| Total Expenditures | 3,105,619 | 3,238,447 | 3,662,533 | (424,086) |
| Excess revenues over (under) expenditures | \$ (106,434) | \$ 39,993 | \$ 95,640 | \$ 55,647 |

As holds true for most governmental agencies aging vehicles, equipment, and infrastructure are ever looming on the horizon. Funding the needs of government to continue to provide not only a high level of service but service. And this is true for the District.

Budget to Actual Variances

General fund revenue was higher due to passage of Prop 1A and grant revenue. Passage of Prop 1A enabled the District to retain the increase tax revenue due to property value increases. Prior to the passage of Prop 1A, the state took a proportionate share of the increase in tax revenue.

The increase in property tax revenue provided funding for 24/7 coverage at the Fire Station. It also provided funding for recreational services to the Cambria Community Center and overall upgrade and replacement of equipment.

Facilities management has added the responsibility of maintaining more open space. The District acquired a number of lots from the Land Conservancy under various programs administered by the conservancy. They are deeded to the District with a conservation easement and must be maintained.

Parks and recreation has received four grants allowing for additional open space, trails, and recreational facilities. The four grants are Per Capita, Bluff Trail, Santa Rosa Stream bank Restoration, and Guthrie-Bianchini.

Effective September 1, 2004, the District joined the Special District Risk Management (SDRMA) Workers' Compensation Pool. Participating in the SDRMA pool realized significant savings in the cost of providing workers' comp coverage.

Capital Improvement Program

The Capital Improvement Budget is a plan of infrastructure improvements to the delivery of water to residents and the collection of waste to the sewer treatment plant. The District collects revenues that are designated for infrastructure improvements. For the year-end June 30, 2005, the following revenues were collected for the improvement program:

- Water Availability \$174,941
- Water Connection Fees \$114,121
- Sewer Availability \$113,558
- Sewer Connection Fees \$ 22,264
- Retrofit In-Lieu Fees \$ 26,550

A number of priority projects have been identified and District staff has been focusing time and outside resources on the projects. A listing of the projects is as follows:

- Pine Knolls Water Storage Tank
- 30% Design Seawater Desalination
- Bio-Solids De-Watering
- Built Out Reduction
- Water Master Plan
- Meter Replacement Program
- Stuart Street Tank / Booster Pump
- SCADA (Supervisory Control and Data Acquisition)

The Build Out Reduction Program is the nexus to the seawater desalination project. It caps development in Cambria by a lot retirement program. The District has finalized a Project Cooperation Agreement with the Army Corp of Engineers to acquire a \$10.3 million grant from the federal government to build the desalination plant.

The estimated costs of the above projects far exceeds the revenues listed above, which puts a strain on reserves. Progress work is funded from existing reserves and the Chevron settlement funds.

The East West Ranch Pipeline project was completed in July 2005. It likewise was funded from the Chevron settlement.

Water storage is critical as it impacts the District's ability to combat a fire. The District currently has four storage tanks with a combined storage capacity of 983,000 gallons. All are 30 – 40 years old and do not meet current seismic standards.

The Pine Knolls tank has a design capacity of 1million gallons. District analysis estimates Cambria needs a storage capacity of at least 2.4million gallons to adequately fight a fire with sufficient water pressure.

Economic Factors

Two significant factors impact the financial strength of the District. They are:

- Minimal impact or development fee revenue
- Stagnate customer base

Cambria is a residential coastal community and does not have any industry. Commercial activity serves predominately the tourist trade. Impact fee revenue would be generated from new housing and retail as well as visitor serving commercial activity.

Section 350

In late 2000, the District declared a Stage 3 Water Shortage Emergency. This stopped all development allowing only open intent to serve letters to hook up to the water and sewer system. It plugged a financial source of revenue for capital improvement projects.

The District no longer received connection and retro-fit in lieu fee revenue. These are a major source of funding for infrastructure projects. Until such time as a water project is online, little revenue will be generated. The funding source for immediate projects is the Chevron settlement money.

The customer base has not grown. As of June 30, 2005, the District had 3,989 water customer accounts. The water customer count as of June 30, 2002, was 3,946 or an increase of 43 customers over a three-year span. With no increase in the customer base, sales revenue can only increase by rate adjustments.

Labor Costs

Labor costs account for approximately 50% of the District operating costs. Rising costs of providing health care coverage and retirement contribute to increased labor cost. The District has two labor unions currently operating under a two-year agreement. The union agreements expire June 30, 2006.

The Section 350 Water Moratorium, increased operating costs, and deferred maintenance put a revenue squeeze on the District. The revenue squeeze likewise makes it difficult to raise funds in the open market to fund improvement projects.

Future funding needs for general government functions are replacing aging fire engines, District office re-location, expanding the fire station, and ongoing equipment and technology upgrades.

CAMBRIA COMMUNITY SERVICES DISTRICT

STATEMENT OF NET ASSETS

June 30, 2005

| | Governmental Activities | Business -type Activities | Total |
|---|----------------------------|------------------------------|----------------------|
| ASSETS | | | |
| Cash and investments | \$ 8,340,086 | \$ 2,427,867 | \$ 10,767,953 |
| Receivables: | | | |
| Interest | 49,164 | 30,191 | 79,355 |
| Taxes | 68,260 | | 68,260 |
| Note | 140,757 | | 140,757 |
| Other | 120,837 | 533,855 | 654,692 |
| Prepaid costs | 2,000 | | 2,000 |
| Inventory | 2,074 | | 2,074 |
| Temporarily restricted: | | | |
| Cash and investments | | 434,752 | 434,752 |
| Capital assets: | | | |
| Nondepreciable | 14,265,246 | 7,866,855 | 22,132,101 |
| Depreciable, net | 1,502,094 | 16,928,751 | 18,430,845 |
| Bond issuance costs, net of accumulated amortization | | 438,308 | 438,308 |
| Total assets | 24,490,518 | 28,660,579 | 53,151,097 |
| LIABILITIES | | | |
| Accounts payable | 127,735 | 414,870 | 542,605 |
| Accrued wages | 76,402 | 10,467 | 86,869 |
| Accrued interest payable | | 44,172 | 44,172 |
| Department of Health Services payable | | 1,520,711 | 1,520,711 |
| Refundable deposits | 4,497 | 32,932 | 37,429 |
| Long-term debt: | | | |
| Due in one year | 41,233 | 370,742 | 411,975 |
| Due in more than one year | 281,996 | 5,658,429 | 5,940,425 |
| Total liabilities | 531,863 | 8,052,323 | 8,584,186 |
| NET ASSETS | | | |
| Invested in capital assets, net of related debt | 15,638,118 | 17,767,721 | 33,405,839 |
| Restricted for: | | | |
| Restricted for debt service | | 390,580 | 390,580 |
| Unrestricted | 8,320,537 | 2,449,955 | 10,770,492 |
| Total net assets | \$ 23,958,655 | \$ 20,608,256 | \$ 44,566,911 |

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

CAMBRIA COMMUNITY SERVICES DISTRICT
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2005

| | <u>Expenses</u> | <u>Charges for Services</u> | <u>Program Revenues Operating Contributions and Grants</u> |
|---------------------------------------|---------------------|---------------------------------|--|
| Governmental activities: | | | |
| General government | \$ 1,765,511 | \$ 919,046 | \$ 582,935 |
| Public safety | 1,233,404 | 39,882 | |
| Parks and recreation | 215,162 | | |
| Facilities Management | 262,585 | | |
| Conservation program | 115,063 | | |
| Street lighting | 2,444 | | |
| Interest on long-term debt | 7,424 | | |
| Total governmental activities | <u>3,601,593</u> | <u>958,928</u> | <u>582,935</u> |
| Business-type activities: | | | |
| Water | 2,351,842 | 1,739,514 | |
| Sewer | 2,275,073 | 1,631,703 | |
| Total business-type activities | <u>4,626,915</u> | <u>3,371,217</u> | |
| Total government | <u>\$ 8,228,508</u> | <u>\$ 4,330,145</u> | <u>\$ 582,935</u> |

General Revenues

Taxes:

Property taxes and assessments

Availability charges

Franchise taxes

Investment income

Other

Total general revenues

Change in net assets

Net assets at beginning of fiscal year

Net assets at end of fiscal year

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

| Capital Contributions and Grants | Net (Expense) Revenue and Changes in Net Assets | | |
|--|---|-----------------------------|----------------------|
| | Governmental Activities | Business-type Activities | Total |
| \$ 1,000,892 | \$ 737,362 | \$ - | \$ 737,362 |
| | (1,193,522) | | (1,193,522) |
| | (215,162) | | (215,162) |
| | (262,585) | | (262,585) |
| | (115,063) | | (115,063) |
| | (2,444) | | (2,444) |
| | (7,424) | | (7,424) |
| <u>1,000,892</u> | <u>(1,058,838)</u> | | <u>(1,058,838)</u> |
| 140,671 | | (471,657) | (471,657) |
| 22,264 | | (621,106) | (621,106) |
| <u>162,935</u> | | <u>(1,092,763)</u> | <u>(1,092,763)</u> |
| <u>\$ 1,163,827</u> | <u>(1,058,838)</u> | <u>(1,092,763)</u> | <u>(2,151,601)</u> |
| | 1,842,346 | | 1,842,346 |
| | | 288,499 | 288,499 |
| | 57,170 | | 57,170 |
| | 185,842 | 104,911 | 290,753 |
| | 84,033 | | 84,033 |
| | <u>2,169,391</u> | <u>393,410</u> | <u>2,562,801</u> |
| | 1,110,553 | (699,353) | 411,200 |
| | <u>22,848,102</u> | <u>21,307,609</u> | <u>44,155,711</u> |
| | <u>\$ 23,958,655</u> | <u>\$ 20,608,256</u> | <u>\$ 44,566,911</u> |

CAMBRIA COMMUNITY SERVICES DISTRICT
BALANCE SHEET
GOVERNMENTAL FUND
June 30, 2005

| | <u>General Fund</u> |
|-------------------------------------|-------------------------|
| ASSETS | |
| Cash and investments | \$ 8,340,086 |
| Receivables: | |
| Interest | 49,164 |
| Taxes | 68,260 |
| Note | 140,757 |
| Other | 120,837 |
| Prepaid items | 2,000 |
| Inventory | <u>2,074</u> |
| Total assets | <u>\$ 8,723,178</u> |
| LIABILITIES AND FUND BALANCE | |
| Accounts payable | \$ 127,735 |
| Payroll and related liabilities | 76,402 |
| Deferred revenue | 93,838 |
| Refundable deposits | <u>4,497</u> |
| Total liabilities | <u>302,472</u> |
| Fund Balance | |
| Fund Balance: | |
| Reserved: | |
| Reserved for inventory | 2,074 |
| Reserved for prepaid items | 2,000 |
| Unreserved: | |
| Designated for capital projects | 139,420 |
| Undesignated | <u>8,277,212</u> |
| Total fund balance | <u>8,420,706</u> |
| Total liabilities and fund balance | <u>\$ 8,723,178</u> |

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

CAMBRIA COMMUNITY SERVICES DISTRICT
RECONCILIATION OF THE GOVERNMENTAL
FUND BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
June 30, 2005

| | | |
|--------------------|----|-----------|
| Total Fund Balance | \$ | 8,420,706 |
|--------------------|----|-----------|

Amounts reported for governmental activities in the statement of net assets are different because:

| | |
|--|------------|
| Capital assets, net of depreciation, have been included as financial resources in governmental funds activity: | 15,767,340 |
|--|------------|

Long term debt and compensated absences have not been included in the governmental funds activity:

| | |
|-----------------------|-----------|
| Capital lease payable | (129,222) |
| Compensated absences | (194,007) |

In governmental funds, other long-term assets are not available to pay expenditures, therefore, are deferred in the funds.

| |
|---------------|
| <u>93,838</u> |
|---------------|

| | | |
|------------------|----|--------------------------|
| Total net assets | \$ | <u><u>23,958,655</u></u> |
|------------------|----|--------------------------|

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

CAMBRIA COMMUNITY SERVICES DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND TYPE
For the Fiscal Year Ended June 30, 2005

| | <u>General Fund</u> |
|---|----------------------------|
| Revenues: | |
| Property taxes and assessments | \$ 1,842,346 |
| Transit TDA grant | 117,991 |
| Grant income | 464,944 |
| Weed abatement | 39,882 |
| Franchise fees | 57,170 |
| Use of money and property | 185,842 |
| Charges for administrative services | 919,046 |
| Other revenues | <u>130,952</u> |
| Total revenues | <u>3,758,173</u> |
| Expenditures: | |
| General government | 1,643,985 |
| Public safety | 1,150,139 |
| Street lighting | 1,133 |
| Parks and recreation | 213,612 |
| Facilities management | 235,872 |
| Conservation program | 110,825 |
| Capital outlay | 260,048 |
| Debt service: | |
| Principal retirement | 39,495 |
| Interest | <u>7,424</u> |
| Total expenditures | <u>3,662,533</u> |
| Excess of revenues over (under) expenditures | 95,640 |
| Fund balance - beginning of fiscal year | <u>8,325,066</u> |
| Fund balance - end of fiscal year | <u><u>\$ 8,420,706</u></u> |

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

CAMBRIA COMMUNITY SERVICES DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUND STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
TO THE STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2005

| | |
|---|----------------------------|
| Net Change in Fund Balance - governmental fund | \$ 95,640 |
| <p>Amounts reported for governmental activities in the statement of activities are different because:</p> | |
| <p>Repayment of capital lease principal is an expenditure in the governmental funds, but the repayment reduces long term liabilities in the statement of net assets.</p> | 39,495 |
| <p>In the statement of activities, compensated absences are measured by the amounts earned during the fiscal year. In governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially the amounts paid). This fiscal year, vacation earned was more than the amounts used by \$35,799.</p> | (35,799) |
| <p>In governmental funds, notes receivable are offset by deferred revenue as it is not available to pay for current period expenditures. In the statement of activities, the payment on the long-term notes are recorded as a reduction in the net asset.</p> | (46,919) |
| <p>Capital outlays are reported in the governmental funds 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 additions to capital outlay of \$1,220,598 is greater than depreciation expense \$(162,462) in the period.</p> | <u>1,058,136</u> |
| <p>Change in net assets</p> | <u><u>\$ 1,110,553</u></u> |

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

CAMBRIA COMMUNITY SERVICES DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
GENERAL FUND
For Fiscal Year Ended June 30, 2005

| | Budgeted Amounts | | Actual Amounts Budgetary Basis | Variance Favorable (Unfavorable) |
|---|---------------------|---------------------|-----------------------------------|--|
| | Original | Final | | |
| Revenues: | | | | |
| Property taxes and assessments | \$ 1,458,230 | \$ 1,747,719 | \$ 1,842,346 | \$ 94,627 |
| Transit TDA grant | 122,200 | 122,200 | 117,991 | (4,209) |
| Grant income | | 45,997 | 464,944 | 418,947 |
| Weed abatement | 37,900 | 39,882 | 39,882 | |
| Franchise fees | 56,350 | 56,350 | 57,170 | 820 |
| Use of money and property | 125,200 | 114,758 | 185,842 | 71,084 |
| Charges for administrative services | 907,095 | 859,324 | 919,046 | 59,722 |
| Other revenues | 292,210 | 292,210 | 130,952 | (161,258) |
| Total revenues | 2,999,185 | 3,278,440 | 3,758,173 | 479,733 |
| Expenditures: | | | | |
| General government | 1,578,371 | 1,541,726 | 1,643,985 | (102,259) |
| Public safety | 1,087,324 | 1,023,873 | 1,150,139 | (126,266) |
| Street lighting | | | 1,133 | (1,133) |
| Parks and recreation | 30,900 | 104,259 | 213,612 | (109,353) |
| Facilities management | 204,108 | 221,660 | 235,872 | (14,212) |
| Conservation program | 162,696 | 120,472 | 110,825 | 9,647 |
| Capital outlay | 2,800 | 187,037 | 260,048 | (73,011) |
| Debt service: | | | | |
| Principal retirement | 39,420 | 39,420 | 39,495 | (75) |
| Interest | | | 7,424 | (7,424) |
| Total expenditures | 3,105,619 | 3,238,447 | 3,662,533 | (424,086) |
| Excess of revenues over (under) expenditures | (106,434) | 39,993 | 95,640 | 55,647 |
| Fund balance - beginning of fiscal year | 8,325,066 | 8,325,066 | 8,325,066 | |
| Fund balance - end of fiscal year | <u>\$ 8,218,632</u> | <u>\$ 8,365,059</u> | <u>\$ 8,420,706</u> | <u>\$ 55,647</u> |

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

CAMBRIA COMMUNITY SERVICES DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2005

| | Business-type Activities | | Totals |
|---|--------------------------|---------------------|---------------------|
| | Enterprise Funds | | |
| | Water Fund | Wastewater Fund | |
| ASSETS | | | |
| Current Assets: | | | |
| Cash and investments | \$ 2,427,867 | \$ - | \$ 2,427,867 |
| Accrued interest receivable | 30,191 | | 30,191 |
| Accounts receivable, net of allowance | 241,307 | 292,548 | 533,855 |
| Due from other funds | 52,622 | | 52,622 |
| Total current assets | <u>2,751,987</u> | <u>292,548</u> | <u>3,044,535</u> |
| Restricted Assets: | | | |
| Cash and investments with fiscal agent | <u>274,456</u> | <u>160,296</u> | <u>434,752</u> |
| Total restricted assets | <u>274,456</u> | <u>160,296</u> | <u>434,752</u> |
| Capital Assets: | | | |
| Construction in progress | 5,746,584 | 298,844 | 6,045,428 |
| Land | 812,416 | 1,009,011 | 1,821,427 |
| Plant and facilities | 13,015,502 | 22,708,040 | 35,723,542 |
| Machinery and equipment | 471,431 | 850,432 | 1,321,863 |
| Less: accumulated depreciation | <u>(7,235,764)</u> | <u>(12,880,890)</u> | <u>(20,116,654)</u> |
| Net capital assets | <u>12,810,169</u> | <u>11,985,437</u> | <u>24,795,606</u> |
| Other Assets: | | | |
| Bond issuance costs - net of accumulated amortization | <u>183,914</u> | <u>254,394</u> | <u>438,308</u> |
| Total assets | <u>16,020,526</u> | <u>12,692,675</u> | <u>28,713,201</u> |

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

CAMBRIA COMMUNITY SERVICES DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2005

| | Business-type Activities | | |
|---|--------------------------|---------------------|----------------------|
| | Enterprise Funds | | |
| | Water Fund | Wastewater Fund | Totals |
| LIABILITIES | | | |
| Current Liabilities: | | | |
| Accounts payable | \$ 355,497 | \$ 59,373 | \$ 414,870 |
| Payroll and related items | 4,016 | 6,451 | 10,467 |
| Accrued interest payable | 14,492 | 29,680 | 44,172 |
| Department of Health Services payable | 1,520,711 | | 1,520,711 |
| Deposits | 32,932 | | 32,932 |
| Due to other funds | | 52,622 | 52,622 |
| Compensated absences | 38,107 | 45,582 | 83,689 |
| Current portion of long-term liabilities | 120,250 | 250,492 | 370,742 |
| Total current liabilities | 2,086,005 | 444,200 | 2,530,205 |
| Noncurrent Liabilities: | | | |
| Note payable, less current portion | | 1,484,740 | 1,484,740 |
| Bonds payable, less current portion | 1,407,250 | 2,682,750 | 4,090,000 |
| Total noncurrent liabilities | 1,407,250 | 4,167,490 | 5,574,740 |
| Total liabilities | 3,493,255 | 4,611,690 | 8,104,945 |
| Net Assets | | | |
| Invested in capital assets, net of related debt | 9,945,872 | 7,821,849 | 17,767,721 |
| Restricted for debt service | 259,964 | 130,616 | 390,580 |
| Unrestricted | 2,321,435 | 128,520 | 2,449,955 |
| Total net assets | \$ 12,527,271 | \$ 8,080,985 | \$ 20,608,256 |

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

CAMBRIA COMMUNITY SERVICES DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2005

| | Business-type Activities | | Totals |
|--|--------------------------|---------------------|----------------------|
| | Enterprise Funds | | |
| | Water Fund | Wastewater Fund | |
| Operating Revenues: | | | |
| Utility sales | \$ 1,659,386 | \$ 1,631,343 | \$ 3,290,729 |
| Service charges and fees | 80,128 | 360 | 80,488 |
| Total operating revenues | <u>1,739,514</u> | <u>1,631,703</u> | <u>3,371,217</u> |
| Operating Expenses: | | | |
| Salaries and wages | 333,667 | 332,552 | 666,219 |
| Payroll taxes and benefits | 221,378 | 177,848 | 399,226 |
| Amortization | 18,454 | 18,006 | 36,460 |
| Maintenance and repairs | 148,544 | 158,924 | 307,468 |
| Office supplies, publications, and dues | 19,048 | 13,035 | 32,083 |
| Licenses and fees | 13,893 | 44,538 | 58,431 |
| Rent - equipment | 598 | 881 | 1,479 |
| Professional services | 296,706 | 146,641 | 443,347 |
| Operating supplies | 16,347 | 31,210 | 47,557 |
| Employee travel and training | 17,687 | 5,034 | 22,721 |
| Utilities | 96,472 | 166,198 | 262,670 |
| Bad debts | 12,833 | 14,975 | 27,808 |
| General and administrative overhead | 634,748 | 284,298 | 919,046 |
| Rebate | 37,400 | | 37,400 |
| Depreciation | 389,711 | 669,000 | 1,058,711 |
| Total operating expenses | <u>2,257,486</u> | <u>2,063,140</u> | <u>4,320,626</u> |
| Operating income (loss) | <u>(517,972)</u> | <u>(431,437)</u> | <u>(949,409)</u> |
| Non-Operating Income (Expenses): | | | |
| Interest income | 103,108 | 1,803 | 104,911 |
| Availability charges | 174,941 | 113,558 | 288,499 |
| Interest expense | (94,356) | (211,933) | (306,289) |
| Total non-operating revenues (expenses) | <u>183,693</u> | <u>(96,572)</u> | <u>87,121</u> |
| Net income (loss) before contributions | <u>(334,279)</u> | <u>(528,009)</u> | <u>(862,288)</u> |
| Capital contribution - connection fees | 140,671 | 22,264 | 162,935 |
| Change in net assets | <u>(193,608)</u> | <u>(505,745)</u> | <u>(699,353)</u> |
| Total net assets - beginning of fiscal year | <u>12,720,879</u> | <u>8,586,730</u> | <u>21,307,609</u> |
| Total net assets - end of fiscal year | <u>\$ 12,527,271</u> | <u>\$ 8,080,985</u> | <u>\$ 20,608,256</u> |

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

CAMBRIA COMMUNITY SERVICES DISTRICT
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2005

| | Business-type Activities | | |
|---|--------------------------|--------------------|---------------------|
| | Enterprise Funds | | |
| | Water Fund | Wastewater Fund | Totals |
| Cash Flows From Operating Activities | | | |
| Receipts from customers and users | \$ 1,779,033 | \$ 1,639,468 | \$ 3,418,501 |
| Payments to suppliers | (1,263,646) | (790,653) | (2,054,299) |
| Payments to employees | (576,484) | (524,146) | (1,100,630) |
| Net cash provided (used) by operating activities | <u>(61,097)</u> | <u>324,669</u> | <u>263,572</u> |
| Cash Flows from Capital and Related | | | |
| Financing Activities: | | | |
| Interest payments | (95,312) | (213,137) | (308,449) |
| Principal payments | (117,000) | (240,080) | (357,080) |
| Purchase of capital assets | (2,317,803) | (154,567) | (2,472,370) |
| Capital contributions | 140,671 | 22,264 | 162,935 |
| Net cash provided (used) by capital and related financing activities | <u>(2,389,444)</u> | <u>(585,520)</u> | <u>(2,974,964)</u> |
| Cash Flows from Non-Capital and Related | | | |
| Financing Activities: | | | |
| Availability charges | 174,941 | 113,558 | 288,499 |
| Net cash provided (used) by non-capital and related financing activities | <u>174,941</u> | <u>113,558</u> | <u>288,499</u> |
| Cash Flows from Investing Activities: | | | |
| Investment income | 96,607 | 20,007 | 116,614 |
| Net cash provided (used) by investing activities | <u>96,607</u> | <u>20,007</u> | <u>116,614</u> |
| Net increase (decrease) in cash and cash equivalents | (2,178,993) | (127,286) | (2,306,279) |
| Cash and cash equivalents, beginning of fiscal year | 4,881,316 | 287,582 | 5,168,898 |
| Cash and cash equivalents, end of fiscal year | <u>\$ 2,702,323</u> | <u>\$ 160,296</u> | <u>\$ 2,862,619</u> |
| Reconciliation to Statement of Net Assets: | | | |
| Cash and investments | \$ 2,427,867 | \$ - | \$ 2,427,867 |
| Cash and investments with fiscal agent | 274,456 | 160,296 | 434,752 |
| | <u>\$ 2,702,323</u> | <u>\$ 160,296</u> | <u>\$ 2,862,619</u> |
| Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) in Operating Activities: | | | |
| Operating income (loss) | \$ (517,972) | \$ (431,437) | \$ (949,409) |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities | | | |
| Depreciation | 389,711 | 669,000 | 1,058,711 |
| Amortization | 18,454 | 18,006 | 36,460 |
| Change in operating assets and liabilities: | | | |
| (Increase) decrease in due from other funds | (52,622) | | (52,622) |
| (Increase) decrease in accounts receivable | 41,657 | 7,765 | 49,422 |
| Increase (decrease) in deposits | (2,138) | | (2,138) |
| Increase (decrease) in accounts payable | 83,252 | 22,459 | 105,711 |
| Increase (decrease) in accrued payroll | (17,858) | (15,489) | (33,347) |
| Increase (decrease) in due to other funds | | 52,622 | 52,622 |
| Increase (decrease) in compensated absences | (3,581) | 1,743 | (1,838) |
| Net cash provided (used) by operating activities | <u>\$ (61,097)</u> | <u>\$ 324,669</u> | <u>\$ 263,572</u> |

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

NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Cambria Community Services District (District) is a multi-purpose special district established on December 9, 1976. The District is a political subdivision of the State of California and operates under a Board of Directors-Manager form of government. The District provides fire protection, street lighting, park, recreation, open space, water, wastewater, and general administrative services.

There are no component units included in this report, which meet the criteria of Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39.

B. Basis of Accounting, Measurement Focus, and Financial Statements Presentation

The *basic financial statements* of the District are composed of the following:

- Government-wide financial statements
- Fund financial statements
- Notes to the basic financial statements

Government-wide Financial Statements

Government-wide financial statements display information about the reporting government as a whole. These statements include separate columns for the governmental activities and business-type activities of the primary government (including its blended component units), as well as its discreetly presented component units. Eliminations have been made in The Statement of Activities so that certain allocated expenses are recorded only once (by the function to which they were allocated). However, general government expenses have not been allocated as indirect expenses to the various functions of the District.

Government-wide financial statements are presented using the *economic resources measurement focus* and the *accrual basis of accounting*. Under the economic resources measurement focus, all (both current and long-term) economic resources and obligations of the reporting government are reported in the government-wide financial statements. *Basis of accounting* refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Under the accrual basis of accounting, revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets, and liabilities resulting from nonexchange transaction are recognized in accordance with the requirements of GASB Statement No. 33.

Program revenues include charges for services, special assessments, and payments made by parties outside of the reporting government's citizenry if that money is restricted to a particular program. Program revenues are netted with program expenses in the statement of activities to present the net cost of each program.

Fund Financial Statements

The underlying accounting system of the District 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.

NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Fund financial statements for the primary government are presented after the government-wide financial statements. These statements display information about major funds individually and nonmajor funds in the aggregate for governmental and enterprise funds.

Governmental Funds

In the fund financial statements, governmental funds are presented using the *modified - accrual basis of accounting*. Their revenues are recognized when they become *measurable* and *available* as net current assets. *Measurable* means that the amounts can be estimated, or otherwise determined. *Available* means that the amounts were collected during the reporting period or soon enough thereafter to be available to finance the expenditures accrued for the reporting period. Revenue recognition is subject to the measurable and *availability* criteria for the governmental funds in the fund financial statements. *Exchange transactions* are recognized as revenues in the period in which they are earned (i.e., the related goods or services are provided). *Locally imposed derived tax revenues* are recognized as revenues in the period in which the underlying exchange transaction upon which they are based takes place. *Imposed nonexchange* transactions are recognized as revenues in the period for which they were imposed. If the period of use is not specified, they are recognized as revenues when an enforceable legal claim to the revenues arises or when they are received, whichever occurs first. *Government-mandated and voluntary nonexchange transactions* are recognized as revenues when all applicable eligibility requirements have been met.

In the fund financial statements, governmental funds are presented using the *current financial resources measurement focus*. This means that 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.

Non-current portions of long-term receivables due to governmental funds are reported on their balance sheets in spite of their spending measurement focus. Special reporting treatments are used to indicate, however, 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 non-current receivables are deferred until they become current receivables. Non-current portions of other long-term receivables are offset by fund balance reserve accounts. Because of their spending measurement focus, expenditure recognition for governmental fund types excludes amounts represented by noncurrent liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities.

Amounts expended to acquire capital assets are recorded as *expenditures* in the fiscal year that resources were expended, rather than as capital assets. The proceeds of long-term debt are recorded as an *other financing sources* rather than as a fund liability. Amounts paid to reduce long-term indebtedness are reported as fund expenditures.

When both restricted and unrestricted resources are combined in a fund, expenditures/expenses are considered to be paid first from restricted resources, and then from unrestricted resources.

The District reports the following major governmental fund:

The General Fund is the primary operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.

The District reports the following major proprietary funds:

The Water Fund accounts for the activities of the District’s water operations.

The Wastewater Fund accounts for activities of the District’s sewer operations.

CAMBRIA COMMUNITY SERVICES DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2005

NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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 proprietary funds' principal ongoing operations. The principal operating revenues of the Water and Wastewater Funds are charges to customers. Operating expenses for the Water and Wastewater Funds include non-capital expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

C. Investments

Investments are stated at fair value.

D. Capital Assets

Capital assets (including infrastructure) are recorded at cost where historical records are available and at estimated original cost where no historical records exist. Contributed capital assets are valued at their estimated fair value at the date of the contribution. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and estimated useful life in excess of two years.

Capital assets include public domain (infrastructure) capital assets consisting of certain improvements including roads, streets, sidewalks, medians, and storm drains.

Capital assets used in operations are depreciated over their estimated useful lives using the straight-line method in the applicable governmental or business-type activity column in the government-wide financial statements. Depreciation is charged as an expense against operations and accumulated depreciation is reported on the respective statement of net assets. The estimated useful lives are as follows:

| | |
|--------------|---------------|
| Equipment | 3 to 10 years |
| Improvements | 5 to 20 years |

E. Prepaid Items

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.

F. Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long term debt and other long term obligations are reported as liabilities in the applicable governmental activities or business-type activities fund type statement of net assets. In the fund financial statements, governmental fund types report the face amount of debt issued as other financing sources.

CAMBRIA COMMUNITY SERVICES DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2005

NOTE 2 - CASH AND INVESTMENTS (Continued)

Disclosures Relating to Interest Rate Risk (Continued)

| <u>Investment Type</u> | <u>Carrying Amount</u> | <u>Remaining Maturity (in Months)</u> | | | |
|------------------------|-----------------------------|---------------------------------------|---------------------|---------------------|----------------------------|
| | | <u>12 Months Or Less</u> | <u>13-24 Months</u> | <u>25-60 Months</u> | <u>More than 60 Months</u> |
| LAIF | \$ 10,894,323 | \$ 10,894,323 | \$ - | \$ - | \$ - |
| Held by bond trustee: | | | | | |
| Money market funds | <u>434,752</u> | <u>434,752</u> | | | |
| Total | <u>\$ 11,329,075</u> | <u>\$ 11,329,075</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |

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 rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by the California Government Code, the District's investment policy, or debt agreements, and the actual rating as of fiscal year end for each investment type.

| <u>Investment Type</u> | <u>Carrying Amount</u> | <u>Minimum Legal Rating</u> | <u>Exempt From Disclosure</u> | <u>Rating as of Fiscal Year End</u> | | |
|------------------------|----------------------------|-----------------------------|-------------------------------|-------------------------------------|--------------------|----------------------------|
| | | | | <u>AAA</u> | <u>Aa</u> | <u>Not Rated</u> |
| LAIF | \$10,894,323 | N/A | | | | \$10,894,323 |
| Held by bond trustee: | | | | | | |
| Money market funds | <u>434,752</u> | N/A | | | | <u>434,752</u> |
| Total | <u>\$11,329,075</u> | | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$11,329,075</u> |

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. There are no investments in any one issuer that represent 5% or more of total District investments.

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 California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, 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 fair 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 the District's deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

None of the District's deposits with financial institutions in excess of federal depository insurance limits were held in uncollateralized accounts.

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 District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF).

CAMBRIA COMMUNITY SERVICES DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2005

NOTE 2 - CASH AND INVESTMENTS (Continued)

Investment in State Investment Pool

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the District's investment in this pool is reported in the accompanying basic financial statements at the amounts based upon the District'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.

NOTE 3 - PROPERTY TAXES

Property taxes in the State of California are administered for all local agencies at the county level, and consist of secured, unsecured, and utility tax rolls. The following is a summary of major policies and practices relating to property taxes:

Tax Collections - are the responsibility of the county tax collector. Taxes and assessments on secured and utility rolls which constitute a lien against the property, may be paid in two installments: the first is due on November 1 of the fiscal year and is delinquent if not paid by December 10; and the second is due on March 1 of the fiscal year and is delinquent if not paid by April 10. Unsecured personal property taxes do not constitute a lien against real property unless the taxes become delinquent. Payment must be made in one installment, which is delinquent if not paid by August 31 of the fiscal year. Significant penalties are imposed by the county for late payments.

Tax Levy Apportionments - Due to the nature of the District-wide maximum levy, it is not possible to identify general purpose tax rates for specific entities. Under state legislation adopted subsequent to the passage of Proposition 13, apportionments to local agencies are made by the county auditor-controller based primarily on the ratio that each agency represented of the total District-wide levy for the three years prior to fiscal year 1979.

Property Tax Administration Fees - The State of California FY 90-91 Budget Act, authorized counties to collect an administrative fee for collection and distribution of property taxes. Property taxes are recorded as net of administrative fees withheld during the fiscal year.

Tax Levies - are limited to 1% of full market value which results in a tax rate of \$1.00 per \$100 assessed valuation, under the provisions of Proposition 13. Tax rates for voter-approved indebtedness are excluded from this limitation.

Tax Levy Dates - are attached annually on January 1 preceding the fiscal year for which the taxes are levied. The fiscal year begins July 1 and ends June 30 of the following year. Taxes are levied on both real and unsecured personal property as it exists at that time. Liens against real estate, as well as the tax on personal property, are not relieved by subsequent renewal or change in ownership.

Property Valuations - are established by the Assessor of the County of San Luis Obispo for the secured and unsecured property tax rolls; the utility property tax roll is valued by the State Board of Equalization. Under the provisions of Article XIII A of the State Constitution (Proposition 13 adopted by the voters on June 6, 1978) properties are assessed at 100% of full value. From the base assessment, subsequent annual increases in valuation are limited to a maximum of 2%. However, increases to full value are allowed for property improvements or upon change in ownership. Personal property is excluded from these limitations, and is subject to annual reappraisal.

NOTE 4- NOTE RECEIVABLE

The District has recorded a note receivable for \$140,757. Chevron-Texaco agreed to reimburse the District for the purchase of a 2002 Kenworth Dryside Tanker. The District has deferred \$93,838 of the note as it has not met the revenue recognition criteria under the modified accrual basis of accounting as discussed in Note 1.

CAMBRIA COMMUNITY SERVICES DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2005

NOTE 5 – CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2005, was as follows:

| | <u>Balance</u> <u>July 1, 2004</u> | <u>Increases</u> | <u>Decreases</u> | <u>Balance</u> <u>June 30, 2005</u> |
|-------------------------------------|---------------------------------------|----------------------|-------------------|--|
| Governmental activities | | | | |
| Nondepreciable capital assets | | | | |
| Land | \$11,713,972 | \$1,000,892 | \$ - | \$ 12,714,864 |
| Construction in progress | <u>1,407,972</u> | <u>142,410</u> | <u> </u> | <u>1,550,382</u> |
| Total nondepreciable capital assets | <u>13,121,944</u> | <u>1,143,302</u> | <u> </u> | <u>14,265,246</u> |
| Depreciable capital assets: | | | | |
| Buildings and improvements | \$ 1,750,183 | \$ 44,270 | \$ | \$ 1,794,453 |
| Equipment | <u>985,950</u> | <u>33,026</u> | <u> </u> | <u>1,018,976</u> |
| Total depreciable capital assets | 2,736,133 | 77,296 | | 2,813,429 |
| Less accumulated depreciation | <u>(1,148,873)</u> | <u>(162,462)</u> | <u> </u> | <u>(1,311,335)</u> |
| Net depreciable capital assets | <u>1,587,260</u> | <u>(85,166)</u> | <u> </u> | <u>1,502,094</u> |
| Net capital assets | <u>\$14,709,204</u> | <u>\$ 1,058,136</u> | <u>\$ -</u> | <u>\$ 15,767,340</u> |
| | <u>Balance</u> <u>July 1, 2004</u> | <u>Increases</u> | <u>Decreases</u> | <u>Balance</u> <u>June 30, 2005</u> |
| Business-type activity | | | | |
| Nondepreciable capital assets | | | | |
| Land | \$ 1,781,409 | \$ 40,018 | \$ - | \$ 1,821,427 |
| Construction in progress | <u>3,657,586</u> | <u>2,387,842</u> | <u> </u> | <u>6,045,428</u> |
| Total nondepreciable capital assets | <u>5,438,995</u> | <u>2,427,860</u> | <u> </u> | <u>7,866,855</u> |
| Depreciable capital assets: | | | | |
| Plant and facilities | 35,723,542 | | | 35,723,542 |
| Machinery and equipment | <u>1,277,353</u> | <u>44,510</u> | <u> </u> | <u>1,321,863</u> |
| Total depreciable capital assets | 37,000,895 | 44,510 | | 37,045,405 |
| Less accumulated depreciation | <u>(19,057,943)</u> | <u>(1,058,711)</u> | <u> </u> | <u>(20,116,654)</u> |
| Net depreciable capital assets | <u>17,942,952</u> | <u>(1,014,201)</u> | <u> </u> | <u>16,928,751</u> |
| Net capital assets | <u>\$23,381,947</u> | <u>\$(1,413,659)</u> | <u>\$ -</u> | <u>\$ 24,795,606</u> |

NOTE 6 – LONG-TERM DEBT

1995 Revenue Bond

Water and wastewater revenue bonds totaling \$3,795,000 were issued on August 1, 1995, with interest rates ranging from 3.75 to 6.10 percent. The revenue bonds were allocated 65% to the fund and 35% to the wastewater fund. At June 30, 2005, the revenue bonds principal balance outstanding was \$2,350,000.

CAMBRIA COMMUNITY SERVICES DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2005

NOTE 6 – LONG-TERM DEBT (Continued)

The bonds mature on May 1st of the following fiscal years through 2015, as follows:

| Fiscal Year Ending <u>June 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|--|---------------------|-------------------|---------------------|
| 2006 | \$ 185,000 | \$ 133,775 | \$ 318,775 |
| 2007 | 195,000 | 124,525 | 319,525 |
| 2008 | 200,000 | 114,385 | 314,385 |
| 2009 | 215,000 | 103,785 | 318,785 |
| 2010 | 225,000 | 92,175 | 317,175 |
| 2011-2015 | <u>1,330,000</u> | <u>248,400</u> | <u>1,578,400</u> |
| Totals | <u>\$ 2,350,000</u> | <u>\$ 817,045</u> | <u>\$ 3,167,045</u> |

1999 Revenue Bond

Wastewater revenue bonds totaling \$2,245,000 were issued on October 5, 1999, with interest rates ranging from 3.5 to 5.7 percent. At June 30, 2005, the revenue bonds principal balance outstanding was \$1,985,000.

The bonds mature on May 1st of the following years through 2025 as follows:

| Fiscal Year Ending <u>June 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|--|---------------------|---------------------|---------------------|
| 2006 | \$ 60,000 | \$ 105,810 | \$ 165,810 |
| 2007 | 65,000 | 103,090 | 168,090 |
| 2008 | 65,000 | 100,198 | 165,198 |
| 2009 | 65,000 | 97,240 | 162,240 |
| 2010 | 70,000 | 94,082 | 164,082 |
| 2011-2015 | 410,000 | 412,438 | 822,438 |
| 2016-2020 | 535,000 | 282,855 | 817,855 |
| 2021-2025 | <u>715,000</u> | <u>98,040</u> | <u>813,040</u> |
| Totals | <u>\$ 1,985,000</u> | <u>\$ 1,293,753</u> | <u>\$ 3,278,753</u> |

Note Payable

A State Water Resource Control Board (SWRCB) note payable totaling \$2,512,330 was issued on September 13, 1994, with an interest rate at 3 percent. At June 30, 2005, the note payable principal balance outstanding was \$1,610,482.

The note payments are due annually on May 28th of the following fiscal years through 2016, as follows:

| Fiscal Year Ending <u>June 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|--|---------------------|-------------------|---------------------|
| 2006 | \$ 125,742 | \$ 48,315 | \$ 174,057 |
| 2007 | 129,515 | 44,542 | 174,057 |
| 2008 | 133,400 | 40,657 | 174,057 |
| 2009 | 137,402 | 36,655 | 174,057 |
| 2010 | 141,524 | 32,533 | 174,057 |
| 2011-2015 | 773,912 | 96,373 | 870,285 |
| 2016 | <u>168,987</u> | <u>5,070</u> | <u>174,057</u> |
| Totals | <u>\$ 1,610,482</u> | <u>\$ 304,145</u> | <u>\$ 1,914,627</u> |

CAMBRIA COMMUNITY SERVICES DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2005

NOTE 6 – LONG-TERM DEBT (Continued)

Capital Lease Payable

The District entered into a capital lease agreement on November 7, 2002, with OshKosh Capital for the purchase of a 2002 Kenworth Dryside Tanker. The terms of the lease are for five annual payments of \$46,919, commencing November 7, 2003, with an interest rate of 4.40%. At June 30, 2005, the capital lease principal balance outstanding was \$129,222. As part of the MTBE settlement, Chevron-Texaco has agreed to reimburse the District the payments associated with the capital lease. See Note 4, for further details. The lease payments are due annually on November 7th, until 2007 as follows:

| Fiscal Year Ending June 30, | Principal | Interest | Total |
|-----------------------------------|-------------------|------------------|-------------------|
| 2006 | \$ 41,233 | \$ 5,686 | \$ 46,919 |
| 2007 | 43,047 | 3,872 | 46,919 |
| 2008 | 44,942 | 1,977 | 46,919 |
| Totals | <u>\$ 129,222</u> | <u>\$ 11,535</u> | <u>\$ 140,757</u> |

Changes in long-term liabilities

The following is a summary of long-term liabilities activity for the fiscal year ended June 30, 2005:

| Fiscal Year Ending June 30, | Governmental Activities | | Business-type Activities | |
|-----------------------------------|-------------------------|------------------|--------------------------|---------------------|
| | Principal | Interest | Principal | Interest |
| 2006 | \$ 41,233 | \$ 5,686 | \$ 370,742 | \$ 287,900 |
| 2007 | 43,047 | 3,872 | 389,515 | 272,157 |
| 2008 | 44,942 | 1,977 | 398,400 | 255,240 |
| 2009 | | | 417,402 | 237,680 |
| 2010 | | | 436,524 | 218,790 |
| 2011-2015 | | | 2,513,912 | 757,211 |
| 2016-2020 | | | 703,987 | 287,925 |
| 2021-2025 | | | 715,000 | 98,040 |
| Total | <u>\$ 129,222</u> | <u>\$ 11,535</u> | <u>\$ 5,945,482</u> | <u>\$ 2,414,943</u> |

| | Balance July 1, 2004 | Additions | Reductions | Balance June 30, 2005 | Due Within One Year |
|---|-------------------------|------------------|-------------------|--------------------------|------------------------|
| Governmental activities: | | | | | |
| Capital lease | \$ 168,717 | \$ - | \$ 39,495 | \$ 129,222 | \$ 41,233 |
| Compensated absences | 158,208 | 35,799 | | 194,007 | |
| Governmental activity Long-term liabilities | <u>\$ 326,925</u> | <u>\$ 35,799</u> | <u>\$ 39,495</u> | <u>\$ 323,229</u> | <u>\$ 41,233</u> |
| Business-type activities: | | | | | |
| Bonds payable | \$ 4,570,000 | \$ - | \$ 235,000 | \$ 4,335,000 | \$ 245,000 |
| Note payable | 1,732,562 | | 122,080 | 1,610,482 | 125,742 |
| Compensated absences | 85,527 | | 1,838 | 83,689 | |
| Business-type activity long-term liabilities | <u>\$ 6,388,089</u> | <u>\$ -</u> | <u>\$ 358,918</u> | <u>\$ 6,029,171</u> | <u>\$ 370,742</u> |

CAMBRIA COMMUNITY SERVICES DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2005

NOTE 7 - DISTRICT EMPLOYEES' RETIRMENT PLAN/DEFINED BENEFIT PENSION PLAN (FULL TIME EMPLOYEES')

Plan Description

The Cambria Community Services District's (the District) defined benefit pension plan, Public Employees' Retirement System (PERS), provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The PERS is part the Public Agency portion of the California Public Employees' Retirement System, (CalPERS), an agent multiple-employer plan administered by CalPERS, which acts as a common investment and administrative agent for participating public employers within the State of California. A menu of benefit provisions as well as other requirements are established by State statutes with the Public Employees' Retirement Law. The District selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through local ordinance (other local methods). CalPERS issues a separate comprehensive annual financial report. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office – 400 P Street – Sacramento, CA 95814.

Funding Policy

Active plan members in the PERS are required to contribute 7% for miscellaneous members or 9% for safety members of their annual covered salary. The District makes the contributions required of District employees on their behalf and for their account. The District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rate of fiscal 2004/2005 was 15.257% for miscellaneous employees and 25.979% for safety employees. The contribution requirements of the plan members are established by State statute and employer contribution rate established may be amended by CalPERS.

Annual Pension Cost

For fiscal year 2004/2005, the District's annual pension cost was \$318,003, and the District actually contributed \$318,003. The required contribution for fiscal year 2004/2005 was determined as part of the June 30, 2002 actuarial valuation using the entry age normal actuarial cost method with the contributions determined as a percent of pay. The actuarial assumptions included (a) 8.5% investment rate of return (net of administrative expenses); (b) projected salary increases that vary by duration of service, and (c) no cost-of-living adjustment. Both (a) and (b) include an inflation component of 3.5%. The actuarial value of the District's assets was determined using a technique that smoothes the effect of short-term volatility in the market value of investments over a two to five year period depending on the size of investment gains and/or losses. The Cambria Community Services District's unfunded actuarial accrued liability (or excess assets) is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2003, was 10 years.

Three Year Trend Information for the Cambria Community Services District Public Employees' Retirement Plan

| Fiscal Year Ending | Annual Pension Cost (APC) | Percentage of APC Contribution | Net Pension Obligation |
|--------------------|---------------------------|--------------------------------|------------------------|
| 6/30/03 | \$ 79,942 | 100% | \$ 0 |
| 6/30/04 | \$ 203,701 | 100% | \$ 0 |
| 6/30/05 | \$ 318,003 | 100% | \$ 0 |

CAMBRIA COMMUNITY SERVICES DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2005

NOTE 7 - DISTRICT EMPLOYEES', RETIREMENT PLAN/DEFINED BENEFIT PENSION PLAN (FULL TIME EMPLOYEES') (Continued)

Required Supplementary Information

Funded Status of Miscellaneous Plan

| Valuation Date | Entry Age Normal Accrued Liability (a) | Actuarial Value of Assets (b) | Unfunded Liability (Excess Assets) (a)-(b) | Funded Status (b)/(a) | Annual Covered Payroll (c) | UAAL As of % of Payroll ((a)-(b))/(c) |
|----------------|--|-------------------------------|--|-----------------------|----------------------------|---------------------------------------|
| 6/30/01 | \$3,690,975 | \$4,072,060 | \$ (381,085) | 110.3% | \$ 982,624 | (38.8%) |
| 6/30/02 | \$4,099,070 | \$3,948,123 | \$ 150,947 | 96.3% | \$ 830,204 | 18.2% |
| 6/30/03 | \$5,086,988 | \$4,088,671 | \$ 998,317 | 80.4% | \$1,057,928 | 94.4% |

Required Supplementary Information

Funded Status of Safety Plan

| Valuation Date | Entry Age Normal Accrued Liability (a) | Actuarial Value of Assets (b) | Unfunded Liability (Excess Assets) (a)-(b) | Funded Status (b)/(a) | Annual Covered Payroll (c) | UAAL As of % of Payroll ((a)-(b))/(c) |
|----------------|--|-------------------------------|--|-----------------------|----------------------------|---------------------------------------|
| 6/30/01 | \$764,468 | \$777,185 | \$ (12,717) | 101.7% | \$242,487 | (5.2%) |
| 6/30/02 | \$826,373 | \$752,906 | \$ 73,467 | 91.1% | \$233,034 | 31.5% |
| 6/30/03 | \$970,709 | \$854,777 | \$ 115,932 | 88.1% | \$397,409 | 36.7% |

NOTE 8 - JOINT POWERS AGENCIES

The Cambria Community Services District participates in a joint venture under a Joint Power Agency (JPA), the Special District Risk Management Authority (SDRMA). The SDRMA was established to provide general liability, automobile, errors and omission, and property loss coverage to special districts. The SDRMA is administered by a Board of Directors, consisting of two members appointed by the California Special Districts Association and five members elected by the districts participating. The Board is responsible for establishing premium rates and making budgeting decisions.

Coverage under current policies it includes property loss, general liability, auto liability and comprehensive/collision, and public officials' and employees' errors and omissions. Claims over the self-insured amounts are covered by the SDRMA within the limits of the policy. Each member district is assessed a premium in accordance with the JPA agreement creating the agency.

Condensed financial information for the SDRMA for the fiscal year ended June 30, 2004*, is as follows:

| | |
|------------------------------|----------------------|
| Total assets | \$ 19,349,764 |
| Total liabilities | <u>8,876,361</u> |
| Fund equity | <u>\$ 10,473,403</u> |
| Total operating revenues | \$ 6,457,115 |
| Total operating expenditures | <u>6,664,853</u> |
| Net decrease | <u>\$ (207,738)</u> |

* Latest fiscal year available

CAMBRIA COMMUNITY SERVICES DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2005

NOTE 8 – JOINT POWERS AGENCIES (Continued)

The District is also participating in two separate Joint Powers Agencies. The first is an agreement with the City of Morro Bay, the Cayucos Fire District, and the South Bay Fire Department to operate an air fill compressor station for the respective fire departments. The District pays their share of the member contributions due on an annual basis, not to exceed \$1,000 per year. There is no contingent liability for the District at June 30, 2005.

The second is an agreement with the Coast Unified School District (CUSD) to operate the Santa Rosa Creek Well #4, the CUSD water well, pump, and distribution facilities for the purpose of securing the conveying groundwater. The District pays CUSD \$26,000 per year for the easement and access to the site operation and maintenance repairs. The total cost of the 10 year agreement is \$266,000. The first payment of \$32,000, was made in December 2000.

NOTE 9 – DEPARTMENT OF HEALTH SERVICES PAYABLE

The District received monies from the Department of Health Services (DOHS) for the construction of the SR-4 Emergency Well Project. There is no formal agreement schedule, nor any interest rate terms in the agreement, however, is the money due back to DOHS upon receipt of the Chevron-Texaco settlement, which was received in the 03-04 fiscal year.

NOTE 10 – NET ASSETS

The government-wide activity and proprietary fund financial statements utilize a net assets presentation. Net assets are categorized as invested capital assets (net of related debt), restricted and unrestricted.

Invested In Capital Assets, Net of Related Debt – This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of these assets reduce the balance in this category.

Restricted Net Assets – This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Assets – This category represents net assets of the District, not restricted for any project or other purpose.

NOTE 11– DEFICIT SPENDING

The District in the past fiscal year incurred significant losses in the Enterprise Funds (Water and Wastewater). The Water Fund realized a deficit change in net assets of \$193,608 and the Wastewater Fund \$505,745. If the District continues to incur these deficits it will be unable to meet their ongoing obligations.

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