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Review of Special Districts

Issue

Have the County of San Mateo's 23 independent special districts made reasonable efforts to comply with California State law, to provide good business and resource management, and to offer efficient and responsive service?

Summary

The diverse mix of function, purpose, and location of the special districts prevented the development of a uniform standard of inquiry that was useful for all districts. The Grand Jury report recommendations are generalized suggestions addressed to all in support of good government and business practices. No single entity is being addressed in this report. However, the Sequoia Healthcare District was selected for a more penetrating review and the results of that review are issued under a separate report. The purpose of this report is to raise public interest and awareness of these largely unsupervised agencies that have many of the same powers as the County and cities and which operate with limited external review.

This Grand Jury urges future Grand Juries to continue the precedent of selecting one or more special districts, in each term, for a detailed review. While the County Controller actively fulfills his financial examination responsibilities, the Grand Jury appears to be the only agency pursuing district oversight and addressing the issues of accountability, transparency, and efficiency.

A summary of district responses can be found in the comparative report attachments in the Appendix. The first attachment contains information that is public record with the special district identified. The other attachments do not identify the district as the information was received under cover of confidentiality.

Finally, except for the financial data, the information provided by the districts is self-assessed. It was not verified by the Grand Jury and is presented without comment, recommendation, or conclusion.



Review of Special Districts

Issue

Have the County of San Mateo's 23 independent special districts made reasonable efforts to comply with California State law, to provide good business and resource management, and to offer efficient and responsive service?

Background

Special districts are the California Legislature's contribution to the creation of local governments. Independent districts are agents of service that generally provide a specific function in a specific geographic area and are governed by an independently elected board. In comparison, cities and counties provide a variety of services throughout an entire geographic area.

Independent special districts are created and supported by local residents. Along with the authority to provide services or facilities, special districts are empowered to raise money for operations. They can enter into contracts, acquire assets, exercise power of eminent domain, hire employees, issue debt, tax, assess, charge fees, etc.

Special district board officials are accountable to voters and to the customers who use their services. State law requires special districts to have public meetings (Brown Act), avoid economic conflict of interests, perform appropriate record keeping, have elections, and submit annual financial reports to the State and County controllers as well as having independent, annual audits.

Special districts generate revenues from several sources, including property taxes and fees for services. There are two kinds of districts; Enterprise and Non-enterprise districts. Enterprise districts run much like businesses, delivering specific services to paying customers. Such services encompass harbors, hospitals, waste disposal, and water. Non-enterprise districts deliver services that generally do not lend themselves to fees for service and rely primarily on property tax revenues to fund their operations such as fire protection, recreational, and open space districts.

Finally, special districts are created in response to urgent community needs. These needs, over time, may decline, disappear, or require a change in operating models. This can leave a district in search of a reason for being or offering services that can be more efficiently provided elsewhere. The California Legislature, recognizing this problem, has empowered LAFCO (Local Agency Formation Commission) to be its instrument of change. Each county has a county LAFCO agency that is concerned with the creation, reorganization, and dissolution of government entities. The results of a Grand Jury in-depth district review, if deemed appropriate, could be presented to LAFCO for analysis and response.

The purpose of this report is to raise public interest and awareness of these largely unsupervised agencies that have many of the same powers as the County and cities within it, and operate with limited external review.

Investigation Procedure

The Grand Jury, as currently constituted, lacks both the time and resource to perform a detailed audit of all these agencies. To compensate for these deficiencies, the Grand Jury determined that the most effective method of inquiry was to require the districts to complete a six-page questionnaire and to select one district for a more in-depth interview. The last section of this report is a copy of the questionnaire.

The questionnaire requested the following information:

- Identification and contacts
- Purpose or charter
- Financial data
- Meeting and public access
- Supervision and control
- Control of financial resources

Findings

Compensation

The law does not strictly define special district board member compensation, though there are restrictions depending on the district's defined purpose. Salaries may be allowed but most districts provide remuneration based on per meeting attendance. Fringe benefits such as health insurance are allowed and districts can pay health and welfare benefits to retired elected officials depending on prior length of service. The overriding determinate of compensation paid is that serving on a district's governing board is a voluntary act of community service and not a government career.

Ethical Behavior and Conflict of Interests

The law does little to address board member behavior. Issues such as expense account padding, diversion of public funds to private uses, excessive travel costs, nepotism, etc.,

may not be revealed in periodic audit reports but through investigative journalism or citizen complaints. There were no such revelations communicated to this Grand Jury.

Defined Purpose

Three of the agencies indicated they had not created a written document defining the purpose of their district and a fourth said it was being developed.

Maintaining Accurate and Complete Records

All districts indicated their books and records were automated and they employed the services of accounting professionals in the preparation of financials documents.

Computer Security Practices

All districts employ the use of computer systems in the management and control of their enterprise. Security practices are independent of particular technologies and are applicable to all organizations, whether commercial or governmental, and should be undertaken as a matter of good business practice.

Compliance With Brown Act Requiring Public Access

All districts indicated compliance with statutes governing public expression and access.

Effective Use of Financial Resources

Large, unproductive financial reserves are a waste and misuse of taxpayer resources. Unfortunately, there are no published standards or guidelines for determining when reserves are too much. Many of the smaller districts have no investment portfolios at all and fully one-third of the districts appears to have large reserves that need to be examined for appropriateness.

Appropriate Supervision and Control

All districts indicated they had or would soon have a policy and procedures manual and each had a system for monitoring and responding to resident service requests.

Cost Efficient Service Delivery

Seven of the districts had three or fewer employees with four having no employees at all. For these agencies, service to residents may be outsourced to third parties or other agencies.

Conclusions

It was clear that the questionnaire could not provide the level of information required to answer the investigative issue with any detail or certainty. And still the Grand Jury wanted some sense of how the special districts perform.

Effective Community Communication

Excluding assessments appearing on tax bills or the charging of a fee for service, there is generally minimal interchange between citizens and districts except around election time.

Districts should become keenly aware of their responsibility to provide timely notice of meetings and meeting frequency, and issues under consideration. Districts that have not created a written document of purpose should create the document and disseminate the information to residents as a matter of good business.

Internal Control Audits

Certified financial audits performed by accounting professionals include an evaluation of the system of internal controls and a review of expenditures for appropriate authorization and purpose. The County Controller has reported receiving a copy of the certified financial audits from all twenty-three of the districts. Each was issued without qualification and the information provided fairly represented the financial positions of the Districts.

Financial Reserves

Rather than dismissing the issue of determining when large reserves are too large because there is no accepted standard of measurement, each district should include as part of its public reporting a description as to why the reserves are maintained; when the resources can be expected to be expended; what is the estimated total cost of the anticipated expenditure; and why the expenditure is necessary for the accomplishment of the special districts purpose. The districts, working with the cooperation of the County Treasurer, should undertake a study to develop guidelines for investment reserves.

Cost Effective Delivery of Service

Future Grand Juries examining special districts should consider selecting districts without or with few employees, for review, to determine if the services they provide are cost effective.

Recommendations

The following recommendations are addressed to the 23 San Mateo County special districts listed below:

Bayshore Sanitary District
Broadmoor Police Protection District
Coastside County Water District
Colma Fire Protection District
East Palo Alto Sanitary District
Granada Sanitary District
Half Moon Bay Fire Protection District
Highlands Recreational District
Ladera Recreational District
Los Trancos Water District
Menlo Park Fire District
Midpeninsula Regional Open Space District
Mid-Peninsula Water District

Montara Water & Sanitary District
North Coast County Water District
Peninsula Health Care District
Point Montara Fire Protection District
Sequoia Healthcare District
Skyline County Water District
SMC Harbor District
West Bay Sanitary District
Westborough County Water District
Woodside Fire Protection District

The San Mateo County Special Districts, by January 1, 2006, shall:

1. have a written document defining their purpose(s). All districts should communicate their purpose(s) to homeowners and residents in the district.
2. update or complete policy and procedure manuals.
3. insure that all computer systems adhere to good computer security practices. These practices should include, though not limited to, the following: system authorization and access control, backup and recovery of files, computer system and application documentation, disaster planning, hardware and software upgrade maintenance, physical and environmental protection, control of input and output, security awareness training, and personnel cross training and education. The district should contact the County's Information Systems Department for standards and recommendations.
4. expand financial reporting to include information about reserves. Include a description of why the reserves are maintained, when the accumulated resources can be expected to be expended, what is the estimated total cost of the anticipated expenditures, and why the expenditure is necessary for the accomplishment of the special district's charter.
5. develop guidelines for the amount of invested reserves needed for support of current operations as well as anticipated capital programs utilizing the experience and expertise of the County Treasurer.

Appendix

Special Districts Public Information Spreadsheet – Sheet 1

Special District	Reporting Document	Fiscal Period	Taxes, etc.	Fees, etc	Total Income	Expenses	Net Income
Los Trancos Water District	GJ Form	2003-2004	447,986	291,122	739,108	306,863	432,245
SMC Harbor District	Finc Stmts	2002-2003	2,854,014	3,355,674	6,209,688	5,214,186	995,502
Skyline County Water Dist	Finc Stmts	2002-2003	116,957	815,877	932,834	762,583	170,251
Granada Sanitary District	GJ Form	2002-2003	1,342,290	101,570	1,443,860	1,271,716	172,144
Broadmoor Police Protect	Ca. Form	2002-2003	1,433,413	63,529	1,496,942	1,287,836	209,106
West Bay Sanitary District	Finc Stmts	2002-2003	289,441	7,027,341	7,316,782	6,601,623	715,159
Bayshore Sanitary District	Ca. Form	2002-2003	119,352	1,006,427	1,125,779	941,830	183,949
Highlands Recreational Dist	Finc Stmts	2002-2003	998,991	0	998,991	890,413	108,578
Half Moon Bay Fire Protect	GJ Form	2003-2004	6,992,260	0	6,992,260	6,814,511	177,749
Colma Fire Protection Dist	Finc Stmts	2002-2003	801,350	0	801,350	1,495,068	-693,718
East Palo Alto Sanitary	GJ Form	2002-2003	418,099	1,654,548	2,072,647	2,518,404	-445,757
Point Montara Fire Protect	GJ Form	2003-2004	1,659,872	0	1,659,872	1,461,819	198,053
Mid-Peninsula Water Dist	Finc Stmts	2002-2003	272,515	4,904,257	5,176,772	5,304,253	-127,481
Midpeninsula Reg Open Space	Finc Stmts	2003-2004	22,852,728	0	22,852,728	3,596,590	19,256,138
Woodside Fire Protection Dist	Finc Stmts	2002-2003	7,888,407	0	7,888,407	7,299,878	588,529
Ladera Recreational District	Finc Stmts	2002-2003	665,494	0	665,494	351,208	314,286
Peninsula Health Care District	Finc Stmts	2002-2003	3,735,697	1,783,204	5,518,901	3,974,464	1,544,437
North Coast County Water Dist	Ca. Form	2002-2003	616,760	5,436,634	5,436,637	5,109,801	326,836
Menlo Park Fire District	Finc Stmts	2002-2003	17,838,979	606,202	18,445,181	19,144,496	-699,315
Westborough County Water	Ca. Form	2002-2003	246,611	2,531,004	2,777,615	2,759,808	17,807
Coastside County Water Dist	Ca. Form	2002-2003	1,042,731	3,454,371	4,497,102	4,189,751	307,351
Montara Sanitary District	Ca. Form	2003-2004	257,416	2,037,051	2,294,467	1,390,086	904,381
Sequoia Healthcare District	Ca. Form	2002-2003	9,371,504	1,662,103	11,033,607	3,885,024	7,148,583

Special Districts Public Information Spreadsheet – Sheet 2

Special District	Debt Service	Capital Projects	Funds Equity	Investments	Investment Advisor	Number Employees
Los Trancos Water District	101,332	183,702	3,744,624	0	None	0
SMC Harbor District	858,230	418,200	18,394,969	9,217,129	Independent	31
Skyline County Water Dist	38,550	298,966	2,564,621	471,855	Independent	5
Granada Sanitary District	15,874	0	20,255,149	9,048,653	NR	1
Broadmoor Police Protect	0	0	878,755	0-	None	10
West Bay Sanitary District	0	2,252,552	49,375,719	6,118,825	Ca. Treasurer	23
Bayshore Sanitary District	0	0	3,064,408	0	None	0
Highlands Recreational Dist	0	21,963	2,262,581	0	None	56
Half Moon Bay Fire Protect	0	124,934	7,535,691	0	None	44
Colma Fire Protection Dist	0	664,360	3,497,675	0	None	NR
East Palo Alto Sanitary	3,425,063	0	5,610,736	0	None	4
Point Montara Fire Protect	0	6,336	904,946	0	None	0
Mid-Peninsula Water Dist	150,426	1,447,955	13,124,160	1,350,052	Ca. Treasurer	NR
Midpeninsula Reg Open Space	9,485,482	10,972,062	48,465,705	43,803,842	Santa Clara Treas.	19
Woodside Fire Protection Dist	0	115,000	13,605,134	6,288,349	SMC Treasurer	6
Ladera Recreational District	80,327	54,598	2,581,423	300,152	SMC Treasurer	NR
Peninsula Health Care District	0	1,785,714	39,314,260	17,088,810	SMC Treasurer	0
North Coast County Water Dist	0	NR	12,632,803	12,591,328	NR	NR
Menlo Park Fire District	2,250,398	270,975	16,341,685	10,210,830	SMC Treasurer	101
Westborough County Water	0	NR	8,459,532	4,235,457	NR	3
Coastside County Water Dist	262,311	750,627	35,701,754	7,534,893	NR	17
Montara Sanitary District	59,075	0	10,280,860	0-	NR	3
Sequoia Healthcare District	0	0	63,922,959	55,273,290	Independent	1

Special Districts Public Information Spreadsheet – Sheet 3

Special District	Surplus Property	Brown Act Compliance	Mission Statement	Procedure Manual	Track Complaints
Los Trancos Water District	Yes	Yes	Yes	No	Informally
SMC Harbor District	No	Yes	Yes	Yes	Yes
Skyline County Water Dist	No	Yes	No	Yes	Yes
Granada Sanitary District	No	Yes	No	Yes	Yes
Broadmoor Police Protect.	No	Yes	In Process	In Process	Yes
West Bay Sanitary District	No	Yes	Yes	Yes	Yes
Bayshore Sanitary District	No	Yes	Yes	Yes	Yes
Highlands Recreational Dist	No	Yes	Yes	Yes	Yes
Half Moon Bay Fire Protect	No	Yes	Yes	Yes	Yes
Colma Fire Protection District	No	Yes	Yes	Yes	Yes
East Palo Alto Sanitary	No	Yes	Yes	Yes	Yes
Point Montara Fire Protect	No	Yes	Yes	Yes	Yes
Mid-Peninsula Water District	No	Yes	Yes	Yes	Yes
Midpeninsula Reg Open Space	No	Yes	Yes	Yes	Yes
Woodside Fire Protection Dist	No	Yes	Yes	Yes	Yes
Ladera Recreational District	No	Yes	Yes	Yes	Yes
Peninsula Health Care District	No	Yes	Yes	Yes	Yes
North Coast County Water Dist	No	Yes	Yes	Yes	Yes
Menlo Park Fire District	No	Yes	Yes	Yes	Yes
Westborough County Water	No	Yes	No	Yes	Yes
Coastside County Water Dist	No	Yes	Yes	Yes	Yes
Montara Sanitary District	No	Yes	Yes	Yes	Yes
Sequoia Healthcare District	Yes	Yes	Yes	Yes	Yes

Special Districts Public Information Spreadsheet – Sheet 4

Special District	Finances Computerized	Audit Agency	CPA Opinion
Los Trancos Water District	Yes	CG Uhlenberg	NR
SMC Harbor District	Yes	Caporicci&Larson	Yes
Skyline County Water Dist	Yes	Maze Associates	Yes
Granada Sanitary District	Yes	Grice, Lund&Tarkington	NR
Broadmoor Police Protection	Yes	Wellings&Company	No
West Bay Sanitary District	Yes	Vaurinek,Trine,Day&Co	Qualified
Bayshore Sanitary District	Yes	Vaurinek,Trine,Day&Co	NR
Highlands Recreational Dist	Yes	CG Uhlenberg	Yes
Half Moon Bay Fire Protect	Yes	CG Uhlenberg	NR
Colma Fire Protection District	Yes	Wellings&Company	Yes
East Palo Alto Sanitary	Yes	Vargas&Company	NR
Point Montara Fire Protect	Yes	CG Uhlenberg	NR
Mid-Peninsula Water District	Yes	Vaurinek,Trine,Day&Co	Yes
Midpeninsula Reg Open Space	Yes	Macias Gini&Company	Yes
Woodside Fire Protection Dist	Yes	CG Uhlenberg	Yes
Ladera Recreational District	Yes	CG Uhlenberg	Yes
Peninsula Health Care District	Yes	Pearson,Del Prete&Co	Yes
North Coast County Water Dist	Yes	Maze Associates	NR
Menlo Park Fire District	Yes	Patel&Associates	Yes
Westborough County Water	Yes	CG Uhlenberg	NR
Coastside County Water Dist	Yes	Maze Associates	Yes
Montara Sanitary District	Yes	Stephen L Carey	NR
Sequoia Healthcare District	Yes	Vaurinek,Trine,Day&Co	NR

Bayshore Sanitary District

36 Industrial Way
Brisbane, CA 94005
(415) 467-1144

July 29, 2005

Honorable Norman J. Gatzert
Judge of the Superior Court
Hall of Justice
400 County Center, 2nd Floor
Redwood City, CA 94063-1655

RE: Comments on the 2004–2005 Grand Jury’s *Review of Special Districts* Report

Dear Judge Gatzert:

The following constitutes the Bayshore Sanitary District’s comments on the *Review of Special Districts* prepared by the 2004-2005 Grand Jury.

We respond to each of the Grand Jury’s 5 recommendations below:

1. “Have a written document defining their purposes. All districts should communicate their purposes to homeowners and residents in the district.”

The District is in full compliance with this recommendation. The District has an adopted mission statement. Earlier this year, the District sent a mailer to its constituents in which it provided a detail narrative explaining what the District does and how the District does it.

2. “Update or complete policy and procedures manuals.”

The District is in full compliance with this recommendation. It has an existing policies and procedures manual that it periodically updates.

3. “Insure that all computer systems adhere to good computer security practices.”

The District is in full compliance with this recommendation. The District has no employees, and the District’s consulting attorney, engineer, maintenance director, and clerk provide much of the computer automation that the District requires on their systems. The District has requested that its consultants adhere to the recommendations of the Grand Jury. The District owns a single computer, which it uses for maintaining financial records and limited miscellaneous correspondence and records. The District

computer is password protected, and it can be accessed only by members of the Board, the Maintenance Director, and the Clerk.

4. “Expand finance reporting to include information about reserves. Include a description of why the reserves are maintained, when the accumulated resources can be expected to be expended, what is the estimated total cost of the anticipated expenditures, why the expenditure is necessary for the accomplishment of the special district’s charter.”

This recommendation has not been implemented and requires further analysis. The District has various reserve accounts, and those accounts are already clearly defined by District resolution. Except where required by law, the District does not currently report on when the accumulated resources can be expected to be expended, the estimated total cost of the anticipated expenditures, and why the expenditure is necessary for the accomplishment of the special district’s charter. The District will explore with its auditors whether it is appropriate, efficient and prudent to provide such information in its annual financial statements or whether some other mechanism for reporting on its reserves is more appropriate. It is anticipated that this analysis would be completed before the financial reports for the 2005-2006 fiscal year are issued.

5. “Develop guidelines for the amount of invested reserves needed for support of current operations as well as anticipated capital programs utilizing the experience and expertise of the County Treasurer.”

This recommendation has not been implemented and requires further analysis. The District does not currently have a written policy regarding the appropriate size of its operating and capital reserves. The District believes that this recommendation is worthy, and the District has directed its staff to prepare a reserve policy for presentation to the Board. Whether the County Treasurer is utilized in this process will depend on whether and how much the County Treasurer would charge for such service.

Very truly yours,

Iris Gallagher

Iris Gallagher
President

jb/jl



BROADMOOR POLICE DEPARTMENT

388 Eighty Eighth Street
Broadmoor, CA 94015-1717
(650) 755-3838 • Fax (650) 877-5425



Gregory Love
Chief of Police

Board of Police Commissioners
Hon. J. Wayne Johnson
Hon. Glynis A. Carreira
Hon. Joseph P. Sheridan

September 2, 2005

Hon. Norman J. Gatzert
Judge of the Superior Court
Hall of Justice
400 County Center, 2nd Floor
Redwood City, California 94063-1655

Dear Judge Gatzert:

The following is the response of the Broadmoor Police Protection District to the Grand Jury report of June 8, 2005, entitled "Review of Special Districts:"

1. The Special Districts by January 1, 2006, shall have a written document defining its purpose. All districts should communicate their purpose(s) to homeowners and residents of the district.

Agree. The Broadmoor Police Protection District adopted a written mission statement in 2005 as part of a public meeting. The public web site is in the process of adding additional information including the mission statement.

2. The Special Districts by January 1, 2006, shall update or complete policy and procedure manuals.

Agree. The Broadmoor Police Protection District adopted a policy and procedure manual for the Board in 2005 at a public meeting.

3. The Special Districts by January 1, 2006, shall insure that all computer systems adhere to good computer security practices.

Agree. The Broadmoor Police Protection District has implemented computer security practices consistent with the practices detailed in the Grand Jury's report in coordination with the Information Systems Department of the County of San Mateo.

4. The Special Districts by January 1, 2006, shall expand financial reporting to include information about reserves.

Agree. The Broadmoor Police Protection District does not maintain capital reserves. Due to the nature of the special district, a prudent reserve is maintained as reflected in the adopted budget; however, the District's purpose is to provide police services only and it does not maintain any capital infrastructure or own any property (except for a police station/district headquarters). The Grand Jury report incorrectly states in Sheet 4 that the Broadmoor Police Protection District does not obtain a CPA opinion in its audit statement. The District receives a CPA opinion from Wellings & Company as part of the services it provides.

5. Develop guidelines for the amount of invested reserves needed for support of current operations as well as anticipated capital programs utilizing the experience and expertise of the County Treasurer.

Agree. The Broadmoor Police Protection District does not invest capital reserves because the funds are necessary as working capital throughout the year as an income stream.

Respectfully submitted,

Gregory Love
District Manager/Chief of Police
Broadmoor Police Protection District



August 30, 2005

Hon. Norman J. Gatzert
Grand Jury of the County of San Mateo
Hall of Justice
400 County Center, 2nd Floor
Redwood City, CA 94063-1655

Re: Coastside County Water District
2004-2005 Grand Jury Report
"Review of Special Districts"

Dear Judge Gatzert:

The Board of Directors of the Coastside County Water District considered the above-referenced report of the County Civil Grand Jury at its meeting held July 12, 2005. This letter shall serve as the District's response to the 2004-2005 Grand Jury Report, which includes a number of findings and recommendations purportedly applicable to the 23 special districts in San Mateo County. This response considers the Grand Jury's report only insofar as it relates to the Coastside County Water District.

Response to the Grand Jury's Findings:

The Board of Directors disagrees with the findings of the Grand Jury Report as follows:

Compensation

The law does not strictly define special district board member compensation, though there are restrictions depending on the district's defined purpose. Salaries may be allowed but most districts provide remuneration based on per meeting attendance. Fringe benefits such as health insurance are allowed and districts can pay health and welfare benefits to retired elected officials depending on prior length of service. The overriding determinate of compensation paid is that serving on a district's governing board is a voluntary act of community service and not a government career.

RESPONSE: The above statement is incorrect. The Coastside County Water District is organized under the County Water District Law (Water Code §30000 et seq.). Board member compensation is specifically regulated by Water Code Section 20200, which provides generally for compensation not to exceed \$100 per meeting attended on behalf of the district, subject to adjustment up to 5% per year after a noticed public hearing. The Coastside County Water District compensates directors in the amount of \$100 per meeting attended on behalf of the District, up to a maximum of \$400 per month.

Ethical Behavior and Conflict of Interests The law does little to address board member behavior. Issues such as expense account padding, diversion of public funds to private uses, excessive travel costs, nepotism, etc., may not be revealed in periodic audit reports but through

investigative journalism or citizen complaints. There were no such revelations communicated to this Grand Jury.

RESPONSE: The above statement is incorrect. Special Districts are governed by the same laws concerning ethical behavior and conflicts of interest as elected City and County officials. In addition, Coastside County Water District has adopted a comprehensive Code of Board Member Ethics, addressing such topics as reimbursements for meetings, travel etc.

Effective Use of Financial Resources

Large, unproductive financial reserves are a waste and misuse of taxpayer resources. Unfortunately, there are no published standards or guidelines for determining when reserves are too much. Many of the smaller districts have no investment portfolios at all and fully one-third of the districts appears to have large reserves that need to be examined for appropriateness.

RESPONSE: We agree that excess financial reserves are a waste of our ratepayers' resources. However, we disagree with the statement that there are "no published standards" for setting reserves. In fact, the American Water Works Association has published guidelines for setting reserves that Coastside County Water District follows in establishing our reserves for Capital Improvements as well as Operations & Maintenance. As of June 30, 2005, CCWD maintained approximately \$8.7 million in reserve. Of this amount, approximately \$300,000 is maintained as an operating reserve, to ensure adequate cash flow for normal operations. Another \$700,000 is kept as an emergency reserve. Another \$4.5 million is restricted for use in completion of the Crystal Springs infrastructure improvements, including replacement of two major transmission arteries that were originally constructed almost 50 years ago. The remaining balance is designated for specific capital improvement projects in the District's long-term capital improvement and replacement plan. Without the District's capital reserves, the District would be forced to incur debt in order to finance these critical infrastructure projects, resulting in significantly higher costs for our residents and ratepayers.

Response to Grand Jury's Recommendations

The Board of Directors response to the Grand Jury's recommendations as follows:

The San Mateo County Special Districts, by January 1, 2006, shall:

1. have a written document defining their purpose(s). All districts should communicate their purpose(s) to homeowners and residents in the district.
2. update or complete policy and procedure manuals.
3. insure that all computer systems adhere to good computer security practices. These practices should include, though not limited to, the following: system authorization and access control, backup and recovery of files, computer system and application documentation, disaster planning, hardware and software upgrade maintenance, physical and environmental protection, control of input and output, security awareness training, and personnel cross training and education. The district should contact the County's Information Systems Department for standards and recommendations.

4. expand financial reporting to include information about reserves. Include a description of why the reserves are maintained, when the accumulated resources can be expected to be expended, what is the estimated total cost of the anticipated expenditures, and why the expenditure is necessary for the accomplishment of the special district's charter.

5. develop guidelines for the amount of invested reserves needed for support of current operations as well as anticipated capital programs utilizing the experience and expertise of the County Treasurer.

COMMENT: We believe that all of the following recommendations have been implemented, with one qualification. Specifically, the Coastside County Water District:

1. Has an adopted mission statement and communicates regularly to residents in the District by way of: (1) mailings and newsletters; (2) broadcasting of Board Meetings on local public access television; (3) maintaining an email and address list for members of the public to obtain copies of our agendas and other important announcements; and (4) maintaining a website which is regularly updated with pertinent news and information;

2. Maintains a comprehensive Policies and Procedures Manual that is reviewed and updated on a regular basis;

3. Maintains an updated computer system that adheres to good computer security practices;

4. Publishes an annual budget and provides regular reporting of all aspects of District finances, including amounts held in reserve and specific public improvement projects and estimated costs of such projects; and


5. Follows industry standard guidelines in establishing reserves for operations and capital programs.

As to Item 5, the Coastside County Water District is not aware that the services of the County Treasurer are available to the District in developing guidelines for setting reserves, or whether the County Treasurer has the necessary expertise to provide meaningful input for water districts. However, we are open to exploring whether obtaining such services from the County Treasurer would be feasible for our agency.

Hon. Norman J. Gatzert
August 30, 2005
Page 4

Thank you for your consideration of the foregoing.

Sincerely,



Chris Mickelsen,
Board President

cc: Board of Directors, CCWD

August 15th, 2005

Hon. Norman J. Gatzert
Judge of the Superior Court
Hall Of Justice
400 County Center, 2nd Floor
Redwood City, California 94063

Subject: Response to Grand Jury Findings

Dear Judge Gatzert,

The Colma Fire District is in receipt of the 2005 Report on Special Districts. Thank you and the Grand Jury members for the work put into this. The Colma Fire District appreciates the findings and agrees with them. We will be putting them into action as follows:

1. We believe that our purpose is defined by the Health and Safety code and the Fire District act. We do not have any other purpose besides providing fire, rescue and paramedic services. We are in the process of writing a new mission statement that will include our purpose. This will be done by the end of the year.
2. Our policy Manual was originally completed in 1987. We are in the process of updating and improving the manual now. Completion is scheduled for December 2005.
3. We have a back up system for our computers that includes hard copies and electronic back up. We do not share any Drives or internet connections with any one. We use a computer consultant to help us. We will contact the County IT department to get advice. This will be done in the next two months.
4. We do not have any reserves. All of our funds are in the operating budget. We need help getting more revenue, and then we can develop a plan for reserves.

Page 2: Grand Jury Reply

5. We will contact the County Treasurer just to be in compliance with the Grand Jury Findings.

I am available to the Grand Jury for any questions that might arise. Thank you for including us in the report.

Sincerely,

Geoffrey Balton
Fire Chief

Cc: Fire Commission

East Palo Alto Sanitary District
Responses to Grand Jury Inquiry
September 6, 2005

1. Have a written document defining their purpose(s). All districts should communicate their purpose(s) to homeowners and residents in the district.

Response: the District has a mission statement clearly stating the agency purpose and delineating the various functions performed by the agency. This statement is printed monthly included with board meeting materials. The district uses a quarterly newsletter to maintain a consistent venue for delivering important and up-to-date information to district customers. Also, the district maintains a website which includes a mission statement, information on the board of directors, and ongoing project activity. In addition to the newsletter and website, the district has started televising the monthly board meeting and broadcasting them over the local cable station. Also, co-sponsoring environmental education events with the Palo Alto treatment plant and various local schools.

2. Update or complete policy and procedure manuals.

Response: the District has just completed and update to the district administrative policy manual and has a commitment to reviewing the document annually to ensure the appropriateness of its content. A new ethics policy has been adopted as well that includes censorship provisions for various violations.

3. Insure that all computer systems adhere to good computer security practices. These practices should include, though not limited to, the following: system authorization and access control, backup and recovery of files, computer system and application documentation, disaster planning, hardware and software upgrade maintenance, physical and environmental protection, control of input and output, security awareness training, and personnel cross training and education. The district should contact the County's Information Systems Department for standards and recommendations.

Response: the District has hired a consultant to upgrade our computer system and develop a futuristic technology plan.

GRANADA SANITARY DISTRICT

OF SAN MATEO COUNTY

504 Avenue Alhambra, Suite 202 ~ P. O. Box 335 ~ El Granada, California 94018
Telephone: (650) 726-7093 ~ Facsimile: (650) 726-7099

August 23, 2005

Honorable Norman J. Gatzert
Judge of the Superior Court
Hall of Justice
400 County Center, 2nd Floor
Redwood City, CA 94063-1655

Re: Comments on the 2004–2005 Grand Jury’s Review of Special Districts Report

Dear Judge Gatzert,

In response to your letter requesting comments on the Grand Jury’s Review of Special Districts Report, the Granada Sanitary District Board of Directors has the following response to the recommendations contained in the report:

1. have a written document defining their purpose(s). All districts should communicate their purpose(s) to homeowners and residents in the district.

The District is in agreement with this recommendation. The District does not currently have a mission statement in place, but will implement one by January 1, 2006. We have also formed an ad-hoc committee to develop a District newsletter.

2. update or complete policy and procedure manuals.

The District is in agreement with this recommendation. Policies and procedures for various practices are in place and are continually revised or updated as necessary.

3. insure that all computer systems adhere to good computer security practices. These practices should include, though not limited to, the following: system authorization and access control, backup and recovery of files, computer system and application documentation, disaster planning, hardware and software upgrade maintenance, physical and environmental protection, control of input and output, security awareness training, and personnel cross training and education. The district should contact the County’s Information Systems Department for standards and recommendations.

The District is in substantial agreement with this recommendation, but would suggest that the last sentence be amended to read as follows: “The district should contact the County’s Information Systems Department, *or a qualified information systems consultant*, for standards and recommendations.” The District has the above practices in place, and utilizes the services of an IS consultant for technical support.

4. expand financial reporting to include information about reserves. Include a description of why the reserves are maintained, when the accumulated resources can be expected to be expended, what is the estimated total cost of the anticipated expenditures, and why the expenditure is necessary for the accomplishment of the special district's charter.

The District is in general agreement with this recommendation. Many of the above recommendations are addressed in the annual audit's management report section now required by GASB 34. Based on the above recommendation, we will expand the reporting as much as feasible to provide ratepayers with a better understanding of the need for reserves.

5. develop guidelines for the amount of invested reserves needed for support of current operations as well as anticipated capital programs utilizing the experience and expertise of the County Treasurer.

The District is in general agreement with this recommendation, but would suggest that the sentence be amended to read as follows: "develop guidelines for the amount of invested reserves needed for support of current operations as well as anticipated capital programs utilizing the experience and expertise of the County Treasurer, *or a qualified financial or investment advisor.*" The District is currently updating its 5 year CIP plan, and will use this together with its operating and emergency reserve recommendations to develop its needed total reserves.

Sincerely,

The Granada Sanitary District
Chuck Duffy, General Manager

4. Expand financial reporting to include information about reserves. Include a description of why the reserves are maintained, when the accumulated resources can be expected to be expended, what is the estimated total cost of the anticipated expenditures, and why the expenditures is necessary for the accomplishment of the special district's charter.

Response: the District has always maintained a financial reporting system that includes a description and purpose for each reserve fund.

5. Development guidelines for the amount of invested reserves needed for support of current operations as well as anticipated capital programs utilizing the experience and expertise of the County Treasurer.

Response: the District currently uses the County Treasurer investment pool and has adopted the County's investment guidelines

LADERA RECREATION DISTRICT

August 30, 2005

Hon. Norman J. Gatzert
Judge of the Superior Court
Hall of Justice
400 County Center, 2nd Floor
Redwood City, CA 94063

Re: Review of Special Districts Reort

Dear Sir:

The purpose of this letter is to provide our response to the questions listed in the Review of Special Districts report.

1. **Special Districts should have a written document defining our purpose**

Management agrees with recommendation. Ladera Recreation District publishes its Mission Statement in our brochure and on our web-site.

2. **Special Districts should have a completed policy and procedures manual**

Management agrees with recommendation. Policy and procedures relating to core District Operations are periodically reviewed and updated. Emphasis is on documenting safe and effective methods for key aspects of District Operations.

3. **Special District's should adhere to good computer security practices**

Management agrees with recommendation. The District owns two computers – one desk top and one lap top. The latter is secured in a locked cabinet in a locked office. Only 3 users have access to the computers– the two General Managers and the Office Assistant. However, following the recommendations of the Report, we contacted our Information Systems Department for guidance on appropriate security measures for our operations. We are in compliance with all procedures relevant to the scope of our business including, but not limited to:

- a) System authorization and access control; use limited to 3 users, but frequent password changes in place. Computer kept in locked environment.

- b) Frequent back up of all system data;
- c) Necessary documentation for all software and hardware is accessible;
- d) All information on the computer is public information. In the event of a system crash, back up files would easily facilitate restoration of information.
- e) All staff is aware that the computers are not for personal use.

4. **Special Districts should Expand reporting to include more information about reserves.**

Management agrees with the recommendation except where noted below. Two distinct types of reserves are maintained, each for a specific financial purpose. The Operating Reserve is required due to the seasonal nature of the business. 80% of our revenue typically is received in the spring and summer months. However, our expenses continue year around and in order to balance our cash flow and pay bills during the winter months, sufficient operating reserves must be maintained.

The Capital/contingency reserve is for the purpose of replacing and/or repairing capital equipment and to cover any potential costs that may occur due to unforeseen circumstances. These potential costs include natural disasters, liability awards and legal costs that are not covered by insurance, to name a few.

We believe that maintaining an appropriate level of reserve to provide for these contingencies is a prudent financial decision. However, the uncertain nature and timing of these potential costs preclude establishing a meaningful timeframe of when these resources will be expended.

Management will maintain a reserve analysis on file which will include many of the parameters described in the recommendation.

5. **Districts will develop guidelines for the amount of invested reserves**

Management agrees with this recommendation. Our reserve analysis will include guidelines for both types of reserves.

We trust this information answers your questions. If you need further information, please contact us.

Sincerely,

Wendy Seymour
Co-General Manager

Perry Roberts
Co-General Manager

**HALF MOON BAY FIRE PROTECTION DISTRICT
1191 Main Street
Half Moon Bay, CA 94019
(650) 726-5213**

August 31, 2005

Honorable Norman J. Gatzert
Judge of the Superior Court
Hall of Justice
400 County Center, 2nd Floor
Redwood, City, CA 94063

Dear Sir,

In regards to the findings of the Grand Jury's Review of Special Districts, the following are our responses:

Compensation:	We agree with this finding.
Ethical Behavior and Conflict of Interest:	We agree with this finding and have adopted a conflict of interest code.
Defined Purpose:	We agree with this finding and have a written Mission and Vision Statement.
Records Maintenance:	We agree with this finding.
Computer Security Practices:	We agree with this finding.
Compliance With Brown Act:	We agree with this finding.
Effective Use of Financial Resources:	We disagree partially with this finding.*
Appropriate Supervision and Control:	We agree with this finding.
Cost Efficient Service Delivery:	We agree with this finding.

* Fire districts are funded primarily by property tax. The County requires that

we carry a general reserve to meet our financial needs during the months where no property tax is collected or posted. This requires carrying a general reserve equal to four and a half months of normal operating costs.

Recommendations:

- 1. Have a written document defining their purpose(s). All districts should communicate their purpose(s) to homeowners and residents of their district.**

The recommendation has been implemented. The Half Moon Bay Fire Protection District has a board adopted Mission and Vision Statement. These are posted in public view in each of our facilities and will be included in any of the occasional mailings we send to our residents.

- 2. Update or complete policy and procedures manual.**

The recommendation has been implemented. The Half Moon Bay Fire Protection District has in place a Personnel Policies and Procedures Manual, a Procurement Manual, and a Standard Operating Procedures Manual. These manuals are maintained and updated regularly.

- 3. Insure that computer systems adhere to good computer security practices. These practices shall include, though not be limited to, the following: system authorization and access control, back-up and recovery of files, computer system and application documentation, disaster planning, hardware and software upgrade maintenance, physical and environmental protection, control of input and output, security awareness training, personnel cross-training and education. The district should contact the County's Information Systems Department for standards and recommendations.**

The recommendation has been partially implemented. Most of the suggested computer system practices are already in place for Half Moon Bay Fire District. The District will contact the County's ISD for additional recommendations by October 1, 2005.

- 4. Expand financial reporting to include information about reserves. Include a description of why the reserves are maintained, when the accumulated resources can be expected to be expended, what is the estimated cost of the anticipated expenditures, and why the expenditure is necessary for the accomplishment of the special district's charter.**

The recommendation has been implemented. The Half Moon Bay Fire Protection District's annual budget clearly identifies our reserve accounts. The budget narrative further defines the need for the various reserves. Additionally, the

District maintains a capital equipment replacement schedule that shows the recommended replacement scheduled and estimated expenditure amount.

5. Develop guidelines for the amount of invested reserves needed for support of current operations as well as capital programs utilizing the experience and expertise of the County Treasurer.

The recommendation has been implemented. The District maintains an investment policy and has determined the required reserves for the dry period and capital programs.

We trust we have met the intent of the Grand Jury's recommendations. Should you need further information, please contact me at (650) 726-5213.

Sincerely,

James Asche
Fire Chief

cc: Board of Directors
District Counsel

Highlands Recreation District
1851 Lexington Ave
San Mateo, CA 94402

August 30, 2005

Hon. Norman J. Gatzert
Judge of the Superior Court
Hall of Justice
400 County Center; 2nd Floor
Redwood City, CA 94063-1655

Dear Honorable Gatzert,

I am responding on behalf of the Highlands Recreation District regarding the Grand Jury report reviewing Special Districts.

We agree with the findings in the report. The recommendations have been implemented as described below.

1. The Highlands Recreation District has had written documentation defining our purpose. Our mission statement is published in our seasonal brochure which is mailed to all residents three times a year. It is also posted on our website as well as a description of our district and its history.

2. The Highlands Recreation District has complete policy and procedures manuals that are updated annually. In addition, each area of the District, Child Care, Aquatics and office administrations has its own manual that is updated annually.

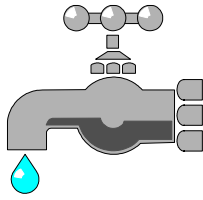
3. The Highlands Recreation District complies with good security practices. The District has seven computers. Six of the computers are located in the main office. Four of those are for word processing only. One is for class registrations and the other is for the Quick Books program that tracks program payments. The pool guard office has a computer to track pool attendance. Each computer has a password to gain access to the computer. The password is known only to staff that are authorized to access the computer. All computers are backed up monthly and the information is stored off site. The programs used by the District are Microsoft based and manuals are available for instruction. The District also uses an Access program that has written documentation for instructional purposes specifically for that program. The office is secured when not open and keys to the facility are regulated to authorized staff only. Staff that use the computers have been informed about the security of the computers. They have been informed that passwords are to be guarded and not given out and that personal information is to remain in the District office and not taken home.

4. The District retains reserves in order to be able to have the funds for future capital outlay, contingencies and facility maintenance repair. The reserves can be expected to be expended as listed in the fixed asset schedule which is updated annually. Reporting of reserves is in the annual audit that complies with GASB34. The expenditures are necessary to continue providing recreational programs in a safe facility.

5. The District's investments are currently managed by the San Mateo County Treasurer.

Sincerely,

Margaret Glomstad
General Manager



LOS TRANCOS COUNTY WATER DISTRICT

September 6, 2005

Hon. Norman J. Gatzert
Judge of the Superior Court
Hall of Justice
400 County Center
Redwood City CA 94063-1655

Dear Judge Gatzert:

The Los Trancos County Water District Board of Directors reviewed the "Grand Jury Review of Special Districts Report" at the District's Board meeting on August 18th, 2005. The Board is in general agreement with these findings and will be working to insure that the District is in compliance with these "best practices" for special districts.

The Los Trancos County Water District recently sold the District's water distribution facilities to the California Water Service Company. This decision was reached after a review of the current and projected future costs of operating the District as well as the cost of developing future water resources to meet increasing demand within the District. The review clearly demonstrated that the services provided by the District could be delivered more cost effectively by other, larger organizations. The District expects to remain intact and utilize the income to the District as a means to reduce the water bills of the residents within the District through a program of rebates. (Note that the cost of water throughout the region served by the San Francisco Hetch Hetchy System will rise dramatically over the next 5-7 years. The current \$1.09 per 100 cu.ft. wholesale cost of water is projected to at least triple and is more likely to increase by more than 4x.)

In regards to the specific findings/recommendations of the Grand Jury regarding special districts:

1. The statement of purpose of the District will need to be revised as a result of the sale to Cal Water. This will be done at the next District Board meeting in October, 2005. Assuming a consensus is achieved the revised statement of purpose can be distributed by January 1, 2006. If a consensus is not achieved, an additional meeting may be required. The District's Board meets every 2 months on the on the 3rd Thursday of the even numbered months. However, the December meeting, if it is close to Christmas is often rescheduled to January. The District utilizes community newsletters, e-mail, and Yahoo Groups mail lists for general communications and direct mail notices to distribute important or high interest communications to the residents within the District.
2. *ibid.* for operations policies
3. The District now utilizes computers only for communications (such as this), producing the minutes of Board meetings, and producing a monthly report on financial activities. The District has no employees; hence no salary data, or sensitive information. As such, some of the recommendations in this section are probably overkill for the scope of the computerized work done within the District. That said, all District files are backed up nightly with weekly backups

placed in a fireproof safe. Computers with District information are regularly upgraded to maintain up to date status of applications software and operating systems and both systems utilize appropriate firewall and virus prevention software. While the loss of the District records would be inconvenient, critical documents are also retained at the offices of the District's legal counsel. The loss of the historical records now on computer would not materially hamper any ongoing or future District activity.

4. This will be included in the District financial reports for FY 2005-2006.
5. This should be achievable by January 1, 2006.

Please note: The financial data for the Los Trancos County Water District as reported on Sheets 1 & 2 of the Appendix to the Grand Jury report does not appear to be correct as there is little correlations with the financial data as reported in the District's Audited Financial statement for 2003-2004 or for 2002-2003. The information in the Appendix materially distorts the financial position of the District. The District Board has requested that appropriate steps be taken to rationalize these discrepancies or to correct the errors and reissue the appendix with correct data.

Sincerely,

Stanley R. Gage
For the Los Trancos County Water District Board
of Directors



Menlo Park Fire Protection District

300 Middlefield Road • Menlo Park, CA 94025 • Tel: 650.688.8400 • Fax: 650.323.9129

Website: www.menlofire.org • Email: mpfd@menlofire.org

FIRE PREVENTION BUREAU: Tel: 650.688.8425 • Fax: 650.473.9847

Fire Chief

Paul S. Wilson

Board of Directors

Ollie Brown

Peter Carpenter

Del Krause

John Osmer

Bart Spencer

July 13, 2005

Honorable Norman J. Gatzert
Judge of the Superior Court
San Mateo County
Hall of Justice
400 County Center; 2nd Floor
Redwood City CA. 94063-1655

Re: Menlo Park Fire Protection District Response to San Mateo Grand Jury
Review of Special Districts Report issued June 8, 2005.

Honorable Judge Gatzert,

The Menlo Park Fire Protection District Board of Directors reviewed the report by the San Mateo County Grand Jury and passed Resolution 1097 on July 12, 2005 authorizing this response to the Grand Jury, as required by law.

FINDING - The Board of Directors agrees with the Grand Jury report.

RECOMMENDATIONS

4. "expand financial reporting to include information about reserves."

The Board of Directors has tasked the District Financial Committee
(two members of the Board of Directors) to complete by November 22, 2005
information about;

improvements to the District

Why reserves are maintained, when accumulated resources can be expected to be expended, total cost of the anticipated expenditures and why the expenditure is necessary for the accomplishment of the special district's charter.

5. "Develop guidelines for the amount of invested reserves needed for capital improvement programs."

The Board of Directors has tasked the District Strategic Planning Committee
(two members of the Board of Directors) to complete by November 22, 2005

a District policy on the amount of invested reserves needed for anticipated capital improvement programs.

Sincerely,

Mr. Bart Spencer
President, Board of Directors
Menlo Park Fire Protection District

c.c. Board of Directors
County Clerk
Grand Jury web site
District Clerk

Menlo Park Fire Protection District

Resolution No. 1097

RESOLUTION OF RESPONSE FROM
THE GOVERNING BOARD OF
THE MENLO PARK FIRE PROTECTION DISTRICT
TO THE SAN MATEO GRAND JURY

RE: REPORT ON REVIEW OF SPECIAL DISTRICTS - ISSUED JUNE 8, 2005

WHEREAS, the San Mateo Grand Jury issued a report on the review of special districts;

WHEREAS, the report contained findings and recommendations pertaining to the fire district;

WHEREAS, the Governing Board established an Ad Hoc Committee of two elected board members to review the report and prepare a response, as required by law;

WHEREAS, the Governing Board has reviewed the Ad Hoc Committee's response including recommendations;

NOW THEREFORE, BE IT RESOLVED BY THE BOARD OF DIRECTORS OF Menlo Park Fire Protection District authorizes the following actions and a transmittal of the response;

RESOLVED FURTHER, that the Board of Directors and staff "expand financial reporting to include information about reserves" including why reserves are maintained, when accumulated resources can be expected to be expended, total cost of the anticipated expenditures and why the expenditure is necessary for the accomplishment of the special district's charter; and

RESOLVED FURTHER, that the Board of Directors and staff establish a District policy on the amount of invested reserves needed for anticipated capital improvement programs.

RESOLVED FURTHER, that the Fire Chief is hereby directed to send a copy of the response to the Honorable Judge Norman J Gatzert.

ADOPTED this 12th day of July, 2005

I hereby certify that the foregoing is a full, true and correct copy of a resolution/ordinance duly and regularly adopted and passed at a meeting of the District Board of Menlo Park Fire Protection District, San Mateo County, California, held the 12th day of July, 2005.

AYES, and in favor thereof, Members:

NOES, Members:

ABSENT, Members:

ABSTAIN, Members:

Approved:

President

Clerk

August 25, 2005

Honorable Norman J. Gatzert
Judge of the Superior Court
Hall of Justice
400 County Center; 2nd Floor
Redwood City, CA 94063-1655

RE: Midpeninsula Regional Open Space District's Response to 2004-2005 Grand Jury Report
Regarding the Operational Status of Special Districts

Dear Judge Norman Gatzert:

I am writing to provide comments on behalf of the Midpeninsula Regional Open Space District (MROSD) regarding the 2004-2005 Grand Jury's findings and recommendations for Special Districts in San Mateo County.

While we agree that it is important to raise public awareness about the transparency, accountability, and efficiency of the business practices of Special Districts, we respectfully submit that overall, the review is unjustly critical of Special Districts and, more importantly, the report makes findings and conclusions that are not applicable to MROSD. In addition, the report has financial and employee data information on the spreadsheets pertaining to MROSD that we request be corrected. Please find below our response to the report including: (1) a brief history of MROSD, (2) our response to each of the findings, conclusions, and recommendations in the report, and (3) corrections to data errors specific to MROSD.

History of the District

Through the determined efforts of local conservationists, MROSD was created as a non-enterprise Special District by successfully placing a voter initiative, Measure R, on the ballot in 1972. At that time, MROSD was created in northwestern Santa Clara County. Voters then expanded the MROSD boundary in 1976 to include southern San Mateo County. In 1992, MROSD further expanded by annexing a small portion of Santa Cruz County.

Most recently, with the final approval of the Coastside Protection Program on September 7, 2004 by San Mateo County Local Agency Formation Commission (LAFCo), the MROSD boundary was extended to the Pacific Ocean in San Mateo County, from the southern borders of Pacifica to the San Mateo-Santa Cruz County line. The purpose of MROSD is as important today as it was over 30 years ago when the District was created. As we celebrate our 50,000th acre of land under protection, MROSD continues to meet the needs of its constituents: preserving and protecting a greenbelt of open space and providing opportunities for public recreation, education, and enjoyment for the benefit of all residents of the District and the Bay Area.

Findings

- 1) 1) Compensation – MROSD disagrees in part with the finding. MROSD’s enabling legislation, Public Resources Code (PRC) Section 5500 et seq., establishes allowable Board member compensation and other benefits. MROSD provides the allowable remuneration to Board Members as established in PRC Section 5536 of \$100 per meeting, not to exceed \$500 in a given month. MROSD does not provide health or other benefits to the Board Members, as is allowable by PRC Section 5536; however, a Board Member may, on his or her own volition, elect to participate in health care programs provided to MROSD employees, by paying the full cost of the premiums and any other associated fees.
- 2) 2) Ethical Behavior and Conflict of Interest – MROSD disagrees with this finding. MROSD is subject to a comprehensive set of statutes that strictly regulates the conduct of its elected Board Members, including the Political Reform Act, the Brown Act Government Code 1090’s prohibition against interest in District contracts, and statutory restrictions on expense reimbursement (see PRC Section 5536.5). MROSD strictly conforms with these statutes. MROSD also has transparent policies and procedures in place to prevent any such activity as described in this finding, including “expense account padding, diversion of public funds to private uses, excessive travel costs, nepotism, etc.” These policies and procedures include Budget Guidelines for Board Conference Expenses, Reimbursement of Director’s Expenses Memorandum, and completion of the Statement of Economic Interest, California Form 700 in accordance with the Political Reform Act.
- 3) 3) Defined Purpose – MROSD has a defined purpose in our mission statement: ***“To acquire and preserve a regional greenbelt of open space land in perpetuity; protect and restore the natural environment; and provide opportunities for ecologically sensitive public enjoyment and education.”*** In addition, MROSD’s purpose is set out in its enabling legislation.
- 4) 4) Maintaining Accurate and Complete Records – MROSD agrees with this finding.
- 5) 5) Computer Security Practices – MROSD agrees with this finding. Currently, MROSD has the following measures in place to ensure secure computer systems: computers with password protection and user restrictions for privacy and protection purposes, antivirus software, daily network and data backup, documented hardware and software, in-house data safe, disaster recovery plan, email SPAM filter provided by a third party vendor, and firewall with content filter.
- 6) 6) Compliance with Brown Act Requiring Public Access – MROSD agrees with this finding and strictly complies with the Brown Act in performing all of its functions.
- 7) 7) Effective Use of Financial Resources – MROSD disagrees with this finding that: “large unproductive financial reserves are a waste and misuse of taxpayer resources . . .

and districts appear to have large reserves that need to be examined for appropriateness.” The purpose of MROSD is to purchase land as open space. As such, MROSD has developed, through bond indebtedness and established limits on operational growth, financial reserves sufficient to purchase land when the opportunity arises. Opportunities to purchase land in the market place often arise on an unexpected basis and cannot be predicted. Therefore, it is not possible to budget exact amounts for land purchases in a specific fiscal year. Furthermore, if land that MROSD has identified as desirable open space is not purchased in the next 20 years, the land will likely be developed and no longer available for purchase by the District. MROSD can only accomplish its mission by having financial reserves available for land purchases.

- 8) 8) Appropriate Supervision and Control – MROSD disagrees in part with this finding. MROSD has numerous policies and procedures for basic operations and responding to constituent requests, including the MROSD Basic Policy that outlines the mission, objectives, and policies for purchasing land, resource management, and public participation. The Operations Department has an extensive set of policies for performing its services. The Board of Directors has its own Rules of Procedure. Numerous Administrative Policies are approved by the General Manager to enable MROSD to most efficiently conduct its business. Our policies are revisited and revised as appropriate. For example, MROSD is currently revising its Good Neighbor Policy, a policy that guides MROSD interactions with neighboring landowners and occupants.
- 9) 9) Cost Efficient Service Delivery – MROSD has no position on this finding because it is not applicable. MROSD has over 75 employees, not including seasonal or temporary employees who carry out much of the necessary fieldwork during the summer months. MROSD policies and procedures require prudent use of taxpayer dollars, limit overall expenditures to ensure conservative growth, and when appropriate, rely heavily on the services of outside contractors, consultants, and vendors to perform tasks when this is the most cost-efficient or effective way to deliver services.

Conclusions

- 1) 1) Effective Community Communication – MROSD disagrees with the conclusion that “there is generally minimal interchange between citizens and districts except around election time.” MROSD communicates regularly with its constituents. In addition to our bi-monthly public meetings that are announced via the website, posted agendas, and regular mail, MROSD holds public workshops and Board committee meetings inviting the public to participate in learning about the activities of the District. MROSD publishes a quarterly newsletter that includes information about District programs, projects, and numerous outdoor opportunities to learn more about the District and the natural resources within our preserves. The newsletter is posted on the District website and mailed to over 30,000 homes and businesses within our jurisdiction. The MROSD website, www.openspace.org, also provides extensive information about the District, its services, activities, history, and other relevant information. The public is invited to respond to surveys on the website, to give the District feedback via email, and communicate directly with our Board Members. MROSD participates in local area community events such as

Art and Wine festivals and environmental fairs, to educate the public about the purpose of the District and the outdoor and educational opportunities we provide. Finally, the District has an Ombudsperson who is available to assist residents of the District in their interaction with the District and facilitates resolution when needed.

- 2) 2) Internal Control Audits – MROSD agrees with the conclusion; we conduct an annual audit that is performed by accounting professionals and issued without qualification.
- 3) 3) Financial Reserves – MROSD disagrees with this conclusion. Please see responses to Financial Resources in the Findings section and under Recommendations.
- 4) 4) Cost Effective Delivery of Service – The conclusion is not relevant to MROSD, a district with over 75 employees.

Recommendations

- 1) 1) Defined Purpose – This recommendation was implemented prior to the Grand Jury investigation. MROSD has a defined mission statement and purpose that is communicated regularly to our constituents through our quarterly newsletter and brochures, website, public workshops, community meetings, and various local area events that occur throughout the year.
- 2) 2) Update and Complete Policy and Procedure Manuals – This recommendation was implemented prior to the Grand Jury investigation. MROSD has numerous policies and procedures in place to govern the District's operations and public services, which are routinely updated. (See also response to Finding No. 8.)
- 3) 3) Ensure Computer System Security – MROSD currently has many computer security mechanisms and practices in place. MROSD will contact the County's Information System Department for published standards and specific recommendations to determine if additional improvements are needed. This will be completed no later than January 1, 2006.
- 4) 4) Expand Financial Reporting to Include Information about Reserves – This recommendation requires further analysis as to whether additional information about the District's financial reserves, including why the reserves are maintained, when the accumulated resources expect to be expended, and why the expenditure is necessary for the accomplishment of the District's mission, can be included in our financial/audit reports. The MROSD Controller will discuss this issue with our auditors to determine the best way to provide information about the reserves to the public. This information will also be presented to the Administration and Budget Committee of the Board of Directors prior to January 1, 2006.
- 5) 5) Develop Guidelines for the Amount of Invested Reserves – This recommendation will not be implemented because MROSD's reserves are necessary to provide the ability for the District to quickly respond to opportunity purchases of high priority open space

land. The agency's Administration and Budget Standing Committee reviews the amount of the District's reserves annually based upon the Controller's multi-year analysis of the income and expenses, including capital improvement projects, borrowing power, and anticipated land purchase opportunities. This information is then forwarded to the full Board of Directors at its regular public meetings in March of each year as a part of the annual budget deliberation and adoption process. (See also response to Finding No. 7.)

Corrections

Corrections to the Appendix information are as follows:

Special Districts Public Information Spreadsheet – Sheet 1

Special District	Report Document	Fiscal Period	Taxes, etc.	Fees, etc.	Total Income	Expenses	Net Income*
MROSD	Finc Stmt	2003-2004	22,958,530	0	22,958,530	28,827,358	- 2,727,309

* Net Income = Total Expenditures minus Bond Issuance (1,297,336) and Escrow (1,844,183) expenses

Special Districts Public Information Spreadsheet – Sheet 2

Special District	Debt Service	Capital Projects	Funds Equity	Investments	Investment Advisor	Number Employees
MROSD	6,343,863	10,972,062	48,465,705	43,871,805	Santa Clara Treasurer	77

We appreciate that the Grand Jury took an interest in Special Districts and took the time to review the services of Special Districts within the County of San Mateo. We are committed to operating a public agency that is in full compliance with all applicable laws, rules, and regulations. MROSD provides a valuable service to our constituents and has always strived to be “transparent, accountable, and efficient.” These business practices will continue to be an integral part of the District's goals and purpose as we continue to serve the public to the best of our ability.

Thank you for the opportunity to respond to the 2004-2005 Grand Jury recommendations.

Sincerely,

/s/Larry Hassett

Larry Hassett, President
Board of Directors



MID-PENINSULA WATER DISTRICT

3 DAIRY LANE – POST OFFICE BOX 129

BELMONT, CALIFORNIA 94002

PHONE (650) 591-8941

FAX (650) 591-4998

August 29, 2005

Honorable Norman J. Gatzert
Judge of the Superior Court
Hall of Justice
400 County Center, 2nd Floor
Redwood City, CA 94063-1655

Re: Mid-Peninsula Water District Response to Review of Special Districts Report

Dear Judge Gatzert:

This responds to the June 8, 2005 letter from Rodina Catalano, Acting Court Executive Officer, requesting written comments from the Mid-Peninsula Water District (“District”) responding to the 2004-2005 Grand Jury’s Review of Special Districts Report (“Report”). The Report included five recommendations and the District’s responses are set forth below.

1. *Recommendation: Have a written document defining their purpose(s). All districts should communicate their purpose(s) to homeowners and residents in the district.*

Reply: The District agrees with the finding. Recommendation #1 has been implemented as described below.

The District adopted the following mission statement:

The Mid-Peninsula Water District exists to serve our customers by obtaining and distributing a safe, reliable, high quality supply of water for current and future needs in the most cost efficient manner.

DIRECTORS

MARK FELDMAN
PRESIDENT

DAMIEN B. BROWER
VICE-PRESIDENT

LOUIS J. VELLA

DAVID ALTSCHER

CHARLES P. WAGENSELLER

OFFICERS

PAUL R. REGAN
GENERAL MANAGER

CATHY REMELEH
OFFICE MANAGER

JANINE O’FLAHERTY
ENGINEER

JOAN L. CASSMAN
ATTORNEY

The District displays this mission statement at its District offices, on its website (see Attachment #1), at the top of its customer bills a few times a year (see Attachment #2) and in its community newsletter "Waterline," which is distributed by mail twice yearly and available on the District's website (see Attachment #3).

2. *Recommendation: Update or complete policy and procedure manuals.*

Reply: The District agrees with the finding. Recommendation #2 has been implemented as described below.

The District maintains the following policy and procedure manuals:

1. Board of Directors/Administrative Policies and Procedures.
 - Conflict of Interest Policy
 - Investment Policy
 - Award of Contracts and Bidding Requirements
 - Policy for Compensation and Expense Reimbursement for Board Members
 - Reserve Fund Policy
 - Water Service Ordinance and Schedule of Fees
 - Personnel Manual
2. Office Policies and Procedures Book
3. Field Operations Procedures Book

The District's policy is to review and update its policy and procedures manuals and records as necessary, such as when duties, procedures or requirements change, but at least every two years. All District policies and procedures are current. The District is currently reviewing and updating its procurement policies and procedures and considering adding a Charitable Giving Policy by the end of 2005. All policies are available for review at the District or upon request.

3. *Recommendation: Insure that all computer systems adhere to good computer security practices. These practices should include, though not limited to, the following: System authorization and access control, backup and recovery of files, computer system and application documentation, disaster planning, hardware and software upgrade maintenance, physical and*

environmental protection, control of input and output, security awareness training, and personnel cross training and education. The District should contact the County's information system Department for standards and recommendations.

Reply: The District agrees with the finding. Recommendation #3 has been implemented as described below.

The District provides appropriate computer security protection for the physical equipment as well as access to the District's system and records by using network firewalls, assigning all District staff with passwords for access to the system, and maintaining sensitive information such as accounting and billing records on the main server only with limited access to particular staff. The District engages an IT consultant for assistance and has appropriate maintenance and upgrade agreements in place for all computer software used by the District. The District has a regular backup and recovery practice that involves moving backup files offsite weekly. All District staff are trained in computer access and security procedures and cross trained for various District functions. The District encourages and supports employee education and training, including computer skills. The District will contact the County's Information System Department to learn about additional or other standards and recommendations that may be of benefit to the District.

4. *Recommendation: Expand financial reporting to include information about reserves. Include a description of why the reserves are maintained, when the accumulated resources can be expected to be expended, what is the estimated total cost of the anticipated expenditures, and why the expenditure is necessary for accomplishment of the special district's charter.*

Reply: The District agrees with the finding. Recommendation #4 has been implemented as described below.

The District adopted a Reserve Fund Policy by Resolution 2005-3 on February 24, 2005 (see Attachment #4), which describes the District's two reserve funds, the target amounts for each fund and the terms of use of those

reserves. The policy was developed after review of guidelines from the Association of California Water Agencies and the Institute for Local Self-Government. Also attached is a copy of the District's annual financial statement for Year Ending June 30, 2004, (see Attachment #5) from an independent auditor. This report contains descriptions of the District's reserves and its anticipated expenditures. Lastly, a copy of the District's Five Year Capital Improvement Plans is attached (see Attachment #6) listing anticipated expenditures for the Capital Projects Reserve Fund over the next ten years.

5. *Recommendation: Develop guidelines for the amount of investing reserves needed for support of current operations as well as anticipated capital programs utilizing the experience and expertise of the County Treasurer.*

Reply: The District agrees with the finding. Recommendation #5 has been implemented as described below.

The District has adopted both a Reserve Fund Policy (see response to #4 above) and an Investment Policy (see Attachment #7) that provides guidelines for the amount, use and investment of reserve funds. The District invests all of its reserves with the Local Agency Investment Fund. All of the money in reserves is allocated into separate funds for specified purposes. The District will consult with the County Treasurer to obtain additional insight regarding guidelines for its reserves.

We appreciate the opportunity to participate in the Grand Jury's review of Special Districts and are pleased to provide this response to the 2004-2005 Grand Jury Report. Please call me at (650) 591-8941 if you have any questions or would like further information.

Sincerely,


Paul Regan
General Manager

cc: Mid-Peninsula Board of Directors

Attachments

Mid-Peninsula Water District

- Home
- About MPWD
- In The News
- Rates & Payment
- Conservation
- Education
- Emergency Info
- Water Quality
- Current Projects
- District Staff
- Board of Directors
- FAQs
- Related Links
- Contact Us
- Site Map

The Mid-Peninsula Water District exists to serve our customers by obtaining and distributing a safe, reliable, high quality supply of water for current and future needs in the most cost efficient manner.

Offices are open Monday - Friday 8:00 am to 4:30 pm

You may reach us at:

Address
3 Dairy Lane
P.O. Box 129
Belmont, CA 94002

Tel 650-591-8941
Fax 650-591-4998

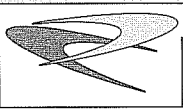


What would you like to see added to our web site? *Let us know!*

[Home](#) | [About MPWD](#) | [In The News](#) | [Rates & Billing](#) | [Conservation](#) | [Education](#) | [Emergency Info](#)
[Water Quality](#) | [Current Projects](#) | [District Staff](#) | [Board of Directors](#) | [FAQs](#) | [Related Links](#) | [Contact Us](#) | [Site Map](#)

Tel 650-591-8941 • Fax 650-591-4998 • Email mpwd@midpeninsulawater.org
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web design by
Constal Graphics



The Mid-Peninsula Water District exists to serve our customers by obtaining and distributing a safe, reliable, high quality supply of water for current and future needs in the most cost efficient manner.

SERVICE ADDRESS:

BILLING DATE:

DELINQUENT DATE:

WATER SERVICE FROM TO

WATER CHARGES

UNITS	@	RATE	AMOUNT
USAGE			

Tired of Paying by Check Every Month? See Back of Bill For Payment Options

Please see reverse side for additional information

Keep this portion for your records.

- CAPITAL EXPENSE CHG:
- SERVICE:
- DEMAND:
- FIRE:
- SURCHARGE:
- DEPOSIT:
- ACCT. OPENING:
- REINSTATE SVC:
- TOTAL CURRENT CHARGES:
- PRIOR BALANCE:

TOTAL CHARGES NOW DUE: ▶

METER		READINGS		CONSUMPTION INFORMATION		
SIZE	CURRENT	PREVIOUS	UNITS	GALLONS	DAYS	GALLONS PER DAY
		LAST YEAR ▶				

PLEASE DETACH AT PERFORATION AND RETURN THIS PORTION WITH PAYMENT



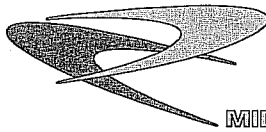
SERVICE ADDRESS

ACCOUNT NO:

BILLING DATE:

AMOUNT DUE:

DIFFERENT AMOUNT ENCLOSED:



MID-PENINSULA WATER DISTRICT

Location - 3 Dairy Lane
Telephone - 650 591-8941
Correspondence Only
PO Box 129
Belmont, CA 94002

Payment Remittance Address
MID-PENINSULA WATER DISTRICT
DEPT. 33474
PO BOX 39000
SAN FRANCISCO CA 94139-0001

BUSINESS HOURS

The business office is open 8:00 a.m. to 4:30 p.m. Monday - Friday, closed Saturdays, Sundays and Holidays.
Visit our website @ www.midpeninsulawater.org

Bill Information: THIS BILL IS DUE AND PAYABLE UPON RECEIPT. If not paid within 20 days, bill is delinquent and service may be subject to discontinuance without further notice. If water is discontinued for nonpayment or because of a returned unpaid check, all charges plus a penalty fee must be paid prior to water service being restored. In addition, a deposit may be required to re-establish your credit. Service will be restored as soon as possible, during normal work hours, following receipt of full payment.

Should you have a question about this bill, please call or visit the business office for an explanation. If the assistance or results you receive are not satisfactory, you may appeal to the General Manager.

Conservation: Water conservation will save you money while protecting a valuable, limited resource. Water efficient devices, such as low-flow showerheads and low-flush toilets, as well as prompt repair of all leaks save water and money. Drought resistant plants and drip irrigation also use less water. Visit the District office located at Dairy Lane to view our drought resistant garden. The business office also has brochures and information to assist in your conservation efforts.

BOARD OF DIRECTORS

The Board of Directors normally meets monthly, the fourth Thursday at 6:30 p.m., in the Dairy Lane Operations Building. The public is invited to attend.

Payment Options: In addition to paying by check, cash or money order, the following Payment Options are now available:

MasterCard and Visa credit cards in person or by telephone. Credit card payments may be telephoned in each month or you may sign up for the automatic pre-authorized payment plan.

Auto Pay Debit from your checking or savings account.

Customers may set up "Pay Online" through their bank with a minimum of 8 business days to reach our office. Remittance address – MID-PENINSULA WATER DISTRICT DEPT. 33474, PO BOX 39000, SAN FRANCISCO, CA. 94139-0001.

Payment Drop Box: Two Drop Off locations:

Mid-Peninsula Water District Office – #3 Dairy Lane, Belmont. Cash, Check or Master Card/Visa Credit Card Payments accepted.

Post Office at Carlmont Shopping Center – 2033 Ralston Ave. Weekdays: 8:30 a.m. to 3:30 p.m. Saturdays: 8:30 a.m. to Noon. For your protection, staff suggests Checks or Money Order payments only. **Payments in response to a 7 day Notice are not accepted at this location and must be paid at the Dairy Lane office – Do not mail.**

For details for any of the above payment options or to receive authorization forms, call the District Office at (650) 591-8941 for assistance Monday-Friday from 8:00 a.m. to 4:30 p.m.

PLEASE RETURN THIS PORTION WITH YOUR PAYMENT
OR
BRING ENTIRE BILL TO PAY IN THE OFFICE.
THANK YOU.



Mid-Peninsula Water District
3 Dairy Lane, Belmont, CA
Phone: (650) 591-8941
Fax (650) 591 4998

WATERLINE

Mid-Peninsula Water District Community Newsletter

Water Conservation

If Everyone Saves A Little.... We Can All Save A Lot !!!

Water conservation is the most cost-effective and environmentally sound way to reduce our demand for water. Are you using more water than you thought? Take a look at your bill. The average daily indoor water usage in our District is between 50 and 100 gallons per person per day. You'd be surprised at how much water you are using and money you can save by following these conservation tips.

SAVING WATER INDOORS



Verify that your home is leak-free, because many homes have hidden water leaks. Read your water meter before and after a two-hour period when no water is being used. If the meter does not read exactly the same, there is a leak.

Repair dripping faucets by replacing washers. If your faucet is dripping at the rate of one drop per second, you can expect to waste 2,700 gallons per year which will add to the cost of water and sewer utilities.

Check for toilet tank leaks by adding food coloring to the tank. If the toilet is leaking, color will appear in the toilet bowl within 30 minutes.

Use the minimum amount of water needed for a bath by closing the drain first and filling the tub only 1/3 full.

Don't let water run while shaving or washing your face. Brush your teeth first while waiting for water to get hot, then wash or shave after filling the basin.

Retrofit all wasteful household faucets by installing aerators with flow restrictors.

Operate automatic dishwashers and clothes washers only when they are fully loaded or properly set the water level for the size of load you are using.

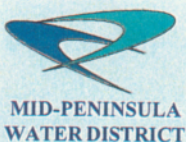
When washing dishes by hand, fill one sink or basin with soapy water. Quickly rinse under a slow-moving stream from the faucet.

Do not use running water to thaw meat or other frozen foods. Defrost food overnight in the refrigerator or by using the defrost setting on your microwave.



IN THIS ISSUE.....

- * *Water Conservation*
- * *Main Replacement*
- * *Water Quality*
- * *Certification Update*
- * *Valve, Hydrant and Tank Maintenance*
- * *Fluoride*
- * *Leak Detection and more*

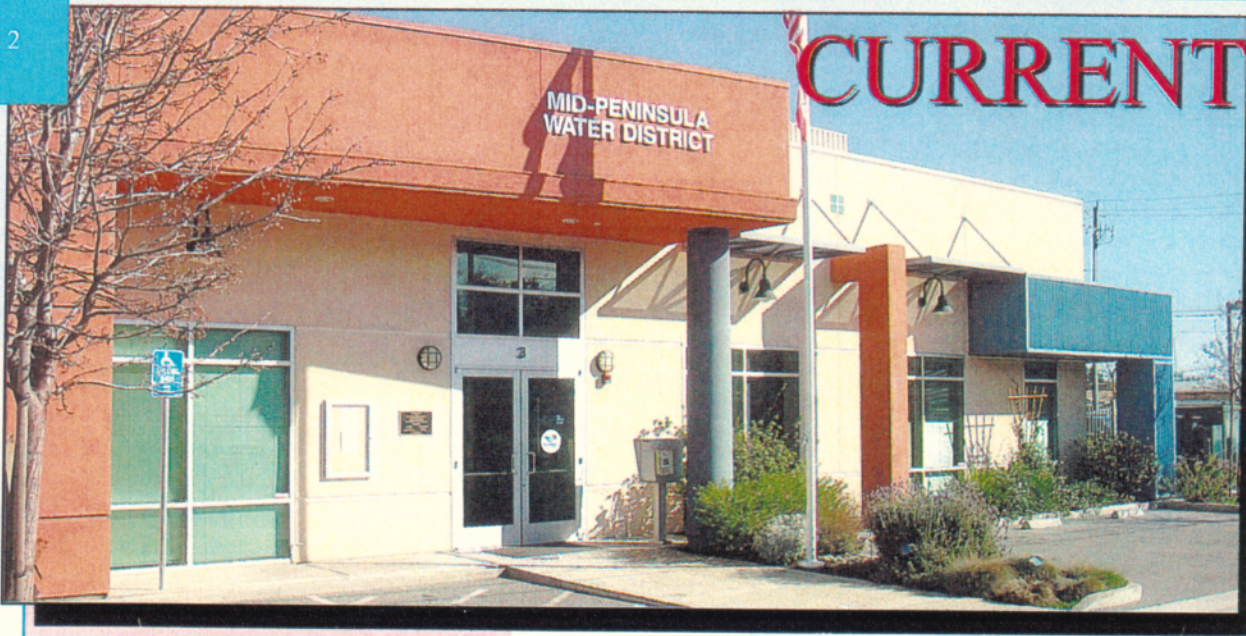


Paul R. Regan, General Manager
paulr@midpeninsulawater.org

P.O. Box 129 Belmont, CA 94002
Phone: (650) 591-8941

BOARD OF DIRECTORS:

David Altscher Louis Vella
Mark Feldman Damien Brower
Charles P. Wagenseller



CURRENT PROJECTS

CERTIFICATION UPDATE

WE ARE CERTIFIED

Mid-Peninsula Water District employees, depending on their duties, are required to be certified by attending on-site educational courses and passing exams which thoroughly cover their job classifications.

In 1998, the federal Environmental Protection Agency released new rules for the Certification of operators of Public Water Systems.

Mid-Peninsula Water District announced that at this time all distribution operators have either a grade 1 or grade 2 Certification. As these employees strive for higher levels of certification and others strive to become certified, we want our customers to know that all efforts are made only to enhance our knowledge and serve our customers by providing a safe, reliable, high quality supply of water to meet their present and future needs in the most efficient manner.

Mid-Peninsula Water District is offering rebates to customers who purchase and install high efficiency washers or by calling the N

MAIN REPLACEMENT PROJECTS CONTINUE

To ensure our water distribution is safe and reliable, one of our primary functions continues to be the replacement of aging or failing pipelines. We identify these areas by dates the pipes were installed and monitor leaks that occur over time. Leaks can cost the District lost revenues and precious gallons of water. Having budgeted and implemented a Main Replacement Plan, we feel that we have effectively reduced water loss which could eventually have resulted in higher consumer rates. This year our staff replaced 3,700 feet of main line pipe on Malcolm Ave, Ruth Ave, Anita Ave, Anita Ct., Belmont Ave, Julia Ct. and North Rd.



WATER QUALITY

In February 2004, the San Francisco Public Utilities Commission (SFPUC) changed their disinfectant strategy from chlorine to chloramines. Chloramines is the combination of approximately 5 parts chlorine and 1 part ammonia. Though this disinfectant is new to us, it has been used for decades in other water systems. It has proven to be a very effective and safe disinfectant.

Recently, individuals have published many articles stating that chloramine is unsafe and can leach lead from our pipelines. In August 2004, a water district lead and copper study was performed and results of the study indicate that there have been no such increases in the lead or copper content in our water distribution system and we are well within the state mandated parameters.

The Mid-Peninsula Water District continues to monitor the water on a daily basis and maintain the distribution system to ensure the water quality is extremely high.



See Below

The Mid-Peninsula Water District exists to serve our customers with a reliable, high quality supply of water for current and future needs.



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MPWD EMPLOYEE SPOTLIGHT



Brent Chester has been an employee of the Mid-Peninsula Water District for over 10 years. As one of our most versatile employees, Mr. Chester continues to excel in all aspects of his responsibilities. One of his main objectives this year is to create a new map book. This extremely detailed map book assists

all District employees in locating facilities, mains, valves, meter boxes, etc. As seen in the picture above, Brent uses his G.I.S locating device which allows him to place items with pin point accuracy on the map book.

Outside of his diverse job duties, Brent enjoys working on many different types of projects ranging from the restoration of his classic Pontiac Firebird to the refinishing of hardwood floors. Fortunately for his closest friends and family, Brent is always volunteering his free time and skills to assist with many household projects. Brent's proudest accomplishment is a recent addition to his family. Brent and his wife now have a beautiful little girl that not only enlarges his family but the MPWD family as well. Given Brent's experience and versatility, we look forward to him working with the District for many years to come.

MPWD OFFERS REBATE PROGRAM

rea Water Utility Clothes Washer Rebate Program, the Mid-Peninsula Water from \$50 to \$120 (depending on the washing machine) to our residential customers a qualified high-efficiency clothes washer. Additional information and forms for energy washers can be obtained from local appliance retailers selling Energy Star Mid-Peninsula Water District at (650) 591-8941.



VALVE AND HYDRANT MAINTENANCE



The Mid-Peninsula Water District has approximately 2,200 main line valves and 800 fire hydrants. MPWD has maintenance programs in place that ensure that its hydrants and valves are operational and ready for use in case of an emergency.



TANK MAINTENANCE

To assist with water quality and prolong our tanks lifespan, the Mid-Peninsula Water District has in place a Tank Maintenance Program that ensures that every 2 years each tank will be emptied, touch up painted if necessary, minor repairs made if necessary, cleaned and disinfected.



our customers by obtaining and distributing a safe, and future needs in the most cost efficient manner!

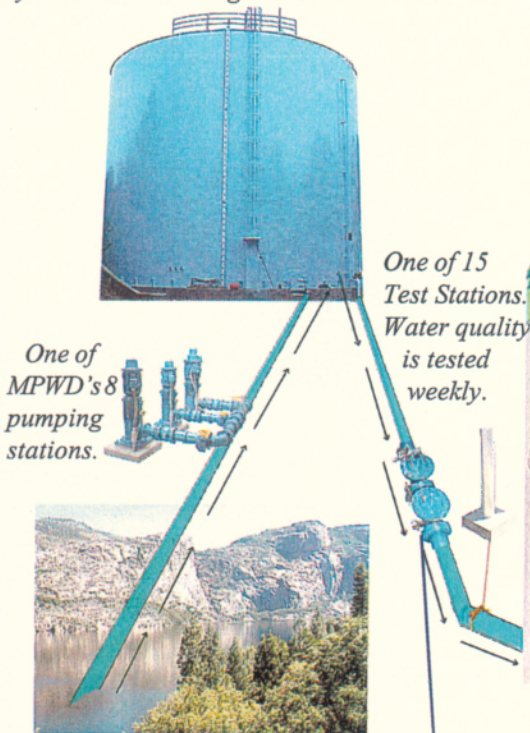




Currently, 12 of 27 water agencies whom purchase water from the San Francisco Public Utilities Commission have fluoridated water. The Mid-Peninsula Water District is one of 15 water agencies that does not currently have fluoride in our water supply. This will soon change. For the last few years the SFPUC has been working towards implementing the addition of fluoride to the remaining 15 water agencies. Originally the implementation was scheduled for the beginning of 2004. Due to the needed disinfectant change to chloramines, the SFPUC has rescheduled this additive to be implemented mid to late 2005 and maybe as late as 2006. The Mid-Peninsula Water District will keep you informed as this change in your water approaches.

UNDERSTANDING YOUR WATER SOURCE AND YOUR HOME PLUMBING

One of 10 tanks in our water system.
Combined storage capacity in our system is 12 million gallons.

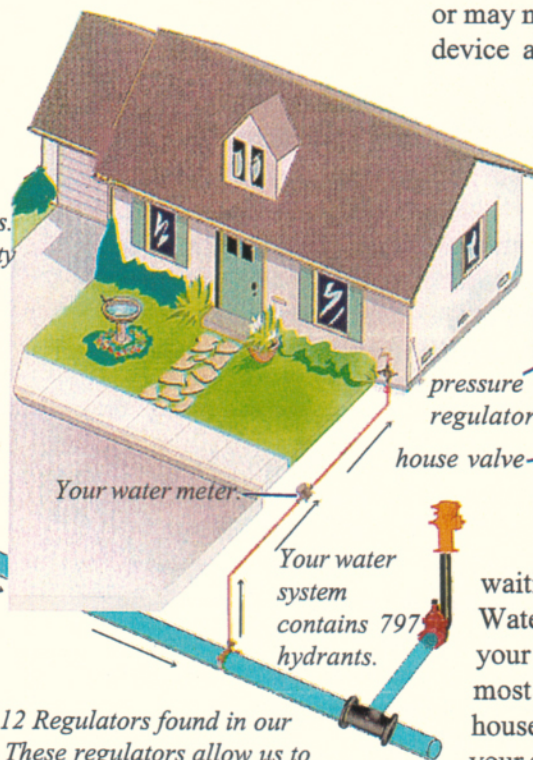


One of MPWD's 8 pumping stations.

The Hetch Hetchy Reservoir found in Yosemite National Park is your main source of water. This Reservoir has a storage capacity of 117.4 billion gallons.

One of 15 Test Stations. Water quality is tested weekly.

One of 12 Regulators found in our system. These regulators allow us to better control the high water pressure flowing down the steep hills of Belmont.



Two components that assist you with your water pressure and help you minimize water loss in the event of a leak are your *pressure regulator* and your *house valve*. Depending on your home location, you may or may not need a pressure regulator. This device allows you to control the water pressure entering your home

making it less likely to have a leak in your home. The house valve may be used to turn off the water entering your home in case of a leak. In an emergency situation, using your house valve can save you money by turning the water off immediately instead of

waiting the few minutes it may take a Water District Employee to come to your home and turn off your meter. In most cases, your regulator and your house valve can be found directly below your outside hose bib.

HOW CAN I TELL IF I HAVE A LEAK ON MY PROPERTY

A simple way to figure out if you have a leak in your plumbing on your property is to check your meter reading right before you go to bed, and then check it first thing in the morning before any water has been used. If no water has been used in the house, and no sprinklers have turned on over night and the reading is the same then you do not have a leak. If the reading is different, then most likely there is a leak. If you do have a leak, one way to determine if the leak is in your home or in your service line between the meter and your home, perform the same test but this time turn off the house valve located near your front hose bib. If the reading in the morning is the same, then most likely the leak is in your home, but if the reading is different it is safe to say the leak is in your service line between your meter and your home.

If Everyone Saves A Little, We Can All Save A Lot

RESOLUTION NO. 2005-3

APPROVING STATEMENT OF RESERVE FUND POLICY

MID-PENINSULA WATER DISTRICT

WHEREAS, The Mid-Peninsula Water District ("District") desires to adopt a formal policy concerning the maintenance and expenditure of the District's reserve funds to ensure that sufficient resources are available to meet the District's operating and capital obligations; and

WHEREAS, a proposed reserve fund policy demonstrates the District's commitment to fiscal responsibility and prudent financial planning.

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors of the Mid-Peninsula Water District that the "Statement of Reserve Fund Policy" as documented in Exhibit A, attached hereto and incorporated herein, is hereby approved.

REGULARLY PASSED AND ADOPTED this 24th day of February 2005, by the following vote:

AYES: **Directors Altscher, Brower, Vella, Wagenseller, & President Feldman**

NOES: **None**

ABSENT: **None**



President, Board of Directors

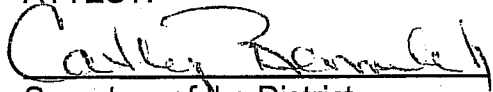
ATTEST:

Secretary of the District

EXHIBIT A

Resolution No. 2005-3

MID-PENINSULA WATER DISTRICT Statement of Reserve Fund Policy

I. Policy

The Mid-Peninsula Water District strives to follow prudent financial planning practices to ensure that sufficient funding is available for current and future operating and capital cost needs. The District further aims to operate in a fiscally responsible manner, and to anticipate and prepare for future funding requirements as well as for emergencies and other unforeseen events.

To assist in achieving these objectives, the District will also aim to maintain reserves sufficient to fund both expected and unforeseeable fluctuations in revenues and operating and capital expenditures. The reserve funds will be accumulated and managed in a manner which allows the District to make expenditures in accordance with the District's three-year and ten-year Capital Improvement Plans, and will allow the District to meet its expected and unforeseeable operating, capital and other costs. The establishment and use of reserves provide the District with the means to cover unpredictable, unique expenses and to lessen the impact of disproportionate or significant rate fluctuations. During the annual budget process, the Board of Directors will review, with Staff input, the level of reserve funds accumulated, spent and maintained.

II. MPWD Reserve Funds

A. Purposes

The Mid-Peninsula Water District shall establish and maintain two Reserve Funds: a Capital Projects Reserve Fund and a Contingencies Reserve Fund ("Reserve Funds"). These two funds will be earmarked in the District's Annual Budget by the Board of Directors as follows:

- The Capital Projects Reserve Fund will fund anticipated capital improvements to meet regulatory requirements, system reliability and future demand in accordance with the District's three-year and ten-year Capital Improvement Plans, and
- The Contingencies Reserve Fund will fund unforeseeable or emergency operating and capital expenses incurred in an event such as a natural or man-made disaster, water shortage situation or other unforeseeable circumstance.

The Board of Directors has the authority to redirect the use of the Reserve Funds as needs of the District change.

B. Size

The District's target size for the Capital Projects Reserve Fund will be determined by the Board in the annual budget process based on the projected costs reflected in the three-year and ten-year Capital Improvement Plans.

The District's target size for the Contingencies Reserve Fund is \$750,000 or the current replacement cost for one water tank, whichever is greater.

b. Accumulation

The Capital Projects and Contingencies Reserve Funds are accumulated by allocation of District funds through the annual budget process.

At the end of each year, all budgeted but unspent revenues will also be allocated to the Contingencies Reserve Fund. If and when the Contingencies Reserve Fund reaches its target size, no additional such funds will be allocated to this Reserve Fund. Instead, any such funds will become part of general District funds for use the following year or will be allocated to the Capital Projects Reserve Fund.

The Reserve Funds will be invested pursuant to the District's existing Investment Policy.

II. Reserve Funds Use

Use of funds from each Reserve Fund requires Board of Directors approval, as follows:

a. Annual Budget Process Approval of Capital Expenditures

During the annual budget process, the General Manager will submit a recommendation to the Board regarding the capital projects to be undertaken during the fiscal year, the projected costs for the projects, and the source(s) of funds to pay for the project, which may include the Capital Projects Reserve Fund. The District's capital budget will include line items for the amounts of any allocations from the Capital Projects Reserve Fund for the current year and the remaining balance of the Capital Projects Reserve Fund.

b. Contingency Expenditures Approval Process

Emergency Contingency Expenditures

In the event of any emergency requiring immediate action by the District to prevent the immediate interruption or cessation of necessary District services or to safeguard life, property or the public health or welfare, the General Manager is authorized to use the Contingencies Reserve Fund, if necessary, in accordance with the General Manager's emergency procurement authority. (Resolution 98-33.) The General Manager will

report the use of the Contingencies Reserve Fund at the next meeting of the Board of Directors for ratification. The Board may approve an adjustment to the annual budget to reflect the amount of the associated allocation from the Contingencies Reserve Fund to the current operating budget, capital budget, or both.

Other Contingency Expenditures

In the event of an unforeseen and necessary expense arising subsequent to the annual budget process, but not requiring an emergency response by the District as addressed above, the General Manager will submit a recommendation to the Board regarding the reason for the expense, the projected costs, and the appropriate source of funds to pay for the expense. Such sources may include either the Capital Projects Reserve Fund for capital expenses or the Contingencies Reserve Fund for capital or operating expenses. If the Board approves an expenditure from either Reserve Fund, it will also approve an adjustment to the annual budget to reflect the amount allocated from the Reserve Funds to the current operating budget, capital budget, or both.

Mid-Peninsula Water District

Financial Statements

June 30, 2004 and 2003

Mid-Peninsula Water District

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June 30, 2004 and 2003

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II. Management's Discussion and Analysis	2
III. Financial Statements	
Statements of Net Assets	8
Statements of Revenues, Expenses and Changes in Net Assets	10
Statements of Cash Flows	11
VI. Notes to Financial Statements	13



INDEPENDENT AUDITORS' REPORT

**Board of Directors
Mid-Peninsula Water District
Belmont, California**

We have audited the accompanying basic financial statements of the Mid-Peninsula Water District (the District) as of June 30, 2004 and 2003, as listed in the table of contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based upon our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audits 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Mid-Peninsula Water District as of June 30, 2004 and 2003, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America and state regulations governing special districts.

As discussed in Note 2 to the financial statements, the District adopted Governmental Accounting Standards Board (GASB) Statements No. 34, Basic Financial Statements and Management Discussion and Analysis for State and Local Governments, No. 37, Basic Financial Statements and Management Discussion and Analysis for State and Local Governments: Omnibus and No. 38, Certain Financial Statement Note Disclosures, effective July 1, 2003.

The Management's Discussion and Analysis 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 primarily of inquires of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit this information and express no opinion on it.

Vavrinek Trine Day & Co. LLP

Palo Alto, CA
March 25, 2005

Mid-Peninsula Water District

Management's Discussion and Analysis June 30, 2004 and 2003

The Mid-Peninsula Water District's (the District's) management's discussion and analysis is designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the District's financial activity, (c) identify changes in the District's financial position (its ability to address the next and subsequent year challenges), and (d) identify individual fund issues or concerns.

This Management's Discussion and Analysis is new, and will now be presented at the front of each year's financial statements.

Since the Management's Discussion and Analysis (MD&A) is designed to focus on the current years' activities, resulting changes and currently known facts, please read it in conjunction with the District's financial statements.

FINANCIAL HIGHLIGHTS

- The District's net assets increased by \$194,325 (or 1%) during the fiscal year ended June 30, 2004. Since the District engages only in the business of providing for the potable water needs of the area within its boundaries, the increase is all in the category of business-type net assets.
- The District's total revenues increased by \$638,492 (or 12%) from \$5,247,525 during fiscal year ended June 30, 2003 to \$5,886,017 during fiscal year ended June 30, 2004. The increase in total revenues was primarily due to increases in District's customer rate charges due to pass-through increases made by the water supplier, San Francisco Water.
- The District's total expenses increased by \$316,688 (or 6%) from \$5,375,004 during fiscal year ended June 30, 2003 to \$5,691,692 during fiscal year ended June 30, 2004. Increases in total expenses were the result of San Francisco Water rate increases, San Francisco Bay Area Water User's contract maintenance increases, insurance premiums increases, and benefits increases.

Mid-Peninsula Water District

Management's Discussion and Analysis June 30, 2004 and 2003

FUND FINANCIAL STATEMENTS

The District consists of exclusively one Enterprise fund. Enterprise funds utilize the full accrual basis of accounting. The accrual method of accounting is similar to accounting utilized by the private sector accounting.

- Statements of Net Assets: The focus of the Statements of Net Assets (the "Unrestricted Net Assets") is designed to represent the net available liquid (non-capital) assets, net of liabilities, for the entire District. Net Assets (formerly equity) are reported in three broad categories:
- Net Assets Invested in Capital Assets, Net of Related Debt: This component of Net Assets consists of all Capital Assets, reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- Restricted Net Assets: This component of Net Assets consists of restricted assets; when constraints are placed on the asset by creditors (such as debt covenants), grantors, contributors, laws, regulations, etc.
- Unrestricted Net Assets: Consists of Net Assets that do not meet the definition of "Net Assets Invested in Capital Assets, Net of Related Debt", or "Restricted Net Assets".

Statements of Revenues, Expenses and Changes in Net Assets: (similar to an Income Statement.) The Statements of Revenues, Expenses and Changes in Net Assets includes Operating Revenues (water sales and other user charges), Operating Expenses (source of supply, pumping, transmission and distribution, customer accounts, administrative and general, and depreciation), and Non-Operating Revenue and Expenses (rental income, state augmentation, investment income, construction income, and interest expense).

The focus of the Statements of Revenues, Expenses and Changes in Net Assets is the "Change in Net Assets", which is similar to Net Income or Loss.

Statements of Cash Flows: This statement discloses net cash provided by, or used for, operating activities, non-capital financing and investing activities, and from capital and related financing activities.

Mid-Peninsula Water District

**Management's Discussion and Analysis
June 30, 2004 and 2003**

STATEMENT OF NET ASSETS

The following table reflects the condensed Statement of Net Assets compared to prior year. The District is engaged only in Business-Type Activities.

**TABLE 1
STATEMENT OF NET ASSETS**

	<u>2004</u>	<u>2003</u>	<u>Increase (Decrease)</u>	<u>Percent Increase (Decrease)</u>
Assets:				
Current Assets	\$ 1,292,316	\$ 2,062,316	\$ (770,000)	(37%)
Capital Assets	<u>13,796,103</u>	<u>12,981,771</u>	<u>814,332</u>	6%
Total Assets	<u>\$15,088,419</u>	<u>\$15,044,087</u>	<u>\$44,332</u>	0%
Liabilities:				
Current Liabilities	\$1,015,374	\$1,073,303	\$(57,929)	(5%)
Long-Term Liabilities	<u>754,560</u>	<u>846,624</u>	<u>(92,064)</u>	11%
Total Liabilities	<u>1,769,934</u>	<u>1,919,927</u>	<u>149,993</u>	2%
Net Assets:				
Invested in Capital Assets, Net of Related Debt	12,949,478	12,049,502	899,976	7%
Unrestricted	<u>369,007</u>	<u>1,074,658</u>	<u>(705,651)</u>	(66%)
Total Net Assets	<u>\$13,318,485</u>	<u>\$13,124,160</u>	<u>\$ 194,325</u>	1%

Major Factors Affecting the Statement of Net Assets

- Current assets decreased by 37% primarily due to the use of cash reserves to meet current year operating expenses and capital asset acquisition costs.
- Capital assets increased by 6% primarily due to current year capital asset acquisition costs of \$1,809,978 net of current year depreciation of \$995,146. The net assets invested in capital assets, net of related debt, also increased primarily due to current year capital asset acquisition costs, net of current year depreciation.
- Most of the decrease in unrestricted net assets can be attributed to the use of cash reserves from the net assets to fund current year capital asset acquisitions. However, total net assets did not change significantly from prior year due to the use of net assets for capital acquisitions.

Mid-Peninsula Water District

**Management's Discussion and Analysis
June 30, 2004 and 2003**

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Table 2 compares the revenues and expenses for the current and previous fiscal year. The District is engaged only in Business-Type Activities.

**TABLE 2
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**

	<u>2004</u>	<u>2003</u>	<u>Increase (Decrease)</u>	<u>Percent Increase (Decrease)</u>
Revenues:				
Operating revenues:				
Water sales and other use charges	\$ 5,500,874	\$ 4,904,257	\$ 636,218	13%
Non-operating revenues:				
Rent, taxes, interest and				
Other income	<u>385,143</u>	<u>343,268</u>	<u>2,274</u>	1%
Total Revenues	<u>5,886,017</u>	<u>5,247,525</u>	<u>638,492</u>	12%
Expenses:				
Operating expenses:				
Source of supply	2,202,749	1,596,609	606,140	38%
Pumping	438,807	294,946	143,861	49%
Transmission and distribution	1,046,594	646,575	400,019	62%
Customer accounts	506,665	266,399	240,266	90%
Administrative and general	436,944	1,486,936	(1,049,992)	(70%)
Depreciation	995,146	1,012,788	(17,642)	(2%)
Non-operating expenses:				
Interest expense	<u>64,787</u>	<u>70,753</u>	<u>(5,966)</u>	(8%)
Total Expenses	<u>5,691,692</u>	<u>5,375,006</u>	<u>316,686</u>	6%
Increase (Decrease) in Net Assets	<u>\$ 194,325</u>	<u>\$ (127,481)</u>	<u>\$ 321,806</u>	252%

Major Factors Affecting the Statement of Revenue, Expenses and Changes In Net Assets

- Operating revenues increased by 13% primarily due to pass-through rate increases to District's customers.
- Source of supply expenses increased by 38% primarily due to rate increases made by the District's water supplier, San Francisco Water.
- For the balance of operating expenses, the large variances noted from 2003 to 2004 result from changes in the way the District allocates costs to functional categories. In 2004

more direct expenses were allocated to functional categories with the offset coming from a reduction in the administrative and general category.

BUDGETARY HIGHLIGHTS

The District's Board of Directors adopts the budget for every fiscal year, prior to the beginning of that fiscal year. The District's fiscal year ended June 30, 2004 budget reflected total revenues of \$5,838,000, and total expenditures of \$5,620,000. Actual revenues and expenditures for the fiscal year ended June 30, 2004 were within 1% of the budgeted amounts.

CAPITAL ASSETS

As of June 30, 2004, the District had \$13,796,103 invested in capital assets as reflected in the following schedule, which represents a net increase (addition, deductions and depreciation) of \$814,332 or 6% increase from June 30, 2003.

TABLE 3
CAPITAL ASSETS AT YEAR-END (NET OF DEPRECIATION)

The following reconciliation summarizes the changes in Capital Assets.

	<u>2004</u>	<u>2003</u>	Increase (Decrease)	Percent Increase (Decrease)
Water plant	\$ 28,444,466	\$ 26,121,589	\$ 2,322,877	9%
Accumulated depreciation	(14,648,363)	(13,694,103)	(954,260)	7%
Construction in progress	-	554,285	(554,285)	(100%)
Net capital assets	<u>\$ 13,796,103</u>	<u>\$ 12,981,771</u>	<u>\$ 814,332</u>	6%

DEBT ADMINISTRATION

As of June 30, 2004, the District had \$846,625 in debt outstanding:

TABLE 4
OUTSTANDING DEBT, AT YEAR-END

	<u>2004</u>	<u>2003</u>
Note payable	\$ 846,625	\$ 932,269
Current portion	<u>92,065</u>	<u>85,645</u>
Note payable, net of current portion	<u>\$ 754,560</u>	<u>\$ 846,624</u>

Mid-Peninsula Water District

Management's Discussion and Analysis June 30, 2004 and 2003

ECONOMIC FACTORS

The District was adversely impacted by the rising costs of maintaining the water distribution plants and facilities, and rising premiums for insurance and benefits. The District's goal is to minimize the impact of these rising costs through prudent management, budgeting and forecasting efforts.

FINANCIAL CONTACT

The individual to be contacted regarding this report is Paul Regan, General Manager, at (650) 591-8941. Written requests may be submitted to Paul Regan, General Manager at Mid-Peninsula Water District, P.O. Box 129, Belmont, California 94002-0129.

Mid-Peninsula Water District

Statements of Net Assets
June 30, 2004 and 2003

Assets

	<u>2004</u>	<u>2003</u>
Current Assets		
Cash and cash equivalents	\$ 660,016	\$ 1,432,239
Accounts receivable, customers	485,413	419,628
Accounts receivable, other	2,923	17,134
Inventories	78,696	69,308
Deferred construction charges	43,285	32,226
Prepaid liability insurance	-	70,814
Prepaid expenses, other	21,983	20,967
Total Current Assets	<u>1,292,316</u>	<u>2,062,316</u>
Property and Equipment		
Water plant	28,444,466	26,121,589
Less accumulated depreciation	<u>14,648,363</u>	<u>13,694,103</u>
Water plant, net	13,796,103	12,427,486
Construction in progress	-	554,285
Total Property and Equipment	<u>13,796,103</u>	<u>12,981,771</u>
Total Assets	<u>\$ 15,088,419</u>	<u>\$ 15,044,087</u>

The accompanying notes are an integral part of these financial statements.

Mid-Peninsula Water District

**Statements of Net Assets
June 30, 2004 and 2003**

Liabilities and Net Assets

	<u>2004</u>	<u>2003</u>
Current Liabilities		
Account payable	\$ 356,690	\$ 394,749
Customer deposits	71,609	62,630
Construction advances	194,314	237,549
Accrued benefits	297,250	289,284
Unearned rental income	3,446	3,446
Note payable, current portion	92,065	85,645
Total Current Liabilities	<u>1,015,374</u>	<u>1,073,303</u>
Note Payable, long-term portion	<u>754,560</u>	<u>846,624</u>
Total Liabilities	<u>1,769,934</u>	<u>1,919,927</u>
Net Assets		
Invested in capital assets, net of related debt	12,949,478	12,049,502
Unrestricted	369,007	1,074,658
Total Net Assets	<u>13,318,485</u>	<u>13,124,160</u>
Total Liabilities and Net Assets	<u><u>\$ 15,088,419</u></u>	<u><u>\$ 15,044,087</u></u>

The accompanying notes are an integral part of these financial statements.

Mid-Peninsula Water District

**Statements of Revenues and Expenses and Changes in Net Assets
Years Ended June 30, 2004 and 2003**

	2004	2003
Operating Revenue		
Water sales	\$ 5,236,666	\$ 4,598,651
Capital expense charges	205,656	204,895
Other revenue	98,153	100,711
Total Operating Revenue	5,540,475	4,904,257
Operating Expense		
Souce of supply	2,202,749	1,596,609
Pumping	438,807	294,946
Transmission and distribution	1,046,594	646,575
Customer accounts	506,665	266,399
Administrative and general	436,944	1,486,936
Depreciation	995,146	1,012,788
Total Operating Expense	5,626,905	5,304,253
Income (Loss) from Operations	(86,430)	(399,996)
Non-Operating Revenue (Expense)		
Rent	221,525	211,829
State augmentation fund	102,562	92,583
Interest income	12,955	38,856
Gain on disposition of assets	8,500	-
Interest expense	(64,787)	(70,753)
Net Non-Operating Revenue	280,755	272,515
Net Income (Loss)	194,325	(127,481)
Net Assets, Beginning of year	13,124,160	13,251,641
Net Assets, End of year	\$ 13,318,485	\$ 13,124,160

The accompanying notes are an integral part of these financial statements.

Mid-Peninsula Water District

**Statements of Cash Flows
Years Ended June 30, 2004 and 2003**

	<u>2004</u>	<u>2003</u>
Cash Flows From Operating Activities		
Water sales and capital charges	\$ 5,440,099	\$ 4,815,364
Other operating revenues	98,153	100,711
Payments for supplies and services	(4,259,164)	(2,803,598)
Payments for administrative expense	<u>(436,944)</u>	<u>(1,486,936)</u>
Cash provided by operating activities	842,144	625,541
 Cash Flows From Non-Capital Financing and Investing Activities		
Rent	221,525	211,829
State augmentation	<u>102,562</u>	<u>92,583</u>
Cash provided by non-capital financing and investing activities	324,087	304,412
 Cash Flows From Capital and Related Financing Activities		
Interest expense	(64,787)	(70,753)
Acquisition and construction of property and equipment	(1,800,978)	(1,447,955)
Principal payments on notes payable	<u>(85,644)</u>	<u>(79,673)</u>
Cash used in capital and related financing activities	(1,951,409)	(1,598,381)
 Cash Flows From Investing Activities		
Interest income	<u>12,955</u>	<u>38,856</u>
(Decrease) in cash and cash equivalents	(772,223)	(629,572)
Cash and cash equivalents at beginning of year	<u>1,432,239</u>	<u>2,061,811</u>
 Cash and cash equivalents at end of year	<u>\$ 660,016</u>	<u>\$ 1,432,239</u>

The accompanying notes are an integral part of these financial statements.

Mid-Peninsula Water District

Statements of Cash Flows
Years Ended June 30, 2004 and 2003 (continued)

	2004	2003
Reconciliation of Operating Loss to Net Cash		
Provided by Operating Activities		
Operating (loss)	\$ (86,430)	\$ (399,996)
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	995,146	1,012,788
(increase) decrease in:		
Accounts receivable	(51,574)	11,679
Inventories	(9,388)	10,254
Deferred construction charges	(11,059)	(8,893)
Prepaid insurance	70,814	1,524
Prepaid expense	(1,016)	(5,791)
Deposits	-	3,045
Increase (decrease) in		
Accounts payable and accrued expenses	(38,059)	(13,271)
Customer deposits	8,979	9,912
Construction advances	(43,235)	(17,465)
Accrued benefits	7,966	21,755
	\$ 842,144	\$ 625,541
Net cash provided by operating activities	\$ 842,144	\$ 625,541

The accompanying notes are an integral part of these financial statements.

Mid-Peninsula Water District
Notes to Financial Statements
June 30, 2004 and 2003

1. Organization

Mid-Peninsula Water District is a political subdivision of the State of California, established on July 2, 1929 to provide for the potable water needs of the area within its boundaries. Effective July 1, 2000, the District changed its name from Belmont County Water District. The District maintains and operates a system of storage tanks and water mains. It purchases water from the San Francisco Water District for distribution to its customers through this system.

2. Summary of Significant Accounting Policies

a. Reporting Entity

The District operates in an enterprise capacity. An enterprise fund is used to account for the financing of services to the general public on a continuing basis with operating and other costs recovered primarily through user charges.

b. Basis of Accounting

The District is a single enterprise fund and maintains its records on the flow of economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when the related liability is incurred. The District has elected under Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, to apply all applicable GASB pronouncements, as well as any applicable pronouncements of the Financial Accounting Standards Board, the Accounting Principles Board, or any Accounting Research Bulletins issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

c. New Pronouncements

In June 1999 and in June 2001, the GASB issued Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* and Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments - an amendment of GASB Statement No. 34*. These statements introduce the requirements of Management's Discussion & Analysis ("MD&A"), cash flow statements presented using the direct method and the concept of net assets, classified on the basis of availability. The District has adopted the provisions of these statements for its 2004 and 2003 financial statements.

Mid-Peninsula Water District
Notes to Financial Statements
June 30, 2004 and 2003

c. New Pronouncements (continued)

In May 2002, the GASB issued Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. This statement provides additional guidance to determine whether certain organizations should be reported as component units based on the nature and the significance of the relationship with the primary government. This statement does not have a significant impact on the financial statements of the District.

d. Cash and Cash Equivalents

The District considers all highly liquid investments with a maturity of six months or less when purchased to be cash equivalents.

e. Inventories

Materials and supplies inventories are stated at the lower of cost (first in – first out) or market value. Inventories consist primarily of parts and supplies used to maintain the distribution system including mains, metering equipment and hydrants used for fire suppression within the District.

f. Deferred Construction Charges and Construction Advances

Contractors developing projects, which include construction of facilities to bring water from District mains into the project, deposit a construction advance with the District for an amount estimated to cover the District's costs related to the project. The District accounts for expenditures from these deposits as construction charges. The deposit is recorded as a liability and the expenditures as an asset until the completion of the project and the final inspection and approval by the District. At the completion of the project any unexpended funds are returned to the contractor.

g. Water Plant

Water plant consists of the original cost incurred in acquiring the distribution system when the District was established, plus the cost of additions to the plant and replacement of retired units of property. These assets are recorded at their cost, including material, direct labor, transportation, and indirect items such as engineering, supervision and employee fringe benefits. From time to time the District receives as contributions title to improvements (e.g. water mains, meters, etc.) paid for by developers. These improvements are recorded by the District at the developer's cost.

Mid-Peninsula Water District
Notes to Financial Statements
June 30, 2004 and 2003

g. Water Plant (continued)

As plant is retired in the ordinary course of business the cost of the property and the related accumulated depreciation is removed from the accounts. Gains or losses on retired property are recorded as non-operating income or expense. Repairs, maintenance, and minor replacements of property are charged to expense.

h. Depreciation

Property, plant and equipment is depreciated on a straight-line basis over the estimated service lives of the related assets. Estimated service lives are:

Intangible Plant	33 years
Source of supply	33 years
Pumping plant	8 – 33 years
Transmission and distribution	7 – 33 years
General plant	4 – 33 years

i. Compensated Absences

Vested or accumulated vacation, sick leave and compensated time off are recorded as an expense and a liability as the benefits accrue to employees. The liability is reduced as employees take the time off and are paid for the accrued liability.

j. Income

Customer water meters are read on a monthly basis. Bills are rendered and income is recognized in the period in which meters are read. The District does not accrue income for water distributed but not yet billed at the end of the year.

Effective January 1, 1999 California state law required water districts to report capacity charges collected and spent separately from operating revenue and expense and any fees unspent at year-end be shown in a separate equity fund.

k. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Mid-Peninsula Water District
Notes to Financial Statements
June 30, 2004 and 2003

3. Cash and Cash Equivalents

On June 30, 2004 the District had \$193,135 in cash on deposit in one checking account. The amount on deposit in the bank is fully insured or collateralized. The California Government Code requires California banks and savings and loan associations to secure a district's deposits by pledging their own governmental securities as collateral. The market value of pledged securities must equal at least 110% of a district's deposits. California law also allows financial institutions to secure a district's deposits by pledging first deed mortgage notes having a value of at least 150% of a district's total deposits.

The District's investment policy and the California Government Code allow the District to invest in United States Treasury Bills and Notes, and obligations of government agencies for which the full faith and credit of the United States is pledged, certificates of deposit of national or state banks or state licensed foreign banks and the Local Agency Investment Fund. The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by Section 16429 of the California governmental Code, under the oversight of the Treasurer of the State of California. The District reports its investment in LAIF at the fair value amount provided by LAIF, which approximates cost. The investment in LAIF is uncategorized.

Cash and cash equivalents as of June 30, 2004 and 2003 were as follows:

	<u>2004</u>	<u>2003</u>
Petty cash	\$ 400	\$ 400
Wells Fargo Bank N.A., checking	102,909	78,156
First National Bank, checking	-	3,631
Local Agency Investment Fund	<u>556,707</u>	<u>1,350,052</u>
Total	<u>\$ 660,016</u>	<u>\$1,432,239</u>

Mid-Peninsula Water District
Notes to Financial Statements
June 30, 2004 and 2003

4. Water Plant

Activity in the investment in water plant for the year ended June 30, 2004 consist of:

	Cost			
	Balance June 30, 2003	Additions	Retirements	Balance June 30, 2004
Land	\$ 1,045,264	\$	\$	\$ 1,045,264
Intangible plant	118,504			118,504
Source of supply	649,601			649,601
Pumping plant	3,714,746	867,306		4,582,052
Transmission and distribution	14,240,728	1,406,234		15,646,962
General plant	<u>6,352,746</u>	<u>90,223</u>	<u>40,886</u>	<u>6,402,083</u>
	<u>\$ 26,121,589</u>	<u>\$ 2,363,763</u>	<u>\$ 40,886</u>	<u>\$ 28,444,466</u>

	Accumulated Depreciation			
	Balance June 30, 2003	Additions	Retirements	Balance June 30, 2004
Intangible plant	\$ 45,996	\$ 3,152	\$	\$ 49,148
Source of supply	560,509	12,354		572,863
Pumping plant	1,943,447	166,957		2,110,404
Transmission and distribution	8,328,263	393,451		8,721,714
General plant	<u>2,815,888</u>	<u>419,232</u>	<u>40,886</u>	<u>3,194,234</u>
	<u>\$ 13,694,103</u>	<u>\$ 995,146</u>	<u>\$ 40,886</u>	<u>\$ 14,648,363</u>

5. Note Payable

The District has a liability to pay a promissory note payable to the First National Bank of Northern California, secured by the real property at 3 Dairy Lane, Belmont, CA. The note is due October 1, 2111, and interest is accrued on the unpaid principal at 7.25% annually. Principal and interest payments of \$12,535.46 are due monthly. Principal payments of \$85,644, and interest payments of \$64,787 were made during the fiscal year ended June 30, 2004. Principal payments of \$79,673 and interest payments of \$70,753 were made during the fiscal year ended June 30, 2003.

**Mid-Peninsula Water District
Notes to Financial Statements
June 30, 2004 and 2003**

Payments are due as follows:

	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
June 30, 2005	\$ 58,360	\$ 92,065	\$ 150,425
June 30, 2006	51,460	98,965	150,425
June 30, 2007	44,041	106,384	150,425
June 30, 2008	36,067	114,358	150,425
June 30, 2009	27,495	122,930	150,425
Thereafter	<u>27,115</u>	<u>311,923</u>	<u>339,038</u>
	<u>\$ 244,538</u>	<u>\$ 846,625</u>	<u>\$1,091,163</u>

6. Employees Retirement Plan (Defined Benefit Pension Plan)

a. Plan Description

The District provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The plan is titled The Miscellaneous Plan of the Mid-Peninsula Water District.

The Plan is part of the Miscellaneous Plan of CalPERS, an agent multiple-employer defined benefit pension 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 is established by State statutes within the Public Employees' Retirement Law. The District selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through board resolutions. 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.

b. Funding Policy

The District, on behalf of the employees participating in the Plan, contributes 7% of their annual covered salary. In addition, the District is required to contribute the actuarially determined remaining amount necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by CalPERS Board of Administration. The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS.

Mid-Peninsula Water District
Notes to Financial Statements
June 30, 2004 and 2003

c. Annual Pension Cost

For the years ended June 30, 2004 and 2003, the District's annual pension costs were \$60,059 and \$64,956 respectively, equal to the District's required and actual contributions. The required contribution was determined as part of the June 30, 2001 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 can vary by duration of service, and (c) 3.75% per year cost-of-living adjustments. Both (a) and (b) included an inflation adjustment of 3.5%. 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 two to five year period depending on the size of investment gain and/or loss (smoothed market value). PERS's excess assets are being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 1997 was 13 years.

Three-year trend information for PERS is as follows:

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/02	\$53,766	100%	-0-
6/30/03	\$64,956	100%	-0-
6/30/04	\$60,059	100%	-0-

Required supplementary information is as follows:

Valuation Date	Entry Age Normal Accrued Liability (a)	Actuarial Value of Assets (b)	Unfunded Liability (Excess Assets) (a) - (b)	Funded Status	Annual Covered Payroll (c)	Unfunded Liability as a % of Payroll (a)-(b)/(c)
6/30/01	\$1,024,541	\$841,891	\$182,650	82.2%	\$815,689	22.4%
6/30/02	\$1,187,481	\$908,557	\$278,924	76.5%	\$885,205	31.5%
6/30/03	\$1,519,859	\$1,082,208	\$437,651	71.2%	\$979,658	44.7%

Mid-Peninsula Water District
Notes to Financial Statements
June 30, 2004 and 2003

7. Deferred Compensation Plan

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all District employees, permits them to defer a portion of their salary until future years. Deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

In 1998, the District complied with the new Trust/Custodial account requirements applicable to existing governmental 457(f) plans. All amounts of compensation deferred under the plan and all the assets of the plan are being held in a Trust/Custodial Fund with the District appointed as, and serving as, Trust/Custodian for the exclusive benefit of the plan participants and their beneficiaries, and the assets shall not be diverted for any other purpose. All the plan assets are no longer the rights of the District, nor subject to claims brought by general creditors of the District. As of June 30, 2004 and 2003, the amounts of the plan assets are not included in the District's financial statements.

8. Contributed Capacity Charges

The District has set up a fund called "Contributed Capacity Fund" into which all cash capacity charges collected are recorded. These funds are to be used each year for facilities improvements or additions. It is expected that all the money will be spent each year. As projects are completed the amount spent is transferred from the Contributed Capacity Charge Fund to Contributions in Aid of Construction. Capacity in kind (e.g. facilities paid for directly by developers or customers and given to the District) is recorded directly in Contributions in Aid of Construction. For the years ended June 30, 2004 and 2003 capacity charges received were \$34,250 and \$69,358 respectively and were spent before each year-end.

9. Capital Expense Charge

The Board established a "Capital Expense Charge" effective July 1, 1995. The charge is \$2.18 per month for all customers. The revenue from this source for the years ended June 30, 2004 and 2003 was \$205,656 and \$204,895 respectively.

**Mid -Peninsula Water District
Budgetary Comparison Schedule
June 30, 2004**

	<u>Budget</u>	<u>Actual</u>	Variance: Favorable (Unfavorable)
Operating Revenue			
Water sales	\$ 5,203,000	\$ 5,236,666	\$ 33,666
Capital expense charges	205,000	205,656	656
Other revenue	-	98,153	98,153
Total Operating Revenue	<u>5,408,000</u>	<u>5,540,475</u>	<u>132,475</u>
Operating Expense			
Souce of supply	2,030,000	2,202,749	(172,749)
Pumping	436,000	438,807	(2,807)
Transmission and distribution	1,072,500	1,046,594	25,906
Customer accounts	513,500	506,665	6,835
Administrative and general	537,000	436,944	100,056
Depreciation	960,000	995,146	(35,146)
Total Operating Expense	<u>5,549,000</u>	<u>5,626,905</u>	<u>(77,905)</u>
Loss from operations	<u>\$ (141,000)</u>	<u>\$ (86,430)</u>	<u>\$ 54,570</u>
Non-Operating Revenue (Expense)			
Rent	240,000	221,525	(18,475)
State augmentation fund	84,000	102,562	18,562
Interest income	48,000	12,955	(35,045)
Gain on disposition of assets	-	8,500	8,500
Interest expense	(71,000)	(64,787)	6,213
Net Non-Operating Revenue	<u>301,000</u>	<u>280,755</u>	<u>(20,245)</u>
Net Income	<u>\$ 160,000</u>	<u>\$ 194,325</u>	<u>\$ 34,325</u>

**MID-PENINSULA WATER DISTRICT
5 YEAR CAPITAL IMPROVEMENT PLAN
Estimated Costs**

2005/2006

Rebuild West Belmont Pump Station	\$700,000
Main Replacement 2,000 ft.	\$250,000
Hallmark Tank Painting	\$670,000
Update Interties	\$ 45,000
System Wide Leak Detection	\$ 35,000
Cathodic Station Repairs	\$ 60,000
Total	\$1,760,000

2006/2007

Rebuild Exbourne Pump Station	
Build New Tank	
Refurbish Existing Tank	\$1,595,000
Main Replacement, 2,000 ft.	\$ 250,000
Meter Replacement Program	\$ 200,000
Total	\$2,045,000

2007/2008

New 12" Pumping Main Exbourne/Buckland	\$300,000
Update Buckland Tanks	\$600,000
System Wide Leak Detection	\$ 45,000
Tunnel Pump Station Building	\$500,000
Main Replacements, 2,000 ft.	\$250,000
Meter Replacement Program	\$200,000
Total	\$1,895,000

2008/2009

New Folger Pump Station	\$1,000,000
Main Replacement, 2,000 ft.	\$ 250,000
Meter Replacement	\$ 200,000
Tank Inspections	\$ 100,000
Cathodic Station Inspection/repairs	\$ 100,000
Total	\$1,650,000

2009/2010

Main Replacement, 2000 ft	\$250,000
Meter Replacement Program (Final Phase)	\$400,000
System Wide Leak Detection	\$ 35,000
System Wide Regulator Re-build	\$100,000
New El Camino Water Main	\$500,000
New Highway 101 Main Crossing	\$600,000
Total	\$1,885,000

RESOLUTION NO. 2002-17

ADOPTION OF AN AMENDED STATEMENT OF INVESTMENT POLICY FOR THE
MID-PENINSULA WATER DISTRICT

WHEREAS, pursuant to California Government Code Section 53646, the District is required to adopt a Statement of Investment Policy and to review it annually; and

WHEREAS, on February 22, 1996, the Board of Directors for the District adopted a Statement of Investment Policy and appointed an Investment Advisory Committee comprised of the Board President, the General Manager, the Office Manager and the Treasurer to serve as the District's trustee for purposes of placing investments pursuant to this Policy and the Board has reconfirmed that Policy since 1996; and

WHEREAS, the General Manager and the Attorney recommend that the Board of Directors now amend the Statement of Investment Policy to revise the composition of the Investment Advisory Committee and other editorial changes.


NOW, THEREFORE, BE IT RESOLVED that the Board of Directors of the Mid-Peninsula Water District hereby adopts the attached amended Statement of Investment Policy in accordance with California Government Code Section 53646 and authorizes the Investment Advisory Committee to deposit and invest funds in accordance with the Investment Policy.

Regularly passed and adopted this 22nd day of August, 2002 by the following vote:

AYES: Directors Altscher, Feldman, Wagenseller

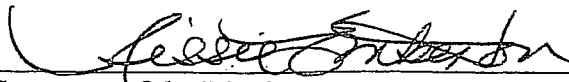
NOES: None

ABSENT: Director Morey, President Vella



President, Board of Directors

ATTEST:



Secretary of the District

MID-PENINSULA WATER DISTRICT
STATEMENT OF INVESTMENT POLICY

PURPOSE

This statement provides guidelines for the prudent investment and cash management of the District's funds.

OBJECTIVE

The District's cash management system is designed to monitor and forecast accurately expenditures and revenues, thus enabling the District to invest funds to the fullest extent possible. The District's primary objective is to safeguard the principal of the funds; the second objective is to meet the liquidity needs of the District; and the third objective is to achieve a return on the invested funds.

POLICY

At all times, the District shall invest its funds in accordance with the rules and restrictions established by the laws of the State of California (Government Code Section 53600 *et seq.*). The District shall conduct its investments under the "prudent investor standard": When investing, reinvesting, purchasing, acquiring, exchanging, selling and managing public funds, a trustee shall act with care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the District. (California Government Code Section 53600.3).

The District's Investment Advisory Committee ("IAC"), comprised of the Board President, the General Manager, the Office Manager and the Board Vice President shall serve as the District's trustee for purposes of placing investments pursuant to this policy. The policy shall be reviewed annually by the District's Board of Directors at a public meeting. (California Government Code Section 53646(a)).

1. Criteria for Selecting Investments. Criteria for selecting investments and the order of priority are:
 - a. Safety. The safety and risk associated with an investment refer to the potential loss of principal, interest or a combination of these amounts. The District shall operate only in those investments that are considered very safe.

- b. **Liquidity.** An adequate percentage of the portfolio, in the approximate amount of annual operating expenses, should be maintained in liquid short-term investments which can be converted to cash if necessary to meet disbursement requirements. A short-term investment is defined as any investment which matures within a one year period.
 - c. **Yield.** Yield becomes a consideration only after the basic requirements of safety and liquidity have been met.
2. **Delivery of Securities.** Securities shall be delivered by book entry, physical delivery or by third party custodial agreement. (California Government Code Section 53601).
3. **Diversification.** The portfolio should consist of a mix of the authorized types of investment instruments described in this policy. As a general rule, long-term maturities should not represent a significant percentage of the total portfolio, as the principal risk involved can outweigh the potential for higher earnings.
4. **Terms of Investments.** Except for public statutory exceptions or when authorized by the Board of Directors either specifically or as part of an investment program no less than 3 months prior to the investment, no investment shall be made in a security with a term remaining to maturity in excess of five years. (California Government Code Section 53601).
5. **Deposit of Funds.** As far as possible, all money belonging to or in the custody of the District including money paid to the District to pay the principal, interest or penalties of bonds, shall be deposited for safekeeping in state or national banks, savings associations or federal associations, credit unions or federally insured industrial loan companies in California (as defined by California Government Code Section 53630). Pursuant to California Government Code Sections 53635, 53637 and 53638, the money shall be deposited in any authorized depository with the objective of realizing maximum return, consistent with prudent financial management.

Subject to the applicable statutory requirements, no more than 25% of the total portfolio will be placed in any one financial institution; the Local Agency Investment Fund is not considered a financial institution.

The District's funds may also be invested in the instruments set forth in Sections 6 and 7 below.

6. **Allowable Investment Instruments.** The District may invest in the investment instruments authorized by the California Government Code, subject to any conditions set forth in the California Government Code. Without prior Board approval, the IAC shall limit the investment instruments utilized to the following:

- a. United States Treasury notes, bonds, bills or certificates of indebtedness, or those for which the faith and credit of the United States are pledged for the payment of principal and interest.
 - b. Negotiable certificates of deposits issued by a nationally or state-chartered bank or a state or federal association (as defined by California Financial Code Section 5102) or by a state-licensed branch of a foreign bank.
7. **Local Agency Investment Fund.** In addition to the investment instruments set forth in Section 6, the IAC may invest in the Local Agency Investment Fund pursuant to California Government Code Section 16429.1.
8. **Prohibited Investments.** The District shall not invest any funds or inverse floaters, range notes or interest-only strips that are derived from a pool of mortgages. The District shall not invest any funds in any security that could result in zero interest accrual if held to maturity; however, the District may hold this prohibited instrument until its maturity date. The limitation does not apply to investments in shares of beneficial interest issued by diversified management companies as set forth in California Government Code Section 53601.6.

REPORTING

At least quarterly, the IAC shall submit an investment report to the Board of Directors within 30 days of the end of the quarter. The report shall include the following information:

1. type of investment, issuer, date of maturity, par and dollar amount invested in all securities, investments and money held by the District;
2. description of any of the District's funds, investments or programs that are under the management of contracted parties, including lending programs;
3. for all securities held by the District or under management by any outside party that is not a local agency or the State of California Local Agency Investment Fund, a current market value as of the date of the report and the source of this valuation;
4. statement that the portfolio complies with the Investment Policy or the manner in which the portfolio is not in compliance; and
5. statement that the District has the ability to meet its cash flow requirements for the next six months or provide an explanation as to why sufficient money shall or may not be available.

If the District places all of its investments in the Local Agency Investment Fund, Federal Deposit Insurance Corporation-insured accounts in a bank or savings and loan association or county investment pool (or any combination of these three), the IAC can simply submit, on at least a quarterly basis, the most recent statements from these institutions to meet the requirements of items 1-3 above, with a supplemental report addressing items 4 and 5 above. (California Government Code Section 53646(b)-(e))



MONTARA WATER & SANITARY DISTRICT

Serving the Communities of Montara and Moss Beach

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Montara, CA 94037-0131

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Visit Our Web Site: <http://www.msd.montara.com>

August 9, 2005

Hon. Norman J. Gatzert
Judge of the Superior Court
Hall of Justice
400 County Center, 2nd Floor
Redwood City, CA 94063-1655

RE: REVIEW OF SPECIAL DISTRICTS REPORT OF THE 2004-2005 GRAND JURY

Honorable Judge Gatzert:

In response to your letter of June 8, 2005, subject as above, we have the following responses to each numbered finding on page 6 of the Report:

1. have a written document defining their purpose(s). All districts should communicate their purpose(s) to homeowners and residents of the district.

RESPONSE: The Board of Directors on October 17, 2002 unanimously adopted at its regularly scheduled meeting the District's Mission Statement. This Statement has been provided to all employees and in newsletters sent to all residents and at the District's web site. This is an on-going process of education which will continue.

2. update or complete policy and procedures manuals.

RESPONSE: The Montara Water and Sanitary District Administrative Policy Manual was formally established in 2002 and is regularly updated.

3. insure that all computer systems adhere to good computer security practices.

RESPONSE: The District has an automatic backup system installed on the server which stores the data from all networked computers daily. The individual computers and the server have Norton Anti-Virus software installed. Security passwords and other security measures are incorporated into the normal operating procedures and software.

4. expand financial reporting to include information about reserves.

RESPONSE: The auditor, who is currently conducting the District audit, will be asked to incorporate information about reserves into audit and this will be incorporated into financial statements.

5. develop guidelines for the amount of invested reserves needed for support of current operations as well as anticipated capital programs utilizing the experience and expertise of the County Treasurer.

RESPONSE: The District has a Five-Year Capital Improvement Program for Sewer and Water projects, but will review the amount of invested reserves against what is needed for current operations and capital program. This will also include consideration for emergencies and contingencies and replacement of assets.

If you have any questions please give me a call.

Sincerely,

/s/

George F. Irving
District Manager

cc: Grand Jury, County of San Mateo (grandjury@sanmateocourt.org)
Board of Directors
District Council
District Auditor
James Barry, CPA

DIRECTORS
BOB VETTER
THOMAS J. PICCOLOTTI
J. MASON BROWN, JR. P.E.
VI GOTELLI
JOSHUA COSGROVE

RUSSELL CONROY
Director Emeritus

2400 Francisco Blvd.
P.O. Box 1039, Pacifica, CA 94044
www.nccwd.com



STAFF
KEVIN O'CONNELL
General Manager
CARI C. LEMKE
ASSISTANT GENERAL MANAGER
-ADMINISTRATION

Phone (650) 355-3462
FAX (650) 355-0735

September 2, 2005

Honorable Norman J. Gatzert
Judge of the Superior Court
Hall of Justice
400 County Center, 2nd Floor
Redwood City, CA 94063-1655

Re: Special District Report filed June 8, 2005

Honorable Norman J. Gatzert:

The North Coast County Water District (NCCWD) hereby submits its responses to the recommendations of the Grand Jury regarding its review of special districts. The Grand Jury made five (5) recommendations; each recommendation will be addressed separately.

- 1. "have a written document defining their purpose(s). All districts should communicate their purpose(s) to homeowners and residents in the district."***

The NCCWD agrees with this finding and has implemented the recommendation.

The NCCWD has a formal mission statement. It was originally adopted by the Board of Directors by Resolution in 1992. It has been revised twice (Resolution No. 824 in 1994 and Resolution No. 897 in 1997). The Mission Statement is distributed to residents through the Consumer Confidence Report, is posted on the District's website at www.nccwd.com and is on display in the District's lobby.

- 2. "update or complete policy and procedure manuals"***

The NCCWD agrees with this finding and continuously updates the District's policy and procedure manuals.

The District maintains its policies and procedures in several manners: A) each department has a policy and procedures manual for their activities that are updated on a continuous basis, B) resolutions adopted by the Board are indexed

and distributed to each department for incorporation in their departmental manuals. For example, the District maintains an office procedures manual for each employees job function; should an employee not return to work another District employee could utilize the manual and perform those job functions.

3. ***“insure that all computer systems adhere to good computer security practices. These practices should include, though not limited to, the following: system authorization and access control, backup and recovery of files, computer system and application documentation, disaster planning, hardware and software upgrade maintenance, physical and environmental protection, control of input and output, security awareness training, and personnel cross training and education. The district should contact the County’s Information Systems Department for standards and recommendations.”***

The NCCWD agrees with this finding and continuously updates District computer systems.

The NCCWD has a consultant to maintain its computer system(s). In a nutshell, the consultant continuously updates the District’s system(s), requires all employees to change their passwords on a rotating basis, cross trains and educates our employees on identifying corrupted files and emails. In addition, employees have access to programs on an as needed basis based on their job function. Not all employees have access to all programs. A backup of the computer system is done each evening and the backup tape is taken off site the following morning. In the event of a disaster, the District would be able to resume its office functions at an off site location. In addition, the District is a member of Community Alert Network, Inc. (CAN) and has the ability to contact the majority of its 12,000+ customers by telephone within hours. The District has a written policy regarding personal use of the computer and email system. Staff has contacted the County Information Systems Department and is waiting to obtain its standards and recommendation.

4. ***“expand financial reporting to include information about reserves. Include a description of why the reserves are maintained, when the accumulated resources can be expected to be expended, what is the estimated total cost of the anticipated expenditures, and why the expenditure is necessary for the accomplishment of the special district’s charter.***

The NCCWD agrees with this finding and has implemented the majority of the finding. A description of when the accumulated resources can be expected to be expended will be implemented by January 1, 2006.

The NCCWD operating budget provides information on the District's reserves including: the total amount of reserves, the amount of reserves in each category, the amount of reserves that will be utilized that fiscal year, any budgeted contributions to reserves and a projected end of year balance to reserves. In addition, the District's CIP budget describes each project that is funded by the reserves. Due to the fact that the District's reserves are not sufficient to fund all projects, the District acquired a bond in the amount of \$8.5 million in 2003. The CIP budget lists the bond fund and each project that is paid out of this fund. The District is in the process of implementing a standard reserve policy, once that is adopted by the Board, the District will then be able to include information about when its reserves will be expended. The District audit includes information as does its budget about the amounts of reserves, etc. however, a more detailed description will be incorporated by January, 2006.

5. ***“develop guidelines for the amount of invested reserves needed for support of current operations as well as anticipated capital programs utilizing the experience and expertise of the County Treasurer”***

The NCCWD agrees with this finding and will implement the recommendation by January 1, 2006.

District staff contacted the County Treasurer's office via email on July 7, 2005 and again on August 11, 2005. The District has received the County's "Pooles Fund Investment Policy" and is reviewing this document. District staff is also working with its Independent Auditor on developing a standard reserve policy that will be presented to the Board for approval. At this time, the District has an investment policy that is followed and adopted by the Board each fiscal year.

The Appendix to the Special District report included several spreadsheets. Listed below is some additional and/or corrected information for Sheets 2, 3 and 4.

Sheet 2 – “Special Districts Public Information Spreadsheet” In 2003 the District acquired a bond in the amount of \$8.5 million. As of July 1, 2005 approximately \$7.7 million remained in the fund and \$4.3 million is budgeted to be expended during FY 2005-06. In addition, the District is working with PFM Asset to obtain information and recommendations regarding District investments. The District currently has budgeted 23.8 full-time employees.

Sheet 3 - “Special Districts Public Information Spreadsheet” The District has a written policy regarding the sale of surplus property. In addition, the District has declared surplus

property and is in the process of selling the property this fiscal year utilizing the procedures set forth in the written policy.

Sheet 4 – “Special Districts Public Information Spreadsheet” At the time of the Grand Jury report the District did utilize the firm of Maze & Associates as its Independent Auditor. However, the Board adheres to the belief that a fresh look at its financials is in the best interest of its customers and therefore a new Independent Auditor was selected to audit the District’s financials for the Fiscal Year ending June 30, 2005. The Independent Auditor selected was Charles Z. Fedak & Company.

The District appreciates this opportunity to respond to the Grand Jury report on special districts. Should you require any additional information please do not hesitate to contact Cari Lemke, Assistant General Manager – Administration at (650) 355-3462.

Sincerely,

Bob Vetter
President, Board of Directors

August 25, 2005

Hon. Norman J. Gatzert
Judge of the Superior Court
Hall of Justice
400 County Center, 2nd Floor
Redwood City, CA 94063-1655

RE: Second Civil Grand Jury Report / Peninsula Healthcare District

Dear Judge Gatzert:

The Peninsula Healthcare District hereby submits this response to the Civil Grand Jury's ("CGJ") report filed June 8, 2005 which sets forth the CGJ's findings regarding special districts. The District thanks the members of the 2004-2005 Civil Grand Jury for their work and appreciates their recommendations. The District has set forth the CGJ's statements below and has placed its responses in bold text..

Civil Grand Jury Recommendations

1. The District shall have a written document defining its purpose(s). The District should communicate its purpose(s) to homeowners and residents in the district.

The District agrees with this recommendation. The District has a Mission Statement. The District communicates its purpose to homeowners and residents in the district by developing communications plans, holding well publicized special public forums of specific topics, retaining communications experts (Singer & Associates), a mailed District Newsletter, and a sophisticated and professionally maintained web site.
(www.peninsulahealthcaredistrict.org)

2. The District shall update or complete its policy and procedure manual(s).

The District agrees with this recommendation. The District has an up to date policies and procedures manual, currently being revised for completion within a couple of months. The District obtains expert advice on maintaining up to date policies and procedures from its auditors and attorneys.

3. The District shall insure that all computer systems adhere to good computer security practices including, but not limited to, authorization and access control, backup and recovery of files, disaster planning, hardware and software upgrades, maintenance, physical and enforcement protection, control of input and output, security awareness training, and personnel cross training and education.

The District agrees with this recommendation. The District currently has such systems in place.

4. The District shall expand its financial reporting to include information about reserves including a description of why the reserves are maintained, when the accumulated resources can be expected to be expended, what is the estimated total cost of the anticipated expenditures, and why the expenditure is necessary for the accomplishment of the District's charter.

The District agrees with this recommendation. The District has specifically adopted a Board Resolution explaining the purpose and goals behind generating its substantial reserves. The District Board intends to engage in a new strategic planning process designed to map out the District's future goals and activities for the benefit of the healthcare needs of its community, anticipating possible Board and voter approval of a restructured and long term relationship with the operator of Peninsula Hospital. An important facet of that planning will be the need for continued accumulation of reserves to enhance the District's ability to ensure the continued operations of these important Healthcare facilities should the operator falter, or other oversight roles of the District require substantial resources.

5. The District shall develop guidelines for the amount of invested reserves needed for support of current operations as well as anticipated capital programs utilizing the experience and expertise of the County Treasurer.

The District agrees with this recommendation. See the above response. The strategic planning process will update and focus the Board's understanding of its need to devote a percentage of revenues to reserve accumulation. The District has within the past two years reviewed precise forecasts of its potential capital needs over the 50 year term of its pending restructured Lease arrangement, along with projections of revenues, and examined various scenarios involving allocations of revenues to current expenses and programs vs. building reserves. This process was accomplished with the assistance of financial and economic expert consultants, including Gary Hicks and the Sedway Group.

Very truly yours,

Donald E. Newman, M.D.
Chair, Board of Directors
Peninsula Health Care District

POINT MONTARA FIRE PROTECTION DISTRICT
1191 Main Street
Half Moon Bay, CA 94019
(650) 726-5213

August 31, 2005

Honorable Norman J. Gatzert
Judge of the Superior Court
Hall of Justice
400 County Center, 2nd Floor
Redwood, City, CA 94063

Dear Sir,

In regards to the findings of the Grand Jury's Review of Special Districts, the following are our responses:

Compensation:	We agree with this finding.
Ethical Behavior and Conflict of Interest:	We agree with this finding and have adopted a conflict of interest code.
Defined Purpose:	We agree with this finding and have a written Mission and Vision Statement.
Records Maintenance:	We agree with this finding.
Computer Security Practices:	We agree with this finding.
Compliance With Brown Act:	We agree with this finding.
Effective Use of Financial Resources:	We disagree partially with this finding.*
Appropriate Supervision and Control:	We agree with this finding.
Cost Efficient Service Delivery:	We agree with this finding.

* Fire districts are funded primarily by property tax. The County requires that

we carry a general reserve to meet our financial needs during the months where no property tax is collected or posted. This requires carrying a general reserve equal to four and a half months of normal operating costs.

Recommendations:

- 1. Have a written document defining their purpose(s). All districts should communicate their purpose(s) to homeowners and residents of their district.**

The recommendation has been implemented. The Point Montara Fire Protection District has a statement of purpose as part of its original charter. We will include a purpose statement in any of the occasional mailings we send to our residents.

- 2. Update or complete policy and procedures manual.**

The recommendation has been implemented. The Point Montara Fire Protection District currently has no employees and contracts with the Half Moon Bay Fire Protection District for service. Half Moon Bay has in place a Personnel Policies and Procedures Manual, a Procurement Manual, and a Standard Operating Procedures Manual. These manuals are maintained and updated regularly. We utilize the Half Moon Bay Fire District's manuals while contract with them.

- 3. Insure that computer systems adhere to good computer security practices. These practices shall include, though not be limited to, the following: system authorization and access control, back-up and recovery of files, computer system and application documentation, disaster planning, hardware and software upgrade maintenance, physical and environmental protection, control of input and output, security awareness training, personnel cross-training and education. The district should contact the County's Information Systems Department for standards and recommendations.**

The recommendation has been partially implemented. Most of the suggested computer system practices are already in place by our contractor, the Half Moon Bay Fire District. Half Moon Bay Fire District administrative personnel will contact the County's ISD for additional recommendations by October 1, 2005.

- 4. Expand financial reporting to include information about reserves. Include a description of why the reserves are maintained, when the accumulated resources can be expected to be expended, what is the estimated cost of the anticipated expenditures, and why the expenditure is necessary for the accomplishment of the special district's charter.**

The recommendation has been implemented. The Point Montara Fire Protection District's annual budget clearly identifies our reserve accounts. The budget narrative further defines the need for the various reserves. Additionally, the

District maintains a capital equipment replacement schedule that shows the recommended replacement scheduled and estimated expenditure amount.

5. Develop guidelines for the amount of invested reserves needed for support of current operations as well as capital programs utilizing the experience and expertise of the County Treasurer.

The recommendation has been implemented. The District has determined the required reserves for the dry period and capital programs.

We trust we have met the intent of the Grand Jury's recommendations. Should you need further information, please contact me at (650) 726-5213.

Sincerely,

James Asche
Fire Chief

cc: Board of Directors
District Counsel

San Mateo County Harbor District

Board of Harbor Commissioners

Sally Campbell, President
Pietro Parravano, Vice President
James Tucker, Treasurer
Ken Lundie, Secretary
Leo Padreddii, Commissioner

General Manager
Peter Grenell

August 17, 2005

Honorable Norman J. Gatzert
Judge of the Superior Court
Hall of Justice
400 County Center; 2nd Floor
Redwood City, CA 94063-1655

Ref: *Response to 2004-2005 Grand Jury report of June 8, 2005 entitled "Review of Special Districts"*

Honorable Judge Gatzert:

This letter responds to Acting Court Executive Officer Catalano's letter of June 8, 2005. As requested, it includes our Harbor Commission's comments on the 2004-2005 Grand Jury's "Review of Special Districts" report's findings and implementing actions. We note that all 23 of the County's special districts were reviewed. The Harbor District was not named specifically.

Findings

Compensation: District Response: Agree generally with the finding. However, this Harbor District situation is as follows: The Harbors and Navigation Code specifies board member compensation. Board member compensation is not based on per meeting attendance. Fringe benefits are provided to board members, including retired elected officials depending upon prior length of service.

Ethical Behavior and Conflict of Interests: District Response: Agree generally with the finding, although we have no particular information regarding other districts.

Defined Purpose: District Response: Agree generally with the finding. This District has its defined purposes in writing and on the District's website.

Maintaining Accurate and Complete Records: District Response: Agree with finding.

Computer Security Practices: District Response: Agree with finding.

San Mateo County Harbor District

Board of Harbor Commissioners

Sally Campbell, President
Pietro Parravano, Vice President
James Tucker, Treasurer
Ken Lundie, Secretary
Leo Padreddii, Commissioner

General Manager
Peter Grenell

Compliance With Brown Act Requiring Public Access: District Response: We agree with the need for public expression and access, and accept the report's finding.

Effective Use of Financial Resources: District Response: We agree with the finding regarding the need for productive financial reserves. However, this District's reserves are all restricted or otherwise allocated to budgeted expenditures for this fiscal year (FY 2005-2006). Moreover, it is important to understand that this District's cash reserves have resulted primarily from the deferment of debt service payments to the State Department of Boating and Waterways on development loans that financed the construction of Pillar Point and Oyster Point harbors. These deferments consisted of a three-year moratorium on full payments followed by a deferment of principal payments that terminates in 2006. Under this latter condition, the District has been making annual interest only payments to the Department of approximately \$880,000. After 2006, the District will pay full debt service (principal and interest) of \$2,400,000 annually on a total debt of over \$19.5 million. (For further information on reserves, see the response to Recommendation 4. Information Reporting About Reserves below.)

Appropriate Supervision and Control: District Response: Agree with finding. This District has its ordinance code, policies and procedures, and routine systems for monitoring and responding to service requests.

Cost Efficient Service Delivery: District Response: Accept the finding. This District has thirty-two employees in three service locations.

Conclusions

Effective Community Communication: District Response: This conclusion is not strictly applicable to the Harbor District, especially with regard to Pillar Point Harbor. Harbor District staff and Commissioners have frequent contact with harbor users and, on some issues, with wider community residents who are not typically harbor users. The District publicly notices its Harbor Commission meetings on a routine, timely basis at all facilities and on its website, and makes available meeting agendas and minutes to the public on the website and as requested.

Internal Control Audits: District Response: Agree with conclusion stated.

San Mateo County Harbor District

Board of Harbor Commissioners

Sally Campbell, President
Pietro Parravano, Vice President
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General Manager
Peter Grenell

Financial Reserves: District Response: Concur with conclusion. Please see the District's response to Recommendation 4 below for full response.

Cost Effective Delivery of Service: District Response: Conclusion not applicable to the Harbor District.

Recommendations

1. Defining District Purpose(s):

Implemented. The San Mateo County Harbor District has a document defining its mission statement and purposes. This document is also available on the District's website. Further, the District has maintained, and in February 2005 updated, its written action priorities for FY 2005-2006 and beyond.

2. Policy and Procedure Manual:

In process of being implemented. The District is in the process of amending its policies and procedures and re-organizing them in an updated manual. Additionally, an employee manual has been prepared, based on the overall policy and procedure manual. Lastly, the District will amend and update its Ordinance Code, beyond the occasional code amendments previously adopted as the need has arisen.

3. Computer Security:

Implemented, with County contact to occur this year. The District's computer systems generally have adhered to good computer security practices. Within the past year, enhanced firewall protection has been installed. Currently, access to certain computer files is being restructured for both security of contents and ease of authorized access. During this fiscal year, the District will contact the County's Information Systems Department for standards and recommendations.

4. Information Reporting About Reserves:

In process of implementation. The District regularly provides public information on its several reserve funds as an integral part of its annual budgets (see illustrative attachment).

San Mateo County Harbor District

Board of Harbor Commissioners

Sally Campbell, President
Pietro Parravano, Vice President
James Tucker, Treasurer
Ken Lundie, Secretary
Leo Padreddii, Commissioner

General Manager
Peter Grenell

Following is an explanation of these reserve funds as requested in Recommendation 4. These explanations will be included in future budgets, and updated as appropriate. For the immediate future, these explanations of the reserves identified in our current budget (FY 2005-2006) will be made available publicly in document form in the next several weeks.

Emergencies: This fund (\$600,000) is reserved for immediate responses to emergency situations, such as the storm damage sustained by the District's two harbors during the 1998-89 El Nino event. Eligible costs may be reimbursed by FEMA, but the District must be able to respond without delay to make necessary repairs, etc. during this and future budget years to the public facilities it is charged with operating and maintaining. The District maintains an amount in this reserve somewhat higher than the rule-of-thumb three percent of budget level to account for the special conditions of its particular facilities and the ocean and bay-front locations of its harbors. Funds will be expended as and when needed.

Debt Service: This fund (\$1,500,000) is a precise amount restricted by agreement with the State Department of Boating and Waterways (DBW), which requires it as collateral for repayment of its facilities development loans to the District. After 2006, the District must make annual full debt service payments (principal and interest) of \$2,400,000. The District cannot access this restricted reserve fund, which is overseen by the County Treasurer, without prior approval of DBW. DBW may access this fund in the event that DBW issues a Notice of Default on debt service that is not cured by the District within the time allotted by agreement.

Prepaid Expenses: This fund (\$8,800) is for expenses to be prepaid during the budget year that are not otherwise accounted for by specific Harbor Commission actions.

Restricted Cash (Customer Deposits): This fund (\$350,000) contains berth-holder security deposits and deposits of other harbor users as called for by ordinance, lease, permit or other agreement. These funds are not available for expenditure by the District. They are refunded as appropriate by agreement.

San Mateo County Harbor District

Board of Harbor Commissioners

Sally Campbell, President
Pietro Parravano, Vice President
James Tucker, Treasurer
Ken Lundie, Secretary
Leo Padreddii, Commissioner

General Manager
Peter Grenell

Fire Reward-Hotel: This fund (\$500) was established by the Harbor Commission following a fire at an adjacent coastal property over eight years ago. As no information has been received warranting distribution of this amount, the District is taking action to eliminate this restricted reserve account and restore the funds to the District's general fund for future budgeted operational expenditures.

Encumbrances: This fund (\$50,000) is reserved for payments that are committed by purchase order or contract for operations items and will be expended during FY 2005-2006.

PTO, SL, PTO-OT: This reserve account (\$150,000) covers anticipated budget year expenditures for employee Personal Time Off, Sick Leave, and Personal Time Off/Overtime. Expenditure of these funds as needed up to the total budgeted is anticipated before June 30, 2006.

Capital Expenditures: These funds (\$3,670,236) are for facilities improvement and development projects that were budgeted for and underway during FY 2004-05 and were not yet encumbered by June 30, 2005, but will be expended during FY 2005-06. Various reasons account for the longer time to expenditure. For example, funds for the Pillar Point Restroom project have been on hold pending the outcome of the County's and Coastal Commission's appeal processes. In another example, an engineering and design contract for rehabilitation of the Johnson Pier at Pillar Point was approved by the Harbor Commission in June 2005; the contract has been executed and work has begun in July 2005, at the start of the new fiscal year.

5. Guidelines for Invested Reserves for Operations and Capital Program:

In process of implementation. The Harbor District develops its annual budgets, capital and other reserve funds needed for operations and capital improvements according to the District's Business Plan. This Plan was prepared with assistance and approval of the Department of Boating and Waterways. It provides for expenditures including debt service, which is scheduled through the year 2018 when the District's debt to DBW will be retired. During this fiscal year, the District will also contact the County Treasurer's Office to explore the utility of its experience and expertise in implementing its Business Plan.

San Mateo County Harbor District

Board of Harbor Commissioners

Sally Campbell, President
Pietro Parravano, Vice President
James Tucker, Treasurer
Ken Lundie, Secretary
Leo Padreddii, Commissioner

General Manager
Peter Grenell

In closing, we wish to emphasize that the District's charge is to provide, maintain, and improve its two harbors for the public good. The projected expenditures totaling \$3,879,536 respond directly to that mandate (see Exhibit 1), or are necessary to cover previous commitments or to ensure that required personnel costs are covered.

Sincerely,

San Mateo County Harbor District

Sally R. Campbell
President, Board of Harbor Commissioners

Cc: Board of Harbor Commissioners
Peter Grenell, General Manager

San Mateo County Harbor District

Board of Harbor Commissioners

Sally Campbell, President
Pietro Parravano, Vice President
James Tucker, Treasurer
Ken Lundie, Secretary
Leo Padreddii, Commissioner

General Manager
Peter Grenell

August 22, 2005

Honorable Norman J. Gatzert
Judge of the Superior Court
Hall of Justice
400 County Center; 2nd Floor
Redwood City, CA 94063-1655

Ref: *Response to 2004-2005 Grand Jury report of June 8, 2005 entitled "Review of Special Districts": Supplementary Comment*

Honorable Judge Gatzert:

This letter adds an additional clarifying comment to our August 17, 2005 Response to the Grand Jury report of June 8, 2005:

Conclusions

Effective Community Communication: District Response: [Additional comment]: The Harbor Commission established and maintains a Pillar Point Harbor Citizens Advisory Committee, and also two ad hoc committees comprised of two Commissioners each, whose representatives meet with local groups like the Princeton Citizens Advisory Committee and Oyster Point Marina tenants on matters of concern such as new improvement projects, budgets and rates and fees.

Sincerely,

San Mateo County Harbor District

Peter Grenell
General Manager

Cc: Board of Harbor Commissioners

August 5, 2005

Honorable Norman J. Gatzert
Judge of the Superior Court
Hall of Justice
400 County Center, 2nd Floor
Redwood City, CA 94063-1655

Subject: Response to the 2004-2005 Civil Grand Jury Report: Review of Special Districts

Honorable Judge Gatzert:

The Sequoia Healthcare District submits the attached responses to the recommendations made to the Sequoia Healthcare District by the 2004-2005 Civil Grand Jury.

Sincerely,

Stephani Scott, CEO

Kathleen Kane, Board President

Response To 2004-2005 Civil Grand Jury Report: Review of Special Districts

Per the instruction to respond to findings by the 2004-2005 Grand Jury in its "Review of Special Districts" report filed on June 8, 2005, the Sequoia Healthcare District agrees with the information under the subheading entitled "Findings" in the report.

Per the instruction to respond to each recommendation:

1. Regarding the implementation of a written document defining the District's purposes and communicating this to homeowners and residents in the District.

The Sequoia Healthcare District's mission and vision is documented within the District's policies and procedures, and publicized on the home page of our website. As of the summer of 2004, we initiated a comprehensive information program utilizing community newsletters, presentations to community and civic and governmental groups, along with regular updates to our Web site. The information conveyed includes the District's purposes, as well as its mission and vision. Additionally, the District's purposes are defined and documented in the Health and Safety Codes Sections 32000-32492, (The Local Health Care District Law) the body of law that governs all California Health Care Districts.

2. Regarding the recommendation to update or complete a policy and procedures manual.

The Sequoia Healthcare District has a complete policy and procedure manual, available on the District's website:

<http://www.sequoiahealthcaredistrict.com/p&p.pdf>

3. Regarding insuring all computer systems adhere to good security practices and the recommendation to contact the County's Information Systems Department for standards and recommendations.

The Sequoia Healthcare District's computer systems adhere to the highest degree of security practices. Due to the District's office location at Sequoia Hospital, it is necessary and required that the District's IT systems adhere to the same stringent security standards and practices as the acute health care facility in which our offices reside.

4. Regarding the expansion of financial reporting to include information about reserves: why they are maintained, rationale for and amounts of planned expenditure(s).

Beginning the fiscal year ending June 30, 2004, the District's annual audited financial statements are supplemented with a Management's Discussion and Analysis (MD&A). The MD&A in and of itself is an expansion of the financial reporting, which includes information about the District's reserves. This

report and the audited financial statements are available on the District's website at <http://www.sequoiahealthcaredistrict.com/fiscalreport.html>.

Additionally, during its annual budget review, the Sequoia Healthcare District will discuss the coming year's budget with consideration given to maintaining appropriate reserves and positive operational cash flow while meeting emerging healthcare needs of the community. Such discussions are open to the public and documented in the minutes, also available on the District's website at <http://www.sequoiahealthcaredistrict.com/boardmeetings.html>.

5. Regarding development of guidelines for the amount of invested reserves needed for support of current operations, as well as anticipated capital programs utilizing the experience and expertise of the County Treasurer.

Following its recent long-range financial planning process, the Sequoia Healthcare District adopted a budget that will be reviewed annually, with consideration given to maintaining appropriate reserves and positive operational cash flow while meeting the emerging healthcare needs of the community, which include supporting the rebuild of Sequoia Hospital to meet new mandated seismic standards.

The District will continue to utilize the experience and expertise of its financial consultant, Ms. Tammy Staeden, to support the District's long-range and ongoing financial planning processes. Ms. Staeden is a Manager from HFS Consultants (HFS), with over nine years' experience in health care finance. Ms. Staeden has specific expertise in financial feasibility studies, budgeting, and forecasting techniques. She has particular knowledge of acute care hospitals, skilled nursing facilities and rural health clinics. She has provided financial consulting services to a wide range of health care clients and also has experience in general accounting roles and is proficient in various software programs. Ms. Staeden is a member of the Healthcare Financial Management Association.



Skyline County
Water District

14944 Skyline Boulevard
Woodside, CA 94062-4746

(650) 851-0529
(650) 851-0531 fax

September 23, 2005

Honorable Norman J. Gatzert
Judge of the Superior Court
Hall of Justice
400 County Center, 2nd Floor
Redwood City, CA 94063-1655

Re: Response to the 2004-2005 Grand Jury Report

Dear Sir:

Skyline County Water District (SCWD) respectfully submits the following response to the above referenced report. The issue of the report as stated, "Have the County of San Mateo's 23 independent special districts made reasonable efforts to comply with California State law, to provide good business and resource management, and to offer efficient and responsive service?"

As stated in the summary of the report, the Grand Jury report recommendations are generalized suggestions addressed to all special districts in support of good government practices.

SCWD agrees with the generalized suggestions and recommendations.

FINDINGS

- A) Compensation
- B) Ethical Behavior & Conflict of Interests
- C) Defined Purpose
- D) Maintaining Accurate & Complete Records
- E) Computer Security Practices
- F) Compliance with Brown Act
- G) *Effective Use of Financial Resources
- H) Appropriate Supervision and Control
- I) Cost Efficient Service Delivery

SCWD agrees with the Findings with the following exception:

Effective Use of Financial Resources

SCWD disagrees partially with the following portion of the finding, "Many of the smaller districts have no investment portfolios at all and fully one-third of the districts appear to have large reserves that need to be examined for appropriateness", for the following reasons:

1. After reviewing the original questionnaire, the question of investment portfolios is not found.
2. The smaller district portfolio statement is lumped with the large reserve statement, leading the reader to interpret the smaller districts appear to have large reserves. The attachment Sheet – 2 does not specify reserve balances to clarify this statement.
3. SCWD funds are invested in the Local Agency Investment Fund. Information spreadsheet – Sheet 2 specifies "Independent". How was this determined: or is it a clerical error?

RECOMMENDATIONS

1. SCWD intention is to create of a mission statement by January 1, 2006.
2. SCWD has and will continue to maintain, update and expand where necessary appropriate policies.
3. SCWD currently meets or exceed this recommendation.
4. SCWD currently meets or exceeds this recommendation.
5. SCWD currently meets or exceeds this recommendation

This response is submitted on behalf of the Board of Directors of the Skyline County Water District.

Sincerely,

Tamara J. Hannon

Tamara J. Hannon
General Manager

**West Bay Sanitary District
500 Laurel Street,
Menlo Park, CA 94025
(650) 321-0384 /Fax (650) 321-4265**

1591.1

August 23, 2005

Honorable Norman J. Gatzert
Judge of the Superior Court
Hall of Justice
400 County Center, 2nd Floor
Redwood City, CA 94063-1655

RE: Review of Special District Report

Dear Judge Gatzert:

At its regular meeting of August 22, 2005, the Honorable Members of the District Board of the West Bay Sanitary District reviewed the Special District Report prepared by the Grand Jury of San Mateo County.

The District Board has instructed me to convey the following comments related to the Grand Jury's recommendations and other matters.

- 1. Have a written document defining their purpose(s). All Districts should communicate their purpose(s) to homeowners and residents in the District.**

The District's Code of General Regulations sets forth the functions of the District, the legislation which authorizes its existence and rules and regulations related to the operation of the District. In addition, from time to time the District Board authorizes the creation and dissemination of a newsletter to homeowners.

- 2. Update or complete policy and procedure manuals.**

The District regularly reviews and updates the following Policies and Procedures:

- The Code of General Regulations
- Standard Specifications and Related Drawings
- Personnel Policy
- Whistleblower Policy
- Purchasing Policy
- Investment Policy
- Code of Conduct for Board Members
- Spill Response Plan
- Emergency Response Plan

The District also regularly reviews and updates the following Policies and Procedures related to its Employee Safety Program, including but not limited to:

- Blood-Borne Pathogens Training

Hazardous Waste Operations and Emergency Response Program
Confined Space Entry Program
Respiratory Protection Plan
Lockout-Blockout Methods and Procedures
Fire Prevention Plan
Injury and Illness Prevention Plan
Traffic Control and Flagger Operations Plan

- 3. Insure that all computer systems adhere to good computer security practices. These practices should include, though not limit to, the following: system authorization and access control, backup and recovery of files, computer system and application documentation, disaster planning, hardware and software upgrade maintenance, physical and environmental protection, control of input and output, security awareness training, and personnel cross training and education. The District should contact the County's Information Systems Department for the Standards and Recommendations.**

All access to District computers requires system authorization. All access to integral software programs requires system authorization/firewall access. The District's Computerized Sewer Maintenance Program tracks all changes and verifies the integrity of those changes before allowing them. Access to accounting software is limited to three employees and maintained on an independent server.

The District's systems are "backed up" daily to both tape and an independent server in a separate building. In the event of fire or other disaster, the District's computer systems may be operated from one of three separate buildings.

The District budgets annually for software and hardware upgrades and for training of personnel including cross training.

- 4. Expand financial reporting to include information about reserves, include a description of why the reserves are maintained, when the accumulated resources can be expected to be expended, what is the anticipated cost of the total expenditures, and why the expenditure is necessary for the accomplishment of the District's special charter.**

The District routinely reports this information in the budget process, the quarterly financial reports and the annual audit.

The District utilizes a "Twenty Year" forward looking plan that takes into account the age, material and usage of pipelines. Incorporated into this program is a more realistic "Five Year" plan that more accurately predicts what expenditures may be necessary to ensure the sewer system is appropriately maintained.

5. Develop guidelines for the amount of invested reserves needed for the support of current operations as well as anticipated capital programs utilizing the experience and expertise of the County Treasurer.

The District's policy is to reserve five months of operating expenses. The policy was established in the event that the District's sewer service charges may not be added to, or collected by, the San Mateo County Assessor. The reserve will enable the District to operate without hindrance while collecting its charges independently.

In addition, the "Special District's Public Information Spreadsheet #4" indicates that the District's auditors have issued a "Qualified Opinion" of the District's audit. The Grand Jury is advised that this is no longer the case. For many years, the District was not able to succinctly identify the value of some of its pre-1970 underground pipeline. However, in 2004/2005 the District did finally establish actual values for this infrastructure and the auditor's opinion is no longer qualified.

Finally, the District Board has asked me to convey their sincere appreciation for the work of the Grand Jury in its review of the County's Special Districts and to express its support for the continued review by the Grand Jury.

Yours truly,

WEST BAY SANITARY DISTRICT

Timothy Clayton
District Manager

TC/pyd

WESTBOROUGH WATER DISTRICT

June 20, 2005

Honorable Norman J. Gatzert
Judge of the Superior Court
Hall of Justice
400 County Center, 2nd Floor
Redwood City, CA 94063-1655

Re: Review of Special Districts Report

By letter dated June 8, 2005, Rodina Catalano, Acting Court Executive Office requested written response from the Westborough Water District (District) concerning review of Special Districts. There were 5 questions for the District to respond to. The District's responses are as follows:

1. Question: Have a written document defining their purpose(s). All districts should communicate their purpose(s) to homeowners and residents in the district.

Reply: Agrees with the findings. Recommendations have been implemented (see below).

At our regular meeting on February 10, 2005, the Board of Directors unanimously approved the following mission statement:

The mission of the Westborough Water District is to provide a stable supply of high quality safe drinking water at a fair price to all customers of the district. In addition, the district has the mission to provide reliable sewer service through the North San Mateo County Sanitation District. The Board, the staff and all employees of the Westborough Water District are committed to providing its customers with high quality, cost effective and environmentally sensitive customer service.

Attached is a copy of the District's newsletter mailed to every homeowner and resident on May 5, 2005. In the newsletter, the first article is a Mission Statement defining the purpose of the district. In addition, the District is in the process of developing a new website that will include the Mission Statement.

2. Question: Update or complete policy and procedure manuals.

Reply: Agrees with the findings. Recommendations have been implemented (see below).

The District maintains complete policies and procedure manuals. The District's policy is to update its procedures manuals and records as duties and procedures change.

3. Questions: Insure that all computer systems adhere to good computer security practices. These practices should include, though not limited to, the following: System authorization and access control, backup and recovery of files, computer system and application documentation, disaster planning, hardware and software upgrade maintenance, physical and environmental protection, control of input and output, security awareness training, and personnel cross training and education. The District should contact the County's information system Department for standards and recommendations.

Reply: Agrees with the findings. Recommendations have been implemented (see below).

To provide good computer security protection, the District has assigned individual staff members with passwords to access sensitive records and to have the ability to make any changes. The District utilizes a fire proof safe to store vital records, backup tapes, procedures, and emergency preparedness guide. Due to the size of the staff, each employee must be cross trained and be able to take on other responsibilities as needed. Once a year the District conducts emergency disaster drills and training sessions with the board and staff to prepare for emergencies. In addition, the District has contracted with a company to quickly notify our customers by telephone in the event of an emergency. This notification system makes up to 2900+ calls simultaneously and between 150,000 to 175,000 calls per hour. The current General Manager has performed the job duties of every position with the District. The District has a ongoing education program for its employees and directors. Employees and directors are encouraged to attend workshop and training seminars to improve their knowledge related to their positions. The District is in the process of improving its network firewall protection. The District will contact the County information system Department for standards and recommendations.

4. Question: Expand financial reporting to include information about reserves. Include a description of why the reserve are maintained, when the accumulated resources can be expected to be expended, what is the estimated total cost of the anticipated expenditures, and why the expenditure is necessary for accomplishment of the special district's charter.

Reply: Agrees with the findings. Recommendations has been implemented (see below).

Attached is a copy of the District annual financial statement for Year Ending June 30, 2004, from an independent auditor. This report list descriptions of anticipated expenditures. Also, attached is a copy of the District's Capital Improvement Program listing anticipated expenditures over the next 5 years.

5. Question: Develop guidelines for the amount of investing reserves needed for support of current operations as well as anticipated capital programs utilizing the experience and expertise of the County Treasurer.

Reply: Disagree with the findings. Not implement.

The District has approved guidelines for the amount of investing reserves needed to support the operations and future capital programs. The District utilizes the expertise of its consultant engineer, General Manager, Accountant, Auditors, and Board of Directors to develop these guidelines. Each year the District continues to make capital improvements to the system without any bonds measures. The District has recently approved a new 5 year capital improvement program. The District invest all of its reserves with the Local Agency Invest Fund. All of the money in reserves are allocated into specific funds for given purposes. Reserves are needed to accumulate the capital to pay for large works projects. Reserves also provide a safety cushion in lean years, stabilizing consumers' rates. Attached is a copy of the District 5 Year Capital Improvement plan on how the we plan to spend reserves over the next 5 years.

We would like to point out that there are may advantages to Special Districts, such as cities and counties must protect their residents' health, safety, and welfare and, thus, must provide many services, regardless of citizen demand. Special districts, however, only provide the services that the community desires. Special Districts can link costs to benefits. General purpose local

Honorable Norman J. Gatzert
June 20, 2005
Page 4

governments, cities and counties levy general taxes to pay for public services. The services that taxpayers receive are not directly related to the amount of taxes they pay. In a special district, only those who benefit from district services pay for them. Those who do not benefit do not pay. Special Districts are responsive to their constituents. Because most Special Districts are geographically smaller and have fewer residents than counties and cities, they can be more responsive to their constituents. Small groups of citizens can be quite effective in influencing special districts' decisions. The District's has one of the leanest staff of any Special District per capita. The General Manager also serves as a field maintenance employee as needed and assists with many field activities. The Westborough Water District has among the lowest water rates of any water district in San Mateo County. Special districts must submit annual financial reports to the State Controller and must also follow state laws pertaining to public meetings, bonded debt, record keeping and elections. Special districts are primarily accountable to the voters who elect their boards of directors and the customers who use their services. As such, special districts are required to comply with the Brown Act, the Public Records Act, the Political Reform Act, and the Initiative, Referendum/Recall Procedures. Special districts hold regularly scheduled public board meetings in which residents are given an opportunity to comment on the district's proceedings. Additionally, the state provides critical oversight to special district operations, which is based on various services and functions. Special districts are required to submit annual financial reports, including an annual financial audit and its adopted budget, to the State Controller. The oversight ensures that special districts are run in a fiscally responsible manner. California special districts are funded by a variety of sources, maintain different types of governance structures, and offer a number of diverse services. In fact, they are often referred to as the most efficient form of government. Special districts have clearly defined missions, provide quality service at an affordable cost, and typically involve very little bureaucracy. They use property tax revenues wisely to invest in their infrastructure systems, improve local services, and plan for the future. All levels of government must deal with fiscal challenges. It is crucial that special districts retain property tax revenue to enable them to continue meeting the public's needs, to retain the connection between real property values and property-related services, and to maintain affordable rates and charges. It is in our best interest to keep special districts strong and local services where they belong at the local level.

Should you have any questions, please contact me at (650) 589-1435.

Sincerely,

Darryl A. Barrow
General Manager

DAB/db

Attachment



The Water Faucet

April 2005

*“Rain or
Shine...there’s
never enough
water to waste!
Please conserve
water”*

Westborough Water District Mission Statement

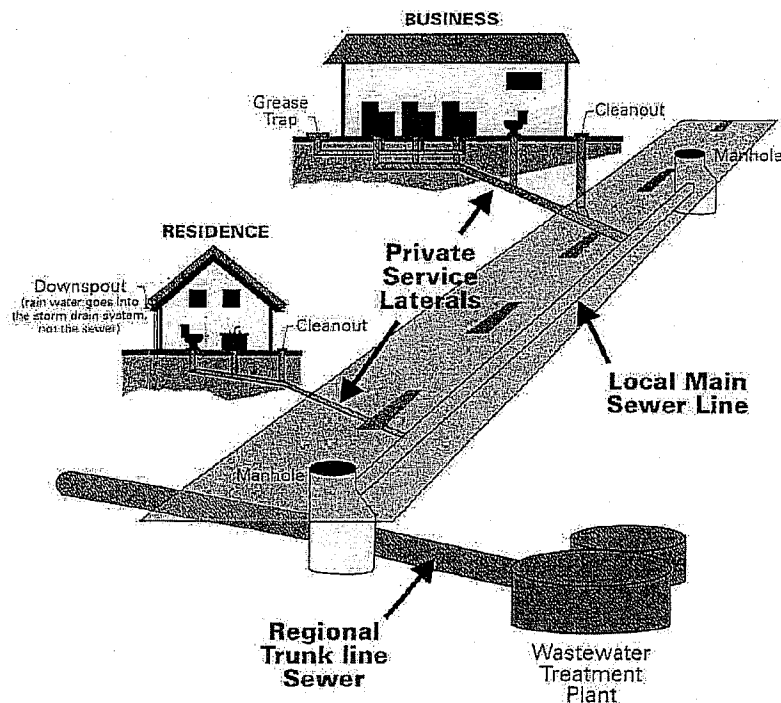
The mission of the Westborough Water District is to provide a stable supply of high quality safe drinking water at a fair price to all customers of the District. In addition, the District has the mission to provide reliable sewer service through the North San Mateo County Sanitation District. The Board, the staff and all employees of the Westborough Water District are committed to providing its customers with high quality, cost-effective and environmentally sensitive customer service.

Shut-off Valve is Located?

Every home has a main water shut-off valve. This valve is used to shut-off water to your home to make repairs and to isolate broken water pipes. Also, when you go on vacation for an extended period of time you may want to consider closing this valve. Should you need help locating your house valve, please contact the District for assistance.

How does a Sewer System Work?

Property owners' sewer pipes are called sewer or service laterals and are connected to local main sewer lines. Sewer/service laterals run from the home to the local main sewer line. The property owner is responsible for all repairs to the lateral including the area under the street until it connects to the main sewer line. Below is a picture of typical sewer lines:



Westborough Water
District
P.O. Box 2747
So. SF, CA 94083-2747
Phone (650) 589-1435
Fax (650) 589-5167
e-mail:
Waterwwd@aol.com

YOUR DISTRICT!

*The Westborough
Water District board
meetings are held on
the second*

*Thursdays of every
month at the District
office. The meeting
begins at 7:30 p.m.
and the public is
encouraged to attend.*

*The current Board
members are:*

*President Tom
Chambers, Vice
President Robert
Webster, Directors
Perry Bautista, Janet
Medina, and Robert
Craig.*

Sewer Charges

Are you aware that your sewer service for the entire fiscal year is based on how much water you use during the January and February meter reading period? The amount of water (units) you consume during the January/February period multiplied by the sewer rate will be shown on your September 15th bill.

NOTE: 2 unit minimum bi-monthly sewer charge applies.

Notary Public

The District has a Notary Public on duty to notarize documents. The fee is \$10 per signature. If possible, please call before stopping by.

Automatic Payment Deduction

Never be late paying your bill again! The Westborough Water District would like to remind you that we are now set up for automatic payment deduction of your water bill from your checking or savings account only. We also accept Visa, MasterCard and ATM for payments made in person at the District Office.

Toilet and Washing Machine Rebate Program

The District is still offering toilet and washing machine rebates for water saving and energy efficient appliances. For each low flow toilet you install, there is a \$50 rebate. A \$75 rebate is also available for selected Energy Star washing machine purchases. For more information, to discuss rebate requirements and to get an application, please contact the District prior to purchase.



2263 westborough boulevard
south san francisco, ca 94083-2747

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WESTBOROUGH WATER DISTRICT

Financial Statements
For the Year Ended June 30, 2004
With Independent Auditor's Report Thereon

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WESTBOROUGH WATER DISTRICT

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JUNE 30, 2004

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C. G. UHLENBERG LLP
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

ROBERT E. BARSANTI, C.P.A. (RETIRED) PEGGY H. CHEN, C.P.A. JEFFREY J. IRA, C.P.A. KATHERINE CHAO, C.P.A. JULIE T. LIN, C.P.A.

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Westborough Water District
South San Francisco, California

We have audited the accompanying financial statements of the business-type activities of the Westborough Water District as of and for the fiscal year ended June 30, 2004, 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 Westborough Water District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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.

Our audit did not include tests of the historical costs of property and equipment acquired prior to July 1, 1968, because complete records are not available. Accordingly, we do not express an opinion as to the fairness of presentation of property and equipment, accumulated depreciation and equity in plant and equipment.

In our opinion, except for the effects of the matters discussed in the preceding paragraphs, the financial statements referred to above present fairly, in all material respects, the financial position of the Westborough Water District as of June 30, 2004, and the results of its operations, and changes in cash flows for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 1 of the notes to the basic financial statements, the District adopted the provisions of Government Accounting Standards Board Statements No. 34, *Basic Financial Statements – and Management Discussion and Analysis – for State and Local Governments*, No. 37, *Basic Financial Statements – and Management Discussion and Analysis – for State and Local Governments: Omnibus*, No. 38, *Certain Financial Statement Note Disclosures*, and



Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*, effective July 1, 2003.

The management's discussion and analysis presented on pages 3 through 9 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 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 made for the purpose of forming an opinion on the financial statements taken as a whole. The financial information listed as Supplementary Information in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of the Westborough Water District. Such additional information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

C. J. Uhlenberg LLP

September 15, 2004
Redwood City, California

WESTBOROUGH WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED JUNE 30, 2004

The Westborough Water District's (the "District") Management's Discussion and Analysis is designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the District's financial activity, (c) identify changes in the District's financial position (its ability to address the next and subsequent year challenges), and (d) identify individual fund issues or concerns.

This Management Discussion and Analysis (MD&A) is new, and will now be presented at the front of each year's financial statements. Comparative information is not required in the first year of implementation, but is required and will be presented in future years. The Management's Discussion and Analysis should be read in conjunction with the District's financial statements (beginning on page 12).

FINANCIAL HIGHLIGHTS

- The District had net assets of \$8,338,926 as of June 30, 2004. Total net assets were comprised of 56% and 5% from capital assets and restricted net assets, respectively.
- The District's total operating revenues were \$2,381,662 as of June 30, 2004 and were comprised of 43% and 54% from water sales and sewer service charges, respectively.
- The District's total operating expenses were \$2,774,976 as of June 30, 2004 and were comprised of 6% of depreciation and amortization, 35% of water expenses and 44% of sewer expenses.

USING THIS ANNUAL REPORT

This is a different presentation of the District's previous financial statements. The following outline is provided for your review:

1. MD&A

- Management Discussion and Analysis (new) - pages 3 - 7.

2. Basic Financial Statements

- Balance Sheet (refocused) - page 8.
- Statement of Revenues, Expenses and Changes in Net Assets (refocused) - page 9.
- Statement of Cash Flows (direct method) - pages 10 - 11.
- Notes to Financial Statements (expanded/restructured) - pages 12 - 21.

WESTBOROUGH WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED JUNE 30, 2004

3. Supplemental Information (Unaudited)

- Schedule of Income by Component - page 22.
- Schedule of Changes in Retained Earnings - page 23.
- Statement of Revenues, Expenditures and Changes in Fund Balance - Budget to Actual - page 24.
- Notes to Supplemental Information - page 25.

BASIC FINANCIAL STATEMENTS

The District consists of exclusively one Enterprise Fund. Enterprise funds utilize the full accrual basis of accounting. The Enterprise method of accounting is similar to accounting utilized by private sector accounting.

Balance Sheet: The Balance Sheet is designed to represent the net available liquid (non-capital) assets, net of liabilities, for the entire District. Net Assets (formerly equity) are reported in three broad categories:

- Net Assets, Invested in Capital Assets, Net of Related Debt: This component of Net Assets consists of all Capital Assets, reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. The District does not have any debt as of June 30, 2004.
- Restricted Net Assets: This component of Net Assets consists of restricted assets; when constraints are placed on the asset by creditors (such as debt covenants), grantors, contributors, laws, regulations, etc.
- Unrestricted Net Assets: Consists of Net Assets that do not meet the definition of "Net Assets Invested in Capital Assets, Net of Related Debt" or "Restricted Net Assets".

Statement of Revenues, Expenses and Changes in Net Assets: Similar to an Income Statement, this Statement includes Operating Revenues, Operating Expenses, and Non-Operating Revenue and Expenses. The focus of the Statement of Revenues, Expenses and Changes in Net Assets is the "Change in Net Assets", which is similar to Net Income or Loss.

Statement of Cash Flows: This statement discloses net cash provided by, or used for, operating activities, non-capital financing activities, and from capital and related financing activities.

SUPPLEMENTAL INFORMATION

Supplemental information includes unaudited schedules not required by the *Governmental Accounting Standards Board (GASB)* but is included to provide additional information to the users of the District's financial report.

WESTBOROUGH WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED JUNE 30, 2004

BALANCE SHEET

The following table reflects the condensed balance sheet for the current fiscal year. The District is engaged only in Business-Type Activities.

**TABLE 1
BALANCE SHEET**

	June 30, 2004	Percent of Total
Assets		
Current Assets	\$ 4,463,109	48.80%
Capital Assets	4,682,694	51.20%
Total Assets	\$ 9,145,803	100.00%
Liabilities		
Current Liabilities	806,877	8.82%
Total Liabilities	806,877	8.82%
Net Assets		
Invested in Capital Assets	4,682,694	51.21%
Restricted	407,802	4.46%
Unrestricted	3,248,430	35.52%
Total Net Assets	8,338,926	91.18%
Total Liabilities and Net Assets	\$ 9,145,803	100.00%

For more detailed information see page 8 for the Balance Sheet.

Major Factors Affecting the Balance Sheet

- There was no long-term debt as of June 30, 2004.
- Restricted net assets consist of reserves for investment in utility plant, capital facilities, contingencies, capital expenses, inventory and prepaid expenses.
- Eighty-nine percent (89%) of the current assets consist of cash and investments as of June 30, 2004.

WESTBOROUGH WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED JUNE 30, 2004

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Table 2 presents the revenues and expenses for the current fiscal year. The District is engaged only in Business-Type Activities.

TABLE 2
Statement of Revenues, Expenses and Changes in Net Assets

	June 30, 2004	Percent of Total
OPERATING REVENUES:		
Water sales	\$ 1,042,341	43.77%
Sewer service charges	1,299,530	54.56%
Installation, connection and miscellaneous	24,291	1.02%
Other	15,500	0.65%
Total Operating Revenues	<u>2,381,662</u>	<u>100.00%</u>
OPERATING EXPENSES:		
Water expenses	992,970	35.78%
Sewer expenses	1,235,452	44.52%
Administration and overhead expenses	356,952	12.86%
Depreciation and amortization	189,602	6.84%
Total Operating Expenses	<u>2,774,976</u>	<u>100.00%</u>
OPERATING LOSS	(393,314)	
NON-OPERATING REVENUE	272,708	
NON-OPERATING EXPENSE	<u>-</u>	
DECREASE IN NET ASSETS	<u>\$ (120,606)</u>	

For more detailed information see page 9

Major Factors Affecting the Statement of Revenue, Expenses and Changes In Net Assets:

- The decrease in net assets was primarily due to the depreciation of capital assets. Excluding depreciation expenses, net assets will increase by \$189,602 .
- Non-operating income included payments received from property taxes, interest on investment income and other revenues.
- Water purchases of \$535,276 were included in water expenses identified above.

WESTBOROUGH WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED JUNE 30, 2004

- Treatment and disposal expenses of \$1,203,846 were included in the sewer expenses identified above.

CAPITAL ASSETS

As of June 30, 2004, the District had \$4.68 million invested in capital assets as reflected in the following schedule, which represents a net increase (addition, deductions and depreciation) of \$142,878 or 3.1% from the end of last year.

TABLE 3
Capital Assets at Year-End - Net

	June 30, 2004	June 30, 2003	Percentage Change
Land	\$ 182,632	\$ 182,632	0.00%
Sewer facilities	1,805,620	1,782,177	1.32%
Water facilities	3,696,895	3,603,531	2.59%
Buildings	873,135	870,690	0.28%
Joint-use facilities	110,123	110,123	0.00%
Meters	537,690	523,015	2.81%
Office furniture and equipments	282,514	253,969	11.24%
Maintenance facilities	269,074	99,066	171.61%
Total Costs	<u>7,757,683</u>	<u>7,425,203</u>	4.48%
Accumulated depreciation	<u>(3,074,989)</u>	<u>(2,885,387)</u>	6.57%
Net Capital Assets	<u>\$ 4,682,694</u>	<u>\$ 4,539,816</u>	3.15%

The above reconciliation summarizes the change in Capital Assets, which is presented in detail on Note 7 of the notes to the financial statements.

FINANCIAL CONTACT

The individual to be contacted regarding this report is Mr. Darryl A. Barrow, General Manager of the Westborough Water District, at (650) 589-1435. Specific requests may be submitted to Mr. Darryl A. Barrow, General Manager, Westborough Water District, 2263 Westborough Blvd., South San Francisco, CA 94083-2747.

WESTBOROUGH WATER DISTRICT

BALANCE SHEET
JUNE 30, 2004

ASSETS

Current Assets:

Cash and investments	\$ 3,996,264
Water sales receivable - net	400,579
Interest receivable	13,248
Inventory, at cost	43,441
Prepaid expenses	9,577

Total Current Assets 4,463,109

Noncurrent Assets:

Capital assets, net of accumulated depreciation	<u>4,682,694</u>
---	------------------

Total Noncurrent Assets 4,682,694

TOTAL ASSETS \$ 9,145,803

LIABILITIES AND NET ASSETS

Current Liabilities:

Accounts payable	\$ 77,616
Customer deposits	124,380
Special deposits	766
Accrued sewer service charges	604,115

Total Current Liabilities 806,877

Net Assets:

Invested in capital assets, net of debt	4,682,694
Restricted	407,802
Unrestricted	3,248,430

Total Net Assets 8,338,926

TOTAL LIABILITIES AND NET ASSETS \$ 9,145,803

The accompanying notes are an integral part of these financial statements.

WESTBOROUGH WATER DISTRICT

Financial Statements
For the Year Ended June 30, 2004
With Independent Auditor's Report Thereon

* * *

WESTBOROUGH WATER DISTRICT

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The Board of Directors
Westborough Water District
South San Francisco, California

We have audited the accompanying financial statements of the business-type activities of the Westborough Water District as of and for the fiscal year ended June 30, 2004, 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 Westborough Water District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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.

Our audit did not include tests of the historical costs of property and equipment acquired prior to July 1, 1968, because complete records are not available. Accordingly, we do not express an opinion as to the fairness of presentation of property and equipment, accumulated depreciation and equity in plant and equipment.

In our opinion, except for the effects of the matters discussed in the preceding paragraphs, the financial statements referred to above present fairly, in all material respects, the financial position of the Westborough Water District as of June 30, 2004, and the results of its operations, and changes in cash flows for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 1 of the notes to the basic financial statements, the District adopted the provisions of Government Accounting Standards Board Statements No. 34, *Basic Financial Statements – and Management Discussion and Analysis – for State and Local Governments*, No. 37, *Basic Financial Statements – and Management Discussion and Analysis – for State and Local Governments: Omnibus*, No. 38, *Certain Financial Statement Note Disclosures*, and



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C. J. Uhlerberg LLP

September 15, 2004
Redwood City, California

WESTBOROUGH WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED JUNE 30, 2004

The Westborough Water District's (the "District") Management's Discussion and Analysis is designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the District's financial activity, (c) identify changes in the District's financial position (its ability to address the next and subsequent year challenges), and (d) identify individual fund issues or concerns.

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FINANCIAL HIGHLIGHTS

- The District had net assets of \$8,338,926 as of June 30, 2004. Total net assets were comprised of 56% and 5% from capital assets and restricted net assets, respectively.
- The District's total operating revenues were \$2,381,662 as of June 30, 2004 and were comprised of 43% and 54% from water sales and sewer service charges, respectively.
- The District's total operating expenses were \$2,774,976 as of June 30, 2004 and were comprised of 6% of depreciation and amortization, 35% of water expenses and 44% of sewer expenses.

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- Statement of Cash Flows (direct method) - pages 10 - 11.
- Notes to Financial Statements (expanded/restructured) - pages 12 - 21.

WESTBOROUGH WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED JUNE 30, 2004

3. Supplemental Information (Unaudited)

- Schedule of Income by Component - page 22.
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BASIC FINANCIAL STATEMENTS

The District consists of exclusively one Enterprise Fund. Enterprise funds utilize the full accrual basis of accounting. The Enterprise method of accounting is similar to accounting utilized by private sector accounting.

Balance Sheet: The Balance Sheet is designed to represent the net available liquid (non-capital) assets, net of liabilities, for the entire District. Net Assets (formerly equity) are reported in three broad categories:

- Net Assets, Invested in Capital Assets, Net of Related Debt: This component of Net Assets consists of all Capital Assets, reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. The District does not have any debt as of June 30, 2004.
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Statement of Cash Flows: This statement discloses net cash provided by, or used for, operating activities, non-capital financing activities, and from capital and related financing activities.

SUPPLEMENTAL INFORMATION

Supplemental information includes unaudited schedules not required by the *Governmental Accounting Standards Board (GASB)* but is included to provide additional information to the users of the District's financial report.

WESTBOROUGH WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED JUNE 30, 2004

BALANCE SHEET

The following table reflects the condensed balance sheet for the current fiscal year. The District is engaged only in Business-Type Activities.

**TABLE 1
BALANCE SHEET**

	June 30, 2004	Percent of Total
Assets		
Current Assets	\$ 4,463,109	48.80%
Capital Assets	4,682,694	51.20%
Total Assets	\$ 9,145,803	100.00%
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Current Liabilities	806,877	8.82%
Total Liabilities	806,877	8.82%
Net Assets		
Invested in Capital Assets	4,682,694	51.21%
Restricted	407,802	4.46%
Unrestricted	3,248,430	35.52%
Total Net Assets	8,338,926	91.18%
Total Liabilities and Net Assets	\$ 9,145,803	100.00%

For more detailed information see page 8 for the Balance Sheet.

Major Factors Affecting the Balance Sheet

- There was no long-term debt as of June 30, 2004.
- Restricted net assets consist of reserves for investment in utility plant, capital facilities, contingencies, capital expenses, inventory and prepaid expenses.
- Eighty-nine percent (89%) of the current assets consist of cash and investments as of June 30, 2004.

WESTBOROUGH WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED JUNE 30, 2004

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Table 2 presents the revenues and expenses for the current fiscal year. The District is engaged only in Business-Type Activities.

TABLE 2
Statement of Revenues, Expenses and Changes in Net Assets

	June 30, 2004	Percent of Total
OPERATING REVENUES:		
Water sales	\$ 1,042,341	43.77%
Sewer service charges	1,299,530	54.56%
Installation, connection and miscellaneous	24,291	1.02%
Other	15,500	0.65%
Total Operating Revenues	<u>2,381,662</u>	<u>100.00%</u>
OPERATING EXPENSES:		
Water expenses	992,970	35.78%
Sewer expenses	1,235,452	44.52%
Administration and overhead expenses	356,952	12.86%
Depreciation and amortization	189,602	6.84%
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OPERATING LOSS	(393,314)	
NON-OPERATING REVENUE	272,708	
NON-OPERATING EXPENSE	<u>-</u>	
DECREASE IN NET ASSETS	<u>\$ (120,606)</u>	

For more detailed information see page 9

Major Factors Affecting the Statement of Revenue, Expenses and Changes In Net Assets:

- The decrease in net assets was primarily due to the depreciation of capital assets. Excluding depreciation expenses, net assets will increase by \$189,602 .
- Non-operating income included payments received from property taxes, interest on investment income and other revenues.
- Water purchases of \$535,276 were included in water expenses identified above.

WESTBOROUGH WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED JUNE 30, 2004

- Treatment and disposal expenses of \$1,203,846 were included in the sewer expenses identified above.

CAPITAL ASSETS

As of June 30, 2004, the District had \$4.68 million invested in capital assets as reflected in the following schedule, which represents a net increase (addition, deductions and depreciation) of \$142,878 or 3.1% from the end of last year.

TABLE 3
Capital Assets at Year-End - Net

	June 30, 2004	June 30, 2003	Percentage Change
Land	\$ 182,632	\$ 182,632	0.00%
Sewer facilities	1,805,620	1,782,177	1.32%
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Joint-use facilities	110,123	110,123	0.00%
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Accumulated depreciation	<u>(3,074,989)</u>	<u>(2,885,387)</u>	6.57%
Net Capital Assets	<u>\$ 4,682,694</u>	<u>\$ 4,539,816</u>	3.15%

The above reconciliation summarizes the change in Capital Assets, which is presented in detail on Note 7 of the notes to the financial statements.

FINANCIAL CONTACT

The individual to be contacted regarding this report is Mr. Darryl A. Barrow, General Manager of the Westborough Water District, at (650) 589-1435. Specific requests may be submitted to Mr. Darryl A. Barrow, General Manager, Westborough Water District, 2263 Westborough Blvd., South San Francisco, CA 94083-2747.

WESTBOROUGH WATER DISTRICT

BALANCE SHEET
JUNE 30, 2004

ASSETS

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Cash and investments	\$ 3,996,264
Water sales receivable - net	400,579
Interest receivable	13,248
Inventory, at cost	43,441
Prepaid expenses	9,577

Total Current Assets 4,463,109

Noncurrent Assets:

Capital assets, net of accumulated depreciation	<u>4,682,694</u>
---	------------------

Total Noncurrent Assets 4,682,694

TOTAL ASSETS \$ 9,145,803

LIABILITIES AND NET ASSETS

Current Liabilities:

Accounts payable	\$ 77,616
Customer deposits	124,380
Special deposits	766
Accrued sewer service charges	604,115

Total Current Liabilities 806,877

Net Assets:

Invested in capital assets, net of debt	4,682,694
Restricted	407,802
Unrestricted	3,248,430

Total Net Assets 8,338,926

TOTAL LIABILITIES AND NET ASSETS \$ 9,145,803

The accompanying notes are an integral part of these financial statements.

WESTBOROUGH WATER DISTRICT

STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

OPERATING REVENUES:	
Water sales	\$ 1,042,341
Sewer service charges	1,299,530
Installation, connection and miscellaneous	24,291
Other	<u>15,500</u>
Total Operating Revenues	<u>2,381,662</u>
OPERATING EXPENSES:	
Water expenses	992,970
Sewer expenses	1,235,452
Administration and overhead expenses	356,952
Depreciation and amortization	<u>189,602</u>
Total Operating Expenses	<u>2,774,976</u>
OPERATING LOSS	<u>(393,314)</u>
NON-OPERATING REVENUES (EXPENSES):	
Property taxes	191,957
Investment income	58,760
Miscellaneous income	<u>21,991</u>
Total Non-operating Revenues (Expenses)	<u>272,708</u>
CHANGE IN NET ASSETS	(120,606)
TOTAL NET ASSETS - BEGINNING	<u>8,459,532</u>
TOTAL NET ASSETS - ENDING	<u>\$ 8,338,926</u>

The accompanying notes are an integral part of these financial statements.

WESTBOROUGH WATER DISTRICT

**STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

CASH FLOWS FROM OPERATING ACTIVITIES:

Receipts from water sales	\$ 999,094
Receipts from sewer service charges	1,299,530
Receipts from others	51,285
Payments for water expenses	(956,765)
Payments for sewer expenses	(1,215,613)
Payments for other expenses	<u>(356,952)</u>

Net Cash Used for Operating Activities (179,421)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:

Receipts from property taxes	191,957
Other	<u>21,991</u>

Net Cash Provided by Noncapital Financing Activities 213,948

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Purchases of capital assets	<u>(332,480)</u>
-----------------------------	------------------

Net Cash Used for Capital and Related Financing Activities (332,480)

CASH FLOWS FROM INVESTING ACTIVITIES:

Interest on investments	<u>58,760</u>
-------------------------	---------------

Net Cash Provided by Investing Activities 58,760

NET DECREASE IN CASH OR CASH EQUIVALENTS (239,193)

CASH AND CASH EQUIVALENTS - BEGINNING 4,235,457

CASH AND CASH EQUIVALENTS - ENDING \$ 3,996,264

The accompanying notes are an integral part of these financial statements.

WESTBOROUGH WATER DISTRICT

**STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

Reconciliation of operating loss to net cash provided by
operating activities:

Operating loss	\$ (393,314)
Adjustments to reconcile operating loss to net cash provided by operating activities	
Depreciation	189,602
(Increase) Decrease in:	
Accounts receivable	(43,247)
Interest receivable	4,432
Inventory	4,172
Prepaid expenses	(6,310)
Increase (Decrease) in:	
Accrued claims payable	36,205
Deposits held	9,200
Accrued sewer service charges	19,839
	<hr/>
Net Cash Used by Operating Activities	<u><u>\$ (179,421)</u></u>

The accompanying notes are an integral part of these financial statements.

WESTBOROUGH WATER DISTRICT

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Description

The Westborough Water District (the "District") is governed by a five-member elected board and provisions of the California Water Code (Water Code section 30000 and following sections). The District delivers safe, high quality drinking water to over 10,000 people in the Westborough area of South San Francisco. Also, the District provides sanitary sewer service to its customers. The District has approximately 3,600 customers. The District has always had ongoing investments to ensure customers have uninterrupted supply of water for routine, drought or emergency use. The source of District's water is from the Hetch Hetchy and local reservoirs. The Board is planning ahead to meet anticipated future demands and water regulations.

Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Specifically, it relates to the timing of the measurements made, regardless of the nature of the measurement.

The District is accounted for as an enterprise fund, which is used to account for operations similar to a private business enterprise where the intent of the District is that the costs and expenses, including depreciation, of providing services to the users on a continuing basis be financed or recovered primarily through user charges.

As an enterprise fund, the District uses the full accrual basis of accounting. With the economic resources measurement focus, all assets and all liabilities of the enterprise are recorded on its balance sheet, all revenues are recognized when earned, and all expenses, including depreciation, are recognized when incurred. Enterprise fund net assets include investment in capital assets, restricted net assets, and unrestricted net assets.

Balance Sheet – The balance sheet is designed to display the financial position of the District. The District's fund equity is no longer reported as retained earnings and contributed capital, but rather as net assets, which is broken down into three categories defined as follows:

- Invested in capital assets, net of related debt – This component of net assets consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- Restricted – This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or law or regulations of other governments. It

WESTBOROUGH WATER DISTRICT

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2004

also pertains to constraints imposed by law or constitutional provisions or enabling legislation.

- Unrestricted – This component of net assets consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Statement of Revenues, Expenses, and Changes in Net Assets – The statement of revenues, expenses, and changes in net assets is the operating statement for proprietary funds. Revenues are reported by major source. This statement distinguishes between operation and nonoperating revenues and expenses and presents a separate subtotal for operating revenues, operating expenses, and operating income.

New Accounting Pronouncements

For the year ended June 30, 2004, the Authority has implemented:

- GASB Statement No. 34 (GASB 34), *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*,
- GASB Statement No. 37 (GASB 37), *Basic Financial Statements and Management’s Discussion and Analysis for State and Local Governments: Omnibus*,
- GASB Statement No. 38 (GASB 38), *Certain Financial Statement Note Disclosures*, and
- GASB Statement No. 39 (GASB 39), *Determining Whether Certain Organizations are Component Units*.

Cash and Cash Equivalents

For purpose of the Statements of Cash Flows, the District considers all highly liquid investments with maturity of three months or less when purchased to be cash and cash equivalents.

Receivables

Accounts receivable represents revenue accrued at year-end for water services and interest income.

WESTBOROUGH WATER DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

Inventories

Inventories consist primarily of supplies, valued at cost, which approximates market. Inventories are recorded as an expense when consumed rather than purchased.

Capital Assets

All capital assets are valued at historical cost or estimated historical cost if historical cost is not available.

Expenditures that add to the value of the assets or materially extend asset lives are capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets as applicable.

When capital asset is disposed of or retired, the related cost and accumulated depreciation are eliminated, and gains or losses arising from the disposition are reflected as income or expense.

Depreciation is calculated using the straight-line method over the estimated useful lives of the assets, which range from five to 50 years as follows:

Sewer facilities	40-50 years
Water facilities	50 years
Buildings	5-10 years
Joint-use facilities	50 years
Meters	5-15 years
Office equipments	5-15 years
Maintenance facilities	30-40 years

Budget

The District's annual budget is the initial budget and any revisions to the budget that have been approved by the Board of Directors.

Accounting Estimates

Financial statements prepared in accordance with accounting principles generally accepted in the United States of America require the use of management estimates. Actual results could differ from these estimates.

WESTBOROUGH WATER DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004

2. **CASH AND INVESTMENTS**

Authorized Investments:

Authorized investments are made in accordance with the District's investment policy and Section 53600 of the California Government Code.

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

	Carrying Amount	Fair Value
Deposits:		
Bank balances	\$ 148,381	\$ 148,381
Petty cash*	450	450
	<hr/>	<hr/>
Total deposits	148,831	148,831
	<hr/>	<hr/>
Pooled Investments:		
California Local Agency Investment fund (LAIF)*	3,847,433	3,841,216
	<hr/>	<hr/>
Total Cash and Investments	\$ 3,996,264	\$ 3,990,047
	<hr/>	<hr/>

* Not subject to categorization

The District's deposits are fully insured up to \$100,000 by the Federal Deposit Insurance Corporation ("FDIC"). The bank balances as of June 30, 2004, with First National Bank were \$35,416, \$16,977 and \$124,214 for the operating, payroll, and saving accounts, respectively. The differences between the bank balances and the carrying amounts are due to reconciling items such as deposits in transit and outstanding checks. As of June 30, 2004, the District's bank balance was over the FDIC limit by \$76,607.

The District's investments as of June 30, 2004 are categorized to give an indication of the level of risk assumed by the District. Category 1 includes investments that are insured or registered or for which the securities are held by the District or its agent in the District's name. Category 2 includes uninsured and unregistered investments for which the securities are held in the District's name by the trust department or the broker or dealer from which the securities were acquired or its agent. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer from which the securities were acquired or its trust department or agent, but not in the District's name.

WESTBOROUGH WATER DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2004

Marketing Investments to Fair Value (GASB 31)

Under GASB 31, the District must adjust the carrying value of its investments to reflect their fair value at each fiscal year end, and it must include the effects of these adjustments in income for that fiscal year. By following the requirements of GASB 31, the District would be reporting the amount of resources, which would actually have been available if it had been required to liquidate all its investments at any fiscal year-end. The District has determined the adjustment to fair value does not materially affect the financial statements as of June 30, 2004.

3. RECEIVABLES - WATER

The accounts receivable - water balance is stated net of an allowance for doubtful accounts of \$4,000 for the fiscal year ended June 30, 2004.

4. CAPITAL ASSETS

Changes in capital assets balances consisted of the following:

	Balance June 30, 2003	Additions	Deletions	Balance June 30, 2004
COSTS:				
Land	\$ 182,632	\$ -	\$ -	\$ 182,632
Sewer facilities	1,782,177	23,444	-	1,805,620
Water facilities	3,603,531	93,364	-	3,696,895
Buildings	870,690	2,446	-	873,135
Joint-use facilities	110,123	-	-	110,123
Meters	523,015	14,674	-	537,690
Office furniture and equipment:	253,969	28,544	-	282,514
Maintenance facilities	99,066	170,008	-	269,074
Total costs	\$ 7,425,203	\$ 332,480	\$ -	\$ 7,757,683
	Accumulated Depreciation June 30, 2003	Dispositions	Current Year Depreciation	Accumulated Depreciation June 30, 2004
Sewer facilities	\$ 724,530	\$ -	\$ 34,219	\$ 758,749
Water facilities	1,297,891	-	73,663	1,371,554
Buildings	199,490	-	26,321	225,811
Joint-use facilities	82,639	-	1,558	84,197
Meters	283,848	-	23,880	307,728
Office furniture and equipment:	231,283	-	9,144	240,427
Maintenance facilities	65,706	-	20,817	86,523
Total accumulated depreciation	\$ 2,885,387	\$ -	\$ 189,602	\$ 3,074,989
Capital Assets - Net	\$ 4,539,816	\$ 332,480	\$ (189,602)	\$ 4,682,694

WESTBOROUGH WATER DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004

5. ACCUMULATED VACATION AND SICK LEAVE

Employees can earn annual vacation days at the rate of ten days per year. Employees with five years of service accumulate 15 days per year, employees with 10 years of service accumulate 20 days per year and employees with 20 years of service accumulate. Employees accumulate twelve days of sick leave per year. However, no accumulated sick leave is paid to employees upon termination.

An employee who separates from District employment as a result of (1) retirement under the District's retirement plan, (2) disability (which includes termination at the conclusion of the maximum medical leave of absence period provided in section 3.03 of the District Personnel Manual), or (3) death, will be paid for unused sick leave credits, up to a maximum of 120 days, at 100 percent of their regular hourly rate at the time of the death, retirement, or separation from service on account of disability.

Vacation as follows:

<u>Years of service completed</u>	<u>Days of vacation earned annually</u>
1-4	10 (two weeks)
5-9	15 (three weeks)
10-14	20 (four weeks)
15-19	25 (five weeks)
20-24	30 (six weeks)

Accumulated vacation is computed using current employee accumulated vacation hours at current pay rates.

6. JOINT POWERS AGREEMENT

The Westborough Water District participates in a joint powers agreement with the Association of California Water Agencies - Joint Powers Insurance Authority ("JPIA"). JPIA members have pooled funds to be self-insured for liability, property, and workers' compensation insurances. The District participates in the liability and property program and has also purchased a Public Employee Fidelity Policy. The District has an auto and general liability self-insured retention level of \$2,500, a \$2,500 property program deductible for buildings and personal property, and a \$1,000 property program deductible for licensed vehicles. A self-retention is similar to a deductible.

The JPIA is governed by a board, which controls the operations of the JPIA independent of any influence by the Westborough Water District. The JPIA is independently accountable for its fiscal matters. The insurance group maintains its own accounting records. The relationship between the Westborough Water District and the JPIA is such that the JPIA is not a component unit of the Westborough Water District for financial reporting purposes.

WESTBOROUGH WATER DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2004

The following is a summary of the JPIA's financial statement information as of September 30, 2003:

Total assets	\$ 73,883,784
Fund balances	\$ 19,836,841
Total revenues	\$ 27,180,493
Total expenditures	\$ 27,512,727

7. PROPERTY TAX LEVY, COLLECTION AND MAXIMUM RATES

The State of California (the "State") 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 has been approved by voters. Assessed value is calculated at 100% of market value as defined by Article XIII A and may be increased by no more than 2% per year unless the property is sold or transferred. The State Legislature has determined the method of distribution of receipts from a 1% tax levy among counties, cities and school districts and other districts. Counties, cities, school districts may levy such additional tax as is necessary to provide for voter approved debt service.

The County of San Mateo assesses properties and collects property taxes as follows:

	<u>Secured</u>	<u>Unsecured</u>
Valuation dates	March 1	March 1
Lien/levy dates	July 1	July 1
Due dates	50% on November 1 50% on February 1	Upon receipt of billing
Delinquent as of	December 10 (for November) April 10 (for February)	August 31

The term "unsecured" refers to taxes on property not secured by liens on real property.

Property taxes levied are recorded as revenue when received, in the fiscal year of levy, due to the adoption of an "alternate method" of property tax distribution known as the Teeter Plan, by the Westborough Water District and the County of San Mateo. The Teeter Plan authorizes the auditor-controller of the County of San Mateo to allocate 100% of the secured property taxes billed but not yet paid. The County of San Mateo remits tax monies to the District in three installments as follows:

50% remitted on December 15
40% remitted on April 15
10% remitted on June 30

WESTBOROUGH WATER DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2004

8. CAPITAL FACILITIES FUND

As of January 2000, state law (SB 1760, Chapter 644, Stats. 1998) requires local water and sanitary districts to account for capacity charges in a separate fund. Capacity charge is defined as "a charge for facilities in existence at the time a charge is imposed or charges for new facilities to be constructed in the future that are for the benefit of the person or property being charged." The law provides that fees and charges collected on or after January 1, 2000, by a local agency for water and sewer connection, are subject to certain requirements. The law also requires the local agency to make available to the public, within 180 days after the last day of each fiscal year, information about capacity charges.

As of June 30, 2004 (effective from January 1, 2000), the District's capital facilities fund is as follows:

<u>Fund Balance:</u>	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Beginning Fund Balance	\$ 162,701	\$ 229,601	\$ 392,302
Income:			
Carter Park I	12,500	-	12,500
Simpson Housing	3,000	-	3,000
Total Income	15,500	-	15,500
Expenses:			
Carter Park I	-	-	-
Simpson Housing	-	-	-
Total Expenses	-	-	-
Ending Fund Balance	<u>\$ 178,201</u>	<u>\$ 229,601</u>	<u>\$ 407,802</u>

Interest income earned from capital facilities charges is included as part of the total LAIF interest income.

9. EMPLOYEE BENEFITS

Plan Description

Beginning August 2002, with no rollover or transfer of assets required, the District began contributing to the California Public Employees Retirement System (PERS), an agent multiple-employer public employee retirement system. 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 the District's resolution. PERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained from the Executive Office, 400 P Street, Sacramento, CA 95814.

WESTBOROUGH WATER DISTRICT

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2004

Funding Policy

District employees are required to contribute six percent of their annual salary to the System. The District makes the entire contribution on behalf of the employees. The District is required to contribute the remaining amounts necessary to fund the benefits for its members using the actuarial basis recommended by the PERS actuaries and actuarial consultants and adopted by the PERS Board of Administration.

Annual Pension Cost

For the year ended June 30, 2004, the District's annual pension cost of \$60,405 for PERS was the District's required and actual contributions. The actual contributions of \$17,735 represent the employees' share of contributions. The required contribution was determined as part of the June 30, 2002 actuarial valuation using the entry age normal actuarial cost method. Significant actuarial assumptions used in the valuation include: (a) 8.25% investment rate of return (net of administrative expenses), (b) projected salary increases of 3.75 percent a year compounded annually, attributable to inflation, and (c) across the board real salary increases. The actuarial value of PERS assets was determined using techniques that minimize the effects of short-term volatility in the market value of investments over a period of two to five years. PERS unfunded actuarial accrued liability is amortized as a level percentage of projected payroll on a closed basis. The amortization period of the unfunded actuarial liability ends on June 30, 2003 for prior service benefits and for current service benefits.

Three-Year Trend Information for PERS

Because the district did not begin PERS until August 2002 the three-year trend information for PERS is not available.

REQUIRED SUPPLEMENTAL INFORMATION

WESTBOROUGH WATER DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET TO ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Original Budget	Final Budget	(GAAP) Actual	Variance Positive (Negative)
Operating Income:				
Water Sales	\$ 1,023,943	\$ 1,023,943	\$ 1,042,341	\$ 18,398
Sewer Svc.and Transfer Charges	1,320,638	1,320,638	1,299,530	(21,108)
Installation, Connection and Misc.	-	-	24,291	24,291
Capital Facilities Income	<u>161,250</u>	<u>161,250</u>	<u>15,500</u>	<u>(145,750)</u>
Total Operating Income	<u>2,505,831</u>	<u>2,505,831</u>	<u>2,381,662</u>	<u>(124,169)</u>
Operating Expense:				
Water Expenditures	964,537	964,537	992,970	28,433
Sanitary Sewer Expenditures	1,297,019	1,297,019	1,235,452	(61,567)
Admin.and General Expenditures	346,495	346,495	356,952	10,457
Depreciation	<u>186,000</u>	<u>186,000</u>	<u>189,602</u>	<u>3,602</u>
Total Operating Expenditures	<u>2,794,051</u>	<u>2,794,051</u>	<u>2,774,976</u>	<u>(19,075)</u>
Gain (Loss) from Operations	<u>(288,220)</u>	<u>(288,220)</u>	<u>(393,314)</u>	<u>(105,094)</u>
Non-Operating Income:				
Property Taxes	163,000	163,000	191,957	28,957
Investment Interest	110,853	110,853	58,760	(52,093)
Other	<u>20,000</u>	<u>20,000</u>	<u>21,991</u>	<u>1,991</u>
Total Non-Operating Income	<u>293,853</u>	<u>293,853</u>	<u>272,708</u>	<u>(21,145)</u>
Excess (Deficiency) of Revenues over (under) Expenditures	<u>\$ 5,633</u>	<u>\$ 5,633</u>	(120,606)	<u>\$ (126,239)</u>
Fund Balances at Beginning of Year			<u>8,459,532</u>	
Fund Balances at End of Year			<u>\$ 8,338,926</u>	

SUPPLEMENTAL INFORMATION (UNAUDITED)

WESTBOROUGH WATER DISTRICT

**SCHEDULE OF INCOME BY COMPONENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

	<u>WATER</u>	<u>SEWER</u>	<u>TOTAL</u>
OPERATING INCOME:			
Water sales	\$ 1,042,341	\$ -	\$ 1,042,341
Sewer service charges	-	1,299,530	1,299,530
Installation connections and miscellaneous	24,291	-	24,291
Others	15,500	-	15,500
	<u>1,082,132</u>	<u>1,299,530</u>	<u>2,381,662</u>
OPERATING EXPENSES:			
Salaries	223,278	-	223,278
Employee benefits and payroll taxes	73,460	-	73,460
Water purchases	535,276	-	535,276
Utilities	70,582	25,953	96,535
Maintenance of system	45,108	-	45,108
Supplies and small tools	9,358	-	9,358
Special services	20,456	-	20,456
Technical communications	5,767	-	5,767
Vehicle expense	9,685	-	9,685
Treatment and disposal	-	1,203,846	1,203,846
Maintenance of lines and pumps	-	5,653	5,653
	<u>992,970</u>	<u>1,235,452</u>	<u>2,228,422</u>
OPERATING INCOME BY COMPONENT			
	<u>\$ 89,162</u>	<u>\$ 64,078</u>	<u>\$ 153,240</u>
ADMINISTRATION AND OVERHEAD EXPENSES			
General			356,952
Depreciation			<u>189,602</u>
Total Administration and Overhead Expenses			
			<u>546,554</u>
LOSS FROM OPERATIONS			
			<u>(393,314)</u>
NON-OPERATING INCOME (EXPENSES):			
Property taxes			191,957
Interest income			58,760
Miscellaneous income			<u>21,991</u>
Total Non-Operating Income (Expenses)			
			<u>272,708</u>
NET LOSS			
			<u>\$ (120,606)</u>

WESTBOROUGH WATER DISTRICT

STATEMENT OF ADMINISTRATIVE AND OVERHEAD EXPENSES
FOR THE FISCAL YEAR ENDED JUNE 30,2004

ADMINISTRATION AND OVERHEAD EXPENSES:

Salaries	\$ 108,151
Employee benefits and payroll taxes	49,170
Utilities	420
Directors fees	11,600
Engineering services	5,611
Legal and accounting	33,292
Billing	30,763
Memberships	21,831
Office supplies and postage	5,562
Communications	27,694
Travel and education	9,197
Building and grounds maintenance	2,797
Insurance	31,307
Bad debts	5,885
Miscellaneous	13,672
Depreciation	<u>189,602</u>

TOTAL ADMINISTRATION
AND OVERHEAD EXPENSES \$ 546,554

WESTBOROUGH WATER DISTRICT

SCHEDULE OF CHANGES IN RETAINED EARNINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	RESERVE FOR INVESTMENT IN UTILITY PLANT	RESERVE FOR CAPITAL FACILITIES FUND	RESERVE FOR CONTINGENCY	RESERVE FOR SYSTEM MAINTENANCE	RESERVE FOR (NEW) WORKING CAPITAL	UNAPPROPRIATED	TOTAL RETAINED EARNINGS
Balance, beginning of year	\$ 4,539,816	\$ 392,302	\$ 2,661,943	\$ 1,278,106	\$ 48,099	\$ (460,734)	\$ 8,459,532
Adjustments to retained earnings:							
Net Income	-	15,500	-	-	-	(136,106)	(120,606)
Depreciation	(189,602)	-	-	-	-	189,602	-
Interest payments	-	-	-	-	-	-	-
Asset additions	332,480	-	-	-	-	(332,480)	-
Asset deletions	-	-	-	-	-	-	-
Bond payments	-	-	-	-	-	-	-
Intrafund transfers	-	-	(800,000)	-	-	800,000	-
Balance, end of year	\$ 4,682,694	\$ 407,802	\$ 1,861,943	\$ 1,278,106	\$ 48,099	\$ 60,282	\$ 8,338,926

WESTBOROUGH WATER DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

RESERVE FOR CAPITAL EXPENSES

The reserve for capital expenses represents two separate reserves created by Board resolution as follows:

Appropriation for replacement and extension of water facilities	\$ 172,975
Appropriation for replacement and extension of sewer facilities	<u>1,105,131</u>
Total	<u>\$ 1,278,106</u>

RESOLUTION NO. 510

RECONFIRMING ADOPTION OF THE STATEMENT OF INVESTMENT POLICY

WESTBOROUGH WATER DISTRICT

WHEREAS, pursuant to California Government Code Section 53646, the District is required to adopt a Statement of Investment Policy and to review it annually; and

WHEREAS, on February 8, 1996, the Board of Directors for the District adopted a Statement of Investment Policy and appointed an Investment Committee comprised of two directors and the General Manager to serve as the District's trustee for purposes of placing investments pursuant to this Policy; and

WHEREAS, on April 5, 2001, the Board of Directors last reviewed the Statement of Investment Policy and reconfirmed it; and

WHEREAS, the General Manager and the Attorney have recommended that the Board of Directors reconfirm the adoption of the attached Statement of Investment Policy.

NOW, THEREFORE, BE IT RESOLVED that the Board of Directors of the Westborough Water District reconfirms the adoption of the attached Statement of Investment Policy in accordance with California Government Code Section 53646 and authorizes the Investment Committee to deposit and invest funds in accordance with the Investment Policy.

Regularly passed and adopted this 12th day of December, 2002 by the following vote:

AYES: Bautista, Chambers, Craig, Elmore, and Jones.

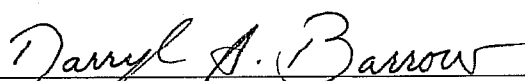
NOES: None.

ABSENT: None.



President, Board of Directors

ATTEST:



Board Secretary

WESTBOROUGH WATER DISTRICT
STATEMENT OF INVESTMENT POLICY

PURPOSE

This statement provides guidelines for the prudent investment and cash management of the District's funds.

OBJECTIVE

The District's cash management system is designed to monitor and forecast accurately expenditures and revenues, thus enabling the District to invest funds to the fullest extent possible. The District's primary objective is to safeguard the principal of the funds; the second objective is to meet the liquidity needs of the District; and the third objective is to achieve a return on the invested funds.

POLICY

At all times, the District shall invest its funds in accordance with the rules and restrictions established by the laws of the State of California (Government Code Section 53600 et seq.). The District shall conduct its investments under the "prudent investor standard": When investing, reinvesting, purchasing, acquiring, exchanging, selling and managing public funds, a trustee shall act with care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the District." (California Government Code Section 53600.3).

The Investment Committee comprised of two members of the Board of Directors appointed by the President and the General Manager shall serve as the District's trustee for purposes of placing investments pursuant to this policy. The policy shall be reviewed annually by the District's Board of Directors at a public meeting. (California Government Code Section 53646(a)).

1. **Criteria for Selecting Investments.** Criteria for selecting investments and the order of priority are:

a. Safety. The safety and risk associated with an investment refer to the potential loss of principal, interest or a combination of these amounts. The District shall operate only in those investments that are considered very safe.

b. Liquidity. An adequate percentage of the portfolio, in the approximate amount of annual operating expenses, should be maintained in liquid short-term investments which can be converted to cash if necessary to meet disbursement requirements. A short-term investment is defined as any investment which matures within a one year period.

c. Yield. Yield becomes a consideration only after the basic requirements of safety and liquidity have been met.

2. Delivery of Securities. Securities shall be delivered by book entry, physical delivery or by third party custodial agreement. (California Government Code Section 53601).

3. Diversification. The portfolio should consist of a mix of authorized types of investments described in this policy. As a general rule, long-term maturities should not represent a significant percentage of the total portfolio, as the principal risk involved can outweigh the potential for higher earnings.

4. Terms of Investments. Except for public statutory exceptions or when authorized by the Board of Directors either specifically or as part of an investment program no less than 3 months prior to the investment, no investment shall be made in a security with a term remaining to maturity in excess of five years. (California Government Code Section 53601).

5. Deposit of Funds. As far as possible, all money belonging to or in the custody of the District including money paid to the District to pay the principal, interest or penalties of bonds, shall be deposited for safekeeping in state or national banks, savings associations or federal associations, credit unions or federally insured industrial loan companies in California (as defined by California Government Code Section 53630). Pursuant to California Government Code Sections 53635, 53637 and 53638, the money shall be deposited in any authorized depository with the objective of realizing maximum return, consistent with prudent financial management.

Subject to the applicable statutory requirements, no more than 25% of the total portfolio will be placed in any one financial institution.

The District's funds may also be invested in the instruments set forth in Sections 6 and 7 below.

6. Allowable Investment Instruments. The District may invest in the investment instruments authorized by the California Government Code, subject to any conditions set forth

in the California Government Code. Without prior Board approval, the Investment Committee shall limit the investment instruments utilized to the following:

a. United States Treasury notes, bonds, bills or certificates of indebtedness, or those for which the faith and credit of the United States are pledged for the payment of principal and interest.

b. Negotiable certificates of deposits issued by a nationally or state-chartered bank or a state or federal association (as defined by California Financial Code Section 5102) or by a state-licensed branch of a foreign bank.

7. **Local Agency Investment Fund**. In addition to the investment instruments set forth in Section 6, the Investment Committee may invest District funds in the Local Agency Investment Fund pursuant to California Government Code Section 16429.1.

8. **Prohibited Investments**. The District shall not invest any funds in inverse floaters, range notes or interest-only strips that are derived from a pool of mortgages. The District shall not invest any funds in any security that could result in zero interest accrual if held to maturity; however, the District may hold this prohibited instrument until its maturity date. The limitation does not apply to investments in shares of beneficial interest issued by diversified management companies as set forth in California Government Code Section 53601.6.

REPORTING

At least quarterly, the General Manager shall submit an investment report to the Board of Directors within 30 days of the end of the quarter. The report shall include the following information:

1. type of investment, issuer, date of maturity, par and dollar amount invested in all securities, investments and money held by the District;
2. description of any of the District's funds, investments or programs that are under the management of contracted parties, including lending programs;
3. for all securities held by the District or under management by any outside party that is not a local agency or the State of California Local Agency Investment Fund, a current market value as of the date of the report and the source of this valuation;
4. statement that the portfolio complies with the Investment Policy or the manner in which the portfolio is not in compliance; and

5. statement that the District has the ability to meet its pool's expenditure requirements (cash flow) for the next six months or provide an explanation as to why sufficient money shall or may not be available.

If the District places all of its investments in the Local Agency Investment Fund, Federal Deposit Insurance Corporation-insured accounts in a bank or savings and loan association or county investment pool (or any combination of these three), the General Manager can simply submit, on at least a quarterly basis, the most recent statements from these institutions to meet the requirements of items 1-3 above, with a supplemental report addressing items 4 and 5 above. (California Government Code Section 53646(b)-(e))

Westborough Water District

5 YEAR CAPITAL IMPROVEMENT PROGRAM

FY 2005/06 THROUGH FY 2009/10

May 26, 2005

INTRODUCTION

Background

The Westborough Water District adopted a 5 Year Capital Improvement Program in June 1999 which served as basis for preparation of the annual capital improvement budgets during the time period FY 1999/00 through 2004/05. That 5 Year CIP Program included both proposed construction projects and equipment purchases.

Construction projects completed during the period included a new storage building at the Skyline Storage Tank Site, repair recoating of the interior of Skyline Tank No. 1, reconstruction of the pressure reducing valve station adjacent to the Westborough Professional Center, and security fencing for the Rowntree Sewage Pump Station. Other projects proposed in that 5 Year CIP which have not yet been completed but are in the final design stage include the Pipeline Intertie with the North Coast County Water District and the Skyline Tank Site Tank, Piping and Recoating Project.

Equipment purchases have included a VAC/CON excavating truck, a small backhoe loader, a trailer, a pickup truck, and a hose reel for the emergency flexible hose (for installation across the San Andreas Fault).

Other completed work included replacement of the SCADA (Supervisory Control and Data Acquisition) system, installation of security monitoring cameras at the District Office building, and a solar alarm system for the Skyline tanks.

Purpose

The purpose of this 5 Year Capital Improvement Program is to provide a new listing of proposed capital improvements which will serve as a budget tool for preparation of the annual budget capital improvement programs during those years. The 5 Year Capital Improvement Program does not contain a financing element because all of the proposed capital improvements are expected to be financed from revenue and existing cash reserves.

Budget Cost Estimates

The budget cost estimates shown are current costs and do not contain an inflation factor. The estimates are based on information currently available to the persons preparing the 5 Year C.I.P. document, Darryl Barrow and James Teter. These estimates should be considered preliminary, and they will be updated as additional information becomes available.

EXECUTIVE SUMMARY

<u>Fiscal Year</u>	<u>Capital Improvement Name</u>	<u>Budget Cost Estimate</u>	<u>Project Description Page</u>
2005/06	Seismic Valve at Skyline Tank Site	40,000	5
	Chlorine Injection System	20,000	6
	Pipeline Intertie with NCCWD	75,000	7
	Grinder for Westb. Sew. P.S.	150,000	8
	Pump Repl. at Rowntree Sew. P.S.	150,000	9
	Generator Repl. at Rowntree P.S.	75,000	10
	Generator Repl. at Westborough P.S.	75,000	11
	Computer System Firewall	3,000	33
	Fire-proof Lateral Fire Cabinets	8,000	27
	Utility Truck Purchase	35,000	18
	Convert Pickup to Dump Truck	<u>20,000</u>	12
	Fiscal Year Total	\$ 651,000	
2006/07	Skyline Tank No. 1 Recoating	\$ 650,000	
	Skyline Tank Site Paving & Ret. Wall	60,000	13
	Cathodic Protection for Tanks	75,000	14
	New Pressure Reducing Valve Station	50,000	15
	Rehabilitate Press. Red. Stations	50,000	16
	Fire Hydrant Replacement	25,000	17
	Backhoe Attachment Purchase	10,000	19
	Telephone System Replacement	<u>3,000</u>	20
Fiscal Year Total	\$ 923,000		
2007/08	Fire Hydrant Replacement	25,000	17
	Update District Maps	\$ 4,000	21
	Emergency Hose Purchase	25,000	22
	Additional Water Pipeline Valves	75,000	23
	Remodel Office Entrance Area	<u>30,000</u>	25
	Fiscal Year Total	\$ 159,000	
2008/09	Repave Parking Area at Office Bldg.	\$ 25,000	24
	Repaint Office Building Exterior	15,000	26
	Pump Repl. at Westb. Sew. P.S.	150,000	28
	Transfer Switch at Skyline P.S.	10,000	29
	Fire Hydrant Replacement	<u>25,000</u>	17
	Fiscal Year Total	\$ 225,000	
2009/10	Office Video Camera Replacement	\$ 12,000	30
	Computer System Equip. Repl.	28,000	31
	Pump Repl. at Avalon Sew. P.S.	30,000	32
	Fire Hydrant Replacement	<u>40,000</u>	17
	Fiscal Year Total	\$ 110,000	
* 5 Year Capital Improvement Project Total		\$2,068,000	

SKYLINE STORAGE TANK NO. 1 INTERIOR RECOATING AND APPURTENANT WORK

FISCAL YEAR: 2006/07

PURPOSE:

Recoat the interior of Storage Tank No. 1. The project includes structural and piping modifications for Tank No. 1 as well as repair of the existing coating system on Tanks No. 1, 2 & 3.

DETAILED PROJECT DESCRIPTION:

The interior of Skyline Storage Tank No. 1 was recoated during the early 1990's. However, the coating on the tank floor and lower sideshell wall failed during the first year, and although repair work was completed the coating in those areas is less than satisfactory. A recent inspection of the tank interior indicated substantial rust on the roof plates and rafters. The project scope includes removal of the existing coating system and recoating of the entire tank interior.

Structural modifications of Tank No. 1 include installation of a new drain pipeline to facilitate tank draining for cleaning (the existing drain line exits through the tank sideshell wall and requires the remaining water in the tank to be pumped out), installation of a new access manhole in the tank sideshell to improve ventilation and access, replacement of the screens at the top of the sideshell wall with new material, installation of a safety cage on the exterior ladder, and repair of the float-and-cable level indicator.

The inlet-outlet pipelines of Tank No. 1 will be modified to improve tank circulation, replace old valves and cast iron pipe with new materials, and remove the piping which constricts the area between the tank and the pump station building.

The existing exterior coating on Tanks No. 1, 2 and 3 is in satisfactory condition that it does not need to be removed. However, there are areas of existing rust on Tanks No. 2 and 3, and all of the tanks have numerous very small rusty spots which should be repaired to prevent their enlargement. Also, the chime area (the exposed portion of the tank floor plate which rests on the tank concrete foundation wall) of each of the 3 tanks needs to be recoated. In addition, severe corrosion of all of the bolts and nuts on the tank inlet-outlet pipelines has occurred. On each tank all of the existing carbon steel bolts and nuts will be replaced with stainless bolts and nuts, and following completion of this work the pipelines will be recoated.

BUDGET COST ESTIMATE:

Pending completion of the project engineering design work, the project budget cost estimate is \$650,000.

SEISMIC VALVE AT SKYLINE STORAGE TANK SITE

FISCAL YEAR: 2005/06

PURPOSE:

Install a seismic-actuated valve at the Skyline storage tank site to prevent flow out of Storage Tanks No. 2 & 3 following a major earthquake.

DETAILED PROJECT DESCRIPTION:

A seismic-actuated valve was installed at the Skyline storage tank site in 1994 on The 12 inch diameter inlet-outlet pipeline. As designed, the seismic-actuated valve would automatically close following a major earthquake to prevent loss of all water from both of the storage tanks (Note: Tank No. 3 was not constructed until 1999) through anticipated pipeline leakage. Currently, the seismic-actuated valve if it closes will prevent flow out of all 3 storage tanks. Because the WWD has numerous pipelines which cross the San Andreas earthquake fault, numerous pipeline breaks can be anticipated following a major seismic event.

However, the disadvantage of automatically shutting off the flow out of all 3 of the storage tanks following a major earthquake is that the entire WWD area would be without water service, including water for fighting the numerous fires which can also be anticipated. In addition, the existing valve and its control panel are badly corroded and are no longer operational.

The proposed project will construct a new seismic-actuated valve facility on the inlet-outlet pipeline between Tanks No. 2 and 3. Following a major seismic event, the valve will automatically close to prevent all flow out of (and into) Storage Tanks No. 2 and 3, but Tank No. 1 will remain on-line to continue water service to the community. The new valve will be located in an underground vault, but the electrical control panel will be located inside the Skyline Pump Station building where corrosion is far less severe than within the vault. The valve control panel will include a manual test pushbutton, and the valve open-close position will be connected to the District's SCADA system. A bypass pipeline will be constructed around the vault for use when the seismic valve is being serviced or is non-operational.

BUDGET COST ESTIMATE:

A budget estimate for the seismic valve installation including piping, the vault, and the control panel and wiring is \$40,000.

CHLORINE INJECTION SYSTEM AT SKYLINE TANK SITE

FISCAL YEAR: 2005/06

PURPOSE:

Provide a system for adding additional chlorine, if required, to the water entering the Skyline storage tanks.

DETAILED PROJECT DESCRIPTION:

The water which the WWD purchases from the San Francisco Water Department normally contains an adequate concentration of chlorine to meet State Department of Health Services drinking water requirements. The WWD currently has no means of adding additional chlorine should it become necessary. Reasons why additional the District may need to include additional chlorine include the following:

1. Inadequate chlorine concentration in the water supply purchased from SFWD.
2. Inadequate chlorine concentration in the water supply flowing out of the Skyline storage tanks because the concentration lessens over time and the detention time of the water in the tanks may be several days or more.
3. Nitrification occurring in the water stored in the Skyline tanks.
4. Notification from North Coast County Water District that the chlorine concentration of the water stored in the Christen Hill tank is inadequate. The Intertie Agreement between the WWD and NCCWD requires WWD to have facilities to add additional chlorine to the water it pumps into the Christen Hill tank.

The chlorine injection facilities will be installed at the Skyline storage tank site. A small chemical feed pump and tank will be provided within the Skyline Pump Station building to inject liquid chlorine (hypochlorite) into the tank site inlet-outlet pipeline. The existing vault where the inoperative seismic valve is located will be converted to a chlorine injection vault. The system will be operated only when water is flowing into the storage tanks in order that water with a high chlorine concentration is not distributed directly to the customers.

BUDGET COST ESTIMATE:

Design of the system has not been completed. A budget for the chlorine injection facilities is \$20,000.

PIPELINE INTERTIE WITH NORTH COAST COUNTY WATER DISTRICT

FISCAL YEAR: 2005/06

PURPOSE:

Improve water supply system reliability by constructing a new pipeline intertie between the Westborough Water District and the North Coast County Water District at the Skyline storage tank site.

DETAILED PROJECT DESCRIPTION:

There is an existing pipeline intertie between the WWD and the NCCWD at the Skyline storage tank site. This intertie has been used by each agency during the last several years and has been found to be a valuable asset. However, the existing pipeline intertie has the following deficiencies: (1) the valves which must be opened to activate the intertie are remotely located and require personnel from each agency to operate them which is inconvenient for emergency use of the intertie, (2) the intertie pipelines are old cast iron pipe which is no longer dependable, (3) there are no flow meters on the intertie pipelines with which to record water usage in either direction, and (4) the intertie connects only the low pressure pipelines in the area although there are also high pressure pipelines available at this site.

In 2004, an Intertie Agreement was executed between the WWD and NCCWD. This agreement includes provisions for construction of the pipeline intertie as the Skyline tank site. The intertie facilities will be constructed on a parcel of land owned by the NCCWD on Sharp Park Road near Skyline Drive. The existing NCCWD storage tanks on that parcel have been abandoned and will be removed. The intertie facilities will consist of piping connections including water meters for transfer of both high pressure and low pressure water between the agencies.

BUDGET COST ESTIMATE:

Pending completion of the project engineering design work, the budget estimate for WWD's share of the total project cost is \$75,000.

GRINDER FOR WESTBOROUGH SEWAGE PUMP STATION

FISCAL YEAR: 2005/06

PURPOSE:

Reduce sewerage system maintenance costs including wear and tear on the pumps by grinding the sewage prior to pumping.

DETAILED PROJECT DESCRIPTION:

The Westborough sewage pump station is located adjacent to the WWD Office Building. The sewage flowing into this pump station contains rags and similar objects which are too large to pass through the pump impellers. The clogging causes excessive wear and tear on both the pump and motor, and the clogged impellers must be cleaned by hand.

While the concept of installing a grinder at the inlet to the pump station is simple, completing the installation is difficult because of insufficient space on the pump station land parcel and the close proximity of manholes for 2 separate sewer pipelines which merge immediately adjacent to the pump station building. Other factors making the installation difficult is the depth of the inlet sewer pipelines and the necessity of considering confined space entry requirements for the personnel maintaining grinder facility. For these reasons the WWD has requested that the Daly City personnel that maintain the WWD sewerage facilities provide detailed information for their recommended design of the grinder facility. Following receipt of this information, WWD will proceed with final engineering design and facility construction.

BUDGET COST ESTIMATE:

Pending completion of the project engineering design work, a the budget estimate for the grinder facility installation is \$150,000.

PUMP REPLACEMENT AT ROWNTREE SEWAGE PUMP STATION

FISCAL YEAR: 2005/06

PURPOSE:

Replace the old, worn out pumps with new, larger pumps and new variable frequency type electrical control units.

DETAILED PROJECT DESCRIPTION:

The Rowntree Sewage Pump station contains 3 variable speed pumps. The station is designed so that 2 pumps operating together can discharge the peak sewage inflow; the 3rd pumping unit is for standby service for use when one of the other units is out of service. Daly City personnel who operate and maintain the WWD sewerage facilities report that all 3 pumps are worn out and need to be replaced now. They also report that the pumping capacity of the existing pumps is too low and that the new pumps should have higher pumping capacity.

Larger capacity pumps will require larger motors, and larger motors will require replacement of the variable-frequency drive units which start and stop the pumps and control their operating speed.

Daly City personnel are currently conducting flow measuring testing to determine the peak sewage flow entering the station. Design of the new equipment cannot begin until the flow monitoring program has been completed.

BUDGET COST ESTIMATE:

Prior to completion of the flow monitoring program and equipment design, the budget estimate for installation of the 3 new pumps and variable frequency drive units is \$150,000.

REPLACEMENT OF STANDBY POWER GENERATOR AT ROWNTREE SEWAGE PUMP STATION

FISCAL YEAR: 2005/06

PURPOSE:

Replace the existing standby generator unit which is not only worn out but has insufficient capacity.

DETAILED PROJECT DESCRIPTION:

The existing standby generator unit is old and requires replacement. Also, the pump replacement program at this pump station proposes new, higher capacity pumps. The higher capacity pumps will have larger motors, and the larger motors will require a larger standby power generator.

Daly City personnel who operate and maintain this pump station are currently conducting a flow metering program to determine the peak flow entering the station. Following completion of that program, design of the new pumps and standby generator will proceed.

BUDGET COST ESTIMATE:

Pending completion of the flow metering program and equipment selection, the budget estimate for the standby generator replacement is \$75,000.

REPLACEMENT OF STANDBY POWER GENERATOR AT WESTBOROUGH SEWAGE PUMP STATION

FISCAL YEAR: 2005/06

PURPOSE:

Replace the existing standby generator unit which is worn out.

DETAILED PROJECT DESCRIPTION:

During 2005, the existing standby generator unit required extensive repair work. The existing standby generator unit is old and should be replaced.

Daly City personnel who operate and maintain this pump station are currently conducting a flow metering program to determine the peak flow entering the station. Following completion of that program it will be determined whether or not the capacity of the existing pumps is sufficient to meet peak inflow. The new standby generator unit will be sized for the required pump motor capacity and, if sufficient space is available with the pump station building, also for operation of one or more water pumps at the Main Pump Station.

BUDGET COST ESTIMATE:

Pending completion of the flow metering program and equipment selection, the budget estimate for the generator replacement is \$75,000. This estimate assumes that sufficient space is unavailable for the generator to be sized for simultaneous operation of the sewage pumps and the water pumps in the Main Pump Station.

CONVERT EXISTING PICKUP TRUCK TO A DUMP TRUCK

FISCAL YEAR: 2005/06

PURPOSE:

Improve repair and other maintenance work capability of District field personnel.

DETAILED PROJECT DESCRIPTION:

Two years ago the WWD purchased a VAC/CON truck to be used for excavating holes for repair of pipeline leaks. This unit has a small storage tank to contain the material excavated, but the available storage volume is small which results in frequent trips to the dump site.

The WWD has recently purchased a small Bobcat loader. Efficient use of the loader requires a dump truck into which to place the excavated material. Without a dump truck the excavated material will need to be stockpiled alongside the excavated hole for future removal, which will probably result in customer dissatisfaction because of blocked parking spaces/driveways and dust/mud problems.

The proposal is to convert the existing 1998 pickup Ford 150 pickup truck to a dump truck.

BUDGET COST ESTIMATE:

The estimated cost of conversion of the pickup truck to a dump truck is \$20,000.

RETAINING WALL AND PAVING AT SKYLINE TANK SITE

FISCAL YEAR: 2006/07

PURPOSE:

Provide access around the west side of Storage Tank No. 2 by constructing a retaining wall; also, reduce maintenance costs by extending the area of the existing pavement.

DETAILED PROJECT DESCRIPTION:

Storage Tank No. 2 is constructed adjacent to the edge of a downward slope, and there is no access around the tank for inspection and maintenance. A small retaining wall will be constructed to provide a 4 foot wide personnel walkway around this side of the tank.

Only a portion of the area around the 3 storage tanks is paved, and the unpaved area requires considerable maintenance for weed control and erosion control. The project will extend the paved area by constructing new asphalt concrete pavement over the entire level unpaved area. Concurrent with the new repaving work, the existing asphalt concrete pavement will be seal coated.

Between the 3 storage tanks and the chain link fence on the west side of the property is a unpaved slope area which also requires considerable maintenance for weed control. Improvements will be made to this sloped area to reduce the maintenance requirements---current alternatives include redwood bark or river rock material.

BUDGET COST ESTIMATE:

A preliminary budget estimate for the work is \$60,000.

CATHODIC PROTECTION FOR SKYLINE STORAGE TANKS

FISCAL YEAR: 2007/08

PURPOSE:

Provide additional corrosion protection for the tank interiors.

DETAILED PROJECT DESCRIPTION:

Currently the interior steel surfaces of the tanks are protected against corrosion only by the paint coating system. Installation of a cathodic protection system for each tank will provide additional corrosion protection for the underwater steel surfaces.

An impressed-current type cathodic protection system is generally used for steel water storage tanks. In an impressed-current system, an outside source of electrical power forces current into anodes submerged in the storage tank's water. The current flows from the anodes, through the water (electrolyte), and onto the submerged walls of the tank, making the tank itself the cathode of the corrosion cell. An impressed-current cathodic protection system consists of a manual or automatic alternating current/direct current (AC/DC) converter (i.e. rectifier), feeder wires, and anodes located within the tank. Output voltage is adjusted manually or automatically to control the DC output in order to account for a wide range of variables. Care must be exercised to ensure that the polarized voltage does not exceed a maximum value of approximately $-1.05V$ (in reference to a copper-copper sulfate half cell); otherwise, the coating may be damaged. The precise maximum negative voltage requirement is dependent on the characteristics of the coating and other factors.

The rectifier unit for each storage tank will be installed within the existing Skyline Pump Station building. The electrical wire from each rectifier unit to its respective storage tank will be installed within a conduit. The anodes will be suspended from holes cut in the tank roof for easy access for maintenance and replacement.

BUDGET COST ESTIMATE:

The budget estimate for installation of a cathodic protection system for each of the 3 water storage tanks is \$75,000.

ADDITIONAL PRESSURE REDUCING VALVE STATION

FISCAL YEAR: 2006/07

PURPOSE:

Provide system redundancy for the capability of conveying water from Pressure Zone 3 to Zone 2.

DETAILED PROJECT DESCRIPTION:

The WWD water distribution system is divided into 3 pressure zones in order that the water pressure in all geographical areas is within the acceptable range of customer's requirements and normal pipe materials. The pressure zones are interconnected by pressure reducing valve stations which provide the capability of conveying water from a high pressure zone to a low pressure zone. WWD's upper pressure zone, Zone 3, is normally provided water service from the Christen Hill storage tank. The intermediate pressure zone, Zone 2, and the lower zone, Zone 1, are normally provided water service from the Skyline storage tanks. However, under certain emergency conditions water service to Zones 1 and 2 would need to be provided from the Christen Hill storage tank and Zone 3. Currently there is only one pressure reducing valve station between Zone 3 and Zone 2 while there are 3 pressure reducing valve stations between Zones 2 and 1.

The proposed project will construct an additional pressure reducing valve station for transmission of water between Zone 3 and Zone 2 to provide redundancy for the sole existing PRV station and to increase flow capability during emergency conditions.

BUDGET COST ESTIMATE:

The budget estimate for the project is \$50,000.

REHABILITATE 3 EXISTING PRESSURE REDUCING VALVE STATIONS

FISCAL YEAR: 2006/07

PURPOSE:

Improve water system reliability.

DETAILED PROJECT DESCRIPTION:

The WWD water distribution system is divided into 3 pressure zones in order that the water pressure in all geographical areas is within the acceptable range of customer's requirements and normal pipe materials. The pressure zones are interconnected by pressure reducing valve stations which provide the capability of conveying water from a high pressure zone to a low pressure zone.

There is one pressure reducing valve station between Zone 3 and Zone 2, located on Greendale Drive near Callan Boulevard. There are 3 pressure reducing valve stations between Zone 2 and 1: (1) one is located on Greendale Drive near Galaway Drive, (2) another on Westborough Boulevard at the Westborough Medical Center, and (3) the third at the southern end of Gelert Court. The PRV station at the Westborough Medical was almost totally rebuilt several years ago (new 8 inch and 2 inch pressure reducing valves, new gate valves in the inlet and outlet pipelines, and new 2 inch piping) and is in satisfactory condition. However, the other 3 PRV stations are old, corroded and require rehabilitation.

The proposed project will replace the existing pressure reducing valves in each station with new epoxy lined and coated valves. The gate valves on the inlet and outlet piping will be replaced if required. The 2 inch galvanized steel pipe within each vault will be replaced with new brass pipe. The existing vault covers which are steel plate, removable type will be replaced with hinged type. The existing steel plate vault covers require a minimum of 2 persons for removal and replacement, and are somewhat dangerous due to their weight and requirement for hand removal and replacement. The existing vaults may be replaced if required to accommodate the new hinged type vault lids.

BUDGET COST ESTIMATE:

The budget estimate for rehabilitation of the 3 pressure reducing valve stations is \$50,000.

REPLACE 25 FIRE HYDRANTS

FISCAL YEARS: 2006/07
2007/08
2008/09
2009/10

PURPOSE:

Improve community aesthetics and fire protection reliability; reduce maintenance costs.

DETAILED PROJECT DESCRIPTION:

The WWD's distribution system includes approximately 225 fire hydrants. The bodies of the existing fire hydrants are fabricated of cast iron, which because it is ferrous material is subject to corrosion from moisture. All of the existing fire hydrants have considerable surface corrosion, and at some locations the corrosion could be considered an eyesore. Also, at most locations the bolts which connect the fire hydrant body to the underground portion of the fire hydrant assembly are badly corroded and require replacement in the near future.

The proposed project will replace the existing cast iron fire hydrants with new bronze hydrants. The North Coast County Water District in Pacifica several years ago installed bronze fire hydrants adjacent to the pier, and to date the bronze hydrants have neither corroded nor become unsightly. WWD personnel will continue to monitor the NCCWD installations prior to proceeding with the hydrant replacement project.

In addition to replacing the fire hydrant body, the above-grade pipe spool will be replaced with an epoxy-coated spool, and new stainless steel bolts and nuts will be utilized for all pipe connections. In locations subject to vehicles hitting the fire hydrant, a check valve will be installed underground in the riser pipeline which will automatically shut off the water flow when the fire hydrant is broken off from the pipeline.

BUDGET COST ESTIMATE:

The budget estimate for replacement of 25 fire hydrants per year is \$40,000.

UTILITY TRUCK PURCHASE

FISCAL YEAR: 2005/06

PURPOSE:

Improve maintenance efficiency of District field staff.

DETAILED PROJECT DESCRIPTION:

The District's vehicles used for field maintenance work are pickup trucks. Because these pickup trucks are often parked untended while the field staff is reading meters and performing similar work out of sight of their vehicle, it is unsafe to leave tools and other maintenance equipment in the truck bed. Therefore, during a repair project frequent trips between the work site and the storage building are required to pick up needed materials and equipment.

The utility truck will have built-in, lockable storage cabinets within which a large inventory of repair parts will be kept. Also, it will have storage cabinets for tools required for repair work including spare couplings, saddles, fittings and other piping materials.

The District will sell or trade the 1985 Ford F150 pickup truck and replace it with the new utility truck.

BUDGET COST ESTIMATE:

The budget estimate for the utility truck is \$35,000.

BACKHOE BUCKET ATTACHMENT PURCHASE

FISCAL YEAR: 2006/07

PURPOSE:

Improve pipeline leak repair capability by improving the excavation capability of the backhoe.

DETAILED PROJECT DESCRIPTION:

Currently the District uses its VacCon truck to perform excavation work for emergency leak repair. The bucket attachment would be used for excavation during emergencies requiring pipe installation. The VacCon truck cannot excavate a trench for installation of a 20 foot long section of pipe.

Following a major earthquake it is anticipated that the availability of contractors with equipment and capability for repairing broken pipelines will be difficult or impossible because businesses will be offer higher fees and because road conditions may prevent access to the Westborough area. It is important that the broken pipelines be repaired rapidly both to preserve the available water supply in the tanks and to provide customers with water and fire protection service. The District maintains a large inventory of pipe and other materials for use following a major earthquake, but currently it does not have the capability for performing the excavation work to complete replacement of sections of pipeline. The backhoe bucket attachment will provide that pipeline replacement capability.

BUDGET COST ESTIMATE:

The budget estimate for the backhoe attachment is \$10,000.

REPLACE TELEPHONE SYSTEM

FISCAL YEAR: 2006/07

PURPOSE:

Replace old, obsolete telephone system with new equipment.

DETAILED PROJECT DESCRIPTION:

The current telephone system was purchased in 1988. The existing equipment cannot be upgraded and no longer meets the District's needs.

The new telephone system will have the capability for voice mail service, music message on hold, wireless phone, programmable outgoing messaging, wireless handset, and routing message control.

BUDGET COST ESTIMATE:

The budget estimate for the new telephone system is \$3,000.

UPDATE DISTRICT MAPS

FISCAL YEAR: 2007/08

PURPOSE:

Improve response time of water and sewer system maintenance workers to emergencies.

DETAILED PROJECT DESCRIPTION:

The WWD has a map of its water distribution system and a map of its sewer collection system. These maps were last updated in _____, and since that time several new housing developments have been constructed.

The proposed project will update each of the District maps.

BUDGET COST ESTIMATE:

The budget estimate for the map update is \$4,000.

EMERGENCY HOSE PURCHASE

FISCAL YEAR: 2007/08

PURPOSE:

Provide water service to customers during water outage emergencies.

DETAILED PROJECT DESCRIPTION:

Repair of pipeline broken pipelines normally requires closing the pipeline valve on each side of the break, resulting that all customers between the closed valves have no water service. Sometimes it is several hours before the pipeline repair workers arrive at the site, and at least several more hours to complete the repair work and restore water service. Pipeline breaks can result in customer water outages of 8 hours or more depending on the time of day the break occurs and the availability of repair materials.

The emergency hose will provide a means of keeping customers in service until normal water service is restored. The emergency hose will be connected to the nearest in-service fire hydrant and extended throughout the area of out service. Water service will be provided by connecting each customer's hose bibb to the emergency hose system.

BUDGET COST ESTIMATE:

The budget estimate for the emergency hose is \$25,000.

ADDITIONAL WATER DISTRIBUTION SYSTEM PIPELINE VALVES

FISCAL YEAR: 2007/08

PURPOSE:

Reduce number of customers without water service following a large earthquake on the San Andreas Fault.

DETAILED PROJECT DESCRIPTION:

The San Andreas Earthquake Fault crosses numerous water distribution system pipelines within the WWD service area. If a large earthquake occurs with resulting movement on the fault line, there will be numerous broken pipelines. District field maintenance personnel would need to close valves to isolate the pipeline breaks in order that water service could be restored to the rest of the customers. However, because the existing valves are located relatively far away from the fault line, a large number of customers would be without water service including no fire protection until the pipeline breaks could be repaired.

The proposed project will install additional pipeline valves within the area of the San Andreas Fault, primarily adjacent to each side of the fault line. This will result in a far lesser number of customers without water service following pipeline breaks following an earthquake.

BUDGET COST ESTIMATE:

The budget estimate for installing the additional valves is \$75,000.

REPAVE PARKING AREA AT OFFICE BUILDING

FISCAL YEAR: 20078/08

PURPOSE:

Replace old, worn out asphalt concrete paving.

DETAILED PROJECT DESCRIPTION:

The asphalt concrete pavement of the Office Building parking area is badly deteriorated from water penetrating through cracks. The pavement surface has been seal coated several times, but the life of the seal coat is relatively short because of the cracks in the pavement.

The proposed project would remove the existing asphalt concrete pavement and replace it with new, thicker pavement.

BUDGET COST ESTIMATE:

The budget estimate for the pavement replacement is \$25,000.

REMODEL ENTRANCE AREA OF OFFICE BUILDING

FISCAL YEAR: 2007/08

PURPOSE:

Improve entrance aesthetics and functionality; improve District identity.

DETAILED PROJECT DESCRIPTION:

Current concepts for the entrance area remodeling include installation of a power-assisted door. On windy days the existing front door is difficult to open and sometimes slams shut.

Also included in the project is a new sign for the building identifying the Westborough Water District correctly.

BUDGET COST ESTIMATE:

The budget estimate for the building entrance remodeling and for the new building sign is \$30,000.

REPAINT OFFICE BUILDING EXTERIOR

FISCAL YEAR: 2007/08

PURPOSE:

Improve building appearance.

DETAILED PROJECT DESCRIPTION:

The building exterior will be repainted.

BUDGET COST ESTIMATE;

The budget estimate for the repainting work is \$15,000.

REPLACE FIRE-PROOF LATERAL FILE CABINETS

FISCAL YEAR: 2005/06

PURPOSE:

Improve efficiency and morale of office staff.

DETAILED PROJECT DESCRIPTION:

The existing fire-proof lateral file cabinets in the District Office building are old and worn out from frequent use. The old cabinets will be replaced with new ones.

BUDGET COST ESTIMATE:

The budget estimate for the new file cabinets is \$8,000.

PUMP REPLACEMENT AT WESTBOROUGH SEWAGE PUMP STATION

FISCAL YEAR: 2008/09

PURPOSE:

Replace the old worn-out pumps and the variable frequency drive electrical control unit with new pumps and new variable frequency drive electrical control units.

DETAILED PROJECT DESCRIPTION:

The Westborough Sewage Pump Station contains 3 sewage pumps and one variable speed drive unit. The life expectancy of sewage pumps is approximately 10 years. During this period repairs can be effected, but by the end of 10 years the metal of the castings becomes thin because of the abrasive nature of the fluid being pumped. Three new sewage pumps will be installed.

The speed of the pump motors is controlled by a single variable frequency drive electrical control unit. It will also be worn-out and obsolete, and will be replaced with a new, separate VFD unit for each pump.

BUDGET COST ESTIMATE:

The budget estimate for installing the 3 new pumps and VFD control units is \$150,000.

TRANSFER SWITCH FOR STANDBY POWER GENERATOR AT SKYLINE PUMP STATION

FISCAL YEAR: 2008/09

PURPOSE:

Provide for use of a portable standby power generator at the Skyline Pump Station.

DETAILED PROJECT DESCRIPTION:

Currently there are no provisions for use of a standby power generator unit at the Skyline Pump Station. Portable standby power generators are available for rent, but installation requires an electrician to connect the generator to the pump station motor control center unless there is a "plug-in" connection point termed a transfer switch.

The project consists of installation of a transfer switch and appurtenant work which will provide the District field staff with a connection point for a rented portable standby power generator.

BUDGET COST ESTIMATE:

The budget estimate for the transfer switch installation is \$10,000.

REPLACE OFFICE VIDEO CAMERAS

FISCAL YEAR: 2009/10

PURPOSE:

Provide higher quality video recording.

DETAILED PROJECT DESCRIPTION:

The lenses on the existing video cameras become foggy during low temperature periods, and the result is poor quality recording.

New video recording systems use a compact disc to record images instead of VHS tapes which distort over time. In addition to better picture quality, a CD will record more images than a VHS tape and is easier to store.

BUDGET COST ESTIMATE:

The budget estimate for the video camera replacement is \$12,000.

COMPUTER SYSTEM EQUIPMENT REPLACEMENT

FISCAL YEAR: 2009/10

PURPOSE:

Replace the old, obsolete computer system equipment.

DETAILED PROJECT DESCRIPTION:

The equipment to be replaced includes 6 computers, 1 file server, 1 laser printer, 1 color printer and 1 router.

BUDGET COST ESTIMATE:

The budget cost estimate for the computer system equipment replacement is \$28,000.

PUMP REPLACEMENT AT AVALON SEWAGE PUMP STATION

FISCAL YEAR: 2009/10

PURPOSE:

Replace old, worn-out pumps.

DETAILED PROJECT DESCRIPTION:

The Avalon Sewage Pump Station contains 2 sewage pumps for which the life expectancy is approximately 10 years. During this period repairs can be effected, but by the end of 10 years the pumps are basically worn-out because of the abrasive nature of the fluid being pumped.

The project is the replacement of both pumps with new ones.

BUDGET COST ESTIMATE:

The budget estimate for the replacement of both pumps is \$30,000.

FIREWALL COMPUTER SECURITY SYSTEM

FISCAL YEAR: 2005/06

PURPOSE:

Improve security of WWD computer systems.

DETAILED PROJECT DESCRIPTION:

The District's SCADA (Supervisory Control and Data Acquisition) system and the main computer system used for billing and accounting each have modems for communications by telephone/internet. The proposed project will retain the services of a consultant to construct firewalls to provide additional security for these computer systems.

BUDGET COST ESTIMATE:

The budget estimate for the firewall computer security work is \$3,000.

August 30, 2005

Hon. Norman J. Gatzert
Judge of the Superior Court
Hall of Justice
400 County Center; 2nd Floor
Redwood City, CA 94063-1655

RE: Woodside Fire Protection District Response to San Mateo County Grand Jury Review of Special Districts Report.

Honorable Judge Gatzert,

The Woodside Fire Protection District Board of Directors Agrees with the Grand Jury report.

The Woodside Fire Protection District is in compliance with item number 1 and will review and update its communications with the districts residents prior to January 1, 2006.

The Woodside Fire Protection District is in compliance with item number 2 and is in the process of working with our union membership in both updating our policies and procedures and incorporating new countywide policies adopted by the San Mateo County Fire Chiefs Association on an on going basis.

The Woodside Fire Protection District is in compliance with item number 3 .The district has implemented and practices good computer security practices. Servers are hardware fire walled and all computers are virus protected. All equipment have daily updates of security patches and virus DATS. Spy ware blocking is in place with daily updates. Remote access to the network is granted to administrators only. Good password practices are followed. Daily backup of the system is performed. Offsite backups are maintained. Random file recovery tests from tape backups are performed. A private IT consultant evaluates system integrity and security on an ongoing basis

The Woodside Fire Protection District Board of Directors has discussed item number 4 and agrees that the district will expand financial reporting to include information about reserves. Will include a description of why the reserves are maintained, when the accumulated resources can be expected to be expended or why certain reserves need to be maintained, what is the estimated

total cost of anticipated expenditures, why the expenditure is necessary for the accomplishment of the special districts charter.

Although this recommendation has not been implemented, the district has informally projected expenditures in future years that will significantly impact reserve balances. For example, a number of years back, the district determined that Station 19 was inadequate for present needs and failed to meet current earthquake standards. Consequently, the district planned and built satisfactory reserves. And now the district is in the process of building a new Fire Station in the unincorporated county area of Emerald Lake. All or the majority of cost will come from our current reserves. The Board of Directors will revise our reserves as the project moves forward. The Grand Jury recommendations will be implemented and stated as we review our finances prior to January 1, 2006. The budget for fiscal period 2006-2007 will include a report on our reserves and plans for future revenue.

The Woodside Fire Protection District Board of Directors has discussed item number 5 and agrees to develop a written policy regarding the size of its operating and capital reserves. To date as the district reserves increased it was the Boards desire to maintain available funds that would allow the current level of services to be maintained in the event of a catastrophic incident. Additional reserves above this amount have provided increased staffing and new programs that benefit our communities.

The district will utilize the expertise of the County Treasurer. The policy will be developed and implemented prior to January 1, 2006.

Sincerely,

Mr. John Gardner
Chairman Board of Directors
Woodside Fire Protection District