COASTSIDE COUNTY WATER DISTRICT

BASIC FINANCIAL STATEMENTS

AND SUPPLEMENTARY SCHEDULES

JUNE 30, 2010

Coastside County Water District
Basic Financial Statements
For the year ended June 30, 2010

Table of Contents

Coastside County Water District
Basic Financial Statements
For the year ended June 30, 2010

Elected Officials and Administrative Personnel

BOARD OF DIRECTORS

Chris Mickelsen – President
Bob Feldman – Vice President
Ken Coverdell – Director
Jerry Donovan – Director
Jim Larimer – Director

MANAGEMENT

David Dickson – General Manager

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of the
Coastside County Water District
Half Moon Bay, California

We have audited the accompanying basic financial statements of the Coastside County Water District (District) as of and for the year ended June 30, 2010. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic financial statements based on our audit. The prior year summarized comparative information has been derived from the District's June 30, 2009, financial statements in which an unqualified opinion was expressed on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, standards applicable to financial audits contained in *Government Auditing Standards* and the State Controller's *Minimum Audit Requirements for California Special Districts*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2010, and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America as well as accounting systems prescribed by the State Controller's Office and state regulations governing special districts.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2010 on our consideration of the District's internal control over financial reporting and on out tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

349 Main Street, Suite 204, Pleasanton, CA 94566 • phone: (925) 462-6400 • fax: (510) 217-5930
www.jjacpa.com

The Management's Discussion and Analysis (MD&A) on pages three to nine 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.

October 15, 2010

JJACPA, Inc.

Management's Discussion and Analysis

This section of Coastside County Water District's basic financial statements presents management's discussion and analysis of the District's financial performance during the fiscal year ended June 30, 2010. Since this management's discussion and analysis is designed to focus on current activities, resulting change and current known facts, please read it in conjunction with the District's basic financial statements (pages 12 - 14) and the footnotes (pages 15 - 26).

Financial Highlights

At June 30, 2010, the District's net assets decreased $195,146 to $35,984,682 from $36,179,828 in 2009. Operating revenues increased by $117,021 primarily due to a water rate increase, which became effective July 1, 2009. Operating expenses (with depreciation included) increased by $296,896 as a result of increases to transmission and distribution and administrative and general expenses offset by reductions to source of supply expenses. Depreciation expense increased by $108,681 due to the initiation of depreciation on completed construction projects.

Using This Report

In December 1998, the Governmental Accounting Standards Board (GASB) released statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, which revised the reporting of property tax revenue. In June 1999, GASB released statement No. 34, *Basic Financial Statements -- and Management's Discussion and Analysis -- for State and Local Governments*. Changes in Statement No. 34 require a comprehensive one-line look at the entity as a whole and capitalization of assets and depreciation for agencies not reporting on the accrual basis of accounting. Since the District has historically reported all activities in enterprise funds in a manner similar to business activities and followed the accrual basis of accounting, the District merely has been required to reclassify certain balances to utilize the new Statement No. 34 terminology. There were no major reconciling items necessary or elimination of balances due to the implementation of Statement No. 34.

The annual financial statements include the Independent Auditors' Report, this management's discussion and analysis, the basic financial statements, and notes to the basic financial statements.

Financial Analysis of the District as a Whole

Net Assets
As of June 30, 2010 and 2009

	2010	2009	Increase (Decrease)	Percent Change
Assets:				
Current assets	$ 5,284,967	$ 6,454,336	$ (1,169,369)	(18.1)%
Non-current assets	38,961,783	38,445,479	516,304	1.3%
Total assets	44,246,750	44,899,815	(653,065)	(1.5)%
Liabilities:				
Current liabilities	426,697	547,057	(120,360)	(22.0)%
Non-current liabilities	7,835,371	8,172,930	(337,559)	(4.1)%
Total liabilities	8,262,068	8,719,987	(457,919)	(5.3)%
Net assets:				
Investment in capital assets, net of related debt	31,880,324	30,349,431	1,530,893	5.0%
Restricted/Unrestricted Net Assets:				
Restricted for Crystal Springs Project	251,571	130,118	121,453	93.3%
Restricted for capital improvements	2,078,928	2,324,846	(245,918)	(10.6)%
Unrestricted	1,773,859	3,375,433	(1,601,574)	(47.4)%
Total net assets	$ 35,984,682	$ 36,179,828	$ (195,146)	(0.5)%

This schedule is prepared from the District's Statement of Net Assets (page 12), which is presented on the accrual basis of accounting, whereby revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Operating revenues in the Statement of Activities are those revenues that are generated from the primary operations of the District. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the District. All other expenses are reported as non-operating expenses.

As can be seen from the table above, net assets at June 30, 2010, decreased to $35,984,682 from $36,179,828 in 2009. The decrease in net assets was primarily due to recent capital improvement projects and the related increase in depreciation.

Financial Analysis of the District as a Whole, Continued

Operating results are summarized as follows:

Operating Results
For the years ended June 30, 2010 and 2009

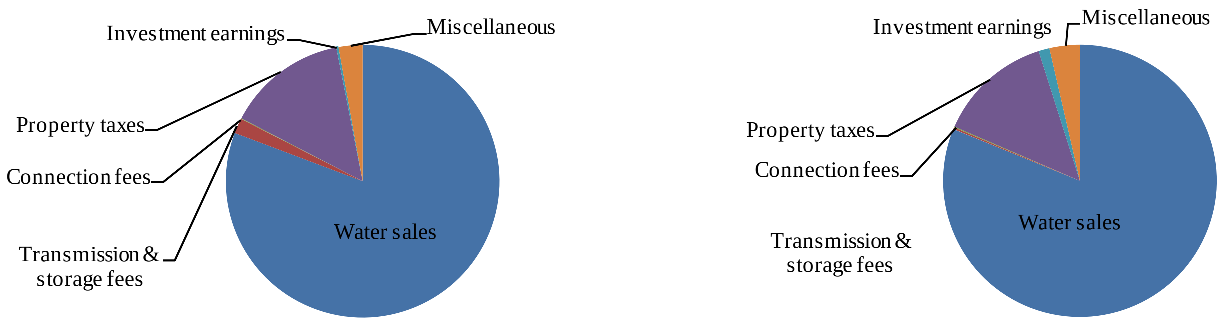
	2010	2009	Increase (Decrease)	Percent Change
Operating revenues	$ 5,459,958	$ 5,342,937	$ 117,021	2.2%
Operating expenses	6,857,470	6,560,574	296,896	4.5%
Operating income	(1,397,512)	(1,217,637)	(179,875)	14.8%
Non-operating revenues	1,304,121	1,239,896	64,225	5.2%
Non-operating expenses	(429,038)	(397,810)	(31,228)	7.8%
Net income before contributions	(522,429)	(375,551)	(146,878)	39.1%
Capital contributions	327,283	259,272	68,011	26.2%
Change in net assets	(195,146)	(116,279)	(78,867)	67.8%
Net assets:				
Beginning of year	36,179,828	36,296,107	(116,279)	(0.3)%
End of year	$ 35,984,682	$ 36,179,828	$ (195,146)	(0.5)%

While the Statement of Net Assets shows the change in financial position of net assets, the operating results are reflected in the Statement of Revenues, Expenses, and Changes in Net Assets. This statement provides answers to the nature and source of the change in financial position of net assets.

Financial Analysis of the District as a Whole, Continued

The following is a graphic illustration of revenues by source:

Revenues by Source
Both Operating & Non-Operating



FY 2009-2010				FY 2008-2009			Increase (Decrease)	
$	5,459,958	80.7%	**Water sales**	$	5,342,937	81.2%	$	117,021
	121,453	1.8%	**Transmission & storage fees**		13,940	0.2%		107,513
	4,988	0.1%	**Connection fees**		7,316	0.1%		(2,328)
	967,140	14.3%	**Property taxes**		894,152	13.6%		72,988
	17,967	0.3%	**Investment earnings**		85,876	1.3%		(67,909)
	192,573	2.8%	**Miscellaneous**		238,612	3.6%		(46,039)
$	6,764,079	100.0%	**Totals**	$	6,582,833	100.0%	$	181,246

Water sales increased $117,021 due to a rate increase for fiscal year 2009-2010, approved by the Board of Directors. Property taxes increased by $72,988 primarily due to San Mateo County's method of calculating and distributing funds. Investment earnings decreased by $67,909, the result of declining interest rates, lower reserve balances and a recessionary economy.

Financial Analysis of the District as a Whole, Continued

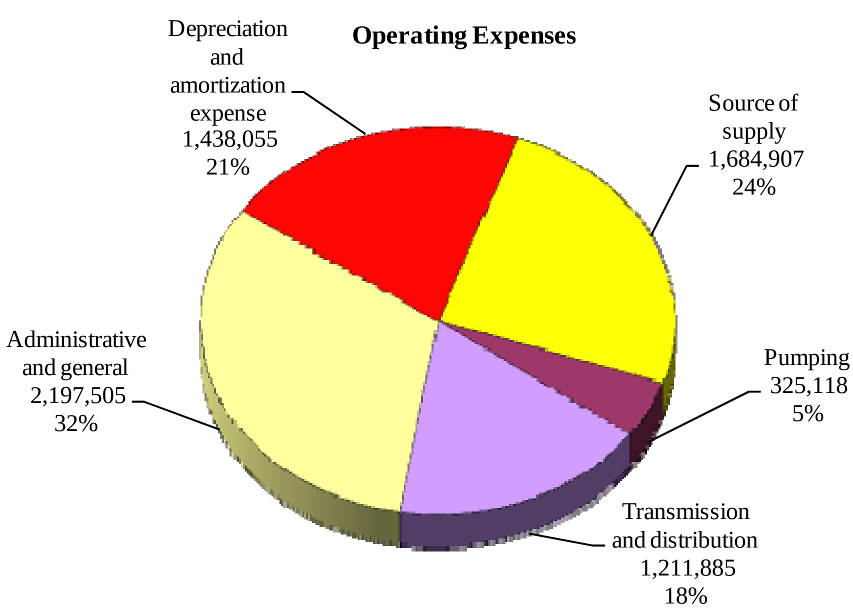
Operating expenses increased by $296,896 as detailed below:

Operating Expenses
For the years ended June 30, 2010 and 2009

	2010	2009	Increase (Decrease)	Percent Change
Operating expenses:				
Source of supply	$ 1,684,907	$ 1,633,664	$ 51,243	3.1%
Pumping	325,118	374,722	(49,604)	(13.2)%
Transmission and distribution	1,211,885	1,194,947	16,938	1.4%
Administrative and general	2,197,505	2,027,867	169,638	8.4%
Depreciation and amortization expense	1,438,055	1,329,374	108,681	8.2%
Total	$ 6,857,470	$ 6,560,574	$ 296,896	4.5%

Source of supply increased $51,243 due to higher wholesale water rates from San Francisco Public Utilities Commission. Depreciation and amortization increased by $108,681 due to initiation of depreciation on completed projects.

The following is a graphic illustration of operating expenses:



Financial Analysis of the District as a Whole, Continued

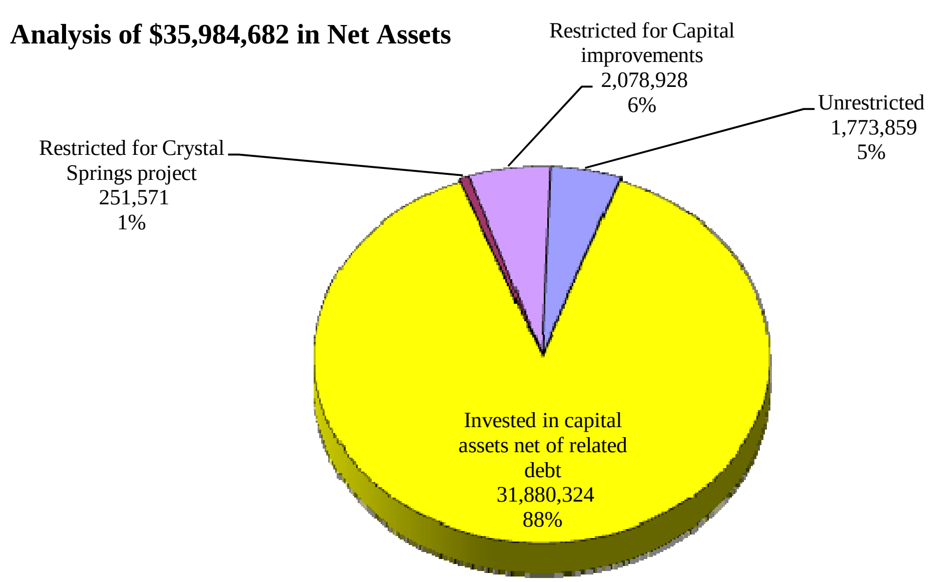
Net assets decreased by $195,146 as detailed below:

Analysis of Net Assets
As of June 30, 2010 and 2009

	2010	2009	Increase (Decrease)	Percent Change
Net assets:				
Invested in capital assets net of related debt	$ 31,880,324	$ 30,349,431	$ 1,530,893	5.0%
Restricted				
Crystal Springs Project	251,571	130,118	121,453	0.0%
Capital improvements	2,078,928	2,324,846	(245,918)	(10.6)%
Unrestricted	1,773,859	3,375,433	(1,601,574)	(47.4)%
Total	$ 35,984,682	$ 36,179,828	$ (195,146)	(0.5)%

The change in net assets is a $195,146 decrease due primarily to recent capital improvement projects and the related increase in depreciation.

The following is a graphic illustration of net assets:



Cash Flows

Cash flows have remained relatively unchanged with an increase of $397,526, which coincides with the reductions in payments to suppliers and an increase in property tax revenues.

Long-term Debt

No new debt was issued for the year, with amounts decreasing by $337,559 as a result of annual principal payments and amortization of bond discounts.

Economic Factors and Potential Future Results

The District's water sales will remain stable or decrease as a result of continuing water conservation efforts. This trend, combined with a series of significant increases in the wholesale water rate charged by the San Francisco Public Utilities Commission and the need to finance essential infrastructure maintenance, will increase the District's revenue requirements in the future. The District has generally raised rates on an annual basis to meet revenue requirements and will continue to do so.

Contacting the District

This financial report is designed to provide our customers and creditors a general overview of the District's finances and to demonstrate the District's accountability for the money it receives and is allocated to it. If you have questions about this report, contact:

Coastside County Water District
766 Main Street
Half Moon Bay, CA 94019

Phone (650) 726 4405
Fax (650) 726 5245

David R Dickson, General Manager
Gina Brazil, Office Manager

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BASIC FINANCIAL STATEMENTS

Coastside County Water District

Statement of Net Assets

June 30, 2010

(with comparative totals for June 30, 2009)

	2010	2009
ASSETS		
Current assets:		
Cash and investments	$ 3,518,440	$ 3,120,914
Restricted cash and investments	878,331	2,434,253
Accounts receivable:		
Customer water	484,225	487,099
Taxes	20,799	24,707
Interest	3,669	9,932
Prepaid expenses	16,325	15,489
Materials and supplies inventory	135,754	118,157
Unamortized bond issuance costs	227,424	243,785
Total current assets	5,284,967	6,454,336
Noncurrent assets:		
Capital assets:		
Construction in progress	4,754,994	3,038,853
Utility plant	54,444,734	54,225,125
Less accumulated depreciation	(20,237,945)	(18,818,499)
Total noncurrent assets	38,961,783	38,445,479
Total assets	$ 44,246,750	44,899,815
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities	$ 237,983	$ 379,652
Accrued payroll	57,221	21,536
Customer deposits	43,937	59,250
Due to Crystal Springs Assessment District	87,556	86,619
Total current liabilities	426,697	547,057
Noncurrent liabilities:		
Due within one year	402,752	387,752
Due after one year	7,305,544	7,708,296
Net OPEB obligation	54,261	-
Accrued vacation and sick leave	72,814	76,882
Total noncurrent liabilities	7,835,371	8,172,930
Total liabilities	8,262,068	8,719,987
NET ASSETS		
Invested in capital assets net of related debt	31,880,324	30,349,431
Restricted for Crystal Springs Project	251,571	130,118
Restricted for capital improvements	2,078,928	2,324,846
Unrestricted	1,773,859	3,375,433
Total net assets	35,984,682	36,179,828
Total liabilities and net assets	$ 44,246,750	44,899,815

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

Coastside County Water District

Statement of Revenues, Expenses, and Changes in Net Assets

For the year ended June 30, 2010

(with comparative totals for the year ended June 30, 2009)

	2010	2009
OPERATING REVENUES:		
Water sales	$ 5,459,958	$ 5,342,937
OPERATING EXPENSES:		
Source of supply	1,684,907	1,633,664
Pumping	325,118	374,722
Transmission and distribution	1,211,885	1,194,947
Administrative and general	2,197,505	2,027,867
Depreciation and amortization	1,438,055	1,329,374
Total operating expenses	6,857,470	6,560,574
Operating loss	(1,397,512)	(1,217,637)
NONOPERATING REVENUES (EXPENSES):		
Property taxes	967,140	894,152
Investment earnings	17,967	85,876
Transmission and storage fees	121,453	13,940
Connection fees	4,988	7,316
Miscellaneous income	192,573	238,612
Collection fees	(7,531)	(8,798)
Net OPEB expense	(54,261)	-
Interest expense	(367,246)	(389,012)
Total nonoperating revenues (expenses)	875,083	842,086
Income (loss) before contributions	(522,429)	(375,551)
Capital contributions	327,283	259,272
Net Income (Loss)	(195,146)	(116,279)
CHANGE IN NET ASSETS:		
Beginning of year	36,179,828	36,296,107
End of year	$ 35,984,682	$ 36,179,828

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

Coastside County Water District

Statement of Cash Flows

For the year ended June 30, 2010

(with comparative amounts for the year ended June 30, 2009)

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	$ 5,466,740	$ 5,362,954
Payments to suppliers	(4,092,948)	(4,453,911)
Payments to employees	(1,470,265)	(1,692,508)
Net cash provided (used) by operating activities	(96,473)	(783,465)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Property taxes net of collection fees	959,609	885,354
Miscellaneous receipts	192,573	238,612
Net cash provided (used) by noncapital financing activities	1,152,182	1,123,966
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Change in restricted cash and investments	1,555,922	2,876,303
Capital contributions	327,283	259,272
Transmission and storage fee receipts	121,453	13,940
Connection fee receipts	4,988	7,316
Redemption of Crystal Springs Project Bond	937	18,084
Principal and interest payments on long-term debt	(757,246)	(754,013)
Acquisition of fixed assets	(1,935,750)	(3,100,681)
Net cash provided (used) by capital and related financing activities	(682,413)	(679,779)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest received on investments	24,230	109,539
Net cash provided (used) by investing activities	24,230	109,539
Net increase (decrease) in cash and cash equivalents	397,526	(229,739)
CASH:		
Beginning of year	3,120,914	3,350,653
End of year	$ 3,518,440	$ 3,120,914
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating (loss)	$ (1,397,512)	$ (1,217,637)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation and amortization expense	1,438,055	1,329,374
Change in assets and liabilities:		
Accounts receivable	6,782	107,847
Materials and supplies	(17,597)	39,354
Prepaid expenses	(836)	3,309
Accounts payable and accrued liabilities	(141,669)	(883,758)
Accrued payroll	35,685	(34,205)
Customer deposits	(15,313)	7,690
Unearned revenue	-	(87,830)
Accrued vacation and sick leave	(4,068)	(47,609)
Net cash provided (used) by operating activities	$ (96,473)	$ (783,465)

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Coastside County Water District (District) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental enterprises classified as proprietary fund types. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The reports are based on all applicable GASB pronouncements as well as applicable Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Review Boards of the Committee on Accounting Procedure issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. When applicable, certain prior year amounts have been reclassified to conform to current year presentation. The following is a summary of the more significant policies:

A. Description of the Reporting Entity

The District is organized under the Water Code provisions of the general laws of the State of California and is governed by a five-member Board of Directors elected at large by the registered voters of the District. The District is located along the Pacific Ocean in San Mateo County; it purchases more than half of its water supply from the San Francisco Water Department. The balance is developed from local sources, including surface diversion and wells. Water is distributed to customers inside and outside the District's boundaries.

Oversight responsibility, the ability to conduct independent financial affairs, issue debt instruments, approve budgets, and otherwise influence operations and account for fiscal matters is exercised by the District's Board of Directors. The District is a separate reporting entity for financial reporting purposes and the accompanying financial statements reflect the assets, liabilities, net assets, revenues, and expenses of the District only.

As defined by GASB Statements No. 14 and 39, *The Financial Reporting Entity*, the District is not financially accountable for any other entity other than itself, nor are there any other entities for which the nature and significance of their relationship with the District are such that exclusion would cause the District’s financial statements to be misleading or incomplete.

In addition, based upon the above criteria, the District is not aware of any entity which would be financially accountable for the District which would result in the District being considered a component of the entity.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Fund Accounting Classification and Basis of Accounting

On the Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets, business-like activities are presented using the economic resources measurement focus. The accounting objectives of this measurement focus are the determination of net income, financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Fund equity is classified as net assets.

District funds are classified as enterprise funds, which account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The acquisition and capital improvement of the physical plant facilities required to provide these goods and services are financed from existing cash resources, the issuance of bonds, and cash flow from operations.

C. Cash and Investments

For the purposes of the Statement of Net Assets and Statement of Cash Flows, “cash equivalents and investments” includes all demand, savings accounts, and certificates of deposits or short-term investments with an original maturity of three months or less.

Fair value is based on quoted market price. Additional cash and investment disclosures are presented in Note 2.

D. Capital Assets

Capital assets are carried at cost or estimated cost if actual cost was not available. Contributed capital assets are valued at their estimated fair value on the date contributed.

Depreciation is calculated on a straight-line basis using the following useful life schedule:

Water treatment plant and pipelines	22-50 years
Buildings	23-33 years
Furniture and equipment	10 years
Vehicles	5 years

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

E. Property Taxes

The District's property taxes are levied each calendar year on all taxable real property located in the District. Property taxes are recorded on an accrual basis of accounting.

The County Assessor is responsible for assessment of all taxable real property within San Mateo County. Reassessment is on a three-year schedule established by the Assessor.

The County Clerk computes the annual tax for each parcel of real property and prepares tax books used by the County Collector as the basis for issuing tax bills to all taxpayers in the County.

Property taxes are collected by the County Collector and are submitted to the County Treasurer, who remits to each unit its respective share of the collections. Taxes levied in one year become due and payable in two installments during the following year generally on March 1st and August 30th.

The first installment is an estimated bill, and is approximately one-half of the prior year's tax bill. The second installment is based on the current levy, assessment, equalization, and certificate to limit levy, if any and any changes from the prior year will be reflected in the second installment bill. Taxes must be levied by the last Tuesday in December for the following collection year. The levy becomes an enforceable lien against the property as of January 1 of the levy year.

F. Accrued Vacation and Sick Leave

The liability for vested vacation pay is recorded as an expense when the vacation is earned. District employees have a vested interest of up to 240 hours of accrued vacation time and up to 120 days of accrued sick time for employees that retire and are hired prior to December 31, 1990. Employees hired after that date have a vested interest in up to fifty percent of their sick time up to 60 days, based upon retirement and time with the District.

G. Unamortized Bond Issuance Costs

Costs incurred in issuing long-term debt are capitalized and amortized over the life of the debt.

H. Comparative Data

Comparative data for the prior year has been presented in the accompanying financial statements in order to provide an understanding of changes in the District's financial position and operations.

I. Reclassifications

Certain amounts from the prior year have been reclassified to conform to the current year's presentation.

2. CASH AND INVESTMENTS

A. Composition

The District's cash and temporary investments are carried at market, and include:

	June 30, 2010			
	FDIC insured	Not rated	Fair Value	June 30, 2009
Cash in bank	$ 250,000	$ 833,860	$ 1,083,860	$ 587,227
Petty cash	430	-	430	430
Local Agency Investment Fund (LAIF)	-	2,666,305	2,666,305	2,642,664
Money Market Funds	-	646,176	646,176	2,324,846
Total	$ 250,430	$ 4,146,341	$ 4,396,771	$ 5,555,167
Financial Statement presentation:				
Cash and investments			$ 3,518,440	$ 3,120,914
Restricted cash and investments			878,331	2,434,253
Total			$ 4,396,771	$ 5,555,167

California Law requires banks and savings and loan institutions to pledge government securities with a market value of 110% of the District's cash on deposit or first trust deed mortgage notes with a value of 150% of the District's cash on deposit as collateral for these deposits. Under California Law this collateral is held in an investment pool by an independent financial institution in the District's name and places the District ahead of general creditors of the institution pledging the collateral. The District has waived collateral requirements for the portion of deposits covered by federal deposit insurance.

The District's investments are carried at fair value, as required by generally accepted accounting principles. The District adjusts the carrying value of its investments to reflect their fair value at each fiscal year end, and it includes the effects of these adjustments in income for that fiscal year.

B. Authorized Investments

The District's Investment Policy and the California Government Code allow the District to invest in the following, provided the credit ratings of the issuers are acceptable to the District and approved percentages and maturities are not exceeded.

2. CASH AND INVESTMENTS, Continued

The table below also identifies certain provisions of the California Government Code, or the District's Investment Policy where the District's Investment Policy is more restrictive.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio
California Local Agency Investment Fund	N/A	None
U.S. Treasury Obligations	5 years	None
Negotiable Certificates of Deposit	1 year	30%

C. Fair Value of Investments

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, investments were stated at fair value using the aggregate method, which includes any adjustments in interest/investment income.

D. Investments Authorized by Debt Agreements

The District must maintain required amounts of cash and investments with trustees or fiscal agents under the terms of certain debt issues. These funds are unexpended bond proceeds or are pledged reserves to be used if the District fails to meet its obligations under these debt issues. The California Government Code requires these funds to be invested in accordance with District resolutions, bond indentures, or State statutes. The table below identifies the investment types that are authorized for investments held by fiscal agents. The bond indentures contain no limitations for the maximum investment in any one issuer or the maximum percentage of the portfolio that may be invested in any one investment type.

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality
U.S. Treasury Obligations	N/A	Aaa
U.S. Agency Securities	N/A	Aaa
Bankers' Acceptances	30 days	A-1
Commercial Paper	270 days	A-1+
Money Market Funds	N/A	Aam
Pre-Funded Municipal Obligations	N/A	AAA
Repurchase Agreements	270 days	A
State Direct General Obligations	N/A	AA Special
Revenue Bonds	N/A	AA
California Local Agency Investment Fund	N/A	None

2. CASH AND INVESTMENTS, Continued

E. Interest Rate and Credit Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Normally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates.

The District is a participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The District reports its investment in LAIF at the fair value amount provided by LAIF, which is the same as the value of the pool share. The balance available for withdrawal is based on the accounting records maintained by LAIF, which are maintained on an amortized cost basis. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, United States Treasury Notes and Bills, and corporations. At June 30, 2010, these investments matured in an average of 212 days.

Money market funds are available for withdrawal on demand and at June 30, 2010, matured in an average of 26 days.

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District's only investments are in the California Local Agency Investment Fund and in Money Market accounts which are not rated at June 30, 2010.

F. Reassessment Redemption Fund

The cash balance in the Reassessment Redemption and Reassessment Reserve Fund accounts represent receipts of the Crystal Springs Assessment District, held by the District as the Assessment District's agent. Amounts reported as restricted will be utilized on Assessment District projects and reduced to zero in the current year.

3. CAPITAL ASSETS

Changes in capital assets and depreciation were as follows:

	July 1, 2009	Additions	Deletions	June 30, 2010
Capital Assets				
Nondepreciable:				
Construction in progress	$ 3,038,853	$ 2,746,484	$ (1,030,343)	$ 4,754,994
Utility Plant Nondepreciable:				
Land	$ 160,612	$ -	$ -	$ 160,612
Total Utility Plant nondepreciable assets	160,612	-	-	160,612
Utility Plant Depreciable:				
Source of supply	401,039	-	-	401,039
Transmission and distribution	16,965,966	-	-	16,965,966
Treatment plants and well field projects				
Acquired and constructed	849,981	-	-	849,981
Contributed	2,899,227	-	-	2,899,227
Pipelines and meters	9,007,176	81,001	(4,245)	9,083,932
Crystal Springs Project	21,526,507	-	-	21,526,507
Buildings and structures	579,925	11,688	-	591,613
Vehicles	665,306	-	-	665,306
Furniture and equipment	1,169,386	184,543	(53,378)	1,300,551
Total depreciable assets	54,064,513	277,232	(57,623)	54,284,122
Total utility plant at cost	54,225,125	277,232	(57,623)	54,444,734
Less: accumulated depreciation	(18,818,499)	(1,419,446)	-	(20,237,945)
Total utility plant (net)	35,406,626	(1,142,214)	(57,623)	34,206,789
Total capital assets	$ 38,445,479	$ 1,604,270	$ (1,087,966)	$ 38,961,783

Construction in progress at June 30, 2010, consisted primarily of pipeline replacement costs.

4. LONG-TERM DEBT

A. Long-Term Debt Activity

	Original Issue Amount	Balance July 1, 2009	Retirements	Balance June 30, 2010	Due Within One Year
1998A ABAG Water and Wastewater Revenue Refunding Bonds, 3.75-5.3%, due 10/01/2013	$ 2,855,000	$ 1,180,000	$ (215,000)	$ 965,000	$ 225,000
2006B Water Revenue Bonds 3.5-4.75%, due 10/01/32	7,295,000	6,970,000	(175,000)	6,795,000	180,000
Discount	(58,459)	(53,952)	(2,248)	(51,704)	(2,248)
Totals	$ 10,091,541	8,096,048	$ (392,248)	7,708,296	$ 402,752
Amount due within one year		(387,752)		(402,752)	
Total Long-term Debt		$ 7,708,296		$ 7,305,544	

B. 1998A ABAG Water and Wastewater Revenue Refunding Bonds

On May 12, 1998, the District issued ABAG Water and Wastewater Revenue Refunding Bonds, Series 1998A in an original principal amount of $2,855,000. Proceeds of the 1998 Bonds were placed in an irrevocable trust to advance refund the outstanding balance of the Water Revenue Refunding Bonds, Series 1993; a portion was also used to finance water pipeline replacements.

All revenues generated by the Utility Plant and a debt service insurance policy serving as a reserve fund are pledged for the repayment of the 1998 Bonds. The 1998 Bonds bear interest at 3.75% to 5.3% and require semiannual interest payments on October 1 and April 1 and annual principal payments on October 1. A final installment is due October 1, 2013.

Any 1998 Bonds maturing on or after October 1, 2010, may be redeemed at par plus a 2% premium on or after October 1, 2009. The premium decreases 1% each year until October 1, 2010, at which time the 1998 Bonds may be redeemed at par. 1998 Bonds maturing on or after October 1, 2010 and 2021, are subject to mandatory annual redemption commencing October 1, 2006 and 2010, respectively, at par.

C. 2006B Water Revenue Bonds

On June 1, 2006, the District issued Water Revenue Bonds, Series 2006B in an original principal amount of $7,295,000 to finance and refinance certain public capital improvements. The bonds are payable from revenues of the District. The 2006B Bonds bear interest at 3.50% to 4.75% and require semiannual interest payments on October 1 and April 1 and annual principal payments on October 1, beginning October 1, 2007. A final installment is due October 1, 2032.

4. LONG-TERM DEBT, Continued

D. Repayment Schedule

Future annual repayment requirements are as follows:

	Enterprise activities					
Year Ending June 30,	1998A ABAG Water and Wastewater Revenue Refunding Bonds		2006B Water Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2011	$ 225,000	$ 44,845	$ 180,000	$ 304,966	$ 405,000	$ 349,811
2012	235,000	32,993	185,000	298,281	420,000	331,274
2013	245,000	20,272	190,000	291,296	435,000	311,568
2014	260,000	6,890	200,000	283,859	460,000	290,749
2015	-	-	210,000	275,889	210,000	
2016-2020	-	-	1,175,000	1,240,362	1,175,000	1,240,362
2021-2025	-	-	1,470,000	930,639	1,470,000	930,639
2026-2030	-	-	1,850,000	543,951	1,850,000	543,951
2031-2033	-	-	1,335,000	97,019	1,335,000	97,019
Total	$ 965,000	$ 105,000	$ 6,795,000	$ 4,266,262	$ 7,760,000	$ 4,095,373
Due within one year	$ 225,000	$ 44,845	$ 180,000	$ 304,966	$ 405,000	$ 349,811
Due after one year	740,000	60,155	6,615,000	3,961,296	7,355,000	3,745,562
Total	$ 965,000	$ 105,000	$ 6,795,000	$ 4,266,262	$ 7,760,000	$ 4,095,373
Discounts						
2011	$ -	$ -	$ (2,248)	$ -	$ (2,248)	$ -
2012	-	-	(2,248)	-	(2,248)	-
2013	-	-	(2,248)	-	(2,248)	-
2014	-	-	(2,248)	-	(2,248)	-
2015			(2,248)	-	(2,248)	-
2016-2020	-	-	(11,240)	-	(11,240)	-
2021-2025	-	-	(11,240)	-	(11,240)	-
2026-2030	-	-	(11,240)	-	(11,240)	-
2031-2033	-	-	(6,744)	-	(6,744)	-
Total	$ -	$ -	$ (51,704)	$ -	$ (51,704)	$ -

5. CRYSTAL SPRINGS ASSESSMENT DISTRICT

The Crystal Springs Water Supply Project (CSP) constructed by the District was financed by purchasers of CSP water service connections who either paid cash for their water service connections or have agreed to place their properties in the Crystal Springs Assessment District, which was formed for the sole purpose of providing funding to construct the Project.

At June 30, 2009, the Assessment District had fully repaid the balance of its Limited Obligation Refunding Bonds, issued in 1999. Property owners were solely responsible for repayment of these Bonds. Security for the bonds was provided by a lien against each property to which a CSP water service connection is assigned. The County of San Mateo acted as the agent for the Assessment District, collecting assessments and forwarding bond payments to the Assessment District. The Assessment District was responsible for submitting monies collected by the County to a paying agent, which in turn paid the bond holders. In the event of non-payment of an assessment by a property owner, the District was responsible only for initiating foreclosure action on the property encumbered by the CSP assessment.

Since the District has never assumed any legal or moral liability to pay any of the Assessment District’s bonded indebtedness, the District’s financial statements do not include the Assessment District bonds or related balances. However, as the Assessment District’s agent, the District uses the cash discussed in Note 2 A to make the required payments on the Assessment District Bonds or projects within the Assessment District with any remaining funds. At June 30, 2010, a final accounting for the District had not been performed and therefore residual balances remain on the District books for certain accounts.

6. NET ASSETS

Net assets are set aside for the Crystal Springs project of $251,571 and capital improvements of $2,078,928.

7. RISK MANAGEMENT AND SELF-INSURANCE

The District is exposed to various risks of loss related to torts, theft of, damage and destruction of assets, errors and omissions, and natural disasters. The District is a member of the Association of California Water Agencies Joint Powers Insurance Authority (JPIA) to provide coverage with respect to certain risks.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Claim liabilities are calculated considering recent claim settlement trends including the frequency and amount of payouts and other economic and social factors. The liability for claims and judgments is reported in the general long-term debt account group because it is not expected to be liquidated with expendable available financial resources.

7. RISK MANAGEMENT AND SELF-INSURANCE, Continued

The District's JPIA membership includes property coverage of $1,000-$51,000 per occurrence, $51,000 - $50,000,000 excess insurance fidelity coverage of $1,000 to $101,000 per occurrence, general liability/automobile coverage of $500,000, and excess insurance of $70 million with no self-insurance retention. Workers' compensation insurance is provided through JPIA with a $350,000 per occurrence coverage.

There were no open claims or incurred but not reported at June 30, 2009, and June 30, 2010, for the District.

8. PUBLIC EMPLOYEES' RETIREMENT SYSTEM (PERS)

A. Plan Description

The District contributes to the California Public Employees' Retirement System (CalPERS), a cost-sharing, multiple-employer, public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the Public Employees' Retirement Law. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 "P" Street, Sacramento, California 95814.

B. Funding Policy

All full-time District employees are eligible to participate in the Plan. District employees are required to contribute 7% of their salary (7% of monthly salary over $133.33 if the member participates in Social Security), and the District is required to contribute an actuarially determined rate. Beginning July 1, 2000, the District began paying the 7% employee contribution. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2009-10 was 21.551% of annual payroll. The contribution requirements of the plan members are established by state statute.

C. Annual Pension Cost

For 2010, the District's annual pension cost of $325,874 for CALPERS was equal to the District's required and actual contribution. The required contribution was determined as part of the June 30, 2008, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.75% of investment rate of return (net of administrative expenses), and (b) 3.25% to 14.45% projected annual salary increases that vary by age, duration of service and type of employment. Both (a) and (b) included an inflation component of 3% and annual production growth of 0.25%.

8. PUBLIC EMPLOYEES' RETIREMENT SYSTEM (PERS), Continued

The actuarial value of CALPERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a four-year period (smooth market value). CALPERS has increased the future rate the District pays to reflect an unfunded condition in the plan.

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2008	$ 300,547	100%	-
June 30, 2009	290,060	100%	-
June 30, 2010	325,874	100%	-

9. OTHER POST-EMPLOYMENT BENEFITS

Plan Description

The District provides health insurance benefits through the Association of California Water Agencies (ACWA) Blue Cross plan or the District's plan through Kaiser Permanente (small business plan) to employees who retire. The District pays for one-party medical, dental and vision premiums for retirees. The medical and vision benefits are paid for life and the dental benefits are paid until age 65. Employees hired after November 14, 2006 will receive 50% of the benefits.

Eligibility: Employees (and their dependents) are eligible to access retiree healthcare benefits if they retire from the District on or after age 55 (service retirement) with at least 15 years of service (service and disability retirement) and the employee must submit the retirement application within 120 days of separation and are eligible for a PERS pension. Membership of the plan consisted of the following at June 30, 2010:

Retirees and beneficiaries receiving benefits	10
Other participants fully eligible for benefits	-
Other participants not yet fully eligible for benefits	17
Total	**27**

9. OTHER POST EMPLOYMENT BENEFITS, Continued

Funding Policy

The District pays for its other postemployment benefit (OPEB) obligation on a pay-as-you-go basis (i.e., as insurance premiums become due).

Annual OPEB Cost and Net OPEB Obligation

The District's annual OPEB cost (expense) is calculated based on the *annual required contribution of the employer (ARC)*, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and the changes in the District's net OPEB obligation for these benefits:

Annual required contribution	$136,500
Interest on net OPEB obligation	0
Adjustment to annual required contribution	0
Annual OPEB cost (expense)	136,500
Contributions made (Premiums paid)	(82,239)
Increase in net OPEB obligation	54 261
Net OPEB obligation-beginning of year	0
Net OPEB obligation-end of year	$ 54,261

This is the first year that the District is following the reporting requirements of GASB 45, *Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pension Plans*. The District has elected to implement GASB 45 prospectively and therefore shows no OPEB obligation at transition. The District's annual OPEB cost (expense) is equal to the ARC, and the net OPEB obligation for 2010 and the two preceding years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation (Asset)
6/30/2008	N/A	N/A	N/A
6/30/2009	N/A	N/A	N/A
6/30/2010	$ 136,500	40%	$ 54,261

9. OTHER POST EMPLOYMENT BENEFITS, Continued

Plan Funded Status and Funding Progress

As of January 1, 2009, the most recent actuarial valuation date, the plan was zero percent funded. The Actuarial Accrued Liability (AAL) for benefits was $1,730,200, and the actuarial value of assets was zero dollars, resulting in an Unfunded Actuarial Accrued Liability (UAAL) of $1,730,200. The covered payroll (annual payroll of active employees covered by the plan) was $1,362,500 and the ratio of UAAL to the covered payroll was 126.99 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the profitability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefits costs between the employer and the plan members to that point. The actuarial methods and assumptions used included techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long term perspective of the calculations. The actuarial valuation was performed in January of 2009 based upon June 30, 2008 amounts.

The actuarial cost method used for determining the benefit obligations is the projected unit credit actuarial cost method. The actuarial assumptions included a 5 percent investment rate of return, which is the expected long-term rate of return on the District's pooled investments (per GASB 43/45 guidelines for this assumption), and an annual cost trend rate of 5.5 percent for medical, 3% for dental and 2% for vision benefit costs and a three percent general inflation assumption. The UAAL is being amortized using a level dollar method over 30 years with no election as to an open or closed basis at this time.

10. COMMITMENTS AND CONTINGENCIES

The District is subject to general risk and exposure due to normal operations in the course of business. These risks involve various claims against the District, both asserted and unasserted, all of which management considers to be immaterial to these financial statements.

JJACPA, Inc.
A Professional Accounting Services Corp.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
Coastside County Water District
Half Moon Bay, California

We have audited the basic financial statements of the Coastside County Water District (District) as of and for the year ended June 30, 2010 and have issued our report thereon dated October 15, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

349 Main Street, Suite 204, Pleasanton, CA 94566 • phone: (925) 462-6400 • fax: (510) 217-5930
www.jjacpa.com

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors, others within the entity, management, and federal and state agencies and is not intended to be and should not be used by anyone other than these specified parties.

October 15, 2010 JJACPA, INC.