COASTSIDE COUNTY WATER DISTRICT

BASIC FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

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For the Years Ended June 30, 2007 and 2006

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COASTSIDE COUNTY WATER DISTRICT

ELECTED OFFICIALS AND ADMINISTRATIVE PERSONNEL

JUNE 30, 2007

BOARD OF DIRECTORS

Jim Larimer - President
Chris Mickelsen – Vice President
Ken Coverdell – Director
Everett Ascher - Director
Bob Feldman- Director

MANAGEMENT

Joe Guistino– Interim General Manager

INDEPENDENT AUDITOR'S REPORT

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

We have audited the basic financial statements of the Coastside County Water District as of and for the years ended June 30, 2007 and 2006, 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 on our audits.

We conducted our audits in accordance with generally accepted auditing standards in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance as to whether the financial statements are free of material misstatement. An audit includes examining on a test basis evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide 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 Coastside County Water District at June 30, 2007 and 2006 and the results of its operations and cash flows for the years then ended, in conformity with generally accepted accounting principles in the United States of America.

Management’s Discussion and Analysis is required by the Government Accounting Standards Board, but is not part of the basic financial statements. We have applied certain limited procedures to this information, principally inquiries of management regarding the methods of measurement and presentation of this information, but we did not audit this information and we express no opinion on it.

September 20, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Governmental Accounting Standards Board (GASB) recently issued GASB 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments. GASB 34 establishes financial reporting standards for state and local governments, including states, cities, villages and special purpose governments such as school districts and public utilities. This standard has minor impacts upon the financial reporting and accounting performed by the Coastside County Water District, which includes the addition of this section, entitled Management's Discussion and Analysis (MDA).

The MDA presents management's analysis of the Coastside County Water District's (the District) financial condition and activities as of and for the year ended June 30, 2007. The MDA is intended to serve as an introduction to the District's basic financial statements. In future years, a comparative analysis of prior year information will be presented in this report. Readers are encouraged to consider the information presented here in conjunction with the information contained in the accompanying financial statements.

The information in this MDA is presented in the following order:

- Organization and Overview of Financial Statements
- Financial Analysis
- Capital Assets
- Debt Administration
- Request for Information

Organization and Overview of Financial Statements:

The Coastside County Water 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.

The District is a proprietary entity; it uses an enterprise fund format to report its activities for financial statement purposes. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs and expenses, including depreciation, of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Financial Analysis

Net Assets

June 30, 2007 and 2006

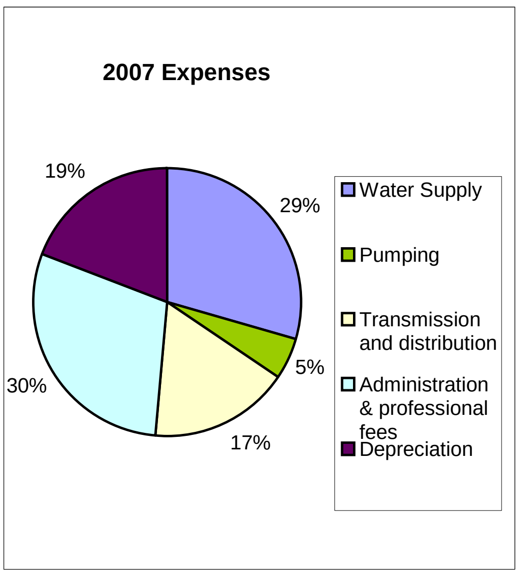
	2007	2006	Increase (Decrease)
Capital assets (treatment plants, pipelines, pump station, etc.)	32,477,231	31,289,345	1,187,886
Cash and investments	12,432,462	13,140,488	(708,026)
Other Assets	1,114,269	943,313	170,956
Total assets	46,023,962	45,373,146	650,816
Noncurrent liabilities (long term debt)	8,661,651	9,067,273	(405,622)
Current liabilities (accounts payable, accrued expenses)	1,002,740	709,176	293,564
Total liabilities	9,664,391	9,776,449	(112,058)
Net assets			
Invested in capital assets	28,923,186	29,249,345	(326,159)
Restricted (Crystal & Unspent Projects)	3,851,164	3,176,345	674,819
Unrestricted	3,585,221	3,171,007	414,214
Total net assets	36,359,571	35,596,697	762,874

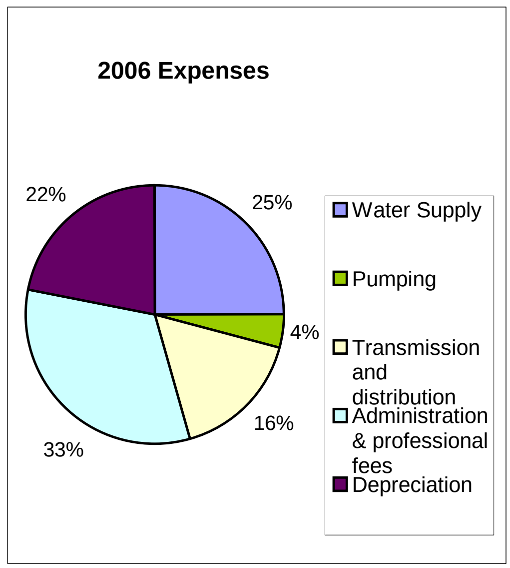
Comparison of fiscal year 2007 to fiscal year 2006: Total assets increased by $650,816 in fiscal year 2006 to $46,023,962, while total liabilities decreased by $112,058, resulting in an overall increase in net assets of $762,874.

Results of Operations

Revenues & Expenses
June 30, 2007 and 2006

	2007	2006	Increase (Decrease)	% Increase (Decrease)
Operating revenue	4,819,554	4,130,532	689,022	16.68%
Operating expenses				
Water Supply	1,724,986	1,301,777	423,209	32.51%
Pumping	296,399	212,529	83,870	39.46%
Transmission and distribution	978,608	848,724	129,884	15.30%
Administration & professional fees	1,731,019	1,700,408	30,611	1.80%
Depreciation	1,121,749	1,133,961	(12,212)	-1.08%
Total operating expenses	5,852,761	5,197,399	655,362	12.61%
Operating income (loss)	(1,033,207)	(1,066,867)	33,660	-3.16%





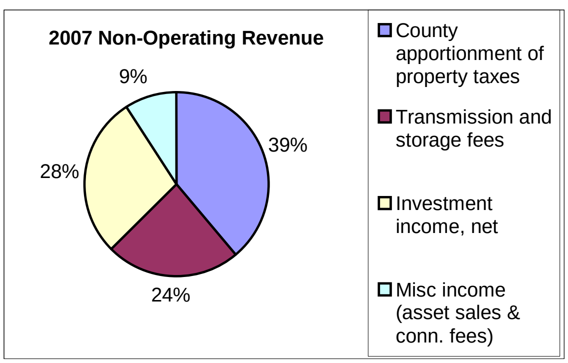
<u>Comparison of fiscal year 2007 to fiscal year 2006:</u> Operating revenue increased by $689,022 in fiscal year 2007, while expenses increased by $655,362, resulting in an overall $33,660 increase in operating income during fiscal year 2006.

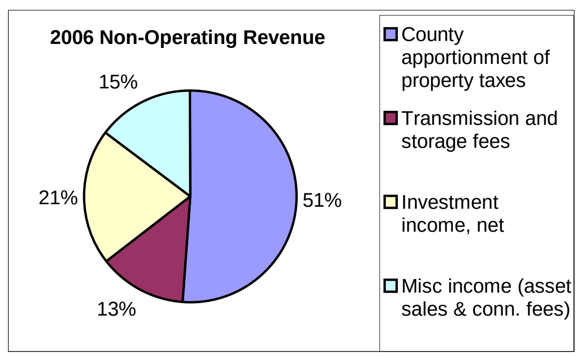
Non-Operating Revenues & Expenditures

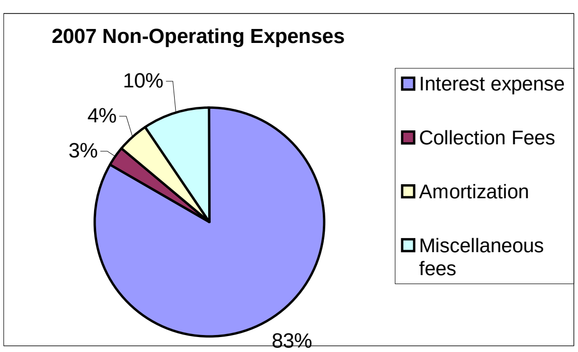
The governmental accounting standards divided Revenue and Expenses for agencies between “Operating” and “Non-Operating” sources. The Non-Operating sources are summarized below:

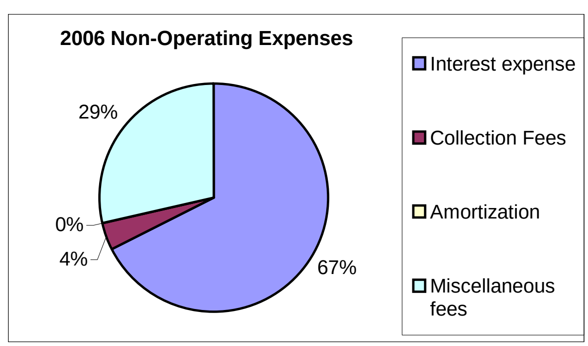
Comparison of Non-Operating Revenues & Expenses 2007 and 2006

	2007	2006	$ Change Increase/ (Decrease)	% Change
County apportionment of property taxes	868,226	524,975	343,251	65.4%
Transmission and storage fees	525,214	134,593	390,621	290.2%
Investment income, net	628,749	212,876	415,873	195.4%
Misc income (asset sales & conn. fees)	205,199	152,115	53,084	34.9%
Total non-operating revenue	2,227,388	1,024,559	1,202,829	117.4%
Interest expense	359,248	104,603	254,645	243.4%
Collection Fees	12,159	6,161	5,998	97.4%
Amortization	18,629	-	18,629	1000.0%
Miscellaneous fees	41,271	44,233	(2,962)	-6.7%
Total non-operating expense	431,307	154,997	276,310	178.3%
Net from non-operating	1,796,081	869,562	926,519	106.6%









Comparison of fiscal year 2007 to fiscal year 2006: Non-operating revenue increased by $1,202,829 while non-operating expense increased by $276,310, resulting in an overall increase of $926,519 during fiscal year 2007.

Capital Assets

Utility plant and construction in progress balances and activity are summarized below:

	Balance Beginning of Year	Additions and Transfers, net	Balance End of Year
Utility Plant in Service:			
Land	$ 160,612		$ 160,612
Buildings	608,640	$ 57,166	665,806
Furniture & Equipment	723,408	31,682	755,090
Vehicles	647,891	20,797	668,688
Treatment plants, pipelines wells, pump stations	19,481,612	468,343	19,949,955
Crystal Springs Project			
West pipeline	4,126,272		4,126,272
Nunes treatment plant	3,296,713	105,850	3,402,563
East pipeline	3,197,786		3,197,786
Pump station	7,738,337		7,738,337
Casa Del Mar pipeline	873,745		873,745
Carter Hill Tank pipeline	50,000		50,000
El Granada Phase 3	-	308,593	308,593
Design, engineering and intangible costs	3,265,466		3,265,466
Utility plant at cost	44,170,482	$ 992,431	45,162,913
Less accumulated depreciation	(15,459,868)	$ (1,121,749)	(16,581,617)
Utility plant, net	$ 28,710,614	$ (129,318)	$ 28,581,296
Construction in progress	$ 2,578,731	$ 1,317,204	$ 3,895,935

Debt Administration

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 Bond, Series 1993; a portion was also used to finance water pipeline replacements. The remaining balance of the 1993 Bonds was paid off as of June 30, 2004.

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, 2009 may be redeemed at par plus a 2% premium on or after October 1, 2008. 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 2011, respectively, at par.

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.

Future annual repayment requirements are as follows:

2010	$390,000	$367,245	$757,245
2011	405,000	349,811	754,811
2012	420,000	331,274	751,274
2012-2016	1,545,000	1,404,254	2,949,254
2017-2021	1,280,000	1,128,353	2,408,353
2022-2026	1,615,000	786,005	2,401,005
2027-2031	2,030,000	360,526	2,390,526
2032	465,000	11,044	476,044
Total future repayments due	$8,870,000	$5,521,435	$14,391,435

Request for Information

This report is designed to provide customers and creditors with a general overview of the District's finances and demonstrate the District's accountability for the monies it receives. If you have any questions about this report or need additional information, you may contact Gina Brazil, Office Manager at (650) 726-4405. By mail, you may contact: Coastside County Water District, 766 Main Street, Half Moon Bay, CA 94019.

COASTSIDE COUNTY WATER DISTRICT
COMPARATIVE STATEMENTS OF NET ASSETS
JUNE 30, 2007 AND 2006

ASSETS	2007	2006
Utility plant (Note 3)	$45,162,913	$44,170,482
Less: accumulated depreciation	(16,581,617)	(15,459,868)
Utility Plant, Net	28,581,296	28,710,614
Construction in progress (Note 3)	3,895,935	2,578,731
Restricted cash and investments (Note 2)	9,234,169	10,191,345
Current assets:		
Cash and temporary investments (Note 2)	3,198,293	2,949,143
Accounts receivable from customers	538,133	391,198
Taxes receivable	20,409	12,033
Interest receivable	74,082	57,313
Prepaid expenses	18,553	20,966
Materials and supplies	147,594	127,677
Unamortized bond issuance costs (Note 1H)	315,498	334,126
Total Current Assets	4,312,562	3,892,456
Total Assets	46,023,962	45,373,146
LIABILITIES		
Noncurrent Liabilities:		
Long-term debt (Note 5)	8,515,000	8,870,000
Accrued vacation and sick leave (Note 1G)	146,651	197,273
Total Noncurrent Liabilities	8,661,651	9,067,273
Current liabilities:		
Due to Crystal Springs Assessment District (Note 4)	67,050	66,120
Accounts payable and accrued liabilities	390,085	248,921
Customer deposits	55,677	52,100
Accrued payroll	25,140	25,289
Deferred revenue	109,788	131,746
Current portion of long-term debt (Note 5)	355,000	185,000
Total Current Liabilities	1,002,740	709,176
Total Liabilities	9,664,391	9,776,449
NET ASSETS (Note 8)		
Invested in capital assets, net of related debt	28,923,186	29,249,345
Restricted for Crystal Springs Project:		
Transmission and storage fees-Crystal Springs Project	3,616,010	2,941,191
District contribution to Crystal Springs Project	235,154	235,154
Total Restricted	3,851,164	3,176,345
Unrestricted (Board designations):		
Operating capital	300,000	300,000
Emergency and contingency	1,564,103	700,000
Capital expenditures	1,721,118	1,652,354
Unrestricted, undesignated by Board		518,653
Total Unrestricted	3,585,221	3,171,007
Net Assets	$36,359,571	$35,596,697

See accompanying notes to financial statements

COASTSIDE COUNTY WATER DISTRICT
COMPARATIVE STATEMENTS OF REVENUES AND EXPENSES
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

	2007	2006
OPERATING REVENUES		
Water sales	$4,819,554	$4,130,532
OPERATING EXPENSES		
Source of supply	1,724,986	1,301,777
Pumping	296,399	212,529
Transmission and distribution	978,608	848,724
Administrative and general	1,731,019	1,700,408
Depreciation (Note 3)	1,121,749	1,133,961
Total Operating Expenses	5,852,761	5,197,399
OPERATING LOSS	(1,033,207)	(1,066,867)
NONOPERATING REVENUES (EXPENSES)		
County apportionment of property taxes	868,226	524,975
Transmission and storage fees	525,214	134,593
Investment income, net	628,749	212,876
Connection fees	40,147	40,147
Interest expense	(359,248)	(104,603)
Amortization	(18,629)	
Collection fees	(12,159)	(6,161)
Miscellaneous fees	(41,271)	(44,233)
Miscellaneous income	80,642	111,968
Contributions in aide of construction	84,410	
Net Nonoperating Revenues	1,796,081	869,562
Net Income (Loss)	$762,874	($197,305)

See accompanying notes to financial statements

COASTSIDE COUNTY WATER DISTRICT
COMPARATIVE STATEMENTS OF CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

	Invested in Capital Assets, Net of Related Debt	Restricted Crystal Springs Project Transmission & Storage Fees	Restricted Crystal Springs Project District Contribution
Balance June 30, 2005	$27,570,263	$4,053,138	$239,260
Reduction reflecting District expenditures on Crystal Springs Project		(1,318,577)	(4,106)
Transmission and Storage Fees		121,090	
Interest on Accumulated Transmission and Storage Fees		85,540	
Debt service payment	175,000		
Net (loss)			
Bond issuance costs	(280,000)		
Unspent bond proceeds restricted for capital projects			
Increase in designation for capital expenditures			
Increase in Utility Plant, net	1,784,082		
Balance June 30, 2006	29,249,345	2,941,191	235,154
Reduction reflecting District expenditures on Crystal Springs Project		194,261	
Transmission and Storage Fees		286,916	
Interest on Accumulated Transmission and Storage Fees		193,642	
Debt service payment	185,000		
Net income (loss)			
Bond issuance costs			
Unspent bond proceeds restricted for capital projects			
Increase in designation for capital expenditures			
Increase in Utility Plant, net	(511,159)		
Balance June 30, 2007	$28,923,186	$3,616,010	$235,154

Unrestricted			
Operating Capital	Emergency and Contingency	Capital Expenditures	Undesignated
$300,000	$700,000	$2,433,747	$497,594
			1,322,683
			(121,090)
			(85,540)
			(175,000)
			(197,305)
			280,000
		1,002,689	(1,002,689)
		(1,784,082)	
300,000	700,000	1,652,354	518,653
			(194,261)
			(286,916)
			(193,642)
			(185,000)
			762,874
	864,103	(442,395)	(421,708)
		511,159	
$300,000	$1,564,103	$1,721,118	

COASTSIDE COUNTY WATER DISTRICT
COMPARATIVE STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash collections from customers	$4,654,238	$4,047,703
Cash payments to vendors	(3,352,020)	(3,253,283)
Payments to employees	(1,306,103)	(1,197,530)
Cash Flows from Operating Activities	(3,885)	(403,110)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received on investments	611,980	211,915
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Property taxes received	859,850	524,345
County collection fees	(12,159)	(6,161)
Miscellaneous receipts	80,642	111,968
Miscellaneous payments	(41,271)	(44,233)
Cash Flows from Noncapital Financing Activities	887,062	585,919
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Contributions in aide of construction	84,410	
Collection of transmission and storage fees	525,214	134,593
Collection of connection fees	40,147	40,147
Change in restricted cash & investments	957,176	(5,835,338)
Acquisition of capital assets	(2,309,636)	(3,189,286)
Redemption of Crystal Springs Project Bond	930	(236,749)
Proceeds from issuance of long-term debt		7,295,000
Principal and interest paid on long-term debt	(544,248)	(279,603)
Cash Flows from Capital and Related Financing Activities	(1,246,007)	(2,071,236)
NET CASH FLOWS	249,150	(1,676,512)
Cash and investments at beginning of year	2,949,143	4,625,655
Cash and investments at end of year	$3,198,293	$2,949,143

(continued)

COASTSIDE COUNTY WATER DISTRICT
COMPARATIVE STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

	2007	2006
RECONCILIATION OF OPERATING INCOME TO CASH FLOWS FROM OPERATIONS		
Operating (loss)	($1,033,207)	($1,066,867)
Adjustments to reconcile operating loss to cash flows from operating activities:		
Depreciation	1,121,749	1,133,961
Decrease (increase) in:		
Accounts receivable from customers	(146,935)	(62,051)
Prepaid expenses	2,413	5,713
Materials and supplies	(19,917)	(8,217)
Increase (decrease) in:		
Due to Crystal Springs Assessment District		
Accounts payable and accrued liabilities	141,164	(367,419)
Customers' deposits	3,577	1,180
Accrued vacation and sick leave	(50,622)	1,713
Deferred revenue	(21,958)	(21,958)
Accrued payroll	(149)	(19,165)
Cash Flows from Operating Activities	($3,885)	($403,110)

See accompanying notes to basic financial statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Coastside County Water 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.

A. Reporting Entity

The District's financial statements reflect only its own activities; it has no component units (other government units overseen by the District).

B. Enterprise Fund Accounting

The District is a proprietary entity; it uses an enterprise fund format to report its activities for financial statement purposes. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs and expenses, including depreciation, of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

An enterprise fund is used to account for activities similar to those in the private sector, where the proper matching of revenues and costs is important and the full accrual basis of accounting is required. With this 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 equity includes retained earnings and contributed capital.

For its proprietary activities, the District does not apply Financial Accounting Standards Board (FASB) statements and interpretations issued after November 30, 1989. The proprietary funds apply all applicable Governmental Accounting Standards Board (GASB) pronouncements as well as statements and interpretations of FASB, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

C. Utility Plant

Utility plant is stated at cost. Utility plant contributed to the District, including meters, pipelines and mains contributed by contractors, is stated at estimated fair value at the time of contribution. Expenditures which materially increase the value or life of utility plant assets are capitalized and depreciated over the remaining useful life of the asset.

D. Depreciation

The purpose of depreciation is to spread the cost of utility plant assets equitably among all customers over the life of these assets, so that each customer's bill includes a pro rata share of the cost of these assets. The amount charged to depreciation expense each year represents that year's pro rata share of utility plant cost.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Depreciation of all utility plant in service is charged as an expense against operations each year and the total amount of depreciation taken over the years, called accumulated depreciation, is reported on the balance sheet as a reduction in the book value of the utility plant assets.

Depreciation of utility plant in service is provided using the straight-line method, which means the cost of the asset is divided by its expected useful life in years and the result is charged to expense each year until the asset is fully depreciated. The District has assigned the useful lives listed below to utility plant assets:

	Years
Water Treatment Plants and Pipelines	22-50
Buildings	23-33
Furniture and Equipment	10
Vehicles	5

E. Cash Flows Defined

For purposes of the statement of cash flows the District defines cash and investments to include unrestricted cash and temporary investments.

F. Property Taxes

Property tax revenue is recognized in the fiscal year for which the tax is levied. The County of San Mateo levies, bills and collects property taxes for the District; all material amounts are collected by June 30.

Secured and unsecured property tax is due in two installments on November 1 and February 1, becomes a lien on January 1, and becomes delinquent on December 10 and April 10, respectively. Delinquent accounts are assessed a penalty of 10 percent. Accounts which remain unpaid on June 30 are charged an additional one and one half percent per month. Unsecured property tax is due on July 1 and becomes delinquent on August 31. The penalty percentage rates are the same as secured property tax.

G. 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 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 time with the District.

H. Unamortized Bond Issue Costs

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

NOTE 2 - CASH AND TEMPORARY INVESTMENTS

A. Composition

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

	June 30, 2007		June 30, 2006
	Current	Restricted	
Cash in Bank:			
Operating Account	$391,781		$413,997
Crystal Springs Project Transmission & Storage Account		$961,818	726,577
Reassessment Reserve Fund		67,050	66,120
Cash on hand - Petty Cash	3,948		3,947
Money Market Funds (bond proceeds)		5,315,955	7,015,000
Local Agency Investment Fund:			
Crystal Springs Project		2,654,192	2,148,494
District contribution to Crystal Springs Project		235,154	235,154
Operating capital reserve	300,000		300,000
Emergency and contingency reserve	1,564,103		700,000
Capital expenditures reserves	938,461		1,531,199
Total	$3,198,293	$9,234,169	$13,140,488

B. Policies

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 require 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.

C. Investments Authorized by the California Government Code and the District's Investment Policy

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. 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.

NOTE 2 - CASH AND TEMPORARY INVESTMENTS (Continued)

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%

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. The table also identifies certain provisions of these debt agreements:

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 Obligation	N/A	AA-
Special Revenue Bonds	N/A	AA
California Local Agency Investment Fund	N/A	None

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.

NOTE 2 - CASH AND TEMPORARY INVESTMENTS (Continued)

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, 2007, these investments matured in an average of 176 days.

Money market funds are available for withdrawal on demand and at June 30, 2007, matured in an average of 21 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, 2007.

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 Water District as the Assessment District's agent as discussed at Note 4.

G. District Contribution to Crystal Springs Project

In fiscal 2007, the District set aside an amount of $235,154 for the Crystal Springs Project, which will be expended on the Project in future years.

NOTE 3 - UTILITY PLANT AND CONSTRUCTION IN PROGRESS

Utility plant and construction in progress balances and activity are summarized below:

	Balance Beginning of Year	Additions and Transfers, net	Balance End of Year
Utility Plant in Service:			
Land	$160,612		$160,612
Buildings	608,640	$57,166	665,806
Furniture & equipment	723,408	31,682	755,090
Vehicles	647,891	20,797	668,688
Treatment plants, pipelines, wells, pump stations	19,481,612	468,343	19,949,955
Crystal Springs Project:			
West pipeline	4,126,272		4,126,272
Nunes treatment plant	3,296,713	105,850	3,402,563
East pipeline	3,197,786		3,197,786
Pump station	7,738,337		7,738,337
Casa Del Mar pipeline	873,745		873,745
Carter Hill Tank pipeline	50,000		50,000
El Granada Phase 3		308,593	308,593
Design, engineering and intangible costs	3,265,466		3,265,466
Utility plant at cost	44,170,482	992,431	45,162,913
Less accumulated depreciation	(15,459,868)	($1,121,749)	(16,581,617)
Utility plant, net	28,710,614	(129,318)	28,581,296
Construction in progress	$2,578,731	$1,317,204	$3,895,935

Construction in progress at June 30, 2007 consisted primarily of pipeline replacement costs.

NOTE 4 - CRYSTAL SPRINGS ASSESSMENT DISTRICT

The Crystal Springs Water Supply Project (CSP) constructed by the Coastside County Water District (Water 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, 2007, the Assessment District had fully repaid the balance of its Limited Obligation Refunding Bonds issued in 1999. Property owners are solely responsible for repayment of these Bonds. Security for the Bonds is provided by a lien against each property to which a CSP water service connection is assigned. The County of San Mateo acts as the agent for the Assessment District, collecting assessments and forwarding bond payments to the Assessment District. The Assessment District is responsible for submitting monies collected by the County to a paying agent, which in turn pays the bond holders. In the event of non-payment of an assessment by a property owner, the Water District is responsible only for initiating foreclosure action on the property encumbered by the CSP assessment.

Since the Water District has never assumed any legal or moral liability to pay any of the Assessment District's bonded indebtedness, the Water District's financial statements do not include the Assessment District bonds or related balances. However, as the Assessment District's agent, the Water District uses the cash discussed at Note 2 A to make the required payments on the Assessment District Bonds.

NOTE 5 – LONG-TERM DEBT

A. Long-Term Debt Activity

	Original Issue Amount	Balance June 30, 2006	Retirements	Balance June 30, 2007	Amount due within one year
1998A ABAG Water and Wastewater Revenue Refunding Bonds, 3.75-5.3%, due 10/01/2013	$2,855,000	$1,760,000	$185,000	$1,575,000	$195,000
2006B Water Revenue Bonds 3.5-4.75%, due 10/01/32	7,295,000	7,295,000		7,295,000	160,000
Total Long-Term Debt		9,055,000	$185,000	8,870,000	$355,000
Less:					
Amount due within one year		(185,000)		(355,000)	
Total Long-Term Debt, net		$8,870,000		$8,515,000	

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, 2009 may be redeemed at par plus a 2% premium on or after October 1, 2008. 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 2011, respectively, at par.

NOTE 5 – LONG TERM DEBT (Continued)

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.

D. Repayment Schedule

Future annual repayment requirements are as follows:

For The Year Ending June 30	Principal	Interest	Total
2008	$355,000	$399,243	$754,243
2009	365,000	383,680	748,680
2010	390,000	367,245	757,245
2011	405,000	349,811	754,811
2012	420,000	331,274	751,274
2013-2017	1,545,000	1,404,254	2,949,254
2018-2021	1,280,000	1,128,353	2,408,353
2022-2026	1,615,000	786,005	2,401,005
2027-2031	2,030,000	360,526	2,390,526
2032	465,000	11,044	476,044
Total payments due	$8,870,000	$5,521,435	$14,391,435

NOTE 6 - PENSION PLAN

All employees meeting PERS membership requirements must participate in pension plans offered by California Public Employees Retirement System (CALPERS), an agent multiple employer defined benefit pension plan which acts as a common investment and administrative agent for its participating member employers. CALPERS provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. The District's employees participate in the Miscellaneous Employee Plan. Benefit provisions under the Plan are established by State statute and District resolution. Benefits are based on years of credited service, equal to one year of full time employment. Funding contributions for the Plan is determined annually on an actuarial basis as of June 30 by CALPERS; the District must contribute these amounts. The Plans' provisions and benefits in effect at June 30, 2007, are summarized as follows:

	Miscellaneous
Benefit vesting schedule	5 years service
Benefit payments	monthly for life
Retirement age	50
Monthly benefits, as a % of annual salary	2.0% - 2.5%
Required employee contribution rates	8%
Required employer contribution rates	25.34%

The District's labor contracts require it to pay employee contributions as well as its own.

CALPERS determines contribution requirements using a modification of the Entry Age Normal Method. Under this method, the District's total normal benefit cost for each employee from date of hire to date of retirement is expressed as a level percentage of the related total payroll cost. Normal benefit cost under this method is the level amount the District must pay annually to fund an employee's projected retirement benefit. This level percentage of payroll method is used to amortize any unfunded actuarial liabilities. The actuarial assumptions used to compute contribution requirements are also used to compute the pension benefit obligation. The District does not have a net pension obligation since it pays these actuarially required contributions monthly.

CALPERS uses the market related value method of valuing the Plan's assets. An investment rate of return of 7.75% is assumed, including inflation at 3.0%. Annual salary increases are assumed to vary by duration of service. Changes in liability due to plan amendments, changes in actuarial assumptions, or changes in actuarial methods are amortized as a level percentage of payroll on a closed basis over twenty years. Investment gains and losses are accumulated as they are realized and amortized over a rolling thirty year period.

As required by new State law, effective July 1, 2005, the District's Miscellaneous Plan was terminated, and the employees in the plan were required by CALPERS to join new State-wide pools. One of the conditions of entry to these pools was that the District true-up any unfunded liabilities in the former Plans, either by paying cash or by increasing its future contribution rates through a Side Fund offered by CALPERS. The District satisfied its Miscellaneous Plan's unfunded liability of $1,236,483 by agreeing to contribute that amount to the Side Fund through an addition to its normal contribution rates over the next 12 years.

NOTE 6 -- PENSION PLAN (Continued)

Audited annual financial statements are available from CALPERS at P.O. Box 942709, Sacramento, CA 94229-2709.

Actuarially required contributions which were equal to net pension costs, for fiscal years 2007, 2006, and 2005 were $312,839, $258,530, and $170,510 respectively. The District made these contributions as required, together with certain immaterial amounts required as the result of the payment of overtime and other additional employee compensation.

NOTE 7 - DEFERRED COMPENSATION PLAN

District employees may defer a portion of their compensation under a District sponsored Deferred Compensation Plan created in accordance with Internal Revenue Code Section 457. Under this plan, participants are not taxed on the deferred portion of their compensation until distributed to them; distributions may be made only at termination, retirement, death or in an emergency as defined by the Plan.

The District's Plan administration agreements require plan assets to be held by a Trust for the exclusive benefit of plan participants and their beneficiaries. Since the assets held under these plans are not the District's property and are not subject to claims by general creditors of the District, they have been excluded from these financial statements.

NOTE 8 – NET ASSETS

Net Assets is the excess of all the District's assets over all its liabilities. Net Assets are divided into three captions under GASB Statement 34. These captions apply only to Net Assets, which are described below:

Invested in Capital Assets, net of related debt describes the portion of Net Assets which is represented by the current net book value of the District's capital assets, less the outstanding balance of any debt issued to finance these assets.

Restricted describes the portion of Net Assets which is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions which the District cannot unilaterally alter. The Restricted Net Assets are presented below:

> Transmission and Storage Fees collected but not yet expended on the Crystal Springs Project, plus interest earned on the balance. These funds have been held in a separate bank account and in LAIF since the inception of the Project.
>
> The District Contribution to Crystal Springs Project, representing the amount pledged by the District at inception of the project, net of subsequent District expenditures on the Project.

NOTE 8 – NET ASSETS (Continued)

Unrestricted describes the portion of Net Assets which is not restricted to use. Included here are "Reserves" which the Board can unilaterally alter. Net Assets have been reserved by the Board of Directors for specific uses in the future. These reserves are presented below:

Operating Capital, representing minimum operating cash requirements.

Emergency and Contingency, to be used in the event of economic uncertainty.

Capital Expenditures, for planned capital expenditures and depreciation expense.

NOTE 9 - RISK MANAGEMENT

The District is a member of the Association of California Water Agencies Joint Powers Insurance Authority. ACWAJPIA covers general liability claims in an amount up to $50,000,000. The District has worker's compensation insurance with ACWAJPIA which provides coverage of worker's compensation claims from the first dollar up to statutory limits. During the fiscal year ended June 30, 2007 the District contributed $63,788 for current year coverage.

ACWAJPIA is governed by a board consisting of representatives from member municipalities. The board controls ACWAJPIA's operations, including selection of management and approval of operating budgets, independent of any influence by member municipalities beyond their representation on the board.

The District's contributions to ACWAJPIA equal the ratio of the District's payroll to the total payrolls of all entities participating in the same layer of each program, in each program year. Actual surpluses or losses are shared according to a formula developed from overall loss costs and spread to member entities on a percentage basis after a retrospective rating.

ACWAJPIA's audited financial statements may be obtained from them at 5620 Birdcage Street, #200, Citrus Heights, CA 95610-7632.

NOTE 10 - COMMITMENT AND CONTINGENT LIABILITY

The District provides certain health care and dental benefits for retired employees. These benefits are provided through insurance companies whose premiums are based on the benefits paid during the year. The District recognizes the cost of providing those benefits by expensing the annual insurance premiums, which was $73,345 for eligible retirees for the year ended June 30, 2007.