COASTSIDE COUNTY WATER DISTRICT

BASIC FINANCIAL STATEMENTS

AND SUPPLEMENTARY SCHEDULES

JUNE 30, 2013

Coastside County Water District
Basic Financial Statements
For the year ended June 30, 2013

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Elected Officials and Administrative Personnel

BOARD OF DIRECTORS

Glenn Reynolds – President
Chris Mickelsen – Vice President
Ken Coverdell – Director
Steve Flint – Director
Arnie Glassberg – Director

MANAGEMENT

David Dickson – General Manager

JJACPA, Inc.

A Professional Accounting Services Corp.

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements the Coastside County Water District (District) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents. The prior-year comparative total information presented has been derived from the District's 2012 basic financial statements and, in our report dated November 19, 2012 we expressed an unqualified opinion on the those financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the District, as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary *Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages three to nine be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 10, 2014 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

JJACPA, Inc.

January 10, 2014

JJACPA, Inc.
Dublin, CA

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, 2013. 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 - 29).

Financial Highlights

At June 30, 2013, the District's net position increased $636,885 to $36,331,897 from $35,695,012 in 2012. Operating revenues increased by $1,298,110, primarily due to a water rate increase which became effective July 1, 2013. Operating expenses (with depreciation included) increased by $214,644 as a result of increases to source of supply expenses. The District's total assets increased by $3,671,422 due to the completion of the Denniston Water Treatment Plant Improvements Project.

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 Position
As of June 30, 2013 and 2012

	2013	2012	Increase (Decrease)	Percent Change
Assets:				
Current assets	$ 3,981,846	$ 3,437,367	$ 544,479	15.8%
Non-current assets	46,407,179	43,280,236	3,126,943	7.2%
Total assets	50,389,025	46,717,603	3,671,422	7.9%
Liabilities:				
Current liabilities	1,222,897	1,592,204	(369,307)	(23.2)%
Non-current liabilities	12,834,231	9,430,387	3,403,844	36.1%
Total liabilities	14,057,128	11,022,591	3,034,537	27.5%
Net position:				
Investment in capital assets, net of related debt	32,207,607	33,671,394	(1,463,787)	-4.3%
Restricted/Unrestricted Net Position:				
Restricted for Crystal Springs Project	373,447	373,447	-	0.0%
Restricted for capital improvements	1,135,209	1,135,209	-	0.0%
Unrestricted	2,615,634	514,962	2,100,672	407.9%
Total net position	$ 36,331,897	$ 35,695,012	$ 636,885	1.8%

This schedule is prepared from the District's Statement of Net Position (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.

Financial Analysis of the District as a Whole, Continued

Operating results are summarized as follows:

Operating Results
For the years ended June 30, 2013 and 2012

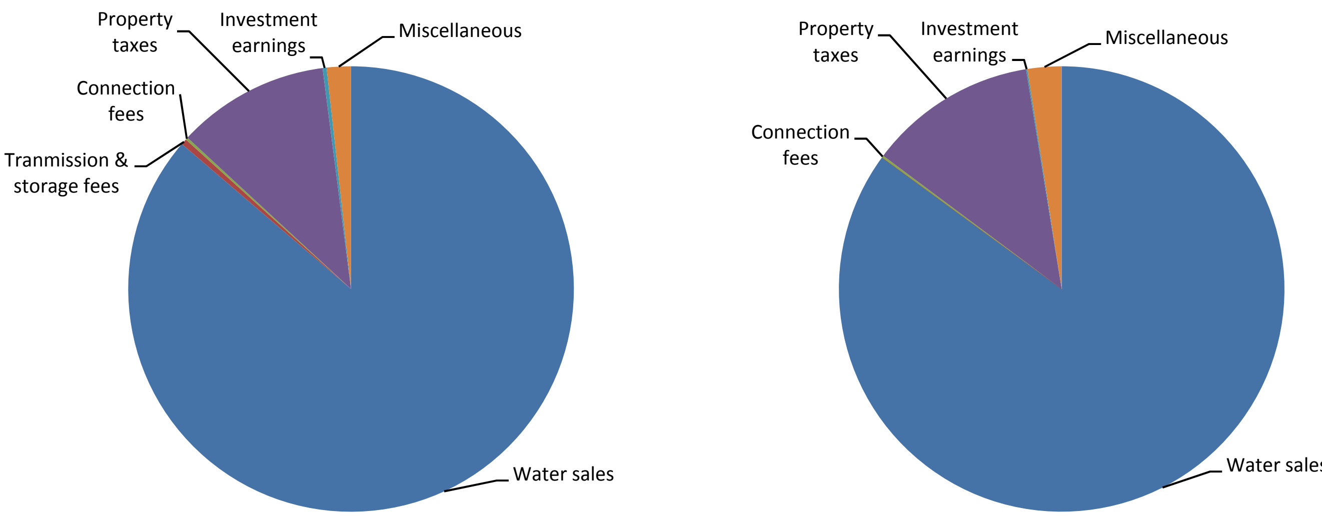
	2013	2012	Increase (Decrease)	Percent Change
Operating revenues	$ 7,701,459	$ 6,403,349	$ 1,298,110	20.3%
Operating expenses	7,612,916	7,398,272	214,644	2.9%
Operating income (loss)	88,543	(994,923)	1,083,466	(108.9)%
Non-operating revenues	1,224,764	1,125,124	99,640	8.9%
Non-operating expenses	(676,422)	(520,247)	(156,175)	30.0%
Net income before contributions	636,885	(390,046)	1,026,931	(263.3)%
Capital contributions	-	-	-	0.0%
Change in net position:	636,885	(390,046)	1,026,931	(263.3)%
Net position:				
Beginning of year	35,695,012	36,085,058	(390,046)	(1.1)%
End of year	$ 36,331,897	$ 35,695,012	$ 636,885	1.8%

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

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 2012-2013			FY 2011-2012		Increase (Decrease)
$ 7,701,459	86.3%	**Water sales**	$ 6,403,349	85.2%	$ 1,298,110
38,033	0.4%	**Transmission & storage fees**	-	0.0%	38,033
16,089	0.2%	**Connection fees**	12,113	0.2%	3,976
988,429	11.1%	**Property taxes**	920,053	12.2%	68,376
25,610	0.3%	**Investment earnings**	6,778	0.1%	18,832
156,603	1.8%	**Miscellaneous**	186,180	2.5%	(29,577)
$ 8,926,223	100.0%	**Totals**	$ 7,528,473	100.0%	$ 1,397,750

Water sales increased $1,298,110 due to a rate increase for fiscal year 2012-2013, approved by the Board of Directors. Property taxes increased by $68,376 primarily due to San Mateo County's method of calculating and distributing funds. Investment earnings increased by $18,832, as a result of a one time payment for the interest earnings on the IBank Loan (CIEDB11-099) for undisbursed funds from July 1, 2012 through the date of final disbursement.

Financial Analysis of the District as a Whole, Continued

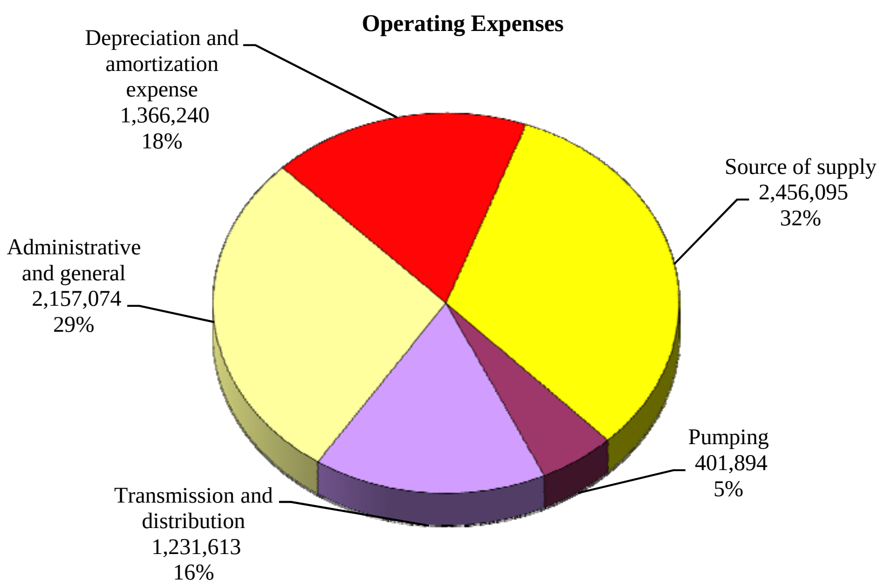
Operating expenses increased by $214,644 as detailed below:

Operating Expenses
For the years ended June 30, 2013 and 2012

	2013	2012	Increase (Decrease)	Percent Change
Operating expenses:				
Source of supply	$ 2,456,095	$ 2,320,359	$ 135,736	5.8%
Pumping	401,894	182,808	219,086	119.8%
Transmission and distribution	1,231,613	1,246,726	(15,113)	(1.2)%
Administrative and general	2,157,074	2,150,496	6,578	0.3%
Depreciation and amortization expense	1,366,240	1,497,883	(131,643)	(8.8)%
Total	$ 7,612,916	$ 7,398,272	$ 214,644	2.9%

Source of supply increased $135,736 due to higher wholesale water rates from the San Francisco Public Utilities Commission. Pumping expenses increased $219,086 primarily due to increased use of the Crystal Springs supply source.

The following is a graphic illustration of operating expenses:



Financial Analysis of the District as a Whole, Continued

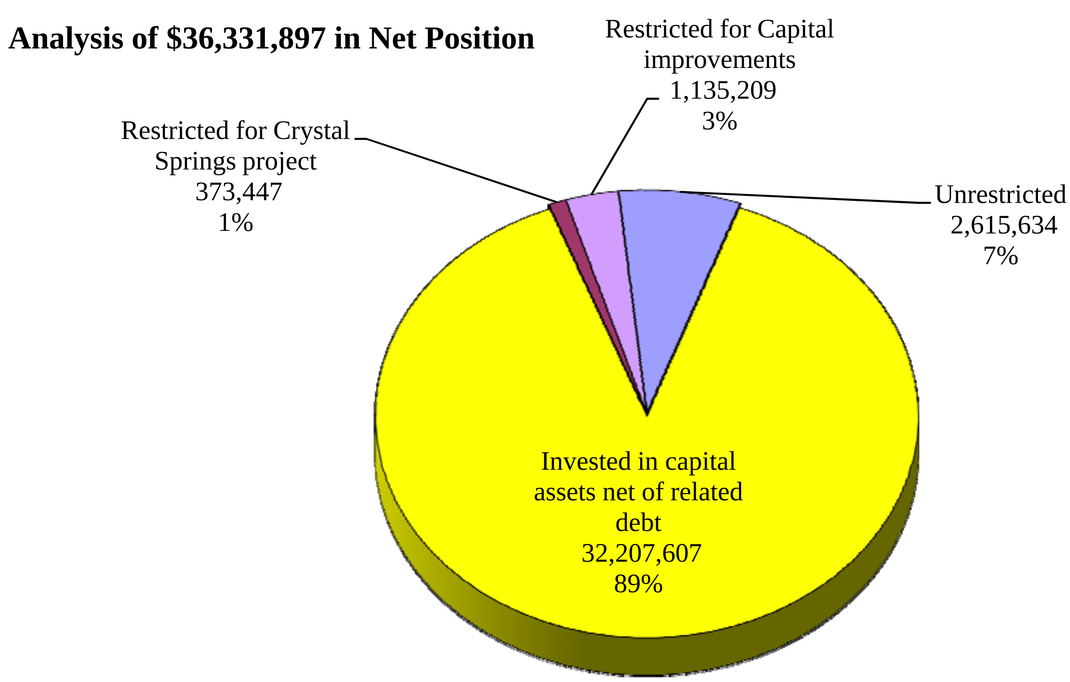
Net position increased by $100,376 as detailed below:

Analysis of Net Position
As of June 30, 2013 and 2012

	2013	2012	Increase (Decrease)	Percent Change
Net position:				
Invested in capital assets net of related debt	$ 32,207,607	$ 33,671,394	$ (1,463,787)	(4.3)%
Restricted				
Crystal Springs Project	373,447	373,447	-	0.0%
Capital improvements	1,135,209	1,135,209	-	0.0%
Unrestricted	2,615,634	514,962	2,100,672	407.9%
Total	$ 36,331,897	$ 35,695,012	$ 636,885	1.8%

The change in net position is a $636,885 decrease due primarily to operating expenses increasing and capital project expenditures.

The following is a graphic illustration of net position:



Cash Flows

Net cash increased by $363,709, primarily the result of water revenue and proceeds from the issuance of long-term debt.

Long-term Debt

The District's long term debt increased by a net amount of $3,260,274. This was a result of $4,035,450 of additional disbursements under an installment loan from the CIEDB Enterprise Fund and from annual principal payments and amortization of bond discounts.

Economic Factors and Potential Future Results

The District's water sales will remain stable or increase slowly 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 and replacement, 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 Position

June 30, 2013

(with comparative totals for June 30, 2012)

	2013	2012
ASSETS		
Current assets:		
Cash and investments	$ 2,110,403	$ 1,746,694
Restricted cash and investments	606,363	565,694
Accounts receivable:		
Customer water	853,716	701,026
Taxes	13,325	17,164
Interest	14,636	5,172
Prepaid expenses	17,142	18,426
Materials and supplies inventory	188,000	188,550
Unamortized bond issuance costs	178,261	194,641
Total current assets	3,981,846	3,437,367
Noncurrent assets:		
Capital assets:		
Construction in progress	4,195,583	7,586,019
Utility plant	66,696,319	58,846,603
Less accumulated depreciation	(24,484,723)	(23,152,386)
Total noncurrent assets	46,407,179	43,280,236
Total assets	$ 50,389,025	46,717,603
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities	$ 380,560	$ 910,405
Accrued payroll	92,202	112,240
Customer deposits	48,909	59,346
Due to Crystal Springs Assessment District	87,965	87,965
Due within one year	613,261	422,248
Total current liabilities	1,222,897	1,592,204
Noncurrent liabilities:		
Due after one year	12,451,364	9,186,594
Net OPEB obligation	295,623	157,412
Accrued vacation and sick leave	87,244	86,381
Total noncurrent liabilities	12,834,231	9,430,387
Total liabilities	14,057,128	11,022,591
NET POSITION		
Invested in capital assets net of related debt	32,207,607	33,671,394
Restricted for Crystal Springs Project	373,447	373,447
Restricted for capital improvements	1,135,209	1,135,209
Unrestricted	2,615,634	514,962
Total Net Position	36,331,897	35,695,012
Total liabilities and net position	$ 50,389,025	46,717,603

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

Coastside County Water District

Statement of Revenues, Expenses, and Changes in Net Position

For the year ended June 30, 2013

(with comparative totals for the year ended June 30, 2012)

	2013	2012
OPERATING REVENUES:		
Water sales	$ 7,701,459	$ 6,403,349
OPERATING EXPENSES:		
Source of supply	2,456,095	2,320,359
Pumping	401,894	182,808
Transmission and distribution	1,231,613	1,246,726
Administrative and general	2,157,074	2,150,496
Depreciation and amortization	1,366,240	1,497,883
Total operating expenses	7,612,916	7,398,272
Operating loss	88,543	(994,923)
NONOPERATING REVENUES (EXPENSES):		
Property taxes	988,429	920,053
Investment earnings	25,610	6,778
Transmission and storage fees	38,033	-
Connection fees	16,089	12,113
Miscellaneous income	156,603	186,180
Collection fees	(14,099)	(13,447)
Net OPEB expense	(138,211)	(52,487)
Interest expense	(524,112)	(454,313)
Total nonoperating revenues (expenses)	548,342	604,877
Income (loss) before contributions	636,885	(390,046)
Capital contributions	-	-
Net Income (Loss)	636,885	(390,046)
CHANGE IN NET POSITION:		
Beginning of year	35,695,012	36,085,058
End of year	$ 36,331,897	$ 35,695,012

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, 2013

(with comparative amounts for the year ended June 30, 2012)

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	$ 7,552,608	$ 6,378,759
Payments to suppliers	(5,216,304)	(3,600,391)
Payments to employees	(1,587,995)	(1,744,284)
Net cash provided (used) by operating activities	748,309	1,034,084
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Property taxes net of collection fees	974,330	906,606
Miscellaneous receipts	156,603	186,180
Net cash provided (used) by noncapital financing activities	1,130,933	1,092,786
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Change in restricted cash and investments	(40,669)	137,919
Transmission and storage fee receipts	38,033	-
Connection fee receipts	16,089	12,113
Redemption of Crystal Springs Project Bond	-	58
Proceeds from the issuance of long-term debt	3,878,031	2,721,050
Principal and interest payments on long-term debt	(948,607)	(872,065)
Acquisition of capital assets	(4,474,556)	(4,767,306)
Net cash provided (used) by capital and related financing activities	(1,531,679)	(2,768,231)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest received on investments	16,146	3,395
Net cash provided (used) by investing activities	16,146	3,395
Net increase (decrease) in cash and cash equivalents	363,709	(637,966)
CASH:		
Beginning of year	1,746,694	2,384,660
End of year	$ 2,110,403	$ 1,746,694
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating (loss)	$ 88,543	$ (994,923)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation and amortization expense	1,366,240	1,497,883
Change in assets and liabilities:		
Accounts receivable	(148,851)	(24,590)
Materials and supplies	550	(41,410)
Prepaid expenses	1,284	(1,696)
Accounts payable and accrued liabilities	(529,845)	574,889
Accrued payroll	(20,038)	28,831
Customer deposits	(10,437)	(13,667)
Accrued vacation and sick leave	863	8,767
Net cash provided (used) by operating activities	$ 748,309	$ 1,034,084

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 position, 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 Position and the Statement of Revenues, Expenses, and Changes in Net position, 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 position.

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 position 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, 2013			
	FDIC insured	Not Rated	Fair Value	June 30, 2012
Cash in bank	$ 250,000	$ 1,450,597	$ 1,700,597	$ 1,299,553
Petty Cash	-	430	430	430
Local Agency Investment Fund (LAIF)	-	1,015,739	1,015,739	1,012,405
Total	$ 250,000	$ 2,466,766	$ 2,716,766	$ 2,312,388
Financial Statement presentation:				
Cash and investments			$ 2,110,403	$ 1,746,694
Restricted cash and investments			606,363	565,694
Total			$ 2,716,766	$ 2,312,388

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, 2013, these investments matured in an average of 278 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, 2013.

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 were utilized on Assessment District projects and reduced to zero in the prior year.

3. CAPITAL ASSETS

Changes in capital assets and depreciation were as follows:

	July 1, 2012	Additions	Deletions	June 30, 2013
Capital Assets				
Nondepreciable:				
Construction in progress	$ 7,586,019	$ 4,255,078	$ (7,645,514)	$ 4,195,583
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	4,352,972	6,819,233	-	11,172,205
Contributed	2,899,227	-	-	2,899,227
Pipelines and meters	9,701,717	719,992	-	10,421,709
Crystal Springs Project	21,631,828	119,555	-	21,751,383
Buildings and structures	591,613	-	-	591,613
Vehicles	667,820	120,711	-	788,531
Furniture and equipment	1,473,809	70,225	-	1,544,034
Total depreciable assets	58,685,991	7,849,716	-	66,535,707
Total utility plant at cost	58,846,603	7,849,716	-	66,696,319
Less: accumulated depreciation	(23,152,386)	(1,332,337)		(24,484,723)
Total utility plant (net)	35,694,217	6,517,379	-	42,211,596
Total capital assets	$ 43,280,236	$ 10,772,457	$ (7,645,514)	$ 46,407,179

4. LONG-TERM DEBT

A. Long-Term Debt Activity

	Original Issue Amount	Balance July 1, 2012	Additions	Retirements	Balance June 30, 2013	Due Within One Year
1998A ABAG Water and Wastewater Revenue Refunding Bonds, 3.75-5.3%, due 10/01/2013	$ 2,855,000	$ 505,000	-	$ (245,000)	$ 260,000	$ 260,000
2006B Water Revenue Bonds 3.5-4.75%, due 10/01/32	7,295,000	6,430,000	-	(190,000)	6,240,000	200,000
Discount	(58,459)	(47,208)	-	2,247	(44,961)	(2,248)
Total Debt Issuances	10,091,541	6,887,792	-	(432,753)	6,455,039	457,752
CIEDB Enterprise Fund Installment Loan	-	2,721,050	4,035,450	(146,914)	6,609,586	151,013
Total	$ 10,091,541	9,608,842	$ 4,035,450	$ (579,667)	13,064,625	$ 608,765
Amount due within one year		(417,752)			(608,765)	
Total Long-term Debt		$ 9,191,090			$ 12,455,860	

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. CIEDB Enterprise Fund Installment Loan

On October 10, 2012 the District authorized an installment loan up to $6,756,500 with the California Infrastructure and Economic Development Bank for the District's Denniston Creek Water Treatment Plant Improvements Project. All funds must be drawn by September 10, 2014. The loan has a 30 year term with a semiannual interest rate of 2.79% (plus a 0.3% annual fee) payable on August 1 and February 1, beginning February 1, 2013. Annual principal payments are due on August 1; beginning after the District withdraws the full $6,756,500 or completes the project. The final installment is due August 1, 2041. The District has an outstanding balance of $6,609,586 as of June 30, 2013.

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		2006B Water Revenue Bonds - Discount	
	Principal	Interest	Principal	Interest	Principal	Interest
2014	260,000	6,890	200,000	283,859	(2,248)	-
2015	-	-	210,000	275,889	(2,248)	-
2016	-	-	215,000	267,494	(2,248)	-
2017	-	-	225,000	258,553	(2,248)	-
2018	-	-	235,000	248,919	(2,248)	-
2019-2023	-	-	1,340,000	1,065,819	(11,240)	-
2024-2028	-	-	1,690,000	709,344	(11,240)	-
2029-2033	-	-	2,125,000	261,843	(11,241)	-
2034-2038	-	-	-	-	-	-
2039-2042	-	-	-	-	-	-
Total	$ 260,000	$ 6,890	$ 6,240,000	$ 3,371,720	$ (44,961)	$ -
Due within one year	$ 260,000	$ 6,890	$ 200,000	$ 283,859	$ (2,248)	$ -
Due after one year	-	-	6,040,000	3,087,861	(42,713)	-
Total	$ 260,000	$ 6,890	$ 6,240,000	$ 3,371,720	$ (44,961)	$ -

Year Ending June 30,	CIEDB Enterprise Fund Installment Loan		Total	
	Principal	Interest	Principal	Interest
2014	$ 151,013	$ 182,301	$ 608,765	$ 473,050
2015	155,226	178,029	362,978	453,918
2016	159,557	173,638	372,309	441,132
2017	164,009	169,124	386,761	427,677
2018	168,585	164,484	401,337	413,403
2019-2023	916,156	748,166	2,244,916	1,813,985
2024-2028	1,051,293	611,144	2,730,053	1,320,488
2029-2033	1,206,363	453,911	3,320,122	715,754
2034-2038	1,384,307	273,485	1,384,307	273,485
2039-2042	1,253,077	71,123	1,253,077	71,123
Total	$ 6,609,586	$ 3,025,405	$ 13,064,625	$ 6,404,015
Due within one year	$ 151,013	$ 182,301	$ 608,765	$ 473,050
Due after one year	6,458,573	2,843,104	12,455,860	5,930,965
Total	$ 6,609,586	$ 3,025,405	$ 13,064,625	$ 6,404,015

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, 2010, 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, 2013, a final accounting for the District had not been performed and therefore residual balances remain on the District books for certain accounts.

6. NET POSITION

A portion of net position is a set aside for the Crystal Springs project of $373,447 and capital improvements of $1,135,209.

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.

The District's JPIA membership includes property coverage of $1,000-$101,000 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.

As of June 30, 2013 there was one open claim for the District. The claim is for property damage and there has been $1,608 paid to the claimant with $1 outstanding.

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 participate in the CalPERS Plans. Employees hired before August 14, 2011 are in the Tier 1 (2.5% at 55) plan, and employees hired on or after that date are in the Tier 2 (2% at 60) plan. The required member contribution rates are 8% of monthly salary over $133.33 for the Tier 1 plan, and 7% of monthly salary over $133.33 for Tier 2. Effective June 14, 2011 the portion of the member contribution rate paid by employees increased from 1% to 2%. The District pays the remainder of the member contribution. The required employer contribution rate for fiscal Year 2012-13 was 24.341% of annual payroll. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration.

C. Annual Pension Cost

For 2013, the District's annual pension cost of $359,950 for CalPERS was equal to the District's required and actual contribution. The required contribution was determined as part of the June 30, 2010, 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) 3.55% to 14.45% projected annual salary increases that vary by age, duration of service and type of employment with 3.25% payroll growth. 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, 2011	301,262	100%	-
June 30, 2012	331,254	100%	-
June 30, 2013	359,950	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, 2013:

Retirees and beneficiaries receiving benefits	9
Other participants fully eligible for benefits	2
Other participants not yet fully eligible for benefits (hired prior to 11/14/2006)	11
Other participants not yet fully eligible for 50% benefits (hired after to 11/14/2006)	3
Participants not eligible for benefits (hired on or after 11/1/2008)	1
Total	**26**

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	$ 235,670
Interest on net OPEB obligation	0
Adjustment to annual required contribution	0
Annual OPEB cost (expense)	235,670
Contributions made (Premiums paid)	(97,459)
Increase in net OPEB obligation	138,211
Net OPEB obligation-beginning of year	157,412
Net OPEB obligation-end of year	$295,623

This is the second 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 2013 and the two preceding years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation (Asset)
6/30/2011	141,800	64%	104,925
6/30/2012	147,400	64%	157,412
6/30/2013	235,670	41%	295,623

9. OTHER POST EMPLOYMENT BENEFITS, Continued

Plan Funded Status and Funding Progress

As of January 1, 2012, the most recent actuarial valuation date, the plan was zero percent funded. The Actuarial Accrued Liability (AAL) for benefits was $2,793,011, and the actuarial value of assets was zero dollars, resulting in an Unfunded Actuarial Accrued Liability (UAAL) of $2,793,011. The covered payroll (annual payroll of active employees covered by the plan) was $1,568,820 and the ratio of UAAL to the covered payroll was 176.12 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 2013 based upon June 30, 2012 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.

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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*

Independent Auditor's Report

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

We have audited, in accordance with the 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, the financial statements of the Coastside County Water District (District), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated January 10, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the Schedule of Findings and Response that we consider to be significant deficiency: Finding 2013-SD01.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

JJACPA, Inc.

January 10, 2014

JJACPA, INC.
Dublin, CA