

**NORTH COAST COUNTY WATER DISTRICT**  
**ANNUAL FINANCIAL REPORT**  
**WITH INDEPENDENT AUDITOR'S REPORT**  
**FOR THE YEAR ENDED JUNE 30, 2018**

**NORTH COAST COUNTY WATER DISTRICT**

Annual Financial Report  
For the Year Ended June 30, 2018

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**NORTH COAST COUNTY WATER DISTRICT**

**Elected Officials and Administrative Personnel**

BOARD OF DIRECTORS

Jack Burgett – President

Joshua Cosgrove – Vice President

Thomas Piccolotti – Director

Anne De Jarnatt – Director

Ron Ash – Director

MANAGEMENT

Cari Lemke – General Manager

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the  
North Coast County Water District  
Pacifica, California

### Report on the Financial Statements

We have audited the accompanying financial statements of the North Coast County Water District (District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### 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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental 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 of 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 risk 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 opinions.

To the Board of Directors of the  
North Coast County Water District  
Pacifica, California

## **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, 2018, and the respective changes in financial position, and 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 (MD&A) on pages 4-10, and the Schedule of Pension Contributions, the Schedule of District's Proportionate Share of the Net Pension Liability, and the Schedule of Changes in Net OPEB Liability, on pages 34-36, 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 Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the North Coast County Water District's financial statements. The accompanying additional information on page 37 is presented for the purpose of additional analysis and is not a required part of the financial statements. The additional information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

To the Board of Directors of the  
North Coast County Water District  
Pacifica, California

**Other Reporting Required by *Government Auditing Standards***

*Implementation of New Accounting Standards*

As disclosed in Note 1 of the financial statements, the County implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, during fiscal year 2018. Our opinion is not modified with respect to this matter.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2018 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, 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.

Fechter & Company,  
Certified Public Accountants

A handwritten signature in cursive script that reads "Fechter & Company, CPAs".

Sacramento, California  
December 7, 2018

# NORTH COAST COUNTY WATER DISTRICT

## Management's Discussion and Analysis

For the Year Ended June 30, 2018

This section of North Coast County Water District's annual financial report presents Management's Discussion and Analysis of the District's financial performance during the fiscal year ended June 30, 2018. 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 11 - 14) and the footnotes (pages 15 - 34).

### Financial Highlights

At June 30, 2018, the District's net position increased by \$296,233, to \$34,789,905 from \$34,493,672 at June 30, 2017. Operating revenues increased by \$3,700,992 as a result of an increase in water rates and charges. Operating expenses (with depreciation included) increased by \$862,884 primarily due to increase in salaries & wages, retirement costs, and water purchase costs.

### 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 Auditor's Report, this management's discussion and analysis, the basic financial statements, and notes to the basic financial statements.

# NORTH COAST COUNTY WATER DISTRICT

## Management's Discussion and Analysis For the Year Ended June 30, 2018

### Financial Analysis of the District as a Whole

#### Net Position As of June 30, 2018 and 2017

	2018	2017	Increase (Decrease)	Percent Change
<b>Assets:</b>				
Current assets	\$ 8,607,923	\$ 6,498,272	\$ 2,109,651	32.5%
Non-current assets	39,881,149	40,291,184	(410,035)	(1.0)%
Total Assets	<u>48,489,072</u>	<u>46,789,456</u>	<u>1,699,616</u>	3.6%
<b>Deferred Outflows of Resources:</b>				
Pension plan	<u>1,615,031</u>	<u>1,429,092</u>	<u>185,939</u>	13.0%
Total Assets and Deferred Outflows of Resources	<u>50,104,103</u>	<u>48,218,548</u>	<u>1,885,555</u>	3.9%
<b>Liabilities:</b>				
Current liabilities	1,424,139	1,439,752	(15,613)	(1.1)%
Non-current liabilities	<u>13,795,045</u>	<u>12,031,478</u>	<u>1,763,567</u>	14.7%
Total Liabilities	<u>15,219,184</u>	<u>13,471,230</u>	<u>1,747,954</u>	13.0%
<b>Deferred Inflows of Resources:</b>				
Pension plan	<u>95,014</u>	<u>253,646</u>	<u>(158,632)</u>	(62.5)%
Total Deferred Inflows of Resources	<u>95,014</u>	<u>253,646</u>	<u>(158,632)</u>	(62.5)%
<b>Net Position:</b>				
Net investment in capital assets	35,106,149	35,166,184	(60,035)	(0.2)%
Unrestricted	<u>(316,244)</u>	<u>(672,512)</u>	<u>356,268</u>	53.0%
Total Net Position	<u>\$ 34,789,905</u>	<u>\$ 34,493,672</u>	<u>\$ 296,233</u>	0.9%

This schedule is prepared from the District's Statement of Net Position (page 11), which is presented on the accrual basis of accounting, whereby revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Operating revenues in the Statement of Activities are those revenues that are generated from the primary operations of the District. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the District. All other expenses are reported as non-operating expenses.

As can be seen from the table above, net position at June 30, 2018, increased to \$34,789,905 from \$34,493,672 at June 30, 2017. The change in net position is due primarily to higher operating revenues and net OPEB adjustments.

# NORTH COAST COUNTY WATER DISTRICT

## Management's Discussion and Analysis

For the Year Ended June 30, 2018

### Financial Analysis of the District as a Whole, Continued

Operating results are summarized as follows:

#### Operating Results For the Years Ended June 30, 2018 and 2017

	2018	2017	Increase (Decrease)	Percent Change
Operating revenues	\$ 12,154,737	\$ 8,453,745	\$ 3,700,992	43.8%
Operating expenses	11,269,627	10,406,743	862,884	8.3%
<b>Operating Income (Loss)</b>	<u>885,110</u>	<u>(1,952,998)</u>	<u>2,838,108</u>	145.3%
Non-operating revenues	1,886,101	1,072,605	813,496	75.8%
Non-operating expenses	(160,661)	(334,198)	173,537	(51.9)%
<b>Net Income (Loss) Before Contributions</b>	<u>2,610,550</u>	<u>(1,214,591)</u>	<u>3,825,141</u>	314.9%
Capital contributions	80,233	45,029	35,204	(78.2)%
<b>Change in Net Position</b>	<u>2,690,783</u>	<u>(1,169,562)</u>	<u>3,860,345</u>	330.1%
<b>Net Position:</b>				
Beginning net position	34,493,672	35,663,234	(1,169,562)	(3.3)%
Prior period adjustment	(2,394,550)	-	(2,394,550)	-
Beginning net position, restated	<u>32,099,122</u>	<u>35,663,234</u>	<u>(3,564,112)</u>	(10.0)%
<b>Total Net Position</b>	<u>\$ 34,789,905</u>	<u>\$ 34,493,672</u>	<u>\$ 296,233</u>	0.9%

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 (page 12). This statement provides answers to the nature and source of the change in financial position of net position.

# NORTH COAST COUNTY WATER DISTRICT

## Management's Discussion and Analysis For the Year Ended June 30, 2018

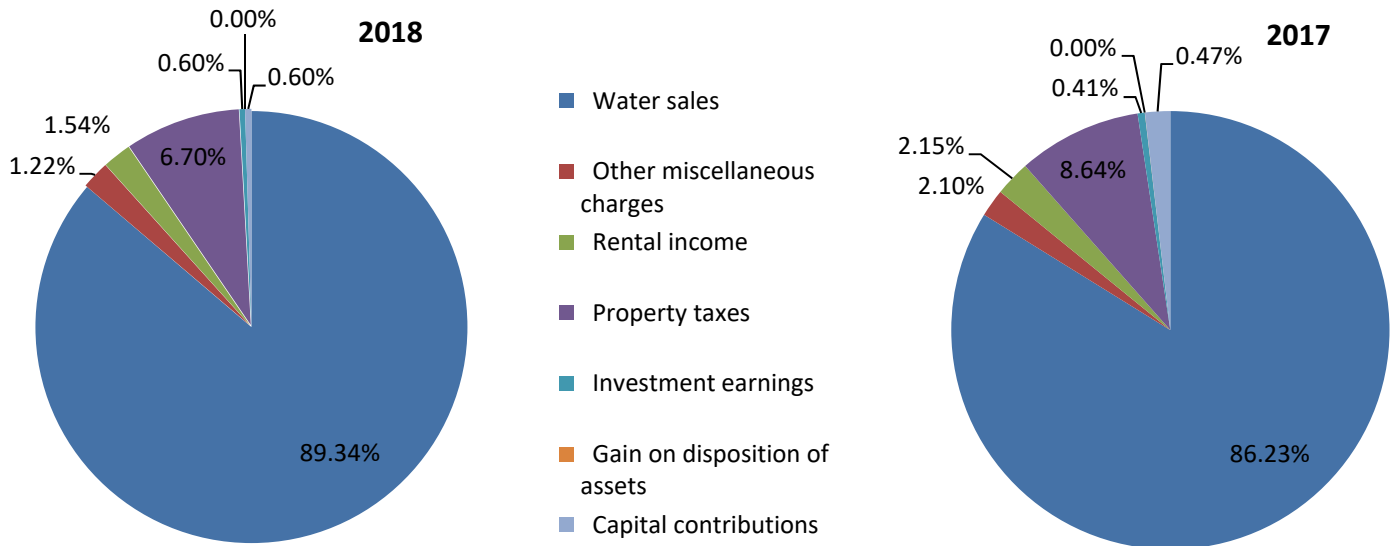
### Financial Analysis of the District as a Whole, Continued

#### Revenues For the years ended June 30, 2018 and 2017

	<u>2018</u>	<u>Percent of Total</u>	<u>2017</u>	<u>Percent of Total</u>	<u>Increase (Decrease)</u>
<b>Revenues:</b>					
Water sales	\$ 11,990,647	89.34%	\$ 8,252,966	86.23%	\$ 3,737,681
Other miscellaneous charges	164,090	1.22%	200,779	2.10%	(36,689)
Rental income	206,232	1.54%	206,159	2.15%	73
Property taxes	898,555	6.70%	827,254	8.64%	71,301
Investment earnings	80,574	0.60%	39,192	0.41%	41,382
Gain on disposition of assets	-	0.00%	-	0.00%	10,619
Capital contributions	80,233	0.60%	45,029	0.47%	35,204
<b>Total</b>	<u>\$ 13,420,331</u>	<u>100.00%</u>	<u>\$ 9,571,379</u>	<u>100.00%</u>	<u>\$ 3,859,571</u>

The following is a graphic illustration of revenues by source:

#### Revenues by Source Both Operating & Non-Operating



Water sales increased \$3,737,681 due to increase in water billing rates. Property taxes increased by \$71,301 primarily due to increase in secured tax distribution from San Mateo County. The increase in capital contributions of \$35,204 was the result of increase in Transmission & Storage Revenue.

**NORTH COAST COUNTY WATER DISTRICT**

**Management’s Discussion and Analysis**  
For the Year Ended June 30, 2018

**Financial Analysis of the District as a Whole, Continued**

Operating expenses increased by \$862,884, as detailed below:

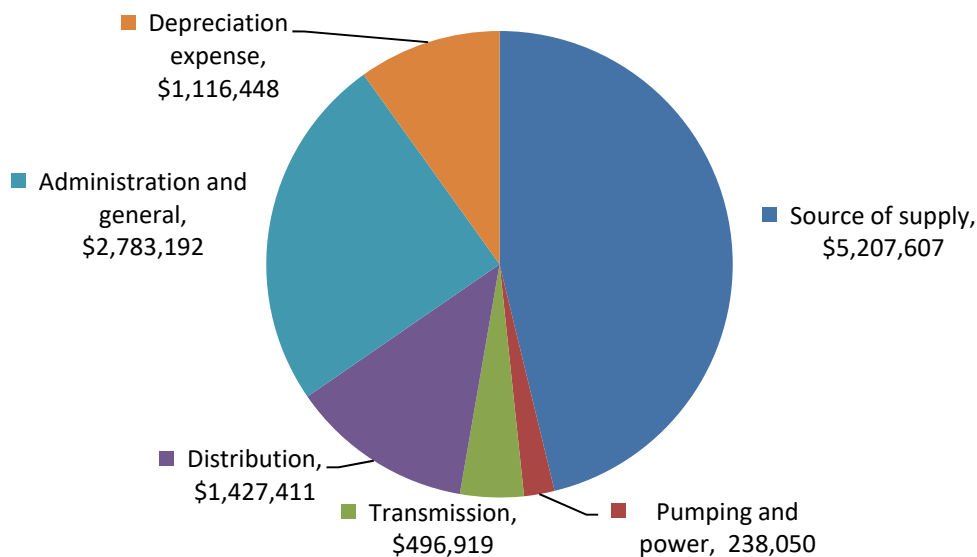
**Operating Expenses**  
**For the years ended June 30, 2018 and 2017**

	2018	2017	Increase (Decrease)	Percent Change
<b>Operating Expenses:</b>				
Source of supply	\$ 5,207,607	\$ 5,140,470	\$ 67,137	1.3%
Pumping and power	238,050	222,088	15,962	7.2%
Transmission	496,919	473,927	22,992	4.9%
Distribution	1,427,411	1,290,725	136,686	10.6%
Administration and general	2,783,192	2,182,388	600,804	27.5%
Depreciation expense	1,116,448	1,097,145	19,303	1.8%
<b>Total</b>	<u>\$ 11,269,627</u>	<u>\$ 10,406,743</u>	<u>\$ 862,884</u>	8.3%

Source of supply increased \$67,137 due to higher water sales. Distribution expense increased by \$136,686 primarily due to higher maintenance and repair expenses. Administration and general expenses increased by \$600,804 were the result of higher payroll and retirement costs.

The following is a graphic illustration of operating expenses for 2018:

**Operating Expenses FY 2018**



# NORTH COAST COUNTY WATER DISTRICT

## Management's Discussion and Analysis

For the Year Ended June 30, 2018

### Financial Analysis of the District as a Whole, Continued

Net position increased by \$296,233, as detailed below:

#### Analysis of Net Position As of June 30, 2018 and 2017

	2018	2017	Increase (Decrease)	Percent Change
<b>Net position:</b>				
Net investment in capital assets	\$ 35,106,149	\$ 35,166,184	\$ (60,035)	(0.2)%
Unrestricted	(316,244)	(672,512)	356,268	53.0%
<b>Total</b>	<u>\$ 34,789,905</u>	<u>\$ 34,493,672</u>	<u>\$ 296,233</u>	0.9%

The change in net position is due primarily to the increase in operating revenues as a result of higher water rates and charges.

### Cash Flows

Cash flows have increased by \$2,213,207 which is the result of increase in operating revenues.

### Capital Assets

As of June 30, 2018, the District's capital assets amounted to \$39,881,149 (net of accumulated depreciation), a decrease of \$410,035 from June 30, 2017.

For additional information on capital assets, refer to Note 3.

### Long-Term Debt

In June 2012, the California Statewide Communities Development Authority issued *Water and Wastewater Revenue Bonds Series 2012C*. The Bonds were issued to refund the *Water and Wastewater Revenue Bonds Series 2003A*.

The Debt is scheduled to mature in 2028. Interest is payable semi-annually on October 1st and April 1st each year at a rate of 2.00% to 4.00% (depending on the coupon payment date), while the principal payments are made on October 1st of each year.

For additional information on long-term debt, refer to Note 4.

# **NORTH COAST COUNTY WATER DISTRICT**

## **Management's Discussion and Analysis** For the Year Ended June 30, 2018

### **Economic Factors and Potential Future Results**

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

### **Contacting the District**

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

Cari Lemke, General Manager  
North Coast County Water District  
2400 Francisco Blvd  
Pacifica, California 94044  
Phone (650) 355-3462

## **BASIC FINANCIAL STATEMENTS**

**NORTH COAST COUNTY WATER DISTRICT**  
**STATEMENTS OF NET POSITION**  
**JUNE 30, 2018**  
(with comparative amounts for June 30, 2017)

	2018	2017
<b>Assets</b>		
Current Assets:		
Cash and investments	\$ 7,826,355	\$ 5,613,148
Accounts receivable:		
Customer water	624,563	726,981
Other	18,224	37,180
Taxes	11,666	12,455
Interest	28,744	11,589
Prepaid expenses and deposits	88,382	86,930
Inventory	9,989	9,989
Total current assets	8,607,923	6,498,272
Noncurrent Assets:		
Capital assets, net	39,881,149	40,291,184
<b>Total Assets</b>	48,489,072	46,789,456
<b>Deferred Outflows of Resources</b>		
Deferred pensions outflows	1,615,031	1,429,092
<b>Total Assets and Deferred Outflows of Resources</b>	\$ 50,104,103	\$ 48,218,548
<b>Liabilities</b>		
Current Liabilities:		
Accounts payable	\$ 145,292	\$ 191,503
Accrued salaries and benefits	33,425	32,410
Other accrued liabilities	567,264	578,428
Customer deposits	181,885	182,638
Water connection deposits	92,454	62,454
Accrued interest payable	38,819	42,319
Current portion of long-term liabilities	365,000	350,000
Total current liabilities	1,424,139	1,439,752
Noncurrent Liabilities:		
Bonds payable - due after one year	4,410,000	4,775,000
Net OPEB obligation	4,051,900	2,430,530
Net pension liability	4,805,974	4,327,222
Accrued vacation and sick leave	527,171	498,726
Total noncurrent liabilities	13,795,045	12,031,478
<b>Total Liabilities</b>	15,219,184	13,471,230
<b>Deferred Inflows of Resources</b>		
Deferred pensions	95,014	253,646
<b>Total Deferred Inflows of Resources</b>	95,014	253,646
<b>Net Position</b>		
Net investment in capital assets	35,106,149	35,166,184
Unrestricted	(316,244)	(672,512)
<b>Total Net Position</b>	34,789,905	34,493,672
<b>Total Liabilities, Deferred Inflows of Resources, and Net Position</b>	\$ 50,104,103	\$ 48,218,548

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

**NORTH COAST COUNTY WATER DISTRICT**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
**FOR THE YEAR ENDED JUNE 30, 2018**  
**(with comparative amounts for June 30, 2017)**

	2018	2017
<b>Operating Revenues:</b>		
Water sales	\$ 11,990,647	\$ 8,252,966
Other miscellaneous charges	164,090	200,779
Total operating revenues	12,154,737	8,453,745
<b>Operating Expenses:</b>		
Source of supply	5,207,607	5,140,470
Pumping and power	238,050	222,088
Transmission	496,919	473,927
Distribution	1,427,411	1,290,725
Administration and general	2,783,192	2,182,388
Depreciation	1,116,448	1,097,145
Total operating expenses	11,269,627	10,406,743
Operating income (loss)	885,110	(1,952,998)
<b>Non-Operating Revenues and (Expenses):</b>		
Property tax	898,555	827,254
Investment earnings	80,574	39,192
Rental income - cellular antennas	206,232	206,159
Loss on disposition of assets	-	(10,619)
Net OPEB income (expense)	700,740	(148,729)
Interest expense	(160,661)	(174,850)
Total non-operating revenues and (expenses)	1,725,440	738,407
Income (loss) before capital contributions	2,610,550	(1,214,591)
<b>Capital Contributions</b>		
Capacity charges	71,765	45,029
Developer contributions	8,468	-
Total capital contributions	80,233	45,029
Change in net position	2,690,783	(1,169,562)
Beginning net position	34,493,672	35,663,234
Prior period adjustment	(2,394,550)	-
Beginning net position, restated	32,099,122	35,663,234
Ending net position	\$ 34,789,905	\$ 34,493,672

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

**NORTH COAST COUNTY WATER DISTRICT**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEAR ENDED JUNE 30, 2018**  
**(with comparative amounts for June 30, 2017)**

	2018	2017
<b>Cash flows from operating activities:</b>		
Receipts from customers	\$ 12,232,918	\$ 8,295,116
Payments to suppliers	(8,127,261)	(8,124,000)
Payments to employees	(1,921,104)	(1,804,120)
	2,184,553	(1,633,004)
<b>Cash flows from non-capital financing activities:</b>		
Property taxes received	899,344	826,127
Receipts from capacity charges	71,765	45,029
Receipts from cellular antenna rentals	206,232	206,159
	1,177,341	1,077,315
<b>Cash flows from capital and related financing activities:</b>		
Principal payments on long-term debt	(350,000)	(340,000)
Interest payments on long-term debt	(164,161)	(178,250)
Capital contributions	8,468	-
Proceeds from sale of capital assets	-	25,000
Acquisition and construction of capital assets	(706,413)	(520,711)
	(1,212,106)	(1,013,961)
<b>Cash flows from investing activities:</b>		
Investment income received	63,419	37,065
	63,419	37,065
Net increase (decrease) in cash and cash equivalents	2,213,207	(1,532,585)
Cash and cash equivalents, beginning of year	5,613,148	7,145,733
Cash and cash equivalents, end of year	\$ 7,826,355	\$ 5,613,148

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

**NORTH COAST COUNTY WATER DISTRICT  
STATEMENTS OF CASH FLOWS (Continued)  
FOR THE YEAR ENDED JUNE 30, 2018  
(with comparative amounts for June 30, 2017)**

	2018	2017
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>		
Operating income (loss)	\$ 885,110	\$ (1,952,998)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	1,116,448	1,097,145
Pension expense	134,181	(494,178)
Changes in assets and liabilities:		
Accounts receivable	48,934	(146,409)
Prepaid expenses	(1,452)	(9,157)
Accounts payable	(46,211)	(193,032)
Accrued salaries and benefits	1,015	6,292
Other accrued liabilities	(11,164)	80,758
Customer deposits	(753)	(3,806)
Water connection deposits	30,000	(8,414)
Accrued vacation and sick leave	28,445	(9,205)
<b>Net cash provided (used) by operating activities</b>	<b>\$ 2,184,553</b>	<b>\$ (1,633,004)</b>

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS**

# NORTH COAST COUNTY WATER DISTRICT

Notes to the Basic Financial Statements  
For the Year Ended June 30, 2018

## **Note 1: Summary of Significant Accounting Policies**

The financial statements of North Coast 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 in Pacifica along the Pacific Ocean in San Mateo County; it purchases all of its water supply from the San Francisco Public Utilities Commission. 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 that would result in the District being considered a component of the entity.

# NORTH COAST COUNTY WATER DISTRICT

Notes to the Basic Financial Statements  
For the Year Ended June 30, 2018

## Note 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. Accounts Receivable**

Accounts receivable is presented net of an allowance for doubtful accounts that reflects management’s best estimate of receivables that will become uncollectible. The estimate made is based on a variety of factors including the length of time receivables are past due, economic trends and conditions affecting our customer base and historical write-off experience. Accounts that are deemed to be uncollectible are written off against the allowance for doubtful accounts.

### **E. Inventory**

Inventory consists primarily of materials used in the construction and maintenance of the water distribution facilities and is valued on a first-in, first-out basis.

**NORTH COAST COUNTY WATER DISTRICT**

Notes to the Basic Financial Statements  
For the Year Ended June 30, 2018

**Note 1: Summary of Significant Accounting Policies – continued**

**F. 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:

Transmission and distribution	50 years
Source of supply plant	60 to 80 years
Reservoirs	40 years
Pumping plant	40 years
Telemetry systems	20 years
Water treatment plant	40 years
Office building	40 years
Equipment and vehicles	5 to 10 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.

**G. Property Taxes**

The State of California (State) Constitution Article XIII A provides that the combined maximum property tax rate on any given property may not exceed one percent (1%) of its assessed value unless an additional amount for general obligation debt has been approved by voters. Assessed value is calculated at 100% of market value as defined by Article XIII A and may be adjusted by no more than two percent (2%) per year unless the property is sold, transferred, or improved. The State Legislature has determined the method of distribution of receipts from a one percent (1%) tax levy among the counties, cities, school districts, and other districts.

San Mateo County assesses, bills for, and collects property taxes as follows:

	<u>Secured</u>	<u>Unsecured</u>
Lien dates	March 1	March 1
Levy dates	July 1	July 1
Due dates	50% on November 1 and 50% on March 1	July 1
Delinquent as of	December 10 (for November) and April 10 (for March)	August 31

The term “unsecured” refers to taxes on personal property other than real estate, land, and buildings. These taxes are secured by liens on the property being taxed.

# NORTH COAST COUNTY WATER DISTRICT

Notes to the Basic Financial Statements  
For the Year Ended June 30, 2018

## Note 1: Summary of Significant Accounting Policies – continued

### G. Property Taxes – continued

Property taxes levied are recorded as revenue when received in the fiscal year of levy because of the adoption of the “alternate method of property tax distribution,” known as the Teeter Plan, by the District and the County of San Mateo (County). The Teeter Plan authorizes the Controller of the County to allocate 100% of the secured property taxes billed, but not yet paid. The County remits tax monies to the District in three installments, as follows:

55% remitted on December 15  
40% remitted on April 15  
5% remitted on June 15

### H. Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the District’s California Public Employees’ Retirement System (CalPERS) plans (Plans) and additions to/deductions from the Plans’ fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

### I. Accrued Vacation and Sick Leave

The liability for vested vacation pay is recorded as an expense when the vacation is taken. Unused balances of vacation are paid on an annual calendar year basis. District employees can only be paid up to 120 days of accumulated or the accrued balance of sick time as of June 30, 1997, if higher.

### J. 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.

### K. Reclassifications

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

### L. New Accounting Pronouncement

During the year ended June 30, 2018, the District implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*.

# NORTH COAST COUNTY WATER DISTRICT

Notes to the Basic Financial Statements  
For the Year Ended June 30, 2018

## **Note 2: Cash and Investments**

### **A. Composition**

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

	June 30, 2018		June 30, 2017	
	FDIC Insured	Not Rated	Total Fair Value	Total Fair Value
Cash in bank	\$ 250,000	\$ 1,277,555	\$ 1,527,555	\$ 566,406
Petty cash	-	500	500	500
Local Agency Investment Fund (LAIF)	-	6,298,300	6,298,300	5,046,242
Total	\$ 250,000	\$ 7,576,355	\$ 7,826,355	\$ 5,613,148

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.

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%

# NORTH COAST COUNTY WATER DISTRICT

Notes to the Basic Financial Statements  
For the Year Ended June 30, 2018

**Note 2: Cash and Investments - continued**

**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 Security	Minimum Credit Quality
State and Local Agency Bonds	5 years	A
U.S. Treasury Obligations	5 years	Aaa
U.S. Agency Securities	5 years	Aaa
Bankers' Acceptances	180 days	A-1
Commercial Paper	270 days	A-1+
Money Market Funds	N/A	Aam
Non-Negotiable Certificates of Deposits	1 year	AAA
Repurchase Agreements	30 days	A
Medium Term Notes	5 years	AA
Negotiable Certificates of Deposit	5 years	AA
California Local Agency Investment Fund	N/A	None
California Asset Management Program (CAMP)	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.

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.

# NORTH COAST COUNTY WATER DISTRICT

## Notes to the Basic Financial Statements For the Year Ended June 30, 2018

### Note 2: Cash and Investments - continued

#### E. Interest Rate and Credit Risk - continued

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, 2018, these investments matured in an average of 193 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, 2018.

### Note 3: Capital Assets

Changes in capital assets and depreciation for the years ended June 30, 2018 were:

	Balance July 1, 2017	Additions	Deletions	Transfers	Balance June 30, 2018
Nondepreciable:					
Land	\$ 832,867	\$ -	\$ -	\$ -	\$ 832,867
Construction in progress	5,239,194	176,167	-	-	5,415,361
Total nondepreciable assets	<u>6,072,061</u>	<u>176,167</u>	<u>-</u>	<u>-</u>	<u>6,248,228</u>
Depreciable:					
Transmission and distribution	21,656,058	130,115	-	-	21,786,173
Source of supply plant	4,087,629	111,693	-	-	4,199,322
Reservoirs	9,127,441	12,756	-	-	9,140,197
Pumping plant	1,851,240	110,118	-	-	1,961,358
Recycle water project	10,690,030	-	-	-	10,690,030
Telemetry systems	769,599	50,895	-	-	820,494
Water treatment plant	298,455	2,308	-	-	300,763
Office building	300,000	-	-	-	300,000
Office building/warehouse	1,133,351	8,600	-	-	1,141,951
Equipment and vehicles	1,977,220	103,761	-	-	2,080,981
Total depreciable assets	<u>51,891,023</u>	<u>530,246</u>	<u>-</u>	<u>-</u>	<u>52,421,269</u>
Less: accumulated depreciation	<u>(17,671,900)</u>	<u>(1,116,448)</u>	<u>-</u>	<u>-</u>	<u>(18,788,348)</u>
Total depreciable assets (net)	<u>34,219,123</u>	<u>(586,202)</u>	<u>-</u>	<u>-</u>	<u>33,632,921</u>
Total capital assets	<u>\$ 40,291,184</u>	<u>\$ (410,035)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 39,881,149</u>

**NORTH COAST COUNTY WATER DISTRICT**

Notes to the Basic Financial Statements  
For the Year Ended June 30, 2018

**Note 3: Capital Assets - continued**

Changes in capital assets and depreciation for the years ended June 30, 2017 were:

	Balance July 1, 2016	Additions	Deletions	Transfers	Balance June 30, 2017
<b>Nondepreciable:</b>					
Land	\$ 832,867	\$ -	\$ -	\$ -	\$ 832,867
Construction in progress	5,033,765	205,429	-	-	5,239,194
Total nondepreciable assets	<u>5,866,632</u>	<u>205,429</u>	<u>-</u>	<u>-</u>	<u>6,072,061</u>
<b>Depreciable:</b>					
Transmission and distribution	21,571,268	57,643	-	27,147	21,656,058
Source of supply plant	3,932,979	154,650	-	-	4,087,629
Reservoirs	9,096,967	11,806	-	18,668	9,127,441
Pumping plant	1,839,381	54,921	-	(43,062)	1,851,240
Recycle water project	10,690,030	-	-	-	10,690,030
Telemetry systems	747,835	21,764	-	-	769,599
Water treatment plant	298,455	-	-	-	298,455
Office building	300,000	-	-	-	300,000
Office building/warehouse	1,133,351	-	-	-	1,133,351
Equipment and vehicles	2,031,571	14,498	(66,096)	(2,753)	1,977,220
Total depreciable assets	<u>51,641,837</u>	<u>315,282</u>	<u>(66,096)</u>	<u>-</u>	<u>51,891,023</u>
Less: accumulated depreciation	<u>(16,605,232)</u>	<u>(1,097,145)</u>	<u>30,477</u>	<u>-</u>	<u>(17,671,900)</u>
Total depreciable assets (net)	<u>35,036,605</u>	<u>(781,863)</u>	<u>(35,619)</u>	<u>-</u>	<u>34,219,123</u>
Total capital assets	<u>\$ 40,903,237</u>	<u>\$ (576,434)</u>	<u>\$ (35,619)</u>	<u>\$ -</u>	<u>\$ 40,291,184</u>

**Note 4: Long-Term Debt**

**A. Long-Term Debt Activity**

	Original Issue Amount	Balance July 1, 2017	Additions	Retirements	Balance June 30, 2018	Due Within One Year
Series 2012C California Statewide Community Development Authority 2.00-4.00%, due 10/1/2028	\$ 6,110,000	\$ 5,125,000	\$ -	\$ (350,000)	\$ 4,775,000	\$ 365,000
Total	<u>\$ 6,110,000</u>	<u>\$ 5,125,000</u>	<u>\$ -</u>	<u>\$ (350,000)</u>	<u>\$ 4,775,000</u>	<u>\$ 365,000</u>

	Original Issue Amount	Balance July 1, 2016	Additions	Retirements	Balance June 30, 2017	Due Within One Year
Series 2012C California Statewide Community Development Authority 2.00-4.00%, due 10/1/2028	\$ 6,110,000	\$ 5,465,000	\$ -	\$ (340,000)	\$ 5,125,000	\$ 350,000
Total	<u>\$ 6,110,000</u>	<u>\$ 5,465,000</u>	<u>\$ -</u>	<u>\$ (340,000)</u>	<u>\$ 5,125,000</u>	<u>\$ 350,000</u>

# NORTH COAST COUNTY WATER DISTRICT

Notes to the Basic Financial Statements  
For the Year Ended June 30, 2018

**Note 4: Long-Term Debt - continued**

**B. 2012C Water Revenue Bond Refunding**

In June 2012, the California Statewide Communities Development Authority issued *Water and Wastewater Revenue Bonds Series 2012C*. The Bonds were issued to refund the *Water and Waster Revenue Bonds Series 2003A*.

The Debt is scheduled to mature in 2028. Interest is payable semi-annually on October 1st and April 1st each year at a rate of 2.00% to 4.00% (depending on the coupon payment date) while the principal payments are made on October 1<sup>st</sup> of each year. At June 30, 2018, a total of \$5,125,000 of *Water and Wastewater Revenue Bonds Series 2012C* remains outstanding.

**C. Repayment Schedule**

Future annual repayment requirements are as follows:

Year Ending June 30,	2012C Water and Waster Revenue Bonds Refunding	
	Principal	Interest
2019	\$ 365,000	\$ 147,975
2020	380,000	133,075
2021	395,000	121,525
2022	405,000	109,475
2023	420,000	92,975
2024-2028	2,305,000	262,894
2029	505,000	8,206
Total	\$ 4,775,000	\$ 876,125
Due within one year	\$ 365,000	\$ 147,975
Due after one year	4,410,000	728,150
Total	\$ 4,775,000	\$ 876,125

**Note 5: Insurance**

The District participates in the Association of California Water Agencies Joint Powers Insurance Authority (ACWA/JPIA), a public entity risk pool of California water agencies, for general and auto liability, public officials' liability, property damage, and fidelity insurance. ACWA/JPIA provides insurance through the pool up to a certain level, beyond which group-purchased commercial excess insurance is obtained.

The District pays an annual premium to ACWA/JPIA that includes its pro-rata share of excess insurance premiums, charges for the pooled risk, claims adjusting and legal costs, and administrative and other costs to operate the ACWA/JPIA. The District's deductibles and maximum coverage are as follows:

**NORTH COAST COUNTY WATER DISTRICT**

Notes to the Basic Financial Statements  
For the Year Ended June 30, 2018

**Note 5: Insurance - continued**

Deductibles are as follows:

Program	Deductible
Auto and General Liability Program	None
Property Program:	
Buildings, personal property, and fixed equipment	\$ 10,000
Mobile equipment	2,500
Licensed vehicle	1,000
Fidelity	1,000
Boiler and machinery	Various

Coverage is as follows:

Program	Deductible
Auto and General Liability Program (includes public officials' liability)	\$2,000,000 to \$20,000,000
Property damage	100,000 to 100,000,000
Fidelity	100,000 to 500,000
Workers' compensation	Statutory
Employers' liability	5,000,000

The District continues to carry commercial insurance for all other risks of loss to cover all claims for risk of loss to which the District is exposed. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**Note 6: California Public Employees' Retirement System (CalPERS)**

**A. General Information about the Pension Plan Descriptions**

Plan Description

All qualified full-time employees are eligible to participate in the District's Miscellaneous First Tier Plan, agent multiple-employer defined benefit pension plans administered by CalPERS, which acts as a common investment and administrative agent for its participating member employers. Benefit provisions under the Plan is established by State statute and Local Government resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions, and membership information that can be found on the CalPERS website.

**NORTH COAST COUNTY WATER DISTRICT**

Notes to the Basic Financial Statements  
For the Year Ended June 30, 2018

**Note 6: California Public Employees' Retirement System (CalPERS) - continued**

**A. General Information about the Pension Plan Descriptions - continued**

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The Plan's provisions and benefits in effect at June 30, 2018, are summarized as follows:

	Miscellaneous Plan		
	Tier 1	Tier 2	PEPRA
		On or between December 17, 2011 and December 31, 2012	On or After January 1, 2013
Hire date	Prior to December 17, 2011		
Benefit formula	2.7% @ 55	2.0% @ 55	2.0% @ 62
Benefit vesting schedule	5 years service	5 years service	5 years service
Benefits payments	Monthly for life	Monthly for life	Monthly for life
Retirement age	50 – 55	50 – 55	52 – 67
Monthly benefits as % of eligible compensation	2.0% to 2.7%	1.0% to 2.5%	1.0% to 2.5%
Required employee contribution rates	8.000%	7.000%	6.250%
Required employer contribution rates	11.675%	0.000%	6.533%

**NORTH COAST COUNTY WATER DISTRICT**

Notes to the Basic Financial Statements  
For the Year Ended June 30, 2018

**Note 6: California Public Employees’ Retirement System (CalPERS) - continued**

**A. General Information about the Pension Plans Plan Descriptions - continued**

Contributions

Section 20814(c) of the California Public Employees’ Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plan are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is based on the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the year ended June 30, 2018, the contributions to the pension plan recognized as part of pension expense were as follows:

	Fiscal Year Ended <u>June 30, 2018</u>
Contributions – employer	\$ 528,974
Contributions – employee	129,742

**B. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions**

As of June 30, 2018, the District reported a liability of \$4,805,974 in the Statement of Net Position for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016, rolled forward to June 30, 2017, using standard update procedure. The District’s proportion of the net pension liability was based on a projection of the District’s long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. The District’s proportionate share of the net pension liability for the Plan as of June 30, 2017 and 2018, was as follows:

	<u>Miscellaneous</u>
Proportion – June 30, 2017	0.12456%
Proportion – June 30, 2018	<u>0.12192%</u>
Change – Increase/(Decrease)	(0.00264%)

**NORTH COAST COUNTY WATER DISTRICT**

Notes to the Basic Financial Statements  
For the Year Ended June 30, 2018

**Note 6: California Public Employees' Retirement System (CalPERS) - continued**

**B. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions – continued**

For the year ended June 30, 2018, the District recognized pension expense of \$663,007. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 68,123
Changes of assumptions	585,889	-
Differences between projected and actual Investment earnings	143,441	-
Differences between employer's contributions and proportionate share of contributions	160,440	-
Change in employer's proportion	196,435	26,891
Pension contributions made subsequent to measurement date	528,826	-
Total	<u>\$ 1,615,031</u>	<u>\$ 95,014</u>

\$253,646 reported as deferred inflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

<u>Measurement Period June 30,</u>		<u>Deferred Outflows/(Inflows) of Resources</u>
2019	\$	353,721
2020		448,459
2021		274,174
2022		(85,164)
	\$	<u>991,190</u>

**NORTH COAST COUNTY WATER DISTRICT**

Notes to the Basic Financial Statements  
For the Year Ended June 30, 2018

**Note 6: California Public Employees’ Retirement System (CalPERS) - continued**

**B. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions - continued**

**Actuarial Assumptions**

The total pension liability in the June 30, 2017, actuarial valuations was determined using the following actuarial assumptions:

Valuation date	June 30, 2016
Measurement date	June 30, 2017
Actuarial cost method	Entry-Age Normal Cost Method
<b>Actuarial Assumptions:</b>	
Discount rate	7.15%
Inflation	2.75%
Payroll growth	3.00%
Projected salary increase	Varies by entry age and service
Investment rate of return	7.15% net pension plan investment and administrative expenses; includes inflation
Post-retirement benefit increase	Contract COLA up to 2.75% until purchasing power protection allowance floor on purchasing power applies, 2.75% thereafter

The underlying mortality assumptions and all other actuarial assumptions used in June 30, 2016 valuation were based on the results of a January 2014 actuarial experience study for the period of 1997 to 2011. More details of the Experience Study can be found on the CalPERS website.

*Changes of Assumptions* – In fiscal year 16-17, the financial reporting discount rate for the Plan was lowered from 7.65 percent to 7.15 percent. Deferred outflows of resources for changes of assumptions presented in the table on the previous page represent the unamortized portion of this assumption change.

*Discount Rate* – The discount rate used to measure the total pension liability was 7.15 percent and reflects the long-term expected rate of return for the Plan net of investment expenses and without reduction for administrative expenses. To determine whether the municipal bond rate should be used in the calculation of the discount rate for public agency plans, the amortization and smoothing periods adopted by the CalPERS Board in 2013 were used. For the Plan, the crossover test was performed for a miscellaneous agent plan and a safety agent plan selected as being more at risk of failing the crossover test and resulting in a discount rate that would be different from the long-term expected rate of return on pension investments. Based on the testing of the plans, the tests revealed the assets would not run out. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability for the Plan. The crossover test results can be found on CalPERS’ website.

**NORTH COAST COUNTY WATER DISTRICT**

Notes to the Basic Financial Statements  
For the Year Ended June 30, 2018

**Note 6: California Public Employees' Retirement System (CalPERS) – continued**

**B. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions - continued**

**Actuarial Assumptions**

*Discount Rate* – continued

The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all of the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11+ years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the rounded single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set to equal to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses.

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

Asset Class	New Strategic Allocation	Real Return Years 1-10 <sup>(1)</sup>	Real Return Years 11+ <sup>(2)</sup>
Global equity	47.0%	4.90%	5.38%
Global fixed income	19.0%	0.80%	2.27%
Inflation sensitive	6.0%	0.60%	1.39%
Private equity	12.0%	6.60%	6.63%
Real estate	11.0%	2.80%	5.21%
Infrastructure and forestland	3.0%	3.90%	5.36%
Liquidity	2.0%	(0.40%)	(0.90%)
	<u>100.0%</u>		

<sup>(1)</sup> An expected inflation of 2.5% used for this period.

<sup>(2)</sup> An expected inflation of 3.0% used for this period.

**NORTH COAST COUNTY WATER DISTRICT**

Notes to the Basic Financial Statements  
For the Year Ended June 30, 2018

**Note 6: California Public Employees’ Retirement System (CalPERS) – continued**

**B. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions – continued**

**Sensitivity of the Net Pension Liability to Changes in the Discount Rate**

The following presents the net pension liability of the District for the Plan, calculated using the discount rate of the Plan, as well as what the District’s net pension liability would be if it were calculated using a discount rate 1 percentage point lower (6.15%) or 1 percentage rate point higher (8.15%) than the current discount rate (7.15%):

	1% Decrease in Discount Rate <u>(6.15%)</u>	Current Discount Rate <u>(7.15%)</u>	1% Increase in Discount Rate <u>(8.15%)</u>
District’s proportionate share of the net pension liability	\$ 6,896,646	\$ 4,805,974	\$ 3,074,442

*Pension Plan Fiduciary Net Position* – Detailed information about each pension plan’s fiduciary net position is available in the separately issued CalPERS financial reports.

At June 30, 2018, the District made all required contributions to the pension plan for the year ended June 30, 2018.

**Note 7: Other Post-Employment Benefits**

**A. Plan Description**

The District provides health insurance benefits through the Association of California Water Agencies (ACWA) Blue Cross plan and Kaiser Permanente (small business plan) to employees who retire. The District pays for medical, dental, and vision premiums for retirees. The medical, dental, and vision benefits are paid for life for employees hired on or before May 16, 2013. For employees hired on or after May 16, 2013, the District will not provide group medical, vision care, and dental health insurance plans after their retirement.

**NORTH COAST COUNTY WATER DISTRICT**

Notes to the Basic Financial Statements  
For the Year Ended June 30, 2018

**Note 7: Other Post-Employment Benefits - continued**

**A. Plan Description – continued**

*Eligibility:* A retired employee and dependent spouse, or spouse of a deceased employee or retiree, must satisfy the following requirements in order to be eligible for post-employment medical and dental benefits:

- Employee is a minimum of 55 years of age with at least 12 years of continuous service or,
- Employee may retire at or after the age of 50 with at least 15 years of aggregate service. The District will pay for benefits under this election based on the following formula:

<u>Years of Service at Retirement</u>	<u>Percentage of Premium Covered Under District Plan</u>
15 – 19 years	50%
20 – 24 years	75%
25 or more years	100%

If the spouse of a deceased employee or retiree remarries and becomes eligible for health benefits under his/her new spouse’s health plan, all District benefits shall be terminated.

Membership of the plan consisted of the following at June 30, 2018:

Retirees and beneficiaries receiving benefits	22
Active plan member	<u>14</u>
Total	<u><u>36</u></u>

**B. Funding Policy**

The contribution requirements of the District are established and may be amended by the District’s board. While GASB Statement 75 requires that the liability for all post-employment benefits be measured, it does not require that an agency “pre-fund” the accrued liability. The District will pay for the post-employment healthcare cost on a “pay-as-you-go” basis. The provisions of GASB Statement 75 determine the amount that must be presented as an annual expense and accrued liability on the District’s financial statements. The contributions made on behalf of the plan members for the year ended June 30, 2018 were \$219,443.

# NORTH COAST COUNTY WATER DISTRICT

Notes to the Basic Financial Statements  
For the Year Ended June 30, 2018

**Note 7: Other Post-Employment Benefits – continued**

**C. Net OPEB Liability**

The District’s net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of July 1, 2017. Standard actuarial update procedures were used to project/discount from valuation to measurement dates.

*Actuarial assumptions.* The total OPEB liability was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Assumed retirement age	5.00 percent
Discount rate	4.00 percent
Salary increases	5.00 percent
Healthcare cost trend rate	3.00 percent for 2018 and 2019; 4.00 percent for 2020 and 2021; 5.00 percent for 2022 and later years

The probability of remaining employed until retirement age from current and entry age by age comes from the U.S. Office of Personnel Management Civil Service Retirement and Disability Fund Annual Report Fiscal Year Ended September 30, 2016.

Life expectancy by gender comes from the Life Expectancy Table from National Center for Health Statistics updated in 2015.

**D. Changes in the Net OPEB Liability**

The table below shows the changes in the total OPEB liability, the Plan Fiduciary Net Position, and the net OPEB liability during the measurement period ending on June 30, 2018 for the District.

	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability(Asset) (c) = (a) – (b)
Balance at June 30, 2017	\$ 4,970,766	-	\$ 4,970,766
Changes recognized for the measurement period:			
Service cost	228,758	-	228,758
Interest	198,831	-	198,831
Changes of assumptions	(1,127,012)	-	(1,127,012)
Employer contributions	-	219,443	(219,443)
Benefit payments	(219,443)	(219,443)	-
Net changes	(918,866)	-	(918,866)
Balance at June 30, 2018	<u>\$ 4,051,900</u>	<u>\$ -</u>	<u>\$ 4,051,900</u>

**NORTH COAST COUNTY WATER DISTRICT**

Notes to the Basic Financial Statements  
For the Year Ended June 30, 2018

**Note 7: Other Post-Employment Benefits – continued**

**E. Sensitivity of the District’s Net OPEB Liability to Changes in the Discount Rate**

The following presents the net OPEB liability, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1- percentage point lower (3.00 percent) or 1-percentage-point higher (5.00 percent) than the current discount rate:

	1% Decrease 3.00%	Discount Rate 4.00%	1% Increase 5.00%
District’s proportionate share of the net OPEB liability	\$ 4,304,204	\$ 4,051,900	\$ 3,780,237

**F. Sensitivity of the District’s Net OPEB Liability to Changes in the Healthcare Cost Trend Rates**

The following presents the net OPEB liability, as well as what the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1- percentage-point lower (3.00 percent decreasing to 2.00 percent) or 1- percentage-point higher (3.00 percent increasing to 4.00 percent) than the current healthcare cost trend rates:

	1% Decrease 2.00%	Trend Rate 3.00%	1% Increase 4.00%
District’s proportionate share of the net OPEB liability	\$ 3,693,357	\$ 4,051,900	\$ 4,468,475

**Note 8: 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.

**Note 9: Prior Period Adjustment**

In fiscal year 2017-18, a prior period adjustment to reduce net position was recorded for \$2,322,110 to restate the beginning balance of the net OPEB liability resulting from the GASB 75 implementation. In addition, a prior period adjustment was recorded to reduce net position for \$72,440 to restate the beginning balance of customer water receivables.

**Note 10: Subsequent Events**

Management has evaluated subsequent events through December 7, 2018, the date on which the financial statements were available to be issued.

**REQUIRED SUPPLEMENTARY INFORMATION**

**NORTH COAST COUNTY WATER DISTRICT  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF PENSION CONTRIBUTIONS  
JUNE 30, 2018**

Measurement date	June 30, 2017 *	June 30, 2016 *	June 30, 2015 *	June 30, 2014 *
Contractually required contributions (actuarially determined)	\$ 496,227	\$ 467,156	\$ 421,912	\$ 371,392
Contributions in relation to the actuarially determined contributions	(496,227)	(467,156)	(436,132)	(371,392)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (14,220)</u>	<u>\$ -</u>
Covered-employee payroll	\$ 1,655,381	\$ 1,703,966	\$ 1,627,882	\$ 1,610,044
Contribution as a percentage of covered-employee payroll	29.98%	27.42%	25.92%	23.07%

\* Fiscal year ended June 30, 2015 was the first year of implementation.  
Additional years will be presented as they become available.

**NORTH COAST COUNTY WATER DISTRICT  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
JUNE 30, 2018**

Measurement date	June 30, 2017 *	June 30, 2016 *	June 30, 2015 *	June 30, 2014 *
Proportion of the net pension liability	0.13835%	0.12456%	0.13691%	0.13172%
Proportionate share of the net pension liability	\$ 4,805,974	\$ 4,327,222	\$ 3,756,060	\$ 3,255,380
Covered-employee payroll	\$ 1,655,381	\$ 1,703,966	\$ 1,627,882	\$ 1,610,044
Proportionate share of the net pension liability as a percentage of its covered-employee payroll	290.32%	253.95%	230.73%	202.19%
Plan's fiduciary net position	\$ 10,393,729	\$ 9,079,593	\$ 9,136,544	\$ 9,221,044
Plan's fiduciary net position as a percentage of its total pension liability	80.62%	70.42%	70.87%	73.91%
Valuation date	June 30, 2016	June 30, 2015	June 30, 2014	June 30, 2013

\* Fiscal year ended June 30, 2015 was the first year of implementation.  
Additional years will be presented as they become available.

**NORTH COAST COUNTY WATER DISTRICT  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF CHANGES IN NET OPEB LIABILITY  
JUNE 30, 2018**

Last 10 Fiscal years\*

	2018
Net OPEB liability	
Service cost	\$ 228,758
Interest	198,831
Change in assumptions	(1,127,012)
Benefit payments	(219,443)
Net change in Net OPEB liability	(918,866)
Net OPEB liability - beginning	4,970,766
Net OPEB liability - ending	\$ 4,051,900
Covered payroll	\$ 1,923,330
Net OPEB liability (asset) as a percentage of covered payroll	210.67%
Plan fiduciary net position as a percentage of the total OPEB liability	0.00%

\* Fiscal year ended June 30, 2018 was the first year of implementation.  
Additional years will be presented as they become available.

## **ADDITIONAL INFORMATION**

**NORTH COAST COUNTY WATER DISTRICT  
SCHEDULE OF CAPACITY CHARGES  
FOR THE YEAR ENDED JUNE 30, 2018**

Beginning Balance, July 1, 2017 \$ -

**Storage and Transmission Fees Received During the Year:**

195 Carmel Ave.	\$ 21,764
500 Linda Mar Blvd.	17,824
1375 Livingston Ave.	8,912
21 Malavear Dr.	8,912
500 San Pedro Ave.	8,912
440/442 Norfolk Ave.	5,441
Total capacity charges received	\$ 71,765

**Public Improvement Expenses for the Year:**

Public Improvement Projects	Project Expenditures	Percentage Complete	Project Expenditures Funded with the Above Fees	
			Amount	Percentage
Sharp Park Golf Course Pipeline Tie-Ins	\$ 119,379	100%	\$ 21,764	18.23%
Rocy Tank Building Replacement	31,930	100%	26,736	83.73%
Sheila Tank Replacement	69,734	0%	23,265	33.36%
	\$ 221,043		\$ 71,765	

Ending Balance, June 30, 2018 \$ -

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

Board of Directors  
North Coast County Water District  
Pacifica, California

We have audited, in accordance with the auditing standard 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 North Coast County Water District (District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 7, 2018.

**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 opinions 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 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 the 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we considered to be material weaknesses. However, material weaknesses may exist that we have not identified.

Board of Directors  
North Coast County Water District  
Pacifica, California

### **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 result 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.

Fechter & Company,  
Certified Public Accountants



Sacramento, California  
December 7, 2018