

NORTH COAST COUNTY WATER DISTRICT
BASIC FINANCIAL STATEMENTS
AND SINGLE AUDIT REPORTS
FOR THE YEAR ENDED JUNE 30, 2011

**North Coast County Water District
 Basic Financial Statements and Single Audit Reports
 For the year ended June 30, 2011**

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North Coast County Water District
Basic Financial Statements
For the year ended June 30, 2011

Elected Officials and Administrative Personnel

BOARD OF DIRECTORS

Thomas Piccolotti – President
Joshua Cosgrove – Vice President
Ron Ash – Director
Bob Vetter – Director
J. Mason Brown, Jr. – Director

MANAGEMENT

Cari Lemke, Interim General Manager



JJACPA, Inc.

A Professional Accounting Services Corp.

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying basic financial statements of the North Coast County Water District (District) as of and for the year ended June 30, 2011. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic financial statements based on our audit. The prior year summarized comparative information has been derived from the District's June 30, 2010, financial statements in which an unqualified opinion was expressed on those financial statements by another auditor.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2011, and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America as well as accounting systems prescribed by the State Controller's Office and state regulations governing special districts.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 2, 2011, 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, not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis (MD&A) on pages three to nine is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

November 2, 2011

JJACPA, Inc.
JJACPA, Inc.

North Coast County Water District
Basic Financial Statements
For the year ended June 30, 2011

Management's Discussion and Analysis

This section of North Coast 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, 2011. 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 - 31).

Financial Highlights

At June 30, 2011, the District's net assets increased \$5,049,325 to \$32,359,710 from \$27,310,385 in 2010. Operating revenues increased by \$457,006 primarily due to a water rate increase, which became effective Feb. 24, 2010. Operating expenses (with depreciation included) increased by \$927,401 as a result of increases in source of supply expenses and general expenses offset by reduction to transmission and distribution expenses.

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.

North Coast County Water District
Basic Financial Statements
For the year ended June 30, 2011

Management's Discussion and Analysis, Continued

Financial Analysis of the District as a Whole

	Net Assets		Increase (Decrease)	Percent Change
	2011	2010		
As of June 30, 2011 and 2010				
Assets:				
Current assets	\$ 13,141,273	\$ 12,057,895	\$ 1,083,378	9.0%
Non-current assets	29,187,648	24,817,453	4,370,195	17.6%
Total assets	42,328,921	36,875,348	5,453,573	14.8%
Liabilities:				
Current liabilities	2,221,856	1,909,482	312,374	16.4%
Non-current liabilities	7,747,355	7,655,481	91,874	1.2%
Total liabilities	9,969,211	9,564,963	404,248	4.2%
Net assets:				
Investment in capital assets, net of related debt	22,438,172	17,703,999	4,734,173	26.7%
Restricted/Unrestricted Net Assets:				
Restricted for debt service	3,488,504	1,431,007	2,057,497	143.8%
Unrestricted	6,433,034	8,175,379	(1,742,345)	(21.3)%
Total net assets	\$ 32,359,710	\$ 27,310,385	\$ 5,049,325	18.5%

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

As can be seen from the table above, net assets at June 30, 2011, increased to \$32,359,710 from \$27,310,385 in 2010. The increase in net assets was primarily due to recent capital improvement projects and the related increase in depreciation.

North Coast County Water District
Basic Financial Statements
For the year ended June 30, 2011

Management's Discussion and Analysis, Continued

Financial Analysis of the District as a Whole, Continued

Operating results are summarized as follows:

	Operating Results			
	For the years ended June 30, 2011 and 2010			
	<u>2011</u>	<u>2010</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
Operating revenues	\$ 8,446,021	\$ 7,989,015	\$ 457,006	5.7%
Operating expenses	<u>8,777,688</u>	<u>7,850,287</u>	<u>927,401</u>	<u>11.8%</u>
Operating income	(331,667)	138,728	(470,395)	(339.1)%
Non-operating revenues	998,536	927,617	70,919	7.6%
Non-operating expenses	<u>(9,475)</u>	<u>(944,366)</u>	<u>934,891</u>	<u>(99.0)%</u>
Net income before contributions	657,394	121,979	535,415	438.9%
Capital contributions	<u>4,391,931</u>	<u>58,553</u>	<u>4,333,378</u>	<u>7400.8%</u>
Change in net assets	5,049,325	180,532	4,868,793	2696.9%
Net assets:				
Beginning of year	<u>27,310,385</u>	<u>27,129,853</u>	<u>180,532</u>	<u>0.7%</u>
End of year	<u>\$ 32,359,710</u>	<u>\$ 27,310,385</u>	<u>\$ 5,049,325</u>	<u>18.5%</u>

While the Statement of Net Assets shows the change in financial position of net assets, the operating results are reflected in the Statement of Revenues, Expenses, and Changes in Net Assets (page 13). This statement provides answers to the nature and source of the change in financial position of net assets.

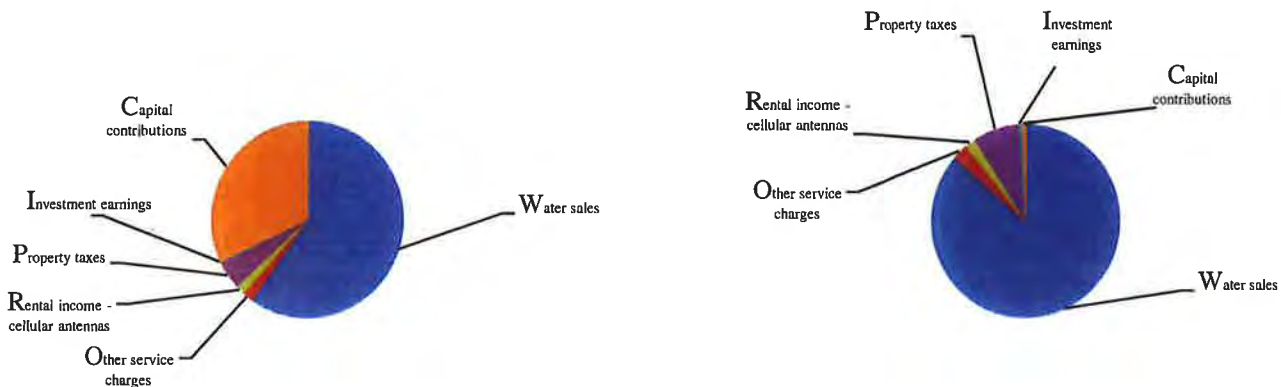
North Coast County Water District
Basic Financial Statements
For the year ended June 30, 2011

Management's Discussion and Analysis, Continued

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**



<u>FY 2010-2011</u>			<u>FY 2009-2010</u>		<u>Increase (Decrease)</u>
\$ 8,210,882	59.7%	Water sales	\$ 7,755,031	86.4%	\$ 455,851
235,139	1.7%	Other service charges	233,984	2.6%	1,155
216,869	1.6%	Rental income - cellular antennas	169,120	1.9%	47,749
643,225	4.7%	Property taxes	695,991	7.8%	(52,766)
45,402	0.3%	Investment earnings	62,506	0.7%	(17,104)
4,391,931	32.0%	Capital contributions	58,553	0.7%	4,333,378
<u>\$ 13,743,448</u>	<u>100.0%</u>	Totals	<u>\$ 8,975,185</u>	<u>100.0%</u>	<u>\$ 4,768,263</u>

Water sales increased \$455,851 due to a rate increase for fiscal year 2010-2011, approved by the Board of Directors. Property taxes decreased by \$52,766 primarily due to San Mateo County's method of calculating and distributing funds. Investment earnings decreased by \$17,104, the result of declining interest rates, lower reserve balances, and a recessionary economy. The increase in capital contributions of \$4,333,378 was the result of the recycled water project nearing completion.

North Coast County Water District
Basic Financial Statements
For the year ended June 30, 2011

Management’s Discussion and Analysis, Continued

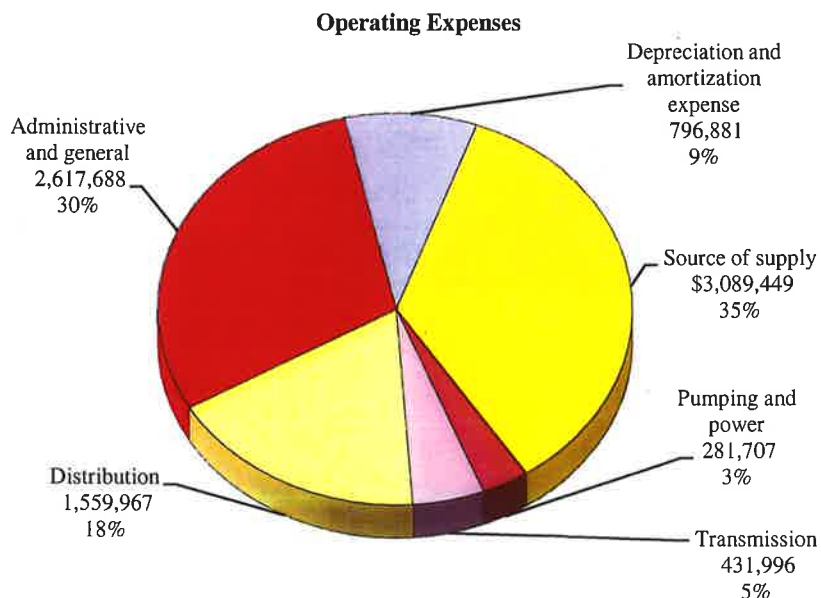
Financial Analysis of the District as a Whole, Continued

Operating expenses increased by \$927,401 as detailed below:

	Operating Expenses		Increase (Decrease)	Percent Change
	For the years ended June 30, 2011 and 2010			
	<u>2011</u>	<u>2010</u>		
Operating expenses:				
Source of supply	\$ 3,089,449	\$ 2,427,584	\$ 661,865	27.3%
Pumping and power	281,707	239,403	42,304	17.7%
Transmission	431,996	415,136	16,860	4.1%
Distribution	1,559,967	1,662,402	(102,435)	(6.2)%
Administrative and general	2,617,688	2,296,728	320,960	14.0%
Depreciation and amortization expense	796,881	809,034	(12,153)	(1.5)%
Total	<u>\$ 8,777,688</u>	<u>\$ 7,850,287</u>	<u>\$ 927,401</u>	<u>11.8%</u>

Source of supply increased \$661,865 due to higher wholesale water rates from San Francisco Public Utilities Commission. Administration and general expense increases were the result of higher health benefits costs & retirement contribution, higher online payment fees and billing software support, and higher legal fees.

The following is a graphic illustration of operating expenses:



North Coast County Water District
Basic Financial Statements
For the year ended June 30, 2011

Management's Discussion and Analysis, Continued

Financial Analysis of the District as a Whole, Continued

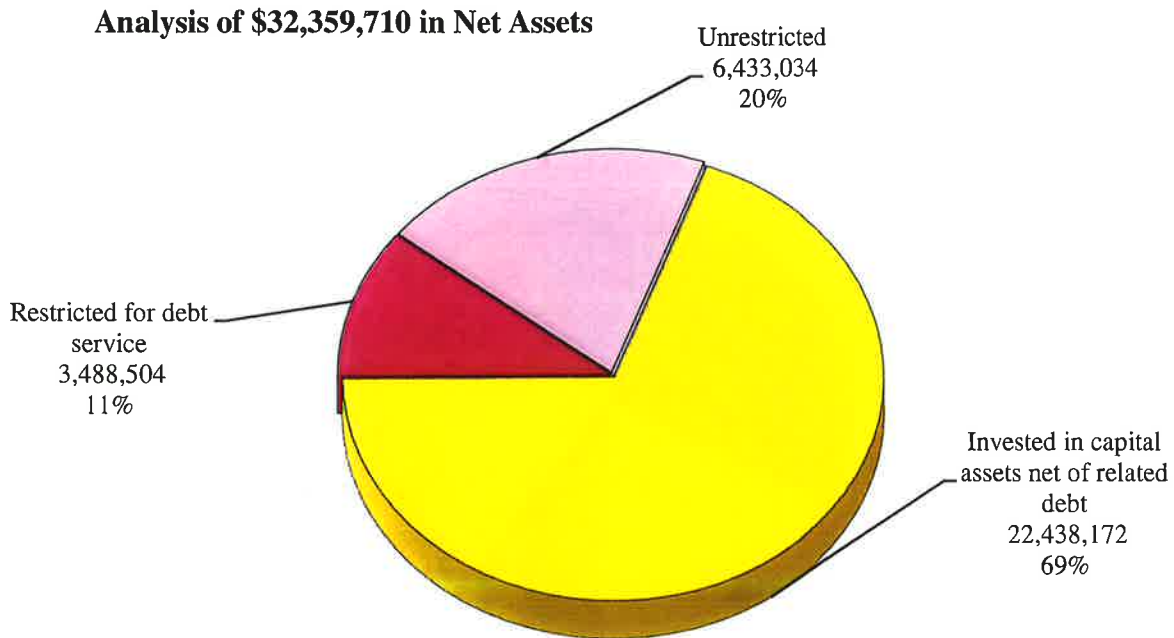
Net assets increased by \$5,049,325 as detailed below:

Analysis of Net Assets
As of June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
Net assets:				
Invested in capital assets net of related debt	\$ 22,438,172	\$ 17,703,999	\$ 4,734,173	26.7%
Restricted				
Debt service	3,488,504	1,439,782	2,048,722	142.3%
Unrestricted	<u>6,433,034</u>	<u>8,166,604</u>	<u>(1,733,570)</u>	<u>(21.2)%</u>
Total	<u><u>\$ 32,359,710</u></u>	<u><u>\$ 27,310,385</u></u>	<u><u>\$ 5,049,325</u></u>	<u><u>18.5%</u></u>

The change in net assets is due primarily to recent capital improvement projects and the related increase in depreciation.

The following is a graphic illustration of net assets:



North Coast County Water District
Basic Financial Statements
For the year ended June 30, 2011

Management's Discussion and Analysis, Continued

Cash Flows

Cash flows have remained relatively unchanged with an increase of \$1,251,889, which is the result of Recycled Water Project funding from San Francisco Public Utility Commission (SFPUC).

Long-term Debt

No new debt was issued for the year, with amounts decreasing by \$363,384 as a result of annual principal payments. .

Economic Factors and Potential Future Results

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

Contacting the District

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

North Coast County Water District
2400 Francisco Blvd
Pacifica, CA 94044

Phone (650) 355 3462

Cari Lemke, Interim General Manager

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BASIC FINANCIAL STATEMENTS

North Coast County Water District

Statement of Net Assets

June 30, 2011

(with comparative totals for June 30, 2010)

ASSETS	2011	2010
Current assets:		
Cash and investments	\$ 8,801,989	\$ 9,599,458
Restricted cash and investments	3,488,504	1,439,146
Accounts receivable:		
Customer water	599,124	593,663
Other	12,981	63,387
Taxes	10,875	14,741
Interest	10,265	12,781
Prepaid expenses and deposits	38,545	37,094
Materials and supplies inventory	178,990	297,625
Total current assets	<u>13,141,273</u>	<u>12,057,895</u>
Noncurrent assets:		
Note receivable - State of California	37,675	37,675
Capital assets:		
Land	832,867	832,867
Construction in progress	8,953,452	4,248,391
Depreciable assets	31,273,913	30,811,898
Less accumulated depreciation	(11,910,259)	(11,113,378)
Total noncurrent assets	<u>29,187,648</u>	<u>24,817,453</u>
Total assets	<u>\$ 42,328,921</u>	<u>36,875,348</u>
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 1,612,585	\$ 827,010
Accrued payroll	82,123	64,303
Customer deposits	172,994	156,295
Water connection deposits	280,151	306,413
Accrued interest payable	74,003	76,363
Total current liabilities	<u>2,221,856</u>	<u>1,430,384</u>
Noncurrent liabilities:		
Due within one year	313,793	363,384
Due after one year	6,398,602	6,712,395
Net OPEB obligation	524,881	595,943
Accrued vacation and sick leave	510,079	462,857
Total noncurrent liabilities	<u>7,747,355</u>	<u>8,134,579</u>
Total liabilities	<u>9,969,211</u>	<u>9,564,963</u>
NET ASSETS		
Invested in capital assets net of related debt	22,438,172	17,703,999
Restricted for debt service	3,488,504	1,431,007
Unrestricted	6,433,034	8,175,379
Total net assets	<u>32,359,710</u>	<u>27,310,385</u>
Total liabilities and net assets	<u>\$ 42,328,921</u>	<u>36,875,348</u>

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

North Coast County Water District
Statement of Revenues, Expenses, and Changes in Net Assets
For the year ended June 30, 2011

(with comparative totals for the year ended June 30, 2010)

	<u>2011</u>	<u>2010</u>
OPERATING REVENUES:		
Water sales	\$ 8,210,882	\$ 7,755,031
Other service charges	235,139	233,984
Total operating revenues	<u>8,446,021</u>	<u>7,989,015</u>
OPERATING EXPENSES:		
Source of supply	3,089,449	2,427,584
Pumping and power	281,707	239,403
Transmission	431,996	415,136
Distribution	1,559,967	1,662,402
Administrative and general	2,617,688	2,296,728
Depreciation and amortization	796,881	809,034
Total operating expenses	<u>8,777,688</u>	<u>7,850,287</u>
Operating income (loss)	<u>(331,667)</u>	<u>138,728</u>
NONOPERATING REVENUES (EXPENSES):		
Property taxes	643,225	695,991
Investment earnings	45,402	62,506
Rental income - cellular antennas	216,869	169,120
Gain (loss) on disposition of capital assets	21,978	(296,004)
Net OPEB expense	71,062	(595,943)
Interest expense	(9,475)	(52,419)
Total nonoperating revenues (expenses)	<u>989,061</u>	<u>(16,749)</u>
Income before contributions	<u>657,394</u>	<u>121,979</u>
Capital contributions:		
Capacity charges	36,617	33,177
Developer contributions	15,792	25,376
Recycled water project	4,339,522	-
Total capital contributions	<u>4,391,931</u>	<u>58,553</u>
Net Income	<u>5,049,325</u>	<u>180,532</u>
CHANGE IN NET ASSETS:		
Beginning of year	27,310,385	27,129,853
End of year	<u>\$ 32,359,710</u>	<u>\$ 27,310,385</u>

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

North Coast County Water District

Statement of Cash Flows

For the year ended June 30, 2011

(with comparative amounts for the year ended June 30, 2010)

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	\$ 8,394,020	\$ 7,996,999
Payments to suppliers	(5,414,464)	(4,425,437)
Payments to employees	(1,836,532)	(1,629,335)
Net cash provided (used) by operating activities	<u>1,143,024</u>	<u>1,942,227</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Property taxes net of collection fees	643,225	644,097
Receipts from capacity charges	36,617	33,177
Receipts from cellular antenna rentals	216,869	169,120
Net cash provided (used) by noncapital financing activities	<u>896,711</u>	<u>846,394</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Principal payments on long-term debt	(363,384)	(339,757)
Interest payments on long-term debt	(302,748)	(315,547)
Capital contributions	4,355,314	-
Acquisition and construction of capital assets	(4,524,946)	(1,957,705)
Net cash provided (used) by capital and related financing activities	<u>(835,764)</u>	<u>(2,613,009)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest received on investments	47,918	81,681
Net cash provided (used) by investing activities	<u>47,918</u>	<u>81,681</u>
Net increase (decrease) in cash and cash equivalents	1,251,889	257,293
CASH AND INVESTMENTS:		
Beginning of year	11,038,604	10,781,311
End of year	<u>\$ 12,290,493</u>	<u>\$ 11,038,604</u>
Reconciliation to Statement of Net Assets:		
Cash and investments	\$ 8,801,989	\$ 9,599,458
Restricted cash and investments	3,488,504	1,439,146
Total cash and investments	<u>\$ 12,290,493</u>	<u>\$ 11,038,604</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income	\$ (331,667)	\$ 138,728
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation and amortization expense	796,881	809,034
(Gain) Loss on disposal of capital assets	(21,978)	296,004
Change in assets and liabilities:		
Accounts receivable	(52,001)	576,053
Materials and supplies	118,635	-
Prepaid expenses	(1,451)	2,787
Accounts payable and accrued liabilities	785,274	105,405
Accrued payroll	17,820	13,194
Deposits and deferred revenue	(215,711)	(33,489)
Accrued vacation and sick leave	47,222	34,511
Net cash provided (used) by operating activities	<u>\$ 1,143,024</u>	<u>\$ 1,942,227</u>

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

North Coast County Water District
Basic Financial Statements
For the year ended June 30, 2011

Notes to Basic Financial Statements

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 assets, revenues, and expenses of the District only.

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

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

North Coast County Water District
Basic Financial Statements
For the year ended June 30, 2011

Notes to Basic Financial Statements, Continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Fund Accounting Classification and Basis of Accounting

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

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

C. Cash and Investments

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

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

D. Capital Assets

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

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

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.

North Coast County Water District
Basic Financial Statements
For the year ended June 30, 2011

Notes to Basic Financial Statements, Continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

E. 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.

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

North Coast County Water District
Basic Financial Statements
For the year ended June 30, 2011

Notes to Basic Financial Statements, Continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

F. 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. .

G. 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.

H. 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, 2011			June 30, 2010
	FDIC insured	Not rated	Fair Value	
Cash in bank	\$ 250,000	\$ 233,684	\$ 483,684	\$ 824,239
Petty cash	-	500	500	500
Local Agency Investment Fund (LAIF)	-	8,317,805	8,317,805	9,068,253
SFPUC US Bank Funds	250,000	2,563,251	2,813,251	-
Money Market Funds	-	675,253	675,253	1,145,612
Total	\$ 500,000	\$ 11,790,493	\$ 12,290,493	\$ 11,038,604
Financial Statement presentation:				
Cash and investments			\$ 8,801,989	\$ 9,608,233
Restricted cash and investments			3,488,504	1,430,371
Total			\$ 12,290,493	\$ 11,038,604

North Coast County Water District
Basic Financial Statements
For the year ended June 30, 2011

Notes to Basic Financial Statements, Continued

2. CASH AND INVESTMENTS, Continued

A. Composition, Continued

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.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>
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
Basic Financial Statements
For the year ended June 30, 2011

Notes to Basic Financial Statements, Continued

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.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Minimum Credit Quality</u>
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 Deposit	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

North Coast County Water District
Basic Financial Statements
For the year ended June 30, 2011

Notes to Basic Financial Statements, Continued

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, 2011, these investments matured in an average of 237 days.

Money market funds are available for withdrawal on demand and at June 30, 2011, matured in an average of 26 days.

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District's only investments are in the California Local Agency Investment Fund and in Money Market accounts which are not rated at June 30, 2011.

North Coast County Water District
Basic Financial Statements
For the year ended June 30, 2011

Notes to Basic Financial Statements, Continued

3. CAPITAL ASSETS

Changes in capital assets and depreciation for the years ended June 30, 2011, and 2010, were as follows:

	July 1, 2010	Additions	Deletions	June 30, 2011
Capital Assets				
Nondepreciable:				
Land	\$ 832,867	\$ -	\$ -	\$ 832,867
Construction in progress	4,248,391	4,705,060	-	8,953,451
Total nondepreciable assets	<u>5,081,258</u>	<u>4,705,060</u>	<u>-</u>	<u>9,786,318</u>
Depreciable:				
Transmission and distribution	13,167,528	354,467	-	13,521,995
Source of supply plant	3,326,010	66,239	-	3,392,249
Reservoirs	8,783,362	35,425	-	8,818,787
Pumping plant	1,656,811	-	-	1,656,811
Telemetry systems	556,614	-	-	556,614
Water treatment plant	288,445	-	-	288,445
Office building	999,590	-	-	999,590
Equipment and vehicles	2,033,538	5,885	-	2,039,423
Total depreciable assets	<u>30,811,898</u>	<u>462,016</u>	<u>-</u>	<u>31,273,914</u>
Less: accumulated depreciation	<u>(11,113,378)</u>	<u>(796,881)</u>	<u>-</u>	<u>(11,910,259)</u>
Total depreciable assets (net)	<u>19,698,520</u>	<u>(334,865)</u>	<u>-</u>	<u>19,363,655</u>
Total capital assets	<u>\$ 24,779,778</u>	<u>\$ 4,370,195</u>	<u>\$ -</u>	<u>\$ 29,149,973</u>
	July 1, 2009	Additions	Deletions	June 30, 2010
Capital Assets				
Nondepreciable:				
Land	\$ 832,867	\$ -	\$ -	\$ 832,867
Construction in progress	3,411,542	836,849	-	4,248,391
Total nondepreciable assets	<u>4,244,409</u>	<u>836,849</u>	<u>-</u>	<u>5,081,258</u>
Depreciable:				
Transmission and distribution	13,525,687	284,059	(642,218)	13,167,528
Source of supply plant	3,313,912	30,263	(18,165)	3,326,010
Reservoirs	8,646,011	137,351	-	8,783,362
Pumping plant	1,414,360	242,451	-	1,656,811
Telemetry systems	508,069	48,545	-	556,614
Water treatment plant	288,445	-	-	288,445
Office building	888,569	111,021	-	999,590
Equipment and vehicles	1,775,050	258,488	-	2,033,538
Total depreciable assets	<u>30,360,103</u>	<u>1,112,178</u>	<u>(660,383)</u>	<u>30,811,898</u>
Less: accumulated depreciation	<u>(10,668,723)</u>	<u>(809,034)</u>	<u>364,379</u>	<u>(11,113,378)</u>
Total depreciable assets (net)	<u>19,691,380</u>	<u>303,144</u>	<u>(296,004)</u>	<u>19,698,520</u>
Total capital assets	<u>\$ 23,935,789</u>	<u>\$ 1,139,993</u>	<u>\$ (296,004)</u>	<u>\$ 24,779,778</u>

North Coast County Water District
Basic Financial Statements
For the year ended June 30, 2011

Notes to Basic Financial Statements, Continued

4. LONG-TERM DEBT

A. Long-Term Debt Activity

	Original Issue Amount	Balance July 1, 2010	Retirements	Balance June 30, 2011	Due Within One Year
Series 2003A Water Revenue Bonds 2.00-5.25%, due 10/01/2029	\$ 8,510,000	\$ 6,910,000	\$ (255,000)	\$ 6,655,000	\$ 260,000
Loans payable:					
John Deere 1	197,732	80,065	(68,342)	11,723	11,723
John Deere 2	157,794	85,714	(40,042)	45,672	42,070
Total loans payable	<u>355,526</u>	<u>165,779</u>	<u>(108,384)</u>	<u>57,395</u>	<u>53,793</u>
Total long-term debt	<u>\$ 8,865,526</u>	<u>7,075,779</u>	<u>\$ (363,384)</u>	<u>6,712,395</u>	<u>\$ 313,793</u>
Amount due within one year		(363,384)		(313,793)	
Total Long-term due after one year		<u>\$ 6,712,395</u>		<u>\$ 6,398,602</u>	

	Original Issue Amount	Balance July 1, 2009	Retirements	Balance June 30, 2010	Due Within One Year
Series 2003A Water Revenue Bonds 2.00-5.25%, due 10/01/2029	\$ 8,510,000	\$ 7,155,000	\$ (245,000)	\$ 6,910,000	\$ 255,000
Loans payable:					
John Deere 1	197,732	139,815	(59,750)	80,065	68,342
John Deere 2	157,794	120,721	(35,007)	85,714	40,042
Total loans payable	<u>355,526</u>	<u>260,536</u>	<u>(94,757)</u>	<u>165,779</u>	<u>108,384</u>
Total long-term debt	<u>\$ 8,865,526</u>	<u>7,415,536</u>	<u>\$ (339,757)</u>	<u>7,075,779</u>	<u>\$ 363,384</u>
Amount due within one year		(387,752)		(363,384)	
Total Long-term due after one year		<u>\$ 7,027,784</u>		<u>\$ 6,712,395</u>	

North Coast County Water District
Basic Financial Statements
For the year ended June 30, 2011

Notes to Basic Financial Statements, Continued

4. LONG-TERM DEBT, Continued

B. Series 2003A Water Revenue Bonds

In May 2003, the California Statewide Communities Development Authority, a financial intermediary acting on behalf of the District and other participants, issued *Water and Wastewater Revenue Bonds, Series 2003A*. The Bonds were issued to finance the construction or acquisition of the participants' capital improvement projects. Each project is purchased by a participant pursuant to an Installment Purchase Agreement that calls for installment payments to be made in amounts that are sufficient to meet the debt service obligations of each participant's portion of the Bonds. At the termination of the Agreement, title to the project will pass to the participant.

Concurrently, with the issue of the Bonds, the District signed an Installment Purchase Agreement under which it received a portion of the Bond proceeds to be used for capital improvements in exchange for the future installments as discussed above. Installments due under the Agreement are secured by a pledge of District System Net Revenues that are defined as all gross revenue and income, net of operations and maintenance costs.

The debt is scheduled to mature in 2029. Interest is payable semi-annually on October 1st and April 1st each year at a rate of 2.00% up to 5.25% (depending on the coupon payment date) while principal payments are made on October 1st each year.

C. John Deere Loan Payable 1

In September 2008, the District entered into an agreement to purchase construction equipment under a master lease purchase agreement in the amount of \$197,735. Terms of the agreement call for monthly interest and principal payments of \$5,897 at a nominal annual rate of 4.95% maturing September 2011.

D. John Deere Loan Payable 2

In August 2008, the District entered into an agreement to purchase construction equipment under a master lease purchase agreement in the amount of \$157,794. Terms of the agreement call for monthly principal and interest payments in the amount of \$3,615 at a nominal rate of 4.95% maturing July 2012.

North Coast County Water District
Basic Financial Statements
For the year ended June 30, 2011

Notes to Basic Financial Statements, Continued

4. LONG-TERM DEBT, Continued

E. Repayment Schedule

Future annual repayment requirements are as follows:

Year Ending June 30,	2003A Water and Wastewater Revenue Bonds		Loan Payable - John Deere 1		Loan Payable - John Deere 2	
	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$ 260,000	\$ 289,259	\$ 11,723	\$ 73	\$ 42,070	\$ 1,315
2013	270,000	281,131	-	-	3,602	14
2014	275,000	272,335	-	-	-	-
2015	285,000	262,879	-	-	-	-
2016	295,000	252,684	-	-	-	-
2017-2021	1,650,000	1,075,605	-	-	-	-
2022-2026	2,100,000	603,375	-	-	-	-
2027-2029	1,520,000	86,925	-	-	-	-
Total	\$ 6,655,000	\$ 3,124,193	\$ 11,723	\$ 73	\$ 45,672	\$ 1,329
Due within one year	\$ 260,000	\$ 289,259	\$ 11,723	\$ 73	\$ 42,070	\$ 1,315
Due after one year	6,395,000	2,834,934	-	-	3,602	14
Total	\$ 6,655,000	\$ 3,124,193	\$ 11,723	\$ 73	\$ 45,672	\$ 1,329

Year Ending June 30,	Total	
	Principal	Interest
2012	\$ 313,793	\$ 290,647
2013	273,602	281,145
2014	275,000	272,335
2015	285,000	262,879
2016	295,000	252,684
2017-2021	1,650,000	1,075,605
2022-2026	2,100,000	603,375
2027-2029	1,520,000	86,925
Total	\$ 6,712,395	\$ 3,125,595

North Coast County Water District
Basic Financial Statements
For the year ended June 30, 2011

Notes to Basic Financial Statements, Continued

5. NET ASSETS

Net assets are restricted for capital construction projects and debt service for the 2003A Water Revenue Bonds in the amount of \$3,488,504. The Board has also made the following assignments of unrestricted net assets, which can only be changed through Board action:

Description	Amount
Capital facilities construction reserve	\$ 2,200,000
Emergency Reserve	500,000
Operating Reserve	2,965,499
OPEB reserve	550,000
Total assignment of unrestricted net assets	6,215,499
Unrestricted	217,535
Total unrestricted net assets	<u>\$ 6,433,034</u>

6. 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:

Deductibles are as follows:

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

North Coast County Water District
Basic Financial Statements
For the year ended June 30, 2011

Notes to Basic Financial Statements, Continued

6. INSURANCE, Continued

Coverage is as follows:

Program	Deductible
Auto and General Liability Program (includes public officials' liability)	\$1,000,000 to \$20,000,000
Property damage	50,000 to 100,000,000
Fidelity	100,000 to 500,000
Workers' compensation	2,000,000 statutory
Employers' liability	2,000,000 statutory

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.

7. PUBLIC EMPLOYEES' RETIREMENT SYSTEM (PERS)

A. Plan Description

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

B. Funding Policy

All full-time District employees are eligible to participate in the Plan. District employees' contribution rate of 8% is paid by the District's employee as part of an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2010-11 was 20.745% of annual payroll. The contribution requirements of the plan members are established by state statute.

C. Annual Pension Cost

For 2011, the District's annual pension cost of \$378,098 for CALPERS was equal to the District's required and actual contribution. The required contribution was determined as part of the June 30, 2008, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.75% of investment rate of return (net of administrative expenses), and (b) 3.25% to 14.45% projected annual salary increases that vary by age, duration of service and type of employment. Both (a) and (b) included an inflation component of 3% and annual production growth of 0.25%.

North Coast County Water District
Basic Financial Statements
For the year ended June 30, 2011

Notes to Basic Financial Statements, Continued

7. 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.

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2009	\$ 360,391	100%	-
June 30, 2010	353,263	100%	-
June 30, 2011	378,098	100%	-

8. 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.

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.

North Coast County Water District
Basic Financial Statements
For the year ended June 30, 2011

Notes to Basic Financial Statements, Continued

8. OTHER POST EMPLOYMENT BENEFITS, Continued

Membership of the plan consisted of the following at June 30, 2011:

Retirees and beneficiaries receiving benefits	23
Other participants fully eligible for benefits	0
Active plan member	<u>27</u>
Total	<u><u>50</u></u>

B. 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).

C. 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	\$ 89,778
Interest on net OPEB obligation	23,838
Adjustment to annual required contribution	<u>(3,880)</u>
Annual OPEB cost (expense)	109,736
Contributions made (premiums paid)	<u>(180,798)</u>
Increase (decrease) in net OPEB obligation	(71,062)
Net OPEB obligation - beginning of year	<u>595,943</u>
Net OPEB obligation - end of year	<u><u>\$ 524,881</u></u>

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.

North Coast County Water District
Basic Financial Statements
For the year ended June 30, 2011

Notes to Basic Financial Statements, Continued

8. OTHER POST EMPLOYMENT BENEFITS, Continued

The District's annual OPEB cost (expense) is equal to the ARC, and the net OPEB obligation for 2011 and the two preceding years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation (Asset)
6/30/2009	N/A	N/A	N/A
6/30/2010	\$ 767,789	78%	\$ 595,943
6/30/2011	109,736	478%	524,881

D. Plan Funded Status and Funding Progress

As of June 30, 2011, the most recent actuarial valuation date, the plan was zero percent funded. The Actuarial Accrued Liability (AAL) for benefits was \$866,351, and the actuarial value of assets was zero dollars, resulting in an Unfunded Actuarial Accrued Liability (UAAL) of \$866,351. The covered payroll (annual payroll of active employees covered by the plan) was \$1,840,674 and the ratio of UAAL to the covered payroll was 47.07 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 February of 2011 based upon June 30, 2010 amounts.

The actuarial cost method used for determining the benefit obligations is the entry age actuarial cost method. The actuarial assumptions included a 4 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 a projected salary increase rate of 2 percent. 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.

North Coast County Water District
Basic Financial Statements
For the year ended June 30, 2011

Notes to Basic Financial Statements, Continued

9. 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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ADDITIONAL INFORMATION

North Coast County Water District
Schedule of Capacity Charges
For the year ended June 30, 2011

Beginning Balance, July 1, 2010 \$ -

Storage and transmission fees received during the year:

- 164 Amapola Ave.	14,853
- 1327 Livingston Ave.	5,441
- 1144 Peralta Rd.	5,441
- 451 Talbot Ave.	5,441
- 209 Naomi Ave.	5,441
Total capacity charges received	<u>36,617</u>

Public improvement expenses for the year:

<u>Public Improvement Projects</u>	<u>Project Expenditures</u>	<u>Percentage Complete</u>	<u>Project expenditures funded with the above fees</u>	
			<u>Amount</u>	<u>Percentage</u>
T-4 Rifle Range Replacement Project	290,267	100%	24,493	8.4%
T-4 Valve Installation Project	12,124	100%	12,124	100%
Total Expenses:			<u>36,617</u>	

Ending Balance, June 30, 2011 \$ -

FEDERAL SUPPLEMENTARY REPORTS

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**North Coast County Water District
 Schedule of Expenditures of Federal Awards
 For the year ended June 30, 2011**

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identification Number	Federal		Total Expenditures
			Expenditures ARRA*	Expenditures Non-ARRA	
U.S. Department of the Interior - Bureau of Reclamation					
<i>Direct Program:</i>					
<u>Water Reclamation and Reuse Program:</u>					
ARRA - Recycled Water Project	15.504		\$ 496,622	\$ -	\$ 496,622
Recycled Water Project (Pacifica)	15.504		-	190,195	190,195
<i>Total Water Reclamation and Reuse Program</i>			<u>496,622</u>	<u>190,195</u>	<u>686,817</u>
Total Federal Expenditures			<u>\$ 496,622</u>	<u>\$ 190,195</u>	<u>\$ 686,817</u>

* ARRA indicates American Recovery and Reinvestment Act of 2009.

The accompanying notes to the Schedule of Expenditures of Federal Awards are an integral part of this supplementary information.

North Coast County Water District
Notes to Schedule of Expenditures of Federal Awards
For the year ended June 30, 2011

1. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the District and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the Basic financial statements.

2. DESCRIPTION OF MAJOR PROGRAMS

Water Reclamation and Reuse Program CFDA #15.504

Title XVI of Public Law 102-575, as amended (Title XVI), directs the Secretary of Interior, acting through the Commissioner, to undertake a program to identify and investigate opportunities to reclaim and reuse wastewaters and naturally impaired ground and surface water in the 17 Western States and Hawaii. Title XVI also provides authority for the Secretary to provide up to the lesser of 25 percent of, or the Federal appropriations ceiling (typically \$20 million) for, the cost of planning, design, and construction of specific water recycling projects.

For ARRA funded projects and in addition to the program objectives above, the Section 3 of the ARRA states the following objectives: (1) To preserve and create jobs and promote economic recovery. (2) To assist those most impacted by the recession. (3) To provide investments needed to increase economic efficiency by spurring technological advances in science and health. (4) To invest in transportation, environmental protection, and other infrastructure that will provide long-term economic benefits. (5) To stabilize State and local government budgets, in order to minimize and avoid reductions in essential services and counterproductive state and local tax increases. Funds are being used to plan, design and construct a pipeline for the District's water recycling project.



JJACPA, Inc.

A Professional Accounting Services Corp.

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING 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 the basic financial statements of North Coast County Water District (District) as of and for the year ended June 30, 2011, and have issued our report thereon dated November 2, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

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

November 2, 2011

JJACPA, Inc.
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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

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

Compliance

We have audited the compliance of North Coast County Water District (District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2011. The District's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, "*Audits of States, Local Governments, and Non-Profit Organizations*." Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2011.

Internal Control over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major federal

program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

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

This report is intended solely for the information and use of the Governing Board, others within the entity, Finance Committee, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

November 2, 2011

JJACPA, Inc.
JJACPA, Inc.

**North Coast County Water District
 Schedule of Findings and Questioned Costs
 For the year ended June 30, 2011**

Section I – Summary of Auditors’ Results

Financial Statements

Type of auditor’s report issued	Unqualified
Internal control over financial reporting:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified that are not considered to be material weaknesses?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified that are not considered to be material weakness(es)?	None reported
Type of auditor’s report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	No

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
15.504	Water Reclamation and Reuse Program

Dollar threshold used to distinguish between Type A and Type B programs:	\$300,000
Auditee qualified as low-risk auditee?	No

**North Coast County Water District
Schedule of Findings and Questioned Costs, Continued
For the year ended June 30, 2011**

Section II – Financial Statement Findings

No matters were reported.

Section III – Federal Award Findings and Questioned Costs

No matters were reported.

Section IV – Status of Prior Year Audit Findings

This is the first year of Single Audit for the District.

Section V – Corrective Action Plan

There were neither current year findings nor questioned costs (see Section III above).