

**NORTH COAST COUNTY WATER DISTRICT**

**ANNUAL FINANCIAL REPORT**  
**WITH INDEPENDENT AUDITOR'S REPORT**

**FOR THE YEAR ENDED JUNE 30, 2016**

# NORTH COAST COUNTY WATER DISTRICT

Annual Financial Report  
For the Year Ended June 30, 2016

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**NORTH COAST COUNTY WATER DISTRICT**

**Elected Officials and Administrative Personnel**

BOARD OF DIRECTORS

Joshua Cosgrove – President

Jack Burgett – 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, 2016, 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 did not audit the financial statements of the District for the year ended June 30, 2015. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the District, is based solely on the report of the other auditors. 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, 2016, 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 to 10 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***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2016 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Fechter & Company,  
Certified Public Accountants

A handwritten signature in black ink that reads "Fechter & Company, CPAs". The signature is written in a cursive, flowing style.

Sacramento, California  
December 9, 2016

# **NORTH COAST COUNTY WATER DISTRICT**

## **Management's Discussion and Analysis** For the Year Ended June 30, 2016

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, 2016. 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, 2016, the District's net position decreased \$1,408,008 to \$35,663,234 from \$37,071,242 at June 30, 2015. Operating revenues decreased by \$983,045 as a result of decrease in the residential water sales. Operating expenses (with depreciation included) decreased by \$70,050 primarily due to decrease in source of supply 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 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, 2016

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

**Net Position**  
**As of June 30, 2016 and 2015**

	2016	2015	Increase (Decrease)	Percent Change
<b>Assets:</b>				
Current assets	\$ 7,872,037	\$ 11,362,528	\$ (3,490,491)	(30.7)%
Non-current assets	40,903,237	39,068,947	1,834,290	4.7%
Total Assets	<u>48,775,274</u>	<u>50,431,475</u>	<u>(1,656,201)</u>	(3.3)%
<b>Deferred Outflows of Resources:</b>				
Pension plan	467,156	128,957	338,199	262.3%
Total Assets and Deferred Outflows of Resources	<u>49,242,430</u>	<u>50,560,432</u>	<u>(1,318,002)</u>	(2.6)%
<b>Liabilities:</b>				
Current liabilities	1,551,354	1,482,738	68,616	4.6%
Non-current liabilities	11,670,792	11,335,095	335,697	3.0%
Total Liabilities	<u>13,222,146</u>	<u>12,817,833</u>	<u>404,313</u>	3.2%
<b>Deferred Inflows of Resources:</b>				
Pension plan	357,050	671,357	(314,307)	(46.8)%
Total Deferred Inflows of Resources	<u>357,050</u>	<u>671,357</u>	<u>(314,307)</u>	(46.8)%
<b>Net Position:</b>				
Net investment in capital assets	35,438,237	33,278,947	2,159,290	6.5%
Unrestricted	224,997	3,792,295	(3,567,298)	(94.1)%
Total Net Position	<u>\$ 35,663,234</u>	<u>\$ 37,071,242</u>	<u>\$ (1,408,008)</u>	(3.8)%

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, 2016, decreased to \$35,663,234 from \$37,071,242 at June 30, 2015. The change in net position is due primarily to operating loss as a result of the Governor's declaration of a drought and the requirement to cut water usage.

**NORTH COAST COUNTY WATER DISTRICT**

**Management's Discussion and Analysis**  
For the Year Ended June 30, 2016

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

Operating results are summarized as follows:

**Operating Results**  
**For the Years Ended June 30, 2016 and 2015**

	2016	2015	Increase (Decrease)	Percent Change
Operating revenues	\$ 7,462,872	\$ 8,445,917	\$ (983,045)	(11.6)%
Operating expenses	10,065,895	10,135,945	(70,050)	(0.7)%
<b>Operating Loss</b>	<u>(2,603,023)</u>	<u>(1,690,028)</u>	<u>(912,995)</u>	54.0%
Non-operating revenues	1,067,156	1,033,740	33,416	3.2%
Non-operating expenses	(340,874)	(658,408)	317,534	(48.2)%
<b>Net Income Before Contributions</b>	<u>(1,876,741)</u>	<u>(1,314,696)</u>	<u>(562,045)</u>	42.8%
Capital contributions	161,558	326,039	(164,481)	(50.4)%
<b>Change in Net Position</b>	<u>(1,715,183)</u>	<u>(988,657)</u>	<u>(726,526)</u>	73.5%
<b>Net Position:</b>				
Beginning net position	37,071,242	41,928,813	(4,857,571)	(11.6)%
Prior period adjustment	307,175	3,868,914	4,176,089	(107.9)%
Beginning net position, restated	<u>37,378,417</u>	<u>38,059,899</u>	<u>(681,482)</u>	(1.8)%
<b>Total Net Position</b>	<u>\$ 35,663,234</u>	<u>\$ 37,071,242</u>	<u>\$ (1,408,008)</u>	(3.8)%

While the Statement of Net Position shows the change in financial position of net position, the operating results are reflected in the Statement of Revenues, Expenses, and Changes in Net Position (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, 2016

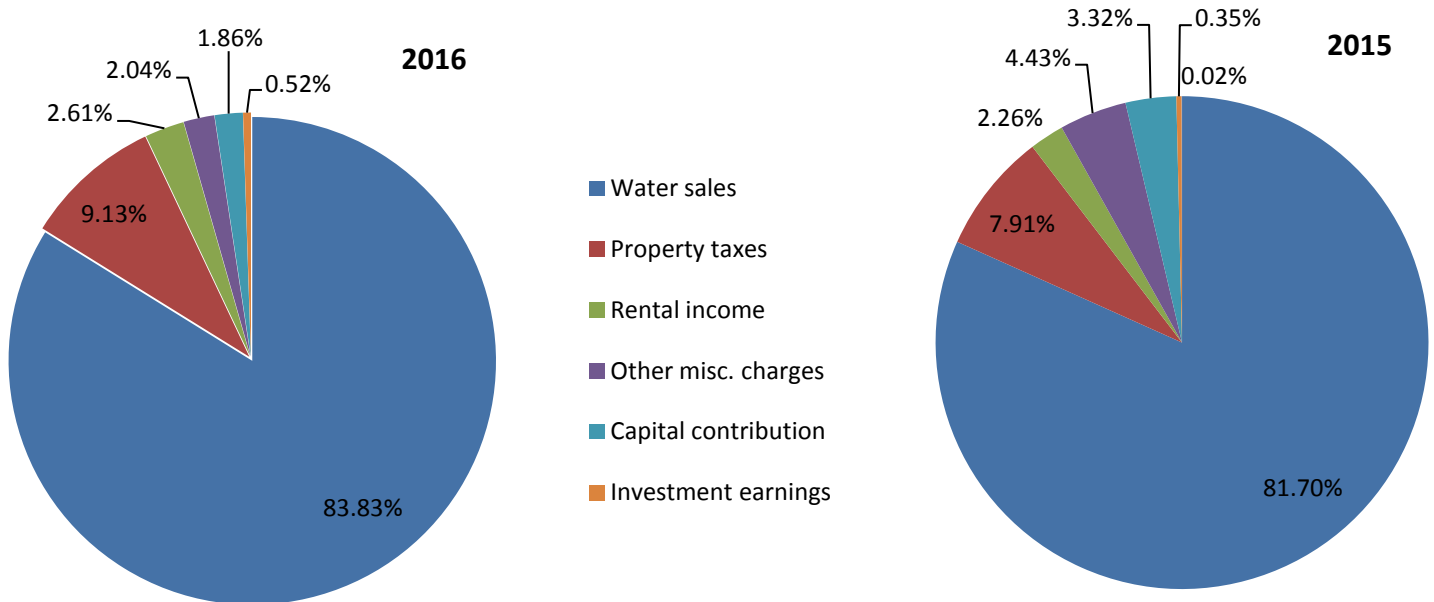
**Financial Analysis of the District as a Whole, Continued**

**Revenues**  
**For the years ended June 30, 2016 and 2015**

	<u>2016</u>	<u>Percent of Total</u>	<u>2015</u>	<u>Percent of Total</u>	<u>Increase (Decrease)</u>
<b>Revenues:</b>					
Water sales	\$ 7,285,993	83.83%	\$ 8,011,230	81.70%	\$ (725,237)
Other miscellaneous charges	176,879	2.04%	434,687	4.43%	(257,808)
Rental income	226,542	2.61%	221,554	2.26%	4,988
Property taxes	793,927	9.13%	775,866	7.91%	18,061
Investment earnings	45,592	0.52%	34,585	0.35%	11,007
Gain on disposition of assets	1,095	0.01%	1,735	0.02%	(640)
Capital contributions	161,558	1.86%	326,039	3.32%	(164,481)
<b>Total</b>	<b>\$ 8,691,586</b>	<b>100.00%</b>	<b>\$ 9,805,696</b>	<b>100.00%</b>	<b>\$ (1,114,110)</b>

The following is a graphic illustration of revenues by source:

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



Water sales decreased \$725,237 due to decrease in residential water sales. Property taxes increased by \$18,061 primarily due to increase in secured tax distribution from San Mateo County. Investment earnings increased by \$11,007, the result of higher interest rate. The decrease in capital contributions of \$164,481 was the result of completion of the Devil’s Slide Tunnel project.

**NORTH COAST COUNTY WATER DISTRICT**

**Management’s Discussion and Analysis**  
For the Year Ended June 30, 2016

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

Operating expenses decreased by \$70,050 as detailed below:

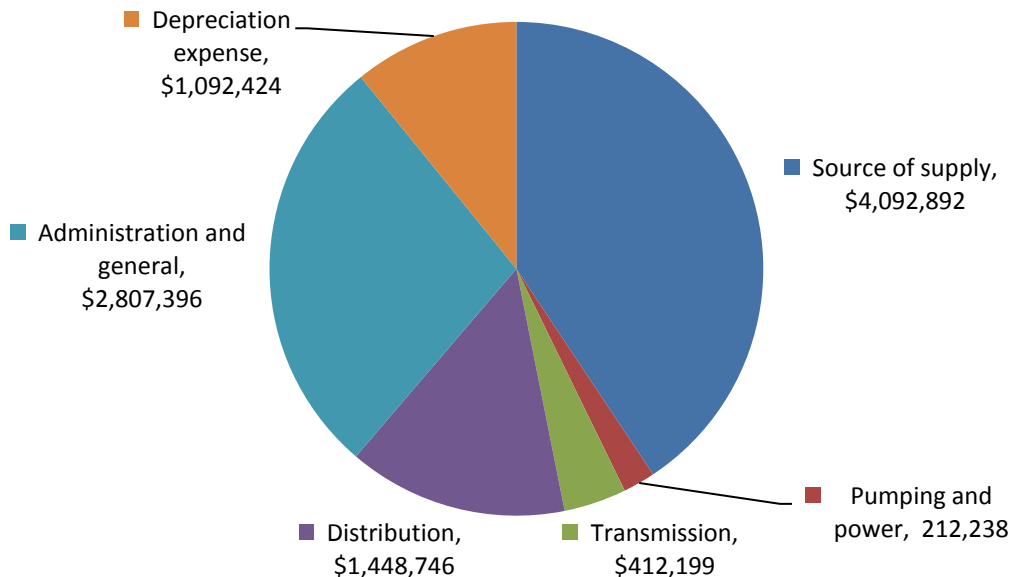
**Operating Expenses**  
**For the years ended June 30, 2016 and 2015**

	2016	2015	Increase (Decrease)	Percent Change
<b>Operating Expenses:</b>				
Source of supply	\$ 4,092,892	\$ 4,464,892	\$ (372,000)	(8.3)%
Pumping and power	212,238	284,681	(72,443)	(25.4)%
Transmission	412,199	411,000	1,199	0.3%
Distribution	1,448,746	1,354,311	94,435	7.0%
Administration and general	2,807,396	2,564,136	243,260	9.5%
Depreciation expense	1,092,424	1,056,925	35,499	3.4%
<b>Total</b>	<u>\$ 10,065,895</u>	<u>\$ 10,135,945</u>	<u>\$ (70,050)</u>	<u>(0.7)%</u>

Source of supply decreased \$372,000 due to decrease in water purchase from SFPUC, the result of lower water sales. Pumping and power costs decreased \$72,443 were the result of lower water consumption. Administration & general expense increased \$243,260 due primarily to higher retirement costs.

The following is a graphic illustration of operating expenses for 2016:

**Operating Expenses FY 2016**



**NORTH COAST COUNTY WATER DISTRICT**

**Management's Discussion and Analysis**  
For the Year Ended June 30, 2016

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

Net position decreased by \$1,408,008 as detailed below:

**Analysis of Net Position**  
**As of June 30, 2016 and 2015**

	<u>2016</u>	<u>2015</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
<b>Net position:</b>				
Net investment in capital assets	\$ 35,438,237	\$ 33,278,947	\$ 2,159,290	6.5%
Unrestricted	<u>224,997</u>	<u>3,792,295</u>	<u>(3,567,298)</u>	(94.1)%
<b>Total</b>	<u>\$ 35,663,234</u>	<u>\$ 37,071,242</u>	<u>\$ (1,408,008)</u>	(3.8)%

The change in net position is due primarily to the declined in water sales revenue as a result of conservation during the water supply state of emergency.

**Cash Flows**

Cash flows have decreased by \$3,565,788 which payment for Christen Hill Tank construction costs and District's operating costs.

**Capital Assets**

As of June 30, 2016, the District's capital assets amounted to \$40,903,237 (net of accumulated depreciation), an increase of \$1,834,290 from June 30, 2015.

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, 2016

### **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:

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

## **BASIC FINANCIAL STATEMENTS**

**NORTH COAST COUNTY WATER DISTRICT**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2016**  
(with comparative amounts for June 30, 2015)

	2016	2015
<b>Assets</b>		
Current Assets:		
Cash and investments	\$ 7,145,733	\$ 10,711,521
Accounts receivable:		
Customer water	605,368	581,617
Other	12,384	4,905
Taxes	11,328	10,432
Interest	9,462	6,935
Prepaid expenses and deposits	77,773	37,129
Inventory	9,989	9,989
<b>Total current assets</b>	<b>7,872,037</b>	<b>11,362,528</b>
Noncurrent Assets:		
Capital assets, net	40,903,237	39,068,947
<b>Total Assets</b>	<b>48,775,274</b>	<b>50,431,475</b>
<b>Deferred Outflows of Resources</b>		
Deferred pensions	467,156	128,957
<b>Total Assets and Deferred Outflows of Resources</b>	<b>\$ 49,242,430</b>	<b>\$ 50,560,432</b>
<b>Liabilities</b>		
Current Liabilities:		
Accounts payable	\$ 384,535	\$ 380,169
Accrued salaries and benefits	26,118	12,283
Other accrued liabilities	497,670	483,844
Customer deposits	186,444	205,004
Water connection deposits	70,868	27,469
Accrued interest payable	45,719	48,969
Current portion of long-term liabilities	340,000	325,000
<b>Total current liabilities</b>	<b>1,551,354</b>	<b>1,482,738</b>
Noncurrent Liabilities:		
Bonds payable - due after one year	5,125,000	5,465,000
Net OPEB obligation	2,281,801	2,129,245
Net pension liability	3,756,060	3,255,380
Accrued vacation and sick leave	507,931	485,470
<b>Total noncurrent liabilities</b>	<b>11,670,792</b>	<b>11,335,095</b>
<b>Total Liabilities</b>	<b>13,222,146</b>	<b>12,817,833</b>
<b>Deferred Inflows of Resources</b>		
Deferred pensions	357,050	671,357
<b>Total Deferred Inflows of Resources</b>	<b>357,050</b>	<b>671,357</b>
<b>Net Position</b>		
Net investment in capital assets	35,438,237	33,278,947
Unrestricted	224,997	3,792,295
<b>Total Net Position</b>	<b>35,663,234</b>	<b>37,071,242</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Net Position</b>	<b>\$ 49,242,430</b>	<b>\$ 50,560,432</b>

The accompanying notes are an integral part of these financial statements

**NORTH COAST COUNTY WATER DISTRICT**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
**FOR THE YEAR ENDED JUNE 30, 2016**  
**(with comparative amounts for June 30, 2015)**

	2016	2015
<b>Operating Revenues:</b>		
Water sales	\$ 7,285,993	\$ 8,011,230
Other miscellaneous charges	176,879	434,687
Total operating revenues	7,462,872	8,445,917
<b>Operating Expenses:</b>		
Source of supply	4,092,892	4,464,892
Pumping and power	212,238	284,681
Transmission	412,199	411,000
Distribution	1,448,746	1,354,311
Administration and general	2,807,396	2,564,136
Depreciation	1,092,424	1,056,925
Total operating expenses	10,065,895	10,135,945
Operating loss	(2,603,023)	(1,690,028)
<b>Non-Operating Revenues and (Expenses):</b>		
Property tax	793,927	775,866
Investment earnings	45,592	34,585
Rental income - cellular antennas	226,542	221,554
Gain on disposition of assets	1,095	1,735
Net OPEB expense	(152,556)	(458,661)
Interest expense	(188,318)	(199,747)
Total non-operating revenues and (expenses)	726,282	375,332
Loss before capital contributions	(1,876,741)	(1,314,696)
<b>Capital Contributions</b>		
Capacity charges	87,118	285,272
Developer contributions	74,440	294,532
Recycled water project	-	(253,765)
Total capital contributions	161,558	326,039
Change in net position	(1,715,183)	(988,657)
Beginning net position	37,071,242	41,928,813
Prior period adjustment	307,175	(3,868,914)
Beginning net position, restated	37,378,417	38,059,899
Ending net position	\$ 35,663,234	\$ 37,071,242

The accompanying notes are an integral part of these financial statements

**NORTH COAST COUNTY WATER DISTRICT**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED JUNE 30, 2016**  
**(with comparative amounts for June 30, 2015)**

	2016	2015
<b>Cash flows from operating activities:</b>		
Receipts from customers	\$ 7,456,481	\$ 8,459,207
Payments to suppliers	(6,992,469)	(6,757,700)
Payments to employees	(1,811,809)	(1,849,274)
	(1,347,797)	(147,767)
<b>Cash Flows from non-capital financing activities:</b>		
Property taxes received	793,031	778,533
Receipts from capacity charges	87,118	285,272
Receipts from cellular antenna rentals	226,542	221,554
	1,106,691	1,285,359
<b>Cash flows from capital and related financing activities:</b>		
Principal payments on long-term debt	(325,000)	(320,000)
Interest payments on long-term debt	(191,568)	(201,347)
Capital contributions	74,440	40,767
Proceeds from sale of capital assets	1,095	-
Acquisition and construction of capital assets	(2,926,714)	(1,259,663)
	(3,367,747)	(1,740,243)
<b>Cash flows from investing activities:</b>		
Investment income received	43,065	33,317
	43,065	33,317
Net decrease in cash and cash equivalents	(3,565,788)	(569,334)
Cash and cash equivalents, beginning of year	10,711,521	11,280,855
Cash and cash equivalents, end of year	\$ 7,145,733	\$ 10,711,521

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

**NORTH COAST COUNTY WATER DISTRICT  
STATEMENT OF CASH FLOWS (Continued)  
FOR THE YEAR ENDED JUNE 30, 2016  
(with comparative amounts for June 30, 2015)**

	2016	2015
<b>Reconciliation of operating loss to net cash used by operating activities:</b>		
Operating loss	\$ (2,603,023)	\$ (1,690,028)
Adjustments to reconcile operating to net cash used by operating activities:		
Depreciation	1,092,424	1,056,925
Pension expense	155,349	(71,134)
Changes in assets and liabilities:		
Accounts receivable	(31,230)	84,424
Inventory	-	150,909
Prepaid expenses	(40,644)	455
Accounts payable	4,366	(126,089)
Accrued salaries and benefits	13,835	(18,984)
Other accrued liabilities	13,826	483,844
Customer deposits	(18,560)	5,369
Water connection deposits	43,399	(9,474)
Accrued vacation and sick leave	22,461	(13,984)
<b>Net cash used by operating activities</b>	<b>\$ (1,347,797)</b>	<b>\$ (147,767)</b>

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

# NORTH COAST COUNTY WATER DISTRICT

Notes to the Basic Financial Statements  
For the Year Ended June 30, 2016

## **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 which 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, 2016

## **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, 2016

**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

# NORTH COAST COUNTY WATER DISTRICT

Notes to the Basic Financial Statements  
For the Year Ended June 30, 2016

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

### G. Property Taxes – continued

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

### 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.

## NORTH COAST COUNTY WATER DISTRICT

Notes to the Basic Financial Statements  
For the Year Ended June 30, 2016

### Note 2: Cash and Investments

#### A. Composition

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

	June 30, 2016		June 30, 2015	
	FDIC Insured	Not Rated	Total Fair Value	Total Fair Value
Cash in bank	\$ 250,000	\$ 51,179	\$ 301,179	\$ 897,304
Petty cash	-	500	500	500
Local Agency Investment Fund (LAIF)	-	6,844,054	6,844,054	9,813,717
Total	\$ 250,000	\$ 6,895,733	\$ 7,145,733	\$ 10,711,521

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, 2016

**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.

<u>Authorized Investment Type</u>	<u>Maximum Security</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 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

## NORTH COAST COUNTY WATER DISTRICT

Notes to the Basic Financial Statements  
For the Year Ended June 30, 2016

### Note 2: Cash and Investments - continued

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

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, 2016, these investments matured in an average of 167 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, 2016.

### Note 3: Capital Assets

Changes in capital assets and depreciation for the years ended June 30, 2016 were:

	Balance July 1, 2015	Additions	Deletions	Balance June 30, 2016
<b>Nondepreciable:</b>				
Land	\$ 832,867	\$ -	\$ -	\$ 832,867
Construction in progress	2,506,000	2,527,765	-	5,033,765
Total nondepreciable assets	<u>3,338,867</u>	<u>2,527,765</u>	<u>-</u>	<u>5,866,632</u>
<b>Depreciable:</b>				
Transmission and distribution	21,560,094	11,174	-	21,571,268
Source of supply plant	3,788,109	144,870	-	3,932,979
Reservoirs	9,089,049	7,918	-	9,096,967
Pumping plant	1,710,127	129,254	-	1,839,381
Recycle water project	10,690,030	-	-	10,690,030
Telemetry systems	714,394	33,441	-	747,835
Water treatment plant	288,445	10,010	-	298,455
Office building	287,225	-	-	287,225
Office building/warehouse	1,130,272	15,854	-	1,146,126
Equipment and vehicles	2,023,125	46,428	(37,982)	2,031,571
Total depreciable assets	<u>51,280,870</u>	<u>398,949</u>	<u>(37,982)</u>	<u>51,641,837</u>
Less: accumulated depreciation	<u>(15,550,790)</u>	<u>(1,092,424)</u>	<u>37,982</u>	<u>(16,604,794)</u>
Total depreciable assets (net)	<u>35,730,080</u>	<u>(693,475)</u>	<u>-</u>	<u>35,036,605</u>
Total capital assets	<u>\$ 39,068,947</u>	<u>\$ 1,834,290</u>	<u>\$ -</u>	<u>\$ 40,903,237</u>

## NORTH COAST COUNTY WATER DISTRICT

### Notes to the Basic Financial Statements For the Year Ended June 30, 2016

#### **Note 3: Capital Assets - continued**

Changes in capital assets and depreciation for the years ended June 30, 2015 were:

	Balance July 1, 2014	Additions	Deletions	Transfers/ Reclassifications	Balance June 30, 2015
<b>Nondepreciable:</b>					
Land	\$ 832,867	\$ -	\$ -	\$ -	\$ 832,867
Construction in progress	9,894,267	424,317	-	(7,812,584)	2,506,000
Total nondepreciable assets	10,727,134	424,317	-	(7,812,584)	3,338,867
<b>Depreciable:</b>					
Transmission and distribution	14,030,275	386,599	-	7,143,220	21,560,094
Source of supply plant	3,572,639	200,774	-	14,696	3,788,109
Reservoirs	8,960,420	34,645	-	93,984	9,089,049
Pumping plant	1,656,811	10,253	-	43,063	1,710,127
Recycle water project	10,419,903	22,332	-	247,795	10,690,030
Telemetry systems	685,118	29,276	-	-	714,394
Water treatment plant	288,445	-	-	-	288,445
Office building	21,246	-	-	265,979	287,225
Office building/warehouse	999,590	130,682	-	-	1,130,272
Equipment and vehicles	2,064,962	26,368	(68,205)	-	2,023,125
Total depreciable assets	42,699,409	840,929	(68,205)	7,808,737	51,280,870
Less: accumulated depreciation	(14,562,069)	(1,056,926)	68,205	-	(15,550,790)
Total depreciable assets (net)	28,137,340	(215,997)	(68,205)	7,808,737	35,730,080
Total capital assets	\$ 38,864,474	\$ 208,320	\$ (68,205)	\$ (3,847)	\$ 39,068,947

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

##### **A. Long-Term Debt Activity**

	Original Issue Amount	Balance July 1, 2015	Additions	Retirements	Balance June 30, 2016	Due Within One Year
Series 2012C California Statewide Community Development Authority 2.00-4.00%, due 10/1/2028	\$ 6,110,000	\$ 5,790,000	\$ -	\$ (325,000)	\$ 5,465,000	\$ 340,000
Total	\$ 6,110,000	\$ 5,790,000	\$ -	\$ (325,000)	\$ 5,465,000	\$ 340,000
Series 2012C California Statewide Community Development Authority 2.00-4.00%, due 10/1/2028	\$ 6,110,000	Balance July 1, 2014	Additions	Retirements	Balance June 30, 2015	Due Within One Year
	\$ 6,110,000	\$ 6,110,000	\$ -	\$ (320,000)	\$ 5,790,000	\$ 325,000
Total	\$ 6,110,000	\$ 6,100,000	\$ -	\$ (320,000)	\$ 5,790,000	\$ 325,000

**NORTH COAST COUNTY WATER DISTRICT**

Notes to the Basic Financial Statements  
For the Year Ended June 30, 2016

**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, 2016, a total of \$5,465,000 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
2017	\$ 340,000	\$ 176,075
2018	350,000	162,275
2019	365,000	147,975
2020	380,000	133,075
2021	395,000	121,525
2022-2026	2,170,000	401,750
2026-2029	1,465,000	71,800
Total	\$ 5,465,000	\$ 1,214,475
Due within one year	\$ 340,000	\$ 176,075
Due after one year	5,125,000	1,038,400
Total	\$ 5,465,000	\$ 1,214,475

**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 ACWAIJPIA. 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, 2016

**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 Plans 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 the California Public Employees' Retirement System (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, 2016

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

**A. General Information about the Pension Plans 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, 2016, 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	28.801%	8.512%	6.237%

**NORTH COAST COUNTY WATER DISTRICT**

Notes to the Basic Financial Statements  
For the Year Ended June 30, 2016

**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 is 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 measurement period ended June 30, 2016 (the measurement date), the active employees are required to contribute 8.0 percent of their annual pay. The District's average required contribution rate was 28.801 percent of annual payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

For the year ended June 30, 2016, the contributions to the pension plan recognized as part of pension expense were as follows:

	Fiscal Year Ended <u>June 30, 2016</u>
Contributions – employer	\$ 467,156
Contributions – employee	127,603

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

As of June 30, 2016, the District reported a liability of \$3,756,060, 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, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014, rolled forward to June 30, 2015, 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, 2014 and 2015, was as follows:

**NORTH COAST COUNTY WATER DISTRICT**

Notes to the Basic Financial Statements  
For the Year Ended June 30, 2016

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

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

	<u>Miscellaneous</u>
Proportion – June 30, 2014	0.13172%
Proportion – June 30, 2015	0.13691%

For the year ended June 30, 2016, the District recognized pension expense of \$622,505. At June 30, 2016, 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>
Pension contributions paid to CalPERS		
Subsequent to measurement date	\$ 467,156	\$
Net difference between projected and actual		
Earnings of pension plan investments		(357,050)
Total	<u>\$ 467,156</u>	<u>\$ (357,050)</u>

\$357,050 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, 2016. 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>
2016	\$ (179,111)
2017	(179,111)
2018	(162,768)
2019	163,940

**NORTH COAST COUNTY WATER DISTRICT**

Notes to the Basic Financial Statements  
For the Year Ended June 30, 2016

**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, 2014, actuarial valuations was determined using the following actuarial assumptions:

Valuation date	June 30, 2014
Measurement date	June 30, 2015
Actuarial cost method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount rate	7.65%
Inflation	2.75%
Payroll growth	3.00%
Projected salary increase	Varies by entry age and service
Investment rate of return	7.50% 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, 2014, valuation were based on the results of a January 2014 actuarial experience study for the period 1997 to 2011. For more details of the Experience Study can be found on the CalPERS website.

*Discount Rate* – The discount rate used to measure the total pension liability was 7.65 percent for the Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.65 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.65 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

# NORTH COAST COUNTY WATER DISTRICT

Notes to the Basic Financial Statements  
For the Year Ended June 30, 2016

## **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 - continued**

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50 percent investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65 percent. Using this lower discount rate has resulted in a slightly higher total pension liability and net pension liability. CalPERS checked the materiality threshold for the difference in calculation and did not find it to be a material difference.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as we have changed our methodology.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of 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. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 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 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 equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

**NORTH COAST COUNTY WATER DISTRICT**

Notes to the Basic Financial Statements  
For the Year Ended June 30, 2016

**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 - continued**

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%	5.25%	5.71%
Global fixed income	19.0%	0.99%	2.43%
Inflation sensitive	6.0%	0.45%	3.36%
Private equity	12.0%	6.83%	6.95%
Real estate	11.0%	4.50%	5.13%
Infrastructure and forestland	3.0%	4.50%	5.09%
Liquidity	2.0%	(.55%)	(1.05%)
	<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.

**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 (6.65%) or 1 percentage rate point higher (8.65%) than the current discount rate (7.65%):

	1% Decrease in Discount Rate (6.65%)	Current Discount Rate (7.65%)	1% Increase in Discount Rate (8.65%)
District's proportionate share of the net pension liability	\$ 6,299,175	\$ 3,756,060	\$ 1,656,423

**NORTH COAST COUNTY WATER DISTRICT**

Notes to the Basic Financial Statements  
For the Year Ended June 30, 2016

**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 - continued**

*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, 2016, the District reported no outstanding contributions to the pension plan required for the year ended June 30, 2016.

**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.

*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**

Notes to the Basic Financial Statements  
For the Year Ended June 30, 2016

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

**A. Plan Description - continued**

Membership of the plan consisted of the following at June 30, 2016:

Retirees and beneficiaries receiving benefits	24
Active plan member	24
Total	48

**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	\$	382,035
Interest on net OPEB obligation		106,462
Adjustment to annual required contribution		(109,964)
Annual OPEB cost (expense)		378,533
Contributions made (premiums paid)		225,977
Increase (decrease) in net OPEB obligation		152,556
Net OPEB obligation - beginning of year		2,129,245
Net OPEB obligation - end of year	\$	2,281,801

This is the fifth 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**

Notes to the Basic Financial Statements  
For the Year Ended June 30, 2016

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

**C. Annual OPEB Cost and Net OPEB Obligation - continued**

The District’s annual OPEB cost (expense) is equal to the ARC, and the net OPEB obligation for fiscal year 2015-16 and the two preceding years were as follows:

Fiscal Year Ended	Annual OPEB Costs	Percentage of Annual OPEB Costs Contributed	Net OPEB Obligation (Assets)
June 30, 2014	\$ 692,787	\$ 37%	\$ 1,670,584
June 30, 2015	693,100	34%	2,129,245
June 30, 2016	378,533	60%	2,281,801

**D. Plan Funded Status and Funding Progress**

As of June 30, 2016, the most recent actuarial valuation date, the plan was zero percent funded. The Actuarial Accrued Liability (AAL) for benefits was \$4,970,766 and the actuarial value of assets was zero dollars, resulting in an Unfunded Actuarial Accrued Liability (UAAL) of \$4,970,766. The covered payroll (annual payroll of active employees covered by the plan) was \$1,821,904 and the ratio of UAAL to the covered payroll was 272.83 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 September of 2016 based upon June 30, 2016 amounts.

# NORTH COAST COUNTY WATER DISTRICT

Notes to the Basic Financial Statements  
For the Year Ended June 30, 2016

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

### **D. Plan Funded Status and Funding Progress - continued**

#### *Actuarial Methods and Assumptions - continued*

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 1 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.

## **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**

A prior period adjustment of \$307,175 was recorded to increase the beginning net position. The adjustment was made to restate the June 30, 2015 balance of deferred outflows of resources related to pensions from \$128,957 to \$436,132.

## **Note 10: Subsequent Events**

Management has evaluated subsequent events through December 9, 2016, 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, 2016**

	June 30, 2015 *	June 30, 2014 *
Contractually required contributions (actuarially determined)	\$ 421,912	\$ 371,392
Contributions in relation to the actuarially determined contributions	(436,132)	(371,392)
Contribution deficiency (excess)	\$ (14,220)	\$ -
Covered-employee payroll	\$ 1,627,882	\$ 1,610,044
Contribution as a percentage of covered-employee payroll	25.92%	23.07%

\* Fiscal year ended June 30, 2015, was the first year of implementation, therefore, only two years of information was available.

**NORTH COAST COUNTY WATER DISTRICT  
 REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
 JUNE 30, 2016**

	<u>June 30, 2015 *</u>	<u>June 30, 2014 *</u>
Proportion of the net pension liability	0.13691%	0.13172%
Proportionate share of the net pension liability	\$ 3,756,060	\$ 3,255,380
Covered-employee payroll	\$ 1,627,882	\$ 1,610,044
Proportionate share of the net pension liability as a percentage of its covered-employee payroll	230.73%	202.19%
Plan's fiduciary net position	\$ 9,136,544	\$ 9,221,044
Plan's fiduciary net position as a percentage of its total pension liability	70.87%	73.91%
Valuation date	June 30, 2014	June 30, 2013

\* Fiscal year ended June 30, 2015, was the first year of implementation, therefore, only two years of information was available.

**NORTH COAST COUNTY WATER DISTRICT  
SCHEDULE OF CAPACITY CHARGES  
FOR THE YEAR ENDED JUNE 30, 2016**

Beginning Balance, July 1, 2015 \$ -

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

Shamrock Ranch	\$ 47,530
709 Hickey Blvd.	17,824
1400 Adobe	5,441
366 Carmel Ave.	5,441
35 Malavear Court	5,441
753 Rockaway Beach	5,441
Total capacity charges received	\$ 87,118

**Public Improvement Expenses for the Year:**

Public Improvement Projects	Project Expenditures	Percentage Complete	Project Expenditures Funded with the Above Fees	
			Amount	Percentage
Christen Hill Tank Replacement Project	\$ 2,239,918	90%	\$ 17,824	0.80%
Main Pump Station Pump C Replacement	118,425	100%	16,323	13.78%
Highway 1 Water Line Repair Project	56,713	100%	47,530	83.81%
Sheila Tank Replacement Project	23,002	5%	5,441	23.65%
Total expenses	\$ 2,438,058		\$ 87,118	

Ending Balance, June 30, 2016 \$ -

## **ADDITIONAL INFORMATION**

**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, 2016, and the related notes to the financial statements, which collectively comprise North Coast County Water District's basic financial statements, and have issued our report thereon dated December 9, 2016.

**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 internal control 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

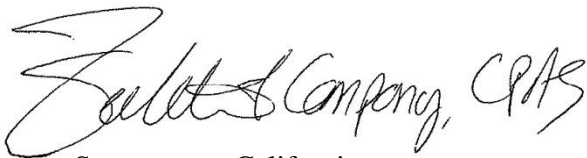
### **Compliance and Other Matters**

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

A handwritten signature in black ink that reads "Fechter & Company, CPAs". The signature is written in a cursive, flowing style.

Sacramento, California  
December 9, 2016