

NORTH COAST COUNTY WATER DISTRICT

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

**FOR THE YEAR ENDED
JUNE 30, 2020**

NORTH COAST COUNTY WATER DISTRICT

Annual Financial Report
For the Year Ended June 30, 2020

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NORTH COAST COUNTY WATER DISTRICT

Elected Officials and Administrative Personnel

BOARD OF DIRECTORS

Anne De Jarnatt – President

Thomas Piccolotti – Vice President

Joshua Cosgrove – Director

Jack Burgett – Director

Ron Ash – Director

MANAGEMENT

Adrienne Carr – 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, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the District as of June 30, 2020, and the respective changes in financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (MD&A) on pages 4-10, and the Schedule of Pension Contributions, the Schedule of District's Proportionate Share of the Net Pension Liability, and the Schedule of Changes in Net OPEB Liability, on pages 35-37, 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 38 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 November 2, 2020 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance, and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Fechter & Company
Certified Public Accountants

A handwritten signature in cursive script that reads "Fechter & Company, CPAs". The signature is written in black ink and is positioned above the printed name and address of the firm.

Sacramento, California
November 2, 2020

NORTH COAST COUNTY WATER DISTRICT

Management's Discussion and Analysis For the Year Ended June 30, 2020

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, 2020. 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, 2020, the District's net position increased by \$1,887,978, to \$36,677,883 from \$34,789,905 at June 30, 2019. Operating revenues increased by \$648,506, as a result of an increase in water rates and charges. Operating expenses (with depreciation included) increased by \$1,765,820, primarily due to increase in salaries & wages, retirement costs, and depreciation expense.

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, 2020

Financial Analysis of the District as a Whole

Net Position As of June 30, 2020 and 2019

	2020	2019	Increase (Decrease)	Percent Change
Assets:				
Current assets	\$ 15,054,014	\$ 11,584,977	\$ 3,469,037	29.9%
Non-current assets	38,260,981	39,250,138	(989,157)	-2.5%
Total Assets	<u>53,314,995</u>	<u>50,835,115</u>	<u>2,479,880</u>	4.9%
Deferred Outflows of Resources:				
Pension plan	1,217,830	1,339,673	(121,843)	-9.1%
Total Assets and Deferred Outflows of Resources	<u>54,532,825</u>	<u>52,174,788</u>	<u>2,358,037</u>	4.5%
Liabilities:				
Current liabilities	1,399,033	1,439,837	(40,804)	-2.8%
Non-current liabilities	13,705,305	13,808,343	(103,038)	-0.7%
Total Liabilities	<u>15,104,338</u>	<u>15,248,180</u>	<u>(143,842)</u>	-0.9%
Deferred Inflows of Resources:				
Pension plan	292,442	248,725	43,717	17.6%
Total Deferred Inflows of Resources	<u>292,442</u>	<u>248,725</u>	<u>43,717</u>	17.6%
Net Position:				
Net investment in capital assets	34,230,981	34,840,138	(609,157)	-1.7%
Unrestricted	4,905,064	1,837,745	3,067,319	166.9%
Total Net Position	<u>\$ 39,136,045</u>	<u>\$ 36,677,883</u>	<u>\$ 2,458,162</u>	6.7%

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, 2020, increased to \$39,136,045 from \$36,677,883 at June 30, 2019. The change in net position is due primarily to current year operating income of \$957,216 and non-operating revenues of \$1,565,488.

NORTH COAST COUNTY WATER DISTRICT

Management's Discussion and Analysis
For the Year Ended June 30, 2020

Financial Analysis of the District as a Whole, Continued

Operating results are summarized as follows:

Operating Results
For the Years Ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
Operating revenues	\$ 12,988,994	\$ 12,803,243	\$ 185,751	1.5%
Operating expenses	<u>12,031,778</u>	<u>12,334,707</u>	<u>(302,929)</u>	-2.5%
Operating Income	<u>957,216</u>	<u>468,536</u>	<u>488,680</u>	104.3%
Non-operating revenues	1,565,488	1,463,077	102,411	7.0%
Non-operating expenses	<u>(131,066)</u>	<u>(146,076)</u>	<u>15,010</u>	-10.3%
Net Income Before Contributions	<u>2,391,638</u>	<u>1,785,537</u>	<u>606,101</u>	-33.9%
Capital contributions	<u>66,524</u>	<u>102,441</u>	<u>(35,917)</u>	35.1%
Change in Net Position	<u>2,458,162</u>	<u>1,887,978</u>	<u>570,184</u>	-30.2%
Net Position:				
Beginning net position	<u>36,677,883</u>	<u>34,789,905</u>	<u>1,887,978</u>	5.4%
Total Net Position	<u><u>\$ 39,136,045</u></u>	<u><u>\$ 36,677,883</u></u>	<u><u>\$ 2,458,162</u></u>	6.7%

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, 2020

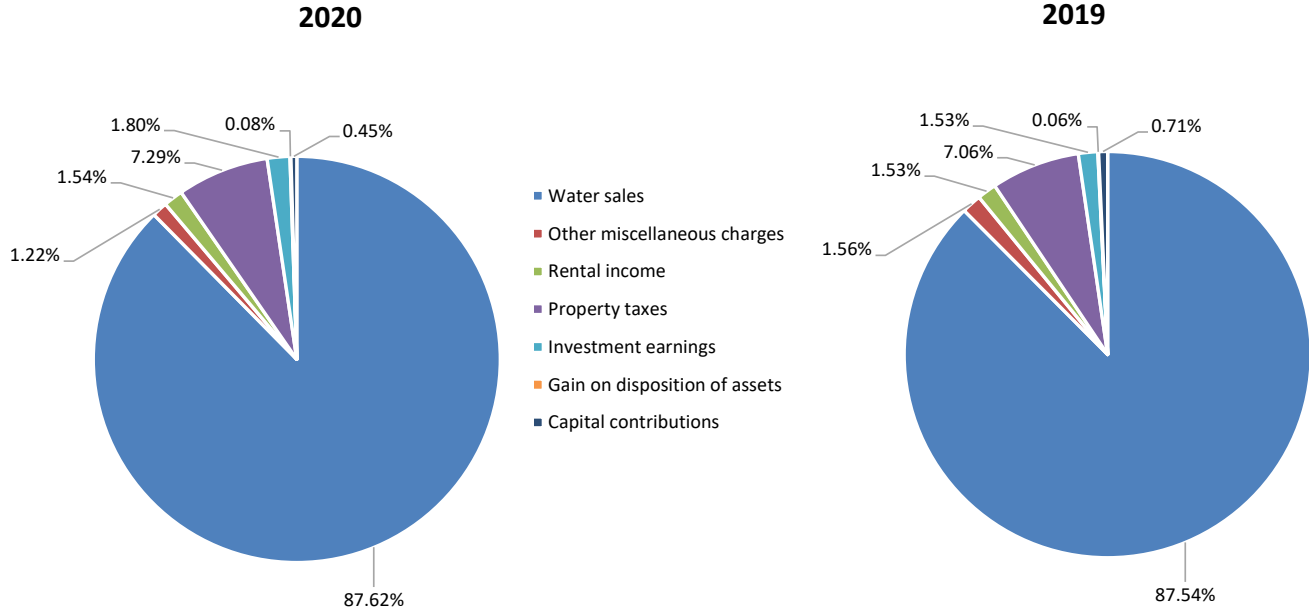
Financial Analysis of the District as a Whole, Continued

Revenues For the Years Ended June 30, 2020 and 2019

	2020	Percent of Total	2019	Percent of Total	Increase (Decrease)
Revenues:					
Water sales	\$ 12,811,097	87.62%	\$ 12,578,770	87.54%	\$ 232,327
Other miscellaneous charges	177,897	1.22%	224,473	1.56%	(46,576)
Rental income	225,489	1.54%	219,507	1.53%	5,982
Property taxes	1,065,270	7.29%	1,014,238	7.06%	51,032
Investment earnings	263,150	1.80%	220,523	1.53%	42,627
Gain on disposition of assets	11,579	0.08%	8,809	0.06%	2,770
Capital contributions	66,524	0.45%	102,441	0.71%	(35,917)
Total	\$ 14,621,006	100.00%	\$ 14,368,761	100.00%	\$ 252,245

The following is a graphic illustration of revenues by source:

Revenues by Source Both Operating & Non-Operating



Water sales increased \$232,327 due to increase in water billing rates. Property taxes increased by \$51,032 primarily due to increase in secured tax and Education Revenue Augmentation Fund (ERAF) distributions from San Mateo County. The increase in investment earnings of \$42,627 was the result of higher cash balances in the LAIF account.

NORTH COAST COUNTY WATER DISTRICT

Management's Discussion and Analysis For the Year Ended June 30, 2020

Financial Analysis of the District as a Whole, Continued

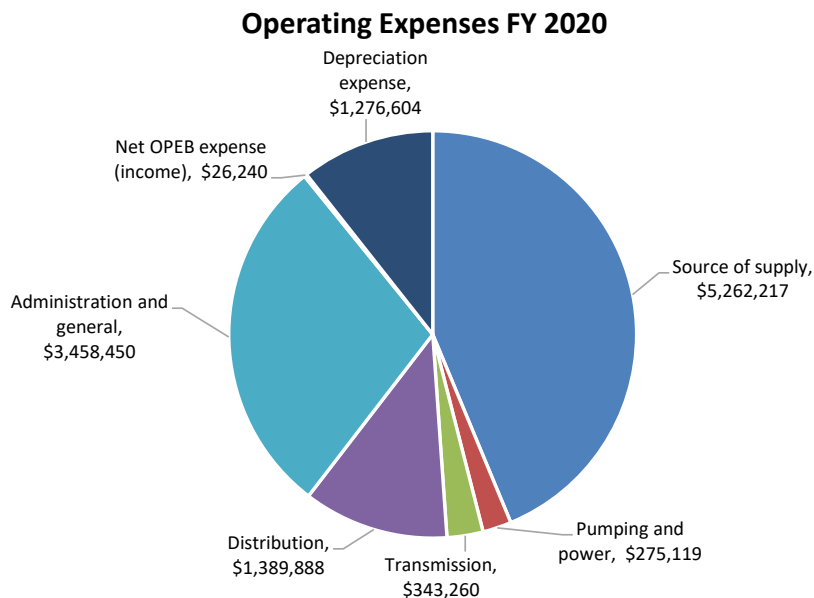
Operating expenses decreased by \$302,929, as detailed below:

Operating Expenses For the Years Ended June 30, 2020 and 2019

	2020	2019	Increase (Decrease)	Percent Change
Operating Expenses:				
Source of supply	\$ 5,262,217	\$ 5,023,136	\$ 239,081	4.8%
Pumping and power	275,119	252,439	22,680	9.0%
Transmission	343,260	383,467	(40,207)	-10.5%
Distribution	1,389,888	1,512,277	(122,389)	-8.1%
Administration and general	3,458,450	3,051,816	406,634	13.3%
Net OPEB expense (income)	26,240	832,580	(806,340)	-96.8%
Depreciation expense	1,276,604	1,278,992	(2,388)	-0.2%
Total	\$ 12,031,778	\$ 12,334,707	\$ (302,929)	-2.5%

Total operating expenses decreased by \$302,929 due primarily to the decrease in Net OPEB expenses. During 2019, Net OPEB expenses were higher due to the retirement of 5 employees during the year. Administration and general expenses increased by \$406,634 due primarily to higher retirement costs and legal fees.

The following is a graphic illustration of operating expenses for 2020:



NORTH COAST COUNTY WATER DISTRICT

Management's Discussion and Analysis For the Year Ended June 30, 2020

Financial Analysis of the District as a Whole, Continued

Net position increased by \$2,458,162, as detailed below:

Analysis of Net Position As of June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>	Increase (Decrease)	Percent Change
Net Position:				
Net investment in capital assets	\$ 34,230,981	\$ 34,840,138	\$ (609,157)	-1.7%
Unrestricted	<u>4,905,064</u>	<u>1,837,745</u>	<u>3,067,319</u>	166.9%
Total	<u><u>\$ 39,136,045</u></u>	<u><u>\$ 36,677,883</u></u>	<u><u>\$ 2,458,162</u></u>	6.7%

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

Cash Flows

Cash flows increased by \$3,257,980 which was due primarily to net cash of \$2,432,232 from operating activities and property tax revenue of \$1,047,078.

Capital Assets

As of June 30, 2020, the District's capital assets amounted to \$38,260,981 (net of accumulated depreciation), a decrease of \$989,157 from June 30, 2019.

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, 2020

Economic Factors and Potential Future Results

State law maintains that the District's rate-based revenues must cover the costs of District operations, maintenance, and capital improvement projects. Accordingly, the District sets its rates to its users to cover the costs of operations, maintenance, and capital improvement projects, plus any increments for known or anticipated changes in program costs such as the increases in the wholesale water rate charged by the San Francisco Public Utilities Commission. 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:

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

BASIC FINANCIAL STATEMENTS

NORTH COAST COUNTY WATER DISTRICT
STATEMENTS OF NET POSITION
JUNE 30, 2020
(with comparative amounts for June 30, 2019)

	2020	2019
Assets		
Current Assets:		
Cash and investments	\$ 14,014,410	\$ 10,756,430
Accounts receivable:		
Customer water	844,474	647,057
Other	9,854	9,267
Taxes	32,515	14,323
Interest	41,715	55,956
Prepaid expenses and deposits	101,057	91,955
Inventory	9,989	9,989
Total current assets	15,054,014	11,584,977
Noncurrent Assets:		
Capital assets, net	38,260,981	39,250,138
Total Assets	53,314,995	50,835,115
Deferred Outflows of Resources		
Deferred pensions	1,217,830	1,339,673
Total Assets and Deferred Outflows of Resources	\$ 54,532,825	\$ 52,174,788
Liabilities		
Current Liabilities:		
Accounts payable	\$ 158,727	\$ 85,885
Accrued salaries and benefits	43,670	51,998
Other accrued liabilities	490,278	597,027
Customer deposits	179,029	191,443
Water connection deposits	100,960	98,315
Accrued interest payable	31,369	35,169
Current portion of long-term liabilities	395,000	380,000
Total current liabilities	1,399,033	1,439,837
Noncurrent Liabilities:		
Bonds payable - due after one year	3,635,000	4,030,000
Net OPEB obligation	4,910,720	4,884,480
Net pension liability	4,788,707	4,590,011
Accrued vacation and sick leave	370,878	303,852
Total noncurrent liabilities	13,705,305	13,808,343
Total Liabilities	15,104,338	15,248,180
Deferred Inflows of Resources		
Deferred pensions	292,442	248,725
Net Position		
Net investment in capital assets	34,230,981	34,840,138
Unrestricted	4,905,064	1,837,745
Total Net Position	39,136,045	36,677,883
Total Liabilities, Deferred Inflows of Resources, and Net Position	\$ 54,532,825	\$ 52,174,788

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

NORTH COAST COUNTY WATER DISTRICT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2020
(with comparative amounts for June 30, 2019)

	2020	2019
Operating Revenues:		
Water sales	\$ 12,811,097	\$ 12,578,770
Other miscellaneous charges	177,897	224,473
Total operating revenues	12,988,994	12,803,243
Operating Expenses:		
Source of supply	5,262,217	5,023,136
Pumping and power	275,119	252,439
Transmission	343,260	383,467
Distribution	1,389,888	1,512,277
Administration and general	3,458,450	3,051,816
Net OPEB expense (income)	26,240	832,580
Depreciation	1,276,604	1,278,992
Total operating expenses	12,031,778	12,334,707
Operating income	957,216	468,536
Non-Operating Revenues and (Expenses):		
Property tax	1,065,270	1,014,238
Investment earnings	263,150	220,523
Rental income - cellular antennas	225,489	219,507
Gain on disposition of assets	11,579	8,809
Interest expense	(131,066)	(146,076)
Total non-operating revenues and (expenses)	1,434,422	1,317,001
Income before capital contributions	2,391,638	1,785,537
Capital Contributions		
Capacity charges	66,524	102,441
Change in net position	2,458,162	1,887,978
Beginning net position	36,677,883	34,789,905
Ending net position	\$ 39,136,045	\$ 36,677,883

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

NORTH COAST COUNTY WATER DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2020
(with comparative amounts for June 30, 2019)

	2020	2019
Cash flows from operating activities:		
Receipts from customers	\$ 12,781,221	\$ 12,805,125
Payments to suppliers	(8,647,849)	(8,034,475)
Payments to employees	(1,701,140)	(2,213,517)
	2,432,232	2,557,133
Cash flows from non-capital financing activities:		
Property taxes received	1,047,078	1,011,581
Receipts from cellular antenna rentals	225,489	219,507
	1,272,567	1,231,088
Cash flows from capital and related financing activities:		
Principal payments on long-term debt	(380,000)	(365,000)
Interest payments on long-term debt	(134,866)	(149,726)
Receipts from capacity charges	66,524	102,441
Proceeds from sale of capital assets	11,579	8,809
Acquisition and construction of capital assets	(287,447)	(647,981)
	(724,210)	(1,051,457)
Cash flows from investing activities:		
Investment income received	277,391	193,311
	277,391	193,311
Net increase in cash and cash equivalents	3,257,980	2,930,075
Cash and cash equivalents, beginning of year	10,756,430	7,826,355
Cash and cash equivalents, end of year	\$ 14,014,410	\$ 10,756,430

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

**NORTH COAST COUNTY WATER DISTRICT
STATEMENTS OF CASH FLOWS (Continued)
FOR THE YEAR ENDED JUNE 30, 2020
(with comparative amounts for June 30, 2019)**

	2020	2019
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 957,216	\$ 468,536
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation	1,276,604	1,278,992
Pension expense	364,256	213,106
Changes in assets and liabilities:		
Accounts receivable	(198,004)	(13,537)
Prepaid expenses	(9,102)	(3,573)
Accounts payable	72,842	(59,407)
Accrued salaries and benefits	(8,328)	18,573
Other accrued liabilities	(106,749)	29,763
Customer deposits	(12,414)	9,558
Water connection deposits	2,645	5,861
Net OPEB obligation	26,240	832,580
Accrued vacation and sick leave	67,026	(223,319)
Net cash provided by operating activities	\$ 2,432,232	\$ 2,557,133

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

NOTES TO THE BASIC FINANCIAL STATEMENTS

NORTH COAST COUNTY WATER DISTRICT

Notes to the Basic Financial Statements
For the Year Ended
June 30, 2020

Note 1: Summary of Significant Accounting Policies

The financial statements of North Coast County Water District (District) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental enterprises classified as proprietary fund types. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The reports are based on all applicable GASB pronouncements as well as applicable Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Review Boards of the Committee on Accounting Procedure issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. When applicable, certain prior year amounts have been reclassified to conform to current year presentation. The following is a summary of the more significant policies:

A. Description of the Reporting Entity

The District is organized under the Water Code provisions of the general laws of the State of California and is governed by a five-member Board of Directors elected at large by the registered voters of the District. The District is located in Pacifica along the Pacific Ocean in San Mateo County; it purchases all of its water supply from the San Francisco Public Utilities Commission. Water is distributed to customers inside and outside the District's boundaries.

Oversight responsibility, the ability to conduct independent financial affairs, issue debt instruments, approve budgets, and otherwise influence operations and account for fiscal matters is exercised by the District's Board of Directors. The District is a separate reporting entity for financial reporting purposes and the accompanying financial statements reflect the assets, liabilities, net position, revenues, and expenses of the District only.

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

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

NORTH COAST COUNTY WATER DISTRICT

Notes to the Basic Financial Statements
For the Year Ended
June 30, 2020

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 deposit 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, 2020

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 the life of the asset are not capitalized. Improvements are capitalized.

G. Property Taxes

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

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

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

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

NORTH COAST COUNTY WATER DISTRICT

Notes to the Basic Financial Statements
For the Year Ended
June 30, 2020

Note 1: Summary of Significant Accounting Policies – continued

G. Property Taxes – continued

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

55% remitted on December 15

40% remitted on April 15

5% remitted on June 15

H. Pensions

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

I. Accrued Vacation and Sick Leave

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

J. Comparative Data

Comparative data for the prior year has been presented in the accompanying financial statements in order to provide an understanding of changes in the District’s financial position and operations.

K. Reclassifications

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

NORTH COAST COUNTY WATER DISTRICT

Notes to the Basic Financial Statements
For the Year Ended
June 30, 2020

Note 2: Cash and Investments

A. Composition

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

	June 30, 2020		June 2019	
	FDIC Insured	Not Rated	Total Fair Value	Total Fair Value
Cash in bank	\$ 250,000	\$ 1,922,454	\$ 2,172,454	\$ 1,677,191
Petty cash	-	500	500	500
Local Agency Investment Fund (LAIF)	-	11,841,456	11,841,456	9,078,739
Total Capital Assets, Net	<u>\$ 250,000</u>	<u>\$ 13,764,410</u>	<u>\$ 14,014,410</u>	<u>\$10,756,430</u>

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, 2020

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 fair value amount provided by LAIF, which is the same as the value of the pool share.

NORTH COAST COUNTY WATER DISTRICT

Notes to the Basic Financial Statements
For the Year Ended
June 30, 2020

Note 2: Cash and Investments – continued

E. Interest Rate and Credit Risk – continued

The balance available for withdrawal is based on the accounting records maintained by LAIF, which are maintained on an amortized cost basis. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, United States Treasury Notes and Bills, and corporations. At June 30, 2020, these investments matured in an average of 191 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, 2020.

NORTH COAST COUNTY WATER DISTRICT

Notes to the Basic Financial Statements
For the Year Ended
June 30, 2020

Note 3: Capital Assets

Changes in capital assets and depreciation for the year ended June 30, 2020 were:

	<u>Balance July 1, 2019</u>	<u>Additions</u>	<u>Deletions/ Transfers</u>	<u>Balance June 30, 2020</u>
Nondepreciable:				
Land	\$ 832,867	\$ -	\$ -	\$ 832,867
Construction in progress	5,254,900	152,555	(5,134,542)	272,913
Total nondepreciable assets	<u>6,087,767</u>	<u>152,555</u>	<u>(5,134,542)</u>	<u>1,105,780</u>
Depreciable:				
Transmission and distribution	21,804,277	11,276	-	21,815,553
Source of supply plant	4,290,667	84,410	-	4,375,077
Reservoirs	9,155,433	1,560	5,134,542	14,291,535
Pumping plant	2,044,377	-	(62,892)	1,981,485
Recycle water project	10,690,030	-	-	10,690,030
Telemetry systems	837,966	-	-	837,966
Water treatment plant	300,763	-	-	300,763
Office building	300,000	-	-	300,000
Office building/warehouse	1,345,723	14,412	-	1,360,135
Equipment and vehicles	2,418,474	23,234	(106,310)	2,335,398
Total depreciable assets	<u>53,187,710</u>	<u>134,892</u>	<u>4,965,340</u>	<u>58,287,942</u>
Less: accumulated depreciation	<u>(20,025,339)</u>	<u>(1,276,604)</u>	<u>169,202</u>	<u>(21,132,741)</u>
Total depreciable assets, net	<u>33,162,371</u>	<u>(1,141,712)</u>	<u>5,134,542</u>	<u>37,155,201</u>
Total capital assets, net	<u>\$39,250,138</u>	<u>\$ (989,157)</u>	<u>\$ -</u>	<u>\$38,260,981</u>

NORTH COAST COUNTY WATER DISTRICT

Notes to the Basic Financial Statements
For the Year Ended
June 30, 2020

Note 3: Capital Assets – continued

Changes in capital assets and depreciation for the year ended June 30, 2019 were:

	Balance July 1, 2018	Additions	Deletions/ Transfers	Balance June 30, 2019
Nondepreciable:				
Land	\$ 832,867	\$ -	\$ -	\$ 832,867
Construction in progress	5,415,361	38,282	(198,743)	5,254,900
Total nondepreciable assets	<u>6,248,228</u>	<u>38,282</u>	<u>(198,743)</u>	<u>6,087,767</u>
Depreciable:				
Transmission and distribution	21,786,173	18,104	-	21,804,277
Source of supply plant	4,199,322	91,345	-	4,290,667
Reservoirs	9,140,197	15,236	-	9,155,433
Pumping plant	1,961,358	83,019	-	2,044,377
Recycle water project	10,690,030	-	-	10,690,030
Telemetry systems	820,494	17,472	-	837,966
Water treatment plant	300,763	-	-	300,763
Office building	300,000	-	-	300,000
Office building/warehouse	1,141,951	5,029	198,743	1,345,723
Equipment and vehicles	2,080,981	379,494	(42,001)	2,418,474
Total depreciable assets	<u>52,421,269</u>	<u>609,699</u>	<u>156,742</u>	<u>53,187,710</u>
Less: accumulated depreciation	<u>(18,788,348)</u>	<u>(1,278,992)</u>	<u>42,001</u>	<u>(20,025,339)</u>
Total depreciable assets, net	<u>33,632,921</u>	<u>(669,293)</u>	<u>198,743</u>	<u>33,162,371</u>
Total capital assets, net	<u>\$39,881,149</u>	<u>\$ (631,011)</u>	<u>\$ -</u>	<u>\$39,250,138</u>

Note 4: Long-Term Debt

A. Long-Term Debt Activity

	Original Issue Amount	Balance July 1, 2019	Additions	Retirements	Balance June 30, 2020	Due Within One Year
Series 2012C California Statewide Community Development Authority 2.00-4.00%, due 10/1/2028	\$ 6,110,000	\$ 4,410,000	\$ -	\$ (380,000)	\$ 4,030,000	\$ 395,000
Total	<u>\$ 6,110,000</u>	<u>\$ 4,410,000</u>	<u>\$ -</u>	<u>\$ (380,000)</u>	<u>\$ 4,030,000</u>	<u>\$ 395,000</u>

	Original Issue Amount	Balance July 1, 2018	Additions	Retirements	Balance June 30, 2019	Due Within One Year
Series 2012C California Statewide Community Development Authority 2.00-4.00%, due 10/1/2028	\$ 6,110,000	\$ 4,775,000	\$ -	\$ (365,000)	\$ 4,410,000	\$ 380,000
Total	<u>\$ 6,110,000</u>	<u>\$ 4,775,000</u>	<u>\$ -</u>	<u>\$ (365,000)</u>	<u>\$ 4,410,000</u>	<u>\$ 380,000</u>

NORTH COAST COUNTY WATER DISTRICT

Notes to the Basic Financial Statements
For the Year Ended
June 30, 2020

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 1st of each year. At June 30, 2020, a total of \$4,030,000 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 Water Revenue Bonds Refunding	
	Principal	Interest
2021	\$ 395,000	\$ 121,525
2022	405,000	109,475
2023	420,000	92,975
2024	440,000	79,075
2025	445,000	66,900
2026-2029	1,925,000	125,125
Total	<u>\$ 4,030,000</u>	<u>\$ 595,075</u>
Due within one year	\$ 395,000	\$ 121,525
Due after one year	3,635,000	473,550
Total	<u>\$ 4,030,000</u>	<u>\$ 595,075</u>

Note 5: Insurance

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

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

NORTH COAST COUNTY WATER DISTRICT

Notes to the Basic Financial Statements
For the Year Ended
June 30, 2020

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
Flood	100,000
Earthquake	5% per unit of insurance, subject to \$75,000 minimum

Coverage is as follows:

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

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

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

A. General Information about the Pension Plan Descriptions

Plan Description

All qualified full-time employees are eligible to participate in the District's Miscellaneous First Tier Plan, agent multiple-employer defined benefit pension plans administered by CalPERS, which acts as a common investment and administrative agent for its participating member employers. Benefit provisions under the Plan are 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, 2020

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

A. General Information about the Pension Plan Descriptions – continued

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: Basic Death Benefit, 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, 2020, 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	13.182%	10.221%	6.985%

NORTH COAST COUNTY WATER DISTRICT

Notes to the Basic Financial Statements
For the Year Ended
June 30, 2020

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

A. General Information about the Pension Plans Plan Descriptions – continued

Contributions

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

For the year ended June 30, 2020, the contributions to the pension plan recognized as part of pension expense were as follows:

	Fiscal Year Ended <u>June 30, 2020</u>
Contributions - employer	\$ 607,426
Contributions - employee	108,852

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

As of June 30, 2020, the District reported a liability of \$4,788,707 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, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2018, rolled forward to June 30, 2019, 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, 2019 and 2020, was as follows:

	<u>Miscellaneous</u>
Proportion - June 30, 2019	0.12179%
Proportion - June 30, 2020	<u>0.11958%</u>
Change - (Decrease)	-0.00221%

NORTH COAST COUNTY WATER DISTRICT

Notes to the Basic Financial Statements
For the Year Ended
June 30, 2020

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

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

For the year ended June 30, 2020, the District recognized pension expense of \$971,682. At June 30, 2020, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 306,827	\$ -
Change of assumptions	147,400	-
Differences between projected and actual investment earnings	-	83,722
Differences between employer's contributions and proportionate share of contributions	125,970	-
Change in employer's proportion	30,207	208,720
Pension contributions made subsequent to measurement date	607,426	-
Total	<u><u>\$ 1,217,830</u></u>	<u><u>\$ 292,442</u></u>

\$607,426 reported as deferred outflows 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, 2020. 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>
2021	\$ 345,733
2022	(85,050)
2023	40,362
2024	16,917
Total	<u><u>\$ 317,962</u></u>

NORTH COAST COUNTY WATER DISTRICT

Notes to the Basic Financial Statements
For the Year Ended
June 30, 2020

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, 2019 actuarial valuations was determined using the following actuarial assumptions:

Valuation date	June 30, 2018
Measurement date	June 30, 2019
Actuarial cost method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount rate	7.15%
Inflation	2.50%
Payroll growth	2.75%
Projected salary increase	Varies by entry age and service
Investment rate of return	7.15% net pension plan investment and administrative expenses; includes inflation
Post-retirement benefit increase	Contract COLA up to 2.50% until purchasing power protection allowance floor on purchasing power applies, 2.50% thereafter

The underlying mortality assumptions and all other actuarial assumptions used in June 30, 2019 valuation were based on the results of a January 2014 actuarial experience study for the period of 1997 to 2015. More details of the Experience Study can be found on the CalPERS website.

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

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

NORTH COAST COUNTY WATER DISTRICT

Notes to the Basic Financial Statements
For the Year Ended
June 30, 2020

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

Discount Rate – continued

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

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

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

Asset Class	New Strategic Allocation	Real Return Years 1-10 ⁽¹⁾	Real Return Years 11+ ⁽²⁾
Global equity	50.0%	4.80%	5.98%
Fixed income	28.0%	1.00%	2.62%
Inflation sensitive	0.0%	0.77%	1.81%
Private equity	8.0%	6.30%	7.23%
Real estate	13.0%	3.75%	4.93%
Liquidity	1.0%	0.00%	(0.92%)
	100.0%		

⁽¹⁾ An expected inflation of 2.00% used for this period.

⁽²⁾ An expected inflation of 2.92% used for this period.

NORTH COAST COUNTY WATER DISTRICT

Notes to the Basic Financial Statements
For the Year Ended
June 30, 2020

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

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

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

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

	1% Decrease <u>6.15%</u>	Discount Rate <u>7.15%</u>	1% Increase <u>8.15%</u>
District's proportionate share of the net pension plan liability	\$ 7,101,203	\$ 4,788,707	\$ 2,879,906

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, 2020, the District made all required contributions to the pension plan for the year ended June 30, 2020.

Note 7: Other Post-Employment Benefits

A. Plan Description

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

NORTH COAST COUNTY WATER DISTRICT

Notes to the Basic Financial Statements
For the Year Ended
June 30, 2020

Note 7: Other Post-Employment Benefits - continued

A. Plan Description – continued

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

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

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

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

Membership of the plan consisted of the following at June 30, 2020:

Retirees and beneficiaries receiving benefits	27
Active plan member	7
Total	34

B. Funding Policy

The contribution requirements of the District are established and may be amended by the District’s board. While GASB Statement 75 requires that the liability for all post-employment benefits be measured, it does not require that an agency “pre-fund” the accrued liability. The District will pay for the post-employment healthcare cost on a “pay-as-you-go” basis. The provisions of GASB Statement 75 determine the amount that must be presented as an annual expense and accrued liability on the District’s financial statements. The contributions made on behalf of the plan members for the year ended June 30, 2020 were \$318,435.

The District’s net OPEB liability was measured as of June 30, 2020, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of July 1, 2018. Standard actuarial update procedures were used to project/discount from valuation to measurement dates.

NORTH COAST COUNTY WATER DISTRICT

Notes to the Basic Financial Statements
For the Year Ended
June 30, 2020

Note 7: Other Post-Employment Benefits – continued

C. Net OPEB Liability

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

Assumed retirement age	62
Discount rate	2.80 percent
Salary increases	5.00 percent
Healthcare cost trend rate	3.00 percent for 2020 and 2021; 4.00 percent for 2022 and 2023; 5.00 percent for 2024 and later years

The discount rate is based on a municipal bond index that can be found at <http://bartel-associates.com/resources/select-gasb-67-68-discount-rate-indices>.

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

The life expectancy and thus the number of years benefits are projected to be received, is estimated based on the Expectation of Life by Age and Sex in the U.S. table prepared by the National Center for Health Statistics and updated in 2015.

D. Changes in the Net OPEB Liability

The table below shows the changes in the total OPEB liability, the Plan Fiduciary Net Position, and the net OPEB liability during the measurement period ending on June 30, 2020 for the District.

	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (Asset) (c) = (a) - (b)
Balance at June 30, 2019	\$4,884,480	\$ -	\$ 4,884,480
Changes recognized for the measurement period:			
Service cost	248,118	-	248,118
Interest	136,765	-	136,765
Difference between expected and actual experience	(40,208)	-	(40,208)
Employer contributions	-	318,435	(318,435)
Benefit payments	(318,435)	(318,435)	-
Net Changes	<u>26,240</u>	<u>-</u>	<u>26,240</u>
Balance at June 30, 2020	<u>\$4,910,720</u>	<u>\$ -</u>	<u>\$ 4,910,720</u>

NORTH COAST COUNTY WATER DISTRICT

Notes to the Basic Financial Statements
For the Year Ended
June 30, 2020

Note 7: Other Post-Employment Benefits – continued

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

The following presents the net OPEB liability, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (1.80 percent) or 1-percentage-point higher (3.80 percent) than the current discount rate:

	1% Decrease <u>1.80%</u>	Discount Rate <u>2.80%</u>	1% Increase <u>3.80%</u>
District's proportionate share of the net OPEB liability	\$ 5,425,807	\$ 4,910,720	\$ 4,611,479

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

The following presents the net OPEB liability, as well as what the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	<u>Healthcare Cost Trend - 1%</u>	<u>Healthcare Cost Trend Assumed</u>	<u>Healthcare Cost Trend + 1%</u>
District's proportionate share of the net OPEB liability	\$ 4,463,208	\$ 4,910,720	\$ 5,430,593

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: Subsequent Events

Management has evaluated subsequent events through November 2, 2020, the date which the financial statements were available to be issued. Based upon this evaluation, except for the following, it was determined that no other subsequent events occurred that require recognition or additional disclosure in the financial statements.

In January 2020, the virus SARS-CoV-2 was transmitted to the United States from overseas sources. This virus, responsible for the Coronavirus disease COVID-19 has proven to be extremely virulent with transmission rates as yet unknown. The economic impact in the State of California and the County of San Mateo as yet has not been determined and therefore any potential impact on the District is not yet known.

REQUIRED SUPPLEMENTARY INFORMATION

**NORTH COAST COUNTY WATER DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PENSION CONTRIBUTIONS
JUNE 30, 2020**

Measurement date	June 30, 2019 *	June 30, 2018 *	June 30, 2017 *	June 30, 2016 *	June 30, 2015 *	June 30, 2014 *
Contractually required contributions (actuarially determined)	\$ 607,426	\$ 593,287	\$ 528,974	\$ 496,227	\$ 421,912	\$ 371,392
Contributions in relation to the actuarially determined contributions	<u>(607,426)</u>	<u>(593,287)</u>	<u>(528,974)</u>	<u>(496,227)</u>	<u>(436,132)</u>	<u>(371,392)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (14,220)</u>	<u>\$ -</u>
Covered-employee payroll	\$ 1,636,813	\$ 1,655,381	\$ 1,703,966	\$ 1,527,533	\$ 1,565,577	\$ 1,563,150
Contribution as a percentage of covered-employee payroll	37.11%	35.84%	31.04%	32.49%	26.95%	23.76%

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

**NORTH COAST COUNTY WATER DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
JUNE 30, 2020**

Measurement date	June 30, 2019 *	June 30, 2018 *	June 30, 2017 *	June 30, 2016 *	June 30, 2015 *	June 30, 2014 *
Proportion of the net pension liability	0.11958%	0.12179%	0.12192%	0.12456%	0.13691%	0.13172%
Proportionate share of the net pension liability	\$ 4,788,707	\$ 4,590,011	\$ 4,805,974	\$ 4,327,222	\$ 3,756,060	\$ 3,255,380
Covered-employee payroll	\$ 1,636,813	\$ 1,655,381	\$ 1,703,966	\$ 1,527,533	\$ 1,565,577	\$ 1,610,044
Proportionate share of the net pension liability as a percentage of its covered-employee payroll	292.56%	277.28%	282.05%	283.28%	239.92%	202.19%
Plan's fiduciary net position	\$ 12,404,177	\$ 11,341,725	\$ 10,393,729	\$ 9,079,593	\$ 9,136,544	\$ 9,221,044
Plan's fiduciary net position as a percentage of its total pension liability	72.15%	71.19%	68.38%	67.72%	70.87%	73.91%
Valuation date	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014	June 30, 2013

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

**NORTH COAST COUNTY WATER DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET OPEB LIABILITY
JUNE 30, 2020**

Last 10 Fiscal years*

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Net OPEB liability			
Service cost	\$ 248,118	\$ 187,592	\$ 228,758
Interest	136,765	153,972	198,831
Difference between expected and actual experience	(40,208)	727,704	(1,127,012)
Benefit payments	<u>(318,435)</u>	<u>(236,688)</u>	<u>(219,443)</u>
Net change in Net OPEB liability	26,240	832,580	(918,866)
 Net OPEB liability - beginning	 <u>4,884,480</u>	 <u>4,051,900</u>	 <u>4,970,766</u>
 Net OPEB liability - ending	 <u><u>\$ 4,910,720</u></u>	 <u><u>\$ 4,884,480</u></u>	 <u><u>\$ 4,051,900</u></u>
 Covered payroll	 \$ 1,883,273	 \$ 2,080,080	 \$ 1,923,330
Net OPEB liability (asset) as a percentage of covered payroll	260.75%	234.82%	210.67%
Plan fiduciary net position as a percentage of the total OPEB liability	0.00%	0.00%	0.00%

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

ADDITIONAL INFORMATION

**NORTH COAST COUNTY WATER DISTRICT
SCHEDULE OF CAPACITY CHARGES
FOR THE YEAR ENDED JUNE 30, 2020
(Unaudited)**

Beginning Balance, July 1, 2019 \$ -

Storage and Transmission Fees Received During the Year:

535 San Pedro Rd.	\$ 32,646
674 Corona Dr.	5,941
439 Harvey Way	5,441
25 Pt. Reyes Way	5,441
1175 Barcelona Dr.	3,471
829 Iris Ct.	3,471
276 Junita Ave.	3,471
1000B Linda Mar Blvd.	3,171
2222 Francisco Blvd.	3,471
Total capacity charges received	\$ 66,524

Public Improvement Expenses for the Year:

Public Improvement Projects	Project Expenditures	Percentage Complete	Project Expenditures Funded with the Above Fees	
			Amount	Percentage
Sheila Tank Replacement Project	\$ 84,621	1%	\$ 35,817	42%
Hinton Ranch Pipeline Replacement Project	53,273	10%	18,324	34%
Balboa Pipeline Replacement Project	12,981	25%	12,383	95%
	\$ 150,875		\$ 66,524	

Ending Balance, June 30, 2020 \$ -

OTHER REPORTING REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

**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, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 2, 2020.

Internal Control over Financial Reporting

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

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

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we considered to be material weaknesses. However, material weaknesses may exist that we have not identified.

Board of Directors
North Coast County Water District
Pacifica, California

Compliance and Other Matters

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

Purpose of this Report

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

Fechter & Company,
Certified Public Accountants

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

Sacramento, California
November 2, 2020