

NORTH COAST COUNTY WATER DISTRICT
BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014

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**North Coast County Water District
Basic Financial Statements
For the year ended June 30, 2014**

Table of Contents

Page

INTRODUCTORY SECTION

Table of Contents i
Elected Officials and Administrative Personnel ii

FINANCIAL SECTION

Independent Auditors' Report 1-2
Management's Discussion and Analysis (Required Supplementary Information) 3-9

Basic Financial Statements:

Statement of Net Position 12
Statement of Revenues, Expenses, and Changes in Net Position 13
Statement of Cash Flows 14
Notes to Basic Financial Statements 15-30

Additional Information:

Schedule of Capacity Charges 32

**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** 33-34

North Coast County Water District
Basic Financial Statements
For the year ended June 30, 2014

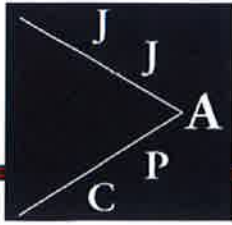
Elected Officials and Administrative Personnel

BOARD OF DIRECTORS

Thomas Piccolotti – President
Joshua Cosgrove – Vice President
Ron Ash – Director
Anne De Jarnatt – Director
Jack Burgett – Director

MANAGEMENT

Cari Lemke, General Manager



JJACPA, Inc.

A Professional Accounting Services Corp.

INDEPENDENT AUDITORS' REPORT

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

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, 2014, 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.

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, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 9, 2014 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

September 9, 2014

JJACPA, Inc.

**JJACPA, Inc.
Dublin, CA**

North Coast County Water District
Basic Financial Statements
For the year ended June 30, 2014

Management's Discussion and Analysis

This section of North Coast County Water District's basic financial statements presents management's discussion and analysis of the District's financial performance during the fiscal year ended June 30, 2014. Since this management's discussion and analysis is designed to focus on current activities, resulting change and current known facts, please read it in conjunction with the District's basic financial statements (pages 12 - 14) and the footnotes (pages 15 - 30).

Financial Highlights

At June 30, 2014, the District's Net Position increased \$1,168,897 to \$41,928,813 from \$40,759,916 in 2013. Operating revenues increased by \$168,090 as a result of increase in water rate effective January 1, 2014. Operating expenses (with depreciation included) increased by \$220,711 primarily due to increase in source of supply expenses and pumping & power expenses.

Using This Report

In December 1998, the Governmental Accounting Standards Board (GASB) released statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, which revised the reporting of property tax revenue. In June 1999, GASB released statement No. 34, *Basic Financial Statements -- and Management's Discussion and Analysis -- for State and Local Governments*. Changes in Statement No. 34 require a comprehensive one-line look at the entity as a whole and capitalization of assets and depreciation for agencies not reporting on the accrual basis of accounting. Since the District has historically reported all activities in enterprise funds in a manner similar to business activities and followed the accrual basis of accounting, the District merely has been required to reclassify certain balances to utilize the new Statement No. 34 terminology. There were no major reconciling items necessary or elimination of balances due to the implementation of Statement No. 34.

The annual financial statements include the Independent Auditors' Report, this management's discussion and analysis, the basic financial statements, and notes to the basic financial statements.

North Coast County Water District
Basic Financial Statements
For the year ended June 30, 2014

Management's Discussion and Analysis, Continued

Financial Analysis of the District as a Whole

| | Net Position | | | |
|---|------------------------------|----------------------|------------------------|-------------------|
| | As of June 30, 2014 and 2013 | | | |
| | 2014 | 2013 | Increase (Decrease) | Percent Change |
| Assets: | | | | |
| Current assets | \$ 12,169,049 | \$ 11,571,788 | \$ 597,261 | 5.2% |
| Non-current assets | 38,864,474 | 38,434,464 | 430,010 | 1.1% |
| Total assets | <u>51,033,523</u> | <u>50,006,252</u> | <u>1,027,271</u> | <u>2.1%</u> |
| Liabilities: | | | | |
| Current liabilities | 1,144,672 | 1,388,258 | (243,586) | (17.5)% |
| Non-current liabilities | 7,960,038 | 7,858,078 | 101,960 | 1.3% |
| Total liabilities | <u>9,104,710</u> | <u>9,246,336</u> | <u>(141,626)</u> | <u>(1.5)%</u> |
| Net position: | | | | |
| Investment in capital assets, net of related debt | 32,754,474 | 32,049,464 | 705,010 | 2.2% |
| Restricted/Unrestricted Net Position: | | | | |
| Restricted for debt service | 253,765 | 870,370 | (616,605) | (70.8)% |
| Unrestricted | 8,920,574 | 7,840,082 | 1,080,492 | 13.8% |
| Total net position | <u>\$ 41,928,813</u> | <u>\$ 40,759,916</u> | <u>\$ 1,168,897</u> | <u>2.9%</u> |

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

As can be seen from the table above, Net Position at June 30, 2014, increased to \$41,928,813 from \$40,759,916 in 2013. The increase in Net Position was primarily due to recent capital improvement projects and the related increase in depreciation.

North Coast County Water District
Basic Financial Statements
For the year ended June 30, 2014

Management's Discussion and Analysis, Continued

Financial Analysis of the District as a Whole, Continued

Operating results are summarized as follows:

| | Operating Results | | | |
|--|---|----------------------|--------------------------------|---------------------------|
| | For the years ended June 30, 2014 and 2013 | | | |
| | <u>2014</u> | <u>2013</u> | <u>Increase (Decrease)</u> | <u>Percent Change</u> |
| Operating revenues | \$ 8,777,603 | \$ 8,609,513 | \$ 168,090 | 2.0% |
| Operating expenses | <u>9,150,663</u> | <u>8,929,952</u> | <u>220,711</u> | <u>2.5%</u> |
| Operating loss | (373,060) | (320,439) | (52,621) | 16.4% |
| Non-operating revenues | 994,706 | 946,632 | 48,074 | 5.1% |
| Non-operating expenses | <u>(638,899)</u> | <u>(831,226)</u> | <u>192,327</u> | <u>(23.1)%</u> |
| Net income before contributions | (17,253) | (205,033) | 187,780 | (91.6)% |
| Capital contributions | <u>1,186,150</u> | <u>3,967,886</u> | <u>(2,781,736)</u> | <u>(70.1)%</u> |
| Change in net position | 1,168,897 | 3,762,853 | (2,593,956) | (68.9)% |
| Net position: | | | | |
| Beginning of year | <u>40,759,916</u> | <u>36,997,063</u> | <u>3,762,853</u> | <u>10.2%</u> |
| End of year | <u>\$ 41,928,813</u> | <u>\$ 40,759,916</u> | <u>\$ 1,168,897</u> | <u>2.9%</u> |

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 13). This statement provides answers to the nature and source of the change in financial position of Net Position.

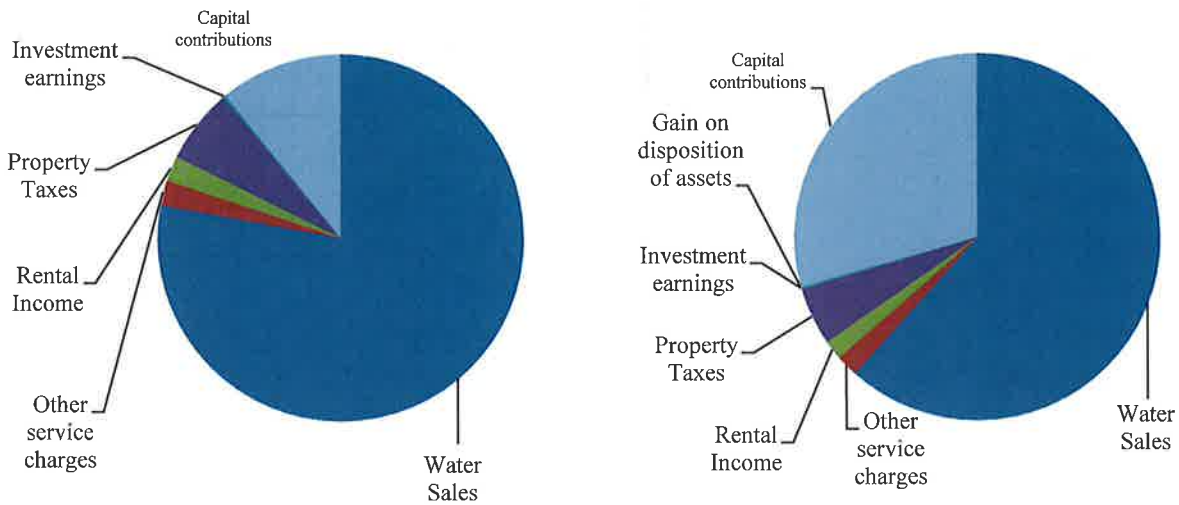
**North Coast County Water District
Basic Financial Statements
For the year ended June 30, 2014**

Management's Discussion and Analysis, Continued

Financial Analysis of the District as a Whole, Continued

The following is a graphic illustration of revenues by source:

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



| FY 2013-2014 | | | FY 2012-2013 | | Increase (Decrease) |
|----------------------|----------------|--|----------------------|----------------|--------------------------------|
| \$ 8,536,613 | 77.90% | Water sales | \$ 8,347,903 | 61.73% | \$ 188,710 |
| 240,990 | 2.20% | Other service charges | 261,610 | 1.93% | (20,620) |
| 237,879 | 2.17% | Rental income - cellular antennas | 226,553 | 1.68% | 11,326 |
| 726,398 | 6.63% | Property taxes | 690,607 | 5.11% | 35,791 |
| 30,429 | 0.28% | Investment earnings | 26,272 | 0.19% | 4,157 |
| - | 0.00% | Gain on disposition of assets | 3,200 | 0.02% | (3,200) |
| 1,186,150 | 10.82% | Capital contributions | 3,967,886 | 29.34% | (2,781,736) |
| \$ 10,958,459 | 100.00% | Totals | \$ 13,524,031 | 100.00% | \$ (2,565,572) |

Water sales increased \$188,710 due to increase in water rate effective January 1, 2014. Property taxes increased by \$35,791 primarily due to increase in Excess ERAF distribution from San Mateo County. Investment earnings increased by \$4,157, the result of higher reserve balances. The decrease in capital contributions of \$2,781,736 was the result of the Devil's Slide Tunnel project nearing completion.

North Coast County Water District
Basic Financial Statements
For the year ended June 30, 2014

Management's Discussion and Analysis, Continued

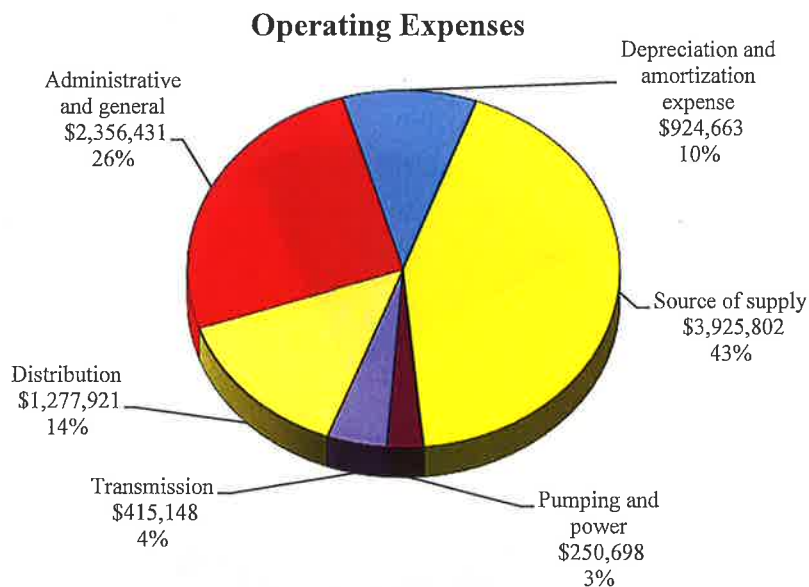
Financial Analysis of the District as a Whole, Continued

Operating expenses increased by \$220,711 as detailed below:

| | Operating Expenses | | Increase (Decrease) | Percent Change |
|---------------------------------------|---------------------|---------------------|------------------------|-------------------|
| | 2014 | 2013 | | |
| Operating expenses: | | | | |
| Source of supply | \$ 3,925,802 | \$ 3,590,153 | \$ 335,649 | 9.35% |
| Pumping and power | 250,698 | 193,713 | 56,985 | 29.42% |
| Transmission | 415,148 | 420,988 | (5,840) | (1.39)% |
| Distribution | 1,277,921 | 1,378,428 | (100,507) | (7.29)% |
| Administrative and general | 2,356,431 | 2,378,774 | (22,343) | (0.94)% |
| Depreciation and amortization expense | 924,663 | 967,896 | (43,233) | (4.47)% |
| Total | \$ 9,150,663 | \$ 8,929,952 | \$ 220,711 | 2.47% |

Source of supply increased \$335,649 due to SFPUC added BAWSCA bond surcharge in the cost of supply. Distribution and administration & general expense decrease were the result of lower payroll expenses and lower health benefits and retirement costs.

The following is a graphic illustration of operating expenses:



North Coast County Water District
Basic Financial Statements
For the year ended June 30, 2014

Management’s Discussion and Analysis, Continued

Financial Analysis of the District as a Whole, Continued

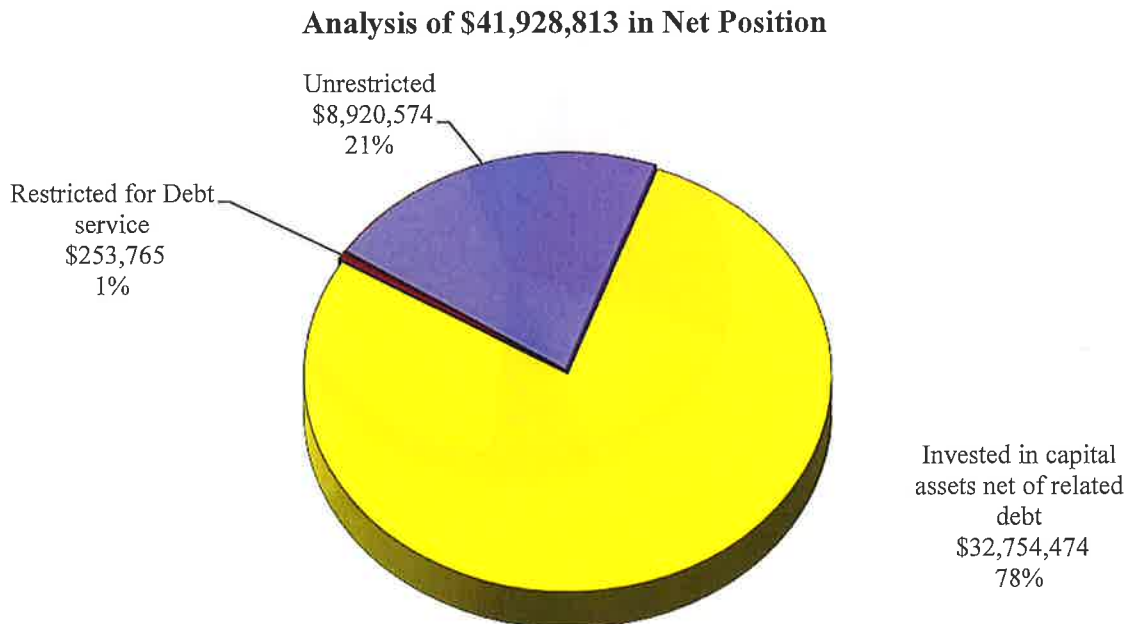
Net Position increased by \$1,168,897 as detailed below:

Analysis of Net Position
As of June 30, 2014 and 2013

| | <u>2014</u> | <u>2013</u> | <u>Increase (Decrease)</u> | <u>Percent Change</u> |
|--|-----------------------------|-----------------------------|--------------------------------|---------------------------|
| Net position: | | | | |
| Invested in capital assets net of related debt | \$ 32,754,474 | \$ 32,049,464 | \$ 705,010 | 2.2% |
| Restricted | | | | |
| Debt service | 253,765 | 870,370 | (616,605) | (70.8)% |
| Unrestricted | <u>8,920,574</u> | <u>7,840,082</u> | <u>1,080,492</u> | <u>13.8%</u> |
| Total | <u><u>\$ 41,928,813</u></u> | <u><u>\$ 40,759,916</u></u> | <u><u>\$ 1,168,897</u></u> | <u><u>2.9%</u></u> |

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

The following is a graphic illustration of Net Position:



North Coast County Water District
Basic Financial Statements
For the year ended June 30, 2014

Management's Discussion and Analysis, Continued

Cash Flows

Cash flows have increased by \$584,864 which is the result of reimbursement from Caltrans for Devil's Slide Tunnel construction costs.

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 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

Economic Factors and Potential Future Results

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

Contacting the District

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

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

Phone (650) 355 3462

Cari Lemke, General Manager

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BASIC FINANCIAL STATEMENTS

North Coast County Water District

Statement of Net Position

June 30, 2014

(with comparative totals for June 30, 2013)

| | <u>2014</u> | <u>2013</u> |
|--|----------------------|-------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and investments | \$ 11,027,090 | \$ 9,825,621 |
| Restricted cash and investments | 253,765 | 870,370 |
| Accounts receivable: | | |
| Customer water | 643,219 | 697,130 |
| Other | 27,727 | 28,146 |
| Taxes | 13,099 | 8,774 |
| Interest | 5,667 | 5,765 |
| Prepaid expenses and deposits | 37,584 | 43,376 |
| Materials and supplies inventory | 160,898 | 92,606 |
| Total current assets | <u>12,169,049</u> | <u>11,571,788</u> |
| Noncurrent assets: | | |
| Capital assets: | | |
| Land | 832,867 | 832,867 |
| Construction in progress | 9,894,267 | 8,694,033 |
| Depreciable assets | 42,699,410 | 42,544,971 |
| Less accumulated depreciation | (14,562,070) | (13,637,407) |
| Total noncurrent assets | <u>38,864,474</u> | <u>38,434,464</u> |
| Total assets | <u>\$ 51,033,523</u> | <u>50,006,252</u> |
| LIABILITIES | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | \$ 506,258 | \$ 837,757 |
| Accrued payroll | 31,267 | - |
| Bonds payable - due within one year | 320,000 | 275,000 |
| Customer deposits | 199,635 | 187,794 |
| Water connection deposits | 36,943 | 34,904 |
| Accrued interest payable | 50,569 | 52,803 |
| Total current liabilities | <u>1,144,672</u> | <u>1,388,258</u> |
| Noncurrent liabilities: | | |
| Bonds payable - due after one year | 5,790,000 | 6,110,000 |
| Net OPEB obligation | 1,670,584 | 1,235,345 |
| Accrued vacation and sick leave | 499,454 | 512,733 |
| Total noncurrent liabilities | <u>7,960,038</u> | <u>7,858,078</u> |
| Total liabilities | <u>9,104,710</u> | <u>9,246,336</u> |
| NET POSITION | | |
| Invested in capital assets net of related debt | 32,754,474 | 32,049,464 |
| Restricted for debt service and recycled water project | 253,765 | 870,370 |
| Unrestricted | 8,920,574 | 7,840,082 |
| Total net position | <u>41,928,813</u> | <u>40,759,916</u> |
| Total liabilities and net position | <u>\$ 51,033,523</u> | <u>50,006,252</u> |

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

North Coast County Water District
Statement of Revenues, Expenses, and Changes in Net Position
For the year ended June 30, 2014

(with comparative totals for the year ended June 30, 2013)

| | <u>2014</u> | <u>2013</u> |
|---|----------------------|----------------------|
| OPERATING REVENUES: | | |
| Water sales | \$ 8,536,613 | \$ 8,347,903 |
| Other service charges | 240,990 | 261,610 |
| Total operating revenues | <u>8,777,603</u> | <u>8,609,513</u> |
| OPERATING EXPENSES: | | |
| Source of supply | 3,925,802 | 3,590,153 |
| Pumping and power | 250,698 | 193,713 |
| Transmission | 415,148 | 420,988 |
| Distribution | 1,277,921 | 1,378,428 |
| Administrative and general | 2,356,431 | 2,378,774 |
| Depreciation and amortization | 924,663 | 967,896 |
| Total operating expenses | <u>9,150,663</u> | <u>8,929,952</u> |
| Operating income (loss) | <u>(373,060)</u> | <u>(320,439)</u> |
| NONOPERATING REVENUES (EXPENSES): | | |
| Property taxes | 726,398 | 690,607 |
| Investment earnings | 30,429 | 26,272 |
| Rental income - cellular antennas | 237,879 | 226,553 |
| Gain (loss) on disposition of capital assets | - | 3,200 |
| Net OPEB expense | (435,239) | (419,304) |
| Interest expense | (203,660) | (411,922) |
| Total nonoperating revenues (expenses) | <u>355,807</u> | <u>115,406</u> |
| Income before contributions | <u>(17,253)</u> | <u>(205,033)</u> |
| Capital contributions: | | |
| Capacity charges | 55,911 | 14,353 |
| Developer contributions | 1,130,239 | 3,791,271 |
| Recycled water project | - | 162,262 |
| Total capital contributions | <u>1,186,150</u> | <u>3,967,886</u> |
| Net Income | 1,168,897 | 3,762,853 |
| CHANGE IN NET POSITION: | | |
| Beginning of year | 40,759,916 | 36,997,063 |
| End of year | <u>\$ 41,928,813</u> | <u>\$ 40,759,916</u> |

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

North Coast County Water District

Statement of Cash Flows

For the year ended June 30, 2014

(with comparative amounts for the year ended June 30, 2013)

| | 2014 | 2013 |
|---|----------------------|----------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Receipts from customers | \$ 8,831,933 | \$ 8,550,416 |
| Payments to suppliers | (6,927,780) | (6,358,046) |
| Payments to employees | (1,660,351) | (1,799,002) |
| Net cash provided (used) by operating activities | 243,802 | 393,368 |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES: | | |
| Property taxes net of collection fees | 722,073 | 699,934 |
| Receipts from capacity charges | 55,911 | 14,353 |
| Receipts from cellular antenna rentals | 237,879 | 226,553 |
| Net cash provided (used) by noncapital financing activities | 1,015,863 | 940,840 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES: | | |
| Principal payments on long-term debt | (275,000) | (273,602) |
| Interest payments on long-term debt | (205,894) | (430,950) |
| Capital contributions | 1,130,239 | 3,953,533 |
| Acquisition and construction of capital assets | (1,354,673) | (3,391,735) |
| Net cash provided (used) by capital and related financing activities | (705,328) | (142,754) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Receipts from notes receivable | - | 37,675 |
| Interest received on investments | 30,527 | 28,148 |
| Net cash provided (used) by investing activities | 30,527 | 65,823 |
| Net increase (decrease) in cash and cash equivalents | 584,864 | 1,257,277 |
| CASH AND INVESTMENTS: | | |
| Beginning of year | 10,695,991 | 9,438,714 |
| End of year | <u>\$ 11,280,855</u> | <u>\$ 10,695,991</u> |
| Reconciliation to Statement of Net Position: | | |
| Cash and investments | \$ 11,027,090 | \$ 9,825,621 |
| Restricted cash and investments | 253,765 | 870,370 |
| Total cash and investments | <u>\$ 11,280,855</u> | <u>\$ 10,695,991</u> |
| Reconciliation of operating income (loss) to net cash provided (used) by operating activities: | | |
| Operating loss | \$ (373,060) | \$ (320,439) |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities: | | |
| Depreciation and amortization expense | 924,663 | 967,896 |
| (Increase) decrease in current assets: | | |
| Accounts receivable | 54,330 | (59,097) |
| Materials and supplies | (68,292) | 86,384 |
| Prepaid expenses | 5,792 | 9,414 |
| Increase (decrease) in liabilities: | | |
| Accounts payable and accrued liabilities | (331,499) | (307,835) |
| Accrued payroll | 31,267 | - |
| Deposits and deferred revenue | 13,880 | (1,426) |
| Unearned revenue | - | - |
| Accrued vacation and sick leave | (13,279) | 18,471 |
| Net cash provided (used) by operating activities | <u>\$ 243,802</u> | <u>\$ 393,368</u> |

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

North Coast County Water District
Basic Financial Statements
For the year ended June 30, 2014

Notes to Basic Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Description of the Reporting Entity

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

Oversight responsibility, the ability to conduct independent financial affairs, issue debt instruments, approve budgets, and otherwise influence operations and account for fiscal matters is exercised by the District's Board of Directors. The District is a separate reporting entity for financial reporting purposes and the accompanying financial statements reflect the assets, liabilities, Net 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
Basic Financial Statements
For the year ended June 30, 2014

Notes to Basic Financial Statements, Continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Fund Accounting Classification and Basis of Accounting

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

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

C. Cash and Investments

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

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

D. Capital Assets

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

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

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

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized.

North Coast County Water District
Basic Financial Statements
For the year ended June 30, 2014

Notes to Basic Financial Statements, Continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

E. Property Taxes

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

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

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

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

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

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

North Coast County Water District
Basic Financial Statements
For the year ended June 30, 2014

Notes to Basic Financial Statements, Continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

F. Accrued Vacation and Sick Leave

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

G. Comparative Data

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

H. Reclassifications

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

2. CASH AND INVESTMENTS

A. Composition

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

| | June 30, 2014 | | | June 30, 2013 |
|-------------------------------------|-------------------|----------------------|----------------------|----------------------|
| | FDIC insured | Not rated | Fair Value | |
| Cash in bank | \$ 250,000 | \$ 488,047 | \$ 738,047 | \$ 459,464 |
| Petty cash | - | 500 | 500 | 500 |
| Local Agency Investment Fund (LAIF) | - | 10,288,543 | 10,288,543 | 9,365,657 |
| SFPUC US Bank Funds | 250,000 | 3,765 | 253,765 | 253,765 |
| Money Market Funds | - | - | - | 616,605 |
| Total | <u>\$ 500,000</u> | <u>\$ 10,780,855</u> | <u>\$ 11,280,855</u> | <u>\$ 10,695,991</u> |
| Financial Statement presentation: | | | | |
| Cash and investments | | | \$ 11,027,090 | \$ 9,825,621 |
| Restricted cash and investments | | | 253,765 | 870,370 |
| Total | | | <u>\$ 11,280,855</u> | <u>\$ 10,695,991</u> |

North Coast County Water District
Basic Financial Statements
For the year ended June 30, 2014

Notes to Basic Financial Statements, Continued

2. CASH AND INVESTMENTS, Continued

A. Composition, Continued

California Law requires banks and savings and loan institutions to pledge government securities with a market value of 110% of the District's cash on deposit or first trust deed mortgage notes with a value of 150% of the District's cash on deposit as collateral for these deposits. Under California Law this collateral is held in an investment pool by an independent financial institution in the District's name and places the District ahead of general creditors of the institution pledging the collateral. The District has waived collateral requirements for the portion of deposits covered by federal deposit insurance.

The District's investments are carried at fair value, as required by generally accepted accounting principles. The District adjusts the carrying value of its investments to reflect their fair value at each fiscal year end, and it includes the effects of these adjustments in income for that fiscal year.

B. Authorized Investments

The District's Investment Policy and the California Government Code allow the District to invest in the following, provided the credit ratings of the issuers are acceptable to the District and approved percentages and maturities are not exceeded.

The table below also identifies certain provisions of the California Government Code, or the District's Investment Policy where the District's Investment Policy is more restrictive.

| 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
Basic Financial Statements
For the year ended June 30, 2014

Notes to Basic Financial Statements, Continued

2. CASH AND INVESTMENTS, Continued

C. Fair Value of Investments

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, investments were stated at fair value using the aggregate method, which includes any adjustments in interest/investment income.

D. Investments Authorized by Debt Agreements

The District must maintain required amounts of cash and investments with trustees or fiscal agents under the terms of certain debt issues. These funds are unexpended bond proceeds or are pledged reserves to be used if the District fails to meet its obligations under these debt issues. The California Government Code requires these funds to be invested in accordance with District resolutions, bond indentures, or State statutes. The table below identifies the investment types that are authorized for investments held by fiscal agents. The bond indentures contain no limitations for the maximum investment in any one issuer or the maximum percentage of the portfolio that may be invested in any one investment type.

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

North Coast County Water District
Basic Financial Statements
For the year ended June 30, 2014

Notes to Basic Financial Statements, Continued

2. CASH AND INVESTMENTS, Continued

E. Interest Rate and Credit Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Normally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates.

The District is a participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The District reports its investment in LAIF at the fair value amount provided by LAIF, which is the same as the value of the pool share. The balance available for withdrawal is based on the accounting records maintained by LAIF, which are maintained on an amortized cost basis. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, United States Treasury Notes and Bills, and corporations. At June 30, 2014, these investments matured in an average of 232 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, 2014.

North Coast County Water District
Basic Financial Statements
For the year ended June 30, 2014

Notes to Basic Financial Statements, Continued

3. CAPITAL ASSETS

Changes in capital assets and depreciation for the years ended June 30, 2014, and 2013, were as follows:

| | July 1, 2013 | Additions | Deletions | Transfers/ Reclassifications | June 30, 2014 |
|---------------------------------------|----------------------|---------------------|--------------------|---------------------------------|----------------------|
| Capital Assets | | | | | |
| Nondepreciable: | | | | | |
| Land | \$ 832,867 | \$ - | \$ - | \$ - | \$ 832,867 |
| Construction in progress | 8,694,033 | 1,200,234 | - | - | 9,894,267 |
| Total nondepreciable assets | <u>9,526,900</u> | <u>1,200,234</u> | <u>-</u> | <u>-</u> | <u>10,727,134</u> |
| Depreciable: | | | | | |
| Transmission and distribution | 14,092,065 | - | (61,790) | - | 14,030,275 |
| Source of supply plant | 3,488,338 | 84,302 | - | - | 3,572,640 |
| Reservoirs | 8,877,019 | 83,401 | - | - | 8,960,420 |
| Pumping plant | 1,656,811 | - | - | - | 1,656,811 |
| Recycled Water Project | 10,414,500 | 5,403 | - | - | 10,419,903 |
| Telemetry systems | 652,908 | 32,210 | - | - | 685,118 |
| Water treatment plant | 288,445 | - | - | - | 288,445 |
| Office building | 21,246 | - | - | - | 21,246 |
| Office building/warehouse | 999,590 | - | - | - | 999,590 |
| Equipment and vehicles | <u>2,054,049</u> | <u>10,913</u> | <u>-</u> | <u>-</u> | <u>2,064,962</u> |
| Total depreciable assets | <u>42,544,971</u> | <u>216,229</u> | <u>(61,790)</u> | <u>-</u> | <u>42,699,410</u> |
| Less: accumulated depreciation | <u>(13,637,407)</u> | <u>(924,663)</u> | <u>-</u> | <u>-</u> | <u>(14,562,070)</u> |
| Total depreciable assets (net) | <u>28,907,564</u> | <u>(708,434)</u> | <u>(61,790)</u> | <u>-</u> | <u>28,137,340</u> |
| Total capital assets | <u>\$ 38,434,464</u> | <u>\$ 491,800</u> | <u>\$ (61,790)</u> | <u>\$ -</u> | <u>\$ 38,864,474</u> |
| | July 1, 2012 | Additions | Deletions | Transfers/ Reclassifications | June 30, 2013 |
| Capital Assets | | | | | |
| Nondepreciable: | | | | | |
| Land | \$ 832,867 | \$ - | \$ - | \$ - | \$ 832,867 |
| Construction in progress | 6,710,417 | 2,594,185 | - | (610,569) | 8,694,033 |
| Total nondepreciable assets | <u>7,543,284</u> | <u>2,594,185</u> | <u>-</u> | <u>(610,569)</u> | <u>9,526,900</u> |
| Depreciable: | | | | | |
| Transmission and distribution | 13,541,670 | 283,202 | - | 267,193 | 14,092,065 |
| Source of supply plant | 3,432,962 | 55,376 | - | - | 3,488,338 |
| Reservoirs | 8,841,274 | 14,345 | - | 21,400 | 8,877,019 |
| Pumping plant | 1,656,811 | - | - | - | 1,656,811 |
| Recycled Water Project | 9,692,079 | 398,226 | - | 324,195 | 10,414,500 |
| Telemetry systems | 595,009 | 38,718 | - | 19,181 | 652,908 |
| Water treatment plant | 288,445 | - | - | - | 288,445 |
| Office building | 10,363 | 10,883 | - | - | 21,246 |
| Office building/warehouse | 999,590 | - | - | - | 999,590 |
| Equipment and vehicles | <u>2,144,014</u> | <u>-</u> | <u>(68,565)</u> | <u>(21,400)</u> | <u>2,054,049</u> |
| Total depreciable assets | <u>41,202,217</u> | <u>800,750</u> | <u>(68,565)</u> | <u>610,569</u> | <u>42,544,971</u> |
| Less: accumulated depreciation | <u>(12,738,076)</u> | <u>(967,896)</u> | <u>68,565</u> | <u>-</u> | <u>(13,637,407)</u> |
| Total depreciable assets (net) | <u>28,464,141</u> | <u>(167,146)</u> | <u>(68,565)</u> | <u>610,569</u> | <u>28,907,564</u> |
| Total capital assets | <u>\$ 36,007,425</u> | <u>\$ 2,427,039</u> | <u>\$ (68,565)</u> | <u>\$ -</u> | <u>\$ 38,434,464</u> |

North Coast County Water District
Basic Financial Statements
For the year ended June 30, 2014

Notes to Basic Financial Statements, Continued

4. LONG-TERM DEBT

A. Long-Term Debt Activity

| | Original Issue Amount | Balance July 1, 2013 | Additions | Retirements | Balance June 30, 2014 | Due Within One Year |
|---|-----------------------------|-------------------------|-------------|---------------------|--------------------------|------------------------|
| Series 2003A Water Revenue Bonds 2.00-5.25%, due 10/01/2029 | \$ 11,000,000 | \$ 275,000 | \$ - | \$ (275,000) | \$ - | \$ - |
| Series 2012C California Statewide Community Development Authority 2.00-4.00%, due 10/1/2028 | 6,110,000 | 6,110,000 | - | - | 6,110,000 | 320,000 |
| Total long-term debt | <u>\$ 11,000,000</u> | <u>6,385,000</u> | <u>\$ -</u> | <u>\$ (275,000)</u> | <u>6,110,000</u> | <u>\$ 320,000</u> |
| Amount due within one year | | <u>(275,000)</u> | | | <u>(320,000)</u> | |
| Total Long-term due after one year | | <u>\$ 6,110,000</u> | | | <u>\$ 5,790,000</u> | |

| | Original Issue Amount | Balance July 1, 2012 | Additions | Retirements | Balance June 30, 2013 | Due Within One Year |
|---|-----------------------------|-------------------------|-------------|---------------------|--------------------------|------------------------|
| Series 2003A Water Revenue Bonds 2.00-5.25%, due 10/01/2029 | \$ 11,000,000 | \$ 545,000 | | \$ (270,000) | \$ 275,000 | \$ 275,000 |
| Series 2012C California Statewide Community Development Authority 2.00-4.00%, due 10/1/2028 | 6,110,000 | 6,110,000 | - | - | 6,110,000 | |
| Loans payable: | | | | | | |
| John Deere 2 | 157,794 | 3,602 | - | (3,602) | - | - |
| Total loans payable | <u>157,794</u> | <u>3,602</u> | <u>-</u> | <u>(3,602)</u> | <u>-</u> | <u>-</u> |
| Total long-term debt | <u>\$ 11,157,794</u> | <u>6,658,602</u> | <u>\$ -</u> | <u>\$ (273,602)</u> | <u>6,385,000</u> | <u>\$ 275,000</u> |
| Amount due within one year | | <u>(313,793)</u> | | | <u>(275,000)</u> | |
| Total Long-term due after one year | | <u>\$ 6,344,809</u> | | | <u>\$ 6,110,000</u> | |

B. Series 2003A Water Revenue Bonds

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

North Coast County Water District
Basic Financial Statements
For the year ended June 30, 2014

Notes to Basic Financial Statements, Continued

4. LONG-TERM DEBT, Continued

B. Series 2003A Water Revenue Bonds, continued

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

In June 2012, \$6,110,000 of the debt was retired with the issuance of *Water and Wastewater Revenue Bonds Series 2012C*. By June 30, 2014, the *Series 2003A Water Revenue Bonds* were retired.

C. 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, 2014, a total of \$6,110,000 of *Water and Wastewater Revenue Bonds Series 2012C* remains outstanding.

D. Repayment Schedule

Future annual repayment requirements are as follows:

| Year Ending June 30, | 2012C Water and Waster Revenue Bonds Refunding | |
|-------------------------|---|---------------------|
| | Principal | Interest |
| 2015 | 320,000 | 197,475 |
| 2016 | 325,000 | 186,125 |
| 2017 | 340,000 | 172,675 |
| 2018 | 350,000 | 158,775 |
| 2019 | 365,000 | 144,325 |
| 2020-2024 | 2,040,000 | 519,350 |
| 2025-2029 | 2,370,000 | 173,631 |
| Total | <u>\$ 6,110,000</u> | <u>\$ 1,552,356</u> |
| Due within one year | \$ 320,000 | \$ 197,475 |
| Due after one year | 5,790,000 | 1,354,881 |
| Total | <u>\$ 6,110,000</u> | <u>\$ 1,552,356</u> |

North Coast County Water District
Basic Financial Statements
For the year ended June 30, 2014

Notes to Basic Financial Statements, Continued

5. NET POSITION

Net Position is restricted for capital construction projects and debt service for the 2012C Water Revenue Bonds in the amount of \$253,765. The Board has also made the following assignments of unrestricted Net Position, which can only be changed through Board action:

| Description | Amount |
|---|----------------------------|
| Capital facilities construction reserve | \$ 2,500,000 |
| Emergency Reserve | 500,000 |
| Operating Reserve | 2,750,000 |
| OPEB reserve | 1,700,000 |
| Total assignment of unrestricted net position | <u>7,450,000</u> |
| Unrestricted | <u>1,470,574</u> |
| Total unrestricted net position | <u><u>\$ 8,920,574</u></u> |

6. INSURANCE

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

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

Deductibles are as follows:

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

North Coast County Water District
Basic Financial Statements
For the year ended June 30, 2014

Notes to Basic Financial Statements, Continued

6. INSURANCE, Continued

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.

7. PUBLIC EMPLOYEES' RETIREMENT SYSTEM (PERS)

A. Plan Description

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

B. Funding Policy

All full-time District employees are eligible to participate in the Plan. District employees' contribution rate of 8% is paid by the District's employee as part of an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2013-14 was 24.757% of annual payroll. The contribution requirements of the plan members are established by state statute.

C. Annual Pension Cost

For 2014, the District's annual pension cost of \$361,503 for CALPERS was equal to the District's required and actual contribution. The required contribution was determined as part of the June 30, 2011, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.50% of investment rate of return (net of administrative expenses), and (b) 3.30% to 14.20% projected annual salary increases that vary by age, duration of service and type of employment. Both (a) and (b) included an inflation component of 2.75% and annual production growth of 3%.

North Coast County Water District
Basic Financial Statements
For the year ended June 30, 2014

Notes to Basic Financial Statements, Continued

7. PUBLIC EMPLOYEES' RETIREMENT SYSTEM (PERS) , Continued

The actuarial value of CALPERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a four-year period (smooth market value). CALPERS has increased the future rate the District pays to reflect an unfunded condition in the plan.

| <u>Fiscal Year</u> | <u>Annual Pension Cost (APC)</u> | <u>Percentage of APC Contributed</u> | <u>Net Pension Obligation</u> |
|--------------------|----------------------------------|--------------------------------------|-------------------------------|
| June 30, 2012 | 390,538 | 100% | - |
| June 30, 2013 | 403,145 | 100% | - |
| June 30, 2014 | 361,503 | 100% | - |

8. OTHER POST-EMPLOYMENT BENEFITS

A. Plan Description

The District provides health insurance benefits through the Association of California Water Agencies (ACWA) Blue Cross plan and Kaiser Permanente (small business plan) to employees who retire. The District pays for medical, dental and vision premiums for retirees. The medical, dental and vision benefits are paid for life.

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

- Employee is a minimum of 55 years of age with at least 12 years of continuous service or,
- Employee may retire at or after the age of 50 with at least 15 years of aggregate service.

The District will pay for benefits under this election based on the following formula:

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

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

North Coast County Water District
Basic Financial Statements
For the year ended June 30, 2014

Notes to Basic Financial Statements, Continued

8. OTHER POST EMPLOYMENT BENEFITS, Continued

Membership of the plan consisted of the following at June 30, 2014:

| | |
|--|------------------|
| Retirees and beneficiaries receiving benefits | 23 |
| Other participants fully eligible for benefits | 0 |
| Active plan member | <u>24</u> |
| Total | <u><u>47</u></u> |

B. Funding Policy

The District pays for its other postemployment benefit (OPEB) obligation on a pay-as-you-go basis (i.e., as insurance premiums become due).

C. Annual OPEB Cost and Net OPEB Obligation

The District's annual OPEB cost (expense) is calculated based on the *annual required contribution of the employer (ARC)*, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and the changes in the District's net OPEB obligation for these benefits:

| | |
|--|----------------------------|
| Annual required contribution | \$ 706,785 |
| Interest on net OPEB obligation | 49,414 |
| Adjustment to annual required contribution | <u>(63,412)</u> |
| Annual OPEB cost (expense) | 692,787 |
| Contributions made (premiums paid) | <u>(257,548)</u> |
| Increase (decrease) in net OPEB obligation | 435,239 |
| Net OPEB obligation - beginning of year | <u>1,235,345</u> |
| Net OPEB obligation - end of year | <u><u>\$ 1,670,584</u></u> |

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
Basic Financial Statements
For the year ended June 30, 2014

Notes to Basic Financial Statements, Continued

8. OTHER POST EMPLOYMENT BENEFITS, Continued

The District’s annual OPEB cost (expense) is equal to the ARC, and the net OPEB obligation for 2014 and the two preceding years were as follows:

| Fiscal Year Ended | Annual OPEB Cost | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation (Asset) |
|----------------------|---------------------|--|--------------------------------|
| 6/30/2012 | 497,005 | 41% | 816,042 |
| 6/30/2013 | 666,336 | 36% | 1,235,345 |
| 6/30/2014 | 706,785 | 36% | 1,670,584 |

D. Plan Funded Status and Funding Progress

As of June 30, 2014, the most recent actuarial valuation date, the plan was zero percent funded. The Actuarial Accrued Liability (AAL) for benefits was \$8,426,094, and the actuarial value of assets was zero dollars, resulting in an Unfunded Actuarial Accrued Liability (UAAL) of \$8,426,094. The covered payroll (annual payroll of active employees covered by the plan) was \$1,703,011 and the ratio of UAAL to the covered payroll was 494.78 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 August of 2014 based upon June 30, 2014 amounts.

The actuarial cost method used for determining the benefit obligations is the entry age actuarial cost method. The actuarial assumptions included a 4 percent investment rate of return, which is the expected long-term rate of return on the District’s pooled investments (per GASB 43/45 guidelines for this assumption), and a projected salary increase rate of 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.

North Coast County Water District
Basic Financial Statements
For the year ended June 30, 2014

Notes to Basic Financial Statements, Continued

9. COMMITMENTS AND CONTINGENCIES

The District is subject to general risk and exposure due to normal operations in the course of business. These risks involve various claims against the District, both asserted and unasserted, all of which management considers to be immaterial to these financial statements.

ADDITIONAL INFORMATION

North Coast County Water District
Schedule of Capacity Charges
For the year ended June 30, 2014

Beginning Balance, July 1, 2013 \$ 3,471

Storage and transmission fees received during the year:

| | |
|---------------------------------|---------------|
| - 411 Dondee Way | 21,764 |
| - 7 Gypsy Hill Road | 8,912 |
| - 6 Spruce Ct. | 8,912 |
| - 1463 Perez | 5,441 |
| - 280 San Pedro | 5,441 |
| - 240 Stanley | <u>5,441</u> |
| Total capacity charges received | <u>55,911</u> |

Public improvement expenses for the year:

| <u>Public Improvement Projects</u> | <u>Project Expenditures</u> | <u>Percentage Complete</u> | <u>Project expenditures funded with the above fees</u> | |
|--|-----------------------------|----------------------------|--|-------------------|
| | | | <u>Amount</u> | <u>Percentage</u> |
| Gypse Hill, Royce, & Park Pacific Tanks Improvement Projects | 68,761 | 80% | 37,618 | 55% |
| Regulator Upgrade Project | <u>32,209</u> | 30% | <u>21,764</u> | 68% |
| Total Expenses: | <u><u>100,970</u></u> | | <u><u>59,382</u></u> | |

Ending Balance, June 30, 2014 \$ -



JJACPA, Inc.

A Professional Accounting Services Corp.

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

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, 2014, 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 September 9, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our 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.

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.

September 9, 2014

JJACPA, Inc.

JJACPA, Inc.

Dublin, CA