

NORTH COAST COUNTY WATER DISTRICT
BASIC FINANCIAL STATEMENTS
AND SINGLE AUDIT REPORTS
FOR THE YEAR ENDED JUNE 30, 2012

**North Coast County Water District
 Basic Financial Statements and Single Audit Reports
 For the year ended June 30, 2012**

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**North Coast County Water District
Basic Financial Statements
For the year ended June 30, 2012**

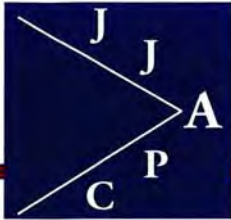
Elected Officials and Administrative Personnel

BOARD OF DIRECTORS

Joshua Cosgrove – President
Thomas Piccolotti – Vice President
Ron Ash – Director
Anne De Jarnatt – Director
J. Mason Brown, Jr. – 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

We have audited the accompanying basic financial statements of the North Coast County Water District (District) as of and for the year ended June 30, 2012. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic financial statements based on our audit. The prior year summarized comparative information has been derived from the District's June 30, 2011, financial statements in which we expressed an unqualified opinion on those financial statements on November 2, 2011.

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

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the District as of June 30, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America as well as accounting systems prescribed by the State Controller's Office and state regulations governing special districts.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2012, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements. The schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations (Circular A-133) are presented for purposes of additional analysis and are not a required part of the financial statements. Such 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 schedule of expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

November 14, 2012

JJACPA, Inc.
JJACPA, Inc.

North Coast County Water District
Basic Financial Statements
For the year ended June 30, 2012

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, 2012. Since this management's discussion and analysis is designed to focus on current activities, resulting change and current known facts, please read it in conjunction with the District's basic financial statements (pages 12 - 14) and the footnotes (pages 15 - 31).

Financial Highlights

At June 30, 2012, the District's net assets increased \$4,637,353 to \$36,997,063 from \$32,359,710 in 2011. Operating revenues decreased by \$13,084 primarily due to decrease in residential water sales. Operating expenses (with depreciation included) increased by \$247,030 as a result of increases in source of supply expenses and general expenses offset by reduction to transmission and distribution expenses.

Using This Report

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

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

North Coast County Water District
Basic Financial Statements
For the year ended June 30, 2012

Management's Discussion and Analysis, Continued

Financial Analysis of the District as a Whole

	Net Assets		Increase (Decrease)	Percent Change
	As of June 30, 2012 and 2011			
	2012	2011		
Assets:				
Current assets	\$ 10,362,415	\$ 13,141,273	\$ (2,778,858)	(21.1)%
Non-current assets	36,045,100	29,187,648	6,857,452	23.5%
Total assets	46,407,515	42,328,921	4,078,594	9.6%
Liabilities:				
Current liabilities	1,441,547	2,221,856	(780,309)	(35.1)%
Non-current liabilities	7,968,905	7,747,355	221,550	2.9%
Total liabilities	9,410,452	9,969,211	(558,759)	(5.6)%
Net assets:				
Investment in capital assets, net of related debt	29,348,823	22,438,172	6,910,651	30.8%
Restricted/Unrestricted Net Assets:				
Restricted for debt service	1,153,770	3,488,504	(2,334,734)	(66.9)%
Unrestricted	6,494,470	6,433,034	61,436	1.0%
Total net assets	\$ 36,997,063	\$ 32,359,710	\$ 4,637,353	14.3%

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

As can be seen from the table above, net assets at June 30, 2012, increased to \$36,997,063 from \$32,359,710 in 2011. The increase in net assets was primarily due to recent capital improvement projects and the related increase in depreciation.

North Coast County Water District
Basic Financial Statements
For the year ended June 30, 2012

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, 2012 and 2011			
	<u>2012</u>	<u>2011</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
Operating revenues	\$ 8,432,937	\$ 8,446,021	\$ (13,084)	(0.2)%
Operating expenses	<u>9,024,718</u>	<u>8,777,688</u>	<u>247,030</u>	<u>2.8%</u>
Operating income	(591,781)	(331,667)	(260,114)	78.4%
Non-operating revenues	916,960	998,536	(81,576)	(8.2)%
Non-operating expenses	<u>(294,451)</u>	<u>(9,475)</u>	<u>(284,976)</u>	<u>3007.7%</u>
Net income before contributions	30,728	657,394	(626,666)	(95.3)%
Capital contributions	<u>4,606,625</u>	<u>4,391,931</u>	<u>214,694</u>	<u>4.9%</u>
Change in net assets	4,637,353	5,049,325	(411,972)	(8.2)%
Net assets:				
Beginning of year	<u>32,359,710</u>	<u>27,310,385</u>	<u>5,049,325</u>	<u>18.5%</u>
End of year	<u>\$ 36,997,063</u>	<u>\$ 32,359,710</u>	<u>\$ 4,637,353</u>	<u>14.3%</u>

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

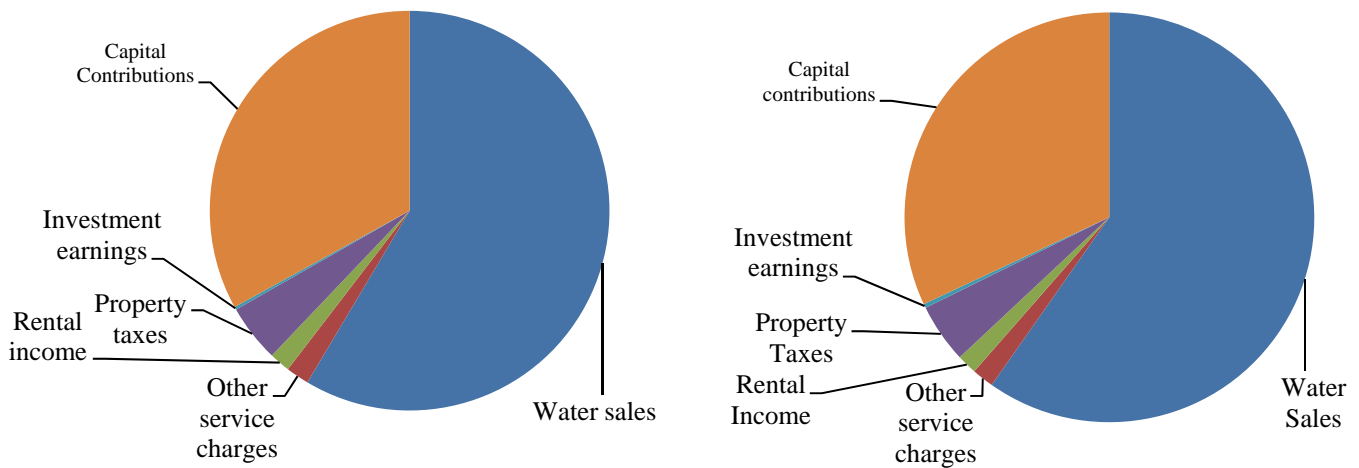
**North Coast County Water District
Basic Financial Statements
For the year ended June 30, 2012**

Management's Discussion and Analysis, Continued

Financial Analysis of the District as a Whole, Continued

The following is a graphic illustration of revenues by source:

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



<u>FY 2011-2012</u>			<u>FY 2010-2011</u>		<u>Increase (Decrease)</u>
\$ 8,170,247	58.5%	Water sales	\$ 8,210,882	59.7%	\$ (40,635)
262,690	1.9%	Other service charges	235,139	1.7%	27,551
234,876	1.7%	Rental income - cellular antennas	216,869	1.6%	18,007
650,027	4.7%	Property taxes	643,225	4.7%	6,802
32,057	0.2%	Investment earnings	45,402	0.3%	(13,345)
4,606,625	33.0%	Capital contributions	4,391,931	32.0%	214,694
<u>\$ 13,956,522</u>	<u>100.0%</u>	Totals	<u>\$ 13,743,448</u>	<u>100.0%</u>	<u>\$ 213,074</u>

Water sales decreased \$40,635 due to decrease in residential water consumption as a result of water conservation. Property taxes increased by \$6,802 primarily due to increase in Excess ERAF distribution from San Mateo County. Investment earnings decreased by \$13,345, the result of declining interest rates, lower reserve balances, and a recessionary economy. The increase in capital contributions of \$214,694 was the result of the recycled water project nearing completion.

North Coast County Water District
Basic Financial Statements
For the year ended June 30, 2012

Management’s Discussion and Analysis, Continued

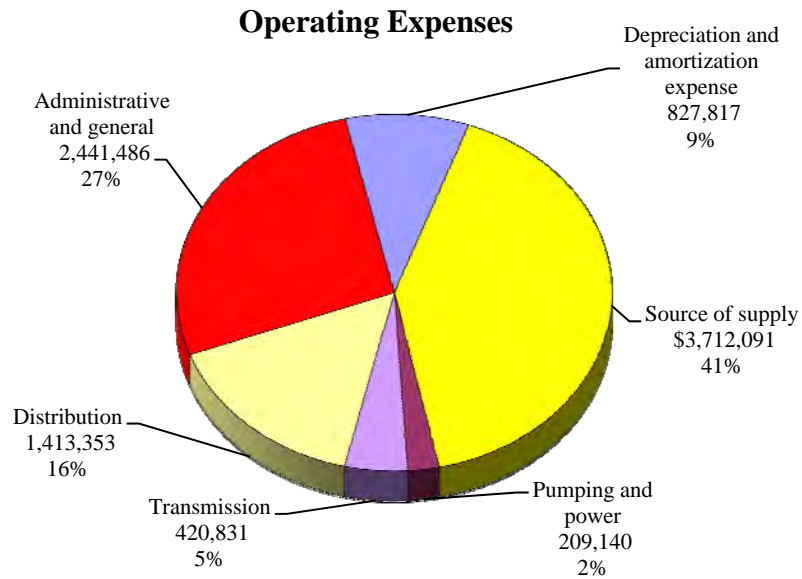
Financial Analysis of the District as a Whole, Continued

Operating expenses increased by \$247,030 as detailed below:

Operating Expenses				
For the years ended June 30, 2012 and 2011				
	<u>2012</u>	<u>2011</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
Operating expenses:				
Source of supply	\$ 3,712,091	\$ 3,089,449	\$ 622,642	20.2%
Pumping and power	209,140	281,707	(72,567)	(25.8)%
Transmission	420,831	431,996	(11,165)	(2.6)%
Distribution	1,413,353	1,559,967	(146,614)	(9.4)%
Administrative and general	2,441,486	2,617,688	(176,202)	(6.7)%
Depreciation and amortization expense	827,817	796,881	30,936	3.9%
Total	<u>\$ 9,024,718</u>	<u>\$ 8,777,688</u>	<u>\$ 247,030</u>	<u>2.8%</u>

Source of supply increased \$662,642 due to higher wholesale water rates from San Francisco Public Utilities Commission. Administration and general expense decreases were the result of lower payroll expenses and lower legal fees.

The following is a graphic illustration of operating expenses:



**North Coast County Water District
Basic Financial Statements
For the year ended June 30, 2012**

Management’s Discussion and Analysis, Continued

Financial Analysis of the District as a Whole, Continued

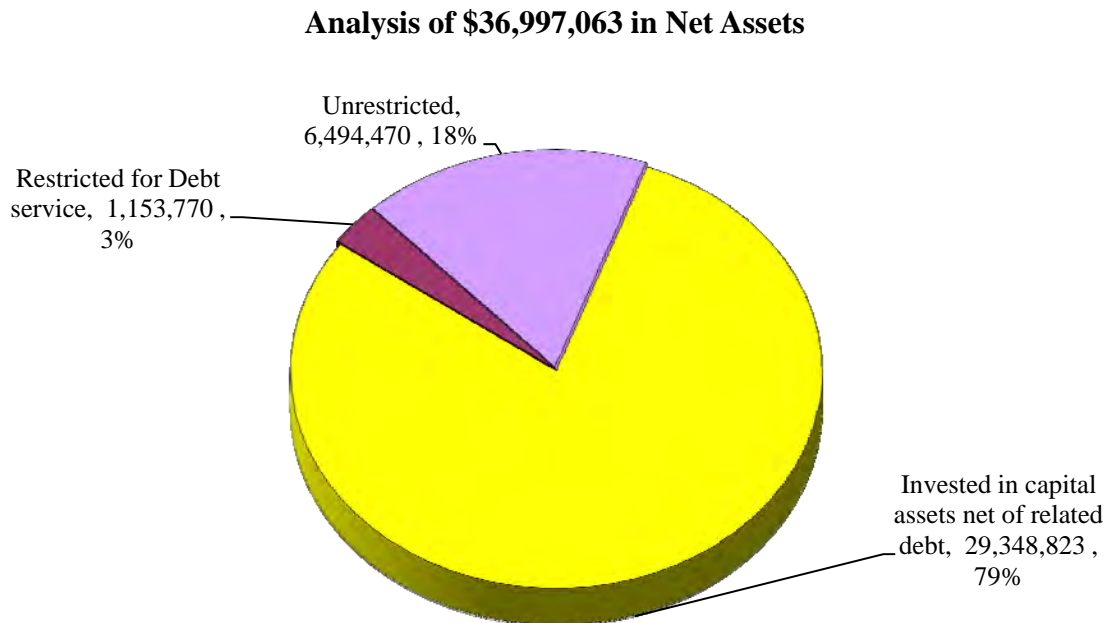
Net assets increased by \$4,637,353 as detailed below:

**Analysis of Net Assets
As of June 30, 2012 and 2011**

	<u>2012</u>	<u>2011</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
Net assets:				
Invested in capital assets net of related debt	\$ 29,348,823	\$ 22,438,172	\$ 6,910,651	30.8%
Restricted				
Debt service	1,153,770	3,488,504	(2,334,734)	(66.9)%
Unrestricted	<u>6,494,470</u>	<u>6,433,034</u>	<u>61,436</u>	<u>1.0%</u>
Total	<u><u>\$ 36,997,063</u></u>	<u><u>\$ 32,359,710</u></u>	<u><u>\$ 4,637,353</u></u>	<u><u>14.3%</u></u>

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

The following is a graphic illustration of net assets:



North Coast County Water District
Basic Financial Statements
For the year ended June 30, 2012

Management's Discussion and Analysis, Continued

Cash Flows

Cash flows have decreased by \$2,851,779 which is the result of payments for Recycled Water Project construction costs and 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 Assets

June 30, 2012

(with comparative totals for June 30, 2011)

	2012	2011
ASSETS		
Current assets:		
Cash and investments	\$ 8,284,944	\$ 8,801,989
Restricted cash and investments	1,153,770	3,488,504
Accounts receivable:		
Customer water	648,560	599,124
Other	17,619	12,981
Taxes	18,101	10,875
Interest	7,641	10,265
Prepaid expenses and deposits	52,790	38,545
Materials and supplies inventory	178,990	178,990
Total current assets	10,362,415	13,141,273
Noncurrent assets:		
Note receivable - State of California	37,675	37,675
Capital assets:		
Land	832,867	832,867
Construction in progress	6,710,417	8,953,452
Depreciable assets	41,202,217	31,273,913
Less accumulated depreciation	(12,738,076)	(11,910,259)
Total noncurrent assets	36,045,100	29,187,648
Total assets	\$ 46,407,515	42,328,921
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 1,145,592	\$ 1,612,585
Accrued payroll	-	82,123
Customer deposits	176,948	172,994
Water connection deposits	47,176	280,151
Accrued interest payable	71,831	74,003
Total current liabilities	1,441,547	2,221,856
Noncurrent liabilities:		
Due within one year	273,602	313,793
Due after one year	6,385,000	6,398,602
Net OPEB obligation	816,041	524,881
Accrued vacation and sick leave	494,262	510,079
Total noncurrent liabilities	7,968,905	7,747,355
Total liabilities	9,410,452	9,969,211
NET ASSETS		
Invested in capital assets net of related debt	29,348,823	22,438,172
Restricted for debt service and recycled water project	1,153,770	3,488,504
Unrestricted	6,494,470	6,433,034
Total net assets	36,997,063	32,359,710
Total liabilities and net assets	\$ 46,407,515	42,328,921

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

North Coast County Water District
Statement of Revenues, Expenses, and Changes in Net Assets
For the year ended June 30, 2012

(with comparative totals for the year ended June 30, 2011)

	<u>2012</u>	<u>2011</u>
OPERATING REVENUES:		
Water sales	\$ 8,170,247	\$ 8,210,882
Other service charges	262,690	235,139
Total operating revenues	<u>8,432,937</u>	<u>8,446,021</u>
OPERATING EXPENSES:		
Source of supply	3,712,091	3,089,449
Pumping and power	209,140	281,707
Transmission	420,831	431,996
Distribution	1,413,353	1,559,967
Administrative and general	2,441,486	2,617,688
Depreciation and amortization	827,817	796,881
Total operating expenses	<u>9,024,718</u>	<u>8,777,688</u>
Operating income (loss)	<u>(591,781)</u>	<u>(331,667)</u>
NONOPERATING REVENUES (EXPENSES):		
Property taxes	650,027	643,225
Investment earnings	32,057	45,402
Rental income - cellular antennas	234,876	216,869
Gain (loss) on disposition of capital assets	-	21,978
Net OPEB expense	(291,160)	71,062
Interest expense	(3,291)	(9,475)
Total nonoperating revenues (expenses)	<u>622,509</u>	<u>989,061</u>
Income before contributions	<u>30,728</u>	<u>657,394</u>
Capital contributions:		
Capacity charges	65,292	36,617
Developer contributions	2,454,029	15,792
Recycled water project	2,087,304	4,339,522
Total capital contributions	<u>4,606,625</u>	<u>4,391,931</u>
Net Income	4,637,353	5,049,325
CHANGE IN NET ASSETS:		
Beginning of year	32,359,710	27,310,385
End of year	<u>\$ 36,997,063</u>	<u>\$ 32,359,710</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, 2012

(with comparative amounts for the year ended June 30, 2011)

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	\$ 8,378,863	\$ 8,394,020
Receipts from developers	-	-
Payments to suppliers	(7,086,450)	(5,414,464)
Payments to employees	(1,918,650)	(1,836,532)
Net cash provided (used) by operating activities	(626,237)	1,143,024
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Property taxes net of collection fees	642,801	643,225
Receipts from capacity charges	65,292	36,617
Receipts from cellular antenna rentals	234,876	216,869
Net cash provided (used) by noncapital financing activities	942,969	896,711
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Principal payments on long-term debt	(53,793)	(363,384)
Interest payments on long-term debt	(290,151)	(302,748)
Capital contributions	4,541,333	4,355,314
Acquisition and construction of capital assets	(7,400,581)	(4,524,946)
Net cash provided (used) by capital and related financing activities	(3,203,192)	(835,764)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	-	-
Interest received on investments	34,681	47,918
Net cash provided (used) by investing activities	34,681	47,918
Net increase (decrease) in cash and cash equivalents	(2,851,779)	1,251,889
CASH AND INVESTMENTS:		
Beginning of year	12,290,493	11,038,604
End of year	\$ 9,438,714	\$ 12,290,493
Reconciliation to Statement of Net Assets:		
Cash and investments	\$ 8,284,944	\$ 8,801,989
Restricted cash and investments	1,153,770	3,488,504
Total cash and investments	\$ 9,438,714	\$ 12,290,493
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income	\$ (591,781)	\$ (331,667)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation and amortization expense	827,817	796,881
(Gain) Loss on disposal of capital assets	-	(21,978)
(Increase) decrease in current assets:		
Accounts receivable	(54,074)	(52,001)
Materials and supplies	-	118,635
Prepaid expenses	(14,245)	(1,451)
Increase (decrease) in liabilities:		
Accounts payable and accrued liabilities	(466,993)	785,274
Accrued payroll	(82,123)	17,820
Deposits and deferred revenue	(229,021)	(215,711)
Accrued vacation and sick leave	(15,817)	47,222
Net cash provided (used) by operating activities	\$ (626,237)	\$ 1,143,024

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, 2012

Notes to Basic Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Description of the Reporting Entity

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

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

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

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

North Coast County Water District
Basic Financial Statements
For the year ended June 30, 2012

Notes to Basic Financial Statements, Continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Fund Accounting Classification and Basis of Accounting

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

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

C. Cash and Investments

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

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

D. Capital Assets

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

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

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

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

North Coast County Water District
Basic Financial Statements
For the year ended June 30, 2012

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, 2012

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, 2012			June 30, 2011
	FDIC insured	Not rated	Fair Value	
Cash in bank	\$ 250,000	\$ 87,912	\$ 337,912	\$ 483,684
Petty cash	-	500	500	500
Local Agency Investment Fund (LAIF)	-	7,946,532	7,946,532	8,317,805
SFPUC US Bank Funds	250,000	3,765	253,765	2,813,251
Money Market Funds	-	900,005	900,005	675,253
Total	\$ 500,000	\$ 8,938,714	\$ 9,438,714	\$ 12,290,493
Financial Statement presentation:				
Cash and investments			\$ 8,284,944	\$ 8,801,989
Restricted cash and investments			1,153,770	3,488,504
Total			\$ 9,438,714	\$ 12,290,493

North Coast County Water District
Basic Financial Statements
For the year ended June 30, 2012

Notes to Basic Financial Statements, Continued

2. CASH AND INVESTMENTS, Continued

A. Composition, Continued

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

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

B. Authorized Investments

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

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

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>
California Local Agency Investment Fund	N/A	None
U.S. Treasury Obligations	5 years	None
Negotiable Certificates of Deposit	1 year	30%

North Coast County Water District
Basic Financial Statements
For the year ended June 30, 2012

Notes to Basic Financial Statements, Continued

2. CASH AND INVESTMENTS, Continued

C. Fair Value of Investments

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

D. Investments Authorized by Debt Agreements

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

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

North Coast County Water District
Basic Financial Statements
For the year ended June 30, 2012

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, 2012, these investments matured in an average of 270 days.

Money market funds are available for withdrawal on demand and at June 30, 2012, matured in an average of 55 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, 2012.

North Coast County Water District
Basic Financial Statements
For the year ended June 30, 2012

Notes to Basic Financial Statements, Continued

3. CAPITAL ASSETS

Changes in capital assets and depreciation for the years ended June 30, 2012, and 2011, were as follows:

	July 1, 2011	Additions	Deletions	June 30, 2012
<u>Capital Assets</u>				
<u>Nondepreciable:</u>				
Land	\$ 832,867	\$ -	\$ -	\$ 832,867
Construction in progress	8,953,452	3,072,107	(5,315,142)	6,710,417
Total nondepreciable assets	<u>9,786,319</u>	<u>3,072,107</u>	<u>(5,315,142)</u>	<u>7,543,284</u>
<i>Depreciable:</i>				
Transmission and distribution	13,521,995	19,675	-	13,541,670
Source of supply plant	3,392,249	40,713	-	3,432,962
Reservoirs	8,818,787	22,487	-	8,841,274
Pumping plant	1,656,811	-	-	1,656,811
Recycled Water Project	-	9,692,079	-	9,692,079
Telemetry systems	556,614	38,395	-	595,009
Water treatment plant	288,445	-	-	288,445
Office building	-	10,363	-	10,363
Office building/warehouse	999,590	-	-	999,590
Equipment and vehicles	2,039,423	104,591	-	2,144,014
Total depreciable assets	<u>31,273,914</u>	<u>9,928,303</u>	<u>-</u>	<u>41,202,217</u>
Less: accumulated depreciation	<u>(11,910,259)</u>	<u>(827,817)</u>	<u>-</u>	<u>(12,738,076)</u>
Total depreciable assets (net)	<u>19,363,655</u>	<u>9,100,486</u>	<u>-</u>	<u>28,464,141</u>
Total capital assets	<u>\$ 29,149,974</u>	<u>\$ 19,028,789</u>	<u>\$ (5,315,142)</u>	<u>\$ 36,007,425</u>
	July 1, 2010	Additions	Deletions	June 30, 2011
<u>Capital Assets</u>				
<u>Nondepreciable:</u>				
Land	\$ 832,867	\$ -	\$ -	\$ 832,867
Construction in progress	4,248,391	4,705,061	-	8,953,452
Total nondepreciable assets	<u>5,081,258</u>	<u>4,705,061</u>	<u>-</u>	<u>9,786,319</u>
<i>Depreciable:</i>				
Transmission and distribution	13,167,528	354,467	-	13,521,995
Source of supply plant	3,326,010	66,239	-	3,392,249
Reservoirs	8,783,362	35,425	-	8,818,787
Pumping plant	1,656,811	-	-	1,656,811
Telemetry systems	556,614	-	-	556,614
Water treatment plant	288,445	-	-	288,445
Office building	999,590	-	-	999,590
Equipment and vehicles	2,033,538	5,885	-	2,039,423
Total depreciable assets	<u>30,811,898</u>	<u>462,016</u>	<u>-</u>	<u>31,273,914</u>
Less: accumulated depreciation	<u>(11,113,378)</u>	<u>(796,881)</u>	<u>-</u>	<u>(11,910,259)</u>
Total depreciable assets (net)	<u>19,698,520</u>	<u>(334,865)</u>	<u>-</u>	<u>19,363,655</u>
Total capital assets	<u>\$ 24,779,778</u>	<u>\$ 4,370,196</u>	<u>\$ -</u>	<u>\$ 29,149,974</u>

North Coast County Water District
Basic Financial Statements
For the year ended June 30, 2012

Notes to Basic Financial Statements, Continued

4. LONG-TERM DEBT

A. Long-Term Debt Activity

	Original Issue Amount	Balance July 1, 2011	Additions	Retirements	Balance June 30, 2012	Due Within One Year
Series 2003A Water Revenue Bonds 2.00-5.25%, due 10/01/2029	\$ 11,000,000	\$ 6,655,000		\$ (6,110,000)	\$ 545,000	\$ 270,000
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 1	197,732	11,723		(11,723)	-	-
John Deere 2	157,794	45,672		(42,070)	3,602	3,602
Total loans payable	<u>355,526</u>	57,395		<u>(53,793)</u>	3,602	3,602
Total long-term debt	<u>\$ 11,355,526</u>	6,712,395		<u>\$ (6,163,793)</u>	6,658,602	<u>\$ 273,602</u>
Amount due within one year		(313,793)			(273,602)	
Total Long-term due after one year		<u>\$ 6,398,602</u>			<u>\$ 6,385,000</u>	
	Original Issue Amount	Balance July 1, 2010	Additions	Retirements	Balance June 30, 2011	Due Within One Year
Series 2003A Water Revenue Bonds 2.00-5.25%, due 10/01/2029	\$ 11,000,000	\$ 6,910,000		\$ (255,000)	\$ 6,655,000	\$ 260,000
Loans payable:						
John Deere 1	197,732	80,065		(68,342)	11,723	11,723
John Deere 2	157,794	85,714		(40,042)	45,672	42,070
Total loans payable	<u>355,526</u>	165,779		<u>(108,384)</u>	57,395	53,793
Total long-term debt	<u>\$ 11,355,526</u>	7,075,779		<u>\$ (363,384)</u>	6,712,395	<u>\$ 313,793</u>
Amount due within one year		(363,384)			(313,793)	
Total Long-term due after one year		<u>\$ 6,712,395</u>			<u>\$ 6,398,602</u>	

North Coast County Water District
Basic Financial Statements
For the year ended June 30, 2012

Notes to Basic Financial Statements, Continued

4. LONG-TERM DEBT, Continued

B. Series 2003A Water Revenue Bonds

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

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

In June 2012, \$6,110,000 of the debt was retired with the issuance of *Water and Wastewater Revenue Bonds Series 2012C*. At June 30, 2012, a total \$545,000 of *Series 2003A Water Revenue Bonds* remains outstanding.

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.

D. John Deere Loan Payable 1

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

E. John Deere Loan Payable 2

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

North Coast County Water District
Basic Financial Statements
For the year ended June 30, 2012

Notes to Basic Financial Statements, Continued

4. LONG-TERM DEBT, Continued

D. Repayment Schedule

Future annual repayment requirements are as follows:

Year Ending June 30,	2003A Water and Wastewater Revenue Bonds		2012C Water and Waster Revenue Bonds Refunding		Loan Payable - John Deere 2	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 270,000	\$ 11,030	\$ -	\$ 207,894	\$ 3,602	\$ 14
2014	275,000	2,234	-	202,275	-	-
2015	-	-	320,000	197,475	-	-
2016	-	-	325,000	186,125	-	-
2017	-	-	340,000	172,675	-	-
2018-2022	-	-	1,895,000	657,350	-	-
2023-2027	-	-	2,240,000	314,275	-	-
2028-2030	-	-	990,000	24,456	-	-
Total	<u>\$ 545,000</u>	<u>\$ 13,264</u>	<u>\$ 6,110,000</u>	<u>\$ 1,962,525</u>	<u>\$ 3,602</u>	<u>\$ 14</u>
Due within one year	\$ 270,000	\$ 11,030	\$ -	\$ 207,894	\$ 3,602	\$ 14
Due after one year	275,000	2,234	6,110,000	1,754,631	-	-
Total	<u>\$ 545,000</u>	<u>\$ 13,264</u>	<u>\$ 6,110,000</u>	<u>\$ 1,962,525</u>	<u>\$ 3,602</u>	<u>\$ 14</u>

Year Ending June 30,	Total	
	Principal	Interest
2013	\$ 273,602	\$ 218,938
2014	275,000	204,509
2015	320,000	197,475
2016	325,000	186,125
2017	340,000	172,675
2018-2022	1,895,000	657,350
2023-2027	2,240,000	314,275
2028-2030	990,000	24,456
Total	<u>\$ 6,658,602</u>	<u>\$ 1,975,803</u>
Due within one year	\$ 273,602	\$ 218,938
Due after one year	6,385,000	1,756,865
Total	<u>\$ 6,658,602</u>	<u>\$ 1,975,803</u>

North Coast County Water District
Basic Financial Statements
For the year ended June 30, 2012

Notes to Basic Financial Statements, Continued

5. NET ASSETS

Net assets are restricted for capital construction projects and debt service for the 2003A Water Revenue Bonds in the amount of \$1,153,770. The Board has also made the following assignments of unrestricted net assets, which can only be changed through Board action:

Description	Amount
Capital facilities construction reserve	\$ 2,200,000
Emergency Reserve	500,000
Operating Reserve	2,750,000
OPEB reserve	820,000
Total assignment of unrestricted net assets	<u>6,270,000</u>
Unrestricted	<u>224,470</u>
Total unrestricted net assets	<u><u>\$ 6,494,470</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
Licensed vehicle	1,000
Mobile Equipment	2,500
Fidelity	1,000
Boiler and Machinery	Various

North Coast County Water District
Basic Financial Statements
For the year ended June 30, 2012

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	50,000 to 100,000,000
Fidelity	100,000 to 500,000
Workers' compensation	2,000,000 statutory
Employers' liability	2,000,000 statutory

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

7. PUBLIC EMPLOYEES' RETIREMENT SYSTEM (PERS)

A. Plan Description

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

B. Funding Policy

All full-time District employees are eligible to participate in the Plan. District employees' contribution rate of 8% is paid by the District's employee as part of an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2011-12 was 23.304% of annual payroll. The contribution requirements of the plan members are established by state statute.

C. Annual Pension Cost

For 2012, the District's annual pension cost of \$390,538 for CALPERS was equal to the District's required and actual contribution. The required contribution was determined as part of the June 30, 2008, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.75% of investment rate of return (net of administrative expenses), and (b) 3.25% to 14.45% projected annual salary increases that vary by age, duration of service and type of employment. Both (a) and (b) included an inflation component of 3% and annual production growth of 0.25%.

North Coast County Water District
Basic Financial Statements
For the year ended June 30, 2012

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, 2010	\$ 353,263	100%	-
June 30, 2011	378,098	100%	-
June 30, 2012	390,538	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, 2012

Notes to Basic Financial Statements, Continued

8. OTHER POST EMPLOYMENT BENEFITS, Continued

Membership of the plan consisted of the following at June 30, 2012:

Retirees and beneficiaries receiving benefits	24
Other participants fully eligible for benefits	0
Active plan member	<u>26</u>
Total	<u><u>50</u></u>

B. Funding Policy

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

C. Annual OPEB Cost and Net OPEB Obligation

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

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

Annual required contribution	\$ 472,752
Interest on net OPEB obligation	20,995
Adjustment to annual required contribution	<u>3,258</u>
Annual OPEB cost (expense)	497,005
Contributions made (premiums paid)	<u>(205,845)</u>
Increase (decrease) in net OPEB obligation	291,160
Net OPEB obligation - beginning of year	<u>524,881</u>
Net OPEB obligation - end of year	<u><u>\$ 816,041</u></u>

This is the third 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, 2012

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 2012 and the two preceding years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation (Asset)
6/30/2010	\$ 767,789	78%	\$ 595,943
6/30/2011	109,736	478%	524,881
6/30/2012	497,005	164%	816,042

D. Plan Funded Status and Funding Progress

As of June 30, 2011, the most recent actuarial valuation date, the plan was zero percent funded. The Actuarial Accrued Liability (AAL) for benefits was \$866,351, and the actuarial value of assets was zero dollars, resulting in an Unfunded Actuarial Accrued Liability (UAAL) of \$866,351. The covered payroll (annual payroll of active employees covered by the plan) was \$1,742,502 and the ratio of UAAL to the covered payroll was 49.72 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the profitability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefits costs between the employer and the plan members to that point. The actuarial methods and assumptions used included techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long term perspective of the calculations. The actuarial valuation was performed in February of 2011 based upon June 30, 2010 amounts.

The actuarial cost method used for determining the benefit obligations is the entry age actuarial cost method. The actuarial assumptions included a 4 percent investment rate of return, which is the expected long-term rate of return on the District's pooled investments (per GASB 43/45 guidelines for this assumption), and a projected salary increase rate of 2 percent. The UAAL is being amortized using a level dollar method over 30 years with no election as to an open or closed basis at this time.

North Coast County Water District
Basic Financial Statements
For the year ended June 30, 2012

Notes to Basic Financial Statements, Continued

9. COMMITMENTS AND CONTINGENCIES

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

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ADDITIONAL INFORMATION

North Coast County Water District
Schedule of Capacity Charges
For the year ended June 30, 2012

Beginning Balance, July 1, 2011 \$ -

Storage and transmission fees received during the year:

- 2270 Palmetto Ave.	27,205
- 1777-1787 Beach Blvd.	10,882
- 208 Beaumont	5,441
- 320 Beaumont	5,441
- 1675 Adobe Dr.	5,441
- 477 Farallon	5,441
- 108 Lorry Lane	5,441
Total capacity charges received	<u>65,292</u>

Public improvement expenses for the year:

<u>Public Improvement Projects</u>	<u>Project Expenditures</u>	<u>Percentage Complete</u>	<u>Project expenditures funded with the above fees</u>	
			<u>Amount</u>	<u>Percentage</u>
T-1 Main Jumper Nodules Project	20,798	85%	20,798	100%
2" Dead End Blow-off Project	18,059	5%	18,059	100%
900 Palmetto & Zarma Regulator Updates	38,395	2%	26,435	69%
Total Expenses:	<u>77,252</u>		<u>65,292</u>	

Ending Balance, June 30, 2012 \$ -

FEDERAL SUPPLEMENTARY REPORTS

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**North Coast County Water District
Schedule of Expenditures of Federal Awards
For the year ended June 30, 2012**

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identification Number	Federal		Total Expenditures
			Expenditures ARRA*	Expenditures Non-ARRA	
U.S. Department of the Interior - Bureau of Reclamation					
<i>Direct Program:</i>					
<u>Water Reclamation and Reuse Program:</u>					
ARRA - Recycled Water Project	15.504		1,354,751	-	1,354,751
Recycled Water Project (Pacifica)	15.504		-	46,175	46,175
<i>Total Water Reclamation and Reuse Program</i>			<u>1,354,751</u>	<u>46,175</u>	<u>1,400,926</u>
Total Federal Expenditures			<u>\$ 1,354,751</u>	<u>\$ 46,175</u>	<u>\$ 1,400,926</u>

* ARRA indicates American Recovery and Reinvestment Act of 2009.

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

North Coast County Water District
Notes to Schedule of Expenditures of Federal Awards
For the year ended June 30, 2012

1. BASIS OF PRESENTATION

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

2. DESCRIPTION OF MAJOR PROGRAMS

Water Reclamation and Reuse Program CFDA #15.504

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

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



JJACPA, Inc.

A Professional Accounting Services Corp.

**REPORT ON 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 the basic financial statements of North Coast County Water District (District) as of and for the year ended June 30, 2012, and have issued our report thereon dated November 2, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

Management of the District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of The District's internal control over financial reporting.

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

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

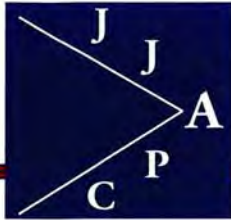
Compliance and Other Matters

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

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

November 14, 2012

JJACPA, Inc.
JJACPA, Inc.



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**REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A
DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Independent Auditor's Report

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

Compliance

We have audited the North Coast County Water District's (District) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2012. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

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

November 14, 2012

JJACPA, Inc.
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**North Coast County Water District
 Schedule of Findings and Questioned Costs
 For the year ended June 30, 2012**

Section I – Summary of Auditors’ Results

Financial Statements

Type of auditor’s report issued	Unqualified
Internal control over financial reporting:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified?	None reported
Type of auditor’s report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	No

Identification of major programs:

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

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

**North Coast County Water District
Schedule of Findings and Questioned Costs, Continued
For the year ended June 30, 2012**

Section II – Financial Statement Findings

No matters were reported.

Section III – Federal Award Findings and Questioned Costs

No matters were reported.

Section IV – Status of Prior Year Audit Findings

There were no prior year findings.

Section V – Corrective Action Plan

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