

NORTH COAST COUNTY WATER DISTRICT
BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015

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**North Coast County Water District
 Basic Financial Statements
 For the year ended June 30, 2015**

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**North Coast County Water District
Basic Financial Statements
For the year ended June 30, 2015**

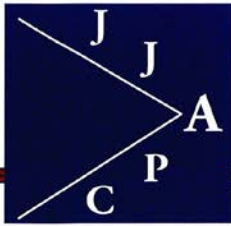
Elected Officials and Administrative Personnel

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, 2015, 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, 2015, 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 December 11, 2015 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.

December 11, 2015

JJACPA, Inc.
JJACPA, Inc.
Dublin, CA

North Coast County Water District
Basic Financial Statements
For the year ended June 30, 2015

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, 2015. 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 - 37).

Financial Highlights

At June 30, 2015, the District's net position decreased \$4,857,571 to \$37,071,242 from \$41,928,813 at June 30, 2014. Operating revenues decreased by \$331,686 as a result of decrease in the residential water sales. Operating expenses (with depreciation included) increased by \$985,282 primarily due to increase in source of supply expenses and administrative and general 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, 2015

Management's Discussion and Analysis, Continued

Financial Analysis of the District as a Whole

	Net Position		Increase (Decrease)	Percent Change
	As of June 30, 2015 and 2014			
	2015	2014		
Assets:				
Current assets	\$ 11,362,528	\$ 12,169,049	\$ (806,521)	(6.6)%
Non-current assets	39,068,947	38,864,474	204,473	0.5%
Total assets	<u>50,431,475</u>	<u>51,033,523</u>	<u>(602,048)</u>	<u>(1.2)%</u>
Deferred outflows of resources				
Pension Plan	128,957		128,957	
Total assets and deferred outflows of resources	<u>50,560,432</u>	<u>51,033,523</u>	<u>(473,091)</u>	<u>-1.2%</u>
Liabilities:				
Current liabilities	1,482,738	1,144,672	338,066	29.5%
Non-current liabilities	11,335,095	7,960,038	3,375,057	42.4%
Total liabilities	<u>12,817,833</u>	<u>9,104,710</u>	<u>3,713,123</u>	<u>40.8%</u>
Deferred inflows of resources				
Pension Plan	671,357	-	671,357	
Total deferred inflows of resources	<u>671,357</u>	<u>-</u>	<u>671,357</u>	<u>40.8%</u>
Net position:				
Net Investment in capital assets	33,278,947	32,754,474	524,473	1.6%
Restricted/Unrestricted Net Position:				
Restricted for debt service	-	253,765	(253,765)	(100.0)%
Unrestricted	3,792,295	8,920,574	(5,128,279)	(57.5)%
Total net position	<u>\$ 37,071,242</u>	<u>\$ 41,928,813</u>	<u>\$ (4,857,571)</u>	<u>(11.6)%</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, 2015, decreased to \$37,071,242 from \$41,928,813 at June 30, 2014. The change in net position is due primarily to adjustments related to the implementation of GASB 68 and 71 – Accounting and Financial Reporting for Pensions which requires reduction of beginning net position by \$3,868,914 to reflect the recording of net pension liability, deferred inflows of resources and deferred outflows of resources.

North Coast County Water District
Basic Financial Statements
For the year ended June 30, 2015

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, 2015 and 2014

	<u>2015</u>	<u>2014</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
Operating revenues	\$ 8,445,917	\$ 8,777,603	\$ (331,686)	(3.8)%
Operating expenses	10,135,945	9,150,663	985,282	10.8%
Operating loss	(1,690,028)	(373,060)	(1,316,968)	353.0%
Non-operating revenues	1,033,740	994,706	39,034	3.9%
Non-operating expenses	(658,408)	(638,899)	(19,509)	3.1%
Net income before contributions	(1,314,696)	(17,253)	(1,297,443)	7520.1%
Capital contributions	326,039	1,186,150	(860,111)	(72.5)%
Change in net position	(988,657)	1,168,897	(2,157,554)	(184.6)%
Net position:				
Beginning of year, as originally reported	41,928,813			
Adjustment	3,868,914			
Beginning of year, as adjusted	38,059,899	40,759,916	(2,700,017)	(6.6)%
End of year	<u>\$ 37,071,242</u>	<u>\$ 41,928,813</u>	<u>\$ (4,857,571)</u>	<u>(11.6)%</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.

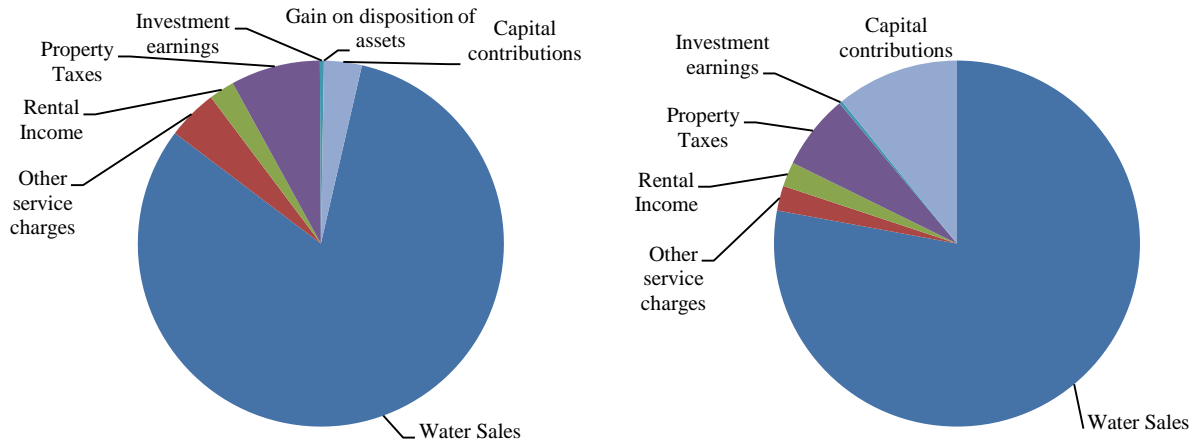
**North Coast County Water District
Basic Financial Statements
For the year ended June 30, 2015**

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 2014-2015			FY 2013-2014		Increase (Decrease)
\$ 8,011,230	81.70%	Water sales	\$ 8,536,613	77.90%	\$ (525,383)
434,687	4.43%	Other service charges	240,990	2.20%	193,697
221,554	2.26%	Rental income - cellular antennas	237,879	2.17%	(16,325)
775,866	7.91%	Property taxes	726,398	6.63%	49,468
34,585	0.35%	Investment earnings	30,429	0.28%	4,156
1,735	0.02%	Gain on disposition of assets	-	0.00%	1,735
326,039	3.32%	Capital contributions	1,186,150	10.82%	(860,111)
<u>\$ 9,805,696</u>	<u>100.00%</u>	Totals	<u>\$ 10,958,459</u>	<u>100.00%</u>	<u>\$ (1,152,763)</u>

Water sales decreased \$525,383 due to decrease in residential water sales. Property taxes increased by \$49,468 primarily due to increase in Excess ERAF distribution from San Mateo County. Investment earnings increased by \$4,156, the result of higher reserve balances. The decrease in capital contributions of \$860,111 was the result of completion of the Devil’s Slide Tunnel project.

**North Coast County Water District
Basic Financial Statements
For the year ended June 30, 2015**

Management’s Discussion and Analysis, Continued

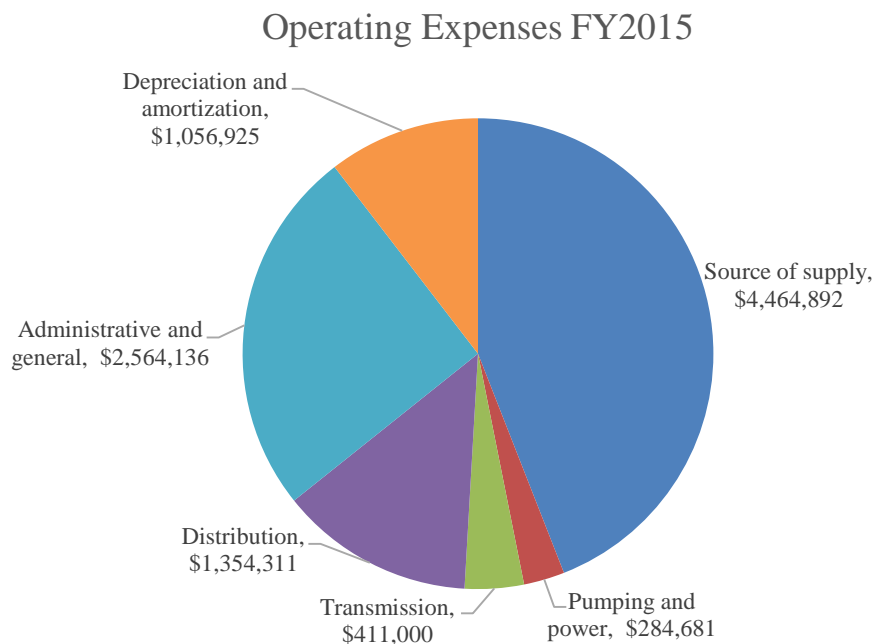
Financial Analysis of the District as a Whole, Continued

Operating expenses increased by \$985,282 as detailed below:

	Operating Expenses		Increase (Decrease)	Percent Change
	For the years ended June 30, 2015 and 2014			
	<u>2015</u>	<u>2014</u>		
Operating expenses:				
Source of supply	\$ 4,464,892	\$ 3,925,802	\$ 539,090	13.73%
Pumping and power	284,681	250,698	33,983	13.56%
Transmission	411,000	415,148	(4,148)	(1.00)%
Distribution	1,354,311	1,277,921	76,390	5.98%
Administrative and general	2,564,136	2,356,431	207,705	8.81%
Depreciation and amortization expense	1,056,925	924,663	132,262	14.30%
Total	<u>\$ 10,135,945</u>	<u>\$ 9,150,663</u>	<u>\$ 985,282</u>	<u>10.77%</u>

Source of supply increased \$539,090 due to SFPUC added BAWSCA bond surcharge in the cost of supply. Distribution and administration & general expense increase were the result of higher retirement costs and water conservation and rebate program costs.

The following is a graphic illustration of operating expenses:



North Coast County Water District
Basic Financial Statements
For the year ended June 30, 2015

Management’s Discussion and Analysis, Continued

Financial Analysis of the District as a Whole, continued

Net position decreased by \$4,857,571 as detailed below:

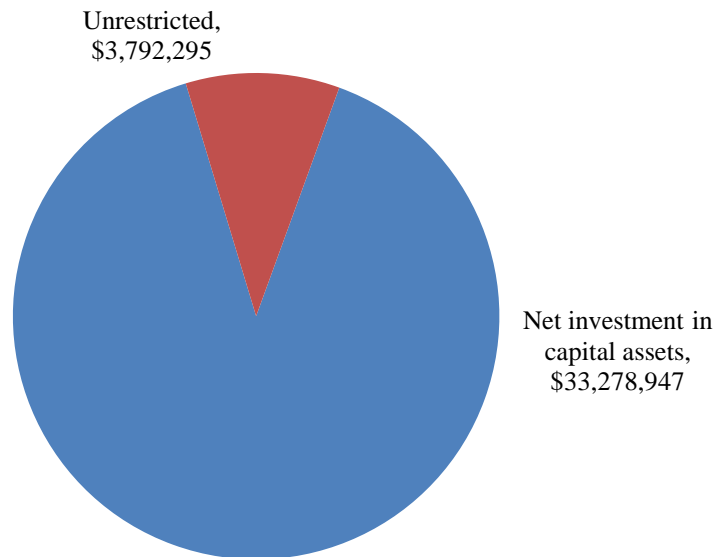
Analysis of Net Position
As of June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
Net position, as restated for FY2014-15				
Net investment in capital assets	\$ 33,278,947	\$ 32,754,474	\$ 524,473	1.6%
Restricted				
Debt service	-	253,765	(253,765)	(100.0)%
Unrestricted	<u>3,792,295</u>	<u>8,920,574</u>	<u>(5,128,279)</u>	<u>(57.5)%</u>
Total	<u>\$ 37,071,242</u>	<u>\$ 41,928,813</u>	<u>\$ (4,857,571)</u>	<u>(11.6)%</u>

The change in net position is due primarily to adjustments related to the implementation of GASB 68 and 71 – Accounting and Financial Reporting for Pensions which requires reduction of beginning net position by \$3,868,914 to reflect the recording of net pension liability, deferred inflows of resources and deferred outflows of resources.

The following is a graphic illustration of Net Position:

Analysis of \$37,071,242 in Net Position



North Coast County Water District
Basic Financial Statements
For the year ended June 30, 2015

Management's Discussion and Analysis, Continued

Cash Flows

Cash flows have decreased by \$569,334 which payment for Christen Hill Tank 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 Wastewater Revenue Bonds Series 2003A*.

The Debt is scheduled to mature in 2028. Interest is payable semi-annually on October 1st and April 1st each year at a rate of 2.00% to 4.00% (depending on the coupon payment date) while the principal payments are made on October 1st of each year

Economic Factors and Potential Future Results

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

Contacting the District

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

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

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BASIC FINANCIAL STATEMENTS

North Coast County Water District

Statement of Net Position

June 30, 2015

(with comparative totals for June 30, 2014)

ASSETS	2015	2014
Current assets:		
Cash and investments	\$ 10,711,521	\$ 11,027,090
Restricted cash and investments	-	253,765
Accounts receivable:		
Customer water	581,617	643,219
Other	4,905	27,727
Taxes	10,432	13,099
Interest	6,935	5,667
Prepaid expenses and deposits	37,129	37,584
Materials and supplies inventory	9,989	160,898
Total current assets	11,362,528	12,169,049
Noncurrent assets:		
Capital assets:		
Land	832,867	832,867
Construction in progress	2,506,000	9,894,267
Depreciable assets	51,280,870	42,699,410
Less accumulated depreciation	(15,550,790)	(14,562,070)
Total noncurrent assets	39,068,947	38,864,474
Total assets	50,431,475	\$ 51,033,523
DEFERRED OUTFLOWS OF RESOURCES		
Pension plan	128,957	-
Total assets and deferred outflows of resources	\$ 50,560,432	\$ 51,033,523
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 864,013	\$ 506,258
Accrued payroll	12,283	31,267
Bonds payable - due within one year	325,000	320,000
Customer deposits	205,004	199,635
Water connection deposits	27,469	36,943
Accrued interest payable	48,969	50,569
Total current liabilities	1,482,738	1,144,672
Noncurrent liabilities:		
Bonds payable - due after one year	5,465,000	5,790,000
Net OPEB obligation	2,129,245	1,670,584
Net pension liability	3,255,380	
Accrued vacation and sick leave	485,470	499,454
Total noncurrent liabilities	11,335,095	7,960,038
Total liabilities	12,817,833	9,104,710
DEFERRED INFLOWS OF RESOURCES		
Pension plan	671,357	
Total deferred inflows of resources	671,357	-
NET POSITION		
Net investment in capital assets	33,278,947	32,754,474
Restricted for debt service and recycled water project	-	253,765
Unrestricted	3,792,295	8,920,574
Total net position	37,071,242	41,928,813
Total liabilities, deferred inflows and net position	\$ 50,560,432	\$ 51,033,523

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, 2015

(with comparative totals for the year ended June 30, 2014)

	<u>2015</u>	<u>2014</u>
OPERATING REVENUES:		
Water sales	\$ 8,011,230	\$ 8,536,613
Other service charges	434,687	240,990
Total operating revenues	<u>8,445,917</u>	<u>8,777,603</u>
OPERATING EXPENSES:		
Source of supply	4,464,892	3,925,802
Pumping and power	284,681	250,698
Transmission	411,000	415,148
Distribution	1,354,311	1,277,921
Administrative and general	2,564,136	2,356,431
Depreciation and amortization	1,056,925	924,663
Total operating expenses	<u>10,135,945</u>	<u>9,150,663</u>
Operating income (loss)	<u>(1,690,028)</u>	<u>(373,060)</u>
NONOPERATING REVENUES (EXPENSES):		
Property taxes	775,866	726,398
Investment earnings	34,585	30,429
Rental income - cellular antennas	221,554	237,879
Gain (loss) on disposition of capital assets	1,735	-
Net OPEB expense	(458,661)	(435,239)
Interest expense	(199,747)	(203,660)
Total nonoperating revenues (expenses)	<u>375,332</u>	<u>355,807</u>
Income before contributions	<u>(1,314,696)</u>	<u>(17,253)</u>
Capital contributions:		
Capacity charges	285,272	55,911
Developer contributions	294,532	1,130,239
Recycled water project	(253,765)	-
Total capital contributions	<u>326,039</u>	<u>1,186,150</u>
Net Income	<u>(988,657)</u>	<u>1,168,897</u>
CHANGE IN NET POSITION:		
Beginning of year, as originally reported	41,928,813	40,759,916
Adjustment	3,868,914	-
Beginning of year, as adjusted	<u>38,059,899</u>	<u>40,759,916</u>
End of year	<u>37,071,242</u>	<u>\$ 41,928,813</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, 2015

(with comparative amounts for the year ended June 30, 2014)

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	\$ 8,459,207	\$ 8,831,933
Payments to suppliers	(6,757,700)	(6,927,780)
Payments to employees	(1,849,274)	(1,660,351)
Net cash provided (used) by operating activities	(147,767)	243,802
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Property taxes net of collection fees	778,533	722,073
Receipts from capacity charges	285,272	55,911
Receipts from cellular antenna rentals	221,554	237,879
Net cash provided (used) by noncapital financing activities	1,285,359	1,015,863
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Principal payments on long-term debt	(320,000)	(275,000)
Interest payments on long-term debt	(201,347)	(205,894)
Capital contributions	40,767	1,130,239
Acquisition and construction of capital assets	(1,259,663)	(1,354,673)
Net cash provided (used) by capital and related financing activities	(1,740,243)	(705,328)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest received on investments	33,317	30,527
Net cash provided (used) by investing activities	33,317	30,527
Net increase (decrease) in cash and cash equivalents	(569,334)	584,864
CASH AND INVESTMENTS:		
Beginning of year	11,280,855	10,695,991
End of year	<u>\$ 10,711,521</u>	<u>\$ 11,280,855</u>
Reconciliation to Statement of Net Position:		
Cash and investments	\$ 10,711,521	\$ 11,027,090
Restricted cash and investments	-	253,765
Total cash and investments	<u>\$ 10,711,521</u>	<u>\$ 11,280,855</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating loss	\$ (1,690,028)	\$ (373,060)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation and amortization expense	1,056,925	924,663
Pension expense	(71,134)	-
(Increase) decrease in current assets:		
Accounts receivable	84,424	54,330
Materials and supplies	150,909	(68,292)
Prepaid expenses	455	5,792
Increase (decrease) in liabilities		
Accounts payable and accrued liabilities	357,755	(331,499)
Accrued payroll	(18,984)	31,267
Deposits and deferred revenue	(4,105)	13,880
Accrued vacation and sick leave	(13,984)	(13,279)
Net cash provided (used) by operating activities	<u>\$ (147,767)</u>	<u>\$ 243,802</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, 2015

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, 2015

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, 2015

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, 2015

Notes to Basic Financial Statements, continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, *continued*

F. Pensions

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

G. 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.

H. 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.

I. Reclassifications

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

North Coast County Water District
Basic Financial Statements
For the year ended June 30, 2015

Notes to Basic Financial Statements, continued

2. CASH AND INVESTMENTS

A. Composition

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

	June 30, 2015		Fair Value	June 30, 2014
	FDIC insured	Not rated		
Cash in bank	\$ 250,000	\$ 647,304	\$ 897,304	\$ 738,047
Petty cash	-	500	500	500
Local Agency Investment Fund (LAIF)	-	9,813,717	9,813,717	10,288,543
SFPUC US Bank Funds	-	-	-	253,765
Total	\$ 250,000	\$ 10,461,521	\$ 10,711,521	\$ 11,280,855
Financial Statement presentation:				
Cash and investments			\$ 10,711,521	\$ 11,027,090
Restricted cash and investments			-	253,765
Total			\$ 10,711,521	\$ 11,280,855

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.

North Coast County Water District
Basic Financial Statements
For the year ended June 30, 2015

Notes to Basic Financial Statements, continued

2. CASH AND INVESTMENTS, *continued*

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%

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.

North Coast County Water District
Basic Financial Statements
For the year ended June 30, 2015

Notes to Basic Financial Statements, continued

2. CASH AND INVESTMENTS, *continued*

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, 2015

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, 2015, 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, 2015.

North Coast County Water District
Basic Financial Statements
For the year ended June 30, 2015

Notes to Basic Financial Statements, continued

3. CAPITAL ASSETS

Changes in capital assets and depreciation for the years ended June 30, 2015, and 2014, were:

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

<u>Capital Assets</u>	<u>July 1, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers/ Reclassifications</u>	<u>June 30, 2014</u>
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	84,301	-	-	3,572,639
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	2,054,049	10,913	-	-	2,064,962
Total depreciable assets	<u>42,544,971</u>	<u>216,228</u>	<u>(61,790)</u>	<u>-</u>	<u>42,699,409</u>
Less: accumulated depreciation	<u>(13,637,407)</u>	<u>(924,662)</u>	<u>-</u>	<u>-</u>	<u>(14,562,069)</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>

North Coast County Water District
Basic Financial Statements
For the year ended June 30, 2015

Notes to Basic Financial Statements, continued

4. LONG-TERM DEBT

A. Long-Term Debt Activity

	Original Issue Amount	Balance July 1, 2014	Additions	Retirements	Balance June 30, 2015	Due Within One Year
Series 2012C California Statewide Community Development Authority 2.00-4.00%, due 10/1/2028	\$ 6,110,000	\$ 6,110,000	\$ -	\$ (320,000)	\$ 5,790,000	\$ 325,000
Total	<u>\$ 6,110,000</u>	<u>\$ 6,110,000</u>	<u>\$ -</u>	<u>\$ (320,000)</u>	<u>\$ 5,790,000</u>	<u>\$ 325,000</u>
	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	<u>\$ 17,110,000</u>	<u>\$ 6,385,000</u>	<u>\$ -</u>	<u>\$ (275,000)</u>	<u>\$ 6,110,000</u>	<u>\$ 320,000</u>

B. 2012C Water Revenue Bond Refunding

In June 2012, the California Statewide Communities Development Authority issued *Water and Wastewater Revenue Bonds Series 2012C*. The Bonds were issued to refund the *Water and Waster Revenue Bonds Series 2003A*.

The Debt is scheduled to mature in 2028. Interest is payable semi-annually on October 1st and April 1st each year at a rate of 2.00% to 4.00% (depending on the coupon payment date) while the principal payments are made on October 1st of each year. At June 30, 2015, a total of \$5,790,000 of *Water and Wastewater Revenue Bonds Series 2012C* remains outstanding.

North Coast County Water District
Basic Financial Statements
For the year ended June 30, 2015

Notes to Basic Financial Statements, continued

4. LONG TERM DEBT, *continued*

C. Repayment Schedule

Future annual repayment requirements are as follows:

Year Ending June 30,	2012C Water and Waster Revenue Bonds Refunding	
	Principal	Interest
2016	325,000	189,375
2017	340,000	176,075
2018	350,000	162,275
2019	365,000	147,975
2020	380,000	133,075
2021-2025	2,105,000	469,950
2026-2029	1,925,000	125,125
Total	<u>\$ 5,790,000</u>	<u>\$ 1,403,850</u>
Due within one year	\$ 325,000	\$ 189,375
Due after one year	<u>5,465,000</u>	<u>1,214,475</u>
Total	<u>\$ 5,790,000</u>	<u>\$ 1,403,850</u>

5. NET POSITION

Unrestricted net position was \$3,792,295 as at June 30, 2015. The Board has made the following assignments of unrestricted net position, which can only be changed through Board action:

Description	Balance as at June 30, 2015
Assignment of unrestricted net position	
Capital facilities construction reserve	\$ 2,000,000
Emergency Reserve	500,000
OPEB reserve	<u>1,200,000</u>
Total assignment of unrestricted net position	3,700,000
Unrestricted	92,295
Total unrestricted net position	<u>\$ 3,792,295</u>

North Coast County Water District
Basic Financial Statements
For the year ended June 30, 2015

Notes to Basic Financial Statements, continued

5. NET POSITION, *continued*

Governmental Accounting Standards Board (GASB) Statements No. 68 and 71 Restatement

For the fiscal year ended June 30, 2015, the District implemented the provisions of GASB No. 68 and 71 – Accounting and Financial Reporting for Pensions. Accordingly, beginning net positions was reduced by \$3,868,914 to reflect the recording of net pension liabilities, deferred inflows of resources and deferred outflows of resources as required under the new GASBs.

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:

<u>Program</u>	<u>Deductible</u>
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, 2015**

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. General Information about the Pension Plans

Plan Descriptions

All qualified full-time employees are eligible to participate in the District's Miscellaneous First Tier Plan, agent multiple-employer defined benefit pension plans administered by the California Public Employees' Retirement System (CalPERS), which acts as a common investment and administrative agent for its participating member employers. Benefit provisions under the Plan is established by State statute and Local Government resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

**North Coast County Water District
Basic Financial Statements
For the year ended June 30, 2015**

Notes to Basic Financial Statements, continued

7. PUBLIC EMPLOYEES' RETIREMENT SYSTEM (PERS), *continued*

A. General Information about the Pension Plans, *continued*

The Plan's provisions and benefits in effect at June 30, 2015, are summarized as follows:

	Miscellaneous Plan		
	Tier 1	Tier 2	PEPRA
Hire date	Prior to December 17, 2011	On or between December 17, 2011 and December 31, 2012	On or after January 1, 2013
Benefit formula	2.7% @ 55	2.0% @ 55	2.0% @ 62
Benefit vesting schedule	5 years service	5 years service	5 years service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	50 - 55	50 - 55	52 - 67
Monthly benefits, as a % of eligible compensation	2.0% to 2.7%	1.0% to 2.5%	1.0% to 2.5%
Required employee contribution rates	8.000%	7.000%	6.250%
Required employer contribution rates	26.844%	11.522%	6.250%

Contributions

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

For the measurement period ended June 30, 2015 (the measurement date), the active employees are required to contribute 8.0 percent of their annual pay. The District's average required contribution rate was 26.844 percent of annual payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

**North Coast County Water District
Basic Financial Statements
For the year ended June 30, 2015**

Notes to Basic Financial Statements, continued

7. PUBLIC EMPLOYEES' RETIREMENT SYSTEM (PERS), *continued*

For the year ended June 30, 2015, the contributions to the pension plan recognized as part of pension expense were as follows:

	Fiscal Year Ended June 30, 2015
Contributions - employer	\$ 436,132
Contributions - employee	129,001

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

As of June 30, 2015, the District reported a net pension liability for its proportionate share of the net pension liability of the Plan as follows:

<u>Proportionate Share of Net Pension Liability</u>	<u>June 30, 2015</u>
Miscellaneous	\$ 3,255,380
Total Net Pension Liability	<u>\$ 3,255,380</u>

The District's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2013 rolled forward to June 30, 2014 using standard update procedure. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. The District's proportionate share of the net pension liability for the Plan as of June 30, 2013 and 2014 was as follows:

	<u>Miscellaneous</u>
Proportion - June 30, 2014	0.05232%

North Coast County Water District
Basic Financial Statements
For the year ended June 30, 2015

Notes to Basic Financial Statements, continued

7. PUBLIC EMPLOYEES' RETIREMENT SYSTEM (PERS), *continued*

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

Actuarial Assumptions

The total pension liability in the June 30, 2013 actuarial valuations was determined using the following actuarial assumptions:

Actuarial Assumptions	Miscellaneous
Valuation date	June 30, 2013
Measurement date	June 30, 2014
Actuarial cost method	Entry-age normal cost method
Actuarial assumptions:	
Discount rate	7.5%
Inflation	2.75%
Payroll growth	3.0%
Projected salary increases	Varies by entry age and service
Investment Rate of Return	7.50% net pension plan investment and administrative expenses; includes inflation
Post-retirement benefit increase	Contract COLA up to 2.75% until purchasing power protection allowance floor on purchasing power applies, 2.75% thereafter.

The underlying mortality assumptions and all other actuarial assumptions used in June 30, 2013 valuation were based on the results of a January 2014 actuarial experience study for the period 1997 to 2011. For more details of the Experience Study can be found on the CalPERS website.

Discount Rate - The discount rate used to measure the total pension liability was 7.50 percent for the Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.50 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.50 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

North Coast County Water District
Basic Financial Statements
For the year ended June 30, 2015

Notes to Basic Financial Statements, continued

7. PUBLIC EMPLOYEES' RETIREMENT SYSTEM (PERS), *continued*

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

Actuarial Assumptions, *continued*

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

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

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

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

North Coast County Water District
Basic Financial Statements
For the year ended June 30, 2015

Notes to Basic Financial Statements, continued

7. PUBLIC EMPLOYEES' RETIREMENT SYSTEM (PERS), *continued*

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

Actuarial Assumptions, *continued*

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

Asset Class	New Strategic Allocation	Real Return Years 1 - 10 ¹	Real Return Year 11+ ²
Global Equity	47%	5.25%	5.71%
Global Fixed Income	19%	0.99%	2.43%
Inflation Sensitive	6%	0.45%	3.36%
Private Equity	12%	6.83%	6.95%
Real Estate	11%	4.50%	5.13%
Infrastructure and Forestland	3%	4.50%	5.09%
Liquidity	2%	-0.55%	-1.05%

(1) An expected inflation of 2.5% used for this period.

(2) An expected inflation of 3.0% used for this period.

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

The following presents the net pension liability of the District for the Plan, calculated using the discount rate of the Plan, as well as what the District's net pension liability would be if it were calculated using a discount rate 1 percentage point lower (6.50%) or 1 percentage rate point higher (8.50%) than the current discount rate (7.50%):

	1% Decrease in Discount Rate (6.50%)	Current Discount Rate (7.50%)	1% increase in Discount Rate (8.50%)
District's proportionate share of the net pension liability	\$ 4,910,537	\$ 3,255,380	\$ 1,881,758

Pension Plan Fiduciary Net Position – Detailed information about each pension plan's fiduciary net position is available in the separately issued CalPERS financial reports

**North Coast County Water District
Basic Financial Statements
For the year ended June 30, 2015**

Notes to Basic Financial Statements, continued

7. PUBLIC EMPLOYEES' RETIREMENT SYSTEM (PERS), *continued*

C. Payable to the Pension Plan

At June 30, 2015, the District reported no outstanding contributions to the pension plan required for the year ended June 30, 2015

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.

Membership of the plan consisted of the following at June 30, 2015:

Retirees and beneficiaries receiving benefits	24
Other participants fully eligible for benefits	-
Active plan member	23
Total	47

North Coast County Water District
Basic Financial Statements
For the year ended June 30, 2015

Notes to Basic Financial Statements, continued

8. OTHER POST EMPLOYMENT BENEFITS, *continued*

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	\$ 721,768
Interest on net OPEB obligation	66,824
Adjustment to annual required contribution	<u>(95,492)</u>
Annual OPEB cost (expense)	693,100
Contributions made (premiums paid)	<u>(234,439)</u>
Increase (decrease) in net OPEB obligation	458,661
Net OPEB obligation - beginning of year	<u>1,670,584</u>
Net OPEB obligation - end of year	<u><u>\$ 2,129,245</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, 2015**

Notes to Basic Financial Statements, continued

8. OTHER POST EMPLOYMENT BENEFITS, *continued*

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

The District's annual OPEB cost (expense) is equal to the ARC, and the net OPEB obligation for fiscal year 2014-15 and the two preceding years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation (Asset)
6/30/2013	666,336	36%	1,235,345
6/30/2014	706,785	36%	1,670,584
6/30/2015	721,768	32%	2,129,245

D. Plan Funded Status and Funding Progress

As of June 30, 2015, the most recent actuarial valuation date, the plan was zero percent funded. The Actuarial Accrued Liability (AAL) for benefits was \$7,839,276 and the actuarial value of assets was zero dollars, resulting in an Unfunded Actuarial Accrued Liability (UAAL) of \$7,839,276. The covered payroll (annual payroll of active employees covered by the plan) was \$1,726,805 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 September of 2015 based upon June 30, 2015 amounts.

North Coast County Water District
Basic Financial Statements
For the year ended June 30, 2015

Notes to Basic Financial Statements, continued

8. OTHER POST EMPLOYMENT BENEFITS, *continued*

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

Actuarial Methods and Assumptions, continued

The actuarial cost method used for determining the benefit obligations is the entry age actuarial cost method. The actuarial assumptions included a 4 percent investment rate of return, which is the expected long-term rate of return on the District's pooled investments (per GASB 43/45 guidelines for this assumption), and a projected salary increase rate of 1 percent. The UAAL is being amortized using a level dollar method over 30 years with no election as to an open or closed basis at this time.

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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REQUIRED SUPPLEMENTARY INFORMATION

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**North Coast County Water District
 Required Supplementary Information
 Schedule of Contributions**

Last Ten Fiscal Years *

	2014
Contractually required contribution (actuarially determined)	\$ 371,392
Contributions in relation to the actuarially determined contributions	<u>(371,392)</u>
Contribution deficiency (excess)	<u>\$ -</u>
Covered-employee payroll ¹	\$ 1,610,044
Contribution as a percentage of covered-employee payroll	23.07%

Notes to Schedule

¹ Covered employee payroll represents compensation earnable and pensionable compensation. Only compensation earnable and pensionable compensation that would possibly go into the determination of retirement benefits are included.

* Fiscal year 2015 was the first year of implementation, therefore only the first two years were available

**North Coast County Water District
 Required Supplementary Information
 Schedule of the District's Proportionate Share of the Net Pension Liability**

Last Ten Fiscal Years *

	June 30, 2014
Plan's proportion of the net pension liability/(asset)	0.05232%
Plan's proportionate share of the net pension liability/(asset)	\$ 3,255,380
Plan's covered-employee payroll	\$ 1,610,044
Plan's proportionate share of the net pension liability/(asset) as a percentage of its covered-employee payroll	202.19%
Plan's proportionate share of the fiduciary net position as a percentage of the plan's total pension liability	73.91%
Plan's proportionate share of aggregate employer contribution	\$ 249,352

Notes to Schedule

¹ Covered employee payroll represents compensation earnable and pensionable compensation. Only compensation earnable and pensionable compensation that would possibly go into the determination of retirement benefits are included.

* Fiscal year 2015 was the first year of implementation, therefore only the first two years were available

ADDITIONAL INFORMATION

North Coast County Water District
Schedule of Capacity Charges
For the year ended June 30, 2015

Beginning Balance, July 1, 2014 \$ -

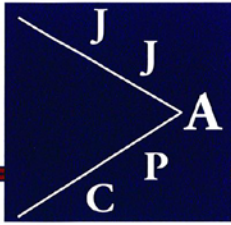
Storage and transmission fees received during the year:

Harmony @1 subdivision	\$	214,976
10-26 Santa Rosa		35,648
549 Oceana Blvd.		14,853
650 Corona		8,912
130 Olympian Way		5,441
251 San Pablo		5,441
		<u>5,441</u>
Total capacity charges received	\$	285,271

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>
Christen Hill tank replacement project	\$ 249,582	10%	\$ 178,339	71%
SPGC Pipeline replacement project	101,398	50%	101,398	100%
Highway 1 pipeline replacement project	<u>5,534</u>	100%	<u>5,534</u>	100%
Total Expenses:	\$ 356,514		\$ 285,271	

Ending Balance, June 30, 2015 \$ -



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, 2015, and the related notes to the financial statements, which collectively comprise North Coast County Water District's basic financial statements, and have issued our report thereon dated December 11, 2015.

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.

December 11, 2015

JJACPA, Inc.

JJACPA, Inc.

Dublin, CA