Coastside County Water District

Annual Financial Report

For the Fiscal Year Ended June 30, 2018

Mission Statement

The mission of Coastside County Water District is to provide our customers with high quality water and service at the lowest possible price, in accordance with the following values:

- ***Reliability and sustainability of system facilities***
- ***Timeliness of District policies, procedures, actions and decisions***
- ***50-year outlook when replacing infrastructure***
- ***Legality of all District actions and behaviors***
- ***Culture of openness, fairness and inclusiveness***

Coastside County Water District

Board of Directors as of June 30, 2018

Name	Title	Elected/ Appointed	Current Term
Robert Feldman	President	Appointed	11/18-11/22
Ken Coverdell	Vice-President	Elected	11/16-11/20
Arnie Glassberg	Director	Elected	11/16-11/20
Chris Mickelsen	Director	Elected	11/18-11/22
Glenn Reynolds	Director	Elected	11/16-11/20

Coastside County Water District
David Dickson, General Manager
766 Main Street
Half Moon Bay, California 94019
(650) 726-4405 – www.coastsidewater.org

Coastside County Water District

Annual Financial Report

For the Fiscal Year Ended June 30, 2018

Coastside County Water District
Annual Financial Report
For the Fiscal Year Ended June 30, 2018

Table of Contents

	Page No.
Table of Contents	i
Financial Section	
Independent Auditor's Report	1-2
Management's Discussion and Analysis	3-6
Basic Financial Statements:	
Statement of Net Position	7-8
Statement of Revenues, Expenses and Changes in Net Position	9
Statement of Cash Flows	10-11
Notes to the Basic Financial Statements	12-38
Required Supplementary Information	
Schedule of Changes in the District's Total OPEB Liability and Related Ratios	39
District's Proportionate Share of the Net Pension Liability – Last Ten Years	40
Pension Plan Contributions – Last Ten Years	41
Report on Internal Controls and Compliance	
Independent Auditor's 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*	42-43

Financial Section

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Certified Public Accountants

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Independent Auditor's Report

Board of Directors
Coastside County Water District
Half Moon Bay, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Coastside County Water District (District) as of and for the year ended June 30, 2018, 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 *Government Auditing Standards*, issued by the Comptroller General of the United States; 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 financial statements are free from 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 risks 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 audit opinion.

Opinion

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, 2018, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As part of our audit of the June 30, 2018, financial statements, we audited the adjustments described in note 11. An adjustment was recognized for the District's total other post-employment benefits liability; and has reclassified its employer pension contributions from expense to deferred outflows of resources and recorded a prior period adjustment to restate net position as of July 1, 2017.

As discussed in note 1.C to the financial statements, in June 30, 2018, the District adopted new accounting guidance *Governmental Accounting Standards Board Statement Nos. 75 and 74*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 and the required supplementary information on pages 39 through 41 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 February 12, 2019, 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. This report can be found on pages 42 and 43.

Fedak & Brown LLP

Fedak & Brown LLP
Cypress, California
February 12, 2019

Coastside County Water District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018

The following Management's Discussion and Analysis (MD&A) of activities and financial performance of the Coastside County Water District (District) provides an introduction to the financial statements of the District for the fiscal year ended June 30, 2018. The following presentation is provided for comparative purposes. We encourage readers to consider the information presented here in conjunction with the basic financial statements and related notes, which follow this section.

Financial Highlights

- Net position increased 2.79% or $1,102,597 to $40,678,414 due to an increase of $2,500,469 from ongoing operations, which was offset by a $1,397,872 restatement to net position related to the implementation of GASB 75. (See note 11 for further information).
- Operating revenues increased 8.97%, or $976,592 to $11,859,499.
- Non-operating revenues increased 16.92%, or $229,684 to $1,587,521.
- Operating expenses increased 15.77%, or $1,116,765 to $8,197,833.
- Non-operating expenses increased 11.54%, or $76,251 to $736,946.

Required Financial Statements

This annual report consists of a series of financial statements. The Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position and Statement of Cash Flows provide information about the activities and performance of the District using accounting methods similar to those used by private sector companies.

The Statement of Net Position includes all of the District's investments in resources (assets) and deferred outflows of resources, and the obligations to creditors (liabilities) and deferred inflows of resources. It also provides the basis for computing a rate of return, evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District. All of the current year's revenue and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Position. This statement measures the success of the District's operations over the past year and can be used to determine if the District has successfully recovered all of its costs through its rates and other charges. This statement can also be used to evaluate profitability and credit worthiness. The final required financial statement is the Statement of Cash Flows, which provides information about the District's cash receipts and cash payments during the reporting period. The Statement of Cash Flows reports cash receipts, cash payments and net changes in cash resulting from operations, investing, non-capital financing, and capital and related financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

Financial Analysis of the District

One of the most important question asked about the District's finances is, "Is the District better off or worse off as a result of this year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position report information about the District in a way that helps answer this question.

These statements include all assets, deferred outflows of resources, liabilities, and deferred inflows of resources using the *accrual basis of accounting*, which is similar to the accounting method used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

Financial Analysis of the District, continued

These two statements report the District's *net position* and changes in them. One can think of the District's net position – the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources – as one way to measure the District's financial health, or *financial position*. Over time, *increases or decreases* in the District's net position are one indicator of whether its *financial health* is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions, population growth, zoning and new or changed government legislation, such as changes in Federal and State water quality standards.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found on pages 12 through 38.

Statements of Net Position

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets of the District exceeded liabilities by $40,678,414 as of June 30, 2018.

Condensed Statements of Net Position

	2018	2017	Change
Assets:			
Current assets	$ 8,914,249	7,446,689	1,467,560
Capital assets, net	54,030,020	51,812,583	2,217,437
Total assets	62,944,269	59,259,272	3,684,997
Deferred outflows of resources	1,623,393	1,726,811	(103,418)
Liabilities:			
Current liabilities	1,458,803	1,784,498	(325,695)
Non-current liabilities	22,372,644	19,469,827	2,902,817
Total liabilities	23,831,447	21,254,325	2,577,122
Deferred inflows of resources	57,801	155,941	(98,140)
Net position:			
Net investment in capital assets	37,585,708	36,370,412	1,215,296
Restricted	410,329	266,931	143,398
Unrestricted	2,682,377	2,938,474	(256,097)
Total net position	$ 40,678,414	39,575,817	1,102,597

By far, the largest portion of the District's net position (92% as of June 30, 2018) reflects the District's investment in capital assets (net of accumulated depreciation) less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to customers within the District's service area; consequently, these assets are not available for future spending.

At the end of fiscal year 2018, the District showed a positive balance in its unrestricted net position of $2,682,377, which may be utilized in future years. See note 10 for further information.

Statements of Revenues, Expenses and Changes in Net Position

Condensed Statements of Revenues, Expenses and Changes in Net Position

	2018	2017	Change
Revenue:			
Operating revenue	$ 11,859,499	10,882,907	976,592
Non-operating revenue	1,587,521	1,357,837	229,684
Total revenue	13,447,020	12,240,744	1,206,276
Expense:			
Operating expense	8,197,833	7,081,068	1,116,765
Depreciation	2,011,772	1,696,287	315,485
Non-operating expense	736,946	660,695	76,251
Total expense	10,946,551	9,438,050	1,508,501
Change in net position	2,500,469	2,802,694	(302,225)
Net position, beginning of year – as previously stated	39,575,817	36,773,123	2,802,694
Prior period adjustment	(1,397,872)	-	(1,397,872)
Net position, beginning of year – as restated	38,177,945	36,773,123	1,404,822
Net position, end of year	$ 40,678,414	39,575,817	1,102,597

The statements of revenues, expenses and changes of net position show how the District's net position changed during the fiscal years. In the case of the District, the change in net position increased 2.79% or $1,102,597 to $40,678,414 due to an increase of $2,500,469 from ongoing operations, which was offset by a $1,397,872 restatement to net position related to the implementation of GASB 75. (See note 11 for further information).

A closer examination of the sources of changes in net position reveals that:

In fiscal year 2018, the District's operating revenues increased 8.97%, or $976,592 to $11,859,499, due to increases of $1,014,151 in water consumption sales, which was offset by a decrease of $37,559 in other charges and services.

In fiscal year 2018, the District's non-operating revenues increased 16.92%, or $229,684 to $1,587,521, primarily due to increases of $144,271 in transmission and storage fees and $95,852 in property taxes, which were offset by a decrease of $15,418 in other revenue.

In fiscal year 2018, the District's operating expenses increased 15.77%, or $1,116,765 to $8,197,833, primarily due to increases of $335,298 in pumping costs, $467,402 in transmission and distribution, and $523,296 in general and administrative expenses, which were offset by a decrease of $209,231 in source of supply expenses.

In fiscal year 2018, the District's non-operating expenses increased 11.54%, or $76,251 to $736,946, primarily due to increases of $76,043 in loss on disposition of assets and $19,705 in collection fees – County, which were offset by a decrease of $19,497 in interest expense on maturing debt.

Capital Asset Administration

Changes in capital asset amounts for 2018 were as follows:

		Balance 2017	Additions	Transfers/ Deletions	Balance 2018
Capital assets:					
Non-depreciable assets	$	6,058,056	992,162	(4,840,415)	2,209,803
Depreciable assets		75,023,819	8,215,768	(327,892)	82,911,695
Accumulated depreciation		(29,269,292)	(2,011,772)	189,586	(31,091,478)
Total capital assets, net	$	51,812,583	7,196,158	(4,978,721)	54,030,020

At the end of fiscal year 2018, the District's investment in capital assets amounted to $54,030,020 (net of accumulated depreciation). This investment in capital assets includes land, source of supply infrastructure, transmission and distribution systems, the Crystal Springs pump station, treatment plants, well fields and tanks, pipelines and meters, buildings and structures, vehicles, furniture and equipment, and construction-in-process. See note 3 for further information.

Debt Administration

Changes in long-term debt amounts for 2018 were as follows:

		Balance 2017	Additions	Transfers/ Deletions	Balance 2018
Long-term debt:					
Bonds payable	$	5,354,031	-	(232,752)	5,121,279
Loans payable		10,088,140	1,519,641	(284,748)	11,323,033
Total long-term debt	$	15,442,171	1,519,641	(517,500)	16,444,312

See note 5 for further information.

Conditions Affecting Current Financial Position

Management is unaware of any conditions which could have a significant impact on the District's current financial position, net position or operating results based on past, present and future events.

Requests for Information

This financial report is designed to provide the District's funding sources, customers, stakeholders and other interested parties with an overview of the District's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact the District's Assistant General Manager at 766 Main Street, Half Moon Bay, California 94019 – (650) 726-5245.

Basic Financial Statements

Coastside County Water District
Statement of Net Position
June 30, 2018

		2018
Current assets:		
Cash and cash equivalents (note 2)	$	6,290,231
Restricted – cash and cash equivalents (note 2)		160,329
Accrued interest receivable		5,890
Accounts receivable – water sales and services		2,040,906
Accounts receivable – other		69,642
Accounts receivable – property taxes		15,905
Materials and supplies inventory		147,370
Water-in-storage inventory		26,484
Prepaid expenses and other deposits		130,119
Bond issuance costs, net		27,373
Total current assets		8,914,249
Non-current assets:		
Capital assets – not being depreciated (note 3)		2,209,803
Capital assets, net – being depreciated (note 3)		51,820,217
Total non-current assets		54,030,020
Total assets		62,944,269
Deferred outflows of resources:		
Deferred other post-employement benefits outflows (note 6)		44,364
Deferred pension outflows (note 7)		1,579,029
Total deferred outflows of resources	$	1,623,393

Continued on next page

See accompanying notes to the basic financial statements

Coastside County Water District
Statement of Net Position, continued
June 30, 2018

		2018
Current liabilities:		
Accounts payable and accrued expenses	$	528,916
Accrued wages and related payables		45,260
Customer deposits and deferred revenue		96,988
Accrued interest payable		201,486
Long-term liabilities – due within one year:		
Compensated absences (note 4)		47,706
Bonds payable (note 5)		245,000
Loans payable (note 5)		293,447
Total current liabilities		1,458,803
Non-current liabilities:		
Long-term liabilities – due in more than one year:		
Compensated absences (note 4)		143,119
Bonds payable (note 5)		4,876,279
Loans payable (note 5)		11,029,586
Net other post-employment benefit liability (note 6)		2,405,733
Net pension liability (note 7)		3,917,927
Total non-current liabilities		22,372,644
Total liabilities		23,831,447
Deferred inflows of resources:		
Deferred pension inflows (note 7)		57,801
Total deferred inflows		57,801
Net position:		
Net investment in capital assets (note 8)		37,585,708
Restricted (note 9)		410,329
Unrestricted (note 10)		2,682,377
Total net position	$	40,678,414

See accompanying notes to the basic financial statements

Coastside County Water District
Statement of Revenues, Expenses and Changes in Net Position
For the Fiscal Year Ended June 30, 2018

	2018
Operating revenues:	
Water consumption sales	$ 11,859,499
Total operating revenues	11,859,499
Operating expenses:	
Source of supply	2,013,022
Pumping	1,429,995
Transmission and distribution	1,874,011
General and administrative	2,880,805
Total operating expenses	8,197,833
Operating income before depreciation expense	3,661,666
Depreciation expense – capital recovery	(2,011,772)
Operating income	1,649,894
Non-operating revenue(expense):	
Property taxes	1,234,974
Investment earnings	22,600
Transmission and storage fees	160,301
Rental revenue	156,777
Interest expense	(618,491)
Amortization of debt issuance costs	(4,215)
Collection fees – County	(30,947)
Loss on disposition of assets	(83,293)
Other revenue	12,869
Total non-operating, net	850,575
Change in net position	2,500,469
Net position, beginning of year – as previously stated	39,575,817
Prior period adjustment (note 11)	(1,397,872)
Net position, beginning of year – as restated	38,177,945
Net position, end of year	$ 40,678,414

See accompanying notes to the basic financial statements

Coastside County Water District
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2018

		2018
Cash flows from operating activities:		
Cash receipts from customers for water sales and services	$	11,626,634
Cash paid to employees for salaries and wages		(3,013,517)
Cash paid to vendors and suppliers for materials and services		(5,337,327)
Net cash provided by operating activities		3,275,790
Cash flows from non-capital financing activities:		
Cash receipts from property taxes		1,235,679
Cash paid for collection fees		(30,947)
Other revenues		329,947
Other expenses		(87,508)
Net cash provided by operating activities		1,447,171
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets		(3,977,117)
Proceeds from issuance of debt		1,519,641
Principal paid on long-term debt		(517,500)
Interest paid on long-term debt		(624,437)
Net cash used in capital and related financing activities		(3,599,413)
Cash flows from investing activities:		
Investment earnings		33,225
Net cash provided by investing activities		33,225
Net increase in cash and cash equivalents		1,156,773
Cash and cash equivalents, beginning of year		5,293,787
Cash and cash equivalents, end of year	$	6,450,560

Reconciliation of cash and cash equivalents to the statement of financial position:		
Cash and cash equivalents	$	6,290,231
Restricted assets – cash and cash equivalents		160,329
Total cash and cash equivalents	$	6,450,560

Continued on next page

See accompanying notes to the basic financial statements

Coastside County Water District
Statement of Cash Flows, continued
For the Fiscal Year Ended June 30, 2018

		2018
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$	1,649,894
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation		2,011,772
Changes in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:		
(Increase)Decrease in assets:		
Accounts receivable – water sales and services		(229,388)
Accounts receivable – other		(34,037)
Materials and supplies inventory		8,647
Water-in-storage inventory		788
Prepaid expenses and other deposits		(70,094)
Unamortized bond issuance costs		1,967
(Increase)Decrease in deferred outflows of resources		
Deferred other post-employement benefits outflows		(44,364)
Deferred pension outflows		147,782
Increase(Decrease) in liabilities and deferred inflows:		
Accounts payable and accrued expenses		(379,420)
Accrued wages and related payables		1,317
Customer deposits and deferred revenue		30,560
Compensated absences		36,381
Other post-employment benefit obligation		(126,046)
Net pension liability		368,171
Decrease in deferred inflows of resources		
Deferred pension inflows		(98,140)
Total adjustments		1,625,896
Net cash provided by operating activities	$	3,275,790
Non cash investing, capital and related financing activities:		
Change in fair value of funds deposited with LAIF	$	(3,827)
Amortization of debt issuance costs	$	4,215

See accompanying notes to the basic financial statements

(1) Reporting Entity and Summary of Significant Accounting Policies

A. Organization and Operations of the Reporting Entity

The Coastside County Water District (District) was formed in July 1947 for the purposes of furnishing potable water within the District's service area. The District operates under the authority of the provisions found in Division 12 of the State of California Water Code. The District is located in San Mateo County and includes the City of Half Moon Bay and the unincorporated communities of El Granada, Miramar, and Princeton-By-The-Sea. The District provides water to approximately 17,000 customers. The District is governed by a five-member Board of Directors who serve overlapping four-year terms.

The criteria used in determining the scope of the financial reporting entity is based on the provisions of Governmental Accounting Standards Board Statement No. 61, *The Financial Reporting Entity*. The District is the primary governmental unit based on the foundation of a separately elected governing board that is elected by the citizens in a general popular election. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The District is financially accountable if it appoints a voting majority of the organization's governing body and: 1) It is able to impose its will on that organization, or 2) There is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government.

B. Basis of Accounting and Measurement Focus

The District reports its activities as an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent of the District is that the costs of providing water to its service area on a continuing basis be financed or recovered primarily through user charges (water sales), capital grants and similar funding. Revenues and expenses are recognized on the full accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred, regardless of when the related cash flows take place.

Operating revenues and expenses, such as water sales and water purchases, result from exchange transactions associated with the principal activity of the District. Exchange transactions are those in which each party receives and gives up essentially equal values. Management, administration, and depreciation expenses are also considered operating expenses. Other revenues and expenses not included in the above categories are reported as non-operating revenues and expenses.

C. Financial Reporting

The District's basic financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP), as applied to enterprise funds. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District solely operates as a special-purpose government which means it is only engaged in business-type activities; accordingly, activities are reported in the District's proprietary fund.

The District has adopted the following GASB pronouncements in the current year:

Governmental Accounting Standards Board Statement No. 75

In June 2015, the GASB issued Statement No. 75 – Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. The objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities.

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

C. Financial Reporting, continued

Governmental Accounting Standards Board Statement No. 75, continued

This Statement replaces the requirements of Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, as amended, and No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans, for OPEB. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2017. The impact of the implementation of this Statement to the District's financial statements has not been assessed at this time.

Governmental Accounting Standards Board Statement No. 81

In March 2016, the GASB issued Statement No. 81 – *Irrevocable Split-Interest Agreements.* The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.

This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period.

The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively.

Governmental Accounting Standards Board Statement No. 85

In March 2017, the GASB issued Statement No. 85 – *Omnibus 2017.* The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits - OPEB).

The provisions of this Statement are effective for reporting periods beginning after June 15, 2017. The impact of the implementation of this Statement to the District's financial statements has not been assessed at this time.

D. Assets, Deferred Outflows, Liabilities, Deferred inflows and Net Position

1. Use of Estimates

The preparation of the basic financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosures of contingent assets and liabilities at the date of the financial statements and the reported changes in net position during the reporting period. Actual results could differ from those estimates.

2. Cash and Cash Equivalents

Substantially all of the District's cash is invested in interest bearing accounts. The District considers all highly liquid investments with a maturity of three months or less to be cash equivalents.

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

D. Assets, Deferred Outflows, Liabilities, Deferred Inflows and Net Position, continued

3. Investments

Changes in fair value that occur during a fiscal year are recognized as investment income reported for that fiscal year. Investment income includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments.

4. Fair Value Measurements

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on valuation inputs used to measure the fair value of the asset, as follows:

- *Level 1* – This valuation level is based on quoted prices in active markets for identical assets.
- *Level 2* – This valuation level is based on directly observable and indirectly observable inputs. These inputs are derived principally from or corroborated by observable market data through correlation or market-corroborated inputs. The concept of market-corroborated inputs incorporates observable market data such as interest rates and yield curves that are observable at commonly quoted intervals.
- *Level 3* – This valuation level is based on unobservable inputs where assumptions are made based on factors such as prepayment rates, probability of defaults, loss severity and other assumptions that are internally generated and cannot be observed in the market.

5. Accounts Receivable

The District extends credit to customers in the normal course of operations. Management has evaluated the accounts and believes all accounts are collectible at June 30. When management deems customer accounts uncollectible, the District uses the direct write off method for the write-off those accounts to bad debt expense.

6. Restricted Assets

Certain assets of the District are restricted for use by ordinance or debt covenant and, accordingly, are shown as restricted assets on the accompanying statements of net assets. The District uses restricted resources, prior to using unrestricted resources, to pay expenditures meeting the criteria imposed on the use of restricted resources by a third party.

7. Inventory and Water-in-Storage

Materials and supplies inventory consists primarily of water meters, pipe and pipefittings for construction and repair to the District’s water transmission and distribution system. Inventory is valued at cost using the weighted-average method. Inventory items are charged to expense at the time that individual items are withdrawn from inventory or consumed. Water-in-storage is valued at average cost.

8. Prepaids

Certain payments to vendors reflect costs or deposits applicable to future accounting periods and are recorded as prepaid items in the basic financial statements.

9. Bond issuance costs, net

Capitalized bond issuance costs consist of prepaid surety insurance costs, related to the issuance of the District’s 2006 Series B Revenue Refunding bond debt. These prepaid costs were recognized as an asset upon issuance and are being amortized (expensed) over the life of the related debt.

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

D. Assets, Deferred Outflows, Liabilities, Deferred Inflows and Net Position, continued

10. Capital Assets

Capital assets acquired and/or constructed are capitalized at historical cost. District policy has set the capitalization threshold for reporting capital assets at $5,000. Donated assets are recorded at estimated fair market value at the date of donation. Upon retirement or other disposition of capital assets, the cost and related accumulated depreciation are removed from the respective balances and any gains or losses are recognized.

Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

- Source of supply infrastructure – 10 to 50 years
- Transmission and distribution system – 50 years
- Pump station – Crystal Springs – 50 years
- Treatment Plants – 30 years
- Well field and tanks – 10 to 50 years
- Buildings and structures – 5 to 50 years
- Vehicles – 5 to 10 years
- Furniture and equipment – 5 to 10 years

11. Deferred Outflows of Resources

The statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of resources applicable to future periods and therefore will *not* be recognized as an outflow of resources (expenditure) until that time. The District has the following pension related items that qualify for reporting in this category:

Post-Employment Benefits Other Than Pensions (OPEB)

- Deferred outflow which is equal to the employer contributions made after the measurement date of the total OPEB liability. This amount will be amortized-in-full against the total OPEB liability in the next fiscal year.

Pensions

- Deferred outflow which is equal to the employer contributions made after the measurement date of the net pension liability. This amount will be amortized-in-full against the net pension liability in the next fiscal year.
- Deferred outflow for the net changes in assumptions which will be amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the Plan.
- Deferred outflow for the net difference in projected and actual earnings on investments of the pension plans fiduciary net position. This amount is amortized over a 5 year period.
- Deferred outflow for the net differences in actual and proportionate share of employer contribution and net changes in proportion which will be amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the Plan.
- Deferred outflow for the net adjustment due to differences in the changes in proportions of the net pension liability which will be amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the Plan.

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

D. Assets, Deferred Outflows, Liabilities, Deferred Inflows and Net Position, continued

12. Compensated Absences

The District's personnel policies provide for accumulation of vacation and sick leave. Liabilities for vacation and portions of sick leave are recorded when benefits are earned. Cash payment of unused vacation is available to those qualified employees when retired or terminated. Cash payment of unused sick leave is payable at 50% to those employees eligible for retirement and meet vesting requirements.

13. Post-Employment Benefits Other Than Pensions (OPEB)

For purposes of measuring the total OPEB liability and deferred outflows/inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the District's OPEB plan (Plan) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, the Plan recognizes benefit payments when due and payable in accordance with the benefit terms.

GASB 75 requires that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

- Valuation Date: June 30, 2017
- Measurement Date: June 30, 2017
- Measurement Period: July 1, 2016 to June 30, 2017

14. 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 addition to/deduction 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.

GASB 68 requires that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

- Valuation Date: June 30, 2016
- Measurement Date: June 30, 2017
- Measurement Period: July 1, 2016 to June 30, 2017

15. Deferred Inflows of Resources

The statement of net position will sometimes report a separate section for deferred inflows of resources. This financial statement element, *deferred inflows of resources*, represents an acquisition of resources applicable to future periods and therefore will *not* be recognized as an inflow of resources (revenue) until that time. The District has the following pension related item that qualifies for reporting in this category:

Pensions

- Deferred inflow for the net differences between the actual and expected experience which will be amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the Plan.

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

D. Assets, Deferred Outflows, Liabilities, Deferred Inflows and Net Position, continued

16. Net Position

The District follows the financial reporting requirements of the GASB and reports net position under the following classifications:

- *Net Investment in Capital Assets Component of Net Position*– This component of net position consists of capital assets, net of accumulated depreciation, and reduced by any debt outstanding against the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt is included in this component of net position

- *Restricted Component of Net Position* – This component of net position consists of assets that have restrictions placed upon their use by external constraints imposed either by creditors (debt covenants), grantors, contributors, or laws and regulations of other governments or constraints imposed by law through enabling legislation.

- *Unrestricted Component of Net Position* – This component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of the net investment in capital assets or restricted component of net position.

17. Property Taxes

Property taxes receivable at year-end are related to property taxes collected by the County of San Mateo, which have not been credited to the District's cash balance as of June 30. The property tax calendar is as follows:

Lien date	January 1
Levy date	July 1
Due dates	November 1 and February 1
Collection dates	December 10 and April 10

18. Capital Contributions

Capital contributions represent cash and capital asset additions contributed to the District by property owners, granting agencies or real estate developers desiring services that require capital expenditures or capacity commitment.

19. Budgetary Policies

The District adopts an annual non-appropriated budget for planning, control, and evaluation purposes. Budgetary control and evaluation are affected by comparisons of actual revenues and expenses with planned revenues and expenses for the period. Encumbrance accounting is not used to account for commitments related to unperformed contracts for construction and services.

(2) Cash and Investments

Cash and investments as of June 30 are classified in the accompanying financial statements as follows:

		2018
Cash and cash equivalents	$	6,290,231
Cash and cash equivalents – restricted		160,329
Total cash and investments	$	6,450,560

Cash and cash equivalents as of June 30 consist of the following:

		2018
Cash on hand	$	700
Deposits with financial institutions		4,390,994
Investments		2,058,866
Total cash and cash equivalents	$	6,450,560

As of June 30, the District's authorized deposits had the following maturities:

	2018
Deposits in Local Agency Investment Fund	193 days

Investments Authorized by the California Government Code and the District's Investment Policy

The table below identifies the investment types that are authorized by the District in accordance with the California Government Code (or the District's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the District's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage Of Portfolio	Maximum Investment in One Issuer
U.S. Treasury obligations	5 years	None	None
Federal agency and bank obligations	5 years	None	None
Certificates-of-deposit (negotiable or placed)	5 years	30%	10%
Commercial paper (prime)	270 days	10%	10%
Money market mutual funds	N/A	20%	None
State and local bonds, notes and warrants	N/A	None	None
California Local Agency Investment Fund (LAIF)	N/A	None	None

Investment in State Investment Pool

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

(2) Cash and Investments, continued

Investment in State Investment Pool, continued

The pool portfolio is invested in a manner that meets the maturity, quality, diversification and liquidity requirements set forth by GASB 79 for external investments pools that elect to measure, for financial reporting purposes, investments at amortized cost. LAIF does not have any legally binding guarantees of share values. LAIF does not impose liquidity fees or redemption gates on participant withdrawals.

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the District's investment policy does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits.

The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. Of the bank balances, up to $250,000 held at each institution were federally insured and the remaining balance is collateralized in accordance with the Code; however, the collateralized securities are not held in the District's name.

The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Code and the District's investment policy contain legal and policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF and the Pool).

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to change with market interest rates. One of the ways that the District manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments, and by timing cash flows from maturities so that a portion of the portfolio matures or comes close to maturity evenly over time as necessary to provide for cash flow requirements and liquidity needed for operations.

At June 30, 2018, the District's investments held to maturity were categorized as twelve months or less.

Credit Risk

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. Presented below is the minimum rating required by (where applicable) the California Government Code, the District's investment policy, or debt agreements, and the actual rating as of year-end for each investment type.

(2) Cash and Investments, continued

Credit Risk, continued

Credit ratings at June 30, 2018, consisted of the following:

Investment Types	Total	Minimum Legal Rating	Rating as of Year End: AAA	Rating as of Year End: Not Rated
Local Agency Investment Fund (LAIF)	$ 2,039,436	N/A	$ -	$ 2,039,436
Money Market Funds	19,430	AAA	19,430	-
Total	$ 2,058,866		$ 19,430	$ 2,039,436

Concentration of Credit Risk

The District's investment policy contains no limitations on the amounts that can be invested in any one issuer as beyond that stipulated by the California Government Code. There were no investments in any one issuer (other than for external investment pools) that represent 5% or more of total District's investments at June 30, 2018.

Fair Value Measurements

Investments measured at fair value on a recurring and non-recurring basis, are as follows:

Investment Type	Total	Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Held by bond trustee:				
Money market funds	$ 19,430	19,430	-	-
Total investments measured at fair value	19,430	19,430	-	-
Investments measured at amortized cost:				
Local Agency Investment Fund (LAIF)	2,039,436			
Total	$ 2,058,866			

(3) Capital Assets

Major capital assets additions during the years include upgrades and extensions of the District's water transmission and distribution systems and equipment purchases in the following schedules:

Changes in capital assets for the year ended June 30 were as follows:

		Balance 2017	Additions/ Transfers	Deletions/ Transfers	Balance 2018
Non-depreciable assets:					
Land	$	160,612	-	-	160,612
Construction-in-process		5,897,444	992,162	(4,840,415)	2,049,191
Total non-depreciable assets		6,058,056	992,162	(4,840,415)	2,209,803
Depreciable assets:					
Source of supply		401,040	-	-	401,040
Transmission and distribution		18,336,289	3,446,697.00	-	21,782,986
Pump station - Crystal Springs		25,431,863	323,204	-	25,755,067
Treatment plants		10,260,589	1,061,511	-	11,322,100
Well field and tanks		3,170,965	955,187	-	4,126,152
Contributed		-	-	-	-
Pipelines and meters		13,607,083	2,049,315	(221,765)	15,434,633
Buildings and structures		1,019,964	-	-	1,019,964
Vehicles		522,052	299,633	(65,913)	755,772
Furniture and equipment		2,273,974	80,221	(40,214)	2,313,981
Total depreciable assets		75,023,819	8,215,768	(327,892)	82,911,695
Accumulated depreciation:					
Depreciable assets		(29,269,292)	(2,011,772)	189,586	(31,091,478)
Total accumulated depreciation		(29,269,292)	(2,011,772)	189,586	(31,091,478)
Total depreciable assets, net		45,754,527	6,203,996	(138,306)	51,820,217
Total capital assets, net	$	51,812,583	7,196,158	(4,978,721)	54,030,020

(4) Compensated Absences

Changes to compensated absences for the year ended June 30 were as follows:

	Balance 2017	Earned	Taken	Balance 2018	Current Portion	Long-term Portion
$	154,444	210,235	(173,854)	190,825	47,706	143,119

(5) Long-term Debt

Changes in long-term debt amounts for the year ended June 30 were as follows:

Long-term debt:		**Balance 2017**	**Additions**	**Payments**	**Balance 2018**	**Current Portion**	**Long-term Portion**
Bonds payable:							
2006B Water revenue refunding bonds	$	5,390,000	-	(235,000)	5,155,000	245,000	4,910,000
2006B discount		(35,969)	-	2,248	(33,721)	-	(33,721)
Total bonds payable		5,354,031	-	(232,752)	5,121,279	245,000	4,876,279
Loans payable:							
CIEDB Installment Loan – 2011		5,979,781	-	(168,585)	5,811,196	173,288	5,637,908
CIEDB Installment Loan – 2016		4,108,359	1,519,641	(116,163)	5,511,837	120,159	5,391,678
Total loans payable		10,088,140	1,519,641	(284,748)	11,323,033	293,447	11,029,586
Long-term debt	$	15,442,171	1,519,641	(517,500)	16,444,312	538,447	15,905,865

2006 Series B – Water Revenue Refunding Bonds

On June 1, 2006, the District issued $7,295,000 of 2006 Series B Certificates of Participation to finance and refinance the construction of certain capital improvements to the District's water system. The bonds bear interest ranging from 3.50% to 4.75%. Debt service semi-annual installments are due each October 1st and April 1st with principal payments commencing on October 1, 2007, maturing in fiscal year 2033.

Future remaining debt service payments are as follows:

Year		**Principal**	**Interest**	**Total**
2019	$	245,000	238,566	483,566
2020		255,000	226,831	481,831
2021		265,000	213,831	478,831
2022		280,000	200,206	480,206
2023		295,000	186,384	481,384
2024-2028		1,690,000	709,344	2,399,344
2029-2033		2,125,000	261,844	2,386,844
Total		5,155,000	2,037,006	7,192,006
Current		(245,000)		
Discount		(33,721)		
Long-term	$	4,876,279		

CEIDB Installment Loan – 2011

On October 10, 2011, the District entered into an installment loan in the amount $6,765,500 from the California Infrastructure and Economic Development Bank (CIEDB) for the purpose of financing the construction of the Denniston Creek Water Treatment Plant improvement project. Terms of the loan included a 30-year term with semi-annual interest of 2.79% (plus an annual fee of 0.3%) which is payable on August 1 and February 1. Principal payments commenced on February 1, 2013, maturing in fiscal year 2042.

On March 1, 2015, the District and CEIDB into a replacement installment loan agreement for the outstanding balance of $6,143,789 for the purpose of reducing the semi-annual interest to 2.54%.

(5) Long-term Debt, continued

CEIDB Installment Loan – 2011

Future remaining debt service payments are as follows:

Year		Principal	Interest	Total
2019	$	173,288	162,837	336,125
2020		178,123	157,854	335,977
2021		183,093	152,733	335,826
2022		188,201	147,468	335,669
2023		193,452	142,056	335,508
2024-2028		1,051,293	623,674	1,674,967
2029-2033		1,206,363	463,855	1,670,218
2034-2038		1,384,307	280,462	1,664,769
2039-2042		1,253,076	74,278	1,327,354
Total		5,811,196	2,205,217	8,016,413
Current		(173,288)		
Long-term	$	5,637,908		

CEIDB Installment Loan – 2016

On May 1, 2016, the District entered into an installment loan in the amount $5,628,000 from the California Infrastructure and Economic Development Bank (CIEDB) for the purpose of financing the District's Facilities Improvements project. Terms of the loan included a 30-year term with semi-annual interest of 3.44% (plus an annual fee of 0.3%) which is payable on August 1 and February 1. Principal payments commenced on August 1, 2017, maturing in fiscal year 2046.

Future remaining debt service payments are as follows:

Year		Principal	Interest	Total
2019	$	120,159	204,076	324,235
2020		124,292	199,511	323,803
2021		128,568	194,789	323,357
2022		132,991	189,904	322,895
2023		137,565	184,852	322,417
2024-2028		762,152	842,174	1,604,326
2029-2033		902,577	687,088	1,589,665
2034-2038		1,068,874	503,427	1,572,301
2039-2043		1,265,812	285,927	1,551,739
2044-2047		868,847	50,778	919,625
Total		5,511,837	3,342,526	8,854,363
Current		(120,159)		
Long-term	$	5,391,678		

(6) Other Post-employment Benefits (OPEB) Plan

General Information about the OPEB Plan

Plan Description

The District offers post-employment medical benefits to retired employees who satisfy the eligibility rules. Dependents are also eligible to receive benefits. Retirees may enroll in any plan available through the District's ACWA-JPIA (Association of California Water Agencies Joint Powers Insurance Authority) Medical Program.

Benefits Provided

To be eligible for retiree health benefits, an employee must retire from the District on or after age 55 with at least 15 years of continuous service. The District provides coverage of single-party medical and vision premiums for life and dental benefits until age 65. Employees hired after November 14, 2006 and before November 1, 2008, will receive 50% of the benefits coverage offered. Employees hired after November 1, 2008, are not eligible for post-employment health benefits.

Employees Covered by Benefit Terms

At June 30, 2018, the following employees were covered by the benefit terms:

	Measurement Date 2017
Inactive employees or beneficiaries currently receiving benefit payments	9
Inactive employees entitled to but not receiving benefit payments	-
Active employees	12
Total Plan membership	21

Contributions

The Plan and its contribution requirements for eligible retired employees of the District are established and may be amended by the Board of Directors. The District pays 100% of its share of the cost of health and vision insurance for retirees and dental insurance up to age 65 under any group plan offered by ACWA-JPIA, subject to certain restrictions as determined by the District. The annual contribution is based on the actuarially determined contribution.

As of the fiscal year ended June 30, the contributions were as follows:

	2018
Contributions – employer	$ 44,364

As of June 30 2018, employer pension contributions of $44,364 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability in the fiscal year ended June 30, 2019.

Total OPEB Liability

The District's total OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the total OPEB liability was determined by an actuarial valuation as of June 30, 2017. Standard actuarial update procedures were used to project/discount from valuation to measurement dates.

(6) Other Post-employment Benefits (OPEB) Plan, continued

Total OPEB Liability, continued

Actuarial Assumptions

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

Inflation	2.75 percent
Salary increases	2.75 percent
Discount rate	3.50 percent
Healthcare cost trend rates	4.00 percent per year
Retirees' share of benefit-related costs	100 percent of projected health insurance premiums for retirees at age 55 with a minimum 15 years of service

Notes:

The discount rate was based on the Bond Buyer 20-Year Bond Index.

Discount Rate

The discount rate used to measure the total OPEB liability was 3.50 percent. The projection of cash flows used to determine the discount rate assumed that District contributions will be made at rates equal to the actuarially determined contribution rates.

Changes in the Total OPEB Liability

		Total OPEB Liability
Balance at June 30, 2016	$	2,338,373
Changes for the year:		
Service cost		44,473
Interest		81,573
Employer contributions		(58,686)
Net changes		67,360
Balance at June 30, 2017	$	2,405,733

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.50 percent) or 1-percentage-point higher (4.50 percent) than the current discount rate:

		Discount Rate - 1% (2.50%)	Current Discount Rate (3.50%)	Discount Rate + 1% (4.50%)
District's Total OPEB liability	$	2,809,595	2,405,733	2,083,763

(6) Other Post-employment Benefits (OPEB) Plan, continued

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (3.00 percent decreasing to 2.00 percent) or 1-percentage-point higher (5.00 percent decreasing to 4.00 percent) than the current healthcare cost trend rates:

	1% Decrease (3.00% decreasing to 2.00%)	Healthcare Cost Trend Rates (4.00% decreasing to 3.00%)	1% Increase (5.00% decreasing to 4.00%)
District's Total OPEB liability	$ 2,089,893	2,405,733	2,788,576

For the year ended June 30, 2018, the District recognized OPEB expense of $239,758.

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
OPEB contributions subsequent to the measurement date at June 30, 2017	$ 44,364	-

At June 30, 2018, there were no amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB which are required to be recognized in OPEB expense over future periods.

Schedule of Changes in the District's Total OPEB Liability and Related Ratios

See page 39 for the Required Supplementary Schedule.

(7) Defined Benefit Pension Plan

Plan Description

All qualified permanent and probationary employees are eligible to participate in the District's Miscellaneous Employee Pension Plan, cost-sharing multiple employer defined benefit pension plans administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plan are established by State statute and the District's resolution. CalPERS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

(7) Defined Benefit Pension Plan, continued

Benefits Provided

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

On September 12, 2012, the California Governor signed the California Public Employees' Pension Reform Act of 2013 (PEPRA) into law. PEPRA took effect January 1, 2013. The new legislation closed the District's CalPERS 2.0% at 60 (New Classic) Risk Pool Retirement Plan to new employee entrants effective December 31, 2012. Employees hired after January 1, 2013, and have not previously participated in a CalPERS plan are eligible for the District's CalPERS 2.0% at 62 Retirement Plan under PEPRA. New employees that have previously participated in the Classic Plan are eligible for the District's CalPERS 2.0% at 60 Retirement Plan.

The Plan's provisions and benefits in effect at June 30, 2018, are summarized as follows:

	Miscellaneous Plan		
	Classic	**New Classic**	**PEPRA**
Hire date	Prior to August 14, 2010	On or after August 14, 2010, and prior to January 1, 2013	On or after January 1, 2013
Benefit formula	2.5% @ 55	2.0% @ 60	2.0% @ 62
Benefit vesting schedule	5 years of service	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	55 - 60	55 - 60	52 - 67
Monthly benefits, as a % of eligible compensation	2.0% to 2.5%	1.5% to 2.4%	1.0% to 2.5%
Required employee contribution rates	7.946%	6.900%	6.500%
Required employer contribution rates	10.848%	7.850%	6.908%

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers to be determined on an annual basis by the actuary and shall be effective on the July 1, following notice of a change in the rate. Funding contributions for the Plan are determined annually on an actuarial basis as of June 30, by CalPERS. The actuarially determined rate is 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.

(7) Defined Benefit Pension Plan, continued

Contributions, continued

As of the fiscal year ended June 30, the contributions for the Plan were as follows:

		Miscellaneous Plan 2018
Contributions – employer	$	516,408

Net Pension Liability

As of the fiscal year ended June 30, the District reported net pension liabilities for its proportionate share of the net pension liability of the Plan was as follows:

		Proportionate Share of Net Pension Liability 2018
Miscellaneous Plan	$	3,917,927

The District's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2017, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016, rolled forward to June 30, 2017, using standard update procedures. 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 plan relative to the projected contributions of all participating employers, actuarially determined.

The District's change in the proportionate share of the pension liability for the District's Plan as of the fiscal year ended June 30, 2018 and 2017, was as follows:

	Miscellaneous
Proportion – June 30, 2017	0.04102%
Proportion – June 30, 2018	0.03951%
Change – Increase (Decrease)	0.00151%

Deferred Pension Outflows (Inflows) of Resources

As of June 30, 2018, the District recognized pension expense of $934,221.

(7) Defined Benefit Pension Plan, continued

Deferred Pension Outflows (Inflows) of Resources, continued

As of the fiscal year ended June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Description		Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to the measurement date	$	516,408	-
Net differences between actual and expected experience		-	(57,801)
Net changes in assumptions		497,110	-
Net differences between projected and actual earnings on plan investments		121,706	-
Net differences between actual contribution and proportionate share of contribution		217,977	-
Net adjustment due to differences in proportions of net pension liability		225,828	-
Total	$	1,579,029	(57,801)

As of June 30 2018, employer pension contributions of $516,408, reported as deferred outflows of resources related to contributions subsequent to the measurement date will be and was recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2019.

As of June 30, 2018, the District recognized other amounts reported by the Plan actuarial as deferred outflows of resources and deferred inflows of resources related to the pension liability. Pension related amounts will be recognized as pension expense as follows.

Fiscal Year Ending June 30,		Deferred Net Outflows / (Inflows) of Resources
2018	$	404,615
2019		436,552
2020		298,767
2021		(135,114)
2022		-
Thereafter		-

(7) Defined Benefit Pension Plan, continued

Actuarial Assumptions

The total pension liability in the June 30, 2017, actuarial valuation report was determined using the following actuarial assumptions:

Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Actuarial cost method	Entry Age Normal in accordance with the requirements of GASB Statement No. 68
Actuarial assumptions:	
Discount rate	7.15%
Inflation	2.75%
Salary increases	Varies by Entry Age and Service
Investment Rate of Return	7.50 % Net of Pension Plan Investment and Administrative Expenses; includes inflation
Mortality Rate Table*	Derived using CalPERS' Membership Data for all Funds
Post Retirement Benefit	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

* The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 Experience Study report. Further 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 7.15% for the Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the Plan, the amortization and smoothing periods recently adopted by CalPERS were utilized. The crossover test was performed for a miscellaneous agent plan and a safety agent plan selected as being more at risk of failing the crossover test and resulting in a discount rate that would be different from the long-term expected rate of return on pension investments.

Based on the testing of the plans, the tests revealed the assets would not run out. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability for the Plan.

The 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. Using historical returns of all the funds’ asset classes, expected compound 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.

(7) Defined Benefit Pension Plan, continued

Discount Rate, 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.

Asset Class	New Strategic Allocation	Real Return Years 1–10*	Real Return Year 11+**
Global Equity	47.0%	4.90%	5.38%
Global Fixed Income	19.0%	0.80%	2.27%
Inflation Sensitive	6.0%	0.60%	1.39%
Private Equity	12.0%	6.60%	6.63%
Real Estate	11.0%	2.80%	5.21%
Infrastructure and Forestland	3.0%	3.90%	5.36%
Liquidity	2.0%	-0.40%	-0.90%
Total	100.0%		

* An expected inflation of 2.5% used for this period
** An expected inflation of 3.0% used for this period

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

The following table presents the District's proportionate share of the net position liability for the Plan, calculated using the discount rate, as well as what the District's proportional share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

At June 30, 2018, the discount rate comparison was the following:

	Discount Rate – 1% (6.15%)	Current Discount Rate (7.15%)	Discount Rate + 1% (8.15%)
District's Net Pension Liability	$ 5,691,803	3,917,927	2,448,769

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued CalPERS financial reports. See pages 40 and 41 for the Required Supplementary Schedules.

Payable to the Pension Plan

At June 30, 2018, the District reported no payables for the outstanding amount of contribution to the pension plan.

(8) Net Investment in Capital Assets

Calculation of net investment in capital assets as of June 30 were as follows:

		2018
Capital assets:		
Capital assets – not being depreciated	$	2,209,803
Capital assets, net – being depreciated		51,820,217
Current:		
Bonds payable		(245,000)
Loans payable		(293,447)
Non-current:		
Bonds payable		(4,876,279)
Loans payable		(11,029,586)
Total net investment in capital assets	$	37,585,708

(9) Restricted Net Position

Calculation of restricted net position as of June 30 was as follows:

		2018
Restricted – cash and cash equivalents	$	160,329
Restricted – rate stabilization		250,000
Total restricted net position	$	410,329

(10) Unrestricted Net Position

Unrestricted net position as of June 30 were categorized as follows:

		2018
Non-spendable net position:		
Materials and supplies inventory	$	147,370
Water-in-storage inventory		26,484
Prepaid expenses and other deposits		27,373
Total non-spendable net position		201,227
Spendable net position are designated as follows:		
Unrestricted		2,481,150
Total spendable net position		2,481,150
Total unrestricted net position	$	2,682,377

(11) Adjustment to Net Position

Other Post-employment Benefits (OPEB) – GASB 75 Implementation

In fiscal year 2018, the District implemented GASB pronouncements 74 and 75 to recognize its total other post-employment benefits (OPEB) liability. As a result of the implementation, the District recognized the OPEB liability and recorded a prior period adjustment, a (decrease) to net position, of $2,338,373 at July 1, 2017. The District recorded a prior period adjustment, an increase to net position, to reclassify from liabilities to net position, the prior year's OPEB liability, recognized in accordance with GASB 45, of $881,815 and to reclassify from expense to deferred outflows, the prior year's employer OPEB expense of $58,686 at July 1, 2017.

The adjustment to net position was as follows:

Net position at July 1, 2017, as previously stated	$ 39,575,817
Effect of adjustment to pension related deferrals:	
Effect of adjustment to record total OPEB liability	(2,338,373)
Effect of adjustment to remove OPEB liability reported under GASB 45	881,815
Effect of adjustment to record deferred OPEB outflows	58,686
Total adjustment to net position	(1,397,872)
Net position at July 1, 2017, as restated	$ 38,177,945

(12) Deferred Compensation Savings Plan

For the benefit of its employees, the District participates in a 457 Deferred Compensation Program (Program). The purpose of this Program is to provide deferred compensation for public employees that elect to participate in the Program. Generally, eligible employees may defer receipt of a portion of their salary until termination, retirement, death or unforeseeable emergency. Until the funds are paid or otherwise made available to the employee, the employee is not obligated to report the deferred salary for income tax purposes.

Federal law requires deferred compensation assets to be held in trust with The Variable Annuity Life Insurance Company (VALIC) and Mass Mutual for the exclusive benefit of the participants. Accordingly, the District is in compliance with this legislation. Therefore, these assets are not the legal property of the District, and are not subject to claims of the District's general creditors. The total market value of all plan assets held in trust at June 30, 2018, was $1,919,310.

The District has implemented GASB Statement No. 32, Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans. Since the District has little administrative involvement and does not perform the investing function for this plan, the assets and related liabilities are not shown on the statements of net position.

(13) Risk Management

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District is a member of the Association of California Water Agencies/Joint Powers Insurance Authority (ACWA/JPIA), an intergovernmental risk sharing joint powers authority created to provide self-insurance programs for California water agencies. The purpose of the ACWA/JPIA is to arrange and administer programs of self-insured losses and to purchase excess insurance coverage.

(13) Risk Management, continued

At June 30, 2018, the District participates in the ACWA/JPIA pooled programs for liability, property, and workers' compensation programs as follows:

- General and auto liability, public officials and employees' errors and omissions: The ACWA/JPIAs total risk financing self-insurance limits of $5,000,000 per occurrence. The ACWA/JPIA purchased additional excess coverage layers: $55 million for general, auto and public officials liability, which increases the limits on the insurance coverage noted above.

In addition, the District also has the following insurance coverage:

- Crime coverage up to $100,000 per loss includes public employee dishonesty, depositor's forgery or alteration, theft, computer and funds transfer fraud coverage's, subject to $1,000 deductible per loss.
- Property loss is paid at the replacement cost for property on file, if replaced within two years after the loss, otherwise paid on an actual cash value basis, to a combined total of $500 million per loss, subject to a $2,500 deductible per loss. Mobile equipment and vehicles, on file, are paid on actual cost value basis at time of loss and subject to $1,000 deductible per loss.
- Boiler and machinery coverage for the replacement cost up to $100 million per occurrence, subject to various deductibles depending on the type of equipment, on file.
- Workers' compensation coverage up to California statutory limits for all work related injuries/illnesses covered by California law; a pooled self-insured limit of $2,000,000. The ACWA/JPIA purchased additional excess coverage layer: $2,000,000 employer's liability.

Settled claims have not exceeded any of the coverage amounts in any of the last three fiscal years and there were no reductions in the District's insurance coverage during the years ending June 30, 2018, 2017 and 2016. Liabilities are recorded when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated net of the respective insurance coverage. Liabilities include an amount for claims that have been incurred but not reported (IBNR). There were no IBNR claims payable as of June 30, 2018, 2017, and 2016, respectively.

(14) Governmental Accounting Standards Board Statements Issued, Not Yet Effective

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2018, that has effective dates that may impact future financial presentations.

Governmental Accounting Standards Board Statement No. 83

In November 2016, the GASB issued Statement No. 83 – *Certain Asset Retirement Obligations.* This Statement (1) addresses accounting and financial reporting for certain asset retirement obligations (AROs), (2) establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs, (3) requires that recognition occur when the liability is both incurred and reasonably estimable, (4) requires the measurement of an ARO to be based on the best estimate of the current value of outlays expected to be incurred, (5) requires the current value of a government's AROs to be adjusted for the effects of general inflation or deflation at least annually, and (6) and requires disclosure of information about the nature of a government's AROs, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets.

The provisions of this Statement are effective for reporting periods beginning after June 15, 2018. The impact of the implementation of this Statement to the District's financial statements has not been assessed at this time.

(14) Governmental Accounting Standards Board Statements Issued, Not Yet Effective

Governmental Accounting Standards Board Statement No. 84

In January 2017, the GASB issued Statement No. 84 – *Fiduciary Activities.* The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria.

The provisions of this Statement are effective for reporting periods beginning after December 15, 2018. The impact of the implementation of this Statement to the District's financial statements has not been assessed at this time.

Governmental Accounting Standards Board Statement No. 86

In May 2017, the GASB issued Statement No. 86 – *Certain Debt Extinguishment Issues.* The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance.

The provisions of this Statement are effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged. The impact of the implementation of this Statement to the District's financial statements has not been assessed at this time.

Governmental Accounting Standards Board Statement No. 87

In June 2017, the GASB issued Statement No. 87 – *Leases.* The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

The provisions of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The impact of the implementation of this Statement to the District's financial statements has not been assessed at this time.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

(14) Governmental Accounting Standards Board Statements Issued, Not Yet Effective

Governmental Accounting Standards Board Statement No. 88

In April 2018, the GASB issued Statement No. 88 – *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements.* The objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt.

This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established.

This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses.

For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged. The impact of the implementation of this Statement to the District's financial statements has not been assessed at this time.

Governmental Accounting Standards Board Statement No. 89

In June 2018, the GASB issued Statement No. 89 – *Accounting for Interest Cost Incurred before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period.

This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and AICPA Pronouncements*, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.

This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The requirements of this Statement should be applied prospectively.

The impact of the implementation of this Statement to the District's financial statements has not been assessed at this time.

(14) Governmental Accounting Standards Board Statements Issued, Not Yet Effective

Governmental Accounting Standards Board Statement No. 90

In August 2018, the GASB issued Statement No. 90 – *Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value.

For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. This Statement establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit.

This Statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. Transactions presented in flows statements of the component unit in that circumstance should include only transactions that occurred subsequent to the acquisition.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged. The requirements should be applied retroactively, except for the provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting a component unit if the government acquires a 100 percent equity interest. Those provisions should be applied on a prospective basis. The impact of the implementation of this Statement to the District's financial statements has not been assessed at this time.

(15) Commitments and Contingencies

Construction Contracts

The District has a variety of agreements with private parties relating to the installation, improvement or modification of water and wastewater facilities and distribution systems within its service area. The financing of such construction contracts is being provided primarily from the District's replacement reserves and capital contributions.

Litigation

In the ordinary course of operations, the District is subject to claims and litigation from outside parties. After consultation with legal counsel, the District believes the ultimate outcome of such matters, if any, will not materially affect its financial condition.

(16) Subsequent Events

2006 Series B – Water Revenue Refunding Bonds Defeasance – JP Morgan Chase Bank Loan

On July 23, 2018, the District entered into a loan agreement with JP Morgan Chase Bank, NA in the amount of $5,311,319, to provide funds to prepay the outstanding Water Revenue Refunding Bonds, Series 2006A. The interest rate on the loan is 2.85% per annum. Principal and interest on the loan is payable in semi-annual installments due each October 1st and April 1st. The loan is expected to be repaid in full on October 1, 2032.

Management is not aware of any other events or transactions, including estimates that provide additional evidence about conditions that existed at June 30, 2018, or arose subsequent to that date and are considered inherent in the process of preparing these financial statements.

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Required Supplementary Information

Coastside County Water District
Schedule of Changes in the District Total OPEB Liability and Related Ratios
As of June 30, 2018
Last Ten Years*

		Measurement Date 2017
Total OPEB Liability		
Service cost	$	44,473
Interest		81,573
Employer contributions		(58,686)
Net change in total OPEB liability		67,360
Total OPEB liability – beginning		2,338,373
Total OPEB liability – ending	$	2,405,733
Covered employee payroll	$	1,939,509
Total OPEB liability as a percentage of covered employee payroll		80.62%

Notes:

***** Historical information presented above follows the measurement periods for which GASB 74 & 75 were applicable. The fiscal year ended June 30, 2017, (valuation and measurement dates as of June 30, 2017) was the first year of implementation required by GASB 74 & 75; therefore only one year is shown.

Coastside County Water District
District's Proportionate Share of the Net Pension Liability
As of June 30, 2018
Last Ten Years*

Description		Measurement Date 6/30/2017	Measurement Date 6/30/2016	Measurement Date 6/30/2015	Measurement Date 6/30/2014
District's Proportion of the Net Pension Liability		0.03951%	0.04102%	0.04484%	0.04212%
District's Proportionate Share of the Net Pension Liability	$	3,917,926	3,549,756	3,077,582	2,620,900
District's Covered-Employee Payroll	$	1,939,509	1,885,311	1,689,259	1,562,529
District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll		202.01%	188.28%	182.19%	167.73%
District's Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability		69.62%	69.14%	71.67%	76.34%

Notes:

***Changes in Benefit Terms* –** For the measurement date June 30, 2017, there were no changes in the benefit terms.

***Changes of Assumptions* –** For the measurement date June 30, 2017, the discount rate was reduced from 7.65% percent to 7.15% percent.

***** Historical information presented above follows the measurement periods for which GASB 68 & 71 were applicable. The fiscal year ended June 30, 2015, was the first year of implementation required by GASB 68 & 71; therefore only four years are shown.

Coastside County Water District
Schedules of Pension Plan Contributions
As of June 30, 2018
Last Ten Years*

Schedule of Pension Plan Contributions:		Fiscal Year 2017-2018	Fiscal Year 2016-2017	Fiscal Year 2015-2016	Fiscal Year 2014-2015
Actuarially Determined Contribution	$	537,586	489,709	451,848	389,014
Contribution's in Relation to the Actuarially Determined Contribution		(516,408)	(490,718)	(461,241)	(415,861)
Contribution Deficiency (Excess)	$	21,178	(1,009)	(9,393)	(26,847)
Covered Payroll	$	1,939,509	1,885,311	1,689,259	1,562,529
Contribution's as a percentage of Covered-employee Payroll		27.72%	25.97%	26.75%	24.90%

Notes:

* Historical information presented above follows the measurement periods for which GASB 68 & 71were applicable. The fiscal year ended June 30, 2015, was the first year of implementation required by GASB 68 & 71; therefore, only four years are shown.

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Report on Internal Controls and Compliance

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Independent Auditor's Report on Internal Controls 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
Coastside County Water District
Half Moon Bay, California

We have audited, in accordance with the 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, the financial statements of the Coastside County Water District (District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprises the District's basic financial statements, and have issued our report thereon dated February 12, 2019.

Internal Control Over Financial Reporting

In planning and performing our audits 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a 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 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 audits we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been 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 audits, 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*.

Independent Auditor's Report on Internal Controls Over Financial Reporting And on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards, (continued)*

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 results of that testing, and not to provide an opinion on the effectiveness of the District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Fedak & Brown LLP

Fedak & Brown LLP
Cypress, California
February 12, 2019