

COASTSIDE COUNTY WATER DISTRICT

BASIC FINANCIAL STATEMENTS

AND SUPPLEMENTARY SCHEDULES

JUNE 30, 2016

This page intentionally left blank.

Coastside County Water District
Basic Financial Statements
For the year ended June 30, 2016

Table of Contents

	<u>Page</u>
Elected Officials and Administrative Personnel	i
Independent Auditors' Report.....	1
Management's Discussion and Analysis	3
Basic Financial Statements:	
Statement of Net Position	12
Statement of Revenues, Expenses, and Changes in Net Position.....	13
Statement of Cash Flows	14
Notes to Basic Financial Statements	15
Required Supplementary Information	
Schedule of Contributions – Miscellaneous First Tier	38
Schedule of Contributions – Miscellaneous Second Tier	39
Schedule of Contributions – PEPRA Plan	40
Schedule of the District's Share of the Net Pension Liability – Miscellaneous First Tier	41
Schedule of the District's Share of the Net Pension Liability – Miscellaneous Second Tier.....	42
Schedule of the District's Share of the Net Pension Liability – PEPRA	43
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	45

**Coastside County Water District
Basic Financial Statements
For the year ended June 30, 2016**

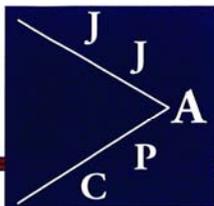
Elected Officials and Administrative Personnel

2016 BOARD OF DIRECTORS

Arnie Glassberg – President
Glenn Reynolds – Vice President
Ken Coverdell – Director
Chris Mickelsen – Director
Bob Feldman – Director

MANAGEMENT

David Dickson – General Manager
Mary Rogren – Assistant General Manager



JJACPA, Inc.

A Professional Accounting Services Corp.

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the
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, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents. The prior year comparative total information has been derived from the District's fiscal year 2015 basic financial statements and, in our report dated January 29, 2016 we expressed an unqualified opinion on those financial statements.

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 opinions 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. 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the District, as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-9, the District's Schedules of Contributions on pages 40-42, and the Schedules of the District's Proportionate Share of the Net Pension Liability on pages 43-45 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 3, 2017 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 District's internal control over financial reporting and compliance.

January 3, 2017

JJACPA, Inc.
JJACPA, Inc.
Dublin, CA

**Coastside County Water District
Basic Financial Statements
For the year ended June 30, 2016**

Management's Discussion and Analysis

This section of Coastside County Water District's basic financial statements presents management's discussion and analysis of the District's financial performance during the fiscal year ended June 30, 2016. Since this management's discussion and analysis is designed to focus on current activities, resulting change and current known facts, please read it in conjunction with the District's basic financial statements (pages 12 - 14) and the footnotes (pages 15 - 37).

Financial Highlights

At June 30, 2016, the District's net position increased \$1,154,668 as compared to \$938,286 in year ending June 30, 2015. Operating revenues increased by \$943,485 over prior year primarily due to a water rate increase which became effective July 1, 2015. Operating expenses increased by \$803,155 primarily due to increases in purchased water costs, transmission and administrative expenses. Non-operating revenues increased by \$76,052 primarily due to increases in transmission and storage fees.

Using This Report

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

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

Coastside County Water District
Basic Financial Statements
For the year ended June 30, 2016

Management's Discussion and Analysis, Continued

Financial Analysis of the District as a Whole

	Net Position		Increase (Decrease)	Percent Change
	2016	2015		
As of June 30, 2016 and 2015				
Current assets	\$ 4,462,907	\$ 4,025,120	\$ 437,787	10.9%
Non-current assets	48,506,604	47,332,394	1,174,210	2.5%
Deferred outflows of resources	1,187,668	415,861	771,807	100%
Total assets and deferred outflows	54,157,179	51,773,375	2,383,804	4.6%
Current liabilities	1,169,402	1,108,490	60,912	5.5%
Non-current liabilities	15,729,295	15,074,554	654,741	4.3%
Deferred inflows of resources	1,118,885	605,402	513,483	100%
Total liabilities and deferred inflows	18,017,582	16,788,446	1,229,136	7.3%
Net position:				
Net investment in capital assets	36,326,164	35,239,512	1,086,652	3.1%
Restricted	250,000	660,341	(410,341)	(62.1)%
Unrestricted (deficit)	(436,567)	(914,924)	478,357	(52.3)%
Total net position	\$ 36,139,597	\$ 34,984,929	\$ 1,154,668	3.3%

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

As can be seen from the table above, net position at June 30, 2016, increased to \$36,139,597 from \$34,984,929 in 2015. The increase in net position was primarily due to increased operating revenues.

Coastside County Water District
Basic Financial Statements
For the year ended June 30, 2016

Management's Discussion and Analysis, Continued

Financial Analysis of the District as a Whole, Continued

Operating results are summarized as follows:

Operating Results
For the years ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
Operating revenues	\$ 9,594,999	\$ 8,651,514	\$ 943,485	10.9%
Operating expenses	9,269,486	8,466,331	803,155	9.5%
Operating income (loss)	325,513	185,183	140,330	75.8%
Non-operating revenues	1,491,420	1,501,899	(10,479)	(0.7)%
Non-operating expenses	(662,265)	(748,796)	86,531	(11.6)%
Net income before contributions	1,154,668	938,286	216,382	23.1%
Change in net position	1,154,668	938,286	216,382	23.1%
Net position:				
Beginning of year	34,984,929	34,046,643	938,286	2.8%
End of year	<u>\$ 36,139,597</u>	<u>\$ 34,984,929</u>	<u>\$ 1,154,668</u>	<u>3.3%</u>

Net income for fiscal year 2016 was \$1,154,668, an increase of \$216,382 over 2015.

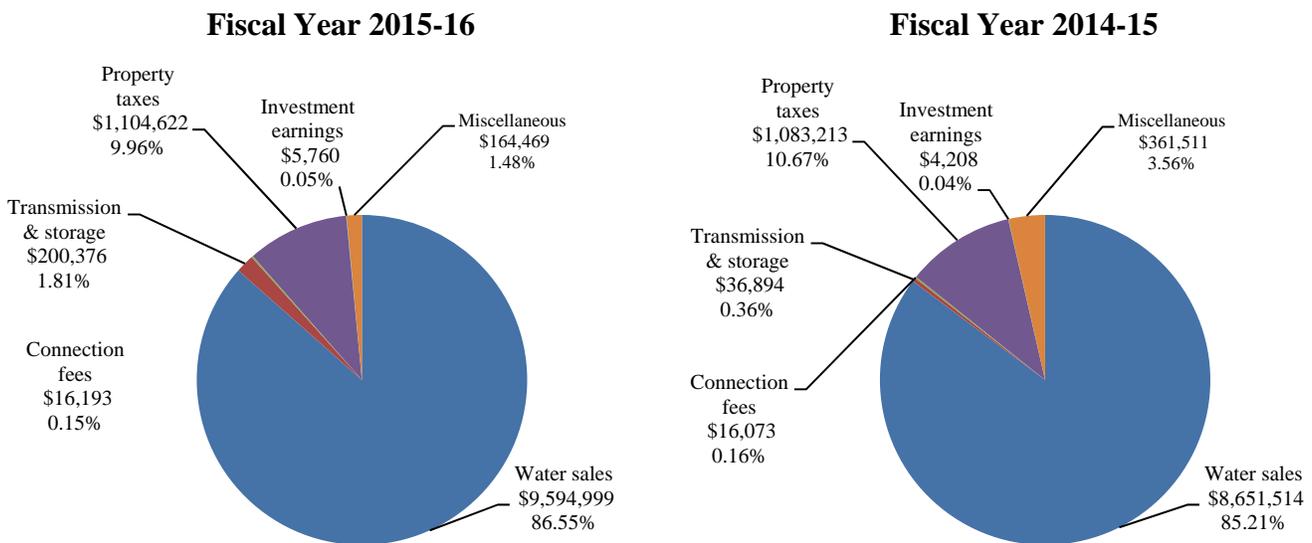
**Coastside County Water District
Basic Financial Statements
For the year ended June 30, 2016**

Management’s Discussion and Analysis, Continued

Financial Analysis of the District as a Whole, Continued

The following is a graphic illustration of revenues by source:

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



FY 2015-2016			FY 2014-2015		Increase (Decrease)
\$ 9,594,999	86.5%	Water sales	\$ 8,651,514	85.3%	\$ 943,485
200,376	1.8%	Transmission & storage fees	36,894	0.4%	163,482
16,193	0.1%	Connection fees	16,073	0.2%	120
1,104,622	10.0%	Property taxes	1,083,213	10.7%	21,409
5,760	0.1%	Investment earnings	4,208	0.0%	1,552
164,469	1.5%	Miscellaneous	361,511	3.6%	(197,042)
\$ 11,086,419	100.0%	Totals	\$ 10,153,413	100.0%	\$ 933,006

Water sales increased \$943,485 due to a rate increase for fiscal year 2015-16, approved by the Board of Directors. Transmission and storage fees increased \$163,482 due to sales of priority Crystal Springs connections. Property taxes increased by \$21,409 primarily due to San Mateo County’s method of calculating and distributing funds. Miscellaneous Income decreased \$197,042 primarily due to a one time payment of insurance proceeds that occurred in fiscal year 2014-15 and not repeated in fiscal year 2015-16.

**Coastside County Water District
Basic Financial Statements
For the year ended June 30, 2016**

Management’s Discussion and Analysis, Continued

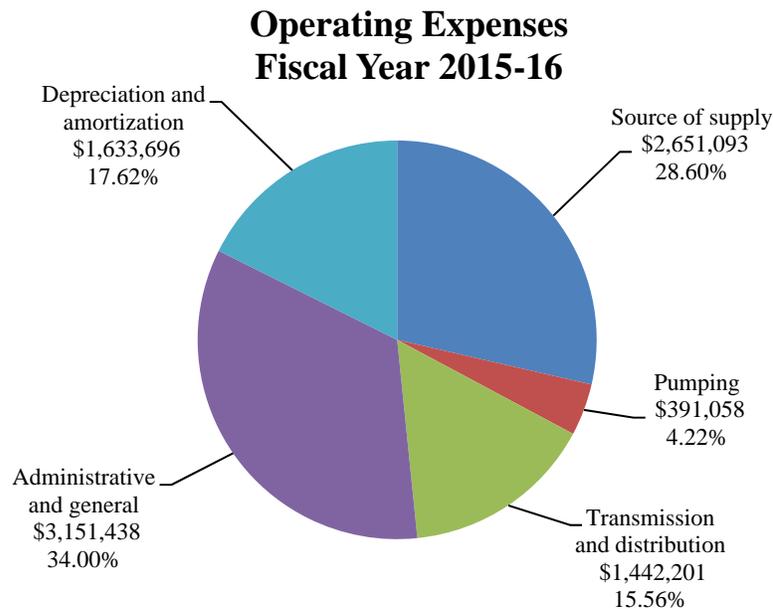
Financial Analysis of the District as a Whole, Continued

Operating expenses increased by \$803,155 as detailed below:

Operating Expenses				
For the years ended June 30, 2016 and 2015				
	<u>2016</u>	<u>2015</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
Operating expenses:				
Source of supply	\$ 2,651,093	\$ 2,541,926	\$ 109,167	4.3%
Pumping	391,058	493,804	(102,746)	(20.8)%
Transmission and distribution	1,442,201	1,330,746	111,455	8.4%
Administrative and general	3,151,438	2,482,451	668,987	26.9%
Depreciation and amortization expense	<u>1,633,696</u>	<u>1,617,404</u>	<u>16,292</u>	<u>1.0%</u>
Total	<u>\$ 9,269,486</u>	<u>\$ 8,466,331</u>	<u>\$ 803,155</u>	<u>9.5%</u>

Source of supply increased \$109,167 primarily due to a 30% increase in purchased water rates partially offset by lower water usage caused by drought related conservation efforts. Pumping expenses decreased \$102,746 due to decreased pumping from the Crystal Springs supply, and alternatively using local source water supplies that require less pumping. Transmission and distribution expenses increased \$111,455 due to increased maintenance and to increases in field staff salaries. Administrative and general expense increased \$668,987 primarily due to increases in pension expense, medical insurance, salaries and consulting services.

The following is a graphic illustration of operating expenses:



Coastside County Water District
Basic Financial Statements
For the year ended June 30, 2016

Management's Discussion and Analysis, Continued

Financial Analysis of the District as a Whole, Continued

Net position increased by \$1,154,668 as detailed below:

Analysis of Net Position				
As of June 30, 2016 and 2015				
	<u>2016</u>	<u>2015</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
Net position:				
Net investment in capital assets	\$ 36,326,164	\$ 35,239,512	\$ 1,086,652	3.1%
Restricted				
Crystal Springs Project	-	410,341	(410,341)	(100.0)%
Rate Stabilization	250,000	250,000	-	0.0%
Unrestricted (deficit)	<u>(436,567)</u>	<u>(914,924)</u>	<u>478,357</u>	<u>(52.3)%</u>
Total	<u>\$ 36,139,597</u>	<u>\$ 34,984,929</u>	<u>\$ 1,154,668</u>	<u>3.3%</u>

The change in net position of \$1,154,668 is primarily due to increased water sales and non-operating revenues.

Cash Flows

Net cash decreased by \$339,101 primarily due to the acquisition of capital assets.

Long-term Debt

The District's long term debt increased by net amount \$87,558, reflecting an increase in loan proceeds offset by principal repayment and amortization of bond discounts during the fiscal year 2015-16. In May 2016, the District obtained an installment loan up to \$5,628,000 from the California Infrastructure and Economic Development Bank (CIEDB) for District Facility Improvements. As of June 30, 2016, the District has drawn \$459,868 in loan proceeds.

**Coastside County Water District
Basic Financial Statements
For the year ended June 30, 2016**

Management's Discussion and Analysis, Continued

Economic Factors and Potential Future Results

On April 1, 2015, Governor Brown issued Executive Order B-29-15 imposing restrictions to achieve a statewide 25% reduction in potable urban water usage due to the drought. In response to Governor Brown's Order, effective June 1, 2015, the District was mandated by the State Water Resources Control Board to reduce water consumption by 8% over 2013 levels.

As water conditions improved for some areas in California in 2016, the District submitted a water supply certification in June 2016 and was able to go to a zero percent conservation standard from July 1, 2016 through January 31, 2017.

Executive Order B-37-16, issued in May of 2016, set a framework for additional permanent mandatory water conservation measures that are expected to be implemented starting in 2017. These new mandates will continue to impact District resources and encourage decreased water consumption, which will impact the District's revenue from water sales.

This trend, combined with a series of significant increases in the wholesale water rate charged by the San Francisco Public Utilities Commission and the need to finance essential infrastructure maintenance and replacement, will increase the District's revenue requirements in the future. The District has generally raised rates on an annual basis to meet revenue requirements and will continue to do so subject to approval by the Board of Directors and in consideration of Proposition 218 requirements.

Contacting the District

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

Coastside County Water District
766 Main Street
Half Moon Bay, CA 94019

Phone (650) 726 4405
Fax (650) 726 5245

David R. Dickson, General Manager
Mary Rogren, Assistant General Manager

This page intentionally left blank.

BASIC FINANCIAL STATEMENTS

Coastside County Water District

Statement of Net Position

June 30, 2016

(with comparative totals for June 30, 2015)

ASSETS	2016	2015
Current assets:		
Cash and investments	\$ 1,808,196	\$ 2,147,297
Restricted cash and investments	849,585	647,879
Accounts receivable:		
Customer water	1,518,648	939,558
Taxes	16,251	14,134
Interest	3,397	5,828
Prepaid expenses	50,923	58,936
Materials and supplies inventory	184,600	178,215
Unamortized bond issuance costs	31,307	33,273
Total current assets	4,462,907	4,025,120
Non-current assets:		
Capital assets:		
Construction in progress	2,731,638	3,118,869
Utility plant	74,469,170	71,278,246
Less accumulated depreciation	(28,694,204)	(27,064,721)
Total non-current assets	48,506,604	47,332,394
Total assets	52,969,511	51,357,514
DEFERRED OUTFLOWS OF RESOURCES		
Pension plan	1,187,668	415,861
Total assets and deferred outflows of resources	\$ 54,157,179	\$ 51,773,375
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 469,786	\$ 413,241
Accrued payroll	101,526	143,695
Customer deposits	48,242	44,586
Interest payable	163,087	134,659
Due within one year	386,761	372,309
Total current liabilities	1,169,402	1,108,490
Non-current liabilities:		
Due after one year	11,793,679	11,720,573
Net OPEB obligation	751,986	635,895
Accrued vacation and sick leave	106,048	97,186
Net pension liability	3,077,582	2,620,900
Total non-current liabilities	15,729,295	15,074,554
Total liabilities	16,898,697	16,183,044
DEFERRED INFLOWS OF RESOURCES		
Pension plan	1,118,885	605,402
Total deferred inflows of resources	1,118,885	605,402
NET POSITION		
Net investment in capital assets	36,326,164	35,239,512
Restricted for:		
Crystal Springs Project	-	410,341
Rate Stabilization	250,000	250,000
Unrestricted	(436,567)	(914,924)
Total Net Position	36,139,597	34,984,929
Total liabilities, deferred inflows of resources and net position	\$ 54,157,179	\$ 51,773,375

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

Coastside County Water District
Statement of Revenues, Expenses, and Changes in Net Position
For the year ended June 30, 2016

(with comparative totals for the year ended June 30, 2015)

	<u>2016</u>	<u>2015</u>
OPERATING REVENUES:		
Water sales	\$ 9,594,999	\$ 8,651,514
OPERATING EXPENSES:		
Source of supply	2,651,093	2,541,926
Pumping	391,058	493,804
Transmission and distribution	1,442,201	1,330,746
Administrative and general	3,151,438	2,482,451
Depreciation and amortization	1,633,696	1,617,404
Total operating expenses	<u>9,269,486</u>	<u>8,466,331</u>
Operating income	<u>325,513</u>	<u>185,183</u>
NON-OPERATING REVENUES (EXPENSES):		
Property taxes	1,104,622	1,083,213
Investment earnings	5,760	4,208
Transmission and storage fees	200,376	36,894
Connection fees	16,193	16,073
Miscellaneous income	164,469	361,511
Collection fees	(16,985)	(16,835)
Net OPEB expense	(116,091)	(179,866)
Interest expense	(529,189)	(456,780)
Loss on disposal of capital assets	-	(40,602)
Miscellaneous expense	-	(54,713)
Total non-operating revenues (expenses)	<u>829,155</u>	<u>753,103</u>
Net Income	<u>1,154,668</u>	<u>938,286</u>
NET POSITION:		
Net position - beginning	<u>34,984,929</u>	<u>34,046,643</u>
Net position - ending	<u>\$ 36,139,597</u>	<u>\$ 34,984,929</u>

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

Coastside County Water District

Statement of Cash Flows

For the year ended June 30, 2016

(with comparative amounts for the year ended June 30, 2015)

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	\$ 9,013,792	\$ 8,542,113
Payments to suppliers	(5,543,888)	(5,105,730)
Payments to employees	(1,865,022)	(1,925,397)
Net cash provided (used) by operating activities	1,604,882	1,510,986
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Property taxes received net of collection fees	1,087,637	1,066,378
Miscellaneous receipts	164,469	361,511
Miscellaneous payments	-	(54,713)
Net cash provided (used) by noncapital financing activities	1,252,106	1,373,176
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Change in restricted cash and investments	(201,706)	(38,452)
Transmission and storage fee receipts	200,376	36,894
Connection fee receipts	16,193	16,073
Proceeds from the issuance of long-term debt	459,868	-
Principal and interest payments on long-term debt	(871,105)	(826,817)
Acquisition of capital assets	(2,807,906)	(2,036,316)
Net cash provided (used) by capital and related financing activities	(3,204,280)	(2,848,618)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest received on investments	8,191	11,443
Net cash provided (used) by investing activities	8,191	11,443
Net increase (decrease) in cash and cash equivalents	(339,101)	46,987
CASH:		
Beginning of year	2,147,297	2,100,310
End of year	<u>\$ 1,808,196</u>	<u>\$ 2,147,297</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income	\$ 325,513	\$ 185,183
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation and amortization expense	1,633,696	1,617,404
Pension plan	198,358	(164,931)
Change in assets and liabilities:		
Accounts receivable	(581,207)	(109,401)
Materials and supplies	(6,385)	9,785
Prepaid expenses	8,013	(38,392)
Accounts payable and accrued liabilities	56,545	(18,444)
Accrued payroll	(42,169)	19,283
Customer deposits	3,656	1,637
Accrued vacation and sick leave	8,862	8,862
Net cash provided (used) by operating activities	\$ 1,604,882	\$ 1,510,986

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

Coastside County Water District
Basic Financial Statements
For the year ended June 30, 2016

Notes to Basic Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Description of the Reporting Entity

The District is organized under the Water Code provisions of the general laws of the State of California and is governed by a five-member Board of Directors elected at large by the registered voters of the District. The District is located along the Pacific Ocean in San Mateo County; it purchases more than half of its water supply from the San Francisco Water Department. The balance is developed from local sources, including surface diversion and wells. Water is distributed to customers inside and outside the District's boundaries.

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

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

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

Coastside County Water District
Basic Financial Statements
For the year ended June 30, 2016

Notes to Basic Financial Statements, Continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, *continued*

B. Fund Accounting Classification and Basis of Accounting

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

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

C. Cash and Investments

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

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

D. Capital Assets

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

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

Water treatment plant and pipelines	22-50 years
Buildings	23-33 years
Furniture and equipment	10 years
Vehicles	5 years

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

**Coastside County Water District
Basic Financial Statements
For the year ended June 30, 2016**

Notes to Basic Financial Statements, Continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, *continued*

E. Deferred outflows/inflows of resources

In addition to assets, the statement of financial 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 net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The District has only one item that qualifies for reporting in this category. It is the deferred charge on pension plan contributions on the statement of net position.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The District has one item reported as a deferred inflow of resources. The deferred inflow of resources is the net difference between projected and actual earnings on pension plan investments and is reported on the statement of net position.

F. Property Taxes

The District's property taxes are levied each calendar year on all taxable real property located in the District. Property taxes are recorded on an accrual basis of accounting.

The County Assessor is responsible for assessment of all taxable real property within San Mateo County. Reassessment is on a three-year schedule established by the Assessor.

The County Clerk computes the annual tax for each parcel of real property and prepares tax books used by the County Collector as the basis for issuing tax bills to all taxpayers in the County.

Property taxes are collected by the County Collector and are submitted to the County Treasurer, who remits to each unit its respective share of the collections. Taxes levied in one year become due and payable in two installments during the following year generally on March 1st and August 30th.

The first installment is an estimated bill, and is approximately one-half of the prior year's tax bill. The second installment is based on the current levy, assessment, equalization, and certificate to limit levy, if any and any changes from the prior year will be reflected in the second installment bill. Taxes must be levied by the last Tuesday in December for the following collection year. The levy becomes an enforceable lien against the property as of January 1 of the levy year.

**Coastside County Water District
Basic Financial Statements
For the year ended June 30, 2016**

Notes to Basic Financial Statements, Continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

G. Accrued Vacation and Sick Leave

The liability for vested vacation pay is recorded as an expense when the vacation is earned. District employees have a vested interest of up to 240 hours of accrued vacation time and up to 50% of their sick time up to 60 days, based upon retirement and time with the District.

H. Bond Issuance Costs

Debt issuance costs, except any portion related to prepaid insurance costs, are recognized as an expense in the period incurred. Prepaid insurance costs are reported as an asset and recognized as an expense in a systematic and rational manner over the duration of the related debt.

I. Comparative Data

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

J. Reclassifications

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

Coastside County Water District
Basic Financial Statements
For the year ended June 30, 2016

Notes to Basic Financial Statements, Continued

2. CASH AND INVESTMENTS

A. Composition

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

	June 30, 2016			Balance as of June 30, 2015
	FDIC insured	Not Rated	Fair Value	
Cash in bank	\$ 250,000	\$ 1,382,943	\$ 1,632,943	\$ 1,524,010
Petty Cash	-	430	430	430
Local Agency Investment Fund (LAIF)	-	1,024,408	1,024,408	1,020,736
Total	\$ 250,000	\$ 2,407,781	\$ 2,657,781	\$ 2,545,176

Financial Statement presentation:

Cash and investments	\$ 1,808,196	\$ 2,147,297
Restricted cash and investments	849,585	647,879
Total	\$ 2,657,781	\$ 2,795,176

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

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

B. Authorized Investments

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

Coastside County Water District
Basic Financial Statements
For the year ended June 30, 2016

Notes to Basic Financial Statements, Continued

2. CASH AND INVESTMENTS, Continued

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

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

C. Fair Value of Investments

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

D. Investments Authorized by Debt Agreements

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

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Minimum Credit Quality</u>
U.S. Treasury Obligations	N/A	Aaa
U.S. Agency Securities	N/A	Aaa
Bankers' Acceptances	30 days	A-1
Commercial Paper	270 days	A-1+
Money Market Funds	N/A	Aam
Pre-Funded Municipal Obligations	N/A	AAA
Repurchase Agreements	270 days	A
State Direct General Obligations	N/A	AA Special
Revenue Bonds	N/A	AA
California Local Agency Investment Fund	N/A	None

**Coastside County Water District
Basic Financial Statements
For the year ended June 30, 2016**

Notes to Basic Financial Statements, Continued

2. CASH AND INVESTMENTS, Continued

E. Interest Rate and Credit Risk

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

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District's only investments are in the California Local Agency Investment Fund (LAIF) and in Money Market accounts which are not rated at June 30, 2016.

LAIF that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The District reports its investment in LAIF at the fair value amount provided by LAIF, which is the same as the value of the pool share. The balance available for withdrawal is based on the accounting records maintained by LAIF, which are maintained on an amortized cost basis. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, United States Treasury Notes and Bills, and corporations. At June 30, 2016, these investments matured in an average of 167 days.

Coastside County Water District
Basic Financial Statements
For the year ended June 30, 2016

Notes to Basic Financial Statements, Continued

3. CAPITAL ASSETS

Changes in capital assets and depreciation were as follows:

	July 1, 2015	Additions	Deletions	Transfer/ Adjustments	June 30, 2016
Nondepreciable:					
Construction in progress	\$ 3,118,869	\$ 640,397	\$ -	\$ (1,027,628)	\$ 2,731,638
Utility Plant Nondepreciable:					
Land	\$ 160,613	\$ -	\$ -	\$ -	\$ 160,613
Total Utility Plant nondepreciable assets	160,613	-	-	-	160,613
Utility Plant Depreciable:					
Source of supply	401,040	-	-	-	401,040
Transmission and distribution	17,309,530	17,113	-	-	17,326,643
Treatment plants and well field projects					
Acquired and constructed	12,875,193	133,490	-	(296,191)	12,712,492
Contributed	2,899,227	-	-	-	2,899,227
Pipelines and meters	11,795,489	516,295	-	24,074	12,335,858
Crystal Springs Project	21,994,933	1,038,384	-	891,320	23,924,637
Buildings and structures	321,040	90,698	-	607,147	1,018,885
Vehicles	807,590	-	-	-	807,590
Furniture and equipment	2,713,591	367,316	-	(198,722)	2,882,185
Total depreciable assets	71,117,633	2,163,296	-	1,027,628	74,308,557
Total utility plant at cost	71,278,246	2,163,296	-	1,027,628	74,469,170
Less: accumulated depreciation	(27,064,721)	(1,629,483)	-	-	(28,694,204)
Total utility plant (net)	44,213,525	533,813	-	1,027,628	45,774,966
Total capital assets	\$ 47,332,394	\$ 1,174,210	\$ -	\$ -	\$ 48,506,604

**Coastside County Water District
Basic Financial Statements
For the year ended June 30, 2016**

Notes to Basic Financial Statements, Continued

4. LONG-TERM DEBT

A. Long-Term Debt Activity

	Original Issue Amount	Balance July 1, 2015	Additions	Retirements	Balance June 30, 2016	Due Within One Year
2006B Water Revenue Bonds						
3.5-4.75%, due 10/01/32	7,295,000	5,830,000	-	(215,000)	5,615,000	225,000
Discount	(58,459)	(40,465)	-	2,248	(38,217)	(2,248)
Total Debt Issuances	<u>7,236,541</u>	<u>5,789,535</u>	<u>-</u>	<u>(212,752)</u>	<u>5,576,783</u>	<u>222,752</u>
CIEDB Enterprise Fund						
Installment Loan - 2011	6,756,500	6,303,347	-	(159,558)	6,143,789	164,009
Installment Loan - 2016	5,628,000	-	459,868	-	459,868	-
Total	<u>\$ 19,621,041</u>	<u>\$ 12,092,882</u>	<u>\$ 459,868</u>	<u>\$ (372,310)</u>	<u>\$ 12,180,440</u>	<u>\$ 386,761</u>
Amount due within one year		\$ 372,309			\$ 386,761	
Amount due after one year		<u>11,720,573</u>			<u>11,793,679</u>	
		<u>\$ 12,092,882</u>			<u>\$ 12,180,440</u>	

2006B Water Revenue Bonds

On June 1, 2006, the District issued Water Revenue Bonds, Series 2006B in an original principal amount of \$7,295,000 to finance and refinance certain public capital improvements. The bonds are payable from revenues of the District. The 2006B Bonds bear interest at 3.50% to 4.75% and require semiannual interest payments on October 1 and April 1 and annual principal payments on October 1, beginning October 1, 2007. A final installment is due October 1, 2032.

CIEDB Enterprise Fund Installment Loan

On October 10, 2011 the District obtained an installment loan up to \$6,756,500 from the California Infrastructure and Economic Development Bank (CIEDB) for the District's Denniston Creek Water Treatment Plant Improvements Project. All funds must be drawn by September 10, 2015. The loan has a 30 year term with a semiannual interest rate of 2.79% (plus a 0.3% annual fee) payable on August 1 and February 1, beginning February 1, 2013. Annual principal payments are due on August 1; beginning after the District withdraws the full \$6,756,500 or completes the project. The final installment is due August 1, 2041. On March 1, 2015, the District and CIEDB entered into The Replacement Agreement and reduced the interest rate to 2.54%. As at June 30, 2016, the outstanding balance of the loan was \$6,143,789.

On May 1, 2016 the District obtained an installment loan up to \$5,628,000 from the California Infrastructure and Economic Development Bank (CIEDB) for the District's Facility Improvements Project. The loan has a 30 year term with a semiannual interest rate of 3.44% (plus a 0.3% annual fee) payable on August 1 and February 1, beginning February 1, 2017. Annual principal payments are due on August 1; beginning August 1, 2017. The final installment is due August 1, 2045. As at June 30, 2016, the outstanding balance of the loan was \$459,868.

**Coastside County Water District
Basic Financial Statements
For the year ended June 30, 2016**

Notes to Basic Financial Statements, Continued

4. LONG-TERM DEBT, Continued

B. Repayment Schedule

Future annual repayment requirements are as follows:

Year Ending June 30,	2006B Water Revenue Bonds			CIEDB Loan - 2011	
	Principal	Discount	Interest	Principal	Interest
2017	225,000	(2,248)	258,553	164,009	153,969
2018	235,000	(2,248)	248,919	168,585	149,745
2019	245,000	(2,248)	238,566	173,288	145,404
2020	255,000	(2,248)	226,831	178,123	140,941
2021	265,000	(2,248)	213,831	183,093	136,353
2022-2026	1,540,000	(11,240)	859,488	994,997	608,348
2027-2031	1,940,000	(11,240)	454,591	1,141,764	472,869
2032-2036	910,000	(4,496)	43,700	1,310,179	317,406
2037-2041	-	-	-	1,503,436	139,011
2042-2046	-	-	-	326,315	4,144
Total	<u>\$ 5,615,000</u>	<u>\$ (38,216)</u>	<u>\$ 2,544,479</u>	<u>\$ 6,143,789</u>	<u>\$ 2,268,190</u>
Due within one year	\$ 225,000	\$ (2,248)	\$ 258,553	\$ 164,009	\$ 153,969
Due after one year	5,390,000	(35,968)	2,285,926	5,979,780	2,114,221
Total	<u>\$ 5,615,000</u>	<u>\$ (38,216)</u>	<u>\$ 2,544,479</u>	<u>\$ 6,143,789</u>	<u>\$ 2,268,190</u>

5. NET POSITION

Net position at June 30, 2016 consisted of the following:

Description	Balance as at June 30, 2016
Net investment in capital assets	\$ 36,326,164
Restricted for:	
Rate Stabilization	250,000
Unrestricted (deficit)	(436,567)
Total unrestricted net position	<u>\$ 36,139,597</u>

Coastside County Water District
Basic Financial Statements
For the year ended June 30, 2016

Notes to Basic Financial Statements, Continued

6. RISK MANAGEMENT AND SELF-INSURANCE

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

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

<u>Program</u>	<u>Deductible</u>
Liability Program	None
Property Program:	
Buildings, personal property, and fixed equipment	\$ 2,500
Mobile Equipment	1,000
Licensed vehicle	1,000
Crime	1,000
Boiler and Machinery	Various
Worker's Compensation Program	None

Coverage is as follows:

<u>Program</u>	<u>Deductible</u>
Auto and General Liability Program (includes public officials' liability)	\$2,000,000 to \$30,000,000
Public Officials Liability	2,000,000 to 30,000,000
Property	100,000 to 150,000,000
Crime	100,000
Workers' Compensation	Statutory

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

Coastside County Water District
Basic Financial Statements
For the year ended June 30, 2016

Notes to Basic Financial Statements, Continued

7. PUBLIC EMPLOYEES' RETIREMENT SYSTEM (PERS)

A. General Information about the Pension Plans

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

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.

The Plan's provisions and benefits in effect at June 30, 2016, are summarized as follows:

	Miscellaneous Plan		
	First Tier	Second Tier	PEPRA
Hire date	Prior to August 14, 2010	Prior to January 1, 2013	On or after January 1, 2013
Benefit formula	2.5% @ 55	2% @ 60	2% @ 62
Benefit vesting schedule	5 years service	5 years service	5 years of service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	50 - 55	50 - 63	52 - 67
Monthly benefits, as a % of eligible compensation	2% to 2.5%	1% to 2.5%	1% - 2.5%
Required employee contribution rates	8%	7%	6.5%

Coastside County Water District
Basic Financial Statements
For the year ended June 30, 2016

Notes to Basic Financial Statements, Continued

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

A. General Information about the Pension Plans, Continued

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

For the year ended June 30, 2016, the contributions recognized as part of pension expense for the Plan were as follows:

	First Tier	Miscellaneous Second Tier	PEPRA
Contributions - employer	\$ 434,583	\$ 5,208	\$ 21,450

The District's average required contribution rate was 26.1% of annual payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the District were \$461,241 for the year ended June 30, 2016.

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

As of June 30, 2016, the District reported a net pension liability for its proportionate shares of the net pension liability of the Plan as follows:

	<u>Proportionate Share of Net Pension Liability</u>
Miscellaneous First Tier	\$ 3,078,134
Miscellaneous Second Tier	(506)
PEPRA	(46)
Total Net Pension Liability	<u>\$ 3,077,582</u>

Coastside County Water District
Basic Financial Statements
For the year ended June 30, 2016

Notes to Basic Financial Statements, Continued

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

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, 2015, 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, 2014 rolled forward to June 30, 2015 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 plans relative to the projected contributions of all participating employers, actuarially determined. The District's proportionate share of the net pension liability for the Plan as of June 30, 2015 was as follows:

	Miscellaneous		
	First Tier	Second Tier	PEPRA
Proportion - June 30, 2015	0.112199%	-0.000018%	-0.000002%

For the year ended June 30, 2016, the District recognized pension expense of \$697,809. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions paid to CalPERS subsequent to measurement date	\$ 461,241	\$ -
Differences between expected and actual experiences	27,187	-
Changes in assumptions	-	(257,223)
Differences between the employer's contributions and the employer's proportionate share of the contributions	-	(543,539)
Net differences between projected and actual earnings on plan investments	659,311	(318,123)
Adjustments due to differences in proportions	39,929	-
Total	\$ 1,187,668	\$ (1,118,885)

\$325,286 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016.

Coastside County Water District
Basic Financial Statements
For the year ended June 30, 2016

Notes to Basic Financial Statements, Continued

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

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30	
2016	\$ (196,873)
2017	(196,873)
2018	(178,910)
2019	189,198
2020	-
Thereafter	-

Actuarial Assumptions -The total pension liabilities in the June 30, 2015 actuarial valuations were determined using the following actuarial assumptions:

Actuarial Assumptions	
Valuation date	June 30, 2014
Measurement date	June 30, 2015
Actuarial cost method	Entry-age normal cost method
Actuarial assumptions:	
Discount rate	7.65%
Inflation	2.75%
Salary increases	Varies by entry age and service
Investment Rate of Return	7.50% net pension plan investment and administrative expenses; includes inflation
Post-retirement benefit increase	Contract COLA up to 2.75% until purchasing power protection allowance floor on purchasing power applies, 2.75% thereafter.

The underlying mortality 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, please refer to the 2014 experience study report.

All other actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the fiscal years 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study can be obtained at CalPERS' website under Forms and Publications.

Coastside County Water District
Basic Financial Statements
For the year ended June 30, 2016

Notes to Basic Financial Statements, Continued

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

Discount Rate - The discount rate used to measure the total pension liability was 7.65 percent for the Plans. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.65 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.65 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

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

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

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

Coastside County Water District
Basic Financial Statements
For the year ended June 30, 2016

Notes to Basic Financial Statements, Continued

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

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

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

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

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

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following presents the District's proportionate share of the net pension liability for the Plan, calculated using the discount rate for Plan, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	1% Decrease (6.65%)	Current Discount Rate (7.65%)	1% Increase (8.65%)
Miscellaneous - First Tier	\$ 5,162,246	\$ 3,078,134	\$ 1,357,458
Miscellaneous - Second Tier	(848)	(506)	(223)
PEPRA	(76)	(46)	(20)
Net Pension Liability as of June 30, 2016	<u>\$ 5,161,322</u>	<u>\$ 3,077,582</u>	<u>\$ 1,357,215</u>

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

Payable to the Pension Plans - At June 30, 2016, the District reported a payable of \$8,142 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2016.

**Coastside County Water District
Basic Financial Statements
For the year ended June 30, 2016**

Notes to Basic Financial Statements, Continued

8. OTHER POST-EMPLOYMENT BENEFITS

Plan Description

The District provides health insurance benefits through the Association of California Water Agencies (ACWA) Blue Cross plan or the District’s plan through Kaiser Permanente (small business plan) to employees who retire. The District pays for one-party medical, dental and vision premiums for retirees. The medical and vision benefits are paid for life and the dental benefits are paid until age 65. Employees hired after November 14, 2006 will receive 50% of the benefits. Employees hired after November 1, 2008 are not eligible for post-employment health benefits.

Eligibility: Employees (and their dependents) are eligible to access retiree healthcare benefits if they retire from the District on or after age 55 (service retirement) with at least 15 years of continuous service with the District (service and disability retirement) and the employee must submit the retirement application within 120 days of separation and are eligible for a PERS pension. Membership of the plan consisted of the following at June 30, 2016:

Retirees and beneficiaries receiving benefits	9
Other participants fully eligible for benefits	5
Other participants not yet fully eligible for benefits (hired prior to 11/14/2006)	6
Other participants not yet fully eligible for 50% benefits (hired after 11/14/2006)	3
Participants not eligible for benefits (hired on or after 11/1/2008)	5
Total	28

Funding Policy

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

Annual OPEB Cost and Net OPEB Obligation

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

Coastside County Water District
Basic Financial Statements
For the year ended June 30, 2016

Notes to Basic Financial Statements, Continued

8. OTHER POST-EMPLOYMENT BENEFITS, *continued*

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

Annual required contribution *	\$ 185,394
Interest on net OPEB obligation	28,616
Adjustment to annual required contribution	(25,436)
Annual OPEB cost (expense)	<u>188,574</u>
Contributions made (premiums paid)	(72,483)
Increase in net OPEB obligation	\$ 116,091
Net OPEB obligation - beginning of year	\$ 635,895
Net OPEB obligation - end of year	\$ 751,986
* Annual required contribution is based on projected numbers from the actuarial report as of January 1, 2015 dated October 23, 2015.	

This is the fourth year that the District is following the reporting requirements of GASB 45, *Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pension Plans*. The District has elected to implement GASB 45 prospectively and therefore shows no OPEB obligation at transition. The District's annual OPEB cost (expense) is equal to the ARC, and the net OPEB obligation for 2016 and the two preceding years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation (Asset)
6/30/2014	246,000	35%	456,029
6/30/2015	179,866	37%	635,895
6/30/2016	129,011	56%	751,986

Plan Funded Status and Funding Progress

As of January 1, 2015, the most recent actuarial valuation date, the plan was 0% funded. The Actuarial Accrued Liability (AAL) for benefits was \$2,607,448, and the actuarial value of assets was zero dollars, resulting in an Unfunded Actuarial Accrued Liability (UAAL) of \$2,607,448. The covered payroll (annual payroll of active employees covered by the plan) was \$1,465,568 and the ratio of UAAL to the covered payroll was 178%.

Coastside County Water District
Basic Financial Statements
For the year ended June 30, 2016

Notes to Basic Financial Statements, Continued

8. OTHER POST-EMPLOYMENT BENEFITS, *continued*

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

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefits costs between the employer and the plan members to that point. The actuarial methods and assumptions used included techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long term perspective of the calculations. The actuarial valuation was performed in January of 2015 based upon June 30, 2014 amounts.

The actuarial cost method used for determining the benefit obligations is the projected unit credit actuarial cost method. The actuarial assumptions included a 4.5% investment rate of return, which is the expected long-term rate of return on the District's pooled investments (per GASB 43/45 guidelines for this assumption), and an annual cost trend rate of 4% for medical costs and a 2.75% general inflation assumption. The UAAL is being amortized using a level dollar method over 30 years with no election as to an open or closed basis at this time.

9. COMMITMENTS AND CONTINGENCIES

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

10. NEW ACCOUNTING PRONOUNCEMENTS

The GASB has issued Statement No. 72, "*Fair Value Measurement and Application*". The objective of this Statement is to improve financial reporting by clarifying the definition of fair value for financial reporting purposes, establishing general principles for measuring fair value, providing additional fair value application guidance, and enhancing disclosures about fair value measurements. These improvements are based in part on the concepts and definitions established in Concepts Statement No. 6, *Measurement of Elements of Financial Statements*, and other relevant literature. The requirements of this Statement are effective for financial statements for reporting periods beginning after June 15, 2015. The District implemented this statement for year ended June 30, 2016. The implementation of this statement did not have an effect on the financial statements.

Coastside County Water District
Basic Financial Statements
For the year ended June 30, 2016

Notes to Basic Financial Statements, Continued

10. NEW ACCOUNTING PRONOUNCEMENTS, Continued

The GASB has issued Statement No. 73, "Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68". The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, "Accounting and Financial Reporting for Pensions", as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also amends certain provisions of Statement No. 67, "Financial Reporting for Pension Plans", and Statement 68 for pension plans and pensions that are within their respective scopes.

The requirements of this Statement that address accounting and financial reporting by employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68 are effective for financial statements for fiscal years beginning after June 15, 2016, and the requirements of this Statement that address financial reporting for assets accumulated for purposes of providing those pensions are effective for fiscal years beginning after June 15, 2015. The requirements of this Statement for pension plans that are within the scope of Statement 67 or for pensions that are within the scope of Statement 68 are effective for fiscal years beginning after June 15, 2015. The District will evaluate the applicability of the provisions of this Statement and implement it in the applicable year, accordingly.

The GASB has issued Statement No. 74, "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans". The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement replaces Statements No. 43, "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans", as amended, and No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, as amended, Statement 43, and Statement No. 50, Pension Disclosures. The provisions in Statement 74 are effective for fiscal years beginning after June 15, 2016. The District will implement this Statement in fiscal year ending June 30, 2017.

Coastside County Water District
Basic Financial Statements
For the year ended June 30, 2016

Notes to Basic Financial Statements, Continued

10. NEW ACCOUNTING PRONOUNCEMENTS, Continued

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

This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement replaces the requirements of Statements 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. Statement No. 74, “Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans”, establishes new accounting and financial reporting requirements for OPEB plans. The provisions in Statement 75 are effective for fiscal years beginning after June 15, 2017. The District will implement this statement, as applicable, to its financial statements for the year ending June 30, 2018.

The GASB has issued Statement No. 76, “The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments”. The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This Statement supersedes Statement No. 55, “The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments”. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015, and should be applied retroactively. The District implemented this statement for year ended June 30, 2016. The implementation of this statement did not have an effect on the financial statements.

The GASB has issued Statement No. 77, “Tax Abatement Disclosures”. This information is intended, among other things, to assist these users of financial statements in assessing (1) whether a government’s current-year revenues were sufficient to pay for current-year services (known as interperiod equity), (2) whether a government complied with finance-related legal and contractual obligations, (3) where a government’s financial resources come from and how it uses them, and (4) a government’s financial position and economic condition and how they have changed over time. The requirements of this Statement are effective for reporting periods beginning after December 15, 2015. The District will implement this statement, as applicable, to its financial statements for the year ending June 30, 2017.

REQUIRED SUPPLEMENTARY INFORMATION

Coastside County Water District
Required Supplementary Information - Schedule of Contributions
Miscellaneous First Tier Plan
Last 10 Fiscal Years*

	<u>2015</u>	<u>2014</u>
Actuarially determined contribution	\$ 525,312	\$ 383,606
Contributions in relation to the actuarially determined contributions	<u>(525,312)</u>	<u>(383,606)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 4,677,860	\$ 1,506,650
Contribution as a percentage of covered-employee payroll	11.23%	25.46%

Notes to Schedule

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

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

Coastside County Water District
Required Supplementary Information - Schedule of Contributions
Miscellaneous Second Tier Plan
Last 10 Fiscal Years*

	<u>2015</u>	<u>2014</u>
Actuarially determined contribution	\$ 7,542	\$ 5,408
Contributions in relation to the actuarially determined contributions	<u>(7,542)</u>	<u>(5,408)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 67,159	\$ 55,879
Contribution as a percentage of covered-employee payroll	11.23%	9.68%

Notes to Schedule

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

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

Coastside County Water District
Required Supplementary Information - Schedule of Contributions
PEPRA Plan
Last 10 Fiscal Years*

	<u>2015</u>
Actuarially determined contribution	\$ 10,685
Contributions in relation to the actuarially determined contributions	<u>-</u>
Contribution deficiency (excess)	<u>\$ 10,685</u>
Covered-employee payroll	\$ 95,151
Contribution as a percentage of covered-employee payroll	11.23%

Notes to Schedule

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

* - Fiscal year 2016 was the first year of implementation of the PEPRA plan, therefore only the first year was available.

Coastside County Water District
Required Supplementary Information - Schedule of the District's Proportionate
Share of the Net Pension Liability
Miscellaneous First Tier Plan
Last 10 Fiscal Years*

	<u>2015</u>	<u>2014</u>
Plan's Proportion of the Net Pension Liability/(Asset)	0.11220%	0.04212%
Plan's Proportionate Share of the Net Pension Liability/(Asset)	\$ 3,077,582	\$ 2,620,634
Plan's Covered-Employee Payroll	\$ 4,677,860	\$ 1,506,650
Plan's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of its Covered-Employee Payroll	65.79%	173.94%
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	71.63%	76.34%
Plan's Proportionate Share of Aggregate Employer Contribution	\$ 525,312	\$ 228,646

Notes to Schedule

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

* - Fiscal year 2015 was the first year of implementation, therefore only the first year was available.

Coastside County Water District
Required Supplementary Information - Schedule of the District's Proportionate
Share of the Net Pension Liability
Miscellaneous Second Tier Plan
Last 10 Fiscal Years*

	<u>2015</u>	<u>2014</u>
Plan's Proportion of the Net Pension Liability/(Asset)	-0.000018%	0.00000%
Plan's Proportionate Share of the Net Pension Liability/(Asset)	\$ (506)	\$ 266
Plan's Covered-Employee Payroll	\$ 67,159	\$ 55,879
Plan's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of its Covered-Employee Payroll	-0.75%	0.48%
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	106.08%	83.07%
Plan's Proportionate Share of Aggregate Employer Contribution	\$ 7,542	\$ 35

Notes to Schedule

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

* - Fiscal year 2015 was the first year of implementation, therefore only the first year was available.

Coastside County Water District
Required Supplementary Information - Schedule of the District's Proportionate
Share of the Net Pension Liability
PEPRA Plan
Last 10 Fiscal Years*

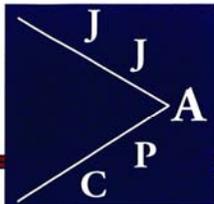
	<u>2015</u>
Plan's Proportion of the Net Pension Liability/(Asset)	-0.000002%
Plan's Proportionate Share of the Net Pension Liability/(Asset)	\$ (46)
Plan's Covered-Employee Payroll	\$ 95,151
Plan's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of its Covered-Employee Payroll	-0.05%
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	100.73%
Plan's Proportionate Share of Aggregate Employer Contribution	\$ 10,685

Notes to Schedule

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

* - Fiscal year 2016 was the first year of implementation of the PEPRA plan, therefore only the first year was available.

This page intentionally left blank.



JJACPA, Inc.

A Professional Accounting Services Corp.

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

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

We have audited, in accordance with the auditing standard generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Coastside County Water District (District) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Coastside County Water District's basic financial statements, and have issued our report thereon dated January 3, 2017.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

January 3, 2017

JJACPA, Inc.

JJACPA, Inc.
Dublin, CA