Coastside County Water District

Annual Financial Report

For the Fiscal Year Ended June 30, 2017

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***

Board of Directors as of June 30, 2017

Name	Title	Elected/ Appointed	Current Term
Glenn Reynolds	President	Elected	11/16-11/20
Bob Feldman	Vice-President	Appointed	11/14-11/18
Arnie Glassberg	Director	Elected	11/16-11/20
Ken Coverdell	Director	Elected	11/16-11/20
Chris Mickelsen	Director	Elected	11/14-11/18

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, 2017

Coastside County Water District
Annual Financial Report
For the Fiscal Year Ended June 30, 2017

Table of Contents

Financial Section

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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, 2017, 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 accompanying financial statements of the District as of June 30, 2016, were audited by other auditors whose report dated January 3, 2017, expressed an unmodified opinion on those 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 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 audits 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, 2017, 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.

Independent Auditor's Report, continued

Emphasis of Matter

As described in Note 11 to the financial statements, the District restated net position related to the difference in calculations of pension deferrals related to the net pension liability, for the year ended June 30, 2016. Our opinion is not modified with respect to this matter.

Prior Period Restatement

As part of our audit of the June 30, 2017 financial statements, we also audited the adjustment described in Note 11 that was applied to restate the June 30, 2016 financial statements. In our opinion, the adjustments are appropriate and have been properly applied.

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 36 through 38 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 January 9, 2018, 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 39 and 40.

Fedak & Brown LLP

Fedak & Brown LLP
Cypress, California
January 9, 2018

Coastside County Water District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017

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, 2017. 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 7.62%, or $2,802,694 to $39,575,817, as a result of ongoing operations and the effect of a prior period adjustment related to pension deferrals. See note 11 for further information.
- Operating revenues increased 13.21%, or $1,269,802.
- Non-operating revenues decreased 7.72%, or $113,621.
- Operating expenses decreased .50%, or $35,431.
- Non-operating expenses increased 20.04%, or $110,307.

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 35.

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 $39,575,817 as of June 30, 2017.

Condensed Statements of Net Position

	2017	As Restated 2016	Change
Assets:			
Current assets	$ 7,446,689	4,462,907	2,983,782
Capital assets, net	51,812,583	48,506,604	3,305,979
Total assets	59,259,272	52,969,511	6,289,761
Deferred outflows of resources:			
Deferred pension outflows	1,726,811	1,088,483	638,328
Liabilities:			
Current liabilities	1,784,498	1,198,161	586,337
Non-current liabilities	19,469,827	15,700,536	3,769,291
Total liabilities	21,254,325	16,898,697	4,355,628
Deferred inflows of resources:			
Deferred pension inflows	155,941	386,174	(230,233)
Net position:			
Net investment in capital assets	36,370,412	36,326,164	44,248
Restricted	266,931	1,099,585	(832,654)
Unrestricted	2,938,474	(652,626)	3,591,100
Total net position	$ 39,575,817	36,773,123	2,802,694

By far, the largest portion of the District's net position (92% as of June 30, 2017) 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 2017, the District showed a positive balance in its unrestricted net position of $2,938,474, which may be utilized in future years. See note 10 for further information.

Statements of Revenues, Expenses and Changes in Net Position

		2017	As Restated 2016	Change
Revenue:				
Operating revenue	$	10,882,907	9,613,105	1,269,802
Non-operating revenue		1,357,837	1,471,458	(113,621)
Total revenue		12,240,744	11,084,563	1,156,181
Expense:				
Operating expense		7,081,068	7,116,499	(35,431)
Depreciation		1,696,287	1,629,482	66,805
Non-operating expense		660,695	550,388	110,307
Total expense		9,438,050	9,296,369	141,681
Change in net position		2,802,694	1,788,194	1,014,500
Net position, beginning of year – as restated		36,773,123	34,984,929	1,788,194
Net position, end of year	$	39,575,817	36,773,123	2,802,694

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 7.62%, or $2,802,694 to $39,575,817, as a result of ongoing operations. In fiscal year 2017, the District determined there was an error in the prior year pension deferral calculation. As a result, net position as previously reported increased by $633,526 from $36,139,597 to $36,773,123. See note 11 for further information.

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

In fiscal year 2017, the District's operating revenues increased 13.21%, or $1,269,802, due to increases of $1,250,348 in water consumption sales and $19,454 in other charges and services.

In fiscal year 2017, the District's non-operating revenues decreased 7.72%, or $113,621, primarily due to a decrease of $184,346 in transmission and storage fees, which was offset by increases of $34,500 in property taxes, $17,980 in investment earnings, and $11,320 in rental revenue.

In fiscal year 2017, the District's operating expenses decreased .50%, or $35,431, primarily due to a decrease of $178,976 in source of supply, which was offset by increases of $40,088 in pumping costs, $83,291 in transmission and distribution, and $20,166 in general and administrative expenses.

In fiscal year 2017, the District's non-operating expenses increased 20.04%, or $110,307, primarily due to an increase of $108,799 in interest expense.

Capital Asset Administration

Changes in capital asset amounts for 2017 were as follows:

		Balance 2016	Additions	Transfers/ Deletions	Balance 2017
Capital assets:					
Non-depreciable assets	$	2,892,250	3,229,411	(63,605)	6,058,056
Depreciable assets		74,308,557	1,844,209	(1,128,947)	75,023,819
Accumulated depreciation		(28,694,204)	(1,696,287)	1,121,199	(29,269,292)
Total capital assets, net	$	48,506,603	3,377,333	(71,353)	51,812,583

At the end of fiscal year 2017, the District's investment in capital assets amounted to $51,812,583 (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 2017 were as follows:

		Balance 2016	Additions	Transfers/ Deletions	Balance 2017
Long-term debt:					
Bonds payable	$	5,576,783	-	(222,752)	5,354,031
Loans payable		6,603,657	3,648,491	(164,008)	10,088,140
Total long-term debt	$	12,180,440	3,648,491	(386,760)	15,442,171

See note 6 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, 2017

		2017
Current assets:		
Cash and cash equivalents (note 2)	$	5,276,856
Restricted – cash and cash equivalents (note 2)		16,931
Accrued interest receivable		16,515
Accounts receivable – water sales and services		1,811,518
Accounts receivable – other		35,605
Accounts receivable – property taxes		16,610
Materials and supplies inventory		156,017
Water-in-storage inventory		27,272
Prepaid expenses and other deposits		60,025
Bond issuance costs, net		29,340
Total current assets		7,446,689
Non-current assets:		
Capital assets – not being depreciated (note 3)		6,058,056
Capital assets, net – being depreciated (note 3)		45,754,527
Total non-current assets		51,812,583
Total assets		59,259,272
Deferred outflows of resources:		
Deferred pension outflows (note 7)		1,726,811
Total deferred outflows of resources	$	1,726,811

Continued on next page

See accompanying notes to the basic financial statements

Coastside County Water District
Statement of Net Position, continued
June 30, 2017

		2017
Current liabilities:		
Accounts payable and accrued expenses	$	908,336
Accrued wages and related payables		43,943
Customer deposits and deferred revenue		66,428
Accrued interest payable		207,432
Long-term liabilities – due within one year:		
Compensated absences (note 4)		38,611
Bonds payable (note 6)		235,000
Loans payable (note 6)		284,748
Total current liabilities		1,784,498
Non-current liabilities:		
Long-term liabilities – due in more than one year:		
Compensated absences (note 4)		115,833
Other post-employment benefit obligation (note 5)		881,815
Bonds payable (note 6)		5,119,031
Loans payable (note 6)		9,803,392
Net pension liability (note 7)		3,549,756
Total non-current liabilities		19,469,827
Total liabilities		21,254,325
Deferred inflows of resources:		
Deferred pension inflows (note 7)		155,941
Total deferred inflows		155,941
Net position:		
Net investment in capital assets (note 8)		36,370,412
Restricted (note 9)		266,931
Unrestricted (note 10)		2,938,474
Total net position	$	39,575,817

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, 2017

		2017
Operating revenues:		
Water consumption sales	$	10,845,348
Other charges for services		37,559
Total operating revenues		10,882,907
Operating expenses:		
Source of supply		2,222,253
Pumping		1,094,697
Transmission and distribution		1,406,609
General and administrative		2,357,509
Total operating expenses		7,081,068
Operating income before depreciation expense		3,801,839
Depreciation expense – capital recovery		(1,696,287)
Operating income		2,105,552
Non-operating revenue(expense):		
Property taxes		1,139,122
Investment earnings		23,729
Transmission and storage fees		16,030
Rental revenue		150,669
Interest expense		(637,988)
Amortization of debt issuance costs		(4,215)
Collection fees – County		(11,242)
Loss on disposition of assets		(7,250)
Other revenue		28,287
Total non-operating, net		697,142
Change in net position		2,802,694
Net position, beginning of year – as restated (note 11)		36,773,123
Net position, end of year	$	39,575,817

See accompanying notes to the basic financial statements

Coastside County Water District
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2017

	2017
Cash flows from operating activities:	
Cash receipts from customers for water sales and services	$ 10,572,618
Cash paid to employees for salaries and wages	(2,466,525)
Cash paid to vendors and suppliers for materials and services	(4,717,220)
Net cash provided by operating activities	3,388,873
Cash flows from non-capital financing activities:	
Cash receipts from property taxes	1,138,763
Cash paid for collection fees	(11,242)
Other revenues	194,986
Other expenses	(11,465)
Net cash provided by operating activities	1,311,042
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(4,742,608)
Proceeds from issuance of debt	3,648,491
Principal paid on long-term debt	(386,760)
Interest paid on long-term debt	(593,643)
Net cash used in capital and related financing activities	(2,074,520)
Cash flows from investing activities:	
Investment earnings	10,611
Net cash provided by investing activities	10,611
Net increase in cash and cash equivalents	2,636,006
Cash and cash equivalents, beginning of year	2,657,781
Cash and cash equivalents, end of year	$ 5,293,787

Reconciliation of cash and cash equivalents to the statement of financial position:

Cash and cash equivalents	$ 5,276,856
Restricted assets – cash and cash equivalents	16,931
Total cash and cash equivalents	$ 5,293,787

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, 2017

		2017
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$	2,105,552
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation		1,696,287
Changes in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:		
(Increase)Decrease in assets:		
Accounts receivable – water sales and services		(292,870)
Accounts receivable – other		(35,605)
Materials and supplies inventory		28,583
Water-in-storage inventory		(27,272)
Prepaid expenses and other deposits		(9,102)
Unamortized bond issuance costs		1,967
Increase in deferred outflows of resources		(638,328)
Increase(Decrease) in liabilities and deferred inflows:		
Accounts payable and accrued expenses		408,550
Accrued wages and related payables		(27,583)
Customer deposits and deferred revenue		18,186
Compensated absences		48,396
Other post-employment benefit obligation		(129,829)
Net pension liability		472,174
Decrease in deferred inflows of resources		(230,233)
Total adjustments		1,283,321
Net cash provided by operating activities	$	3,388,873
Non cash investing, capital and related financing activities:		
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:

In June 2015, the GASB issued Statement No. 74 – *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of this Statement is to improve the usefulness or information about postemployment benefits other than pensions (other postemployment benefits of OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability.

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

C. Financial Reporting, continued

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 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 of this Statement are effective for financial statements for periods beginning after June 15, 2016. There currently is no impact of the implementation of this Statement to the District's financial statements at this time.

In August 2015, the GASB issued Statement No. 77 – *Tax Abatement Disclosures*. The objective of this Statement is to improve financial reporting by giving users of financial statements essential information that is not consistently or comprehensively reported to the public at present. Financial statement users need information about certain limitations on a government's ability to raise resources. This includes limitations on revenue-raising capacity resulting from governmental programs that use tax abatements to induce behavior by individuals and entities that is beneficial to the government or its citizens. Tax abatements are widely used by state and local governments, particularly to encourage economic development.

In December 2015, the GASB issued Statement No. 78 – *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans.* The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions.* This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. This Statement amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that meet certain criteria.

In January 2016, the GASB issued Statement No. 80 – *Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14*. The objective of this Statement is to improve 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. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*.

In March 2016, the GASB issued Statement No. 82 – *Pension Issues-an amendment of GASB Statements No. 67, No. 68, and No.73*. This Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

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

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.

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.

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

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

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 Districts 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.

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:

- 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 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

11. Deferred Outflows of Resources, continued

- 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.

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. 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, 2015
- Measurement Date: June 30, 2016
- Measurement Period: July 1, 2015 to June 30, 2016

14. 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:

- Deferred inflow 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.

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

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

15. 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.

16. 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

17. 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.

18. 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.

19. Reclassification

The District has reclassified certain prior year information to conform to current year presentations.

(2) Cash and Investments

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

		2017
Cash and cash equivalents	$	5,276,856
Cash and cash equivalents – restricted		16,931
Total cash and investments	$	5,293,787

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

		2017
Cash on hand	$	700
Deposits with financial institutions		4,262,008
Deposits in Local Agency Investment Fund		1,031,079
Total cash and cash equivalents	$	5,293,787

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

	2017
Deposits in Local Agency Investment Fund	194 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 District's deposit and withdrawal restrictions and limitations are as follows:

- Same day transaction processing occurs for orders received before 10:00 a.m.
- Next day transactions processing occurs for orders received after 10:00 a.m.
- Maximum limit of 15 transactions (combination of deposits and withdrawals) per month.
- Minimum transaction amount requirement of $5,000, in increments of a $1,000 dollars.
- Withdrawals of $10,000,000 or more require 24 hours advance.
- Prior to funds transfer, an authorized person must call LAIF to do a verbal transaction.

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, 2017, 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

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, 2017.

Fair Value Measurements

At June 30, 2017, the District did not hold any investments which require measurement at fair value on a recurring and non-recurring basis.

(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 2016	Reclass	Additions/ Transfers	Deletions/ Transfers	Balance 2017
Non-depreciable assets:					
Land	$ 160,612	-	-	-	160,612
Construction-in-process	2,731,638	-	3,229,411	(63,605)	5,897,444
Total non-depreciable assets	2,892,250	-	3,229,411	(63,605)	6,058,056
Depreciable assets:					
Source of supply	401,040	-	-	-	401,040
Transmission and distribution	17,326,643	-	1,009,646	-	18,336,289
Pump station - Crystal Springs	23,924,637	1,426,805	80,421	-	25,431,863
Treatment plants	9,874,162	271,235	115,192	-	10,260,589
Well field and tanks	2,838,330	-	332,635	-	3,170,965
Contributed	2,899,227	(2,899,227)	-	-	-
Pipelines and meters	12,335,858	1,201,187	70,038	-	13,607,083
Buildings and structures	1,018,885	-	8,611	(7,532)	1,019,964
Vehicles	807,590	-	67,671	(353,209)	522,052
Furniture and equipment	2,882,185	-	159,995	(768,206)	2,273,974
Total depreciable assets	74,308,557	-	1,844,209	(1,128,947)	75,023,819
Accumulated depreciation:					
Depreciable assets	(28,694,204)	-	(1,696,287)	1,121,199	(29,269,292)
Total accumulated depreciation	(28,694,204)	-	(1,696,287)	1,121,199	(29,269,292)
Total depreciable assets, net	45,614,353	-	147,922	(7,748)	45,754,527
Total capital assets, net	$ 48,506,603	-	3,377,333	(71,353)	51,812,583

(4) Compensated Absences

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

Balance 2016	Earned	Taken	Balance 2017	Current Portion	Long-term Portion
$ 106,048	201,005	(152,609)	$ 154,444	$ 38,611	$ 115,833

(5) Other Post-Employment Benefits Obligation

Plan Description

The District provides other post-employment benefits (OPEB) to qualified employees who retire from the District and meet the District's vesting requirements. During the fiscal year ended June 30, 2010, the District implemented GASB Statement No. 45, which changed the accounting and financial reporting used by local government employers for post-employment benefits. Previously, the costs of such benefits were generally recognized as expenses of local government employers on a pay-as-you-go basis. The new reporting requirements for these benefit programs as they pertain to the District are set forth below.

Eligibility for District-paid Benefits

To be eligible for retiree health benefits, an employee (including dependents) 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.

Membership in the Plan

Membership in the OPEB plan consisted of the following members as of June 30:

	2017	2016	2015
Active plan members	14	15	17
Retirees and beneficiaries receiving benefits	9	9	7
Total plan membership	23	24	24

Funding Policy

The District is required to accrue the *Annual Required Contribution (ARC) of the Employer*, 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 the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The current ARC rate is 13.22% of the annual covered payroll.

(5) Other Post-Employment Benefits Obligation, continued

Annual OPEB Cost and Net OPEB Obligation

For the year ended June 30, 2017, the District's ARC cost is $193,737. The District's net OPEB payable obligation amounted to $881,515 for the year ended June 30, 2017. The District contributed $67,668 in age adjusted contributions and premiums for current retiree OPEB premiums for the year ended June 30, 2017.

The balance at June 30 consists of the following:

		2017	2016	2015
Annual OPEB expense:				
Annual required contribution (ARC)	$	193,737	185,394	246,000
Interest on net OPEB obligation		33,839	28,616	-
Adjustment to annual required contribution		(30,379)	(25,436)	-
Total annual OPEB expense		197,197	188,574	246,000
Contributions:				
Retiree benefit payments paid		(67,668)	(72,483)	(66,134)
Total contributions made		(67,668)	(72,483)	(66,134)
Total change in net OPEB payable obligation		129,529	116,091	179,866
OPEB payable – beginning of year		751,986	635,895	456,029
OPEB payable – end of year	$	881,515	751,986	635,895

The District's Annual OPEB Cost, the Percentage of Annual OPEB Cost Contributed to the plan and the Net OPEB Obligation for the fiscal year ended June 30, 2017, and the two preceding years are shown in the following table.

Three-Year History of Net OPEB Obligation

Fiscal Year Ended		Annual OPEB Cost	Retiree Benefit Payments	Percentage of Annual OPEB Cost Contributed		Net OPEB Obligation
2017	$	197,197	(67,668)	-34.31%	$	881,515
2016		188,574	(72,483)	-38.44%		751,986
2015		246,000	(66,134)	-26.88%		635,895

The most recent valuation (dated January 1, 2015) includes an Actuarial Accrued Liability and Unfunded Actuarial Accrued Liability of $2,607,448. The covered payroll (annual payroll of active employees covered by the plan) for the year ended June 30, 2017, was $2,135,603. The ratio of the unfunded actuarial accrued liability to annual covered payroll is 122.09%.

See the Schedule of Funding Status of the District's Other Post-Employment Benefits Obligation in the Required Supplementary Information Section on page 38.

(5) Other Post-Employment Benefits Obligation, continued

Actuarial Methods and Assumptions

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and the pattern of sharing of costs between the employer and plan members to that point. Consistent with the long-term perspective of actuarial calculations, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities for benefits.

The following is a summary of the actuarial assumptions and methods:

Valuation date	January 1, 2015
Actuarial cost method	Entry age normal cost method
Amortization method	Level percent of payroll amortization, closed
Remaining amortization period	25 Years as of the valuation date
Asset valuation method	N/A
Actuarial assumptions:	
Investment rate of return	4.50%
Projected salary increase	2.75%
Inflation - discount rate	2.75%
Healthcare - trend rate	4.00%

(6) Long-term Debt

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

Long-term debt:	Balance 2016	Additions	Payments	Balance 2017	Current Portion	Long-term Portion
Bonds payable:						
2006B Water revenue refunding bonds	$ 5,615,000	-	(225,000)	5,390,000	235,000	5,155,000
2006B discount	(38,217)	-	2,248	(35,969)	-	(35,969)
Total bonds payable	5,576,783	-	(222,752)	5,354,031	235,000	5,119,031
Loans payable:						
CIEDB Installment Loan – 2011	6,143,789	-	(164,008)	5,979,781	168,585	5,811,196
CIEDB Installment Loan – 2016	459,868	3,648,491	-	4,108,359	116,163	3,992,196
Total loans payable	6,603,657	3,648,491	(164,008)	10,088,140	284,748	9,803,392
Long-term debt	$ 12,180,440	3,648,491	(386,760)	15,442,171	519,748	14,922,423

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.

(6) Long-term Debt, continued

2006 Series B – Water Revenue Refunding Bonds, continued

Future remaining debt service payments are as follows:

Year		Principal	Interest	Total
2018	$	235,000	248,919	483,919
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
2023-2027		1,615,000	786,003	2,401,003
2028-2032		2,030,000	360,525	2,390,525
2033		465,000	11,044	476,044
Total		5,390,000	2,285,925	7,675,925
Current		(235,000)		
Discount		(35,969)		
Long-term	$	5,119,031		

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%.

Future remaining debt service payments are as follows:

Year		Principal	Interest	Total
2018	$	168,585	167,685	336,270
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
2023-2027		1,022,758	653,082	1,675,840
2028-2032		1,173,619	497,601	1,671,220
2033-2037		1,346,733	319,187	1,665,920
2038-2042		1,545,381	114,455	1,659,836
Total		5,979,781	2,372,902	8,352,683
Current		(168,585)		
Long-term	$	5,811,196		

(6) Long-term Debt, continued

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. As of June 30, 2017 the District had drawn $4,108,359 of the total loan amount.

(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.

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, 2017, are summarized as follows:

	Miscellaneous Plan		
	Classic	**New Classic**	**PEPRA**
Hire date	Prior to August 14, 2010	On or after 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	7.944%	6.886%	6.500%
Required employer contribution rates	10.808%	7.809%	6.930%

(7) Defined Benefit Pension Plan, continued

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.

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

	Miscellaneous Plan 2017
Contributions – employer	$ 490,718

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 2017
Miscellaneous Plan	$ 3,549,756

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, 2016, 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, 2015, rolled forward to June 30, 2016, 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 proportionate share of the pension liability for the District's Plan as of the June 30, 2015 and 2016, was as follows:

	Miscellaneous
Proportion – June 30, 2015	0.04484%
Proportion – June 30, 2016	0.04102%
Change – Increase (Decrease)	0.00381%

Deferred Pension Outflows (Inflows) of Resources

As of June 30, 2017, the District recognized pension expense of $94,329.

(7) Defined Benefit Pension Plan, continued

Deferred Pension Outflows (Inflows) of Resources, continued

As of the fiscal year ended June 30, 2017, 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	$	490,718	-
Net differences between actual and expected experience		12,706	-
Net changes in assumptions		-	(155,941)
Net differences between projected and actual earnings on plan investments		811,623	-
Net differences between actual contribution and proportionate share of contribution		189,905	-
Net adjustment due to differences in proportions of net pension liability		221,859	-
Total	$	1,726,811	(155,941)

As of June 30 2017, employer pension contributions of $490,718, 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, 2018.

As of June 30, 2017, 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	$	290,435
2019		269,886
2020		301,823
2021		218,008
2022		-
Thereafter		-

(7) Defined Benefit Pension Plan, continued

Actuarial Assumptions

The total pension liability in the June 30, 2016, actuarial valuation report was determined using the following actuarial assumptions:

Valuation Date	June 30, 2015
Measurement Date	June 30, 2016
Actuarial cost method	Entry Age Normal in accordance with the requirements of GASB Statement No. 68
Actuarial assumptions:	
Discount rate	7.65%
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 7.65% 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.

(7) Defined Benefit Pension Plan, continued

Discount Rate, continued

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.

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	51.0%	5.25%	5.71%
Global Fixed Income	20.0	0.99	2.43
Inflation Sensitive	6.0	0.45	3.36
Private Equity	10.0	6.83	6.95
Real Estate	10.0	4.50	5.13
Infrastructure and Forestland	2.0	4.50	5.09
Liquidity	1.0	(0.55)	(1.05)
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, 2017, the discount rate comparison was the following:

	Discount Rate – 1% (6.65%)	Current Discount Rate (7.65%)	Discount Rate + 1% (8.65%)
District's Net Pension Liability	$ 5,098,289	3,549,756	2,269,969

(7) Defined Benefit Pension Plan, continued

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 36 and 37 for the Required Supplementary Schedules.

Payable to the Pension Plan

At June 30, 2017, 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:

		2017
Capital assets:		
Capital assets – not being depreciated	$	6,058,056
Capital assets, net – being depreciated		45,754,527
Current:		
Bonds payable		(235,000)
Loans payable		(284,748)
Non-current:		
Bonds payable		(5,119,031)
Loans payable		(9,803,392)
Total net investment in capital assets	$	36,370,412

(9) Restricted Net Position

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

		2017
Restricted – cash and cash equivalents	$	16,931
Restricted – rate stabilization		250,000
Total restricted net position	$	266,931

(10) Unrestricted Net Position

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

		2017
Non-spendable net position:		
Materials and supplies inventory	$	156,017
Water-in-storage inventory		27,272
Prepaid expenses and other deposits		29,340
Total non-spendable net position		212,629
Spendable net position are designated as follows:		
Unrestricted		2,725,845
Total spendable net position		2,725,845
Total unrestricted net position	$	2,938,474

(11) Adjustment to Net Position

Net Pension Liability – Pension Related Deferrals

In fiscal year 2017, the District determined that certain pension deferred outflows and inflows were calculated following incorrect assumptions. The assumptions followed to calculate the pension deferrals did not correctly take into consideration certain factors as described by the GASB 68 pronouncement. As a result, the District has adjusted net position as follows:

Net position at June 30, 2015, as previously stated	$	34,984,929
Effect of adjustment to pension related deferral:		
Differences between expected and actual experiences		(99,185)
Differences in changes in proportions of net pension liability		732,711
Total adjustment to net position		633,526
Change in net position at June 30, 2016, as previously stated		1,154,668
Net position at June 30, 2016, as restated	$	36,773,123

(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, 2017, was $1,776,044.

(12) Deferred Compensation Savings Plan, continued

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. At June 30, 2017, 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 $150 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 $150 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.

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, 2017, 2016 and 2015. 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, 2017, 2016, and 2015, 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, 2017, that has effective dates that may impact future financial presentations.

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.

(14) Governmental Accounting Standards Board Statements Issued, Not Yet Effective, 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. 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 requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged.

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.

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

Governmental Accounting Standards Board Statement No. 84, continued

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 requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged.

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 requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged.

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 requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged.

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

(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

Events occurring after June 30, 2017, have been evaluated for possible adjustment to the financial statements or disclosure as of January 9, 2018, which is the date the financial statements were available to be issued. The District is not aware of any subsequent events that would require recognition or disclosure in the financial statements.

Required Supplementary Information

Coastside County Water District
District's Proportionate Share of the Net Pension Liability – Last Ten Years*
As of June 30, 2017

Description		Measurement Date 6/30/2016	Measurement Date 6/30/2015	Measurement Date 6/30/2014
District's Proportion of the Net Pension Liability		0.04102%	0.04484%	0.04212%
District's Proportionate Share of the Net Pension Liability	$	3,549,756	3,077,582	2,620,900
District's Covered-Employee Payroll	$	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		188.28%	182.19%	167.73%
District's Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability		69.14%	71.67%	76.34%

Notes:

Changes in Benefit Terms – For the measurement date June 30, 2016, there were no changes in the benefit terms.

Changes of Assumptions – For the measurement date June 30, 2016, there were no changes in the assumptions.

***** 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 three years are shown.

Coastside County Water District
Pension Plan Contributions – Last Ten Years*
As of June 30, 2017

Schedule of Pension Plan Contributions:		Fiscal Year 2016-2017	Fiscal Year 2015-2016	Fiscal Year 2014-2015
Actuarially Determined Contribution	$	489,709	451,848	389,014
Contribution's in Relation to the Actuarially Determined Contribution		(490,718)	(461,241)	(415,861)
Contribution Deficiency (Excess)	$	(1,009)	(9,393)	(26,847)
Covered Payroll	$	1,885,311	1,689,259	1,562,529
Contribution's as a percentage of Covered-employee Payroll		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 three years are shown.

Coastside County Water District
Schedule of Funding Status – Other Post-Employment Benefits Obligation
For the Fiscal Year Ended June 30, 2017

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
January 1, 2015	$ -	2,607,448	2,607,448	0.00%	$ 2,135,603	122.09%

Funding progress is presented for the years that an actuarial study has been prepared since the effective date of GASB Statement 45. Actuarial review and analysis of the post-employment benefits liability and funding status is performed every three years or annually if there are significant changes in the plan.

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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 Audits 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, 2017, and the related notes to the financial statements, which collectively comprises the District's basic financial statements, and have issued our report thereon dated January 9, 2018.

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*.

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
January 9, 2018