Annual Financial Report
with Independent Auditor's Report
June 30, 2019

Montara Water and Sanitary District

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MONTARA WATER AND SANITARY DISTRICT

ELECTED OFFICIALS AND ADMINISTRATIVE PERSONNEL

JUNE 30, 2019

BOARD OF DIRECTORS

Kathryn Slater-Carter – President
Jim Harvey – President Pro Tem
Ric Lohman – Secretary
Eric Marshall – Treasurer
Scott Boyd – Director

GENERAL MANAGER

Clemens Heldmaier

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Montara Water and Sanitary District
Montara, California

Report on the Financial Statements

We have audited the accompanying financial statements of the sewer and water enterprise funds of the Montara Water and Sanitary District (District), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Governmental Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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.

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the sewer and water enterprise funds of the District as of June 30, 2019, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of changes in the net pension liability and related ratios and schedule of pension plan contributions on pages 4 and 32 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 2, 2019 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 the effectiveness of the District's 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.

Eide Bailly LLP

Palo Alto, California
December 2, 2019

Our discussion and analysis of the Montara Water and Sanitary District's (District) financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2019. Please read it in conjunction with the District financial statements and accompanying notes, which follow this section.

HIGHLIGHTS

District Financial Highlights

- District-wide revenues increased $726,100 from the prior year going from $6,640,886 to $7,366,986.
- District-wide expenses decreased $170,065 from the prior year going from $6,239,333 to $6,069,268.
- The effect of the change in revenues and expenses caused the District-wide change in net position to increase $896,165 from the prior year. In other words, the District-wide increase in net position for the year ended June 30, 2019 was $1,297,718.

USING THIS ANNUAL REPORT

This annual report consists of two parts: Management's Discussion and Analysis, and Financial Statements. The Financial Statements also include notes that explain in more detail the information contained in those statements.

Required Financial Statements

District financial statements report information about the District using accounting methods similar to those used by private sector companies. The Statement of Net Position includes all District assets, deferred outflows of resources, liabilities and deferred inflows of resources and provides information about the nature and amounts of investments in resources (assets) and obligations to creditors (liabilities). It also provides the basis for computing 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 revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Position. This statement measures the success of the District operations over the past year and can be used to determine whether the District has successfully recovered all its costs through its user fees and other charges, profitability, and credit worthiness. The final required financial statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about District cash receipts, cash disbursements and changes in cash resulting from operations, investing, and capital and non-capital financing activities. It provides answers to such questions as, "Where did the cash come from?", "For what was the cash used?", and "What was the change in cash balance during the reporting period?"

FINANCIAL ANALYSIS OF THE DISTRICT

One of the most important questions asked about District finances is whether or not the District's overall financial position has improved or deteriorated. The Statement of Net Position and the Statement of Revenues and Expenses and Changes in Net Position report information about District activities in a way that will help answer this question. These two statements report the net position of the District and changes. You can think of District net position, the difference between assets, deferred outflows of resources, liabilities and deferred inflows of resources, as one way to measure financial health or financial position. Over time, increases or decreases in District net position are one indicator of whether its financial health is improving or deteriorating. Other factors to consider include changes in economic conditions, population growth, and new or changed legislation.

Net Position Statement and Analysis

The District's total net position increased from $20,723,668 to $22,021,386 or $1,297,718.

The following is the District's condensed statement of net position:

	Sewer		Water		Total	
	2019	2018	2019	2018	2019	2018
Current assets	$ 5,917,762	$ 7,504,693	$ 2,265,300	$ 2,371,928	$ 8,183,062	$ 9,876,621
Capital assets net of accumulated depreciation	9,813,167	5,062,409	17,655,426	18,183,045	27,468,593	23,245,454
Other assets	32,045	2,715,373	1,766,752	1,744,293	1,798,797	4,459,666
Total assets	15,762,974	15,282,475	21,687,478	22,299,266	37,450,452	37,581,741
Deferred outflows of resources	92,939	101,367	343,304	378,248	436,243	479,615
Total deferred outflow of resources	92,939	101,367	343,304	378,248	436,243	479,615
Current liabilities	802,257	843,972	1,491,389	1,652,788	2,293,646	2,496,760
Long-term liabilities	1,220,395	1,306,035	12,291,418	13,473,233	13,511,813	14,779,268
Total liabilities	2,022,652	2,150,007	13,782,807	15,126,021	15,805,459	17,276,028
Deferred inflows of resources	20,838	21,452	39,012	40,208	59,850	61,660
Total deferred inflow of resources	20,838	21,452	39,012	40,208	59,850	61,660
Net position						
Net investment in capital assets	8,515,933	3,684,084	4,361,427	3,713,180	12,877,360	7,397,264
Restricted for debt service	-	-	1,706,377	1,692,138	1,706,377	1,692,138
Unrestricted	5,296,490	9,528,299	2,141,159	2,105,967	7,437,649	11,634,266
Total net position	$ 13,812,423	$ 13,212,383	$ 8,208,963	$ 7,511,285	$ 22,021,386	$ 20,723,668

Revenues, Expenses and Changes in Net Position

For the fiscal year ended June 30, 2019 the sewer system generated operating revenue of $2,649,208 and operating expenses of $2,861,576 for a net operating loss of $212,368. This is a decrease from prior year's net operating loss of $1,153,647 by $941,279. Whereas operating revenue increased 26.4%, system maintenance and repairs expense decreased by $220,870 or 11.1%. The major factor causing these changes is the decrease in Sewer Authority Mid-Coastside expenses for collections and operations by $199,330 or 11% as the mid-year budget amendment assessment was not as large as in previous fiscal years.

The Sewer Funds non-operating activities revenues, consisting of property taxes, investment income, connection fees, and revenue from the lease of the cell phone tower, experienced an increase of $178,513 mainly due to the sale of additional connections and a higher rate of return for District treasury funds in Local Agency Investment Fund (LAIF).

For the fiscal year ended June 30, 2019 the water system generated operating revenue of $1,924,541 and operating expenses of $2,783,848 for a net operating loss of $859,307. This is an increase from prior year's net operating loss of $500,485 by $358,822. For the fiscal year ended June 30, 2019 operating revenue decreased 1.66% and system maintenance and repairs expense increased by $291,102. Sales of water revenue increased from $1,921,189 to $1,887,421 or $33,768 translating to 2% decrease.

The Water Funds non-operating activities revenues, consisting of property taxes, investment income, connection fees and revenue from the lease of the cell phone tower, experienced an increase of $26,747. The District receives property tax revenue which was imposed specifically for the payment of the General Obligation Bonds approved by the District rate payers.

Connection fees for the Sewer Fund increased from $229,263 to $312,379 or approximately 36.3% whereas the connection fees for the Water Fund increased from $284,556 to $317,186 or approximately 11.5%. These funds are used to off-set capital needs for existing customers. This amount is expected to rise in the upcoming years as the moratorium on connections for residents within the District's service area has been repealed.

The following is the District's condensed statement of revenues, expenses, and changes in net position:

	Sewer		Water		Total	
	2019	2018	2019	2018	2019	2018
Operating revenues	$ 2,649,208	$ 2,095,832	$ 1,924,541	$ 1,957,077	$ 4,573,749	$ 4,052,909
Tax revenues	404,079	367,805	1,587,017	1,594,020	1,991,096	1,961,825
Interest and investment income	99,073	41,070	-	-	99,073	41,070
Connection fees and other non operating revenues	349,131	264,895	353,937	320,187	703,068	585,082
Total revenues	3,501,491	2,769,602	3,865,495	3,871,284	7,366,986	6,640,886
Operating expenses	2,861,576	3,249,479	2,783,848	2,457,562	5,645,424	5,707,041
Non-operating expenses	39,875	163,563	383,969	368,729	423,844	532,292
Total expenses	2,901,451	3,413,042	3,167,817	2,826,291	6,069,268	6,239,333
Change in fund net position	600,040	(643,440)	697,678	1,044,993	1,297,718	401,553
Fund net position - beginning of year	13,212,383	13,855,823	7,511,285	6,466,292	20,723,668	20,322,115
Fund net position - end of year	$ 13,812,423	$ 13,212,383	$ 8,208,963	$ 7,511,285	$ 22,021,386	$ 20,723,668

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2019, the District had $27,468,593 (net of accumulated depreciation) invested in a variety of capital assets.

The assets include: land; capacity rights, sanitary sewer collection system subsurface lines and pump stations; water supply wells; surface water diversion and storage tank; water treatment plant; treated water storage tanks; water distribution system subsurface lines, valves, hydrants, and pumps; administration building; and vehicles. The District's capital assets balance as of June 30, 2019, increased by $1,535,592 or 5.9 % above the prior year. This is due to capitalized expenses in regards to the District's Water facilities plant and other capital improvements reduced by current year depreciation expense.

Major capital assets events during the fiscal year included the following:

- Capital improvements to the water system
- Sewer pipeline replacement

The following summarizes District capital assets for fiscal year ended June 30, 2019:

	Balance June 30, 2018	Additions	Deletions	Balance June 30, 2019
Capital assets not being depreciated				
Land and easement	$ 739,500	$ -	$ -	$ 739,500
Capacity rights	2,687,547	-	-	2,687,547
Total capital assets not being depreciated	3,427,047	-	-	3,427,047
Capital assets being depreciated				
Sewage collection facilities	5,341,536	-	-	5,341,536
Sewage treatment facilities	244,540	-	-	244,540
General plant and administration facilities	3,689,166	2,471,289	-	6,160,455
Seal Cove collection system	995,505	-	-	995,505
Other capital improvements	4,357,566	-	-	4,357,566
Water facilities plant	26,450,034	454,420	-	26,904,454
Water general plant	409,584	-	-	409,584
Surface water rights	300,000	-	-	300,000
Total capital assets being depreciated	41,787,931	2,925,709	-	44,713,640
Accumulated depreciation	19,281,977	1,390,117	-	20,672,094
Net capital assets being depreciated	22,505,954	1,535,592	-	24,041,546
Property, plant and equipment, net	$ 25,933,001	$ 1,535,592	$ -	$ 27,468,593

Additional information on capital assets can be found in notes #1F and #4 to the financial statements of this report.

Long Term Obligations

On April 18, 2012, the District issued General Obligation Bonds Series 2012 in the amount of $15,635,000. The bonds were issued to fully refund the General Obligation Bonds Series 2003 and to finance improvements to the District's water system.

The District entered into a capital lease for approximately $1.8 million in October of 2006, to finance the acquisition of capital assets for the water operations. The financing was originally provided by Citibank at a rate of 4.56% for a 20 year term and is now held by PNC Equipment Finance (PNCEF). Effective March 15, 2013, the District refinanced the capital lease with PNCEF at a rate of 2.95%.

On July 10, 2012, the District entered into an agreement with the State of California Department of Health under the Safe Drinking Water State Revolving Fund Law of 1947. This agreement constitutes funding in the form of a loan and a grant made by the State to the District. The purpose of the funding is to assist in financing the cost of studies, planning and other preliminary activities for a project which will enable the District to meet safe drinking water standards.

The following is a summary of long-term obligations activity for the year:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion	Long-Term Portion
General Obligation Bonds, 2012 Series	$ 10,603,045	$ -	$ 897,915	$ 9,705,130	$ 919,897	$ 8,785,233
2012 GO Bonds Discount	(47,864)	-	(4,884)	(42,980)	(4,886)	(38,094)
PNCEF Lease Obligation	1,187,870	-	104,097	1,083,773	114,407	969,366
CIEDB loan - Direct placement	784,391	-	29,043	755,348	29,929	725,419
SRF Loan - Direct placement	3,508,460	-	249,308	3,259,152	211,524	3,047,628
Totals	$ 16,035,902	$ -	$ 1,275,479	$ 14,760,423	$ 1,270,871	$ 13,489,552

Additional information on the long term obligations can be found in Note #5 of the notes to the financial statements of this report.

ECONOMIC FACTORS, RATES, AND BUDGETARY CONTROL

The District is a California Special District including a sewer and water enterprise fund. As a Special District, charges to customers are made only to those who receive services. The District is not typically subject to general economic conditions such as increases or declines in property tax values or other types of revenues that vary with economic conditions such as sales taxes. However, it does receive property tax which is dependent on property tax valuations. Accordingly, the District sets its rates to its users to cover the costs of operation, maintenance and recurring capital replacement and debt financed capital improvements, plus any increments for known or anticipated changes in program costs.

The District and its Board adopt an annual budget to serve as its approved financial plan. The Board sets all fees and charges required to fund the District's operations and capital programs. The budget is used as a key control device (1) to ensure Board approval for amounts set for operations and capital projects, (2) to monitor expenses and project progress and (3) as compliance that approved spending levels have not been exceeded. All operating activities and capital activities of the District are included within the approved budget. The budget and capital expenditures are within the Gann limits established by State law.

REQUEST FOR INFORMATION

This financial report is designed to provide our customers and creditors with a general over view of District finances, and demonstrate District accountability for the money it receives. If you have any questions about this report, or need additional financial information, contact the General Manager at 8888 Cabrillo Highway, Montara, CA 94037 or (650) 728-3545.

MONTARA WATER AND SANITARY DISTRICT

STATEMENT OF NET POSITION
JUNE 30, 2019

	Sewer	Water	Total
ASSETS			
Current assets:			
Cash and cash equivalents	$ 5,791,963	$ 1,483,085	$ 7,275,048
Accounts receivable	125,567	516,794	642,361
Inventory	-	42,656	42,656
Prepaid items	232	46,652	46,884
Interfund advances - Due from sewer fund	-	176,113	176,113
Total current assets	5,917,762	2,265,300	8,183,062
Non-current assets:			
Capital assets:			
Nondepreciable			
Land and easement	5,000	734,500	739,500
Capacity rights	2,687,547	-	2,687,547
Depreciable, net	7,120,620	16,920,926	24,041,546
Total capital assets	9,813,167	17,655,426	27,468,593
Other assets:			
Restricted cash and cash equivalents	-	1,706,377	1,706,377
Net pension asset	32,045	60,375	92,420
Total other assets	32,045	1,766,752	1,798,797
Total non-current assets	9,845,212	19,422,178	29,267,390
Total assets	15,762,974	21,687,478	37,450,452
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charge on refunding	-	169,190	169,190
Deferred amounts related to pensions	92,939	174,114	267,053
Total deferred outflows of resources	92,939	343,304	436,243

(Continued)

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

MONTARA WATER AND SANITARY DISTRICT

STATEMENT OF NET POSITION (CONTINUED)
JUNE 30, 2019

	Sewer	Water	Total
LIABILITIES			
Current liabilities:			
Accounts payable	489,619	166,969	656,588
Interfund advances - Due to water fund	176,113	-	176,113
Deposits	24,852	17,366	42,218
Accrued expenses	8,332	-	8,332
Interest payable	10,265	98,257	108,522
Other current liabilities	-	9,095	9,095
Accrued compensated absences	5,943	15,964	21,907
Current portion of general obligation bonds and other long-term obligations	87,133	1,183,738	1,270,871
Total current liabilities	802,257	1,491,389	2,293,646
Long term liabilities:			
Accrued compensated absences	10,294	11,967	22,261
General obligation bonds, less current portion	-	8,747,140	8,747,140
Other long term obligations, less current portion	1,210,101	3,532,311	4,742,412
Total long term liabilities	1,220,395	12,291,418	13,511,813
Total liabilities	2,022,652	13,782,807	15,805,459
DEFERRED INFLOWS OF RESOURCES			
Deferred amounts related to pensions	20,838	39,012	59,850
Total deferred inflows of resources	20,838	39,012	59,850
NET POSITION			
Net investments in capital assets	8,515,933	4,361,427	12,877,360
Restricted for debt service	-	1,706,377	1,706,377
Unrestricted	5,296,490	2,141,159	7,437,649
Total net position	$ 13,812,423	$ 8,208,963	$ 22,021,386

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

MONTARA WATER AND SANITARY DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION FOR THE YEAR ENDED JUNE 30, 2019

	Sewer	Water	Total
OPERATING REVENUES			
Sales and service charges	$ 2,649,208	$ 1,924,541	$ 4,573,749
Total operating revenues	2,649,208	1,924,541	4,573,749
OPERATING EXPENSES			
General and administrative	685,478	990,834	1,676,312
System maintenance and repairs	1,768,020	782,426	2,550,446
Depreciation and amortization	408,078	1,010,588	1,418,666
Total operating expenses	2,861,576	2,783,848	5,645,424
OPERATING (LOSS)	(212,368)	(859,307)	(1,071,675)
NONOPERATING REVENUES (EXPENSE)			
Taxes - District share of one percent	404,079	404,078	808,157
Taxes - Ad valorem for general obligation bonds	-	1,182,939	1,182,939
Investment income	99,073	-	99,073
Interest expense	(39,875)	(382,469)	(422,344)
Other revenues	36,752	36,751	73,503
Other expenses	-	(1,500)	(1,500)
Total non-operating revenues (expenses)	500,029	1,239,799	1,739,828
INCOME BEFORE CONTRIBUTIONS	287,661	380,492	668,153
Capital contributions - connection fees	312,379	317,186	629,565
Changes in net position	600,040	697,678	1,297,718
NET POSITION, BEGINNING OF YEAR	13,212,383	7,511,285	20,723,668
TOTAL NET POSITION, END OF YEAR	$ 13,812,423	$ 8,208,963	$ 22,021,386

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

MONTARA WATER AND SANITARY DISTRICT

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2019

	Sewer	Water	Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers and users	$ 2,616,515	$ 1,875,477	$ 4,491,992
Payments to suppliers - other	(1,536,310)	(878,221)	(2,414,531)
Payments to employees	(681,525)	(980,250)	(1,661,775)
Net cash provided by operating activities	398,680	17,006	415,686
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:			
Property taxes collected	404,079	404,078	808,157
Interfund advances	(274,237)	274,237	-
Net cash provided by non-capital financing activities	129,842	678,315	808,157
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Principal paid on long term debt	(81,091)	(1,199,272)	(1,280,363)
Interest paid on long term debt	(40,308)	(368,156)	(408,464)
Acquisition and construction of capital assets	(2,471,289)	(482,969)	(2,954,258)
Connection fees and other non operating revenue collected	349,131	1,535,376	1,884,507
Net cash (used) by capital and related financing activities	(2,243,557)	(515,021)	(2,758,578)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Investment income	99,073	-	99,073
Net cash provided by investing activities	99,073	-	99,073
NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS	(1,615,962)	180,300	(1,435,662)
Cash and equivalents, July 1	7,407,925	3,009,162	10,417,087
Cash and equivalents, June 30	$ 5,791,963	$ 3,189,462	$ 8,981,425
AMOUNTS AS THEY APPEAR ON THE STATEMENT OF NET POSITION:			
Cash and cash equivalents	$ 5,791,963	$ 1,483,085	$ 7,275,048
Restricted cash and cash equivalents	-	1,706,377	1,706,377
	$ 5,791,963	$ 3,189,462	$ 8,981,425

(Continued)

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

MONTARA WATER AND SANITARY DISTRICT

STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2019

	Sewer	Water	Total
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Operating (loss)	$ (212,368)	$ (859,307)	$ (1,071,675)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation and amortization expense	408,078	1,010,588	1,418,666
Accounts and notes receivable	(37,059)	(12,857)	(49,916)
Accounts payable and other current liabilities	227,901	(107,104)	120,797
Deposits and prepaid expenses	2,412	(24,898)	(22,486)
Pension related amounts	7,814	7,006	14,820
Compensated absences	1,902	3,578	5,480
Total adjustments	611,048	876,313	1,487,361
Net cash provided by operating activities	$ 398,680	$ 17,006	$ 415,686

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

NOTE #1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. General

Montara Water and Sanitary District (the District), a governmental entity legally constituted as a special district under California law, is located on the coast in northwestern San Mateo County. The District was formed in 1958 to provide sanitary sewer services and franchise solid waste collection for the unincorporated areas known as Montara and Moss Beach. On May 2003 an agreement to acquire Cal-Am Montara Water District was reached with operations beginning as of August 1, 2003.

B. Basis of Accounting

The District is a proprietary entity; it uses an enterprise fund format to report its activities for financial statement purposes. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprise, where the intent of the governing body is that the costs and expenses, including depreciation, and providing goods or services to the general public on a continuing basis, be financed or recovered primarily through user charges.

An enterprise fund is used to account for activities similar to those in the private sector, where the proper matching of revenues and costs is important and the full accrual basis of accounting is required. With this measurement focus, all assets and all liabilities of the enterprise are recorded on its statement of net position, and under the full accrual basis of accounting, all revenues are recognized when earned and all expenses, including depreciation, are recognized when incurred.

A major fund is a fund whose revenues, expenditures/expenses, assets or liabilities (excluding extraordinary items) are at least 10 percent of corresponding totals for all funds, or that management deems significant.

The District reports the following major Proprietary Funds:

Water Enterprise – This enterprise accounts for the operation, maintenance and capital improvement projects of the water system which is funded by user charges and other fees.

Sewer Enterprise – This enterprise accounts for the operation, maintenance and capital improvement projects of the sewer system. These activities are funded by user charges and other fees.

Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws and regulations of other governments. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

C. Measurement Focus

Enterprise funds are accounted for on a cost of services or *economic resources* measurement focus, which means that all assets and all liabilities associated with their activities are included on their statement of net position. Enterprise fund type operating statements present increases (revenues) and decreases (expenses) in total net position.

NOTE #1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The District distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the District's principal ongoing operations. The principal operating revenues of the District are charges to customers for services. Operating expenses for the District include the cost of goods and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. Investment in the State Investment Pool

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California government code Section 16429 under the oversight of the Treasurer of the State of California and is not registered with the SEC. The fair value of the District's investment in the Pool is reported in the accompanying financial statement 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 is recorded on the amortized cost basis.

E. Inventory

Inventory is held for consumption and is recorded at cost using the first-in-first-out (FIFO) basis.

F. Capital Assets

Capital assets, which include property, plant, and equipment are recorded at historical costs or estimated historical cost, if actual cost is not available. Contributed assets are recorded at estimated fair value on the date of contribution.

The District defines capital assets as assets with an initial, individual cost of $2,500 and an estimated useful life in excess of one year.

Depreciation is computed by the straight-line method based on the estimated useful lives of related asset classifications of 3 to 50 years.

G. Cash Flows Defined

For purpose of the statement of cash flows the District defines cash and cash equivalents to include all cash in deposit accounts, highly liquid investments, investment in LAIF and cash on hand.

H. Accounts Receivable

The District bills its water consumption and sewer usage on a cycle billing method. Cycle billing results in an amount of services rendered but not yet billed at year-end. The District has recorded this revenue by estimating the unbilled amount. The estimate was calculated by using the billing subsequent to the balance sheet date (June 30) and calculating the amount of service provided prior to June 30. This calculated amount is included in accounts receivable.

NOTE #1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The delinquent water and sewer charges for services and facilities furnished by the District's water and sewage system, and all the penalties or delinquent charges accrued thereon shall constitute a lien upon the real property served. The District is allowed to place such charges and fees on the property tax rolls annually as of July 1.

I. Accrued Compensated Absences

The liability for vested vacation pay is calculated and accrued on an annual basis. The amount is computed using current employee accumulated vacation hours at current pay rates.

J. Budgets and Budgetary Accounting

Budgets are prepared on a basis consistent with generally accepted accounting principles. A general budget is adopted annually by the Board of Directors which includes operations, maintenance, and administration.

K. Property Taxes

Secured property taxes attach an enforceable lien on property as of January 1. Taxes are payable in two installments due November 1 and February 1 and become delinquent on December 10 and April 10. Unsecured property taxes, if any, are payable in one installment on or before August 15. The County of San Mateo bills and collects the taxes for the District. Tax revenues are recognized by the District when received. The sewer service charges are included in secured property tax bills.

L. Contract Services

The District contracted out the operation and maintenance of its sewer facilities to the Sewer Authority Mid-Coastside (SAM).

M. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

N. Deferred Outflows and Inflows of Resources

Deferred outflows of resources are a consumption of net position that is applicable to a future reporting period and deferred inflows of resources are in acquisition of net position that is applicable to a future reporting period. A deferred outflow of resources has a positive effect on net position, similar to assets, and a deferred inflows of resources has a negative effect on net position, similar to liabilities. The District has two items that qualify for reporting in as deferred outflows of resources: the deferred outflows related to pension and the deferred charges on debt refunding.

NOTE #1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

O. 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 Plan and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Public Agency Retirement Services (PARS). 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.

P. New Accounting Pronouncements

GASB Statement No. 83 – In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital asset should recognize a liability based on the guidance in this Statement. This Statement also requires disclosure of information about the nature of a government's ARO, 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, or FY 2018/2019. This statement did not have an impact on the District's financial statements.

GASB Statement No. 88 – In April 2018, GASB issued Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. The objective of this Statement is to improve note disclosures related to debt. This Statement requires that all debt disclosures present direct borrowings and direct placements of debt separately from other types of debt. This Statement is effective for reporting periods beginning after June 15, 2018 or FY 2018/2019. The District implemented the provisions of this Statement.

The District is currently evaluating its accounting practices to determine the potential impact on the financial statements for the following GASB Statements:

GASB Statement No. 84 – In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance related to fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018, or FY 2019/2020. The District is evaluating the impact of this Statement on the financial statements.

NOTE #1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

GASB Statement No. 87 – In June 2017, 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 Statement is effective for the reporting periods beginning after December 15, 2019, or FY 2020/2021. The District is evaluating the impact of this Statement on the financial statements.

GASB Statement No. 89 – In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this Statement are to (a) enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (b) to simplify accounting for certain interest costs. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in the financial statements. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019 or FY 2020/2021. The District is evaluating the impact of this Statement on the financial statements.

GASB Statement No. 90 – In August 2018, GASB issued Statement No. 90, *Majority Equity Interest, an amendment of GASB statement No. 14 and No. 60*. The objectives of this Statement is to improve how majority equity interest is reported. The Statement specifies that a majority equity interest in a legally separate organization should be reported as an investment using the equity method if a government's holding of the equity interest meets the definition of an investment and for all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018 or FY 2019/2020. The District is evaluating the impact of this Statement on the financial statements.

GASB Statement No. 91 – In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations.* The objectives of this Statement is to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with commitments extended by issuers, arrangements associated with conduit debt obligations, and related note disclosures by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. The District is evaluating the impact of this Statement on the financial statements.

NOTE #2 - CASH AND INVESTMENTS

A. Cash and Investment Summary

The following is a summary of the cash and investments as of June 30, 2019:

Cash Deposits	$	4,514,797
Investments (Local Agency Investment Fund)		4,466,628
	$	8,981,425

Restricted cash and cash equivalents	$	1,706,377
Unrestricted cash and cash equivalents		7,275,048
	$	8,981,425

B. General Authorizations

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are indicated in the schedules below:

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Maximum Investment In One Issuer
U.S. Agency Obligations	5 years	None	None
U.S. Treasury Securities	5 years	None	None
Banker's Acceptances	180 days	40%	30%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Certificate of Deposit	N/A	30%	None

C. 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 changes in market interest rates. The District manages its exposure to interest rate risk by depositing the majority of its funds with the State Local Agency Investment Fund, which is short term investment.

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuation is provided by the following schedule that shows the distribution of the District's investment by maturity:

Investment Type	Fair Value	Average Maturity
LAIF	$ 4,466,628	173 days

NOTE #2 - CASH AND INVESTMENTS (Continued)

D. 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 measure by the assignment of a rating by a nationally recognized statistical rating organization. Investment in LAIF are not rated on June 30, 2019.

E. Custodial Credit Risk - Deposits

For deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's Investment Policy addresses custodial credit risk, which follows the Government Code. Any uninsured bank balance is collateralized by the pledging financial institutions at 110% of the deposits, in accordance with the State of California Government Code. At June 30, 2019, balances in financial institutions were $4,519,585. Of the balance in financial institutions, $500,000 was covered by federal depository insurance and $4,019,585 was collateralized as required by State law (*Government Code* Section 53630), by the pledging financial institution with assets held in a common pool for the District and other governmental agencies, but not in the name of the District.

Investment in the State Investment Pool – the District is a voluntary participant in the LAIF that is regulated by 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 the 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 is recorded on the amortized cost basis.

NOTE 3 - FAIR VALUE MEASUREMENTS

The District categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value. The following provides a summary of the hierarchy used to measure fair value:

Level 1 - Quoted prices in active markets for identical assets that the District has the ability to access at the measurement date. Level 1 assets may include debt and equity securities that are traded in an active exchange market and that are highly liquid and are actively traded in over-the-counter markets.

Level 2 - Observable inputs other than Level 1 prices such as quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, or other inputs that are observable, such as interest rates and curves observable at commonly quoted intervals, implied volatilities, and credit spreads. For financial reporting purposes, if an asset has a specified term, a Level 2 input is required to be observable for substantially the full term of the asset.

Level 3 - Unobservable inputs should be developed using the best information available under the circumstances, which might include the District's own data. The District should adjust that data if reasonable available information indicates that other market participants would use different data or certain circumstances specific to the District are not available to other market participants.

NOTE 3 - FAIR VALUE MEASUREMENTS (Continued)

Uncategorized - Investments in the Local Agency Investment Funds/State Investment Pools are not measured using the input levels above because the District's transactions are based on a stable net asset value per share. All contributions and redemptions are transacted at $1.00 net asset value per share.

The District's fair value measurements are as follows at June 30, 2019:

		Fair Value Measurement Using			
Investment Type	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Uncategorized
State Investment Pool	$ 4,466,628	$ -	$ -	$ -	$ 4,466,628

NOTE #4 - CAPITAL ASSETS

Changes in capital assets accounts are summarized below:

Water Fund Category	Balance June 30, 2018	Additions	Deletions	Balance June 30, 2019
Capital assets not being depreciated				
Land and easement	$ 734,500	$ -	$ -	$ 734,500
Total capital assets not being depreciated	734,500	-	-	734,500
Capital assets being depreciated				
Water meters	1,058,985	-	-	1,058,985
Water general plant	26,859,860	454,420	-	27,314,280
Other capital assets	48,172	-	-	48,172
Surface water rights	300,000	-	-	300,000
Total capital assets being depreciated	28,267,017	454,420	-	28,721,437
Accumulated depreciation	10,818,472	982,039	-	11,800,511
Net capital assets being depreciated	17,448,545	(527,619)	-	16,920,926
Property, plant and equipment, net	$ 18,183,045	$ (527,619)	$ -	$ 17,655,426

Sewer Fund Category	Balance June 30, 2018	Additions	Deletions	Balance June 30, 2019
Capital assets not being depreciated				
Land	$ 5,000	$ -	$ -	$ 5,000
Capacity rights	2,687,547	-	-	2,687,547
Total capital assets not being depreciated	2,692,547	-	-	2,692,547
Capital assets being depreciated				
Sewage collection facilities	5,340,307	-	-	5,340,307
Sewage treatment facilities	244,540	-	-	244,540
General plant and administration facilities	3,690,153	2,471,289	-	6,161,442
Seal Cove collection system	995,505	-	-	995,505
Other capital improvements	3,250,409	-	-	3,250,409
Total capital assets being depreciated	13,520,914	2,471,289	-	15,992,203
Accumulated depreciation	8,463,505	408,078	-	8,871,583
Net capital assets being depreciated	5,057,409	2,063,211	-	7,120,620
Property, plant and equipment, net	$ 7,749,956	$ 2,063,211	$ -	$ 9,813,167

NOTE #4 - CAPITAL ASSETS, (Continued)

Capacity Rights in Sewer Authority Mid-Coastside

The District has capacity rights in the Sewer Authority Mid-Coastside (SAM), a public entity created February 3, 1976 by a Joint Exercise of Powers Agreement pursuant to the provisions of Title 1, Division 7, and Chapter 5 of the Government code of the State of California. Other joint power members include the City of Half Moon Bay and the Granada Community Services District. The District reports these capacity rights in SAM on cost basis.

Under this agreement, SAM is granted the power of the member agencies to construct, maintain, and operate facilities for the collection, transmission, treatment and disposal of wastewater for the benefit of the lands and inhabitants within their respective boundaries.

Each member agency has the power to appoint two representatives of their own governing body to SAM's Board of Directors. Budgets prepared by SAM are subject to approval by the member agencies and expenditures in excess of the budgeted amounts require unanimous consent and approval of SAM's Board of Directors.

SAM provides sewage collection and treatment services, for which the District pays a monthly fee. The District paid $1,646,680 for these collection and treatment services for the year.

The Sewer Authority Mid-Coastside complete audited financial statements are available at 1000 Cabrillo Hwy N, Half Moon Bay, CA 94019.

NOTE #5 - LONG TERM OBLIGATIONS

Following is a summary of the changes in long term obligations for the year:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion	Long-Term Portion
General Obligation Bonds, 2012 Series	$ 10,603,045	$ -	$ 897,915	$ 9,705,130	$ 919,897	$ 8,785,233
2012 GO Bonds Discount	(47,864)	-	(4,884)	(42,980)	(4,886)	(38,094)
PNCEF Lease Obligation	1,187,870	-	104,097	1,083,773	114,407	969,366
CIEDB loan - Direct placement	784,391	-	29,043	755,348	29,929	725,419
SRF Loan - Direct placement	3,508,460	-	249,308	3,259,152	211,524	3,047,628
Totals	$ 16,035,902	$ -	$ 1,275,479	$ 14,760,423	$ 1,270,871	$ 13,489,552

A. General Obligation Bonds, Series 2012

On April 18, 2012, the District issued General Obligation Bonds Series 2012 in the amount of $15,635,000. The bonds were issued to fully refund the General Obligation Bonds Series 2003, which the District issued for the acquisition and improvements of a domestic water supply, treatment, and fire protection system serving the entire District service area, and to finance improvements to the District's water system. These bonds are payable from the levy of ad valorem taxes on all property within the District. Interest on the bonds is 2.4 percent and is payable on February 1 and August 1 of each year, commencing August 1, 2012.

NOTE #5 - LONG TERM OBLIGATIONS (Continued)

Principal is due bi-annually beginning on August 1, 2012, in amounts ranging from $389,142 to $568,322, with a final payment on August 1, 2028 of $568,322. The bonds maturing on or before August 1, 2017 are not subject to redemption prior to their respective stated maturity dates. Bonds maturing on or after August 1, 2017 are subject to redemption prior to their respective stated maturity dates at the option of the District at the principal amount of the bonds called for redemption, together with interest accrued thereon to the date of redemption, without premium.

Repayment Schedule

Fiscal Year Ending June 30,	Principal	Interest	Total
2020	$ 919,897	$ 230,539	$ 1,150,436
2021	941,825	208,611	1,150,436
2022	965,475	184,961	1,150,436
2023	989,111	161,325	1,150,436
2024	1,013,326	137,110	1,150,436
2025-2029	4,875,496	301,467	5,176,963
Total	$ 9,705,130	$ 1,224,013	$ 10,929,143

B. Capital Lease

On November 7, 2006, the District entered into a lease/purchase agreement with a financial institution in the amount of $1,854,443 at a fixed interest rate of 4.56 percent annually. The agreement matures on October 7, 2026. The agreement was to finance the acquisition, construction and installation of energy conservation capital facilities for the District's water system with the expectation that the cost thereof will be offset through reductions in future energy costs created by the facilities. As security for its obligation under this lease the District has pledged to the Lessor a security interest in the net revenue of both the water and sewer enterprises.

The financing was originally provided by Citibank at a rate of 4.56 percent for a 20-year term and is now held by PNC Equipment Finance (PNCEF). Effective March 15, 2013, the District refinanced the capital lease with PNCEF at a rate of 2.95 percent.

NOTE #5 - LONG TERM OBLIGATIONS (Continued)

Repayment Schedule

Fiscal Year Ending June 30,	Principal		Interest		Total	
2020	$	114,407	$	30,443	$	144,850
2021		125,339		26,921		152,260
2022		136,739		23,071		159,810
2023		148,157		18,883		167,040
2024		160,108		14,352		174,460
2025-2027		399,023		14,389		413,412
Total	$	1,083,773	$	128,059	$	1,211,832

C. CIEDB Loan

On October 1, 2008, the District entered into an enterprise fund installment sale agreement with California Infrastructure and Economic Development Bank (CIEDB) in the amount of $1,010,000. The agreement was to purchase a facility in order to renovate and upgrade two sewer pump stations. The agreement matures on December 3, 2037 with principal amounts due August 1, and interest payments due on February 1 and August 1 of each year. The interest rate is 3.05 percent per annum.

Repayment Schedule:

Fiscal Year Ending June 30,	Principal		Interest		Total	
2020	$	29,929	$	22,582	$	52,511
2021		30,842		21,655		52,497
2022		31,783		20,700		52,483
2023		32,752		19,716		52,468
2024		33,751		18,702		52,453
2025-2029		184,839		77,179		262,018
2030-2034		214,800		46,761		261,561
2035-2038		196,652		12,221		208,873
Total	$	755,348	$	239,516	$	994,864

NOTE #5 - LONG TERM OBLIGATIONS (Continued)

D. State Revolving Fund Loan

On July 10, 2012, the District entered into an agreement with the State of California Department of Health under the Safe Drinking Water State Revolving Fund Law of 1947. This agreement constitutes funding in the form of a loan and a grant made by the State to the District to assist in financing the cost of studies, planning and other preliminary activities for a project which will enable the District to meet safe drinking water standards. Under this agreement, the State will lend the District an amount not to exceed $500,000, payable in five years from the first principal and interest invoice. On November 14, 2012, the District entered into an additional agreement with the State of California Department of Health under the Safe Drinking Water Revolving Fund Law of 1947. This agreement constitutes funding in the form of a loan made by the State to the District to assist in financing the construction of the preliminary activities noted above.

Under this agreement, the State will lend the District an amount not to exceed $2,920,000. The District will make semiannual payments for the principal and any interest amounts due January 1 and July 1 of each year until the loan is repaid in full at an interest rate of 2.09 percent and 2.28 percent, respectively, per annum.

Repayment Schedule:

Fiscal Year Ending June 30,	Principal	Interest	Total
2020	$ 211,522	$ 72,938	$ 284,460
2021	172,495	68,616	241,111
2022	176,456	64,655	241,111
2023	180,509	60,602	241,111
2024	184,654	56,457	241,111
2025-2029	988,867	216,689	1,205,556
2030-2034	1,107,757	97,799	1,205,556
2035	236,892	4,064	240,956
Total	$ 3,259,152	$ 641,820	$ 3,900,972

NOTE #6 - DEFERRED COMPENSATION PLAN

The District's defined contribution, IRS code section 457 pension plan, provides deferred compensation retirement benefits to plan members and beneficiaries. Under this plan participants may defer a portion of their compensation and are not taxed on the deferred portion until it is distributed to them. Distribution may be made only at termination, retirement, death, or in an emergency as defined by the plan. The District has contracted with a third party to provide administration and management of the plan's assets which are to be held for the exclusive benefit of plan participants and their beneficiaries. Since the assets held under this plan are not the District's property and are not subject to claims by general creditors of the District, they have been excluded from these financial statements.

NOTE #7 - DEFINED BENEFIT PLAN

A. Plan Description

The District has adopted, through the Public Agency Retirement Services (PARS), a tax qualified governmental defined benefit plan for the benefit of eligible District employees to provide retirement benefits. PARS is a private agent-multiple employer agency specializing in retirement services. The plan conforms to the requirements of Internal Revenue Code Section 401(a) tax-qualified multiple employer retirement system and therefore is entitled to favorable tax treatment.

Members are eligible to receive benefits under the PARS plan if they:

a) Were a full-time employee of the District on or after July 1, 2015;
b) Are at least sixty-two years of age;
c) Have completed at least five or more years of full-time service with the District;
d) Have applied for benefits under the Plan; and
e) Have terminated employment with the District.

B. Benefits Provided

Members are paid benefits equal to an amount equal to one-twelfth (1/12) of the number of full and partial years of full-time continuous employment with the District completed as of the member's retirement times the member's final pay times 2%. Upon death of a member, the member's monthly allowance will automatically continue to an eligible survivor. No preretirement disability benefits are provided. Pre-retirement death benefits are provided for employees who have at least five years of full-time employment with the District.

Employees who terminate employment or are terminated whether voluntarily, involuntarily, by death, disability or in any other manner prior to completing five (5) years of full-time service with the Employer, will receive one hundred percent (100%) of their Employee contributions made to the Plan plus three percent (3%) interest per annum.

The Plan's provisions and benefits in effect at June 30, 2019, are summarized as follows:

Formula	2% @ 62
Benefit vesting schedule	5 years of service
Benefit payments	monthly for life
Retirement age	62
Required employee contribution rates	7.75%
Required employer contribution rates	6.92%

C. Employees Covered by Benefit Terms

At June 30, 2019, the following employees were covered by the benefit terms for the Plan:

	PARS Plan
Active employees*	7

* Plan is closed to new entrants

NOTE #7 - DEFINED BENEFIT PLAN

D. Contributions

The District contributed the actuarially determined contribution to the PARS plan. For the year ended June 30, 2019, the employer contributions were $46,774.

E. Net Pension Liability

The District's net pension liability for the Plan is measured as the total pension liability, less the pension plan's fiduciary net position. The net pension liability of the Plan is measured as of June 30, 2018, using an annual actuarial valuation as of June 30, 2017. A summary of principal assumptions and methods used to determine the net pension liability is shown below:

Actuarial Assumptions - The total pension liabilities in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions:

	PARS Plan
Valuation Date	June 30, 2017
Measurement Date	June 30, 2018
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount rate	6.5%
Aggregate payroll increases	3.0% (1)
Mortality	Varies by gender and age (2)

(1) Depending on age, service and type of employment.
(2) The underlying mortality assumptions and all other actuarial assumption used in the June 30, 2017 valuation were based on the results of a January 2014 actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can be found on the CalPERS website.

F. Discount Rate

The best estimate for the long-term rate of return of 6.50% is determined by adding expected inflation to expected long-term real returns and reflecting expected volatility and correlation. The table below reflects discount rate development. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

	Target Allocation	Real Rate of Return
Asset Class Component		
Global Equity	73%	4.82%
Fixed Income	20%	1.47%
REITs	2%	3.76%
Cash	5%	0.06%
Assumed Long-Term rate of Inflation	2.75%	
Expected Long-Term Net Rate of Return, Rounded	6.50%	

NOTE #7 - DEFINED BENEFIT PLAN (Continued)

G. Changes in Net Pension Asset (Liability)

The changes in the Net Pension Asset for the Plan is as follows:

	Increase / (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Asset
Balance at July 1, 2018	$ 455,898	$ 535,879	$ 79,981
Changes in the Year			
- Service cost	91,101	-	(91,101)
- Interest	34,674	-	(34,674)
- Contributions - employer	-	45,411	45,411
- Contributions - employee	-	47,075	47,075
- Net investment income	-	45,838	45,838
- Benefit payments including refunds	(27,105)	(27,105)	-
- Administrative expense	-	(110)	(110)
Net changes	98,670	111,109	12,439
Balance at June 30, 2019	$ 554,568	$ 646,988	$ 92,420

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

	Discount Rate		
	1% Decrease (5.50%)	Current Rate (6.50%)	1% Increase (7.50%)
Net pension asset (liability)	$ (35,519)	$ 92,420	$ 192,148

H. Pension Plan Fiduciary Net Position

Detailed information about the plan's fiduciary net position is available in the separately issued PARS financial report.

NOTE #7 - DEFINED BENEFIT PLAN (Continued)

I. Pension Expense (Revenue) and Deferred Outflows/Inflows of Resources Related to Pension

For the year ended June 30, 2019, the District recognized pension expense of $56,924. At June 30, 2019, the District reported deferred outflows and inflows of resources as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 220,279	$ (30,831)
Changes of assumptions	-	(6,055)
Net difference between projected and actual earnings on plan investments	-	(22,964)
Employer contributions made subsequent to the measurement date	46,774	-
	$ 267,053	$ (59,850)

The amount of $46,774 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2020.

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

Year ended June 30,	Deferred Outflows of Resources
2020	$ 15,067
2021	15,068
2022	14,859
2023	20,283
2024	22,060
Thereafter	73,092
	$ 160,429

NOTE #8 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts: theft, damage, and destruction of assets; errors and omissions; injuries to employees and natural disaster. The District joined together with other entities to form the California Sanitation Risk Management Authority (CSRMA), a public entity risk pool currently operating as a common risk management and insurance program for 54-member entities. The purpose of CSRMA is to spread the adverse effects of losses among the member entities and to purchase excess insurance as a group, thereby reducing its cost. The District pays annual premiums to CSRMA for its general, liability, property damage and monthly premiums to State Fund for its workers compensation insurance.

CSRMA is governed by a Board composed of one representative from each member agency. The Board controls the operations of CSRMA including selection of management and approval of operating budgets, independent of any influence by member entities.

The following is a summary of the insurance policies carried by the District as of June 30, 2019:

Type of Coverage	Coverage Limits	
General Liability	$	15,500,000
Workers' Compensation		2,000,000
Boiler and Machinery		100,000,000
Public Officials		100,000
Property		9,026,319

Claims and judgments, including provision for claims incurred but not reported, are recorded when a loss is deemed probable of assertion and the amount of the loss is reasonably determinable. As discussed above, the District has coverage for such claims, but it had retained the risk for the deductible or uninsured portion of these claims.

The District has not exceeded its insurance coverage limits in any of the last three years. Any District liability is included in accrued expenses on the financial statements.

NOTE #9 - COMMITMENTS AND CONTINGENT LIABILITIES

The District has an agreement with Sewer Authority Mid-Coastside (SAM), Granada Community Services District, and City of Half Moon Bay for the purchase of additional plant sewer capacity on an as needed basis. The District may purchase additional capacity in the SAM plant, if such additional capacity is available, at a cost per Equivalent Residential Unit (ERU) in effect. The future price would be an average current cost per ERU charged a property in the City of Half Moon Bay and Granada Community Services District plus accrued interest as stipulated in the agreement. At this time the District needs no additional capacity.

The District is a plaintiff or defendant in a number of lawsuits, which have arisen in the normal course of business. In the opinion of the District, these actions when finally adjudicated will not have a material adverse effect on the financial position of the District.

REQUIRED SUPPLEMENTARY INFORMATION

MONTARA WATER AND SANITARY DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS

PARS Plan
Last 10 Years **
Schedule of Changes in the Net Pension Liability and Related Ratios
During the Measurement Period

Measurement Period	June 30, 2018	June 30, 2017	June 30, 2016
Total Pension Liability			
Service cost	$ 91,101	$ 83,063	$ 80,448
Interest on total pension liability	34,674	30,574	10,064
Difference between expected and actual experience	-	(37,021)	297,568
Changes in assumptions	-	(7,271)	-
Benefit payments, including refunds of employee contributions	(27,105)	(1,527)	-
Net change in total pension liability	98,670	67,818	388,080
Total Pension Liability - beginning	455,898	388,080	-
Total Pension Liability - ending (a)	$ 554,568	$ 455,898	$ 388,080
Plan fiduciary net position			
Contributions - employer	$ 45,411	$ 44,093	$ 37,027
Contributions - employee*	47,075	50,429	344,564
Net investment income	45,838	55,329	6,520
Benefit payments	(27,105)	(1,527)	-
Administartive expense	(110)	(117)	(439)
Net change in plan fiduciary net position	111,109	148,207	387,672
Plan fiduciary net position - beginning	535,879	387,672	-
Plan fiduciary net position - ending (b)	$ 646,988	$ 535,879	$ 387,672
Net pension asset (liability) - ending (a) - (b)	$ 92,420	$ 79,981	$ (408)
Plan fiduciary net position as a percentage of the total pension liability	116.67%	117.54%	99.89%
Covered payroll	$ 680,306	$ 626,786	$ 620,243
Net pension asset (liability) as a percentage of covered employee payroll	13.59%	12.76%	-0.07%

* Measurement Year 2016 - Includes employee purchases of past service contributions of $297,568 in March 2016.
** Measurement year 2016 was the 1st year of the plan.

PARS Plan
Last 10 Years **
Schedule of Plan Contributions

	2019	2018	2017	2016
Actuarially Determined Contribution	$ 46,774	$ 45,862	$ 40,741	$ 40,316
Contribution in relation to the Actuarially Determined Contribution	(46,774)	(45,862)	(40,741)	(40,316)
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -
Covered payroll	$ 675,929	$ 680,306	$ 626,786	$ 620,243
Contributions as a percentage of covered payroll	6.92%	6.74%	6.50%	6.50%

Notes to Schedule

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal
Investments	Highmark's passively managed Capital Appreciation portfolio
Discount rate	6.5%
Payroll increases	Aggregate payroll increase – 3%
Mortality, Withdrawal, Disability and Retirement	The probabilities of retirement and mortality are based on the 1997-2011 CalPERS Experience Study - Mortality projected fully generational with Scale MP2016.

** Measurement year 2016 was the 1st year of the plan.

To the Board of Directors
Montara Water and Sanitary District
Montara, California

We have audited the financial statements of the sewer and water enterprise funds of the Montara Water and Sanitary District (District) for the year ended June 30, 2019. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter. Professional standards also require that we communicate to you the following information related to our audit.

<u>Significant Audit Findings</u>

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Montara Water and Sanitary District are described in Note 1 to the financial statements. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. Some of the more sensitive estimates are the depreciation calculation for which we have evaluated the useful life of various classes of depreciable assets in accordance with Montara Water and Sanitary District's policy and industry practice, and pension related liabilities, deferred inflows and outflows of resources and disclosures based on actuarial valuations of the net pension liability for the District's defined benefit pension plan administered by the Public Agency Retirement Services (PARS). Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were included in Note 8 relating to the District's pension plan administered by PARS. We evaluate the key factors and assumptions used to develop these disclosures in determining that they are reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

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Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 2, 2019.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to Montara Water and Sanitary District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Montara Water and Sanitary District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to management's discussion and analysis, the schedule of changes in the net pension liability and related ratios and schedule of contributions, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Restriction on Use

This information is intended solely for the use of the Board of Directors and management of Montara Water and Sanitary District and is not intended to be, and should not be, used by anyone other than these specified parties.

Eide Bailly LLP

Palo Alto, California
December 2, 2019

Independent Accountant's Report on Agreed-Upon Procedures Applied to Appropriations Limit Schedule
June 30, 2020

Montara Water and Sanitary District

CPAs & BUSINESS ADVISORS

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED UPON PROCEDURES OVER COMPLIANCE WITH THE PROPOSITION 111 2019-2020 APPROPRIATIONS LIMIT INCREMENT

To the Board of Directors
Montara Water and Sanitary District
Montara, California

We have performed the procedures enumerated below to the Appropriations Limit Calculation of the Montara Water and Sanitary District (District) for the fiscal year ended June 30, 2019. These procedures, which were agreed to by the District, were performed solely to assist the District in meeting the requirements of Section 1.5 of Article XIII-B of the California Constitution. The District's management is responsible for the Appropriations Limit calculation. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants.

The sufficiency of the procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures you requested us to perform and our findings are as follows:

A. We obtained the completed worksheets setting forth the calculations necessary to establish the District's appropriations limit and compared the limit and annual adjustment factors included in those worksheets to the limit and annual adjustment factors that were adopted by resolution of the Board of Directors. We also compared the population and inflation options included in the aforementioned worksheets to those that were selected by a recorded vote of the Board of Directors.

   Findings: No exceptions were noted as a result of our procedures.

B. We added last year's limit to the annual adjustment amount and compared the resulting amount to the 2019-2020 appropriations limit.

   Findings: No exceptions were noted as a result of our procedures.

C. We compared the current year information to the worksheets described in No. 1 above.

   Findings: No exceptions were noted as a result of our procedures.

D. We agreed the prior year appropriations limit to the prior year appropriations limit adopted by the Board of Directors.

   Findings: No exceptions were noted as a result of our procedures.

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We were not engaged to and did not perform an examination, the objective of which would be the expression of an opinion on the accompanying Appropriations Limit Worksheet. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you. No procedures have been performed with respect to the determination of the appropriation limit for the base year, as defined by Article XIII-B of the California Constitution.

This report is intended solely for the information and use of the Board of Directors and management of the District and is not intended to be and should not be used by anyone other than those specified parties.

Eide Bailly LLP

Palo Alto, California
December 2, 2019

MONTARA WATER AND SANITARY DISTRICT

APPROPRIATIONS LIMIT SCHEDULE
FOR THE FISCAL YEAR ENDING JUNE 30, 2019

	Amount	Source
A. Appropriations Limit for the Year Ended June 30, 2019	$ 2,294,185	Prior year schedule
B. Calculation Factors:		
1. Population increase percent	1.0040 *	State Department of Finance
2. Inflation increase percent	1.0385	County of San Mateo
3. Total adjustment factor percent	1.0427	B1 x B2
C. Annual Adjustment Increase	97,856	[(B3-1)A)]
D. Other Adjustments:		
Loss responsibility (-)	-	N/A
Transfers to private (-)	-	N/A
Transfers to fees (-)	-	N/A
Assumed responsibility (+)	-	N/A
E. Total Adjustments	97,856	(C+D)
F. Appropriations Limit for the Year Ending June 30, 2020	$ 2,392,041	(A+E)

* Greater of population increase percent for:	
County of San Mateo	1.0040

MONTARA WATER AND SANITARY DISTRICT

NOTES TO APPROPRIATIONS LIMIT SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2019

1. PURPOSE OF AGREED-UPON PROCEDURES

Under Article XIII B of the California Constitution (the Gann Spending Limitations Initiative), California governmental agencies are restricted as to the amount of annual appropriations from proceeds of taxes. Effective for years beginning on or after July 1, 1990, under Section 1.5 of Article XIII B, the annual calculation of the appropriation limit is subject to agreed-upon procedures in connection with the annual audit.

2. METHOD OF CALCULATION

Under Section 10.5 of Article XIII B, for fiscal years beginning on or after July, 1990, the appropriations limit is required to be calculated based on the limit for the fiscal year 1986-1987, adjusted for the inflation and population factors discussed in Notes 3 and 4 below.

3. POPULATION FACTORS

A California governmental agency may adjust its appropriations limit by either the annual percentage change of the jurisdiction's own population or the annual percentage change in population of the county where the jurisdiction is located. The factor adopted by the District for the year 2019-2020 represents the annual percentage change in population for the County of San Mateo.

4. INFLATION FACTORS

A California governmental agency may adjust its appropriations limit by either the annual percentage change in the 4th quarter per capita personal income (which percentage is supplied by the State Department of Finance) or the percentage change in the local assessment roll from the preceding year due to the change of local nonresidential construction. The factor adopted by the District for the year 2019-2020 represents the percentage change in the local assessment roll from the preceding year due to the change of local nonresidential construction.

5. OTHER ADJUSTMENTS

A California government agency may be required to adjust its appropriations limit when certain events occur, such as the transfer of responsibility for municipal services to, or from, another government agency or private entity. The District had no such adjustment for the year ending June 30, 2019.

CPAs & BUSINESS ADVISORS

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

To the Board of Directors
Montara Water and Sanitary District
Montara, 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 Montara Water and Sanitary District (District), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 2, 2019.

Internal Control Over Financial Reporting

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

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Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the 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.

Eide Bailly LLP

Palo Alto, California
December 2, 2019