MONTARA WATER AND SANITARY DISTRICT

ANNUAL FINANCIAL REPORT

JUNE 30, 2018

WITH

INDEPENDENT AUDITORS' REPORT

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MONTARA WATER AND SANITARY DISTRICT

ELECTED OFFICIALS AND ADMINISTRATIVE PERSONNEL

JUNE 30, 2018

BOARD OF DIRECTORS

Scott Boyd
Jim Harvey
Kathryn Slater-Carter
Dwight Wilson
Bill Huber

GENERAL MANAGER

Clemens Heldmaier

VAVRINEK, TRINE, DAY & CO., LLP
Certified Public Accountants

VALUE THE difference

INDEPENDENT AUDITORS' 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, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' 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.

260 Sheridan Ave., Suite 440, Palo Alto, CA 94306 P 650.462.0400 F 650.462.0500 W vtdcpa.com

Opinion

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

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 as listed in the table of contents 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 October 25, 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.

Vavrinek, Trine, Day & Co. LLP

Palo Alto, California
October 25, 2018

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, 2018. 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 $387,954 from the prior year going from $6,252,932 to $6,640,886.
- District-wide expenses increased $1,409,971 from the prior year going from $4,829,362 to $6,239,333.
- The effect of the increase in revenues and expenses caused the District-wide change in net position to decrease $1,022,017 from the prior year. In other words, the District-wide increase in net position for the year ended June 30, 2018 was $401,553.

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 $20,322,115 to $20,723,668 or $401,553.

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

	Sewer		Water		Total	
	2018	2017	2018	2017	2018	2017
Current assets	$ 7,504,693	$ 7,280,424	$ 2,371,928	$ 1,792,440	$ 9,876,621	$ 9,072,864
Capital assets net of						
accumulated depreciation	5,062,409	5,317,814	18,183,045	18,919,883	23,245,454	24,237,697
Other long term assets	2,715,373	2,805,647	1,744,293	1,569,617	4,459,666	4,375,264
Total assets	15,282,475	15,403,885	22,299,266	22,281,940	37,581,741	37,685,825
Deferred outflows of resources	101,367	108,836	378,248	410,768	479,615	519,604
Total deferred outflow of resources	101,367	108,836	378,248	410,768	479,615	519,604
Current liabilities	843,972	245,337	1,652,788	1,404,001	2,496,760	1,649,338
Long-term liabilities	1,306,035	1,411,561	13,473,233	14,822,415	14,779,268	16,233,976
Total liabilities	2,150,007	1,656,898	15,126,021	16,226,416	17,276,028	17,883,314
Deferred inflows of resources	21,452	-	40,208	-	61,660	-
Total deferred inflow of resources	21,452	-	40,208	-	61,660	-
Net position						
Net investment in capital assets	3,684,084	3,864,309	3,713,180	3,306,104	7,397,264	7,170,413
Restricted for debt service	-	-	1,692,138	1,507,544	1,692,138	1,507,544
Unrestricted	9,528,299	9,991,514	2,105,967	1,652,644	11,634,266	11,644,158
Total net position	$ 13,212,383	$ 13,855,823	$ 7,511,285	$ 6,466,292	$ 20,723,668	$ 20,322,115

Revenues, Expenses and Changes in Net Position

For the fiscal year ended June 30, 2018 the sewer system generated operating revenue of $2,095,832 and operating expenses of $3,249,479 for a net operating loss of $1,153,647. This is a decrease from prior year's net operating income of $17,712 by $1,171,359. Whereas operating revenue increased 3.96%, system maintenance and repairs expense increased by $896,564 or 82.1%. The major factor causing these increases is two-fold. Sewer Authority Mid-Coastside expenses for collections & operations increased by $858,659 or 86%. In addition, the District's legal expenses increased by $183,589 or 560%. This increase is due to the District's defense of its JPA position with the Sewer Authority Mid-Coastside as it goes through legal proceedings with the City of Half Moon Bay.

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 $91,460.

For the fiscal year ended June 30, 2018 the water system generated operating revenue of $1,957,077 and operating expenses of $2,457,562 for a net operating loss of $500,485. This is an increase from prior year's net operating loss of $457,014 by $43,471. For the fiscal year ended June 30, 2018 operating revenue increased 7.63% and system maintenance and repairs expense decreased by $7,945. Sales of water revenue increased from $1,768,246 to $1,921,189 or $152,943 translating to an 8.65% increase. This increase is due to the rate increase of 3% as well as an increase in usage amongst District customers. This increase in expense is due to increases in engineering costs associated with water quality engineering line items.

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 $77,866. 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 $175,830 to $229,263 or approximately 30.4% whereas the connection fees for the Water Fund increased from $208,785 to $284,556 or approximately 36.3%. 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	
	2018	2017	2018	2017	2018	2017
Operating revenues	$ 2,095,832	$ 2,016,027	$ 1,957,077	$ 1,818,254	$ 4,052,909	$ 3,834,281
Tax revenues	367,805	340,019	1,594,020	1,593,129	1,961,825	1,933,148
Interest and investment income	41,070	32,034	-	-	41,070	32,034
Connection fees and other non operating revenues	264,895	210,257	320,187	243,212	585,082	453,469
Total revenues	2,769,602	2,598,337	3,871,284	3,654,595	6,640,886	6,252,932
Operating expenses	3,249,479	1,998,315	2,457,562	2,275,268	5,707,041	4,273,583
Non-operating expenses	163,563	157,831	368,729	397,948	532,292	555,779
Total expenses	3,413,042	2,156,146	2,826,291	2,673,216	6,239,333	4,829,362
Change in fund net position	(643,440)	442,191	1,044,993	981,379	401,553	1,423,570
Fund net position - beginning of year	13,855,823	13,413,632	6,466,292	5,484,913	20,322,115	18,898,545
Fund net position - end of year	$ 13,212,383	$ 13,855,823	$ 7,511,285	$ 6,466,292	$ 20,723,668	$ 20,322,115

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2018, the District had $23,245,454 (net of accumulated depreciation) invested in a variety of capital assets.

The assets include: land; 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, 2018, decreased by $992,243 or 4.09 percent below 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, 2018:

Category	Balance June 30, 2017	Additions	Deletions	Transfers	Balance June 30, 2018
Land & easement	$ 739,500	$ -	$ -	$ -	$ 739,500
Sewage collection facilities	5,341,536	-	-	-	5,341,536
Sewage treatment facilities	244,540	-	-	-	244,540
General plant & administration facilities	3,388,815	300,351	-	-	3,689,166
Seal Cove collection system	995,505	-	-	-	995,505
Other capital improvements	4,357,566	-	-	-	4,357,566
Water facilities plant	26,450,034		-	-	26,450,034
Water general plant	174,309	235,275	-	-	409,584
Surface water rights	300,000	-	-	-	300,000
Total	41,991,805	535,626	-	-	42,527,431
Accumulated depreciation	17,754,108	1,527,869	-	-	19,281,977
Property, plant & equipment, net	$ 24,237,697	$ (992,243)	$ -	$ -	$ 23,245,454

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 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.

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	$ 11,479,503	$ -	$ 876,458	$ 10,603,045	$ 897,915	$ 9,705,130
2012 GO Bonds Discount	(52,748)	-	(4,884)	(47,864)	(4,886)	(42,978)
PNCEF Lease Obligation	1,281,860	-	93,990	1,187,870	104,097	1,083,773
CIEDB loan	812,575	-	28,184	784,391	29,043	755,348
SRF Loan	3,752,328	-	243,868	3,508,460	249,309	3,259,151
Totals	$ 17,273,518	$ -	$ 1,237,616	$ 16,035,902	$ 1,275,478	$ 14,760,424

Additional information on the long term obligations can be found in Note #6 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
AS OF JUNE 30, 2018

	Sewer	Water	Total
ASSETS			
Current assets:			
Cash and cash equivalents	$ 7,407,925	$ 1,317,024	$ 8,724,949
Accounts receivable	92,727	503,937	596,664
Inventory	-	42,656	42,656
Prepaid items	4,041	57,961	62,002
Interfund advances - Due from sewer fund	-	450,350	450,350
Total current assets	7,504,693	2,371,928	9,876,621
Non-current assets:			
Capital assets:			
Property, plant and equipment	13,525,914	29,001,517	42,527,431
Less accumulated depreciation	8,463,505	10,818,472	19,281,977
Total capital assets	5,062,409	18,183,045	23,245,454
Other assets:			
Restricted cash and cash equivalents	-	1,692,138	1,692,138
Net pension asset	27,826	52,155	79,981
Investment in joint powers authorities - capacity rights	2,687,547	-	2,687,547
Total other assets	2,715,373	1,744,293	4,459,666
Total non-current assets	7,777,782	19,927,338	27,705,120
Total assets	15,282,475	22,299,266	37,581,741
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charge on refunding	-	187,712	187,712
Deferred amounts related to pensions	101,367	190,536	291,903
Total deferred outflows of resources	101,367	378,248	479,615

(Continued)

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

MONTARA WATER AND SANITARY DISTRICT

STATEMENT OF NET POSITION (CONTINUED)
AS OF JUNE 30, 2018

	Sewer	Water	Total
LIABILITIES			
Current liabilities:			
Accounts payable	261,718	283,168	544,886
Interfund advances - Due to water fund	450,350	-	450,350
Deposits	20,486	53,573	74,059
Accrued expenses	14,095	-	14,095
Interest payable	10,698	107,350	118,048
Accrued compensated absences	5,533	14,311	19,844
Current portion of general obligation bonds and other long-term obligations	81,092	1,194,386	1,275,478
Total current liabilities	843,972	1,652,788	2,496,760
Long term liabilities:			
Accrued compensated absences	8,802	10,042	18,844
General obligation bonds, less current portion	-	9,663,747	9,663,747
Other long term obligations, less current portion	1,297,233	3,799,444	5,096,677
Total long term liabilities	1,306,035	13,473,233	14,779,268
Total liabilities	2,150,007	15,126,021	17,276,028
DEFERRED INFLOWS OF RESOURCES			
Deferred amounts related to pensions	21,452	40,208	61,660
Total deferred inflows of resources	21,452	40,208	61,660
NET POSITION			
Net investments in capital assets	3,684,084	3,713,180	7,397,264
Restricted for debt service	-	1,692,138	1,692,138
Unrestricted	9,528,299	2,105,967	11,634,266
Total net position	$ 13,212,383	$ 7,511,285	$ 20,723,668

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, 2018

	Sewer	Water	Total
OPERATING REVENUES			
Sales and service charges	2,095,832	1,957,077	$ 4,052,909
OPERATING EXPENSES			
General and administrative	704,833	960,435	1,665,268
System maintenance and repairs	1,988,890	491,324	2,480,214
Depreciation and amortization	555,756	1,005,803	1,561,559
Total operating expenses	3,249,479	2,457,562	5,707,041
OPERATING INCOME (LOSS)	(1,153,647)	(500,485)	(1,654,132)
NONOPERATING REVENUES (EXPENSE)			
Taxes - District share of one percent	367,805	367,804	735,609
Taxes - Ad valorem for general obligation bonds	-	1,226,216	1,226,216
Investment income	41,070	-	41,070
Interest expense	(42,218)	(367,329)	(409,547)
Other revenues	35,632	35,631	71,263
Other expenses	(121,345)	(1,400)	(122,745)
Total non-operating revenues (expenses)	280,944	1,260,922	1,541,866
INCOME BEFORE CONTRIBUTIONS AND TRANSFERS	(872,703)	760,437	(112,266)
Capital contributions - connection fees	229,263	284,556	513,819
Changes in net position	(643,440)	1,044,993	401,553
NET POSITION, BEGINNING OF YEAR	13,855,823	6,466,292	20,322,115
TOTAL NET POSITION, END OF YEAR	$ 13,212,383	$ 7,511,285	$ 20,723,668

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, 2018

	Sewer	Water	Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers and users	$ 2,043,867	$ 1,907,594	$ 3,951,461
Payments to suppliers - other	(1,871,932)	(317,823)	(2,189,755)
Payments to employees	(677,918)	(957,278)	(1,635,196)
Net cash provided by operating activities	(505,983)	632,493	126,510
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Property taxes collected	367,805	367,806	735,611
Principal paid on long term debt	(75,180)	(1,167,320)	(1,242,500)
Interest paid on long term debt	(42,634)	(352,794)	(395,428)
Acquisition and construction of capital assets	(300,351)	(235,275)	(535,626)
Interfund advances	568,217	(568,217)	-
Connection fees and other non operating revenue collected	143,550	1,511,311	1,654,861
Net cash provided (used) by capital and related financing activities	661,407	(444,489)	216,918
CASH FLOWS FROM INVESTING ACTIVITIES:			
Investment income	41,070	-	41,070
Net cash provided by investing activities	41,070	-	41,070
NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS	196,494	188,004	384,498
Cash and investments, July 1	7,211,431	2,821,158	10,032,589
Cash and investments, June 30	$ 7,407,925	$ 3,009,162	$ 10,417,087
AMOUNTS AS THEY APPEAR ON THE STATEMENT OF NET POSITION:			
Cash and cash equivalents	$ 7,407,925	$ 1,317,024	$ 8,724,949
Restricted cash and cash equivalents	-	1,692,138	1,692,138
	$ 7,407,925	$ 3,009,162	$ 10,417,087

(Continued)

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

STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2018

	Sewer	Water	Total
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:			
Operating income (loss)	$ (1,153,647)	$ (500,485)	$ (1,654,132)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation and amortization expense	555,756	1,005,803	1,561,559
Accounts and notes receivable	(51,560)	(67,767)	(119,327)
Accounts payable	120,766	169,389	290,155
Deposits and prepaid expenses	(2,152)	22,396	20,244
Pension related amounts	28,779	1,785	30,564
Compensated absences	(3,925)	1,372	(2,553)
Total adjustments	647,664	1,132,978	1,780,642
Net cash provided by operating activities	$ (505,983)	$ 632,493	$ 126,510

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, 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 outflows 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

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

- **GASB Statement No. 75** – In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. The objective of the Statement is to replace the requirements of GASB Statement No. 45. In addition, the Statement requires governments to report a liability on the face of the financial statements for Other Postemployment Benefits (OPEB) provided and requires governments to present more extensive note disclosures and required supplementary information about their OPEB liabilities. The Statement is effective for the periods beginning June 15, 2017, or FY2017-18. This pronouncement does not have an impact on the District.

- **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 the 2018-19 fiscal year. The District is evaluating the effect of this pronouncement.

- **GASB Statement No. 84 –** In January 2017, 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. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018, or the 2019-20 fiscal year. The District is evaluating the effect of this pronouncement.

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

- **GASB Statement No. 87 –** In June 2017, the GASB issued Statement No. 87, *Leases*. The statement establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use another entity's nonfinancial assets ("the underlying asset") in the contract for a period of time in an exchange or exchange like transaction. Examples of nonfinancial assets including buildings, land, vehicles, and equipment. Under this statement, a lessor is required to recognize a lease receivable and deferred inflow of resources, with the exception of certain regulated leases, such as SLOA IV, and a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, thereby enhancing the relevance and consistency of information about governments' leasing activities. The statement is effective for periods beginning after December 15, 2019 or FY2020-21. The District is evaluating the effect of this pronouncement.

- **GASB Statement No. 88 –** In April 2018, the GASB issued statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. The Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. The Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. For notes to financial statements related to debt, the Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. The statement is effective for periods beginning after December 15, 2018 or FY2019-20. The District is evaluating the effect of this pronouncement.

- **GASB Statement No. 89 –** In June 2018, the GASB issued statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. The Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,* which are superseded by this Statement. The Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles. The statement is effective for periods beginning after December 15, 2019 or FY2020-21. The District is evaluating the effect of this pronouncement.

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

- **GASB Statement No. 90 –** In August 2018, GASB issued Statement No. 90, *Majority Equity Interest*, an amendment of GASB statement *No. 14 and No. 61*. 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 statement is effective for periods beginning after December 15, 2018 or FY2019-20. The District is evaluating the effect of this pronouncement.

NOTE #2 - CASH AND INVESTMENTS

A. Cash and Investment Summary

The following is a summary of the cash and investments as of June 30, 2018:

Cash Deposits	$ 6,049,532
Investments (Local Agency Investment Fund)	4,367,555
	10,417,087
Restricted cash and cash equivalents	1,692,138
Unrestricted cash and cash equivalents	8,724,949
	$ 10,417,087

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

NOTE #2 - CASH AND INVESTMENTS (Continued)

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	$ 4,367,555	193 days

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. LAIF doesn't have a credit rating.

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, 2018, balances in financial institutions were $6,077,500. Of the balance in financial institutions, $500,000 was covered by federal depository insurance and $5,577,500 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:

NOTE 3 - FAIR VALUE MEASUREMENTS (Continued)

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.

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, 2018:

		Fair Value Measurement Using			
Investment Type	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Uncategorized
State Investment Pool	$ 4,367,555	$ -	$ -	$ -	$ 4,367,555

NOTE #4 – CAPITAL ASSETS

Changes in capital assets accounts are summarized below:

Category	Balance June 30, 2017	Additions	Deletions	Transfers	Balance June 30, 2018
Land & easement	$ 739,500	$ -	$ -	$ -	$ 739,500
Sewage collection facilities	5,341,536	-	-	-	5,341,536
Sewage treatment facilities	244,540	-	-	-	244,540
General plant & administration facilities	3,388,815	300,351	-	-	3,689,166
Seal Cove collection system	995,505	-	-	-	995,505
Other capital improvements	4,357,566	-	-	-	4,357,566
Water facilities plant	26,450,034	-	-	-	26,450,034
Water general plant	174,309	235,275	-	-	409,584
Surface water rights	300,000	-	-	-	300,000
Total	41,991,805	535,626	-	-	42,527,431
Accumulated depreciation	17,754,108	1,527,869	-	-	19,281,977
Property, plant & equipment, net	$ 24,237,697	$ (992,243)	$ -	$ -	$ 23,245,454

NOTE #5 – INVESTMENT IN JOINT POWER AUTHORITY - CAPACITY RIGHTS

<u>Investment in Sewer Authority Mid-Coastside</u>

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 Sanitary 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 $1,979,517 for these collection and treatment services for the year.

NOTE #5 – INVESTMENT IN JOINT POWER AUTHORITY - CAPACITY RIGHTS (Continued)

Summary details of SAM's financial position and results of operation from the most recent draft of audited financial statement available for the year ended June 30, 2017 are as follows:

Total assets	$	14,984,857
Deferred outflows of resources		808,862
Total liabilities		3,840,628
Deferred inflows of resources		178,377
Net position	$	11,774,714
Total revenues		4,793,589
Total expenses		6,270,607
Decrease in net position	$	(1,477,018)

NOTE #6 - 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	$ 11,479,503	$ -	$ 876,458	$ 10,603,045	$ 897,915	$ 9,705,130
2012 GO Bonds Discount	(52,748)	-	(4,884)	(47,864)	(4,886)	(42,978)
PNCEF Lease Obligation	1,281,860	-	93,990	1,187,870	104,097	1,083,773
CIEDB loan	812,575	-	28,184	784,391	29,043	755,348
SRF Loan	3,752,328	-	243,868	3,508,460	249,309	3,259,151
Totals	$ 17,273,518	$ -	$ 1,237,616	$ 16,035,902	$ 1,275,478	$ 14,760,424

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.

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.

NOTE #6 - LONG TERM OBLIGATIONS (Continued)

Repayment Schedule

Fiscal Year Ending June 30,	Principal	Interest	Total
2019	$ 897,915	$ 252,521	$ 1,150,436
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
2024-2028	5,320,499	431,681	5,752,180
2029	568,323	6,896	575,219
Total	$ 10,603,045	$ 1,476,534	$ 12,079,579

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.

Repayment Schedule

Fiscal Year Ending June 30,	Principal	Interest	Total
2019	$ 104,097	$ 33,653	$ 137,750
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
2024-2027	559,131	28,740	587,871
Total	$ 1,187,870	$ 161,711	$ 1,349,581

NOTE #6 - LONG TERM OBLIGATIONS (Continued)

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
2019	$ 29,043	$ 23,481	$ 52,524
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
2024-2028	179,369	82,733	262,102
2029-2033	208,443	53,216	261,659
2034-2038	242,230	18,914	261,144
Total	$ 784,391	$ 262,997	$ 1,047,388

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.

NOTE #6 - LONG TERM OBLIGATIONS (Continued)

Repayment Schedule:

Fiscal Year Ending June 30,	Principal	Interest	Total
2019	$ 249,309	$ 78,501	$ 327,810
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
2024-2028	966,666	238,890	1,205,556
2029-2033	1,082,887	122,669	1,205,556
2034-2035	468,616	13,450	482,066
Total	$ 3,508,460	$ 720,322	$ 4,228,782

NOTE #7 - 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 #8 – 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.

NOTE #8 – DEFINED BENEFIT PLAN (Continued)

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, 2018, 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	8.25%
Required employer contribution rates	6.50%

C. Employees Covered by Benefit Terms

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

	PARS Plan
Active employees*	7

* Plan is closed to new entrants

D. Contributions

The District contributed the actuarially determined contribution to the PARS plan. For the year ended June 30, 2018, the employer contributions were $45,862.

NOTE #8 – DEFINED BENEFIT PLAN (Continued)

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, 2017, 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, 2017
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		
Equity	75%	4.82%
Fixed Income	20%	1.47%
Cash	5%	0.06%
Long-Term Expected rate of Return	7.01%	
Long-Term Investment Expenses	0.8% - 0.3%	
Long-Term Expected Net Rate of Return	6.21% - 6.71%	
Discount Rate (rounded)	6.50%	

Discount Rate: The discount rate used to measure the total pension liability was 6.50%. The projection of cash flows used to determine the discount rate assumed that contributions will be made based on the current contribution policy. Based on these assumptions, the fiduciary net position was projected to be available to make all projected future benefit payments. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments.

NOTE #8 – DEFINED BENEFIT PLAN (Continued)

G. Changes in Net Pension Liability

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

	Increase / (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balance at July 1, 2017	$ 388,080	$ 387,672	$ 408
Changes in the Year			
- Service cost	83,063	-	83,063
- Interest	30,574	-	30,574
- Difference between expected and actual experience	(37,021)	-	(37,021)
- Changes of assumptions	(7,271)	-	(7,271)
- Contributions - employer	-	44,093	(44,093)
- Contributions - employee	-	50,429	(50,429)
- Net investment income	-	55,329	(55,329)
- Benefit payments including refunds	(1,527)	(1,527)	-
- Administrative expense	-	(117)	117
Net changes	67,818	148,207	(80,389)
Balance at June 30, 2018	$ 455,898	$ 535,879	$ (79,981)

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

	Discount Rate		
	1% Decrease (5.50%)	Current Rate (6.50%)	1% Increase (7.50)%
Net pension liability	$ 22,863	$ (79,981)	$ (159,739)

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 #8 – DEFINED BENEFIT PLAN (Continued)

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

For the year ended June 30, 2018, the District recognized pension expense of $51,952. At June 30, 2018, 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	$ 246,042	$ (33,926)
Changes of assumptions	-	(6,663)
Net difference between projected and actual earnings on plan investments	-	(21,071)
Employer contributions made subsequent to the measurement date	45,862	-
	$ 291,904	$ (61,660)

The amount of $45,862 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, 2019.

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 (Inflows) of Resources
2019	$ 16,844
2020	16,844
2021	16,845
2022	16,636
2023	22,060
Thereafter	95,153
	$ 184,382

NOTE #9 - 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, 2018:

Type of Coverage	Coverage Limits
General Liability	$ 15,500,000
Workers' Compensation	2,000,000
Boiler & Machinery	100,000,000
Public Officials	100,000
Property	8,759,098

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 #10 – COMMITMENTS AND CONTINGENT LIABILITIES

The District has an agreement with Sewer Authority Mid-Coastside (SAM), Granada Sanitary 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 Sanitary 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

Measurement Period	June 30, 2017	June 30, 2016
Total Pension Liability		
Service Cost	$ 83,063	$ 80,448
Interest on total pension liability	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	(1,527)	-
Net change in total pension liability	67,818	388,080
Total Pension Liability - beginning	388,080	-
Total Pension Liability - ending (a)	$ 455,898	$ 388,080
Plan fiduciary net position		
Contributions - employer	$ 44,093	$ 37,027
Contributions - employee*	50,429	344,564
Net investment income	55,329	6,520
Benefit payments	(1,527)	-
Administartive expense	(117)	(439)
Net change in plan fiduciary net position	148,207	387,672
Plan fiduciary net position - beginning	387,672	-
Plan fiduciary net position - ending (b)	$ 535,879	$ 387,672
Net pension liability - ending (a) - (b)	$ (79,981)	$ 408
Plan fiduciary net position as a percentage of the total pension liability	117.54%	99.89%
Covered payroll	$ 626,786	$ 620,243
Net pension liability as a percentage of covered employee payroll	-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 implementation.

MONTARA WATER AND SANITARY DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PLAN CONTRIBUTIONS

PARS Plan
Last 10 Years **
Schedule of Plan Contributions

	2018	2017	2016
Actuarially Determined Contribution	$ 45,862	$ 40,741	$ 40,316
Contribution in relation to the Actuarially Determined Contribution	(45,862)	(40,741)	(40,316)
Contribution Deficiency (Excess)	$ -	$ -	$ -
Covered payroll	$ 680,306	$ 626,786	$ 620,243
Contributions as a percentage of covered payroll	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%
Disability and	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 implementation.