



Annual Financial Report  
for the Year Ended June 30, 2021

# Montara Water and Sanitary District

# MONTARA WATER AND SANITARY DISTRICT

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**MONTARA WATER AND SANITARY DISTRICT**

**ELECTED OFFICIALS AND  
ADMINISTRATIVE PERSONNEL**

**JUNE 30, 2021**

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**BOARD OF DIRECTORS**

Scott Boyd – President  
Jim Harvey – President Pro Tem  
Ric Lohman – Secretary  
Peter Dekker – Treasurer  
Kathryn Slater-Carter – 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, 2021, 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.

## **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, 2021, 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 on pages 4-9, the schedule of changes in the net pension liability and related ratios and schedule of pension plan contributions on pages 35-36 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, 2021 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.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Menlo Park, California  
December 2, 2021

# **MONTARA WATER AND SANITARY DISTRICT**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2021**

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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, 2021. 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 \$1,327,782 from the prior year going from \$7,972,936 to \$9,300,718.
- District-wide expenses increased \$447,192 from the prior year going from \$6,130,604 to \$6,577,796.
- The effect of the change in revenues and expenses caused the District-wide change in net position to increase \$2,722,922 from the prior year. In other words, the District-wide increase in net position for the year ended June 30, 2021 was \$880,590.

### **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?"

# MONTARA WATER AND SANITARY DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2021

### 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 \$23,863,718 to \$26,586,640 or \$2,722,922.

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

	Sewer		Water		Total	
	2021	2020	2021	2020	2021	2020
Current assets	\$ 8,430,851	\$6,657,245	\$ 3,220,176	\$2,456,958	\$ 11,651,027	\$9,114,203
Capital assets net of accumulated depreciation	10,031,759	9,727,425	16,945,089	17,571,043	26,976,848	27,298,468
Other assets	17,981	28,484	1,136,771	1,408,860	1,154,752	1,437,344
Total assets	18,480,591	16,413,154	21,302,036	21,436,861	39,782,627	37,850,015
Deferred outflows of resources	84,583	91,030	188,265	320,865	272,848	411,895
Total deferred outflow of resources	84,583	91,030	188,265	320,865	272,848	411,895
Current liabilities	1,851,074	710,409	1,305,845	1,371,204	3,156,919	2,081,613
Long-term liabilities	1,041,647	1,133,009	9,233,259	11,128,874	10,274,906	12,261,883
Total liabilities	2,892,721	1,843,418	10,539,104	12,500,078	13,431,825	14,343,496
Deferred inflows of resources	11,473	19,149	25,537	35,547	37,010	54,696
Total deferred inflow of resources	11,473	19,149	25,537	35,547	37,010	54,696
Net position						
Net investment in capital assets	8,915,169	8,517,315	6,597,130	5,442,260	15,512,299	13,959,575
Restricted for debt service	-	-	1,096,750	1,355,793	1,096,750	1,355,793
Unrestricted	6,745,811	6,124,302	3,231,780	2,424,048	9,977,591	8,548,350
Total net position	\$ 15,660,980	\$14,641,617	\$ 10,925,660	\$9,222,101	\$ 26,586,640	\$23,863,718

# MONTARA WATER AND SANITARY DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2021

### Revenues, Expenses and Changes in Net Position

For the fiscal year ended June 30, 2021 the sewer system generated operating revenue of \$3,631,412 and operating expenses of \$3,292,003 for a net operating gain of \$339,409. This is an increase from prior year's net operating gain of \$32,042 by \$307,367. Whereas operating revenue increased 16.5%. The major factor causing these changes was the adoption of a sewer service charge rate increase of approximately 9%.

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 a decrease of \$121,504 mainly to a reduction in rate of return for District treasury funds in Local Agency Investment Fund (LAIF).

For the fiscal year ended June 30, 2021 the water system generated operating revenue of \$2,071,690 and operating expenses of \$3,040,351 for a net operating loss of \$968,661. This is an increase from prior year's net operating loss of \$639,322 by \$329,339. For the fiscal year ended June 30, 2021 operating revenue increased 0.08% and system maintenance and repairs expense increased by \$61,604. Sales of water revenue decreased from \$1,970,876 to \$1,950,147 or \$20,729 translating to 1.1% 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 \$933,127. The major reason for the increase is due to the receipt of the Water Reliability Charges applied to customer property taxes. The funds are held separately and utilized for capital improvement projects. 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 decreased from \$280,972 to \$186,647 or approximately 33.6% whereas the connection fees for the Water Fund decreased from \$308,235 to \$249,208 or approximately 33.6%. 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	
	2021	2020	2021	2020	2021	2020
Operating revenues	\$ 3,631,412	\$ 3,116,897	\$ 2,071,690	\$ 2,070,046	\$ 5,703,102	\$ 5,186,943
Tax revenues	455,194	407,337	1,650,581	1,598,968	2,105,775	2,006,305
Interest and investment income	38,726	105,107	-	-	38,726	105,107
Connection fees and other non operating revenues	220,679	323,659	1,232,436	350,922	1,453,115	674,581
Total revenues	4,346,011	3,953,000	4,954,707	4,019,936	9,300,718	7,972,936
Operating expenses	3,292,003	3,084,855	3,040,351	2,709,368	6,332,354	5,794,223
Non-operating expenses	34,645	38,951	210,797	297,430	245,442	336,381
Total expenses	3,326,648	3,123,806	3,251,148	3,006,798	6,577,796	6,130,604
Change in fund net position	1,019,363	829,194	1,703,559	1,013,138	2,722,922	1,842,332
Fund net position - beginning of year	14,641,617	13,812,423	9,222,101	8,208,963	23,863,718	22,021,386
Fund net position - end of year	\$ 15,660,980	\$ 14,641,617	\$ 10,925,660	\$ 9,222,101	\$ 26,586,640	\$ 23,863,718



# MONTARA WATER AND SANITARY DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2021

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### CAPITAL ASSETS AND DEBT ADMINISTRATION

#### Capital Assets

At the end of fiscal year 2021, the District had \$26,976,848 (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, 2021, decreased by \$321,620 or 1.2% 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, 2021:

	Balance June 30, 2020	Additions	Deletions	Balance June 30, 2021
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	<u>3,427,047</u>	<u>-</u>	<u>-</u>	<u>3,427,047</u>
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	6,549,970	790,008	-	7,339,978
Seal Cove collection system	995,505	-	-	995,505
Other capital improvements	4,357,566	-	-	4,357,566
Water facilities plant	27,811,726	400,200	-	28,211,926
Water general plant	409,584	-	-	409,584
Surface water rights	300,000	-	-	300,000
Total capital assets being depreciated	<u>46,009,198</u>	<u>1,190,208</u>	<u>-</u>	<u>47,199,406</u>
Accumulated depreciation	<u>22,137,777</u>	<u>1,511,828</u>	<u>-</u>	<u>23,649,605</u>
Net capital assets being depreciated	<u>23,871,421</u>	<u>(321,620)</u>	<u>-</u>	<u>23,549,801</u>
Property, plant and equipment, net	<u>\$ 27,298,468</u>	<u>\$ (321,620)</u>	<u>\$ -</u>	<u>\$ 26,976,848</u>

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

# MONTARA WATER AND SANITARY DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2021

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### Long Term Obligations

On November 13, 2020, the District issued General Obligation Bonds Series 2020 in the amount of \$7,524,000. The bonds were issued to fully refund the General Obligation Bonds Series 2012 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	\$ 8,785,232	\$ -	\$ 8,785,232	\$ -	\$ -	\$ -
2012 GO Bonds Discount	(38,094)	-	(38,094)	-	-	-
General Obligation Bonds, 2020 Series	-	7,524,000	473,189	7,050,811	905,740	6,145,071
PNCEF Lease Obligation	969,366	-	125,341	844,025	136,739	707,286
CIEDB loan - Direct borrowing	725,429	-	30,843	694,586	31,783	662,803
SRF Loan - Direct borrowing	3,047,628	-	172,501	2,875,127	176,457	2,698,670
Totals	<u>\$ 13,489,561</u>	<u>\$ 7,524,000</u>	<u>\$ 9,549,012</u>	<u>\$ 11,464,549</u>	<u>\$ 1,250,719</u>	<u>\$ 10,213,830</u>

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.

# **MONTARA WATER AND SANITARY DISTRICT**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2021**

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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 overview 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, 2021**

	Sewer	Water	Total
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 8,367,642	\$ 1,635,674	\$ 10,003,316
Accounts receivable	63,209	513,938	577,147
Inventory	-	42,656	42,656
Prepaid items	-	12,447	12,447
Due from sewer fund	-	1,015,461	1,015,461
Total current assets	<u>8,430,851</u>	<u>3,220,176</u>	<u>11,651,027</u>
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	<u>7,339,212</u>	<u>16,210,589</u>	<u>23,549,801</u>
Total capital assets	<u>10,031,759</u>	<u>16,945,089</u>	<u>26,976,848</u>
Other assets:			
Restricted cash and cash equivalents	-	1,096,750	1,096,750
Net pension asset	<u>17,981</u>	<u>40,021</u>	<u>58,002</u>
Total other assets	<u>17,981</u>	<u>1,136,771</u>	<u>1,154,752</u>
Total non-current assets	<u>10,049,740</u>	<u>18,081,860</u>	<u>28,131,600</u>
Total assets	<u>18,480,591</u>	<u>21,302,036</u>	<u>39,782,627</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred amounts related to pensions	<u>84,583</u>	<u>188,265</u>	<u>272,848</u>
Total deferred outflows of resources	<u>84,583</u>	<u>188,265</u>	<u>272,848</u>

*(Continued)*

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

# MONTARA WATER AND SANITARY DISTRICT

## STATEMENT OF NET POSITION JUNE 30, 2021

	Sewer	Water	Total
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	704,298	71,217	775,515
Due to water fund	1,015,461	-	1,015,461
Deposits	14,377	4,071	18,448
Interest payable	7,446	34,010	41,456
Other current liabilities	-	26,968	26,968
Accrued compensated absences	9,339	19,013	28,352
Current portion of general obligation bonds and other long-term obligations	100,153	1,150,566	1,250,719
Total current liabilities	<u>1,851,074</u>	<u>1,305,845</u>	<u>3,156,919</u>
Long term liabilities:			
Accrued compensated absences	25,210	35,866	61,076
General obligation bonds, less current portion	-	6,145,071	6,145,071
Other long term obligations, less current portion	1,016,437	3,052,322	4,068,759
Total long term liabilities	<u>1,041,647</u>	<u>9,233,259</u>	<u>10,274,906</u>
Total liabilities	<u>2,892,721</u>	<u>10,539,104</u>	<u>13,431,825</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred amounts related to pensions	11,473	25,537	37,010
Total deferred inflows of resources	<u>11,473</u>	<u>25,537</u>	<u>37,010</u>
<b>NET POSITION</b>			
Net investments in capital assets	8,915,169	6,597,130	15,512,299
Restricted for debt service	-	1,096,750	1,096,750
Unrestricted	6,745,811	3,231,780	9,977,591
Total net position	<u>\$ 15,660,980</u>	<u>\$ 10,925,660</u>	<u>\$ 26,586,640</u>

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, 2021**

	Sewer	Water	Total
<b>OPERATING REVENUES</b>			
Sales and service charges	\$ 3,631,412	\$ 2,071,690	\$ 5,703,102
Total operating revenues	3,631,412	2,071,690	5,703,102
<b>OPERATING EXPENSES</b>			
General and administrative	855,856	1,353,047	2,208,903
System maintenance and repairs	1,950,473	431,262	2,381,735
Depreciation and amortization	485,674	1,256,042	1,741,716
Total operating expenses	3,292,003	3,040,351	6,332,354
OPERATING Income (LOSS)	339,409	(968,661)	(629,252)
<b>NONOPERATING REVENUES (EXPENSE)</b>			
Taxes - District share of one percent	455,194	455,194	910,388
Taxes - Ad valorem for general obligation bonds	-	1,195,387	1,195,387
Investment income	38,726	-	38,726
Interest expense	(34,645)	(210,797)	(245,442)
Other revenues	34,032	983,228	1,017,260
Total non-operating revenues (expenses)	493,307	2,423,012	2,916,319
<b>INCOME BEFORE CONTRIBUTIONS</b>	832,716	1,454,351	2,287,067
Capital contributions - connection fees	186,647	249,208	435,855
Changes in net position	1,019,363	1,703,559	2,722,922
<b>NET POSITION, BEGINNING OF YEAR</b>	14,641,617	9,222,101	23,863,718
<b>TOTAL NET POSITION, END OF YEAR</b>	<u>\$ 15,660,980</u>	<u>\$ 10,925,660</u>	<u>\$ 26,586,640</u>

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, 2021

	Sewer	Water	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Receipts from customers and users	\$ 3,745,515	\$ 2,160,247	\$ 5,905,762
Payments to suppliers - other	(1,530,272)	(370,027)	(1,900,299)
Payments to employees	(846,015)	(1,354,109)	(2,200,124)
Net cash provided by operating activities	<u>1,369,228</u>	<u>436,111</u>	<u>1,805,339</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:</b>			
Property taxes collected	455,194	455,194	910,388
Interfund advances	718,216	(718,216)	-
Net cash used for non-capital financing activities	<u>1,173,410</u>	<u>(263,022)</u>	<u>910,388</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>			
Principal paid on long term debt	(93,520)	(9,493,586)	(9,587,106)
Proceeds from long term debt	-	7,524,000	7,524,000
Interest paid on long term debt	(34,448)	(77,449)	(111,897)
Interest paid on long term debt	-	(229,888)	(229,888)
Acquisition and construction of capital assets	(790,008)	(400,200)	(1,190,208)
Connection fees and other non operating revenue collected	220,679	2,427,823	2,648,502
Net cash used for capital and related financing activities	<u>(697,297)</u>	<u>(249,300)</u>	<u>(946,597)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Investment income	38,726	-	38,726
Net cash provided by investing activities	<u>38,726</u>	<u>-</u>	<u>38,726</u>
<b>NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS</b>	<b>1,884,067</b>	<b>(76,211)</b>	<b>1,807,856</b>
Cash and equivalents, July 1	6,483,575	2,808,635	9,292,210
Cash and equivalents, June 30	<u>\$ 8,367,642</u>	<u>\$ 2,732,424</u>	<u>\$ 11,100,066</u>
<b>AMOUNTS AS THEY APPEAR ON THE STATEMENT OF NET POSITION:</b>			
Cash and cash equivalents	\$ 8,367,642	\$ 1,635,674	\$ 10,003,316
Restricted cash and cash equivalents	-	1,096,750	1,096,750
	<u>\$ 8,367,642</u>	<u>\$ 2,732,424</u>	<u>\$ 11,100,066</u>

*(Continued)*

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, 2021

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	<u>Sewer</u>	<u>Water</u>	<u>Total</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Operating (loss)	\$ 339,409	\$ (968,661)	\$ (629,252)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation and amortization expense	485,674	1,256,042	1,741,716
Pension related amounts	(1,229)	(15,032)	(16,261)
Change in assets and liabilities:			
Accounts and notes receivable	114,672	88,789	203,461
Accounts payable and other current liabilities	413,909	12,194	426,103
Deposits and prepaid expenses	5,723	48,809	54,532
Compensated absences	11,070	13,970	25,040
Total adjustments	<u>1,029,819</u>	<u>1,404,772</u>	<u>2,434,591</u>
Net cash provided by operating activities	<u>\$ 1,369,228</u>	<u>\$ 436,111</u>	<u>\$ 1,805,339</u>

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



# MONTARA WATER AND SANITARY DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021

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### **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.

# MONTARA WATER AND SANITARY DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021

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### 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.

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 acquisition cost 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.

# MONTARA WATER AND SANITARY DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021

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### 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.

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.

# MONTARA WATER AND SANITARY DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2021

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### 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.

### 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 Principles from the Governmental Accounting Standards Board (GASB)

**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 provisions of this Statement have been implemented as of June 30, 2021 and did not have a material impact on the financial statements.

**GASB Statement No. 90** – In September 2018, the GASB issued Statement No. 90, Majority Equity Interests, An Amendment of GASB Statements No. 14 and No. 61. The objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. The provisions of this Statement have been implemented as of June 30, 2021 and did not have a material impact on the financial statements.

# MONTARA WATER AND SANITARY DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021

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### Q. New Accounting Pronouncements – Effective in Future Fiscal Years

**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; enhancing the comparability of financial statements between governments; and also enhancing the relevance, reliability (representational faithfulness), and consistency of information about the leasing activities of governments. This Statement is effective for reporting periods beginning after June 15, 2021, or fiscal year 2021-22. The District is evaluating the impact of this Statement on the financial statements.

**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 objectives of this Statement are (a) to 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 is effective for reporting periods beginning after December 15, 2020, or fiscal year 2021-22. The District is evaluating the impact of this Statement on the financial statements.

**GASB Statement No. 91** – In May 2019, the GASB issued Statement No. 91, *Conduit Debt Obligations*. The objective of this Statement is to provide a single method of reporting conduit debt obligations by issues and eliminate diversity in practice. The Statement is effective for reporting periods beginning after December 15, 2021, or fiscal year 2022-23. The District is evaluating the impact of this Statement on the financial statements.

**GASB Statement No. 92** – In January 2020, the GASB issued Statement No. 92, *Omnibus 2020*. The objectives of this Statement are to enhance comparability in accounting and financial reporting to improve the consistency of authoritative literature by addressing practices issues that have been identified during implementation and application of certain GASB Statements. The Statement is effective for reporting periods beginning after June 15, 2021, or fiscal year 2021-22. The District is evaluating the impact of this Statement on the financial statements.

**GASB Statement No. 93**– In March 2020, the GASB issued Statement No. 93, *Replacement of Interbank Offered Rates*. The objective of this Statement is to address the accounting and financial reporting implications that result from the replacement of an IBOR. The Statement is effective for reporting periods beginning after June 15, 2021, or fiscal year 2021-22. The District is evaluating the impact of this Statement on the financial statements.

**GASB Statement No. 94**– In March 2020, the GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The objective of this Statement is improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). The Statement is effective for reporting periods beginning after June 15, 2022, or fiscal year 2022-23. The District is evaluating the impact of this Statement on the financial statements.

# MONTARA WATER AND SANITARY DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2021

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**GASB Statement No. 96**– In May 2020, the GASB issued Statement No. 96, *Subscription-based Information Technology Arrangements*. The objective of this Statement is to provide guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). The Statement is effective for reporting periods beginning after June 15, 2022, or fiscal year 2022-23. The District is evaluating the impact of this Statement on the financial statements.

**GASB Statement No. 97**– In June 2020, the GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting For Internal Revenue Code Section 457 Deferred Compensation Plans – An Amendment of GASB Statement No.14 and No.84 and A Supersession of GASB Statement No.32*. The objective of this Statement is (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. The Statement is effective for reporting periods beginning after June 15, 2021, fiscal year 2021-22. 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, 2021:

Cash Deposits	\$ 6,489,605
Investments (Local Agency Investment Fund)	4,610,461
	<u>\$ 11,100,066</u>
Restricted cash and cash equivalents	\$ 1,096,750
Unrestricted cash and cash equivalents	10,003,316
	<u>\$ 11,100,066</u>

**MONTARA WATER AND SANITARY DISTRICT**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2021**

**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	\$ 4,610,461	291

# MONTARA WATER AND SANITARY DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021

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### 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, 2021.

### 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, 2021, balances in financial institutions were \$6,827,795. Of the balance in financial institutions, \$503,914 was covered by federal depository insurance and \$6,323,881 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.



**MONTARA WATER AND SANITARY DISTRICT**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2021**

**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.

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, 2021:

Investment Type	Fair Value Measurement Using				Uncategorized
	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	
State Investment Pool	\$ 4,610,461	\$ -	\$ -	\$ -	\$ 4,610,461

**MONTARA WATER AND SANITARY DISTRICT**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2021**

**NOTE #4 - CAPITAL ASSETS**

Changes in capital assets accounts are summarized below:

<b>Water Fund</b>	Balance			Balance
Category	June 30, 2020	Additions	Deletions	June 30, 2021
Capital assets not being depreciated				
Land and easement	\$ 734,500	\$ -	\$ -	\$ 734,500
Total capital assets not being depreciated	<u>734,500</u>	<u>-</u>	<u>-</u>	<u>734,500</u>
Capital assets being depreciated				
Water meters	1,058,985	-	-	1,058,985
Water general plant	28,221,310	400,200	-	28,621,510
Other capital assets	48,172	-	-	48,172
Surface water rights	300,000	-	-	300,000
Total capital assets being depreciated	<u>29,628,467</u>	<u>400,200</u>	<u>-</u>	<u>30,028,667</u>
Accumulated depreciation	<u>12,791,924</u>	<u>1,026,154</u>	<u>-</u>	<u>13,818,078</u>
Net capital assets being depreciated	<u>16,836,543</u>	<u>(625,954)</u>	<u>-</u>	<u>16,210,589</u>
Property, plant and equipment, net	<u>\$ 17,571,043</u>	<u>\$ (625,954)</u>	<u>\$ -</u>	<u>\$ 16,945,089</u>
	Balance			Balance
<b>Sewer Fund</b>	June 30, 2020	Additions	Deletions	June 30, 2021
Capital assets not being depreciated				
Land	\$ 5,000	\$ -	\$ -	\$ 5,000
Capacity rights	2,687,547	-	-	2,687,547
Total capital assets not being depreciated	<u>2,692,547</u>	<u>-</u>	<u>-</u>	<u>2,692,547</u>
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	6,549,970	790,008	-	7,339,978
Seal Cove collection system	995,505	-	-	995,505
Other capital improvements	3,250,409	-	-	3,250,409
Total capital assets being depreciated	<u>16,380,731</u>	<u>790,008</u>	<u>-</u>	<u>17,170,739</u>
Accumulated depreciation	<u>9,345,853</u>	<u>485,674</u>	<u>-</u>	<u>9,831,527</u>
Net capital assets being depreciated	<u>7,034,878</u>	<u>304,334</u>	<u>-</u>	<u>7,339,212</u>
Property, plant and equipment, net	<u>\$ 9,727,425</u>	<u>\$ 304,334</u>	<u>\$ -</u>	<u>\$ 10,031,759</u>

# MONTARA WATER AND SANITARY DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2021

### 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 \$1,866,454 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	\$ 8,785,232	\$ -	\$ 8,785,232	\$ -	\$ -	\$ -
2012 GO Bonds Discount	(38,094)	-	(38,094)	-	-	-
General Obligation Bonds, 2020 Series	-	7,524,000	473,189	7,050,811	905,740	6,145,071
PNCEF Lease Obligation	969,366	-	125,341	844,025	136,739	707,286
CIEDB loan - Direct borrowing	725,429	-	30,843	694,586	31,783	662,803
SRF Loan - Direct borrowing	3,047,628	-	172,501	2,875,127	176,457	2,698,670
Totals	<u>\$ 13,489,561</u>	<u>\$ 7,524,000</u>	<u>\$ 9,549,012</u>	<u>\$ 11,464,549</u>	<u>\$ 1,250,719</u>	<u>\$ 10,213,830</u>

#### A. General Obligation Bonds, Series 2020

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. The Bonds were fully refunded by the General Obligation Bonds Series 2020 on November 13, 2020.

**MONTARA WATER AND SANITARY DISTRICT**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2021**

**B. General Obligation Bonds, Series 2020**

On November 13, 2020, the District issued General Obligation Bonds Series 2020 in the amount of \$7,524,000. The bonds were issued to fully refund the General Obligation Bonds Series 2012, 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. The District therefore recognized an economic gain of \$360,600 and future cash saving of \$419,027. These bonds are payable from the levy of ad valorem taxes on all property within the District. Interest on the bonds is 1.4 percent and is payable on February 1 and August 1 of each year, commencing February 1, 2021.

Principal is due semi-annually beginning on February 1, 2021, in amounts ranging from \$473,189 to \$488,986, with a final payment on August 1, 2028 of \$488,986.

Repayment Schedule

Fiscal Year Ending June 30,	Principal	Interest	Total
2022	\$ 905,740	\$ 77,805	\$ 983,545
2023	916,095	67,450	983,545
2024	926,568	56,977	983,545
2025	937,161	46,384	983,545
2026	947,876	35,670	983,546
2027-2029	2,417,371	41,494	2,458,865
Total	<u>\$ 7,050,811</u>	<u>\$ 325,780</u>	<u>\$ 7,376,591</u>

**C. 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.

**MONTARA WATER AND SANITARY DISTRICT**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2021**

Repayment Schedule

Fiscal Year Ending June 30,	Principal	Interest	Total
2022	\$ 136,739	\$ 23,071	\$ 159,810
2023	148,157	18,883	167,040
2024	160,108	14,352	174,460
2025	167,593	9,522	177,115
2026	172,794	4,506	177,300
2027	58,634	361	58,995
Total	<u>\$ 844,025</u>	<u>\$ 70,695</u>	<u>\$ 914,720</u>

D. 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
2022	\$ 31,783	\$ 20,700	\$ 52,483
2023	32,752	19,716	52,468
2024	33,751	18,702	52,453
2025	34,781	17,656	52,437
2026	35,841	16,579	52,420
2027-2031	196,287	65,557	261,844
2032-2036	228,103	33,256	261,359
2037-2038	101,288	3,112	104,400
Total	<u>\$ 694,586</u>	<u>\$ 195,278</u>	<u>\$ 889,864</u>

# MONTARA WATER AND SANITARY DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021

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### E. 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
2022	\$ 176,457	\$ 64,655	\$ 241,112
2023	180,509	60,602	241,111
2024	184,654	56,457	241,111
2025	188,895	52,216	241,111
2026	193,234	47,878	241,112
2027-2031	1,034,810	170,746	1,205,556
2032-2035	916,568	47,712	964,280
Total	<u>\$ 2,875,127</u>	<u>\$ 500,266</u>	<u>\$ 3,375,393</u>

### **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.

# MONTARA WATER AND SANITARY DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2021

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### **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, 2021, 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	7.01%

**MONTARA WATER AND SANITARY DISTRICT**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2021**

C. Employees Covered by Benefit Terms

At June 30, 2021, the following employees were covered by the benefit terms for the Plan:

	<u>PARS Plan</u>
Inactive employees or beneficiaries currently receiving benefits	2
Inactive employees entitled to but not yet receiving benefits	-
Active employees*	8
Total	<u>10</u>

\* 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, 2021, the employer contributions were \$67,434.

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, 2020, using an annual actuarial valuation as of June 30, 2019. 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, 2020 actuarial valuation was determined using the following actuarial assumptions:

	<u>PARS Plan</u>
Valuation Date	June 30, 2019
Measurement Date	June 30, 2020
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount rate	6.5%
Aggregate payroll increases	3.0% <sup>(1)</sup>
Mortality	Varies by gender and age <sup>(2)</sup>

<sup>(1)</sup> Depending on age, service and type of employment.

<sup>(2)</sup> The underlying mortality assumptions and all other actuarial assumption used in the June 30, 2019 valuation were based on the results of a January 2017 actuarial experience study for the period 1997 to 2015. Further details of the Experience Study can be found on the CalPERS website.



# MONTARA WATER AND SANITARY DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2021

### 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.

Asset Class Component	Target Allocation	Real Rate of Return
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%

### G. Changes in Net Pension Asset

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, 2020	\$ 685,502	\$ 767,053	\$ 81,551
Changes in the Year			
- Service cost	89,637	-	(89,637)
- Interest	49,961	-	(49,961)
- Contributions - employer	-	61,266	61,266
- Contributions - employee	-	48,981	48,981
- Net investment income	-	16,099	16,099
- Benefit payments including refunds	(13,026)	(13,026)	-
- Administrative expense	-	(10,297)	(10,297)
Net changes	126,572	103,023	(23,549)
Balance at June 30, 2021	\$ 812,074	\$ 870,076	\$ 58,002

**MONTARA WATER AND SANITARY DISTRICT**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2021**

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)	\$ 121,541	\$ 58,002	\$ (198,647)

H. Pension Plan Fiduciary Net Position

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

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

For the year ended June 30, 2021, the District recognized pension expense of \$51,865. At June 30, 2021, 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	\$ 168,753	\$ (32,171)
Changes of assumptions	14,323	(4,839)
Net difference between projected and actual earnings on plan investments	22,338	-
Employer contributions made subsequent to the measurement date	67,434	-
	<u>\$ 272,848</u>	<u>\$ (37,010)</u>

The amount of \$67,434 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, 2022.

**MONTARA WATER AND SANITARY DISTRICT**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2021**

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
2022	\$ 23,532
2023	28,956
2024	30,733
2025	30,049
2026	22,733
Thereafter	32,401
	<u>\$ 168,404</u>

**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, 2021:

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	13,336,547

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.

# **MONTARA WATER AND SANITARY DISTRICT**

## **NOTES TO THE FINANCIAL STATEMENTS**

**JUNE 30, 2021**

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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**

Fiscal Year	June 30, 2021	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017
Measurement Date	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016
<b>Total Pension Liability</b>					
Service cost	\$ 89,637	\$ 93,834	\$ 91,101	\$ 83,063	\$ 80,448
Interest on total pension liability	49,961	41,731	34,674	30,574	10,064
Difference between expected and actual experience	-	(9,020)	-	(37,021)	297,568
Changes in assumptions	-	17,159	-	(7,271)	-
Benefit payments, including refunds of employee contributions	(13,026)	(12,770)	(27,105)	(1,527)	-
<b>Net change in total pension liability</b>	126,572	130,934	98,670	67,818	388,080
<b>Total Pension Liability - beginning</b>	685,502	554,568	455,898	388,080	-
<b>Total Pension Liability - ending (a)</b>	<u>\$ 812,074</u>	<u>\$ 685,502</u>	<u>\$ 554,568</u>	<u>\$ 455,898</u>	<u>\$ 388,080</u>
<b>Plan fiduciary net position</b>					
Contributions - employer	\$ 61,266	\$ 46,775	\$ 45,411	\$ 44,093	\$ 37,027
Contributions - employee*	48,981	44,969	47,075	50,429	344,564
Net investment income	16,099	41,201	45,838	55,329	6,520
Benefit payments	(13,026)	(12,770)	(27,105)	(1,527)	-
Administrative expense	(10,297)	(110)	(110)	(117)	(439)
<b>Net change in plan fiduciary net position</b>	103,023	120,065	111,109	148,207	387,672
<b>Plan fiduciary net position - beginning</b>	767,053	646,988	535,879	387,672	-
<b>Plan fiduciary net position - ending (b)</b>	<u>\$ 870,076</u>	<u>\$ 767,053</u>	<u>\$ 646,988</u>	<u>\$ 535,879</u>	<u>\$ 387,672</u>
Net pension asset (liability) - ending (a) - (b)	<u>\$ 58,002</u>	<u>\$ 81,551</u>	<u>\$ 92,420</u>	<u>\$ 79,981</u>	<u>\$ (408)</u>
Plan fiduciary net position as a percentage of the total pension liability	107.14%	111.90%	116.67%	117.54%	99.89%
Covered payroll	\$ 736,554	\$ 675,929	\$ 680,306	\$ 626,786	\$ 620,243
Net pension asset (liability) as a percentage of covered employee payroll	7.87%	12.07%	13.59%	12.76%	-0.07%

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

**REQUIRED SUPPLEMENTARY INFORMATION**

**PARS Plan  
Last 10 Years \*\*  
Schedule of Plan Contributions**

	2021	2020	2019	2018	2017	2016
<b>Actuarially Determined Contribution</b>	\$ 67,434	\$ 50,970	\$ 46,774	\$ 45,862	\$ 40,741	\$ 40,316
Contribution in relation to the Actuarially Determined Contribution	(67,434)	(50,970)	(46,774)	(45,862)	(40,741)	(40,316)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 825,421	\$ 736,554	\$ 675,929	\$ 680,306	\$ 626,786	\$ 620,243
Contributions as a percentage of covered payroll	8.17%	6.92%	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% annually
Mortality, Withdrawal, Disability and Retirement	The probabilities of retirement and mortality are based on the 1997-2015 CalPERS Experience Study - Mortality projected fully generational with Scale MP-2019.

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