

**MONTARA WATER AND  
SANITARY DISTRICT**

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**ANNUAL FINANCIAL REPORT**

**JUNE 30, 2015**

**WITH**

**INDEPENDENT AUDITORS' REPORT**

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# MONTARA WATER AND SANITARY DISTRICT

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**MONTARA WATER AND SANITARY DISTRICT**

**ELECTED OFFICIALS AND  
ADMINISTRATIVE PERSONNEL**

**JUNE 30, 2015**

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**BOARD OF DIRECTORS**

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

**GENERAL MANAGER**

Clemens Heldmaier



VAVRINEK, TRINE, DAY  
& COMPANY, 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 Montara Water and Sanitary District (the District), as of and for the year ended June 30, 2015, 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.

## ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Montara Water and Sanitary District as of June 30, 2015, 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 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 September 29, 2015 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.

Varrinek, Trine, Day & Co., LLP.

Pleasanton, California  
September 29, 2015

# **MONTARA WATER AND SANITARY DISTRICT**

## **MANAGEMENT’S DISCUSSION AND ANALYSIS JUNE 30, 2015**

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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, 2015. 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 \$493,368 over the prior year going from \$5,778,643 to \$6,272,011.
- District-wide expenses increased \$46,896 from the prior year going from \$4,439,005 to \$4,485,901.
- The effect of the increase in revenues coupled with the increase in expenses caused the District-wide change in net position to increase \$446,472 over the prior year. In other words, the District-wide increase in net position for the year ended June 30, 2015 was \$1,786,110.

### **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 and liabilities 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, 2015

### 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 and liabilities, 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 \$16,085,234 to \$17,871,344 or \$1,786,110.

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

	Sewer		Water		Total	
	2015	2014	2015	2014	2015	2014
Current assets	\$ 6,299,335	\$ 5,732,789	\$ 1,485,320	\$ 1,395,513	\$ 7,784,655	\$ 7,128,302
Capital assets net of accumulated depreciation	5,041,217	4,510,640	18,427,785	16,946,828	23,469,002	21,457,468
Other long term assets	3,564,011	3,955,057	1,451,830	1,543,220	5,015,841	5,498,277
Total assets	<u>14,904,563</u>	<u>14,198,486</u>	<u>21,364,935</u>	<u>19,885,561</u>	<u>36,269,498</u>	<u>34,084,047</u>
Deferred outflows of resources	-	-	243,278	261,798	243,278	261,798
Total deferred outflow of resources	<u>-</u>	<u>-</u>	<u>243,278</u>	<u>261,798</u>	<u>243,278</u>	<u>261,798</u>
Current liabilities	214,934	138,956	1,410,810	1,090,455	1,625,744	1,229,411
Long-term liabilities	1,530,008	1,597,400	15,485,680	15,433,800	17,015,688	17,031,200
Total liabilities	<u>1,744,942</u>	<u>1,736,356</u>	<u>16,896,490</u>	<u>16,524,255</u>	<u>18,641,432</u>	<u>18,260,611</u>
Net position						
Net investment in capital assets	3,452,611	2,861,800	3,084,367	1,935,608	6,536,978	4,797,408
Restricted for debt service	-	-	1,384,998	1,471,247	1,384,998	1,471,247
Unrestricted	9,707,010	9,600,330	242,358	216,249	9,949,368	9,816,579
Total net position	<u>\$ 13,159,621</u>	<u>\$ 12,462,130</u>	<u>\$ 4,711,723</u>	<u>\$ 3,623,104</u>	<u>\$ 17,871,344</u>	<u>\$ 16,085,234</u>

#### Revenues, Expenses and Changes in Net Position

For the fiscal year ended June 30, 2015 the sewer system generated operating revenue of \$2,245,898 and operating expenses of \$1,929,100 for a net operating income of \$316,798. This is an increase over prior year's net operating income of \$55,352 by \$261,446. Whereas operating revenue increased 9.8%, system maintenance and repairs expense decreased by \$56,798 or 5.0%. This decrease in expense is mainly due to the approximately \$60,000 reduction in operating costs associated with running the Sewer Authority Mid Coastside (SAM) system.

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 increase of \$14,090.

# MONTARA WATER AND SANITARY DISTRICT

## MANAGEMENT’S DISCUSSION AND ANALYSIS JUNE 30, 2015

For the fiscal year ended June 30, 2015 the water system generated operating revenue of \$1,698,991 and operating expenses of \$2,152,097 for a net operating loss of \$453,106. This is an increase over prior year’s net operating loss of \$298,946 by \$154,160. For the fiscal year ended June 30, 2015 operating revenue increased 3.90% and system maintenance and repairs expense increased by \$84,804. This increase in expense is due to increases in pumping, collections, and treatment 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 \$214,908. 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 \$66,970 to \$166,355 or approximately 148.4% whereas the connection fees for the Water Fund increased from \$107,520 to \$172,492 or approximately 60.4%. 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	
	2015	2014	2015	2014	2015	2014
Operating revenues	\$ 2,245,898	\$ 2,045,340	\$ 1,698,991	\$ 1,635,179	\$ 3,944,889	\$ 3,680,519
Tax revenues	213,850	301,852	1,689,974	1,540,918	1,903,824	1,842,770
Interest and investment income	16,008	13,823	-	-	16,008	13,823
Loss on disposition of assets	-	-	-	-	-	-
Connection fees and other non operating revenues	199,147	99,240	208,143	142,291	407,290	241,531
Total revenues	<u>2,674,903</u>	<u>2,460,255</u>	<u>3,597,108</u>	<u>3,318,388</u>	<u>6,272,011</u>	<u>5,778,643</u>
Operating expenses	1,929,100	1,989,988	2,152,097	1,934,125	4,081,197	3,924,113
Non-operating expenses	48,312	62,680	356,392	452,212	404,704	514,892
Total expenses	<u>1,977,412</u>	<u>2,052,668</u>	<u>2,508,489</u>	<u>2,386,337</u>	<u>4,485,901</u>	<u>4,439,005</u>
Change in fund net position	697,491	407,587	1,088,619	932,051	1,786,110	1,339,638
Fund net position - beginning of year	<u>12,462,130</u>	<u>12,054,543</u>	<u>3,623,104</u>	<u>2,691,053</u>	<u>16,085,234</u>	<u>14,745,596</u>
Fund net position - end of year	<u>\$ 13,159,621</u>	<u>\$ 12,462,130</u>	<u>\$ 4,711,723</u>	<u>\$ 3,623,104</u>	<u>\$ 17,871,344</u>	<u>\$ 16,085,234</u>



# MONTARA WATER AND SANITARY DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2015

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### CAPITAL ASSETS AND DEBT ADMINISTRATION

#### Capital Assets

At the end of fiscal year 2015, the District had \$ 23,469,002 (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, 2015, increased by \$1,967,175 or 9.2 percent over 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, 2015:

Category	Audited Balance June 30, 2014	Additions	Deletions	Transfers	Audited Balance June 30, 2015
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	1,091,862	998,696	-	-	2,090,558
Seal Cove collection system	995,505	-	-	-	995,505
Other capital improvements	4,357,566	-	-	-	4,357,566
Water facilities plant	21,810,387	2,316,162	-	-	24,126,549
Water general plant	174,309	-	-	-	174,309
Surface water rights	300,000	-	-	-	300,000
Total	<u>35,055,205</u>	<u>3,314,858</u>	<u>-</u>	<u>-</u>	<u>38,370,063</u>
Accumulated depreciation	<u>13,597,736</u>	<u>1,303,325</u>	<u>-</u>	<u>-</u>	<u>14,901,061</u>
Property, plant & equipment, net	<u>\$ 21,457,469</u>	<u>\$ 2,011,533</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 23,469,002</u>

Additional information on capital assets can be found in notes #1E and #3 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.

# MONTARA WATER AND SANITARY DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2015

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. In February 2013, the District received \$360,000 in response to the first reimbursement claim filed.

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	\$13,984,427	\$ -	\$ 815,134	\$13,169,293	\$ 835,090	\$12,334,203
2012 GO Bonds Discount	(67,406)	-	(4,886)	(62,520)	(4,886)	(57,634)
PNCEF Lease Obligation	1,513,242	-	68,958	1,444,284	76,970	1,367,314
CIEDB loan	892,219	-	25,755	866,464	26,540	839,924
SRF Loan	409,553	1,387,291	39,063	1,757,781	66,899	1,690,882
Totals	<u>\$ 16,732,035</u>	<u>\$ 1,387,291</u>	<u>\$ 944,024</u>	<u>\$ 17,175,302</u>	<u>\$ 1,000,613</u>	<u>\$ 16,174,689</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 maintained as an 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.

# **MONTARA WATER AND SANITARY DISTRICT**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2015**

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### **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, 2015

	Sewer	Water	Total
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 6,187,105	\$ 1,092,679	\$ 7,279,784
Accounts receivable	91,538	349,985	441,523
Inventory	-	42,656	42,656
Employee loan receivable - current	20,692	-	20,692
<b>Total current assets</b>	<b>6,299,335</b>	<b>1,485,320</b>	<b>7,784,655</b>
Non-current assets:			
Capital assets:			
Property, plant and equipment	11,927,305	26,442,758	38,370,063
Less accumulated depreciation	6,886,088	8,014,973	14,901,061
<b>Net property, plant and equipment</b>	<b>5,041,217</b>	<b>18,427,785</b>	<b>23,469,002</b>
<b>Total capital assets</b>	<b>5,041,217</b>	<b>18,427,785</b>	<b>23,469,002</b>
Other assets:			
Employee loan receivable - non-current	73,079	-	73,079
Prepaid expenses	-	66,832	66,832
Restricted cash and cash equivalents	-	1,384,998	1,384,998
Interfund advances - Due from water fund	803,385	-	803,385
Investment in joint powers authorities - capacity rights	2,687,547	-	2,687,547
<b>Total other assets</b>	<b>3,564,011</b>	<b>1,451,830</b>	<b>5,015,841</b>
<b>Total non-current assets</b>	<b>8,605,228</b>	<b>19,879,615</b>	<b>28,484,843</b>
<b>Total assets</b>	<b>14,904,563</b>	<b>21,364,935</b>	<b>36,269,498</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred charge on refunding	-	243,278	243,278
<b>Total deferred outflows of resources</b>	<b>-</b>	<b>243,278</b>	<b>243,278</b>

*(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, 2015**

	Sewer	Water	Total
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	132,461	327,308	459,769
Accrued expenses	1,658	2,319	3,977
Interest payable	11,899	133,312	145,211
Accrued compensated absences	3,891	12,283	16,174
Current portion of long-term obligations	65,025	935,588	1,000,613
<b>Total current liabilities</b>	<b>214,934</b>	<b>1,410,810</b>	<b>1,625,744</b>
Long term liabilities:			
Accrued compensated absences	358	16,555	16,913
General obligation bonds, less current portion	-	12,276,570	12,276,570
Other long term obligations, less current portion	1,523,581	2,374,538	3,898,119
Interfund advances - Due to sewer fund	-	803,385	803,385
Deposits	6,069	14,632	20,701
<b>Total long term liabilities</b>	<b>1,530,008</b>	<b>15,485,680</b>	<b>17,015,688</b>
<b>Total liabilities</b>	<b>1,744,942</b>	<b>16,896,490</b>	<b>18,641,432</b>
<b>NET POSITION</b>			
Net investments in capital assets	3,452,611	3,084,367	6,536,978
Restricted for debt service	-	1,384,998	1,384,998
Unrestricted	9,707,010	242,358	9,949,368
<b>Total net position</b>	<b>\$ 13,159,621</b>	<b>\$ 4,711,723</b>	<b>\$ 17,871,344</b>

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, 2015

	Sewer	Water	Total
<b>OPERATING REVENUES</b>			
Sales and service charges	\$ 2,245,898	\$ 1,698,991	\$ 3,944,889
<b>OPERATING EXPENSES</b>			
General and administrative	372,846	898,321	1,271,167
System maintenance and repairs	1,088,135	418,570	1,506,705
Depreciation	468,119	835,206	1,303,325
Total operating expenses	1,929,100	2,152,097	4,081,197
OPERATING INCOME (LOSS)	316,798	(453,106)	(136,308)
<b>NONOPERATING REVENUES (EXPENSE)</b>			
Taxes - District share of one percent	213,850	424,081	637,931
Taxes - Ad valorem for general obligation bonds	-	1,265,893	1,265,893
Investment income	16,008	-	16,008
Interest expense	(48,312)	(356,392)	(404,704)
Other revenues	32,792	35,651	68,443
Total non-operating revenues (expenses)	214,338	1,369,233	1,583,571
INCOME BEFORE CONTRIBUTIONS AND TRANSFERS	531,136	916,127	1,447,263
Capital contributions - connection fees	166,355	172,492	338,847
Changes in net position	697,491	1,088,619	1,786,110
NET POSITION, BEGINNING OF YEAR	12,462,130	3,623,104	16,085,234
TOTAL NET POSITION, END OF YEAR	\$ 13,159,621	\$ 4,711,723	\$ 17,871,344

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, 2015

	Sewer	Water	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Receipts from customers and users	\$ 2,223,597	\$ 1,686,284	\$ 3,909,881
Payments to suppliers - other	(1,010,905)	(175,608)	(1,186,513)
Payments to employees	(384,879)	(888,571)	(1,273,450)
Net cash provided by operating activities	<u>827,813</u>	<u>622,105</u>	<u>1,449,918</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>			
Property taxes collected	213,850	424,083	637,933
Principal paid on long term debt	(60,234)	(888,676)	(948,910)
Proceeds from long term debt	-	1,387,291	1,387,291
Payments on loans receivable	19,904	-	19,904
Interest paid on long term debt	(48,682)	(341,226)	(389,908)
Acquisition and construction of capital assets	(998,696)	(2,316,163)	(3,314,859)
Funds advanced from water to sewer	370,354	(370,354)	-
Connection fees and other non operating revenue collected	199,147	1,474,036	1,673,183
Net cash provided (used) by capital and related financing activities	<u>(304,357)</u>	<u>(631,009)</u>	<u>(935,366)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Investment income	16,008	-	16,008
Net cash provided by investing activities	<u>16,008</u>	<u>-</u>	<u>16,008</u>
<b>NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS</b>	539,464	(8,904)	530,560
Cash and investments, July 1	5,647,641	2,486,581	8,134,222
Cash and investments, June 30	<u>\$ 6,187,105</u>	<u>\$ 2,477,677</u>	<u>\$ 8,664,782</u>
<b>AMOUNTS AS THEY APPEAR ON THE STATEMENT OF NET POSITION:</b>			
Cash and cash equivalents	\$ 6,187,105	\$ 1,092,679	\$ 7,279,784
Restricted cash and cash equivalents	-	1,384,998	1,384,998
	<u>\$ 6,187,105</u>	<u>\$ 2,477,677</u>	<u>\$ 8,664,782</u>

*(Continued)*

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

# MONTARA WATER AND SANITARY DISTRICT

## STATEMENT OF CASH FLOWS (CONTINUED) FOR THE YEAR ENDED JUNE 30, 2015

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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 income (loss)	\$ 316,798	\$ (453,106)	\$ (136,308)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation expense	468,119	835,206	1,303,325
Accounts and notes receivable	(26,294)	(12,462)	(38,756)
Accounts payable	77,230	237,821	315,051
Deposits and prepaid expenses	3,993	4,896	8,889
Compensated absences	(12,033)	9,750	(2,283)
Total adjustments	<u>511,015</u>	<u>1,075,211</u>	<u>1,586,226</u>
Net cash provided by operating activities	<u>\$ 827,813</u>	<u>\$ 622,105</u>	<u>\$ 1,449,918</u>

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



# MONTARA WATER AND SANITARY DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015

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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.

#### 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.

# MONTARA WATER AND SANITARY DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2015

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### *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. Inventory

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

#### E. 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 of assets.

#### F. 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.

#### G. 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.

#### H. 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.

# MONTARA WATER AND SANITARY DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2015

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

#### I. 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.

#### J. Property Taxes

Secured property taxes attach an enforceable lien on property as of March 1. Taxes are payable in two installments due November 15 and March 15. 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.

#### K. Contract Services

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

#### L. 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.

#### M. Subsequent Events

Management has considered subsequent events through September 29, 2014, the date which the financial statements were available to be issued.

Effective July 1, 2015 the District became a member of the Public Agency Retirement System (PARS) trust, which has made available a defined benefit plan. Pursuant to Internal Revenue Code section 414 (h)(2) the District will begin to “pick-up” employee contributions to the Plan on behalf of the Plan participants. The District’s General Manager has been named the Plan administrator. The adopted defined benefit pension formula is 2% at 62. Currently seven employees are included in the plan with the current vesting provisions.

# MONTARA WATER AND SANITARY DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2015

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

#### N. New Accounting Pronouncements

In June 2012, the GASB issued Statement No. 68, Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. The Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement. The provisions of Statement 68 are effective for fiscal years beginning after June 15, 2014, with earlier application encouraged. The District has determined there is no impact on the current year's 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, 2015:

Cash Deposits	\$ 4,391,535
Investments (Local Agency Investment Fund)	4,273,247
	<u>\$ 8,664,782</u>
Restricted cash and cash equivalents	\$ 1,384,998
Unrestricted cash and cash equivalents	7,279,784
	<u>\$ 8,664,782</u>

**MONTARA WATER AND SANITARY DISTRICT**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2015**

**NOTE #2 - CASH AND INVESTMENTS (Continued)**

**B. General Authorizations**

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

<u>Authorized Investment Type</u>	<u>Maximum Remaining Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment In One Issuer</u>
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:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Average Maturity</u>
LAIF	<u>\$ 4,273,247</u>	232 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.

# MONTARA WATER AND SANITARY DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2015

### NOTE #2 - CASH AND INVESTMENTS (Continued)

#### E. Custodial Credit Risk - Investments

This is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, the District will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. It is the District's policy that all securities are evidenced by specific identifiable pieces of paper called *securities instruments*, or by electronic entry registering the owner in the records of the institution issuing the security, called the *book entry* system. In order to maximize security, the District employs the Trust Department of a bank as the custodian of its investments with the U.S. Government or its agencies, regardless of their form.

*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 – CAPITAL ASSETS

Changes in capital assets accounts are summarized below:

Category	Audited	Additions	Deletions	Transfers	Audited
	Balance				Balance
	June 30, 2014				June 30, 2015
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	1,091,862	998,696	-	-	2,090,558
Seal Cove collection system	995,505	-	-	-	995,505
Other capital improvements	4,357,566	-	-	-	4,357,566
Water facilities plant	21,810,387	2,316,162	-	-	24,126,549
Water general plant	174,309	-	-	-	174,309
Surface water rights	300,000	-	-	-	300,000
Total	<u>35,055,205</u>	<u>3,314,858</u>	<u>-</u>	<u>-</u>	<u>38,370,063</u>
Accumulated depreciation	<u>13,597,736</u>	<u>1,303,325</u>	<u>-</u>	<u>-</u>	<u>14,901,061</u>
Property, plant & equipment, net	<u>\$ 21,457,469</u>	<u>\$ 2,011,533</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 23,469,002</u>

# MONTARA WATER AND SANITARY DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2015

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### ***NOTE #4 – INVESTMENT IN JOINT POWER AUTHORITY - CAPACITY RIGHTS***

#### Investment 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 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 \$990,050 for these collection and treatment services for the year.

Summary details of SAM's financial position and results of operation from the most recent audited financial statement available for the year ended June 30, 2014 are as follows:

Total assets	\$	16,140,601
Total liabilities		<u>701,190</u>
Net position	\$	<u>15,439,411</u>
Total revenues	\$	4,299,614
Total expenses		<u>5,476,408</u>
Decrease in net position	\$	<u>(1,176,794)</u>

**MONTARA WATER AND SANITARY DISTRICT**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2015**

**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	\$13,984,427	\$ -	\$ 815,134	\$13,169,293	\$ 835,090	\$12,334,203
2012 GO Bonds Discount	(67,406)	-	(4,886)	(62,520)	(4,886)	(57,634)
PNCEF Lease Obligation	1,513,242	-	68,958	1,444,284	76,970	1,367,314
CIEDB loan	892,219	-	25,755	866,464	26,540	839,924
SRF Loan	409,553	1,387,291	39,063	1,757,781	66,899	1,690,882
Totals	<u>\$ 16,732,035</u>	<u>\$ 1,387,291</u>	<u>\$ 944,024</u>	<u>\$ 17,175,302</u>	<u>\$ 1,000,613</u>	<u>\$ 16,174,689</u>

**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.



**MONTARA WATER AND SANITARY DISTRICT**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2015**

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**NOTE #5 - LONG TERM OBLIGATIONS (Continued)**

Repayment Schedule

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 835,090	\$ 315,346	\$ 1,150,436
2017	854,702	295,734	1,150,436
2018	876,458	273,978	1,150,436
2019	897,915	252,521	1,150,436
2020	919,898	230,538	1,150,436
2021-2025	4,947,541	804,640	5,752,181
2026-2029	3,837,689	188,835	4,026,524
Total	<u>\$ 13,169,293</u>	<u>\$ 2,361,592</u>	<u>\$ 15,530,885</u>

**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.

**MONTARA WATER AND SANITARY DISTRICT**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2015**

**NOTE #5 - LONG TERM OBLIGATIONS (Continued)**

Repayment Schedule

Fiscal Year Ending June 30,	Principal	Interest	Total
2016	\$ 76,970	\$ 41,580	\$ 118,550
2017	85,454	39,196	124,650
2018	93,990	36,560	130,550
2019	104,097	33,653	137,750
2020	114,407	30,443	144,850
2021-2025	737,937	113,669	851,606
2026-2027	231,429	14,388	245,817
Total	<u>\$ 1,444,284</u>	<u>\$ 309,489</u>	<u>\$ 1,753,773</u>

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
2016	\$ 26,540	\$ 28,622	\$ 55,162
2017	27,350	27,720	55,070
2018	28,184	26,791	54,975
2019	29,043	25,834	54,877
2020	29,929	24,848	54,777
2021-2025	163,909	108,356	272,265
2026-2030	190,477	78,769	269,246
2031-2035	221,353	44,387	265,740
2036-2038	149,679	7,845	157,524
Total	<u>\$ 866,464</u>	<u>\$ 373,172</u>	<u>\$ 1,239,636</u>

**MONTARA WATER AND SANITARY DISTRICT**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2015**

**NOTE #5 - LONG TERM OBLIGATIONS (Continued)**

**D. State Revolving Fund Loan**

On July 10, 2012, the District entered into an agreement with the State of California Department of Health under the Safe Drinking Water State Revolving Fund Law of 1947. This agreement constitutes funding in the form of a loan and a grant made by the State to the District to assist in financing the cost of studies, planning and other preliminary activities for a project which will enable the District to meet safe drinking water standards. Under this agreement, the State will lend the District an amount not to exceed \$500,000, payable in five years from the first principal and interest invoice. On November 14, 2012, the District entered into an additional agreement with the State of California Department of Health under the Safe Drinking Water Revolving Fund Law of 1947. This agreement constitutes funding in the form of a loan made by the State to the District to assist in financing the construction of the preliminary activities noted above. Under this agreement, the State will lend the District an amount not to exceed \$2,920,000. The District will make semiannual payments for the principal and any interest amounts due January 1 and July 1 of each year until the loan is repaid in full at an interest rate of 2.09 percent and 2.28 percent, respectively, per annum. The District expects the project to be completed in 2016. During current fiscal year ended June 30, 2015, the District received \$1,387,291 in reimbursements under this loan agreement.

Fiscal Year Ending June 30,	Principal	Interest	Total
2016	\$ 66,899	\$ 19,847	\$ 86,746
2017	136,247	37,247	173,494
2018	139,222	34,273	173,495
2019	142,261	31,233	173,494
2020	145,368	28,126	173,494
2021-2025	390,142	130,626	520,768
2026-2030	291,240	55,939	347,179
2031-2035	403,294	30,680	433,974
2036-2038	43,108	-	43,108
Total	<u>\$ 1,757,781</u>	<u>\$ 367,971</u>	<u>\$ 2,125,752</u>

# **MONTARA WATER AND SANITARY DISTRICT**

## **NOTES TO THE FINANCIAL STATEMENTS**

**JUNE 30, 2015**

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### ***NOTE #6 - DEFERRED COMPENSATION PLAN***

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

### ***NOTE #7 - 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.

Settled claims for CSRMA or commercial fidelity bonds have not exceeded coverage in any of the past three fiscal years.

# MONTARA WATER AND SANITARY DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2015

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### **NOTE #7 - RISK MANAGEMENT (Continued)**

The following is a summary of the insurance policies carried by the District as of June 30, 2015:

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	6,801,517

Audited condensed financial information for CSRMA is presented below from the most recent statements available for the year ended June 30, 2014:

Total assets	\$ 27,379,073
Total liabilities	<u>16,413,379</u>
Net position	<u>\$ 10,965,694</u>
Total revenues	\$ 10,812,970
Total expenses	<u>11,887,608</u>
Decrease in net position	<u>\$ (1,074,638)</u>

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 #8 – 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.