MONTARA WATER AND SANITARY DISTRICT

ANNUAL FINANCIAL REPORT

JUNE 30, 2016

WITH

INDEPENDENT AUDITORS' REPORT

MONTARA WATER AND SANITARY DISTRICT

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MONTARA WATER AND SANITARY DISTRICT

ELECTED OFFICIALS AND ADMINISTRATIVE PERSONNEL

JUNE 30, 2016

BOARD OF DIRECTORS

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

GENERAL MANAGER

Clemens Heldmaier

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the sewer and water enterprise funds of the Montara Water and Sanitary District (the District), as of and for the year ended June 30, 2016, 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.

5000 Hopyard Road, Suite 335 Pleasanton, CA 94588 Tel: 925.734.6600 www.vtdcpa.com Fax: 925.734.6611

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the sewer and water enterprise funds of the Montara Water and Sanitary District as of June 30, 2016, 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.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the District adopted Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*, and GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, effective July 1, 2015. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2016 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Vavrinek, Trine, Day & Co., LLP.

Pleasanton, California

October 27, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016

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, 2016. Please read it in conjunction with the District financial statements and accompanying notes, which follow this section.

HIGHLIGHTS

District Financial Highlights

- District-wide revenues decreased $168,664 from the prior year going from $6,272,011 to $6,103,347.

- District-wide expenses increased $590,245 over the prior year going from $4,485,901 to $5,076,146.

- The effect of the decrease in revenues and increase in expenses caused the District-wide change in net position to decrease $758,909 from the prior year. In other words, the District-wide increase in net position for the year ended June 30, 2016 was $1,027,201.

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?"

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 $17,871,344 to $18,898,545 or $1,027,201.

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

	Sewer		Water		Total	
	2016	2015	2016	2015	2016	2015
Current assets	$ 7,766,177	$ 6,299,335	$ 1,651,481	$ 1,485,320	$ 9,417,658	$ 7,784,655
Capital assets net of accumulated depreciation	4,776,817	5,041,217	19,134,771	18,427,785	23,911,588	23,469,002
Other long term assets	2,687,547	3,564,011	1,696,419	1,451,830	4,383,966	5,015,841
Total assets	15,230,541	14,904,563	22,482,671	21,364,935	37,713,212	36,269,498
Deferred outflows of resources	13,495	-	251,577	243,278	265,072	243,278
Total deferred outflow of resources	13,495	-	251,577	243,278	265,072	243,278
Current liabilities	210,305	214,934	1,405,504	1,410,810	1,615,809	1,625,744
Long-term liabilities	1,620,099	1,530,008	15,843,831	15,485,680	17,463,930	17,015,688
Total liabilities	1,830,404	1,744,942	17,249,335	16,896,490	19,079,739	18,641,432
Net position						
Net investment in capital assets	3,253,238	3,452,611	2,408,708	3,084,367	5,661,946	6,536,978
Restricted for debt service	-	-	1,488,309	1,384,998	1,488,309	1,384,998
Unrestricted	10,160,394	9,707,010	1,587,896	242,358	11,748,290	9,949,368
Total net position	$ 13,413,632	$ 13,159,621	$ 5,484,913	$ 4,711,723	$ 18,898,545	$ 17,871,344

Revenues, Expenses and Changes in Net Position

For the fiscal year ended June 30, 2016 the sewer system generated operating revenue of $2,087,771 and operating expenses of $2,263,835 for a net operating loss of $176,064. This is a decrease from prior year's net operating income of $316,798 by $492,862. Whereas operating revenue decreased 7.0%, system maintenance and repairs expense increased by $212,465 or 20.0%. This increase in expense is mainly due to the approximately $334,000 increase 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 an increase of $50,097.

For the fiscal year ended June 30, 2016 the water system generated operating revenue of $1,821,688 and operating expenses of $2,368,650 for a net operating loss of $546,962. This is an increase from prior year's net operating loss of $453,106 by $93,856. For the fiscal year ended June 30, 2016 operating revenue increased 7.2% and system maintenance and repairs expense increased by $115,965. 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 a decrease of $183,331. 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 $166,355 to $100,597 or approximately 39.5% whereas the connection fees for the Water Fund decreased from $172,492 to $139,419 or approximately 19.2%. 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	
	2016	2015	2016	2015	2016	2015
Operating revenues	$ 2,087,771	$ 2,245,898	$ 1,821,688	$ 1,698,991	$ 3,909,459	$ 3,944,889
Tax revenues	325,926	213,850	1,541,867	1,689,974	1,867,793	1,903,824
Interest and investment income	19,079	16,008	-	-	19,079	16,008
Connection fees and other non operating revenues	134,097	199,147	172,919	208,143	307,016	407,290
Total revenues	2,566,873	2,674,903	3,536,474	3,597,108	6,103,347	6,272,011
Operating expenses	2,263,835	1,929,100	2,368,650	2,152,097	4,632,485	4,081,197
Non-operating expenses	49,027	48,312	394,634	356,392	443,661	404,704
Total expenses	2,312,862	1,977,412	2,763,284	2,508,489	5,076,146	4,485,901
Change in fund net position	254,011	697,491	773,190	1,088,619	1,027,201	1,786,110
Fund net position - beginning of year	13,159,621	12,462,130	4,711,723	3,623,104	17,871,344	16,085,234
Fund net position - end of year	$ 13,413,632	$ 13,159,621	$ 5,484,913	$ 4,711,723	$ 18,898,545	$ 17,871,344

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2016, the District had $23,911,588 (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, 2016, increased by $442,586 or 1.9 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, 2016:

Category	Audited Balance June 30, 2015	Additions	Deletions	Transfers	Audited Balance June 30, 2016
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	2,090,558	243,666	-	-	2,334,224
Seal Cove collection system	995,505	-	-	-	995,505
Other capital improvements	4,357,566	-	-	-	4,357,566
Water facilities plant	24,126,549	1,588,835	-	-	25,715,384
Water general plant	174,309	-	-	-	174,309
Surface water rights	300,000	-	-	-	300,000
Total	38,370,063	1,832,501	-	-	40,202,564
Accumulated depreciation	14,901,061	1,389,915	-	-	16,290,976
Property, plant & equipment, net	$ 23,469,002	$ 442,586	$ -	$ -	$ 23,911,588

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

Long Term Obligations

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

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

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

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

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion	Long Term Portion
General Obligation Bonds, 2012 Series	$13,169,293	$ -	$ 835,090	$12,334,203	$ 854,702	$11,479,501
2012 GO Bonds Discount	(62,520)	-	(4,886)	(57,634)	(4,886)	(52,748)
PNCEF Lease Obligation	1,444,284	-	76,972	1,367,312	85,454	1,281,858
CIEDB loan	866,464	-	26,543	839,921	27,350	812,571
SRF Loan	1,757,781	2,451,510	218,695	3,990,596	239,315	3,751,281
Totals	$17,175,302	$ 2,451,510	$ 1,152,414	$18,474,398	$ 1,201,935	$17,272,463

Additional information on the long term obligations can be found in Note #6 of the notes to the financial statements of this report.

ECONOMIC FACTORS, RATES, AND BUDGETARY CONTROL

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

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

REQUEST FOR INFORMATION

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

MONTARA WATER AND SANITARY DISTRICT

STATEMENT OF NET POSITION
AS OF JUNE 30, 2016

	Sewer	Water	Total
ASSETS			
Current assets:			
Cash and cash equivalents	$ 7,675,320	$ 1,185,118	$ 8,860,438
Accounts receivable	90,857	423,707	514,564
Inventory	-	42,656	42,656
Total current assets	7,766,177	1,651,481	9,417,658
Non-current assets:			
Capital assets:			
Property, plant and equipment	12,170,972	28,031,592	40,202,564
Less accumulated depreciation	7,394,155	8,896,821	16,290,976
Total capital assets	4,776,817	19,134,771	23,911,588
Other assets:			
Prepaid expenses	-	61,691	61,691
Restricted cash and cash equivalents	-	1,488,309	1,488,309
Interfund advances - Due from sewer fund	-	146,419	146,419
Investment in joint powers authorities - capacity rights	2,687,547	-	2,687,547
Total other assets	2,687,547	1,696,419	4,383,966
Total non-current assets	7,464,364	20,831,190	28,295,554
Total assets	15,230,541	22,482,671	37,713,212
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charge on refunding	-	224,756	224,756
Deferred amounts related to pensions	13,495	26,821	40,316
Total deferred outflows of resources	13,495	251,577	265,072

(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, 2016

	Sewer	Water	Total
LIABILITIES			
Current liabilities:			
Accounts payable	120,325	132,462	252,787
Accrued expenses	1,477	4,911	6,388
Interest payable	11,514	125,553	137,067
Accrued compensated absences	6,912	10,720	17,632
Current portion of long-term obligations	70,077	1,131,858	1,201,935
Total current liabilities	210,305	1,405,504	1,615,809
Long term liabilities:			
Accrued compensated absences	9,854	9,969	19,823
General obligation bonds, less current portion	-	11,426,755	11,426,755
Other long term obligations, less current portion	1,453,502	4,392,206	5,845,708
Interfund advances - Due to water fund	146,419	-	146,419
Deposits	10,324	14,901	25,225
Total long term liabilities	1,620,099	15,843,831	17,463,930
Total liabilities	1,830,404	17,249,335	19,079,739
NET POSITION			
Net investments in capital assets	3,253,238	2,408,708	5,661,946
Restricted for debt service	-	1,488,309	1,488,309
Unrestricted	10,160,394	1,587,896	11,748,290
Total net position	$ 13,413,632	$ 5,484,913	$ 18,898,545

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, 2016

	Sewer	Water	Total
OPERATING REVENUES			
Sales and service charges	$ 2,087,771	$ 1,821,688	$ 3,909,459
OPERATING EXPENSES			
General and administrative	455,168	952,267	1,407,435
System maintenance and repairs	1,300,600	534,535	1,835,135
Depreciation	508,067	881,848	1,389,915
Total operating expenses	2,263,835	2,368,650	4,632,485
OPERATING INCOME (LOSS)	(176,064)	(546,962)	(723,026)
NONOPERATING REVENUES (EXPENSE)			
Taxes - District share of one percent	325,926	325,926	651,852
Taxes - Ad valorem for general obligation bonds	-	1,215,941	1,215,941
Investment income	19,079	-	19,079
Interest expense	(49,027)	(388,616)	(437,643)
Other revenues	33,500	33,500	67,000
Other expenses	-	(6,018)	(6,018)
Total non-operating revenues (expenses)	329,478	1,180,733	1,510,211
INCOME BEFORE CONTRIBUTIONS AND TRANSFERS	153,414	633,771	787,185
Capital contributions - connection fees	100,597	139,419	240,016
Changes in net position	254,011	773,190	1,027,201
NET POSITION, BEGINNING OF YEAR	13,159,621	4,711,723	17,871,344
TOTAL NET POSITION, END OF YEAR	$ 13,413,632	$ 5,484,913	$ 18,898,545

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, 2016

	Sewer	Water	Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers and users	$ 2,092,707	$ 1,748,235	$ 3,840,942
Payments to suppliers - other	(1,312,917)	(721,648)	(2,034,565)
Payments to employees	(456,146)	(987,237)	(1,443,383)
Net cash provided by operating activities	323,644	39,350	362,994
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Property taxes collected	325,926	325,928	651,854
Principal paid on long term debt	(65,027)	(1,092,273)	(1,157,300)
Proceeds from long term debt	-	2,451,510	2,451,510
Payments on loans receivable	93,771	-	93,771
Interest paid on long term debt	(49,412)	(372,967)	(422,379)
Acquisition and construction of capital assets	(243,667)	(1,588,836)	(1,832,503)
Interfund advances	949,804	(949,804)	-
Connection fees and other non operating revenue collected	134,097	1,382,842	1,516,939
Net cash provided (used) by capital and related financing activities	1,145,492	156,400	1,301,892
CASH FLOWS FROM INVESTING ACTIVITIES:			
Investment income	19,079	-	19,079
Net cash provided by investing activities	19,079	-	19,079
NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS	1,488,215	195,750	1,683,965
Cash and investments, July 1	6,187,105	2,477,677	8,664,782
Cash and investments, June 30	$ 7,675,320	$ 2,673,427	$ 10,348,747
AMOUNTS AS THEY APPEAR ON THE STATEMENT OF NET POSITION:			
Cash and cash equivalents	$ 7,675,320	$ 1,185,118	$ 8,860,438
Restricted cash and cash equivalents	-	1,488,309	1,488,309
	$ 7,675,320	$ 2,673,427	$ 10,348,747

(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, 2016

	Sewer	Water	Total
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Operating income (loss)	$ (176,064)	$ (546,962)	$ (723,026)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation expense	508,067	881,848	1,389,915
Accounts and notes receivable	681	(73,722)	(73,041)
Accounts payable	(12,317)	(192,254)	(204,571)
Deposits and prepaid expenses	4,255	5,410	9,665
Pension related amounts	(13,495)	(26,821)	(40,316)
Compensated absences	12,517	(8,149)	4,368
Total adjustments	499,708	586,312	1,086,020
Net cash provided by operating activities	$ 323,644	$ 39,350	$ 362,994

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

NOTE #1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. General

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

B. Basis of Accounting

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

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

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

The District reports the following major Proprietary Funds:

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

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

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

C. Measurement Focus

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

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

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

D. Investment in the State Investment Pool

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California government code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the District's investment in the Pool is reported in the accompanying financial statement at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which is recorded on the amortized cost basis.

E. Inventory

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

F. Capital Assets

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

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

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

G. Cash Flows Defined

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

H. Accounts Receivable

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

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

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

I. Accrued Compensated Absences

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

J. Budgets and Budgetary Accounting

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

K. Property Taxes

Secured property taxes attach an enforceable lien on property as of 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.

L. Contract Services

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

M. Estimates

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

N. Deferred Outflows and Inflows of Resources

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

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

O. Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Plan and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Public Agency Retirement Services (PARS). For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

P. Subsequent Events

Management has considered subsequent events through October 27, 2016, the date which the financial statements were available to be issued.

Q. New Accounting Pronouncements

In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*. This statement requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques. These disclosures should be organized by type of asset or liability reported at fair value. It also requires additional disclosures regarding investments in certain entities that calculate net asset value per share (or its equivalent). The requirements of this statement are effective for financial statements for periods beginning after June 15, 2015. This statement was implemented by the District as of July 1, 2015.

GASB Statement No. 76 – In June 2015, GASB issues Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.* The objective of this statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). This statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This statement is effective for reporting periods beginning after June 15, 2015. This statement was implemented by the District as of July 1, 2015.

R. Future Accounting Pronouncements

GASB Statement No. 73 – In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The provisions in statement 73 are effective for fiscal years beginning after June 15, 2015—except those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68, which are effective for fiscal years beginning after June 15, 2016. The District has not determined its effect on the financial statements.

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

GASB Statement No. 74 – In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. Statement No. 74 replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, statement 43, and statement No. 50, *Pension Disclosures*. The provisions in statement 74 are effective for fiscal years beginning after June 15, 2016. The District has not determined its effect on the financial statements.

GASB Statement No. 75 - In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension.* The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB 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 all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2017. The District has not determined its effect on the financial statements.

GASB Statement No. 77 - In August 2015, the GASB issued Statement No. 77, *Tax Abatement Disclosures*. This Statement requires governments that enter into tax abatement agreements to disclose the following information about the agreements:

- Brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatement recipients,
- The gross dollar amount of taxes abated during the period,
- Commitments made by a government, other than to abate taxes, as part of a tax abatement agreement.

The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2015. The District has not determined its effect on the financial statements.

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

GASB Statement No. 78 - In December 2015, the GASB issued Statement No. 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*. The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. Prior to the issuance of this Statement, the requirements of Statement No. 68 applied to the financial statements of all state and local governmental employers whose employees are provided with pensions through pension plans that are administered through trusts that meet the criteria in paragraph 4 of that Statement.

This Statement amends the scope and applicability of Statement No. 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2015. The District has not determined its effect on the financial statements.

GASB Statement No. 79 - In December 2015, the GASB issued Statement No. 79, *Certain External Investment Pools and Pool Participants.* This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this Statement. The specific criteria address (1) how the external investment pool transacts with participants; (2) requirements for portfolio maturity, quality, diversification, and liquidity; and (3) calculation and requirements of a shadow price. Significant noncompliance prevents the external investment pool from measuring all of its investments at amortized cost for financial reporting purposes. Professional judgment is required to determine if instances of noncompliance with the criteria established by this Statement during the reporting period, individually or in the aggregate, were significant.

If an external investment pool does not meet the criteria established by this Statement, that pool should apply the provisions in paragraph 16 of Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, as amended. If an external investment pool meets the criteria in this Statement and measures all of its investments at amortized cost, the pool's participants also should measure their investments in that external investment pool at amortized cost for financial reporting purposes. If an external investment pool does not meet the criteria in this Statement, the pool's participants should measure their investments in that pool at fair value, as provided in paragraph 11 of Statement No. 31, as amended.

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

This Statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Those disclosures for both the qualifying external investment pools and their participants include information about any limitations or restrictions on participant withdrawals. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. The District has not determined its effect on the financial statements.

GASB Statement No. 80 - In January 2016, the GASB issued Statement No. 80, *Blending Requirements for Certain Component Units - amendment of GASB Statement No. 14*. The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity, as amended*. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. The District has not determined its effect on the financial statements.

GASB Statement No. 81 - In March 2016, the GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.

This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period.

The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively. The District has not determined its effect on the financial statements.

GASB Statement No. 82 - In March 2016, the GASB issued Statement No. 82, Pension Issues - An Amendment of GASB Statements No. 67, No. 68, and No. 73. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

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

The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. The District has not determined its effect 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, 2016:

Cash Deposits	$ 6,060,131
Investments (Local Agency Investment Fund)	4,288,616
	$ 10,348,747
Restricted cash and cash equivalents	$ 1,488,309
Unrestricted cash and cash equivalents	8,860,438
	$ 10,348,747

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.

NOTE #2 - CASH AND INVESTMENTS (Continued)

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	$ 4,288,616	167 days

D. Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measure by the assignment of a rating by a nationally recognized statistical rating organization. LAIF doesn’t have a credit rating.

E. Custodial Credit Risk - 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 - 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.

NOTE 3 - FAIR VALUE MEASUREMENTS (Continued)

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, 2016:

		Fair Value Measurement Using			
Investment Type	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Uncategorized
State Investment Pool	$ 4,288,616	$ -	$ -	$ -	$ 4,288,616

All assets have been valued using a market approach, with quoted market prices.

NOTE #4 – CAPITAL ASSETS

Changes in capital assets accounts are summarized below:

Category	Audited Balance June 30, 2015	Additions	Deletions	Transfers	Audited Balance June 30, 2016
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	2,090,558	243,666	-	-	2,334,224
Seal Cove collection system	995,505	-	-	-	995,505
Other capital improvements	4,357,566	-	-	-	4,357,566
Water facilities plant	24,126,549	1,588,835	-	-	25,715,384
Water general plant	174,309	-	-	-	174,309
Surface water rights	300,000	-	-	-	300,000
Total	38,370,063	1,832,501	-	-	40,202,564
Accumulated depreciation	14,901,061	1,389,915	-	-	16,290,976
Property, plant & equipment, net	$ 23,469,002	$ 442,586	$ -	$ -	$ 23,911,588

NOTE #5 – 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 $1,229,064 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, 2015 are as follows:

Total assets	$	15,702,816
Deferred outflows of resources		173,021
Total liabilities		2,484,258
Deferred inflows of resources		543,470
Net position	$	12,848,109
Total revenues	$	4,233,005
Total expenses		5,025,858
Decrease in net position	$	(792,853)

NOTE #6 - LONG TERM OBLIGATIONS

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

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion	Long Term Portion
General Obligation Bonds, 2012 Series	$13,169,293	$ -	$ 835,090	$12,334,203	$ 854,702	$11,479,501
2012 GO Bonds Discount	(62,520)	-	(4,886)	(57,634)	(4,886)	(52,748)
PNCEF Lease Obligation	1,444,284	-	76,972	1,367,312	85,454	1,281,858
CIEDB loan	866,464	-	26,543	839,921	27,350	812,571
SRF Loan	1,757,781	2,451,510	218,695	3,990,596	239,315	3,751,281
Totals	$17,175,302	$ 2,451,510	$ 1,152,414	$18,474,398	$ 1,201,935	$17,272,463

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.

Repayment Schedule

Fiscal Year Ending June 30,	Principal	Interest	Total
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	919,897	230,539	1,150,436
2021	941,825	208,611	1,150,436
2022-2026	5,069,256	682,924	5,752,180
2027-2028	2,774,150	101,939	2,876,089
Total	$ 12,334,203	$ 2,046,246	$ 14,380,449

NOTE #6 - LONG TERM OBLIGATIONS (Continued)

B. Capital Lease

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

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

Repayment Schedule

Fiscal Year Ending June 30,	Principal	Interest	Total
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	125,339	26,921	152,260
2022-2026	785,392	70,333	855,725
2027-2031	58,635	361	58,996
Total	$ 1,367,314	$ 237,467	$ 1,604,781

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.

NOTE #6 - LONG TERM OBLIGATIONS (Continued)

Repayment Schedule:

Fiscal Year Ending June 30,	Principal	Interest	Total
2017	$ 27,350	$ 25,201	$ 52,551
2018	28,184	24,354	52,538
2019	29,043	23,481	52,524
2020	29,929	22,582	52,511
2021	30,842	21,655	52,497
2022-2026	168,908	93,353	262,261
2027-2031	196,287	65,557	261,844
2032-2036	228,103	33,256	261,359
2037-2038	101,278	3,112	104,390
Total	$ 839,924	$ 312,551	$ 1,152,475

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, 2016, the District received $2,451,510 in reimbursements under this loan agreement.

NOTE #6 - LONG TERM OBLIGATIONS (Continued)

Repayment Schedule:

Fiscal Year Ending June 30,	Principal	Interest	Total
2017	$ 239,315	$ 89,255	$ 328,570
2018	244,655	83,915	328,570
2019	250,115	78,455	328,570
2020	212,347	72,873	285,220
2021	173,338	68,533	241,871
2022-2026	928,264	281,088	1,209,352
2027-2031	1,039,868	169,484	1,209,352
2032-2036	902,694	46,268	948,962
Total	$ 3,990,596	$ 889,871	$ 4,880,467

NOTE #7 - DEFERRED COMPENSATION PLAN

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

NOTE #8 – DEFINED BENEFIT PLAN

A. Plan Description

The District has adopted, through the Public Agency Retirement Services ("PARS"), a tax qualified governmental defined benefit plan for the benefit of eligible District employees to provide retirement benefits. PARS is a private company 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.

NOTE #8 – DEFINED BENEFIT PLAN (Continued)

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, 2015, are summarized as follows:

Hire Date	On or after July 1, 2015
Formula	2% @ 62
Benefit vesting schedule	5 years of service
Benefit payments	monthly for life
Retirement age	62
Required employee contribution rates	8.25%
Required employer contribution rates	6.50%

C. Employees Covered by Benefit Terms

At June 30, 2016, the following employees were covered by the benefit terms for the Plan:

	PARS Plan
Active employees*	7

* Plan is closed to new entrants

NOTE #8 – DEFINED BENEFIT PLAN (Continued)

D. Contributions

The District contributed the actuarially determined contribution to the PARS plan. For the year ended June 30, 2016, the contributions were:

	PARS Plan
Contributions - Employer	$ 40,316
Contributions - Employee	51,170

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, 2015, using an annual actuarial valuation as of June 30, 2015. At June 30, 2016, the District has no pension liability as the benefit plan started at July 1, 2015.

F. Actuarial Assumptions

The 2015 actuarial valuations used the following actuarial assumptions:

	PARS Plan
Valuation Date	June 30, 2015
Measurement Date	June 30, 2015
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount rate	6.5%
Projected payroll increases	3.5% (1)
Mortality	Varies by gender and age

(1) Depending on age, service and type of employment

NOTE #8 – DEFINED BENEFIT PLAN (Continued)

G. 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.

PARS Fund:	Capital Appreciation	
Confidence level [1]	50%	55%
Expected Return	7.69%	7.35%
Investment Expenses [2]	0.80%	0.80%
Net Return after Expenses	6.89%	6.55%
Recommended Discount Rate		**6.50%**

1 Based on 5000-trial stochastic modeling, the long-term average return is expected to be equal or higher than the amount shown 50% or 55% of the time.

2 Assumes passive investment strategy.

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 and Deferred Outflows/Inflows of Resources Related to Pension

For the year ended June 30, 2016, the District recognized zero pension expense for the PARS Plan. At June 30, 2016, the District reported deferred outflows resources of $40,316 for pension contributions subsequent to measurement date that will be recognized as a reduction of net pension liability (if any) in the year ended June 30, 2017.

NOTE #9 - RISK MANAGEMENT

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

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

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

The following is a summary of the insurance policies carried by the District as of June 30, 2016:

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	7,583,313

Audited condensed financial information for CSRMA is presented below from the most recent statements available for the year ended June 30, 2015:

Total assets	$ 27,418,098
Total liabilities	16,714,638
Net position	$ 10,703,460
Total revenues	$ 10,895,632
Total expenses	11,157,866
Decrease in net position	$ (262,234)

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

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

NOTE #10 – COMMITMENTS AND CONTINGENT LIABILITIES

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

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

REQUIRED SUPPLEMENTARY INFORMATION

PARS Plan
As of June 30, 2016
Last 10 Years *
Schedule of Plan Contributions

		2016
Actuarially Determined Contribution	$	40,316
Contribution in relation to the Actuarially Determined Contribution		(40,316)
Contribution Deficiency (Excess)	$	-
Covered-employee payroll	$	620,243
Contributions as a percentage of covered-employee payroll		6.50%

Notes to Schedule

Valuation date	6/30/2015

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 – 3.25%
Retirement	The probabilities of retirement and mortality are based on the 1997-2011 CalPERS Experience Study - Mortality projected fully generational with Scale MP2014

* Fiscal year 2016 was the 1st year of implementation, therefore only one year is shown.