

# **MONTARA WATER AND SANITARY DISTRICT**

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**FINANCIAL STATEMENTS**

**JUNE 30, 2013**

**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, 2013**

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**BOARD OF DIRECTORS**

Kathryn Slater-Carter  
Jim Harvey  
Chris Thollog  
Bob Ptacek  
Scott Boyd

**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

We have audited the accompanying financial statements of Montara Water and Sanitary District (the District), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Department'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. 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 auditors' 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 financial position of the Montara Water and Sanitary District as of June 30, 2013, and the 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.

*Vavrinek, Trine, Day & Co., LLP.*

Pleasanton, California  
January 16, 2014

**MONTARA WATER AND SANITARY DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2013**

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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, 2013. 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 approximately \$128,000 over the prior year going from \$5,692,832 to \$5,565,159.
- District-wide expenses increased approximately \$224,000 from the prior year going from \$4,639,039 to \$4,863,089.
- The effect of the decrease in revenues coupled with the increase in expenses caused the District-wide change in net position to decrease approximately \$352,000 over the prior year. In other words, the District-wide increase in net position for the year ended June 30, 2013 was \$702,070 and for the year ended June 30, 2012 the increase in net position was \$1,053,793.

**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, 2013

### 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 by \$702,070.

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

	Sewer		Water		Total	
	2013	2012	2013	2012	2013	2012
Current assets	\$ 5,006,103	\$ 4,258,192	\$ 1,003,068	\$ 1,536,885	\$ 6,009,171	\$ 5,795,077
Capital assets net of accumulated depreciation	4,711,655	4,389,676	16,375,272	16,542,837	21,086,927	20,932,513
Other long term assets	4,349,399	4,014,141	2,782,575	2,945,033	7,131,974	6,959,174
Total assets	14,067,157	12,662,009	20,160,915	21,024,755	34,228,072	33,686,764
Current liabilities	347,697	129,935	1,128,885	1,160,760	1,476,582	1,290,695
Long-term liabilities	1,664,917	927,852	16,340,977	17,424,691	18,005,894	18,352,543
Total liabilities	2,012,614	1,057,787	17,469,862	18,585,451	19,482,476	19,643,238
Net position						
Net investment in capital assets	3,007,165	3,448,211	877,636	(288,324)	3,884,801	3,159,887
Restricted for debt service	-	-	2,705,461	2,546,991	2,705,461	2,546,991
Unrestricted	9,047,378	8,156,011	(892,044)	180,637	8,155,334	8,336,648
Total net position	\$ 12,054,543	\$ 11,604,222	\$ 2,691,053	\$ 2,439,304	\$ 14,745,596	\$ 14,043,526

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

For the fiscal year ended June 30, 2013 the sewer system generated operating revenue of \$1,975,804 and operating expenses of \$1,868,802, while the water system generated operating revenue of \$1,566,662 and operating expenses of \$2,615,364. Total cash & cash equivalents increased from \$7,666,004 to \$8,349,044 by year-end primarily due to the loan proceeds from the State Revolving Fund of \$360,000. This is discussed in greater detail in Note 5D of the financial statements.

# MONTARA WATER AND SANITARY DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2013

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

	Sewer		Water		Total	
	2013	2012	2013	2012	2013	2012
Operating revenues	\$ 1,975,804	\$ 2,021,528	\$ 1,566,662	\$ 1,686,118	\$ 3,542,466	\$ 3,707,646
Tax revenues	304,550	200,777	1,534,915	1,401,501	1,839,465	1,602,278
Interest and investment income	14,208	15,922	-	7,334	14,208	23,256
Connection fees and other non operating revenues	65,248	124,418	103,772	235,234	169,020	359,652
Total revenues	2,359,810	2,362,645	3,205,349	3,330,187	5,565,159	5,692,832
Operating expenses	1,868,802	1,752,082	2,615,364	2,331,927	4,484,166	4,084,009
Non-operating expenses	40,687	69,517	338,236	485,513	378,923	555,030
Total expenses	1,909,489	1,821,599	2,953,600	2,817,440	4,863,089	4,639,039
Change in fund net position	450,321	541,046	251,749	512,747	702,070	1,053,793
Fund net position - beginning of year	11,604,222	11,063,176	2,439,304	1,926,557	14,043,526	12,989,733
Fund net position - end of year	\$ 12,054,543	\$ 11,604,222	\$ 2,691,053	\$ 2,439,304	\$ 14,745,596	\$ 14,043,526

### CAPITAL ASSETS AND DEBT ADMINISTRATION

#### Capital Assets

At the end of fiscal year 2013, the District had \$ 21,086,927 (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 as of June 30, 2013, increased by \$154,414 or 0.7 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 accumulated depreciation.

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

- Capital improvements to the water system
- Sewer pipeline replacement

**MONTARA WATER AND SANITARY DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2013**

The following summarizes District capital assets for fiscal year ended June 30, 2013:

Category	Audited Balance June 30, 2012	Additions	Deletions	Transfers	Audited Balance June 30, 2013
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	855,852	-	-	-	855,852
Seal Cove collection system	995,505	-	-	-	995,505
Other capital improvements	3,584,651	752,558	-	-	4,337,209
Water facilities plant	19,859,013	597,416	-	-	20,456,429
Water general plant	174,309	-	-	-	174,309
Surface water rights	300,000	-	-	-	300,000
Total	<u>32,094,906</u>	<u>1,349,974</u>	<u>-</u>	<u>-</u>	<u>33,444,880</u>
Accumulated Depreciation	<u>11,162,393</u>	<u>1,195,560</u>	<u>-</u>	<u>-</u>	<u>12,357,953</u>
Property, Plant & Equipment, net	<u>\$20,932,513</u>	<u>\$ 154,414</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$21,086,927</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.

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.

# MONTARA WATER AND SANITARY DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2013

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	\$15,635,000	\$ -	\$ 854,915	\$14,780,085	\$ 795,656	\$13,984,429
2012 GO Bonds Discount	(77,180)	-	(4,886)	(72,294)	(4,886)	(67,408)
PNCEF Lease Obligation	1,654,440	-	79,882	1,574,558	61,317	1,513,241
CIEDB loan	941,464	-	24,253	917,211	24,992	892,219
Deferred amount on refunding	(298,842)	-	(18,522)	(280,320)	(18,521)	(261,799)
SRF Loan	-	360,000	-	360,000	-	360,000
Totals	<u>\$ 17,854,882</u>	<u>\$ 360,000</u>	<u>\$ 935,642</u>	<u>\$ 17,279,240</u>	<u>\$ 858,558</u>	<u>\$ 16,420,682</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.

### 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, 2013

	Sewer	Water	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 4,986,091	\$ 657,492	\$ 5,643,583
Accounts receivable	866	302,920	303,786
Inventory	-	42,656	42,656
Employee loan receivable - current	19,146	-	19,146
Total current assets	5,006,103	1,003,068	6,009,171
Non-current assets:			
Capital assets:			
Property, plant and equipment	10,672,243	22,772,637	33,444,880
Less accumulated depreciation	5,960,588	6,397,365	12,357,953
Net property, plant and equipment	4,711,655	16,375,272	21,086,927
Other assets:			
Employee loan receivable - non current	113,675	-	113,675
Unamortized bond issuance costs	-	77,114	77,114
Restricted cash and cash equivalents	-	2,705,461	2,705,461
Interfund advances - Due from water fund	1,548,177	-	1,548,177
Investment in joint powers authorities - capacity rights	2,687,547	-	2,687,547
Total other assets	4,349,399	2,782,575	7,131,974
Total non-current assets	9,061,054	19,157,847	28,218,901
Total assets	14,067,157	20,160,915	34,228,072

(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, 2013

	Sewer	Water	Total
LIABILITIES			
Current liabilities:			
Accounts payable	291,216	248,472	539,688
Accrued expenses	831	591	1,422
Interest payable	-	76,914	76,914
Current portion of long-term obligations	55,650	802,908	858,558
Total current liabilities	347,697	1,128,885	1,476,582
Long term liabilities:			
Accrued compensated absences	16,077	16,655	32,732
General obligation bonds, less current portion	-	13,655,221	13,655,221
Other long term obligations, less current portion	1,648,840	1,116,621	2,765,461
Interfund advances - Due to sewer fund	-	1,548,177	1,548,177
Deposits	-	4,303	4,303
Total long term liabilities	1,664,917	16,340,977	18,005,894
Total liabilities	2,012,614	17,469,862	19,482,476
NET POSITION			
Net investments in capital assets	3,007,165	877,636	3,884,801
Restricted for debt service	-	2,705,461	2,705,461
Unrestricted	9,047,378	(892,044)	8,155,334
Total net position	\$ 12,054,543	\$ 2,691,053	\$ 14,745,596

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, 2013

	Sewer	Water	Total
OPERATING REVENUES			
Sales and service charges	\$ 1,975,804	\$ 1,566,662	\$ 3,542,466
OPERATING EXPENSES			
General and administrative	386,602	861,258	1,247,860
System maintenance and repairs	1,051,621	989,127	2,040,748
Depreciation	430,579	764,979	1,195,558
Total operating expenses	1,868,802	2,615,364	4,484,166
OPERATING INCOME (LOSS)	107,002	(1,048,702)	(941,700)
NONOPERATING REVENUES (EXPENSE)			
Taxes - District share of one percent	304,550	304,550	609,100
Taxes - Ad valorem for general obligation bonds	-	1,230,365	1,230,365
Investment income	14,208	-	14,208
Interest expense	(40,687)	(338,236)	(378,923)
Other revenues	28,923	29,457	58,380
Total non-operating revenues (expenses)	306,994	1,226,136	1,533,130
INCOME BEFORE CONTRIBUTIONS AND TRANSFERS	413,996	177,434	591,430
Capital contributions - connection fees	36,325	74,315	110,640
Changes in net position	450,321	251,749	702,070
NET POSITION, BEGINNING OF YEAR	11,604,222	2,439,304	14,043,526
TOTAL NET POSITION, END OF YEAR	\$ 12,054,543	\$ 2,691,053	\$ 14,745,596

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, 2013

	Sewer	Water	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Receipts from customers and users	\$ 2,049,485	\$ 1,637,954	\$ 3,687,439
Payments to suppliers - other	(865,256)	(948,510)	(1,813,766)
Payments to employees	(381,165)	(861,169)	(1,242,334)
Net cash provided (used) by operating activities	803,064	(171,725)	631,339
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>			
Property taxes collected	304,550	304,550	609,100
Principal paid on long term debt	776,904	(1,338,666)	(561,762)
Interest paid on long term debt	(40,687)	(339,497)	(380,184)
Acquisition and construction of capital assets	(752,558)	(597,416)	(1,349,974)
Funds advanced from sewer to water	(221,583)	221,583	-
Connection fees and other non operating revenue collected	65,248	1,339,278	1,404,526
Net cash provided (used) by capital and related financing activities	131,874	(410,168)	(278,294)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Investment income	14,208	-	14,208
Net cash provided (used) by investing activities	14,208	315,787	329,995
<b>NET INCREASE IN CASH AND EQUIVALENTS</b>	949,146	(266,106)	683,040
Cash and investments, July 1	4,036,945	3,629,059	7,666,004
Cash and investments, June 30	\$ 4,986,091	\$ 3,362,953	\$ 8,349,044
<b>AMOUNTS AS THEY APPEAR ON THE STATEMENT OF NET POSITION:</b>			
Cash and cash equivalents	\$ 4,986,091	\$ 657,492	\$ 5,643,583
Restricted cash and cash equivalents	-	2,705,461	2,705,461
	\$ 4,986,091	\$ 3,362,953	\$ 8,349,044

(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, 2013

	Sewer	Water	Total
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating income (loss)	\$ 107,002	\$ (1,048,702)	\$ (941,700)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation expense	430,579	764,981	1,195,560
Accounts and notes receivable	73,681	111,741	185,422
Inventory	-	(2,500)	(2,500)
Accounts payable	186,365	43,117	229,482
Deposits	-	(40,451)	(40,451)
Compensated absences	5,437	89	5,526
Total adjustments	696,062	876,977	1,573,039
Net cash provided (used) by operating activities	\$ 803,064	\$ (171,725)	\$ 631,339

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

# MONTARA WATER AND SANITARY DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2013

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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.

The District reports the following major Proprietary Funds:

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

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

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

# MONTARA WATER AND SANITARY DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2013

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

#### 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 activity are included on their statement of net position. Enterprise fund type operating statements present increases (revenues) and decreases (expenses) in total net position.

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

#### D. 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 three to 50 years of assets.

#### F. Cash Flows Defined

For purpose of the statements 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.

# MONTARA WATER AND SANITARY DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2013

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

#### **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.

#### **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. New Accounting Pronouncements**

On December 30, 2010, the Governmental Accounting Standards Board (GASB) issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The Statement is intended to enhance the usefulness of its Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements. The Statement incorporates into the GASB's authoritative literature the applicable guidance previously presented in the following pronouncements issued before November 30, 1989 including FASB Interpretations and Statements, Accounting Principles Board Opinions and Accounting Research Bulletins of the AICPA's Committee on Accounting Procedure. The District implemented the provisions of this Statement in the fiscal year ended June 30, 2013.

# MONTARA WATER AND SANITARY DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2013

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

In June 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. The District implemented the provisions of this Statement in fiscal year ended June 30, 2013.

In March, 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards the reclassify as deferred outflows of resources and deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognized as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The provisions of Statement 65 are effective for financial statements for fiscal year ending June 30, 2014, with earlier application encouraged. The District has not determined its effect on the financial statements.

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 not determined its effect on the financial statements.

# MONTARA WATER AND SANITARY DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2013

### NOTE #2 - CASH AND INVESTMENTS

#### A. Cash and Investment Summary

The following is a summary of the cash and investments as of June 30, 2013:

Cash Deposits	\$ 5,293,710
Investments (Local Agency Investment Fund)	3,055,334
	<u>\$ 8,349,044</u>
Restricted cash and cash equivalents	\$ 2,705,461
Unrestricted cash and cash equivalents	5,643,583
	<u>\$ 8,349,044</u>

#### 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 (LAIF), 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>\$ 3,055,334</u>	278 days

# MONTARA WATER AND SANITARY DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2013

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

#### D. Credit Risk

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

### NOTE #3 – CAPITAL ASSETS

Changes in capital assets accounts are summarized below:

Category	Audited Balance June 30, 2012	Additions	Deletions	Transfers	Audited Balance June 30, 2013
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	855,852	-	-	-	855,852
Seal Cove collection system	995,505	-	-	-	995,505
Other capital improvements	3,584,651	752,558	-	-	4,337,209
Water facilities plant	19,859,013	597,416	-	-	20,456,429
Water general plant	174,309	-	-	-	174,309
Surface water rights	300,000	-	-	-	300,000
Total	32,094,906	1,349,974	-	-	33,444,880
Accumulated Depreciation	11,162,393	1,195,560	-	-	12,357,953
Property, Plant & Equipment, net	\$20,932,513	\$ 154,414	\$ -	\$ -	\$21,086,927

# MONTARA WATER AND SANITARY DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2013

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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 the 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 \$972,798 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, 2012 are as follows:

Total assets	\$ 18,729,205
Total liabilities	<u>655,095</u>
Net position	<u><u>\$ 18,074,110</u></u>
Total revenues	\$ 3,969,921
Total expenses	<u>5,401,026</u>
Increase (Decrease) in net position	<u><u>\$ (1,431,105)</u></u>

# MONTARA WATER AND SANITARY DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2013

### 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	\$15,635,000	\$ -	\$ 854,915	\$14,780,085	\$ 795,656	\$13,984,429
2012 GO Bonds Discount	(77,180)	-	(4,886)	(72,294)	(4,886)	(67,408)
PNCEF Lease Obligation	1,654,440	-	79,882	1,574,558	61,317	1,513,241
CIEDB loan	941,464	-	24,253	917,211	24,992	892,219
Deferred amount on refunding	(298,842)	-	(18,522)	(280,320)	(18,521)	(261,799)
SRF Loan	-	360,000	-	360,000	-	360,000
Totals	<u>\$ 17,854,882</u>	<u>\$ 360,000</u>	<u>\$ 935,642</u>	<u>\$ 17,279,240</u>	<u>\$ 858,558</u>	<u>\$ 16,420,682</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.

The bonds were sold to First Republic Bank at their face amount (\$15,635,000) less net original issue discount of \$78,175, for a total amount of \$15,556,825. On the date of issue of the Series 2012 bonds, the \$83,745 were deposited into the Cost of Issuance Fund, \$1,500,000 in the Acquisition and Improvement Fund and the remaining \$13,973,350 was transferred to the Series 2003 bonds. The difference in cash flow of the General Obligation Bonds Series 2012 is \$2,765,341 which is due to a present value savings. The economic gain, as determined by the Causey Demgen & Moore Inc., is \$2,232,516.

# MONTARA WATER AND SANITARY DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2013

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

#### Repayment Schedule

Fiscal Year Ending June 30,	Principal	Interest	Total
2014	\$ 795,656	\$ 354,780	\$ 1,150,436
2015	815,134	335,302	1,150,436
2016	835,090	315,346	1,150,436
2017	854,702	295,734	1,150,436
2018	876,458	273,978	1,150,436
2019-2023	4,714,223	1,037,957	5,752,180
2024-2028	5,320,499	431,681	5,752,180
2029	568,322	6,896	575,218
Total	<u>\$ 14,780,085</u>	<u>\$ 3,051,674</u>	<u>\$ 17,831,759</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.

#### Repayment Schedule

Fiscal Year Ending June 30,	Principal	Interest	Total
2014	\$ 61,317	\$ 45,633	\$ 106,950
2015	68,958	43,722	112,680
2016	76,970	41,580	118,550
2017	85,454	39,196	124,650
2018	93,990	36,560	130,550
2019-2023	628,740	132,970	761,710
2024-2027	559,129	28,740	587,869
Total	<u>\$ 1,574,558</u>	<u>\$ 368,401</u>	<u>\$ 1,942,959</u>

# MONTARA WATER AND SANITARY DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2013

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

#### C. CIEDB Loan

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

#### Repayment Schedule:

##### **CIEDB Loan**

Fiscal Year Ending June 30,	Principal	Interest	Total
2014	\$ 24,992	\$ 30,345	\$ 55,337
2015	25,755	29,497	55,252
2016	26,540	28,622	55,162
2017	27,350	27,720	55,070
2018	28,184	26,791	54,975
2019-2023	154,350	119,001	273,351
2024-2028	179,369	91,140	270,509
2029-2033	208,443	58,763	267,206
2034-2038	242,228	21,137	263,365
Total	\$ 917,211	\$ 433,016	\$ 1,350,227

#### 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. 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. Per the repayment terms of this agreement, the principal and interest payments will start one year from the project completion date at an interest rate of 2.09 percent per annum. The District expects the project to be completed in 2016.

During current fiscal year ended June 30, 2013, the District received \$360,000 in response to the first reimbursement claim filed under this loan agreement.

# MONTARA WATER AND SANITARY DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2013

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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.

The following is a summary of the insurance policies carried by the District as of June 30, 2013:

Type of Coverage	Coverage Limits
General Liability	\$ 15,500,000
Workers' Compensation	2,000,000
Boiler & Machinery	100,000,000
Property	6,801,517

# MONTARA WATER AND SANITARY DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2013

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

Audited condensed financial information for CSRMA is presented below from the most recent statements available for the year ended June 30, 2012:

Total assets	\$ 30,047,691
Total liabilities	<u>17,709,465</u>
Net position	<u>\$ 12,338,226</u>
Total revenues	\$ 8,879,110
Total expenses	<u>12,460,997</u>
Increase (decrease) in net position	<u>\$ (3,581,887)</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. Montara Water and Sanitary 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 Districts 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.