

**MONTARA WATER AND
SANITARY DISTRICT**

FINANCIAL STATEMENTS

JUNE 30, 2011

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, 2011

BOARD OF DIRECTORS

Paul Perkovic
Jim Harvey
Scott Boyd
Bob Ptacek
Kathryn Slater-Carter

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 basic financial statements of Montara Water and Sanitary District as of and for the year ended June 30, 2011, as listed in the table of contents. These basic financial statements are the responsibility of the District's management. 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 State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Montara Water and Sanitary District as of June 30, 2011, and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America, as well as accounting systems prescribed by the State Controller's office for special districts.

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Vavrinek, Trine, Day & Co., LLP.

Pleasanton, California
January 30, 2012

MONTARA WATER AND SANITARY DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2011

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, 2011. Please read it in conjunction with the District financial statements and accompanying notes, which follow this section.

HIGHLIGHTS

District Financial Highlights

- The net assets of the District for its water and sewer operations increased during the year ending June 30, 2011. While economic conditions were slow, the District maintained its operations on budget and its operating expenses were comparable to the prior year.

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 Assets 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 Assets. 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 Assets and the Statement of Revenues and Expenses and Changes in Net Assets report information about District activities in a way that will help answer this question. These two statements report the net assets of the District and changes in them. You can think of District net asset, the difference between assets and liabilities, as one way to measure financial health or financial position. Over time, increases or decreases in District net assets 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.

MONTARA WATER AND SANITARY DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2011

Net Assets Statement & Analysis

The District's total net assets remained relatively constant increasing by \$273,476.

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

	Sewer		Water		Total	
	2011	2010	2011	2010	2011	2010
Current assets	\$ 3,788,744	\$ 3,733,342	\$ 1,674,011	\$ 1,979,301	\$ 5,462,755	\$ 5,712,643
Capital assets net of accumulated depreciation	4,397,490	4,467,036	16,450,975	16,846,973	20,848,465	21,314,009
Other long term assets	3,994,498	3,905,605	1,550,136	1,447,006	5,544,634	5,352,611
Total assets	<u>12,180,732</u>	<u>12,105,983</u>	<u>19,675,122</u>	<u>20,273,280</u>	<u>31,855,854</u>	<u>32,379,263</u>
Current liabilities	162,638	251,489	900,087	1,080,185	1,062,725	1,331,674
Long-term liabilities	954,918	977,223	16,848,478	17,354,109	17,803,396	18,331,332
Total liabilities	<u>1,117,556</u>	<u>1,228,712</u>	<u>17,748,565</u>	<u>18,434,294</u>	<u>18,866,121</u>	<u>19,663,006</u>
Net assets						
Invested in capital assets, net of related debt	3,432,491	3,479,199	383,727	198,744	3,816,218	3,677,943
Restricted for debt service	-	-	1,192,614	1,087,029	1,192,614	1,087,029
Unrestricted	7,630,685	7,398,072	350,216	553,213	7,980,901	7,951,285
Total net assets	<u>\$ 11,063,176</u>	<u>\$ 10,877,271</u>	<u>\$ 1,926,557</u>	<u>\$ 1,838,986</u>	<u>\$ 12,989,733</u>	<u>\$ 12,716,257</u>

MONTARA WATER AND SANITARY DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2011

Revenues, Expenses and Changes in Net Assets

For the fiscal year ended June 30, 2011 the sewer system generated operating revenue of \$2,036,148 and operating expenses of \$2,081,212, while the water system generated operating revenue of \$1,455,235 and operating expenses of \$2,273,432. Total cash & cash equivalents decreased slightly from \$6,314,747 to \$6,223,981 by year-end due primarily to higher total operating expenses.

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

	Sewer		Water		Total	
	2011	2010	2011	2010	2011	2010
Operating revenues	\$ 2,036,148	\$ 1,909,255	\$ 1,455,235	\$ 1,608,184	\$ 3,491,383	\$ 3,517,439
Tax revenues	192,735	139,720	1,447,562	1,357,622	1,640,297	1,497,342
Interest and investment income	8,918	14,436	10,398	12,342	19,316	26,778
Connection fees and other non operating revenues	81,715	158,229	135,060	230,277	216,775	388,506
Total revenues	<u>2,319,516</u>	<u>2,221,640</u>	<u>3,048,255</u>	<u>3,208,425</u>	<u>5,367,771</u>	<u>5,430,065</u>
Operating expenses	2,081,212	2,214,481	2,273,432	2,070,944	4,354,644	4,285,425
Non-operating expenses	52,399	55,978	687,252	693,788	739,651	749,766
Total expenses	<u>2,133,611</u>	<u>2,270,459</u>	<u>2,960,684</u>	<u>2,764,732</u>	<u>5,094,295</u>	<u>5,035,191</u>
Change in fund net assets	185,905	(48,819)	87,571	443,693	273,476	394,874
Fund net assets - beginning of year	<u>10,877,271</u>	<u>10,926,090</u>	<u>1,838,986</u>	<u>1,395,293</u>	<u>12,716,257</u>	<u>12,321,383</u>
Fund net assets - end of year	<u>\$ 11,063,176</u>	<u>\$ 10,877,271</u>	<u>\$ 1,926,557</u>	<u>\$ 1,838,986</u>	<u>\$ 12,989,733</u>	<u>\$ 12,716,257</u>

MONTARA WATER AND SANITARY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2011

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2011, the District had \$ 20,848,465 (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 net investment in capital assets as of June 30, 2011, decreased by \$465,544 or 2.2% over the prior year. This is due primarily to 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, 2010:

Category	Audited Balance June 30, 2010	Additions	Deletions	Transfers	Audited Balance June 30, 2011
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	2,794,280	342,418	-	-	3,136,698
Water facilities plant	18,787,865	342,135	(43,893)	-	19,086,107
Water general plant	174,309	-	-	-	174,309
Surface water rights	300,000	-	-	-	300,000
Construction in progress	156	-	-	-	156
Total	30,233,543	684,553	(43,893)	-	30,874,203
Accumulated Depreciation	8,919,534	1,150,097	(43,893)	-	10,025,738
Property, Plant & Equipment, net	<u>\$21,314,009</u>	<u>\$ (465,544)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$20,848,465</u>

Additional information on capital assets can be found in notes 1E and 3 to the financial statements of this report.

MONTARA WATER AND SANITARY DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2011

Long Term Obligations

On July 17, 2003 the District issued \$17,500,000 in Water General Obligation Bonds Series 2003 with an average interest rate of 4.625% to purchase the water system and pay off the series 2002 General Obligation Notes.

The District entered into a capital lease for approximately \$1.8 million in October of 2006 at a rate of 5.45%, to finance the acquisition of capital assets for the water operations.

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

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion	Long Term Portion
General Obligation Bonds, 2003 Series	\$ 14,945,000	\$ -	\$ 545,000	\$ 14,400,000	\$ 565,000	\$ 13,835,000
General Obligation Bonds Premium	16,155	-	898	15,257	-	15,257
Citimortgage/Chevron Capital Lease	1,731,264	-	37,538	1,693,726	39,286	1,654,440
CIEDB loan	987,838	-	22,839	964,999	23,535	941,464
Totals	<u>\$ 17,680,257</u>	<u>\$ -</u>	<u>\$ 606,275</u>	<u>\$ 17,073,982</u>	<u>\$ 627,821</u>	<u>\$ 16,446,161</u>

Additional information on the long term debt 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 a small amount of 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 adopts 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 ASSETS AS OF JUNE 30, 2011

	Sewer	Water	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 3,562,590	\$ 1,468,777	\$ 5,031,367
Accounts receivable	79,454	165,792	245,246
Inventory	-	39,442	39,442
Employee note receivable	146,700	-	146,700
	<u>3,788,744</u>	<u>1,674,011</u>	<u>5,462,755</u>
Total current assets			
Non-current assets:			
Capital assets:			
Property, plant and equipment	9,514,805	21,359,398	30,874,203
Less accumulated depreciation	<u>5,117,315</u>	<u>4,908,423</u>	<u>10,025,738</u>
	<u>4,397,490</u>	<u>16,450,975</u>	<u>20,848,465</u>
Net property, plant and equipment			
Other assets:			
Unamortized bond issuance costs	-	41,735	41,735
Restricted cash and cash equivalents	-	1,192,614	1,192,614
Interfund advances - Due from water fund	1,306,951	-	1,306,951
Other assets	-	315,787	315,787
Investment in joint powers authorities	<u>2,687,547</u>	<u>-</u>	<u>2,687,547</u>
	<u>3,994,498</u>	<u>1,550,136</u>	<u>5,544,634</u>
Total other assets			
Total non-current assets			
	<u>8,391,988</u>	<u>18,001,111</u>	<u>26,393,099</u>
Total assets			
	<u>12,180,732</u>	<u>19,675,122</u>	<u>31,855,854</u>

(Continued)

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

MONTARA WATER AND SANITARY DISTRICT

STATEMENT OF NET ASSETS (CONTINUED) AS OF JUNE 30, 2011

	Sewer	Water	Total
LIABILITIES			
Current liabilities:			
Accounts payable	139,103	26,064	165,167
Interest payable	-	269,737	269,737
Current portion of long-term obligations	23,535	604,286	627,821
	<u>162,638</u>	<u>900,087</u>	<u>1,062,725</u>
Total current liabilities			
Long term liabilities:			
Accrued compensated absences	13,454	18,551	32,005
General obligation bonds, less current portion	-	13,850,257	13,850,257
Other long term obligations, less current portion	941,464	1,654,440	2,595,904
Interfund advances - Due to sewer fund	-	1,306,951	1,306,951
Deposits	-	18,279	18,279
	<u>954,918</u>	<u>16,848,478</u>	<u>17,803,396</u>
Total long term liabilities			
Total liabilities			
	<u>1,117,556</u>	<u>17,748,565</u>	<u>18,866,121</u>
NET ASSETS			
Invested in capital assets, net of related debt	3,432,491	383,727	3,816,218
Restricted for debt service	-	1,192,614	1,192,614
Unrestricted	7,630,685	350,216	7,980,901
	<u>11,063,176</u>	<u>1,926,557</u>	<u>12,989,733</u>
Total net assets			
	<u>\$ 11,063,176</u>	<u>\$ 1,926,557</u>	<u>\$ 12,989,733</u>

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

MONTARA WATER AND SANITARY DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS FOR THE YEAR ENDED JUNE 30, 2011

	Sewer	Water	Total
OPERATING REVENUES			
Sales and service charges	\$ 1,884,692	1,455,235	\$ 3,339,927
Other revenues	151,456	-	151,456
Total operating revenues	2,036,148	1,455,235	3,491,383
OPERATING EXPENSES			
General and administrative	265,226	730,563	995,789
Contractual services	1,403,221	550,870	1,954,091
Depreciation	406,709	743,388	1,150,097
Maintenance and repairs	6,056	248,611	254,667
Total operating expenses	2,081,212	2,273,432	4,354,644
OPERATING INCOME (LOSS)	(45,064)	(818,197)	(863,261)
NONOPERATING REVENUES (EXPENSE)			
Taxes - District share of one percent	192,735	199,818	392,553
Taxes - Ad valorem for general obligation bonds	-	1,247,744	1,247,744
Investment income	8,918	10,398	19,316
Interest expense	(52,399)	(687,252)	(739,651)
Other revenues	75,196	116,630	191,826
Total non-operating revenues (expenses)	224,450	887,338	1,111,788
INCOME BEFORE CONTRIBUTIONS AND TRANSFERS	179,386	69,141	248,527
Capital contributions - connection fees	6,519	18,430	24,949
Changes in net assets	185,905	87,571	273,476
NET ASSETS, BEGINNING OF YEAR	10,877,271	1,838,986	12,716,257
TOTAL NET ASSETS, END OF YEAR	\$ 11,063,176	\$ 1,926,557	\$ 12,989,733

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, 2011

	Sewer	Water	Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers and users	\$ 2,050,460	\$ 1,505,256	\$ 3,555,716
Payments to suppliers - other	(1,498,825)	(991,497)	(2,490,322)
Payments to employees	(263,996)	(731,446)	(995,442)
Net cash provided (used) by operating activities	<u>287,639</u>	<u>(217,687)</u>	<u>69,952</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Property taxes collected	192,735	199,818	392,553
Principal paid on long term debt	(22,838)	(583,436)	(606,274)
Interest paid on long term debt	(52,399)	(696,335)	(748,734)
Acquisition and construction of capital assets	(337,163)	(347,390)	(684,553)
Funds advanced from sewer to water	(88,893)	88,893	-
Connection fees and other non operating revenue collected	81,715	1,385,259	1,466,974
Net cash provided (used) by capital and related financing activities	<u>(226,843)</u>	<u>46,809</u>	<u>(180,034)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Investment income	8,918	10,398	19,316
Net cash provided (used) by investing activities	<u>8,918</u>	<u>10,398</u>	<u>19,316</u>
NET INCREASE IN CASH AND EQUIVALENTS	69,714	(160,480)	(90,766)
Cash and cash equivalents, July 1	3,492,876	2,821,871	6,314,747
Cash and cash equivalents, June 30	<u>\$ 3,562,590</u>	<u>\$ 2,661,391</u>	<u>\$ 6,223,981</u>
AMOUNTS AS THEY APPEAR ON THE STATEMENT OF NET ASSETS:			
Cash and cash equivalents	\$ 3,562,590	\$ 1,468,777	\$ 5,031,367
Restricted cash and cash equivalents	-	1,192,614	1,192,614
	<u>\$ 3,562,590</u>	<u>\$ 2,661,391</u>	<u>\$ 6,223,981</u>

(Continued)

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

MONTARA WATER AND SANITARY DISTRICT

STATEMENT OF CASH FLOWS (CONTINUED) FOR THE YEAR ENDED JUNE 30, 2011

	<u>Sewer</u>	<u>Water</u>	<u>Total</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating income (loss)	\$ (45,064)	\$ (818,197)	\$ (863,261)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation expense	406,709	743,388	1,150,097
Accounts and notes receivable	14,312	37,742	52,054
Inventory	-	1,483	1,483
Accounts payable	(89,548)	(193,499)	(283,047)
Deposits	-	12,279	12,279
Compensated absences	1,230	(883)	347
Total adjustments	<u>332,703</u>	<u>600,510</u>	<u>933,213</u>
Net cash provided (used) by operating activities	<u>\$ 287,639</u>	<u>\$ (217,687)</u>	<u>\$ 69,952</u>

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

MONTARA WATER AND SANITARY DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2011

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 assets, 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.

The District applies all applicable pronouncements of the Governmental Accounting Standards Board (GASB) as well as any applicable pronouncements of the Financial Accounting Standards Board, the Accounting Principles Board, or any Accounting Research Bulletins issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Net assets are 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 assets are available.

MONTARA WATER AND SANITARY DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2011

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 assets. Enterprise fund type operating statements present increases (revenues) and decreases (expenses) in total net assets.

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

D. Inventory

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

E. Capital Assets

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

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

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

F. Cash Flows Defined

For purpose of the 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.

MONTARA WATER AND SANITARY DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2011

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.

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

In June 2010, GASB issued GASB Statement No. 59, *Financial Instruments Omnibus*. The objective of this Statement is to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2010. The District has implemented the provisions of this Statement in the current fiscal year, and the statement does not have a significant impact on the financial statements.

MONTARA WATER AND SANITARY DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2011

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

In February 2009, GASB issued GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The objective of this statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The requirements of this Statement are effective for the financial statements for periods beginning after June 15, 2010. The District is accounted for as an enterprise fund and therefore this statement does not apply.

On December 17, 2010, the Governmental Accounting Standards Board (GASB) issued Statement No. 61, *The Financial Reporting Entity: Omnibus*. Statement 61 is designed to improve financial reporting for governmental entities by amending the requirements of Statements No. 14, *The Financial Reporting Entity*, and No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, to better meet user needs and address reporting entity issues that have come to light since those Statements were issued in 1991 and 1999, respectively. The Statement will improve the information presented about the financial reporting entity, which is comprised of a primary government and related entities (component units). The requirements of Statement 61 are effective for financial statements for periods beginning after June 15, 2012. The District will be required to implement the provisions of this Statement in fiscal year ending June 30, 2013, and does not believe it will have a significant impact on the financial statements.

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 requirements of Statement 62 are effective for financial statements for periods beginning after December 15, 2011. The District will be required to implement the provisions of this Statement in the fiscal year ending June 30, 2013, and is currently evaluating the effect on the District’s financial statements.

MONTARA WATER AND SANITARY DISTRICT

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2011

NOTE #2 - CASH AND INVESTMENTS

A. Cash and Investment Summary

The following is a summary of the cash and investments as of June 30, 2011:

Cash Deposits	\$ 2,593,877
Investments (Local Agency Investment Fund)	3,630,104
	<u>\$ 6,223,981</u>
Restricted cash and cash equivalents	\$ 1,192,614
Unrestricted cash and cash equivalents	5,031,367
	<u>\$ 6,223,981</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>
Local Agency Bonds, Notes, Warrants	5 years	None	None
Registered State Bonds, Notes, Warrants	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptance	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base	None
Medium-Term Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Joint Powers Authority Pools	N/A	None	None

MONTARA WATER AND SANITARY DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE #2 - CASH AND INVESTMENTS (Continued)

C. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by depositing the majority of its funds with the State Local Agency Investment Fund (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	\$ 3,635,828	237 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 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.

MONTARA WATER AND SANITARY DISTRICT

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2011

NOTE #3 – CAPITAL ASSETS

Changes in capital assets accounts are summarized below:

Category	Audited			Transfers	Audited
	Balance June 30, 2010	Additions	Deletions		Balance June 30, 2011
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	2,794,280	342,418	-	-	3,136,698
Water facilities plant	18,787,865	342,135	(43,893)	-	19,086,107
Water general plant	174,309	-	-	-	174,309
Surface water rights	300,000	-	-	-	300,000
Construction in progress	156	-	-	-	156
Total	<u>30,233,543</u>	<u>684,553</u>	<u>(43,893)</u>	<u>-</u>	<u>30,874,203</u>
Accumulated Depreciation	<u>8,919,534</u>	<u>1,150,097</u>	<u>(43,893)</u>	<u>-</u>	<u>10,025,738</u>
Property, Plant & Equipment, net	<u>\$21,314,009</u>	<u>\$ (465,544)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$20,848,465</u>

NOTE #4 – INVESTMENT IN JOINT POWER AUTHORITY

Investment in Sewer Authority Mid-Coastside

The District has an ownership percentage (20%) of 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 (50%) and the Granada Sanitary District (30%). The District reports its financial interest 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.

MONTARA WATER AND SANITARY DISTRICT

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2011

NOTE #4 - INVESTMENT IN JOINT POWER AUTHORITY (Continued)

SAM provides sewage collection and treatment services, for which the District pays a monthly fee. The District paid \$1,138,062 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 at June 30, 2011 are as follows:

Total assets	\$ 19,627,282
Total liabilities	<u>474,335</u>
Net assets	<u><u>\$ 19,152,947</u></u>
Total revenues	\$ 3,885,464
Total expenses	<u>5,488,483</u>
Decrease in net assets	<u><u>\$ (1,603,019)</u></u>

The District specific SAM plant expansion costs, not shared by the other equity participation are burdened on Montara Water and Sanitary District alone and have been included in the District's total Investment in Joint Power Authorities.

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, 2003 Series	\$ 14,945,000	\$ -	\$ 545,000	\$ 14,400,000	\$ 565,000	\$ 13,835,000
General Obligation Bonds Premium	16,155	-	898	15,257	-	15,257
Citimortgage/Chevron Capital Lease	1,731,264	-	37,538	1,693,726	39,286	1,654,440
CIEDB loan	987,838	-	22,839	964,999	23,535	941,464
Totals	<u>\$ 17,680,257</u>	<u>\$ -</u>	<u>\$ 606,275</u>	<u>\$ 17,073,982</u>	<u>\$ 627,821</u>	<u>\$ 16,446,161</u>

A. General Obligation Bonds, Series 2003

On July 17, 2003, the District issued General Obligation Bonds, Series 2003 for \$17,500,000. These bonds are payable from the levy of ad valorem taxes on all property within the District. Proceeds of the issuance are for the acquisition and improvements of a domestic water supply, treatment, and fire protection system serving the entire District service area. Interest rates range from 4% to 4.625%. These bonds mature through 2028 with principal amounts due August 1, and interest payments due on February 1 and August 1 of each year.

MONTARA WATER AND SANITARY DISTRICT

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2011

NOTE #5 - LONG TERM OBLIGATIONS (Continued)

The Bonds are registered in the name of Cede & Co., as nominee of the Depository Trust Company (“DTC”), New York, as the initial securities depository for the bond. Principal and interest payments with respect to the Bonds are payable directly to DTC by the paying agent.

B. Repayment Schedule

Fiscal Year Ending June 30,	Principal	Interest	Total
2012	\$ 565,000	\$ 636,068	\$ 1,201,068
2013	580,000	613,168	1,193,168
2014	600,000	589,568	1,189,568
2015	620,000	565,168	1,185,168
2016	645,000	539,868	1,184,868
2017-2021	3,650,000	2,274,844	5,924,844
2022-2026	4,505,000	1,374,427	5,879,427
2027-2030	3,235,000	247,625	3,482,625
Total	<u>\$ 14,400,000</u>	<u>\$ 6,840,736</u>	<u>\$ 21,240,736</u>

C. Capital Lease

On November 7, 2006, the District entered into a lease/purchase agreement with a financial institution in the amount of \$1,854,443 at a fixed interest rate of 4.56% 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.

D. Repayment Schedule

Fiscal Year Ending June 30,	Principal	Interest	Total
2012	\$ 39,286	\$ 74,921	\$ 114,207
2013	45,130	73,037	118,167
2014	52,725	70,822	123,547
2015	60,975	68,247	129,222
2016	69,859	65,283	135,142
2017-2021	506,716	266,273	772,989
2022-2026	856,635	115,555	972,190
2027	62,400	607	63,007
Total	<u>\$ 1,693,726</u>	<u>\$ 734,745</u>	<u>\$ 2,428,471</u>

MONTARA WATER AND SANITARY DISTRICT

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2011

NOTE #5 - LONG TERM OBLIGATIONS (Continued)

E. 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% per annum.

F. Repayment Schedule:

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 23,535	\$ 31,968	\$ 55,503
2013	24,252	31,169	55,421
2014	24,992	30,345	55,338
2015	25,755	29,497	55,252
2016	26,540	28,622	55,162
2017-2021	145,349	129,025	274,373
2022-2026	168,908	102,789	271,697
2027-2031	196,287	72,300	268,587
2032-2036	228,103	36,869	264,972
2037-3038	101,278	3,570	104,848
	<u>\$ 964,999</u>	<u>\$ 496,154</u>	<u>\$ 1,461,153</u>

NOTE #6 - DEFERRED COMPENSATION PLAN

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

MONTARA WATER AND SANITARY DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2011

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, 2011:

Type of Coverage	Coverage Limits
Excess General Liability	\$ 1,000,000
Workers' Compensation	1,000,000
Boiler & Machinery	100,000,000
Property	1,000,000

Audited condensed financial information for CSRMA is presented below for the year ended June 30, 2010*:

Total assets	\$ 30,183,457
Total liabilities	<u>16,996,072</u>
Net assets	<u>\$ 13,187,385</u>
Total revenues	\$ 10,635,989
Total expenses	<u>11,926,934</u>
Increase (decrease) in net assets	<u>\$ (1,290,945)</u>

* Most current information available.

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.

MONTARA WATER AND SANITARY DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2011

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. 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.