

**MONTARA WATER AND
SANITARY DISTRICT**

ANNUAL FINANCIAL REPORT

JUNE 30, 2014

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, 2014

BOARD OF DIRECTORS

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

GENERAL MANAGER

Clemens Heldmaier



VAVRINEK, TRINE, DAY
& COMPANY, LLP
Certified Public Accountants

VALUE THE DIFFERENCE

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Montara Water and Sanitary District (the District), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 respective financial position of Montara Water and Sanitary District as of June 30, 2014, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Vavrinek, Trine, Day & Co., LLP.

Pleasanton, California
October 22, 2014

MONTARA WATER AND SANITARY DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2014

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, 2014. Please read it in conjunction with the District financial statements and accompanying notes, which follow this section.

HIGHLIGHTS

District Financial Highlights

- District-wide revenues increased approximately \$213,000 over the prior year going from \$5,565,159 to \$5,778,643.
- District-wide expenses decreased approximately \$424,000 from the prior year going from \$4,863,089 to \$4,439,005.
- The effect of the increase in revenues coupled with the decrease in expenses caused the District-wide change in net position to increase approximately \$638,000 over the prior year. In other words, the District-wide increase in net position for the year ended June 30, 2014 was \$1,339,638 and for the year ended June 30, 2013 the increase in net position was \$702,070.

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, 2014

FINANCIAL ANALYSIS OF THE DISTRICT

One of the most important questions asked about District finances is whether or not the District's overall financial position has improved or deteriorated. The Statement of Net Position and the Statement of Revenues and Expenses and Changes in Net Position report information about District activities in a way that will help answer this question. These two statements report the net position of the District and changes. You can think of District net position, the difference between assets and liabilities, as one way to measure financial health or financial position. Over time, increases or decreases in District net position are one indicator of whether its financial health is improving or deteriorating. Other factors to consider include changes in economic conditions, population growth, and new or changed legislation.

Net Position Statement and Analysis

The District's total net position increased from \$14,745,596 to \$16,085,234 or \$1,339,638.

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

	Sewer		Water		Total	
	2014	2013	2014	2013	2014	2013
Current assets	\$ 5,732,789	\$ 5,006,103	\$ 1,395,513	\$ 1,003,068	\$ 7,128,302	\$ 6,009,171
Capital assets net of accumulated depreciation	4,510,640	4,711,655	16,946,828	16,375,272	21,457,468	21,086,927
Other long term assets	3,955,057	4,349,399	1,543,220	2,782,575	5,498,277	7,131,974
Total assets	14,198,486	14,067,157	19,885,561	20,160,915	34,084,047	34,228,072
Deferred outflows of resources	-	-	261,798	280,320	261,798	280,320
Total deferred outflow of resources	-	-	261,798	280,320	261,798	280,320
Current liabilities	138,956	347,697	1,090,455	1,128,885	1,229,411	1,476,582
Long-term liabilities	1,597,400	1,664,917	15,433,800	16,060,657	17,031,200	18,286,214
Total liabilities	1,736,356	2,012,614	16,524,255	17,189,542	18,260,611	19,762,796
Net position						
Net investment in capital assets	2,861,800	3,007,165	1,935,608	877,636	4,797,408	3,884,801
Restricted for debt service	-	-	1,471,247	2,705,461	1,471,247	2,705,461
Unrestricted	9,600,330	9,047,378	216,249	(892,044)	9,816,579	8,155,334
Total net position	\$ 12,462,130	\$ 12,054,543	\$ 3,623,104	\$ 2,691,053	\$ 16,085,234	\$ 14,745,596

Revenues, Expenses and Changes in Net Position

For the fiscal year ended June 30, 2014 the sewer system generated operating revenue of \$2,045,340 and operating expenses of \$1,989,988 for a net operating income of \$55,352. This is a decrease over prior year's net operating income of \$107,002 by \$51,650. Whereas operating revenue increased 3.5%, system maintenance and repairs expense increased by \$93,312 or 8.9%. This increase expense is due to the rise in operating costs associated with running the Sewer Authority Mid Coastside (SAM) system.

The Sewer Funds non-operating activities revenues, consisting of property taxes, investment income, and revenue from the lease of the cell phone tower, experienced an increase of \$264.

MONTARA WATER AND SANITARY DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2014

For the fiscal year ended June 30, 2014 the water system generated operating revenue of \$1,635,179 and operating expenses of \$1,934,125 for a net operating loss of \$298,946. This is a decrease over prior year's net operating loss of \$1,048,702 by \$749,756. For the fiscal year ended June 30, 2014 operating revenue increased 4.3%, system maintenance and repairs expense decreased by \$655,361 or 66%. This decrease in expense is due to the recognition of a loss on the disposition in the investment of the Airport Project at June 30, 2013 for \$316,000. Also, at fiscal year ending June 30, 2013 the District recorded the pumping expense of \$200,000 owed to the county. Lastly, Engineering costs for the current fiscal year are down approximately \$164,000.

The Water Funds non-operating activities revenues consisting of property taxes, investment income, and revenue from the lease of the cell phone tower experienced an increase of \$11,317. The District receives property tax revenue which was imposed specifically for the payment of the General Obligation Bonds approved by the District rate payers.

Connection fees for the Sewer Fund increased from \$36,325 to \$66,970 or 84% whereas the connection fees for the Water Fund increased from \$74,315 to \$107,520 or 45%. These funds are used to off-set capital needs for existing customers. This amount is expected to rise in the upcoming years as the moratorium on connections for residents within the District's service area has been repealed.

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

	Sewer		Water		Total	
	2014	2013	2014	2013	2014	2013
Operating revenues	\$ 2,045,340	\$ 1,975,804	\$ 1,635,179	\$ 1,566,662	\$ 3,680,519	\$ 3,542,466
Tax revenues	301,852	304,550	1,540,918	1,534,915	1,842,770	1,839,465
Interest and investment income	13,823	14,208	-	-	13,823	14,208
Loss on disposition of assets	-	-	-	-	-	-
Connection fees and other non operating revenues	99,240	65,248	142,291	103,772	241,531	169,020
Total revenues	<u>2,460,255</u>	<u>2,359,810</u>	<u>3,318,388</u>	<u>3,205,349</u>	<u>5,778,643</u>	<u>5,565,159</u>
Operating expenses	1,989,988	1,868,802	1,934,125	2,615,364	3,924,113	4,484,166
Non-operating expenses	62,680	40,687	452,212	338,236	514,892	378,923
Equity transfers	-	-	-	-	-	-
Total expenses	<u>2,052,668</u>	<u>1,909,489</u>	<u>2,386,337</u>	<u>2,953,600</u>	<u>4,439,005</u>	<u>4,863,089</u>
Change in fund net position	407,587	450,321	932,051	251,749	1,339,638	702,070
Fund net position - beginning of year	<u>12,054,543</u>	<u>11,604,222</u>	<u>2,691,053</u>	<u>2,439,304</u>	<u>14,745,596</u>	<u>14,043,526</u>
Fund net position - end of year	<u>\$ 12,462,130</u>	<u>\$ 12,054,543</u>	<u>\$ 3,623,104</u>	<u>\$ 2,691,053</u>	<u>\$ 16,085,234</u>	<u>\$ 14,745,596</u>

MONTARA WATER AND SANITARY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2014, the District had \$ 21,457,468 (net of accumulated depreciation) invested in a variety of capital assets.

The assets include: land; sanitary sewer collection system subsurface lines and pump stations; water supply wells; surface water diversion and storage tank; water treatment plant; treated water storage tanks; water distribution system subsurface lines, valves, hydrants, and pumps; administration building; and vehicles. The District's capital assets balance as of June 30, 2014, increased by \$370,541 or 1.8 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

The following summarizes District capital assets for fiscal year ended June 30, 2014:

Category	Audited Balance June 30, 2013	Additions	Deletions	Transfers	Audited Balance June 30, 2014
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	236,009	-	-	1,091,861
Seal Cove collection system	995,505	-	-	-	995,505
Other capital improvements	4,337,209	20,357	-	-	4,357,566
Water facilities plant	20,456,429	1,353,958	-	-	21,810,387
Water general plant	174,309	-	-	-	174,309
Surface water rights	300,000	-	-	-	300,000
Total	<u>33,444,880</u>	<u>1,610,324</u>	<u>-</u>	<u>-</u>	<u>35,055,204</u>
Accumulated depreciation	<u>12,357,953</u>	<u>1,239,783</u>	<u>-</u>	<u>-</u>	<u>13,597,736</u>
Property, plant & equipment, net	<u>\$ 21,086,927</u>	<u>\$ 370,541</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 21,457,468</u>

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

Long Term Obligations

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

MONTARA WATER AND SANITARY DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2014

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

On July 10, 2012, the District entered into an agreement with the State of California Department of Health under the Safe Drinking Water State Revolving Fund Law of 1947. This agreement constitutes funding in the form of a loan and a grant made by the State to the District. The purpose of the funding is to assist in financing the cost of studies, planning and other preliminary activities for a project which will enable the District to meet safe drinking water standards. In February 2013, the District received \$360,000 in response to the first reimbursement claim filed.

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>	<u>Long Term Portion</u>
General Obligation Bonds, 2012 Series	\$14,780,085	\$ -	\$ 795,658	\$13,984,427	\$ 815,134	\$13,169,293
2012 GO Bonds Discount	(72,294)	-	(4,886)	(67,408)	(4,886)	(62,522)
PNCEF Lease Obligation	1,574,558	-	61,316	1,513,242	68,958	1,444,284
CIEDB loan	917,211	-	24,992	892,219	25,755	866,464
Deferred amount on refunding	(280,320)	-	(18,522)	(261,798)	(18,522)	(243,276)
SRF Loan	360,000	49,553	-	409,553	-	409,553
Totals	<u>\$17,279,240</u>	<u>\$ 49,553</u>	<u>\$ 858,558</u>	<u>\$16,470,235</u>	<u>\$ 886,439</u>	<u>\$15,583,796</u>

Additional information on the long term obligations can be found in Note #5 of the notes to the financial statements of this report.

ECONOMIC FACTORS, RATES, AND BUDGETARY CONTROL

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

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

MONTARA WATER AND SANITARY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014

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, 2014

	Sewer	Water	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 5,647,641	\$ 1,015,334	\$ 6,662,975
Accounts receivable	65,244	337,523	402,767
Inventory	-	42,656	42,656
Employee loan receivable - current	19,904	-	19,904
Total current assets	5,732,789	1,395,513	7,128,302
Non-current assets:			
Capital assets:			
Property, plant and equipment	10,928,609	24,126,595	35,055,204
Less accumulated depreciation	6,417,969	7,179,767	13,597,736
Net property, plant and equipment	4,510,640	16,946,828	21,457,468
Restricted Assets - Seal Cove Assessment District	-	-	-
Construction in progress	-	-	-
Total capital assets	4,510,640	16,946,828	21,457,468
Other assets:			
Employee loan receivable - non-current	93,771	-	93,771
Prepaid expenses	-	71,973	71,973
Restricted cash and cash equivalents	-	1,471,247	1,471,247
Interfund advances - Due from water fund	1,173,739	-	1,173,739
Other assets	-	-	-
Investment in joint powers authorities - capacity rights	2,687,547	-	2,687,547
Unamortized bond issuance costs	-	-	-
Note issue costs, Series 2002, net of amortization of \$68	-	-	-
Total other assets	3,955,057	1,543,220	5,498,277
Total non-current assets	8,465,697	18,490,048	26,955,745
Total assets	14,198,486	19,885,561	34,084,047
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charge on refunding	-	261,798	261,798
Total deferred outflows of resources	-	261,798	261,798

(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, 2014**

	<u>Sewer</u>	<u>Water</u>	<u>Total</u>
LIABILITIES			
Current liabilities:			
Accounts payable	55,495	89,644	145,139
Settlement charges payable	-	-	-
Payroll taxes payable	-	-	-
Accrued expenses	1,394	2,162	3,556
Interest payable	12,269	141,552	153,821
Due to sewer fund	-	-	-
Other Current Liabilities	-	-	-
Accrued compensated absences	9,564	12,370	21,934
Current portion of long-term obligations	60,234	844,727	904,961
Due to other funds	-	-	-
Deferred revenue and other liabilities	-	-	-
	<u>138,956</u>	<u>1,090,455</u>	<u>1,229,411</u>
Long term liabilities:			
Accrued compensated absences	6,718	6,718	13,436
General obligation bonds, less current portion	-	13,106,771	13,106,771
Other long term obligations, less current portion	1,588,606	1,131,695	2,720,301
Interfund advances - Due to sewer fund	-	1,173,739	1,173,739
Deposits	2,076	14,877	16,953
Seal Cove Assessment District	-	-	-
Deferred revenue	-	-	-
	<u>1,597,400</u>	<u>15,433,800</u>	<u>17,031,200</u>
	<u>1,736,356</u>	<u>16,524,255</u>	<u>18,260,611</u>
NET POSITION			
Net investments in capital assets	2,861,800	1,935,608	4,797,408
Restricted for debt service	-	1,471,247	1,471,247
Unrestricted	9,600,330	216,249	9,816,579
	<u>\$ 12,462,130</u>	<u>\$ 3,623,104</u>	<u>\$ 16,085,234</u>

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

MONTARA WATER AND SANITARY DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION FOR THE YEAR ENDED JUNE 30, 2014

	Sewer	Water	Total
OPERATING REVENUES			
Sales and service charges	\$ 2,045,340	\$ 1,635,179	\$ 3,680,519
OPERATING EXPENSES			
General and administrative	387,674	817,957	1,205,631
System maintenance and repairs	1,144,933	333,766	1,478,699
Depreciation	457,381	782,402	1,239,783
Total operating expenses	1,989,988	1,934,125	3,924,113
OPERATING INCOME (LOSS)	55,352	(298,946)	(243,594)
NONOPERATING REVENUES (EXPENSE)			
Taxes - District share of one percent	301,852	301,852	603,704
Taxes - Ad valorem for general obligation bonds	-	1,239,066	1,239,066
Investment income	13,823	-	13,823
Interest expense	(62,680)	(452,212)	(514,892)
Other revenues	32,270	34,771	67,041
Total non-operating revenues (expenses)	285,265	1,123,477	1,408,742
INCOME BEFORE CONTRIBUTIONS AND TRANSFERS	340,617	824,531	1,165,148
Capital contributions - connection fees	66,970	107,520	174,490
Changes in net position	407,587	932,051	1,339,638
NET POSITION, BEGINNING OF YEAR	12,054,543	2,691,053	14,745,596
TOTAL NET POSITION, END OF YEAR	\$ 12,462,130	\$ 3,623,104	\$ 16,085,234

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, 2014

	Sewer	Water	Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers and users	\$ 1,983,038	\$ 1,611,150	\$ 3,594,188
Payments to suppliers - other	(1,380,091)	(491,023)	(1,871,114)
Payments to employees	(387,469)	(815,524)	(1,202,993)
Net cash provided by operating activities	<u>215,478</u>	<u>304,603</u>	<u>520,081</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Property taxes collected	301,852	301,852	603,704
Principal paid on long term debt	(36,504)	(826,316)	(862,820)
Proceeds from long term debt	-	49,553	49,553
Interest paid on long term debt	(50,411)	(359,025)	(409,436)
Acquisition and construction of capital assets	(256,366)	(1,353,958)	(1,610,324)
Funds advanced from water to sewer	374,438	(374,438)	-
Connection fees and other non operating revenue collected	99,240	1,381,357	1,480,597
Net cash provided (used) by capital and related financing activities	<u>432,249</u>	<u>(1,180,975)</u>	<u>(748,726)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Investment income	13,823	-	13,823
Net cash provided by investing activities	<u>13,823</u>	<u>-</u>	<u>13,823</u>
NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS	661,550	(876,372)	(214,822)
Cash and investments, July 1	<u>4,986,091</u>	<u>3,362,953</u>	<u>8,349,044</u>
Cash and investments, June 30	<u>\$ 5,647,641</u>	<u>\$ 2,486,581</u>	<u>\$ 8,134,222</u>
AMOUNTS AS THEY APPEAR ON THE STATEMENT OF NET POSITION:			
Cash and cash equivalents	\$ 5,647,641	\$ 1,015,334	\$ 6,662,975
Restricted cash and cash equivalents	-	1,471,247	1,471,247
	<u>\$ 5,647,641</u>	<u>\$ 2,486,581</u>	<u>\$ 8,134,222</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, 2014

	<u>Sewer</u>	<u>Water</u>	<u>Total</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Operating income (loss)	\$ 55,352	\$ (298,946)	\$ (243,594)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation expense	457,381	782,402	1,239,783
Accounts and notes receivable	(64,378)	(34,603)	(98,981)
Accounts payable	(235,158)	(157,257)	(392,415)
Deposits	2,076	10,574	12,650
Compensated absences	205	2,433	2,638
Total adjustments	<u>160,126</u>	<u>603,549</u>	<u>763,675</u>
Net cash provided by operating activities	<u>\$ 215,478</u>	<u>\$ 304,603</u>	<u>\$ 520,081</u>

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

MONTARA WATER AND SANITARY DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE #1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. General

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

B. Basis of Accounting

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

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

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

The District reports the following major Proprietary Funds:

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

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

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

C. Measurement Focus

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

MONTARA WATER AND SANITARY DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2014

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

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

D. Inventory

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

E. Capital Assets

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

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

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

F. Cash Flows Defined

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

G. Accounts Receivable

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

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

H. Accrued Compensated Absences

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

MONTARA WATER AND SANITARY DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2014

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

I. Budgets and Budgetary Accounting

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

J. Property Taxes

Secured property taxes attach an enforceable lien on property as of March 1. Taxes are payable in two installments due November 15 and March 15. Unsecured property taxes, if any, are payable in one installment on or before August 15. The County of San Mateo bills and collects the taxes for the District. Tax revenues are recognized by the District when received. The sewer service charges are included in secured property tax bills.

K. Contract Services

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

L. Estimates

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

M. Subsequent Events

Management has considered subsequent events through October 22, 2014, the date which the financial statements were available to be issued.

N. New Accounting Pronouncements

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 implemented the provisions of this Statement.

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

MONTARA WATER AND SANITARY DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2014

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

N. New Accounting Pronouncements (Continued)

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.

NOTE #2 - CASH AND INVESTMENTS

A. Cash and Investment Summary

The following is a summary of the cash and investments as of June 30, 2014:

Cash Deposits	\$ 3,371,731
Investments (Local Agency Investment Fund)	4,762,491
	<u>\$ 8,134,222</u>
Restricted cash and cash equivalents	\$ 1,471,247
Unrestricted cash and cash equivalents	6,662,975
	<u>\$ 8,134,222</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, 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:

MONTARA WATER AND SANITARY DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE #2 - CASH AND INVESTMENTS (Continued)

<u>Investment Type</u>	<u>Fair Value</u>	<u>Average Maturity</u>
LAIF	<u>\$ 4,762,491</u>	232 days

D. Credit Risk

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

E. Custodial Credit Risk - Investments

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

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

NOTE #3 – CAPITAL ASSETS

Changes in capital assets accounts are summarized below:

<u>Category</u>	<u>Audited Balance June 30, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Audited Balance June 30, 2014</u>
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	236,009	-	-	1,091,861
Seal Cove collection system	995,505	-	-	-	995,505
Other capital improvements	4,337,209	20,357	-	-	4,357,566
Water facilities plant	20,456,429	1,353,958	-	-	21,810,387
Water general plant	174,309	-	-	-	174,309
Surface water rights	300,000	-	-	-	300,000
Total	<u>33,444,880</u>	<u>1,610,324</u>	<u>-</u>	<u>-</u>	<u>35,055,204</u>
Accumulated depreciation	<u>12,357,953</u>	<u>1,239,783</u>	<u>-</u>	<u>-</u>	<u>13,597,736</u>
Property, plant & equipment, net	<u>\$ 21,086,927</u>	<u>\$ 370,541</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 21,457,468</u>

MONTARA WATER AND SANITARY DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2014

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

Investment in Sewer Authority Mid-Coastside

The District has capacity rights in the Sewer Authority Mid-Coastside (SAM), a public entity created February 3, 1976 by a Joint Exercise of Powers Agreement pursuant to the provisions of Title 1, Division 7, and Chapter 5 of the Government code of the State of California. Other joint power members include the City of Half Moon Bay and the Granada Sanitary District. The District reports these capacity rights in SAM on cost basis.

Under this agreement, SAM is granted the power of the member agencies to construct, maintain, and operate facilities for the collection, transmission, treatment and disposal of wastewater for the benefit of the lands and inhabitants within their respective boundaries.

Each member agency has the power to appoint two representatives of their own governing body to SAM’s Board of Directors. Budgets prepared by SAM are subject to approval by the member agencies and expenditures in excess of the budgeted amounts require unanimous consent and approval of SAM’s Board of Directors.

SAM provides sewage collection and treatment services, for which the District pays a monthly fee. The District paid \$1,052,242 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, 2013 are as follows:

Total assets	\$ 17,411,504
Total liabilities	<u>795,299</u>
Net position	<u>\$ 16,616,205</u>
Total revenues	\$ 4,092,541
Total expenses	<u>5,600,438</u>
Decrease in net position	<u>\$ (1,507,897)</u>

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	\$14,780,085	\$ -	\$ 795,658	\$13,984,427	\$ 815,134	\$13,169,293
2012 GO Bonds Discount	(72,294)	-	(4,886)	(67,408)	(4,886)	(62,522)
PNCEF Lease Obligation	1,574,558	-	61,316	1,513,242	68,958	1,444,284
CIEDB loan	917,211	-	24,992	892,219	25,755	866,464
SRF Loan	360,000	49,553	-	409,553	-	409,553
Totals	<u>\$17,559,560</u>	<u>\$ 49,553</u>	<u>\$ 877,080</u>	<u>\$16,732,033</u>	<u>\$ 904,961</u>	<u>\$15,827,072</u>

MONTARA WATER AND SANITARY DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE #5 - LONG TERM OBLIGATIONS (Continued)

A. General Obligation Bonds, Series 2012

On April 18, 2012, the District issued General Obligation Bonds Series 2012 in the amount of \$15,635,000. The bonds were issued to fully refund the General Obligation Bonds Series 2003, which the District issued for the acquisition and improvements of a domestic water supply, treatment, and fire protection system serving the entire District service area, and to finance improvements to the District’s water system. These bonds are payable from the levy of ad valorem taxes on all property within the District. Interest on the bonds is 2.4 percent and is payable on February 1 and August 1 of each year, commencing August 1, 2012.

Principal is due bi-annually beginning on August 1, 2012, in amounts ranging from \$389,142 to \$568,322, with a final payment on August 1, 2028 of \$568,322. The bonds maturing on or before August 1, 2017 are not subject to redemption prior to their respective stated maturity dates. Bonds maturing on or after August 1, 2017 are subject to redemption prior to their respective stated maturity dates at the option of the District at the principal amount of the bonds called for redemption, together with interest accrued thereon to the date of redemption, without premium.

Repayment Schedule

Fiscal Year Ending June 30,	Principal	Interest	Total
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	897,915	252,521	1,150,436
2020-2024	4,829,634	922,546	5,752,180
2025-2029	4,875,494	301,467	5,176,961
Total	<u>\$ 13,984,427</u>	<u>\$ 2,696,894</u>	<u>\$ 16,681,321</u>

B. Capital Lease

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

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

MONTARA WATER AND SANITARY DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE #5 - LONG TERM OBLIGATIONS (Continued)

Repayment Schedule

Fiscal Year Ending June 30,	Principal	Interest	Total
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	104,097	33,653	137,750
2020-2024	684,751	113,669	798,420
2025-2027	399,022	14,388	413,410
Total	<u>\$ 1,513,242</u>	<u>\$ 322,768</u>	<u>\$ 1,836,010</u>

C. CIEDB Loan

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

Repayment Schedule:

Fiscal Year Ending June 30,	Principal	Interest	Total
2015	\$ 25,756	\$ 29,497	\$ 55,253
2016	26,540	28,622	55,162
2017	27,350	27,720	55,070
2018	28,184	26,791	54,975
2019	29,043	25,834	54,877
2020-2024	159,058	113,758	272,816
2025-2029	184,839	85,047	269,886
2030-2034	214,800	51,683	266,483
2035-2038	196,649	13,717	210,366
Total	<u>\$ 892,219</u>	<u>\$ 402,669</u>	<u>\$ 1,294,888</u>

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

MONTARA WATER AND SANITARY DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE #5 - LONG TERM OBLIGATIONS (Continued)

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, 2014, the District received \$49,553 in response to the second reimbursement claim filed under this loan agreement.

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, 2014:

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, 2014

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, 2013:

Total assets	\$ 28,340,390
Total liabilities	<u>16,300,058</u>
Net position	<u>\$ 12,040,332</u>
Total revenues	\$ 9,652,254
Total expenses	<u>9,950,148</u>
Decrease in net position	<u>\$ (297,894)</u>

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

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

NOTE #8 – COMMITMENTS AND CONTINGENT LIABILITIES

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

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