



**MONTARA WATER AND SANITARY DISTRICT
ANNUAL FINANCIAL STATEMENTS
JUNE 30, 2023**



Montara Water and Sanitary District
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June 30, 2023

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the business-type activities, of the Montara Water and Sanitary District, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Montara Water and Sanitary District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Montara Water and Sanitary District, as of June 30, 2023, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Montara Water and Sanitary District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Montara Water and Sanitary District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Montara Water and Sanitary District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Montara Water and Sanitary District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, Schedule of Changes in Net Pension Liability and Related Ratios, Schedule of Plan Contributions on pages 5-9, 34, and 35 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2023, on our consideration of the Montara Water and Sanitary District's internal control over financial

reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Montara Water and Sanitary District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Montara Water and Sanitary District's internal control over financial reporting and compliance.



CROPPER ACCOUNTANCY CORPORATION
Walnut Creek, California
October 25, 2023

MANAGEMENT'S DISCUSSION AND ANALYSIS

Montara Water and Sanitary District
Management's Discussion and Analysis
June 30, 2023

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, 2023. Please read it in conjunction with the District financial statements and accompanying notes, which follow this section.

Highlights

District Financial Highlights

- The District's current assets increased by \$2,078,538 over the past year.
- The District's long-term liabilities decreased by \$1,241,800.
- District-wide revenues decreased \$40,119 from the prior year going from \$9,571,841 to \$9,531,722.
- District-wide expenses increased \$625,958 from the prior year going from \$6,303,164 to \$6,929,122.

The effect of the change in revenues and expenses and the prior period adjustment caused the District-wide change in net position to increase \$2,749,623 from the prior year. Some of the increase was invested in capital assets while some of the increase cause the unrestricted net position for the year ended June 30, 2023, to increase by \$1,780,455.

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, deferred outflows of resources, liabilities and deferred inflows of resources and provides information about the nature and amounts of investments in resources (assets) and obligations to creditors (liabilities). It also provides the basis for computing rate of return; evaluating the capital structure of the District; and assessing the liquidity and financial flexibility of the District. All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Position. This statement measures the success of the District operations over the past year and can be used to determine whether the District has successfully recovered all its costs through its user fees and other charges, profitability, and credit worthiness. The final required financial statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about District cash receipts, cash disbursements and changes in cash resulting from operations, investing, and capital and non-capital financing activities. It provides answers to such questions as, "Where did the cash come from?", "For what was the cash used?", and "What was the change in cash balance during the reporting period?"

Financial Analysis of the District

One of the most important questions asked about District finances is whether or not the District's overall financial position has improved or deteriorated. The Statement of Net Position and the Statement of Revenues and Expenses and Changes in Net Position report information about District activities in a way that will help answer this question. These two statements report the net position of the District and changes. You can think of District net position, the difference between assets, deferred outflows of resources, liabilities and deferred inflows of resources, 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.

Montara Water and Sanitary District
Management's Discussion and Analysis
June 30, 2023

Net Position Statement and Analysis

The District's total net position increased from \$29,855,317 to \$32,604,940, or \$2,749,623.

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

	Sewer		Water		Total	
	2023	2022	2023	2022	2023	2022
Current Assets	\$ 10,144,574	\$ 8,970,184	\$ 5,347,215	\$ 4,443,067	\$ 15,491,789	\$ 13,413,251
Capital Assets, Net of						
Accumulated Depreciation	10,799,833	10,742,962	16,119,768	16,519,401	26,919,601	27,262,363
Other Assets	70,666	210,832	1,158,394	1,261,814	1,229,060	1,472,646
Total Assets	21,015,073	19,923,978	22,625,377	22,224,282	43,640,450	42,148,260
Deferred Outflows of Resources	113,218	93,759	252,003	208,689	365,221	302,448
Total Assets and Deferred Outflows of Resources	21,128,291	20,017,737	22,877,380	22,432,971	44,005,671	42,450,708
Current Liabilities	1,788,580	1,856,014	1,703,459	1,361,161	3,492,039	3,217,175
Long-term Liabilities	837,798	928,438	6,901,284	8,052,444	7,739,082	8,980,882
Total Liabilities	2,626,378	2,784,452	8,604,743	9,413,605	11,231,121	12,198,057
Deferred Inflows of Resources						
Total Liabilities and Deferred Inflows of Resources	150,211	275,888	19,399	121,446	169,610	397,334
Net investment in Capital Assets Restricted for Debt Service	-	-	1,158,394	1,123,978	1,158,394	1,123,978
Unrestricted	8,461,475	7,230,872	5,001,786	4,451,934	13,463,261	11,682,806
Total Net Position	\$ 18,351,702	\$ 16,957,397	\$ 14,253,238	\$ 12,897,920	\$ 32,604,940	\$ 29,855,317

Revenues, Expenses and Changes in Net Position

For the fiscal year ended June 30, 2023 the sewer system generated operating revenue of \$3,847,501 and operating expenses of \$3,537,908 for a net operating gain of \$309,593. This is an increase from prior year's net operating gain of \$302,663 by \$6,930. Whereas operating revenue increased 5.6%. The revenue increase is attributed to the Sewer Service rate increase for FY 22-23 of 9%. As discussed in our proposition 218 letter, the additional funds are used to support operations and improve our infrastructure.

The Sewer Funds non-operating activities consisting of property taxes, investment income, connection fees and revenue from the lease of the cell phone tower experienced a decrease of \$56,065 mainly due to connection fee revenue decreasing by approximately \$135,500. Fortunately, due to the rise of interest rates, investment income increased by \$72,000.

For the fiscal year ended June 30, 2023 the water system generated operating revenue of \$1,816,586 and operating expenses of \$3,229,513 for a net operating loss of \$1,412,927. This is an increase from prior year's net operating loss of \$900,122 by \$512,805. For the fiscal year ended June 30, 2023 operating revenue decreased 3% and operating expense increased by \$449,992. The decrease in revenue is due to the decrease in water consumption. Operational expenditures increased due to the cost of replacement for meters which have been failing as well as an increase in employee wages.

The Water Funds non-operating activities revenues, consisting of property taxes, investment income and connection fees experienced a decrease of \$104,137 attributed mainly to the reduction in connection fees collected which reduced by \$234,966. As with the Sewer Fund, investment income increased by \$111,254.

Montara Water and Sanitary District
Management's Discussion and Analysis
June 30, 2023

For the fiscal year ended June 30, 2023, the District collected \$1,026,086 in water reliability charges, a decrease of \$1,613 over the previous fiscal year. The funds are held separately and utilized for capital improvement projects. The District also receives property tax revenue which was imposed specifically for payment of the General Obligation Bonds approved by the District rate payers. These revenues decreased by \$2,508. This is due to the District refinancing the 2012 series in 2020 at a lower interest rate.

Connection fees and other non-operating revenue for the Sewer Fund decreased from \$410,101 to \$274,534 whereas the connection fees and other non-operating revenue for the Water Fund decreased from \$3,023,260 to \$2,901,296. 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	
	2023	2022	2023	2022	2023	2022
Operating Revenues	\$ 3,847,501	\$ 3,643,162	\$ 1,816,586	\$ 1,879,399	\$ 5,664,087	\$ 5,522,561
Tax Revenues	526,690	516,916	1,539,245	1,531,980	2,065,935	2,048,896
Interest and Investment Income	85,304	12,868	113,063	1,809	198,367	14,677
Connection Fees and Other Non-Operating Revenues	354,345	496,236	1,248,988	1,489,471	1,603,333	1,985,707
Total Revenues	4,813,840	4,669,182	4,717,882	4,902,659	9,531,722	9,571,841
Operating Expenses	3,537,908	3,340,499	3,229,513	2,779,521	6,767,421	6,120,020
Non-operating Expenses	28,650	32,266	133,051	150,878	161,701	183,144
Total Expenses	3,566,558	3,372,765	3,362,564	2,930,399	6,929,122	6,303,164
Change in Fund Net Position	1,247,282	1,296,417	1,355,318	1,972,260	2,602,600	3,268,677
Fund Net Position - Beginning, as restated	17,104,420	15,660,980	12,897,920	10,925,660	30,002,340	26,586,640
Total Net Position	\$ 18,351,702	\$ 16,957,397	\$ 14,253,238	\$ 12,897,920	\$ 32,604,940	\$ 29,855,317

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2023, the District had \$26,919,601 (net of accumulated depreciation) invested in a variety of capital assets.

The assets include: land; capacity rights, 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, 2023, decreased by \$342,762 or 1.3% above the prior year. This is due to capitalized expenses in regard to the District's Water and Sewer facilities plant and other capital improvements reduced by current year depreciation expense.

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

- Capital improvements to the water system
- Sewer pipeline replacement

Montara Water and Sanitary District
Management's Discussion and Analysis
June 30, 2023

The following summarizes District capital assets for fiscal year ended June 30, 2023:

	Balance June 30, 2022	Additions	Deletions	Balance June 30, 2023
<u>Capital Assets Not Being Depreciated</u>				
Land and easement	\$ 739,500	\$ -	\$ -	\$ 739,500
Capacity rights	2,687,547	-	-	2,687,547
Total capital assets not being depreciated	<u>3,427,047</u>	<u>-</u>	<u>-</u>	<u>3,427,047</u>
<u>Capital Assets Being Depreciated</u>				
Sewage collection facilities	5,340,307	-	-	5,340,307
Sewage treatment facilities	244,540	-	-	244,540
General plant and administration facilities	8,552,710	596,688	-	9,149,398
Seal cove collection system	995,505	-	-	995,505
Other capital improvements	4,357,566	-	-	4,357,566
Water facilities plant	28,768,953	609,186	-	29,378,139
Water general plant	409,584	-	-	409,584
Surface water rights	300,000	-	-	300,000
Total capital assets being depreciated	48,969,165	1,205,874	-	50,175,039
Accumulated depreciation	<u>(25,133,849)</u>	<u>(1,548,636)</u>	<u>-</u>	<u>(26,682,485)</u>
Net Capital Assets Being Depreciated	<u>23,835,316</u>	<u>(342,762)</u>	<u>-</u>	<u>23,492,554</u>
Property Plant and Equipment, Net	<u>\$ 27,262,363</u>	<u>\$ (342,762)</u>	<u>\$ -</u>	<u>\$ 26,919,601</u>

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

Long Term Obligations

On November 13, 2020, the District issued General Obligation Bonds Series 2020 in the amount of \$7,524,000. The bonds were issued to fully refinance the General Obligation Bonds Series 2012 and to finance improvements to the District's water system.

The District entered into a finance purchase agreement 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% for a 20 year term and is now held by PNC Equipment Finance (PNCEF). Effective March 15, 2013, the District refinanced the Citibank agreement with PNCEF at a rate of 2.95%.

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.

Montara Water and Sanitary District
Management's Discussion and Analysis
June 30, 2023

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

	Balance June 30, 2022	Additions	Reductions	Balance June 30, 2023	Current Portion	Long-Term Portion
General Obligation Bonds, 2020 Series	\$ 6,145,071	\$ -	\$ (916,095)	\$ 5,228,976	\$ 926,568	\$ 4,302,408
PCEF Financed Purchase	707,291	-	(148,161)	559,130	160,108	399,022
CIEDB loan - Direct borrowing	662,783	-	(32,742)	630,041	33,751	596,290
SRF Loan - Direct borrowing	2,698,685	-	(180,516)	2,518,169	184,655	2,333,514
Totals	<u>\$ 10,213,830</u>	<u>\$ -</u>	<u>\$ (1,277,514)</u>	<u>\$ 8,936,316</u>	<u>\$ 1,305,082</u>	<u>\$ 7,631,234</u>

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

Economic Factors, Rates, and Budgetary Control

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

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

Request for Information

This financial report is designed to provide our customers and creditors with a general overview 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.

FINANCIAL STATEMENTS

Montara Water and Sanitary District
Statement of Net Position
June 30, 2023

	Sewer	Water	Total
Assets			
Current assets			
Cash and cash equivalents	\$ 9,993,780	\$ 3,374,534	\$ 13,368,314
Accounts receivable	72,555	506,654	579,209
Deposits receivable	-	31,523	31,523
Leases receivable	78,239	-	78,239
Inventory	-	42,656	42,656
Due from sewer fund	-	1,391,848	1,391,848
Total current assets	10,144,574	5,347,215	15,491,789
Noncurrent assets			
Capital assets			
Nondepreciable			
Land and easement	5,000	734,500	739,500
Capacity rights	2,687,547	-	2,687,547
Depreciable, net	8,107,286	15,385,268	23,492,554
Total capital assets	10,799,833	16,119,768	26,919,601
Other assets			
Restricted cash and cash equivalents	-	1,158,394	1,158,394
Leases receivable	70,666	-	70,666
Total other assets	70,666	1,158,394	1,229,060
Total noncurrent assets	10,870,499	17,278,162	28,148,661
Total assets	21,015,073	22,625,377	43,640,450
Deferred Outflows of Resources			
Related to pensions	113,218	252,003	365,221
Total deferred outflows of resources	113,218	252,003	365,221

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

Montara Water and Sanitary District
Statement of Net Position
June 30, 2023

	Sewer	Water	Total
Liabilities			
Current liabilities			
Accounts payable	224,457	423,059	647,516
Due to water fund	1,391,848	-	1,391,848
Deposits	40,616	4,303	44,919
Interest payable	6,928	25,181	32,109
Other current liabilities	-	39,611	39,611
Accrued compensated absences, current	10,926	20,028	30,954
Current portion of long-term debt	113,805	1,191,277	1,305,082
Total current liabilities	<u>1,788,580</u>	<u>1,703,459</u>	<u>3,492,039</u>
Long-term liabilities			
Accrued compensated absences, net of current	29,339	37,678	67,017
General obligation bonds	-	4,302,407	4,302,407
Other long-term obligations	795,801	2,533,026	3,328,827
Net pension liability	12,658	28,173	40,831
Total long-term liabilities	<u>837,798</u>	<u>6,901,284</u>	<u>7,739,082</u>
Total liabilities	<u>2,626,378</u>	<u>8,604,743</u>	<u>11,231,121</u>
Deferred Inflows of Resources			
Related to leases	141,496	-	141,496
Related to pensions	8,715	19,399	28,114
Total deferred inflows of resources	<u>150,211</u>	<u>19,399</u>	<u>169,610</u>
Net Position			
Net investments in capital assets	9,890,227	8,093,058	17,983,285
Restricted	-	1,158,394	1,158,394
Unrestricted	8,461,475	5,001,786	13,463,261
Total net position	<u>\$ 18,351,702</u>	<u>\$ 14,253,238</u>	<u>\$ 32,604,940</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
June 30, 2023

	<u>Sewer</u>	<u>Water</u>	<u>Total</u>
Operating Revenues			
Sales and service charges	\$ 3,847,501	\$ 1,816,586	\$ 5,664,087
Total operating revenues	<u>3,847,501</u>	<u>1,816,586</u>	<u>5,664,087</u>
Operating Expenses			
General and administrative	878,517	1,443,070	2,321,587
System maintenance and repairs	2,119,573	777,625	2,897,198
Depreciation and amortization	<u>539,818</u>	<u>1,008,818</u>	<u>1,548,636</u>
Total operating expenses	<u>3,537,908</u>	<u>3,229,513</u>	<u>6,767,421</u>
Operating income (loss)	<u>309,593</u>	<u>(1,412,927)</u>	<u>(1,103,334)</u>
Nonoperating Revenues (Expenses)			
Taxes - District share of one percent	526,690	526,690	1,053,380
Taxes - Ad valorem for general obligation bonds	-	1,012,555	1,012,555
Investment income	85,304	113,063	198,367
Interest expense	(28,650)	(133,051)	(161,701)
Other revenues (expenses)	<u>79,811</u>	<u>1,022,182</u>	<u>1,101,993</u>
Total nonoperating revenues (expenses)	<u>663,155</u>	<u>2,541,439</u>	<u>3,204,594</u>
Income before Contributions	972,748	1,128,512	2,101,260
Capital contributions - connection fees	<u>274,534</u>	<u>226,806</u>	<u>501,340</u>
Change in net position	1,247,282	1,355,318	2,602,600
Net Position, beginning of year - as originally stated	16,957,397	12,897,920	29,855,317
Prior period adjustment	<u>147,023</u>	<u>-</u>	<u>147,023</u>
Net Position, beginning of year - as restated	<u>17,104,420</u>	<u>12,897,920</u>	<u>30,002,340</u>
Net Position, end of year	<u>\$ 18,351,702</u>	<u>\$ 14,253,238</u>	<u>\$ 32,604,940</u>

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

Montara Water and Sanitary District
Statement of Cash Flows
June 30, 2023

	<u>Sewer</u>	<u>Water</u>	<u>Total</u>
Cash Flows from Operating Activities			
Receipts from customers and users	\$ 4,384,775	\$ 2,779,403	\$ 7,164,178
Payments to suppliers - other	(3,075,863)	(1,907,881)	(4,983,744)
Payments to employees	(403,077)	(979,721)	(1,382,798)
Net cash provided by operating activities	<u>905,835</u>	<u>(108,199)</u>	<u>797,636</u>
Cash Flows from Non-Capital Activities			
Property taxes collected	526,690	1,539,245	2,065,935
Interfund advances	33,942	(33,942)	-
Net cash provided by non-capital activities	<u>560,632</u>	<u>1,505,303</u>	<u>2,065,935</u>
Cash Flows from Capital and Related Activities			
Principal paid on long term debt	(106,831)	(1,170,683)	(1,277,514)
Interest paid on long term debt	(29,161)	(137,494)	(166,655)
Acquisition and construction of capital assets	(596,689)	(609,185)	(1,205,874)
Connection fees	274,534	226,806	501,340
Water reliability charges and other nonop rev	78,222	1,022,182	1,100,404
Net cash used in capital and related activities	<u>(379,925)</u>	<u>(668,374)</u>	<u>(1,048,299)</u>
Cash Flows from Investing Activities			
Investment income	85,304	113,063	198,367
Net cash provided by investing activities	<u>85,304</u>	<u>113,063</u>	<u>198,367</u>
Net change in cash	1,171,846	841,793	2,013,639
Cash and cash equivalents, beginning	<u>8,821,934</u>	<u>3,691,135</u>	<u>12,513,069</u>
Cash and cash equivalents, ending	<u>\$ 9,993,780</u>	<u>\$ 4,532,928</u>	<u>\$ 14,526,708</u>
Amounts as they appear on the Statement of Net Position			
Cash and cash equivalents	\$ 9,993,780	\$ 3,374,534	\$ 13,368,314
Restricted cash and cash equivalents	-	1,158,394	1,158,394
	<u>\$ 9,993,780</u>	<u>\$ 4,532,928</u>	<u>\$ 14,526,708</u>

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

Montara Water and Sanitary District
Statement of Cash Flows
June 30, 2023

	<u>Sewer</u>	<u>Water</u>	<u>Total</u>
Reconciliation of operating income (loss) to net cash provided by operating activities			
Operating income	\$ 309,593	\$ (1,412,927)	\$ (1,103,334)
Depreciation and amortization	539,818	1,008,818	1,548,636
Pension related amounts	9,277	20,648	29,925
Changes in assets and liabilities	-	-	-
Accounts and notes receivable	(2,544)	(46,001)	(48,545)
A/P and other current liabilities	36,656	327,959	364,615
Deposits	1,384	(31,291)	(29,907)
Prepaid expenses	-	14,695	14,695
Compensated absences	11,651	9,900	21,551
Total adjustments	<u>596,242</u>	<u>1,304,728</u>	<u>1,900,970</u>
Net cash provided by operating activities	<u>\$ 905,835</u>	<u>\$ (108,199)</u>	<u>\$ 797,636</u>

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

NOTES TO FINANCIAL STATEMENTS

Montara Water and Sanitary District

Notes to Financial Statements

June 30, 2023

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 Financial Statements
June 30, 2023

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

D. Investment in the State Investment Pool and California Asset Management Program (Pools)

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 and is not registered with the SEC. Investment with California Asset Management Program (CAMP) are under the oversight of CAMP's treasurer. The fair value of the District's investment in the Pools are reported in the accompanying financial statement at amounts based upon the District's pro-rata share of the fair value provided by Pools (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by Pools, which is recorded on the amortized cost basis.

E. Inventory

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

F. Capital Assets

Capital assets, which include property, plant, and equipment are recorded at historical costs or estimated historical cost, if actual cost is not available. Contributed assets are recorded at estimated acquisition cost 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.

G. Cash Flows Defined

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

H. Accounts Receivable

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

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

Montara Water and Sanitary District
Notes to Financial Statements
June 30, 2023

I. Accrued Compensated Absences

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

J. Budgets and Budgetary Accounting

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

K. Property Taxes

Secured property taxes attach an enforceable lien on property as of January 1. Taxes are payable in two installments due November 1 and February 1 and become delinquent on December 10 and April 10.

Unsecured property taxes, if any, are payable in one installment on or before August 15. The County of San Mateo bills and collects the taxes for the District. Tax revenues are recognized by the District when received. The sewer service charges are included in secured property tax bills.

L. Contract Services

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

M. Estimates

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

N. Deferred Outflows and Inflows of Resources

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

O. Pensions

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

P. Leases

The District recognizes a lease receivable and a deferred inflow of resources in the government-wide and governmental fund financial statements. At the commencement of a lease, the District initially measures the lease receivable at the present value of payments expected to be received during the lease term.

Montara Water and Sanitary District
Notes to Financial Statements
June 30, 2023

Subsequently, the lease receivable is reduced by the principal portion of lease payments received. The deferred inflow of resources is initially measured as the initial amount of the lease receivable, adjusted for lease payments received at or before the lease commencement date. Subsequently, the deferred inflow of resources is recognized as revenue over the life of the lease term.

Q. New Accounting Principles from the Governmental Accounting Standards Board (GASB)

GASB Statement No. 91 – In May 2019, GASB issued Statement No. 91, Conduit Debt Obligations. The objectives of this Statement is to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with commitments extended by issuers, arrangements associated with conduit debt obligations, and related note disclosures by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. The requirements of this Statement are effective for reporting periods beginning after December 15, 2021, or FY 2022/2023. The District is evaluating the impact of this Statement on the financial statement.

GASB Statement No. 93 – In May 2020, GASB issued Statement No. 93, Replacement of Interbank Offered Rates. The objectives of this Statement is to address those and other accounting and reporting implications resulting from the replacement of an IBOR by providing exceptions for certain hedging derivative instruments to the hedge accounting termination provisions when an IBOR is replaced and providing clarification to the hedge accounting termination provisions, removing LIBOR as a benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap, identifying a Secured Overnight Financing Rate and the Effective Federal Funds Rate as appropriate benchmark interest rates for the qualitative evaluation of the effectiveness of an interest rate swap and providing an exception to the lease modifications guidance in Statement 87, as amended, for certain lease contracts that are amended solely to replace an IBOR as the rate upon which variable payments depend. The requirements of this Statement are effective for reporting periods beginning after June 15, 2021 or FY 2021/2022, except the removal of LIBOR as a benchmark interest rate which is effective for periods beginning after December 31, 2022 or FY 2022/2023. The District is evaluating the impact of this Statement on the financial statements.

GASB Statement No. 94 – In March 2020, GASB issued Statement No. 94, Public-Private and Public-Public Partnerships and Availability Payment Arrangements. The objectives of this Statement improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). The requirements of this Statement are effective for reporting periods beginning after June 15, 2022 or FY 2022/2023. The District is evaluating the impact of this Statement on the financial statements.

GASB Statement No. 96 – In May 2020, GASB issued Statement No. 96, Subscription-Based Information Technology Arrangements. The objective of this Statement is to provide guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. The requirements of this Statement are effective for reporting periods beginning after June 15, 2022 or FY 2022/2023. The District is evaluating the impact of this Statement on the financial statements.

Montara Water and Sanitary District
Notes to Financial Statements
June 30, 2023

R. New Accounting Pronouncements – Effective in Future Fiscal Years

GASB Statement No. 99 – In April 2022, GASB Issued Statement No. 99, Omnibus 2022. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees.

Certain requirements of this statement have been implemented as of June 30, 2022. The requirements related to leases, PPPs, and SBITAs are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement 53 are effective for fiscal years beginning after June 15, 2023 or FY 2023/2024, and all reporting periods thereafter. The District is evaluating the impact of this Statement on the financial statements.

GASB Statement No. 100 – In June 2022, GASB Issued Statement No. 100, *Accounting Changes and Error Corrections – an amendment of GASB Statement No. 62*. The objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. The requirements of this Statement are effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023 or FY 2023/2024 and all reporting periods thereafter. The District is evaluating the impact of this Statement on the financial statements.

GASB Statement No. 101 – In June 2022, GASB Issued Statement No. 101, *Compensated Absences*. The objective of this Statement is to better meet the information needs of the financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. The requirements of this Statement are effective for fiscal years beginning after December 15, 2023, or FY 2024/2025 and all reporting periods thereafter. The District is evaluating the impact of this Statement 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, 2023:

Cash Deposits	\$	6,500,009
Investments with California Asset Management Program		3,323,180
Investments with Local Agency Investment Fund		<u>4,703,519</u>
	\$	<u>14,526,708</u>
Restricted cash and cash equivalents		1,158,394
Unrestricted cash and cash equivalents		<u>13,368,314</u>
	\$	<u>14,526,708</u>

Montara Water and Sanitary District
Notes to Financial Statements
June 30, 2023

B. General Authorizations

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

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Maximum Investment In One Issuer
U.S Agency Obligations	5 years	None	None
U.S. Treasury Securities	5 years	None	None
Banker's Acceptances	180 days	40%	30%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Certificate of Deposit	N/A	30%	None
California Asset Management Program	N/A	None	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:

Investment Type	Fair Value	Average Maturity
LAIF	\$ 4,703,519	260 days
CAMP	3,323,180	26 days
	<u>\$ 8,826,699</u>	

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. Investment in LAIF are not rated on June 30, 2023.

E. Custodial Credit Risk - Deposits

For deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's Investment Policy addresses custodial credit risk, which follows the Government Code. Any uninsured bank balance is collateralized by the pledging financial institutions at 110% of the deposits, in accordance with the State of California Government Code. At June 30, 2023, balances in

Montara Water and Sanitary District
Notes to Financial Statements
June 30, 2023

financial institutions, omitting reconciling items, were \$6,803,999. Of the balance in financial institutions, \$500,000 was covered by federal depository insurance and \$6,303,999 was collateralized as required by State law (*Government Code* Section 53630), by the pledging financial institution with assets held in a common pool for the District and other governmental agencies, but not in the name of the District.

Note 3 - Fair Value Measurements

The District categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value. The following provides a summary of the hierarchy used to measure fair value:

- Level 1 - Quoted prices in active markets for identical assets that the District has the ability to access at the measurement date. Level 1 assets may include debt and equity securities that are traded in an active exchange market and that are highly liquid and are actively traded in over-the-counter markets.
- Level 2 - Observable inputs other than Level 1 prices such as quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, or other inputs that are observable, such as interest rates and curves observable at commonly quoted intervals, implied volatilities, and credit spreads. For financial reporting purposes, if an asset has a specified term, a Level 2 input is required to be observable for substantially the full term of the asset.
- Level 3 - Unobservable inputs should be developed using the best information available under the circumstances, which might include the District's own data. The District should adjust that data if reasonable available information indicates that other market participants would use different data or certain circumstances specific to the District are not available to other market participants.
- Uncategorized - Investments in the Local Agency Investment Funds/State Investment Pools are not measured using the input levels above because the District's transactions are based on a stable net asset value per share. All contributions and redemptions are transacted at \$1.00 net asset value per share.

The District's investments in LAIF and CAMP are not subject to the fair value measurement.

Montara Water and Sanitary District
Notes to Financial Statements
June 30, 2023

Note 4 - Capital Assets

Changes in capital assets accounts are summarized below:

Water Fund

Category	Balance June 30, 2022	Additions	Deletions	Balance June 30, 2023
Sewer Fund				
Capital assets not being depreciated				
Land	\$ 5,000	\$ -	\$ -	\$ 5,000
Capacity rights	2,687,547	-	-	2,687,547
Total capital assets not being depreciated	2,692,547	-	-	2,692,547
Capital assets being depreciated				
Sewage collection facilities	5,340,307	-	-	5,340,307
Sewage treatment facilities	244,540	-	-	244,540
General plant and administration facilities	8,552,710	596,689	-	9,149,399
Seal Cove collection system	995,505	-	-	995,505
Other capital improvements	3,250,409	-	-	3,250,409
Total capital assets being depreciated	18,383,471	596,689	-	18,980,160
Accumulated depreciation	(10,333,056)	(539,818)	-	(10,872,874)
Net capital assets being depreciated	8,050,415	56,871	-	8,107,286
Property, plant and equipment, net	\$ 10,742,962	\$ 56,871	\$ -	\$ 10,799,833

Water Fund

Capital assets not being depreciated				
Land and easement	\$ 734,500	\$ -	\$ -	\$ 734,500
Total capital assets not being depreciated	734,500	-	-	734,500
Capital assets being depreciated				
Water meters	1,058,985	-	-	1,058,985
Water general plant	29,178,537	609,185	-	29,787,722
Other capital assets	48,172	-	-	48,172
Surface water rights	300,000	-	-	300,000
Total capital assets being depreciated	30,585,694	609,185	-	31,194,879
Accumulated depreciation	(14,800,793)	(1,008,818)	-	(15,809,611)
Net capital assets being depreciated	15,784,901	(399,633)	-	15,385,268
Property, plant and equipment, net	\$ 16,519,401	\$ (399,633)	\$ -	\$ 16,119,768

Capacity Rights 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 Community Services District. The District reports these capacity rights in SAM on cost basis.

Montara Water and Sanitary District
Notes to Financial Statements
June 30, 2023

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 \$1,983,369 for these collection and treatment services for the year.

The Sewer Authority Mid-Coastside complete audited financial statements are available at 1000 Cabrillo Hwy N, Half Moon Bay, CA 94019.

Note 5 - Leases

The District has multiple contracts for leases of District property wireless communications facilities. The leases expire between fiscal years 2024 through 2026. The discount rates were between 1.91% and 3.00%. As of June 30, 2023, the District's receivable for lease payments was \$148,905. The District also has a deferred inflow of resources associated with these leases that will be recognized as revenue over the lease term. As of June 30, 2023, the balance of the deferred inflow of resources was \$141,496.

Note 6 - Long Term Obligations

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

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion	Long-term Portion
General Obligation Bonds, 2020 Series	\$ 6,145,071	\$ -	\$ 916,095	\$ 5,228,976	\$ 926,569	\$ 4,302,407
PNCEF Financed Purchase	707,285	-	148,157	559,128	160,108	399,020
CIEDB loan - Direct borrowing	662,803	-	32,753	630,050	33,751	596,299
SRF loan - Direct borrowing	2,698,671	-	180,509	2,518,162	184,654	2,333,508
Totals	<u>\$ 10,213,830</u>	<u>\$ -</u>	<u>\$ 1,277,514</u>	<u>\$ 8,936,316</u>	<u>\$ 1,305,082</u>	<u>\$ 7,631,234</u>

A. General Obligation Bonds, Series 2020

On November 13, 2020, the District issued General Obligation Bonds Series 2020 in the amount of \$7,524,000. The bonds were issued to fully refund the General Obligation Bonds Series 2012, 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. The District therefore recognized an economic gain of \$360,600 and future cash saving of \$419,027. These bonds are payable from the levy of ad valorem taxes on all property within the District. Interest on the bonds is 1.4 percent and is payable on February 1 and August 1 of each year, commencing February 1, 2021.

Montara Water and Sanitary District
Notes to Financial Statements
June 30, 2023

Principal is due semi-annually beginning February 1, 2021, in amounts ranging from \$473,189 to \$488,986, with a final payment of \$488,986 due August 1, 2028. Below is a summary schedule of future payments on the bonds:

Fiscal Year Ending June 30,	Principal	Interest	Total
2024	\$ 926,569	\$ 56,977	\$ 983,546
2025	937,160	46,384	983,544
2026	947,876	35,670	983,546
2027	958,712	24,833	983,545
2028	969,673	13,873	983,546
2029	488,986	2,787	491,773
Total	<u>\$ 5,228,976</u>	<u>\$ 180,524</u>	<u>\$ 5,409,500</u>

B. Finance Purchase

On November 7, 2006, the District entered into a 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.

Below is a summary schedule of future payments on the financing:

Fiscal Year Ending June 30,	Principal	Interest	Total
2024	\$ 160,108	\$ 14,352	\$ 174,460
2025	167,593	9,522	177,115
2026	172,794	4,506	177,300
2027	58,633	361	58,994
Total	<u>\$ 559,128</u>	<u>\$ 28,741</u>	<u>\$ 587,869</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.

Montara Water and Sanitary District
Notes to Financial Statements
June 30, 2023

Below is a summary schedule of future payments on the loan:

Fiscal Year Ending June 30,	Principal	Interest	Total
2024	\$ 33,751	\$ 19,716	\$ 53,467
2025	34,781	17,656	52,437
2026	35,841	16,579	52,420
2027	36,935	15,470	52,405
2028	38,061	14,326	52,387
2029 – 2033	208,443	49,522	257,965
2034 – 2038	242,238	21,593	263,831
Total	<u>\$ 630,050</u>	<u>\$ 154,862</u>	<u>\$ 784,912</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 in five years from the first principal and interest invoice. On November 14, 2012, the District entered into an additional agreement with the State of California Department of Health under the Safe Drinking Water Revolving Fund Law of 1947. This agreement constitutes funding in the form of a loan made by the State to the District to assist in financing the construction of the preliminary activities noted above.

The District will make semiannual payments for the principal and any interest amounts due January 1 and July 1 of each year until the loan is repaid in full at an interest rate of 2.28 percent per annum.

Fiscal Year Ending June 30,	Principal	Interest	Total
2024	\$ 184,654	\$ 56,457	\$ 241,111
2025	188,895	52,216	241,111
2026	193,234	47,878	241,112
2027	197,671	43,440	241,111
2028	202,211	38,900	241,111
2029 – 2033	1,082,887	122,669	1,205,556
2034 – 2038	468,610	13,450	482,060
Total	<u>\$ 2,518,162</u>	<u>\$ 375,010</u>	<u>\$ 2,893,172</u>

Montara Water and Sanitary District
Notes to Financial Statements
June 30, 2023

Note 7 - Deferred Contribution Plan

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

Note 8 - Defined Benefit Plan

A. Plan Description

The District has adopted, through the Public Agency Retirement Services (PARS), a tax qualified governmental defined benefit plan for the benefit of eligible District employees to provide retirement benefits. PARS is a private agent-multiple employer agency specializing in retirement services. The plan conforms to the requirements of Internal Revenue Code Section 401(a) tax-qualified multiple employer retirement system and therefore is entitled to favorable tax treatment.

Members are eligible to receive benefits under the PARS plan if they:

- a) Were a full-time employee of the District on or after July 1, 2015;
- b) Are at least sixty-two years of age;
- c) Have completed at least five or more years of full-time service with the District;
- d) Have applied for benefits under the Plan; and
- e) Have terminated employment with the District.

B. Benefits Provided

Members are paid benefits equal to an amount equal to one-twelfth (1/12) of the number of full and partial years of full-time continuous employment with the District completed as of the member's retirement times the member's final pay times 2%. Upon death of a member, the member's monthly allowance will automatically continue to an eligible survivor. No preretirement disability benefits are provided. Pre-retirement death benefits are provided for employees who have at least five years of full-time employment with the District.

Employees who terminate employment or are terminated whether voluntarily, involuntarily, by death, disability or in any other manner prior to completing five (5) years of full-time service with the Employer, will receive one hundred percent (100%) of their Employee contributions made to the Plan plus three percent (3%) interest per annum.

The Plan's provisions and benefits in effect at June 30, 2023, are summarized as follows:

Formula	2% @62
Benefit vesting schedule	5 years of service
Benefit payments	Monthly for life
Retirement age	62
Required employee contribution rates	7.75%
Required employer contribution rates	7.30%

Montara Water and Sanitary District
Notes to Financial Statements
June 30, 2023

C. Employees Covered by Benefit Terms

At June 30, 2023, the following employees were covered by the benefit terms for the Plan:

	PARS Plan
Inactive employees or beneficiaries currently receiving benefits	2
Inactive employees entitled to but not yet receiving benefits	-
Active employees*	8
Total	10

* Plan is closed to new entrants

D. Contributions

The District contributed the actuarially determined contribution to the PARS plan. For the year ended June 30, 2023, the employer contributions were \$74,601.

E. Net Pension Liability

The District's net pension liability for the Plan is measured as the total pension liability, less the pension plan's fiduciary net position. The net pension liability of the Plan is measured as of June 30, 2022, using an annual actuarial valuation date of June 30, 2022. A summary of principal assumptions and methods used to determine the net pension liability is shown below:

Actuarial Assumptions - The total pension liabilities in the June 30, 2022 actuarial valuation was determined using the following actuarial assumptions:

- Valuation Date
- Contribution Policy
- Discount Rate and Long-Term Expected Rate of Return on Assets
- General Inflation
- Mortality, Retirement, Disability, Termination
- Mortality Improvement
- Salary Increases
- June 30, 2021
- District contributes full ADC
- 6.25% at June 30, 2022
- 6.25 at June 30, 2021
- Expected District contributions projected to keep sufficient plan assets to pay all benefits from trust
- 2.50% annually
- CalPERS 2000-2019 Experience Study
- Mortality projected fully generational with Scale MP-2021
- Aggregate – 2.75% annually
- Merit – CalPERS 2000-2019 Experience Study

F. Discount Rate

The best estimate for the long-term rate of return of 6.25% is determined by adding expected inflation to expected long-term real returns and reflecting expected volatility and correlation. The table below reflects discount rate development. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

Montara Water and Sanitary District
Notes to Financial Statements
June 30, 2023

Asset Class Component	Target Allocation PARS-Capital Appreciation	Expected Real Rate of Return
Global equity	75%	4.56%
Fixed income	20%	0.78%
Cash	5%	(0.50%)
Assumed long-term rate of inflation		2.50%
Expected long-term net rate of return, rounded		6.25%

G. Changes in Net Pension Liability (Asset)

The changes in the Net Pension Liability (Asset) for the Plan are as follows:

	Total Pension Liability	Fiduciary Net Position	Net Pension Liability (Asset)
Balance at 6/30/22 (6/30/21 measurement date)	\$ 1,034,099	\$ 1,233,861	\$ (199,762)
Service cost	114,116	-	114,116
Interest	71,339	-	71,339
Changes of benefit terms	-	-	-
Actual vs. expected experience	-	-	-
Assumption changes	-	-	-
Contributions – employer	-	68,381	(68,381)
Contributions – employee	-	54,638	(54,638)
Net investment income	-	(168,052)	168,052
Benefit payments	(13,552)	(13,552)	-
Administrative expenses	-	(10,105)	10,105
Net Changes	171,903	(68,690)	240,593
Balance at 6/30/23 (6/30/22 measurement date)	\$ 1,206,002	\$ 1,165,171	\$ 40,831

Sensitivity of the Net Pension Asset (Liability) to Changes in the Discount Rate - The following presents the net pension asset (liability) of the District, calculated using the plan discount rate, as well as what the District's net pension asset (liability) would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	Discount Rate		
	1% Decrease (5.25%)	Current Rate (6.25%)	1% Increase (7.25%)
Net Pension Liability (Asset)	\$ 307,453	\$ 40,831	\$ (169,879)

H. Pension Plan Fiduciary Net Position

Detailed information about the plan's fiduciary net position is available in the separately issued PARS financial report.

Montara Water and Sanitary District
Notes to Financial Statements
June 30, 2023

i. Pension Expense (Revenue) and Deferred Outflows/Inflows of Resources Related to Pension

For the year ended June 30, 2023, the District recognized actuarial pension expense of \$104,525. At June 30, 2023, the District reported deferred outflows and inflows of resources as follows:

	June 30, 2023	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 175,552	\$ 24,491
Changes in assumptions	24,873	3,623
Net difference between projected and actual earnings on plan investments	90,195	-
Employer contributions made subsequent to the measurement date	<u>74,601</u>	<u>-</u>
Total	<u>\$ 365,221</u>	<u>\$ 28,114</u>

Of the \$365,221 reported as deferred outflows of resources, \$74,601 relates to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2024.

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year ended June 30,	Deferred Outflows/(Inflows) of Resources
2024	\$ 45,600
2025	44,916
2026	37,602
2027	78,849
2028	17,605
Thereafter	37,934

Note 9 – Risk Management

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

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

Montara Water and Sanitary District
Notes to Financial Statements
June 30, 2023

The following is a summary of the insurance policies carried by the District as of June 30, 2023:

Type of Coverage	Coverage Limits
General Liability	\$ 15,500,000
Workers' Compensation	2,000,000

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

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

Note 10 - Commitments and Contingent Liabilities

The District has an agreement with Sewer Authority Mid-Coastside (SAM), Granada Community Services 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 Community Services 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.

Note 11 - Restatement of Beginning Net Position

During the fiscal year ended June 30, 2020, the District overstated expenses by \$147,023. The issue derived due to a capitalized expense discovered through the audit process. The accrued expense was not reversed until fiscal year end June 30, 2023. The reversal was recorded as an adjustment to prior period net position, see the Statement of Revenues, Expenses, and Changes in Net Position.

REQUIRED SUPPLEMENTARY INFORMATION

Montara Water and Sanitary District
Schedule of Changes in the Net Pension Liability and Related Ratios
Last 10 Years

Fiscal Year Ended	June 30, 2023	June 30, 2022	June 30, 2021	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016
Measurement Date	June 30, 2022	June 30, 2021	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
Total Pension Liability	\$ 114,116	\$ 92,326	\$ 89,637	\$ 93,834	\$ 91,101	\$ 83,063	\$ 80,448	
Service cost	71,339	58,354	49,961	41,731	34,674	30,574	10,064	
Interest on total pension liability	-	68,833	-	(9,020)	-	(37,021)	297,568	
Difference between expected and actual experience	-	15,798	-	17,159	-	(7,271)	-	
Changes in assumptions	(13,552)	(13,286)	(13,026)	(12,770)	(27,105)	(1,527)	-	
Benefit payments, including refunds of employee contributions	171,903	222,025	126,572	130,934	98,670	67,818	388,080	
Net change in total pension liability	1,034,099	812,074	685,502	554,568	455,898	388,080	-	
Total Pension Liability - beginning	\$ 1,206,002	\$ 1,034,099	\$ 812,074	\$ 685,502	\$ 554,568	\$ 455,898	\$ 388,080	
Total Pension Liability - ending (a)								
Plan fiduciary net position	\$ 68,381	\$ 67,434	\$ 61,266	\$ 46,775	\$ 45,411	\$ 44,093	\$ 37,027	
Contributions - employer	54,638	53,616	48,981	44,969	47,075	50,429	344,564	
Contributions - employee*	(168,052)	265,968	16,099	41,201	45,838	55,329	6,520	
Net investment income	(13,552)	(13,286)	(13,026)	(12,770)	(27,105)	(1,527)	-	
Benefit payments	(10,105)	(9,947)	(10,297)	(110)	(110)	(117)	(439)	
Administrative expense	(68,690)	363,785	103,023	120,065	111,109	148,207	387,672	
Net change in plan fiduciary net position	1,233,861	870,076	767,053	646,988	535,879	387,672	-	
Plan fiduciary net position - beginning	\$ 1,165,171	\$ 1,233,861	\$ 870,076	\$ 767,053	\$ 646,988	\$ 535,879	\$ 387,672	
Plan fiduciary net position - ending (b)								
Net pension asset (liability)	\$ (40,831)	\$ 199,762	\$ 58,002	\$ 81,551	\$ 92,420	\$ 79,981	\$ (408)	
Plan fiduciary net position as a percentage of the total pension liability	96.61%	119.32%	107.14%	111.90%	116.67%	117.54%	99.89%	
Covered employee payroll*	\$ 830,829	\$ 825,421	\$ 736,554	\$ 675,929	\$ 680,306	\$ 626,786	\$ 620,243	
Net pension asset (liability) as a percentage of covered employee payroll	4.91%	-24.20%	-7.87%	-12.07%	-13.59%	-12.76%	0.07%	

* Measurement year 2016 includes employee purchases of past service contributions of \$297,568 in March 2016

Fiscal year 2015/16 was the first year of implementation for GASBS No. 68. Future periods will continue to be added until 10 years' data is presented.

Montara Water and Sanitary District
Schedule of Plan Contributions
Last 10 Years

	For the fiscal year ended June 30,									
	2023	2022	2021	2020	2019	2018	2017	2016		
Actuarially determined contribution	\$ 74,601	\$ 68,382	\$ 67,434	\$ 50,970	\$ 46,774	\$ 45,862	\$ 40,741	\$ 40,316		
Contribution in relation to the actuarially determined contribution	(74,601)	(68,382)	(67,434)	(50,970)	(46,774)	(45,862)	(40,741)	(40,316)		
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -		
Covered employee payroll	\$ 887,027	\$ 830,829	\$ 825,421	\$ 736,554	\$ 675,929	\$ 680,306	\$ 626,786	\$ 620,243		
Contributions as a percentage of covered payroll	8.41%	8.23%	8.17%	6.92%	6.92%	6.74%	6.50%	6.50%		

Methods and assumptions for 2022/23 actuarially determined contribution

Valuation date	June 30, 2021
Actuarial cost method	Entry age normal, level % of pay
Amortization method	N/A
Asset valuation method	N/A
Discount rate	Investment gains and losses spread over 5-year fixed period
General inflation	6.25%
Salary increases	2.50%
Mortality	CalPERS 2000 - 2019 Experience Study
Mortality improvement	Mortality projected fully generational with Scale MP-2021

Fiscal year 2015/16 was the first year of implementation for GASBS No. 68. Future periods will continue to be added until 10 years' data is presented.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of Montara Water and Sanitary District, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise Montara Water and Sanitary District's basic financial statements, and have issued our report thereon dated October 25, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Montara Water and Sanitary District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Montara Water and Sanitary District's internal control. Accordingly, we do not express an opinion on the effectiveness of Montara Water and Sanitary District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements, on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

We consider the following deficiency to be a significant deficiency:

- ***Reconciliations of Accounts Payable:*** During fiscal year ended June 30, 2020, the District overstated expenses by \$147,023. The issue arose due to a capitalized expense discovered through the audit process of that same year. The overstated accrued expenses balance was discovered by District staff before the audit of the June 30, 2023, financial statements began. A prior period adjustment was made to correct the financial statements for the year ended June 30, 2023. We recommend that the District implement procedures to review and reconcile and regular monitoring. The District can accomplish this by establishing a system for regular monitoring by

conducting thorough reviews and reconciliation of all accounts payable transactions to identify and remove any duplicated items. To ensure accuracy, this process should include examining invoices, payment records, and vendor statements.

We have noted the following deficiencies that do not rise to the level of significant deficiency or material weaknesses.

- **Accounting Manual:** The District lacks a comprehensive manual outlining written accounting procedures and responsibilities for accounting personnel. Establishing a well-documented accounting manual is essential for providing clear guidelines, ensuring consistency in financial reporting, and promoting accountability within the finance department and will assist in cases of transition and employee turnover. We recommend developing and implementing an accounting manual that covers key financial processes and internal controls.
- **Payroll Approvals:** For our walk-through procedures to gain an understanding of internal controls at the District, we reviewed one pay-period. We noted that the examined timecards were not properly reviewed and approved by management. Proper review and approval of timecards are essential to ensure accuracy in payroll processing. We recommend the District adhere to and not bypass the implemented internal controls over payroll, which includes a review and approval process to validate the accuracy of all payroll transactions, reducing the risk of errors and potential discrepancies.
- **Code of Conduct:** We also observed that the Board of Directors does not have a formal Code of Conduct. A Code of Conduct is crucial in establishing ethical standards, promoting transparency, and ensuring integrity in decision-making processes. We recommend the Board to develop and adopt a Code of Conduct that outlines the expected behavior, responsibilities, and ethical principles for all Board members, setting a strong example for the entire organization.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Montara Water and Sanitary District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CROPPER ACCOUNTANCY CORPORATION
Walnut Creek, California
October 25, 2023

October 25, 2023

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

We have audited the financial statements of the business-type activities of Montara Water and Sanitary District for the year ended June 30, 2023. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and the Uniform Guidance), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated August 17, 2023. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Montara Water and Sanitary District are described in Note 1 to the financial statements. As described in Note 1 to the financial statements, the Montara Water and Sanitary District changed accounting policies by adopting Statement of Governmental Accounting Standards (GASB Statement) No. 91, No. 93, No. 94, and No. 96 in fiscal year 2022-2023. Accordingly, the cumulative effect of the adoption of these statements did not have a material effect on the financial statements (see Note 1 for additional information on the new accounting principles from the Governmental Accounting Standards Board). We noted no transactions entered into by Montara Water and Sanitary District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the Montara Water and Sanitary District's financial statements was:

Management's estimate of the pension liability and related deferred inflows and outflows is based on CalPERS discount rates, market rates, member contributions, and other actuarial inputs. We evaluated the methods, assumptions, and data used to develop the pension liability in determining that it is reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

The disclosure of Deferred Benefit Plan in Note 8 to the financial statements which describes the pension liability, the related deferred inflows and outflows, and the sensitivity of inputs and estimates that went into the liability.

The disclosure of the Long Term Obligations in Note 6 to the financial statements which describes each of the long term obligations held by the Montara Water and Sanitary District.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 25, 2023.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to Montara Water and Sanitary District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Montara Water and Sanitary District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to management's discussion and analysis, schedule of changes in net pension liability and related ratios, and schedule of plan contributions, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Restriction on Use

This information is intended solely for the information and use of board of directors and management of Montara Water and Sanitary District and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,



CROPPER ACCOUNTANCY CORPORATION
Walnut Creek, California

MONTARA WATER AND SANITARY DISTRICT
JUNE 30, 2023
CORRECTED MISSTATEMENTS

Account	Description	Debit	Credit	Net Income Effect
Client #1 Record Lease Amortization				
4220	4220 Cell Tower Lease	83,359	-	
1226	Sewer - Accounts Receivable:Lease Receivable Noncurrent	-	78,240	
7200	7000 Capital Account Revenues:7200 Interest Income - LAIF	-	5,119	
Total		<u>83,359</u>	<u>83,359</u>	<u>(78,240)</u>
Client #2 Record Deferred Inflow Amortization				
2903	Sewer - Long Term Liabilities:Deferred Inflows (Sewer Leases)	79,829	-	
4220	4220 Cell Tower Lease	-	79,829	
Total		<u>79,829</u>	<u>79,829</u>	<u>79,829</u>
Client #3 Record Sewer GASB 68 Adjustment.				
2800	Sewer - Net Pension Liability	-	74,584	
1901	Sewer - Other Assets:Def'd Amts Related to Pensions	19,459	-	
2901	Deferred Inflows (Pensions):Sewer	45,848	-	
5820	5000 Administrative:5800 Labor:5820 Employee Benefits	9,277	-	
Total		<u>74,584</u>	<u>74,584</u>	<u>(9,277)</u>
Client #4 Record Water GASB 68 Adjustment.				
2801	Water - Net Pension Liability	-	166,009	
1902	Water - Other Assets:Def'd Amts Related to Pensions	43,314	-	
2902	Deferred Inflows (Pensions):Water	102,047	-	
5820	5000 Administrative:5800 Labor:5820 Employee Benefits	20,648	-	
Total		<u>166,009</u>	<u>166,009</u>	<u>(20,648)</u>
Client #5 Beginning Fund Balance adjustment - correction of PY error - Erroneous Sewer A/P.				
2600	Sewer - Long Term Liabilities:Due to Water Fund	147,023	-	
3100	Sewer - Equity Accounts:Fund Balance - Unrestricted	-	147,023	
Total		<u>147,023</u>	<u>147,023</u>	<u>-</u>
GRAND TOTAL		<u>550,804</u>	<u>550,804</u>	<u>(28,336)</u>