Financial Statements
June 30, 2022

Montara Water and Sanitary District

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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 financial statements of the water and sewer enterprise funds of Montara Water and Sanitary District (District) as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the water and sewer enterprise funds of the District, as of June 30, 2022, 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.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*). 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 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 opinions.

Adoption of New Accounting Standard

As discussed in Note 5 to the financial statements, the District has adopted the provisions of Government Accounting Standards Board (GASB) Statement No. 87, *Leases*, for the year ended June 30, 2022. Accordingly, a restatement has been made to the sewer enterprise fund net position as of July 1, 2021 to restate beginning net position. Our opinions are not modified with respect to this matter.

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 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 GAAS 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 GAAS 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 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 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 Discussion and Analysis, Schedule of Changes in the Net Pension Liability and Related Ratios and Schedule of Plan Contributions 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 June 28, 2023 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 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 the District's internal control over financial reporting and compliance.

Eide Bailly LLP

Menlo Park, California
June 28, 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, 2022. 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 $271,123 from the prior year going from $9,300,718 to $9,571,841.
- The District's current assets increased by $ $1,762,224 over the past year.
- The District's long-term liabilities decreased by $ $(1,294,024).
- District-wide expenses decreased $274,632 from the prior year going from $6,577,796 to $6,303,164.

The effect of the change in revenues and expenses caused the District-wide change in net position to increase $3,268,677 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, 2022 to increase by $545,755.

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.

Net Position Statement and Analysis

The District's total net position increased from $26,586,640 to $29,855,317 or $3,268,677.

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

	Sewer		Water		Total	
	2022	2021	2022	2021	2022	2021
Current Assets	$ 8,970,184	$ 8,430,851	$ 4,443,067	$ 3,220,176	$ 13,413,251	$ 11,651,027
Capital Assets Net of Accumulated Depreciation	10,742,962	10,031,759	16,519,401	16,945,089	27,262,363	26,976,848
Other Assets	210,832	17,981	1,261,814	1,136,771	1,472,646	1,154,752
Total assets	19,923,978	18,480,591	22,224,282	21,302,036	42,148,260	39,782,627
Deferred Outflows of Resources	93,759	84,583	208,689	188,265	302,448	272,848
Total deferred outflow of resources	93,759	84,583	208,689	188,265	302,448	272,848
Current Liabilities	1,856,014	1,851,074	1,361,161	1,305,845	3,217,175	3,156,919
Long-term Liabilities	928,438	1,041,647	8,052,444	9,233,259	8,980,882	10,274,906
Total liabilities	2,784,452	2,892,721	9,413,605	10,539,104	12,198,057	13,431,825
Deferred Inflows of Resources	275,888	11,473	121,446	25,537	397,334	37,010
Total Deferred Inflow of Resources	275,888	11,473	121,446	25,537	397,334	37,010
Net Position						
Net Investment in Capital Assets	9,726,525	8,915,169	7,322,008	6,597,130	17,048,533	15,512,299
Restricted for Debt Service	-	-	1,123,978	1,096,750	1,123,978	1,096,750
Unrestricted	7,230,872	6,745,811	4,451,934	3,231,780	11,682,806	9,977,591
Total net position	$ 16,957,397	$ 15,660,980	$ 12,897,920	$ 10,925,660	$ 29,855,317	$ 26,586,640

Revenues, Expenses and Changes in Net Position

For the fiscal year ended June 30, 2022 the sewer system generated operating revenue of $3,643,162 and operating expenses of $3,340,499 for a net operating gain of $302,663. This is a decrease from prior year’s net operating gain of $339,409 by $36,746. Whereas operating revenue increased 0.3%.

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 an increase of $311,421 mainly due to the inclusion of 100% of the cell tower Lease which was once split equally between the Sewer and Water Fund. The cell tower is 100% on Sewer Fund property, and as such, the income should be allocated to the sewer fund 100%. In addition, connection fee revenue increased by approximately $223,000.

For the fiscal year ended June 30, 2022 the water system generated operating revenue of $1,879,399 and operating expenses of $2,779,521 for a net operating loss of $900,122. This is a decrease from prior year’s net operating loss of $968,661 by $68,539. For the fiscal year ended June 30, 2022 operating revenue decreased 9% and operating expense decreased by $260,830 mainly due to the decrease in water consumption.

The Water Funds non-operating activities revenues, consisting of property taxes, investment income, connection fees and revenue from the lease of the cell phone tower, experienced a decrease of $72,321. The major reason for the decrease is due to the inclusion of 100% of the cell tower lease revenue being allocated 100% to the Sewer fund.

For the fiscal year ended June 30, 2022, the District collected $1,027,699 in water reliability charges, an increase of $78,500 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 $180,300. 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 increased from $220,679 to $410,101 whereas the connection fees for the Water Fund increased from $1,232,436 to $1,491,280. 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	
	2022	2021	2022	2021	2022	2021
Operating Revenues	$ 3,643,162	$ 3,631,412	$ 1,879,399	$ 2,071,690	$ 5,522,561	$ 5,703,102
Tax Revenues	516,916	455,194	1,531,980	1,650,581	2,048,896	2,105,775
Interest and Investment Income	12,868	38,726	1,809	-	14,677	38,726
Connection Fees and Other Non Operating Revenues	496,236	220,679	1,489,471	1,232,436	1,985,707	1,453,115
Total revenues	4,669,182	4,346,011	4,902,659	4,954,707	9,571,841	9,300,718
Operating Expenses	3,340,499	3,292,003	2,779,521	3,040,351	6,120,020	6,332,354
Nonoperating Expenses	32,266	34,645	150,878	210,797	183,144	245,442
Total expenses	3,372,765	3,326,648	2,930,399	3,251,148	6,303,164	6,577,796
Change in Fund Net Position	1,296,417	1,019,363	1,972,260	1,703,559	3,268,677	2,722,922
Fund Net Position Beginning of year	15,660,980	14,641,617	10,925,660	9,222,101	26,586,640	23,863,718
End of year	$ 16,957,397	$ 15,660,980	$ 12,897,920	$ 10,925,660	$ 29,855,317	$ 26,586,640

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2022, the District had $27,262,363 (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, 2022, increased by $285,515 or 1.2% 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

The following summarizes District capital assets for fiscal year ended June 30, 2022:

	Balance June 30, 2021	Additions	Deletions	Balance June 30, 2022	
Capital Assets Not Being Depreciated					
Land and easement	$ 739,500	$ -	$ -	$ 739,500	$ 739,500
Capacity rights	2,687,547	-	-	2,687,547	
Total capital assets not being depreciated	3,427,047	-	-	3,427,047	739,500
Capital Assets Being Depreciated					
Sewage collection facilities	5,340,307	-	-	5,340,307	5,340,307
Sewage treatment facilities	244,540	-	-	244,540	244,540
General plant and administration facilities	7,339,978	1,212,732	-	8,552,710	8,552,710
Seal cove collection system	995,505	-	-	995,505	995,505
Other capital improvements	4,357,566	-	-	4,357,566	4,357,566
Water facilities plant	28,211,926	557,027	-	28,768,953	28,768,953
Water general plant	409,584	-	-	409,584	409,584
Surface water rights	300,000	-	-	300,000	300,000
Total capital assets being depreciated	47,199,406	1,769,759	-	48,969,165	48,969,165
Accumulated Depreciation	23,649,605	1,484,244	-	25,133,849	25,133,849
Net Capital Assets Being Depreciated	23,549,801	285,515	-	23,835,316	23,835,316
Property Plant and Equipment, Net	$ 26,976,848	$ 285,515	$ -	$ 27,262,363	$ 24,574,816

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 refund 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.

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

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion	Long-Term Portion
General Obligation Bonds, 2020 Series	$ 7,050,811	$ -	$ 905,740	$ 6,145,071	$ 916,095	$ 5,228,976
PNCEF Financed Purchase	844,025	-	136,740	707,285	148,157	559,128
CIEDB loan - Direct borrowing	694,586	-	31,783	662,803	32,753	630,050
SRF Loan - Direct borrowing	2,875,127	-	176,456	2,698,671	180,509	2,518,162
Totals	$ 11,464,549	$ -	$ 1,250,719	$ 10,213,830	$ 1,277,514	$ 8,936,316

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.

	Sewer	Water	Total
Assets			
Current assets			
Cash and cash equivalents	$ 8,821,934	$ 2,567,157	$ 11,389,091
Accounts receivable	70,011	460,653	530,664
Leases receivable	78,239	-	78,239
Inventory	-	42,656	42,656
Prepaid items	-	14,695	14,695
Due from sewer fund	-	1,357,906	1,357,906
Total current assets	8,970,184	4,443,067	13,413,251
Noncurrent Assets			
Capital assets			
Nondepreciable			
Land and easement	5,000	734,500	739,500
Capacity rights	2,687,547	-	2,687,547
Depreciable, net	8,050,415	15,784,901	23,835,316
Total capital assets	10,742,962	16,519,401	27,262,363
Other Assets			
Restricted cash and cash equivalents	-	1,123,978	1,123,978
Leases receivable	148,906	-	148,906
Net pension asset	61,926	137,836	199,762
Total other assets	210,832	1,261,814	1,472,646
Total non-current assets	10,953,794	17,781,215	28,735,009
Total assets	19,923,978	22,224,282	42,148,260
Deferred Outflows of Resources			
Deferred amounts related to pensions	93,759	208,689	302,448
Total deferred outflows of resources	93,759	208,689	302,448
Liabilities			
Current liabilities			
Accounts payable	334,824	102,366	437,190
Due to water fund	1,357,906	-	1,357,906
Deposits	39,232	4,071	43,303
Interest payable	7,439	29,624	37,063
Other current liabilities	-	32,345	32,345
Accrued compensated absences	9,782	22,072	31,854
Current portion of general obligation bonds and other long-term obligations	106,831	1,170,683	1,277,514
Total current liabilities	1,856,014	1,361,161	3,217,175
Long Term Liabilities			
Accrued compensated absences	18,832	25,734	44,566
General obligation bonds, less current portion	-	5,228,976	5,228,976
Other long term obligations, less current portion	909,606	2,797,734	3,707,340
Total long term liabilities	928,438	8,052,444	8,980,882
Total liabilities	2,784,452	9,413,605	12,198,057
Deferred Inflows of Resources			
Deferred amounts related to leases	221,325	-	221,325
Deferred amounts related to pensions	54,563	121,446	176,009
Total deferred inflows of resources	275,888	121,446	397,334
Net Position			
Net investments in capital assets	9,726,525	7,322,008	17,048,533
Restricted for debt service	-	1,123,978	1,123,978
Unrestricted	7,230,872	4,451,934	11,682,806
Total net position	$ 16,957,397	$ 12,897,920	$ 29,855,317

Montara Water and Sanitary District
Statement of Revenues, Expenses and Changes in Net Position
Year Ended June 30, 2022

	Sewer	Water	Total
Operating Revenues			
Sales and service charges	$ 3,643,162	$ 1,879,399	$ 5,522,561
Total operating revenues	3,643,162	1,879,399	5,522,561
Operating Expenses			
General and administrative	848,225	1,265,869	2,114,094
System maintenance and repairs	1,990,745	530,937	2,521,682
Depreciation and amortization	501,529	982,715	1,484,244
Total operating expenses	3,340,499	2,779,521	6,120,020
Operating income (loss)	302,663	(900,122)	(597,459)
Nonoperating Revenues (Expense)			
Taxes - District share of one percent	516,916	516,917	1,033,833
Taxes - Ad valorem for general obligation bonds	-	1,015,063	1,015,063
Investment income	12,868	1,809	14,677
Interest expense	(32,266)	(150,878)	(183,144)
Other revenues	86,135	1,027,699	1,113,834
Total non-operating revenues (expenses)	583,653	2,410,610	2,994,263
Income before Contributions	886,316	1,510,488	2,396,804
Capital contributions - connection fees	410,101	461,772	871,873
Changes in net position	1,296,417	1,972,260	3,268,677
Net Position, Beginning of Year, as restated	15,660,980	10,925,660	26,586,640
Total Net Position, End of Year	$ 16,957,397	$ 12,897,920	$ 29,855,317

	Sewer	Water	Total
Cash Flows from Operating Activities			
Receipts from customers and users	$ 3,611,450	$ 1,932,684	$ 5,544,134
Payments to suppliers - other	(2,360,219)	(496,659)	(2,856,878)
Payments to employees	(820,246)	(1,295,272)	(2,115,518)
Net cash provided by operating activities	430,985	140,753	571,738
Cash Flows from Non-Capital Activities			
Property taxes collected	516,916	516,917	1,033,833
Interfund advances	342,445	(342,445)	-
Net cash provided by non-capital financing activities	859,361	174,472	1,033,833
Cash Flows from Capital and Related Activities			
Principal paid on long term debt	(100,153)	(1,150,566)	(1,250,719)
Interest paid on long term debt	(32,273)	(155,264)	(187,537)
Acquisition and construction of capital assets	(1,212,732)	(557,027)	(1,769,759)
Connection fees	410,101	461,772	871,873
Water reliability charges and other non operating revenue collected	-	2,042,762	2,042,762
Net cash used for capital and related financing activities	(935,057)	641,677	(293,380)
Cash Flows from Investing Activities			
Investment income	99,003	1,809	100,812
Net cash provided by investing activities	99,003	1,809	100,812
Net Increase (Decrease) in Cash and Equivalents	454,292	958,711	1,413,003
Cash and equivalents, July 1	8,367,642	2,732,424	11,100,066
Cash and equivalents, June 30	$ 8,821,934	$ 3,691,135	$ 12,513,069
Amounts as They Appear on The Statement of Net Position:			
Cash and cash equivalents	$ 8,821,934	$ 2,567,157	$ 11,389,091
Restricted cash and cash equivalents	-	1,123,978	1,123,978
	$ 8,821,934	$ 3,691,135	$ 12,513,069

(Continued)

	Sewer	Water	Total
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:			
Operating (loss)	$ 302,663	$ (900,122)	$ (597,459)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation and amortization expense	501,529	982,715	1,484,244
Pension related amounts	(10,031)	(22,330)	(32,361)
Change in assets and liabilities:			
Accounts and notes receivable	(12,622)	53,285	40,663
Accounts payable and other current liabilities	(369,474)	36,526	(332,948)
Deposits and prepaid expenses	24,855	(2,248)	22,607
Compensated absences	(5,935)	(7,073)	(13,008)
Total adjustments	128,322	1,040,875	1,169,197
Net cash provided by operating activities	$ 430,985	$ 140,753	$ 571,738

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.

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 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.

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. 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. 87 – As of July 1, 2021, the District adopted GASB Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about govern-ments' leasing activities. The District implemented the requirements of this statement as described in note 5.

GASB Statement No. 89 – In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objective of this Statement is to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (b) to simplify accounting for certain interest costs. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in the financial statements. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020, or FY 2021/2022. This Statement did not impact the District's the financial statements.

GASB Statement No. 92 – In January 2020, GASB issued Statement No. 92, *Omnibus 2020*. The objective of this Statement is to establish accounting and financial reporting requirements for specific issues related to leases, intra-entity transfers of assets, postemployment benefits, government acquisitions, risk financing and insurance-related activities of public entity risk pools, fair value measurements, and derivative instruments. The requirements of this Statement are effective for reporting periods beginning after June 15, 2021, or FY 2021/2022, except for Statement 87 and Implementation Guide 2019-3, reinsurance recoveries, and terminology used to refer to derivative instruments are effective upon issuance. This Statement did not impact the District's financial statements.

GASB Statement No. 97 – In June 2020, GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*. The objective of this Statement is to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. The requirements of this Statement are effective for reporting periods beginning after June 15, 2021, or FY 2021/2022. This Statement did not impact the District's financial statements.

R. <u>New Accounting Pronouncements – Effective in Future Fiscal Years</u>

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.

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, 2022:

Cash Deposits	$ 7,137,927
Investments with Local Agency Investment Fund	4,623,334
Investments with California Asset Management Program	751,808
	$ 12,513,069

Restricted cash and cash equivalents	$ 1,123,978
Unrestricted cash and cash equivalents	11,389,091
	$ 12,513,069

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
CAMP	$ 751,808	60
LAIF	4,623,334	287
	$ 5,375,142	

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, 2022.

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, 2022, balances in financial institutions were $6,295,690. Of the balance in financial institutions, $503,914 was covered by federal depository insurance and $5,791,777 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.

Note 4 - Capital Assets

Changes in capital assets accounts are summarized below:

Water Fund Category	Balance June 30, 2021	Additions	Deletions	Balance June 30, 2022
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	28,621,510	557,027	-	29,178,537
Other capital assets	48,172	-	-	48,172
Surface water rights	300,000	-	-	300,000
Total capital assets being depreciated	30,028,667	557,027	-	30,585,694
Accumulated depreciation	13,818,078	982,715	-	14,800,793
Net capital assets being depreciated	16,210,589	(425,688)	-	15,784,901
Property, plant and equipment, net	$ 16,945,089	$ (425,688)	$ -	$ 16,519,401

Sewer Fund Category	Balance June 30, 2021	Additions	Deletions	Balance June 30, 2022
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	7,339,978	1,212,732	-	8,552,710
Seal Cove collection system	995,505	-	-	995,505
Other capital improvements	3,250,409	-	-	3,250,409
Total capital assets being depreciated	17,170,739	1,212,732	-	18,383,471
Accumulated depreciation	9,831,527	501,529	-	10,333,056
Net capital assets being depreciated	7,339,212	711,203	-	8,050,415
Property, plant and equipment, net	$ 10,031,759	$ 711,203	$ -	$ 10,742,962

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.

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 $1,861,399 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 lease contracts for lease 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, 2022, the District's receivable for lease payments was $227,145. 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, 2022, the balance of the deferred inflow of resources was $221,325.

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	$ 7,050,811	$ -	$ 905,740	$ 6,145,071	$ 916,095	$ 5,228,976
PNCEF Financed Purchase	844,025	-	136,740	707,285	148,157	559,128
CIEDB loan - Direct borrowing	694,586	-	31,783	662,803	32,753	630,050
SRF Loan - Direct borrowing	2,875,127	-	176,456	2,698,671	180,509	2,518,162
Totals	$ 11,464,549	$ -	$ 1,250,719	$ 10,213,830	$ 1,277,514	$ 8,936,316

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.

Principal is due semi-annually beginning on February 1, 2021, in amounts ranging from $473,189 to $488,986, with a final payment on August 1, 2028 of $488,986.

Repayment Schedule

Fiscal Year Ending June 30,	Principal	Interest	Total
2023	$ 916,095	$ 67,450	$ 983,545
2024	926,568	56,977	983,545
2025	937,161	46,384	983,545
2026	947,876	35,670	983,546
2027	958,712	24,833	983,545
2028-2029	1,458,659	16,660	1,475,319
Total	$ 6,145,071	$ 247,974	$ 6,393,045

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.

Repayment Schedule

Fiscal Year Ending June 30,	Principal		Interest		Total	
2023	$	148,157	$	18,883	$	167,040
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	$	707,285	$	47,624	$	754,909

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	
2023	$	32,752	$	19,716	$	52,468
2024		33,751		18,702		52,453
2025		34,781		17,656		52,437
2026		35,841		16,579		52,420
2027		36,935		15,470		52,405
2028-2032		202,273		59,479		261,752
2033-2037		235,070		26,192		261,262
2038		51,400		784		52,184
	$	662,803	$	174,578	$	837,381

D. State Revolving Fund Loan

On July 10, 2012, the District entered into an agreement with the State of California Department of Health under the Safe Drinking Water State Revolving Fund Law of 1947. This agreement constitutes funding in the form of a loan and a grant made by the State to the District to assist in financing the cost of studies, planning and other preliminary activities for a project which will enable the District to meet safe drinking water standards. Under this agreement, the State will lend the District an amount not to exceed $500,000, payable in five years from the first principal and interest invoice. On November 14, 2012, the District entered into an additional agreement with the State of California Department of Health under the Safe Drinking Water Revolving Fund Law of 1947. This agreement constitutes funding in the form of a loan made by the State to the District to assist in financing the construction of the preliminary activities noted above.

Under this agreement, the State will lend the District an amount not to exceed $2,920,000. The District will make semiannual payments for the principal and any interest amounts due January 1 and July 1 of each year until the loan is repaid in full at an interest rate of 2.09 percent and 2.28 percent, respectively, per annum.

Repayment Schedule

Fiscal Year Ending June 30,	Principal	Interest	Total
2023	$ 180,509	$ 60,602	$ 241,111
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
2028-2032	1,058,575	146,980	1,205,555
2033-2035	695,133	28,038	723,171
Total	$ 2,698,671	$ 435,611	$ 3,134,282

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, 2022, 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	7.01%

C. Employees Covered by Benefit Terms

At June 30, 2022, 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, 2022, the employer contributions were $68,382.

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, 2021, using an annual actuarial valuation as of June 30, 2021. 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, 2021 actuarial valuation was determined using the following actuarial assumptions:

	PARS Plan
Valuation Date	June 30, 2021
Measurement Date	June 30, 2021
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount rate	6.5%
Aggregate payroll increases	2.75% (1)
Mortality	Varies by gender and age (2)

(1) Depending on age, service and type of employment.
(2) The underlying mortality assumptions and all other actuarial assumption used in the June 30, 2021 valuation were based on the results of a January 2017 actuarial experience study for the period 1997 to 2015. Further details of the Experience Study can be found on the CalPERS website.

F. Discount Rate

The best estimate for the long-term rate of return of 6.50% is determined by adding expected inflation to expected long-term real returns and reflecting expected volatility and correlation. The table below reflects discount rate development. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

	Target Allocation	Real Rate of Return
Asset Class Component		
Global Equity	73%	4.82%
Fixed Income	20%	1.47%
REITs	2%	3.76%
Cash	5%	0.06%
Assumed Long-Term rate of Inflation	2.75%	
Expected Long-Term Net Rate of Return, Rounded	6.25%	

G. Changes in Net Pension Asset

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

	Increase / (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Asset
Balance at July 1, 2021	$ 812,074	$ 870,076	$ 58,002
Changes in the Year			
- Service cost	92,326	-	(92,326)
- Interest	58,354	-	(58,354)
- Difference between expected and actual experience	68,833	-	(68,833)
- Changes of assumptions	15,798	-	(15,798)
- Changes of benefit terms	-	-	-
- Contributions - employer	-	67,434	67,434
- Contributions - employee	-	53,616	53,616
- Net investment income	-	265,968	265,968
- Benefit payments including refunds	(13,286)	(13,286)	-
- Administrative expense	-	(9,947)	(9,947)
Net changes	222,025	363,785	141,760
Balance at June 30, 2022	$ 1,034,099	$ 1,233,861	$ 199,762

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 asset (liability)	$ 31,548	$ 199,762	$ (382,009)

H. Pension Plan Fiduciary Net Position

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

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

For the year ended June 30, 2022, the District recognized pension expense of $32,361. At June 30, 2022, the District reported deferred outflows and inflows of resources as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 206,569	$ (28,331)
Changes of assumptions	27,497	(4,231)
Net difference between projected and actual earnings on plan investments	-	(143,447)
Employer contributions made subsequent to the measurement date	68,382	-
	$ 302,448	$ (176,009)

The amount of $68,382 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2023.

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 of Resources
2023	$ (5,831)
2024	(4,054)
2025	(4,738)
2026	(12,052)
2027	29,193
Thereafter	55,539
	$ 58,057

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.

The following is a summary of the insurance policies carried by the District as of June 30, 2022:

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

As of July 1, 2021, the District adopted GASB Statement NO. 87, Leases. As a result of the implementation, the District changed its accounting for leases by recognizing a leases receivable and the related deferred inflows of resources from leases. The following table describes the effect of the implementation on beginning net position:

	Sewer	Water	Total
Net Position/Fund Balance, previously reported as of July 1, 2021	$ 15,660,980	$ 10,925,660	$ 26,586,640
Recognition of leases receivable	301,154	-	301,154
Recognition of deferred inflows from leases	(301,154)	-	(301,154)
Net Position/Fund Balance, restated as of July 1, 2021	$ 15,660,980	$ 10,925,660	$ 26,586,640

Required Supplementary Information
June 30, 2022

Montara Water and Sanitary District

Fiscal Year	June 30, 2022	June 30, 2021	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017
Measurement Date	June 30, 2021	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016
Total Pension Liability						
Service cost	$ 92,326	$ 89,637	$ 93,834	$ 91,101	$ 83,063	$ 80,448
Interest on total pension liability	58,354	49,961	41,731	34,674	30,574	10,064
Difference between expected and actual experience	68,833	-	(9,020)	-	(37,021)	297,568
Changes in assumptions	15,798	-	17,159	-	(7,271)	-
Benefit payments, including refunds of employee contributions	(13,286)	(13,026)	(12,770)	(27,105)	(1,527)	-
Net change in total pension liability	222,025	126,572	130,934	98,670	67,818	388,080
Total Pension Liability - beginning	812,074	685,502	554,568	455,898	388,080	-
Total Pension Liability - ending (a)	$ 1,034,099	$ 812,074	$ 685,502	$ 554,568	$ 455,898	$ 388,080
Plan fiduciary net position						
Contributions - employer	$ 67,434	$ 61,266	$ 46,775	$ 45,411	$ 44,093	$ 37,027
Contributions - employee*	53,616	48,981	44,969	47,075	50,429	344,564
Net investment income	265,968	16,099	41,201	45,838	55,329	6,520
Benefit payments	(13,286)	(13,026)	(12,770)	(27,105)	(1,527)	-
Administartive expense	(9,947)	(10,297)	(110)	(110)	(117)	(439)
Net change in plan fiduciary net position	363,785	103,023	120,065	111,109	148,207	387,672
Plan fiduciary net position - beginning	870,076	767,053	646,988	535,879	387,672	-
Plan fiduciary net position - ending (b)	$ 1,233,861	$ 870,076	$ 767,053	$ 646,988	$ 535,879	$ 387,672
Net pension asset (liability) - ending (a) - (b)	$ 199,762	$ 58,002	$ 81,551	$ 92,420	$ 79,981	$ (408)
Plan fiduciary net position as a percentage of the total pension liability	119.32%	107.14%	111.90%	116.67%	117.54%	99.89%
Covered payroll	$ 830,829	$ 736,554	$ 675,929	$ 680,306	$ 626,786	$ 620,243
Net pension asset (liability) as a percentage of covered employee payroll	24.04%	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.
** Measurement year 2016 was the 1st year of the plan.

	2022	2021	2020	2019	2018	2017	2016
Actuarially Determined Contribution	$ 68,382	$ 67,434	$ 50,970	$ 46,774	$ 45,862	$ 40,741	$ 40,316
Contribution in relation to the Actuarially Determined Contribution	(68,382)	(67,434)	(50,970)	(46,774)	(45,862)	(40,741)	(40,316)
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Covered payroll	$ 830,829	$ 825,421	$ 736,554	$ 675,929	$ 680,306	$ 626,786	$ 620,243
Contributions as a percentage of covered payroll	8.23%	8.17%	6.92%	6.92%	6.74%	6.50%	6.50%

Notes to Schedule

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal
Investments	Highmark's passively managed Capital Appreciation portfolio
Discount rate	6.5%
Payroll increases	Aggregate payroll increase – 2.75% annually
Mortality, Withdrawal, Disability and Retirement	The probabilities of retirement and mortality are based on the 1997-2015 CalPERS Experience Study - Mortality projected fully generational with Scale MP-2019.

** Measurement year 2016 was the 1st year of the plan.

Independent Accountant's Report on Agreed-Upon Procedures Applied to Appropriations Limit Schedule
June 30, 2023

Montara Water and Sanitary District

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Independent Accountant's Report

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

We have performed the procedures enumerated below, on the Appropriations Limit Calculation of the Montara Water and Sanitary District (District) prepared in accordance with Article XIII-B of the California Constitution for the fiscal year ended June 30, 2023. The District's management is responsible for the Appropriations Limit Calculation.

The District has agreed to and acknowledged that the procedures performed are appropriate to meet the intended purpose of assisting the District in evaluating its Appropriations Limit Calculation was performed as required by Article XIII-B of the California Constitution and we will report on findings based on the procedures performed. This report may not be suitable for any other purpose. The procedures performed may not address all the items of interest to a user of this report and may not meet the needs of all users of this report and, as such, users are responsible for determining whether the procedures performed are appropriate for their purposes.

The procedures you requested us to perform and our findings are as follows:

A. We obtained the completed worksheets setting forth the calculations necessary to establish the District's appropriations limit and compared the limit and annual adjustment factors included in those worksheets to the limit and annual adjustment factors that were adopted by resolution of the Board of Directors. We also compared the population and inflation options included in the aforementioned worksheets to those that were selected by a recorded vote of the Board of Directors.

   Findings: No exceptions were noted as a result of our procedures.

B. We added last year's limit to the annual adjustment amount and compared the resulting amount to the 2022-2023 appropriations limit.

   Findings: No exceptions were noted as a result of our procedures.

C. We compared the current year information to the worksheets described in No. 1 above.

   Findings: No exceptions were noted as a result of our procedures.

D. We agreed the prior year appropriations limit to the prior year appropriations limit adopted by the Board of Directors.

   Findings: No exceptions were noted as a result of our procedures.

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We were engaged by the District to perform this agreed-upon procedures engagement and conducted our engagement in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on the accompanying Appropriations Limit Worksheet. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you. No procedures have been performed with respect to the determination of the appropriation limit for the base year, as defined by Article XIII-B of the California Constitution.

We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our agreed-upon procedures engagement.

This report is intended solely for the information and use of the Board of Directors and management of the District and is not intended to be and should not be used by anyone other than those specified parties.

Eide Bailly LLP

Menlo Park, California
June 28, 2023

MONTARA WATER AND SANITARY DISTRICT

APPROPRIATIONS LIMIT SCHEDULE
FOR THE FISCAL YEAR ENDING JUNE 30, 2023

	Amount		Source
A. Appropriations Limit for the Year Ended June 30, 2022	$ 2,600,380		Prior year schedule
B. Calculation Factors:			
1. Population increase percent	0.9908	*	State Department of Finance
2. Inflation increase percent	1.0755		County of San Mateo
3. Total adjustment factor percent	1.0656		B1 x B2
C. Annual Adjustment Increase	170,599		[(B3-1)A)]
D. Other Adjustments:			
Loss responsibility (-)	-		N/A
Transfers to private (-)	-		N/A
Transfers to fees (-)	-		N/A
Assumed responsibility (+)	-		N/A
E. Total Adjustments	170,599		(C+D)
F. Appropriations Limit for the Year Ending June 30, 2023	$ 2,770,979		(A+E)

* Greater of population increase percent for:

County of San Mateo	0.9908

MONTARA WATER AND SANITARY DISTRICT

NOTES TO APPROPRIATIONS LIMIT SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2023

1. PURPOSE OF AGREED-UPON PROCEDURES

Under Article XIII B of the California Constitution (the Gann Spending Limitations Initiative), California governmental agencies are restricted as to the amount of annual appropriations from proceeds of taxes. Effective for years beginning on or after July 1, 1990, under Section 1.5 of Article XIII B, the annual calculation of the appropriation limit is subject to agreed-upon procedures in connection with the annual audit.

2. METHOD OF CALCULATION

Under Section 10.5 of Article XIII B, for fiscal years beginning on or after July, 1990, the appropriations limit is required to be calculated based on the limit for the fiscal year 1986-1987, adjusted for the inflation and population factors discussed in Notes 3 and 4 below.

3. POPULATION FACTORS

A California governmental agency may adjust its appropriations limit by either the annual percentage change of the jurisdiction's own population or the annual percentage change in population of the District where the jurisdiction is located. The factor adopted by the District for the year 2022-2023 represents the annual percentage change in population for the District of San Mateo.

4. INFLATION FACTORS

A California governmental agency may adjust its appropriations limit by either the annual percentage change in the 4th quarter per capita personal income (which percentage is supplied by the State Department of Finance) or the percentage change in the local assessment roll from the preceding year due to the change of local nonresidential construction. The factor adopted by the District for the year 2022-2023 represents the percentage change in the local assessment roll from the preceding year due to the change of local nonresidential construction.

5. OTHER ADJUSTMENTS

A California government agency may be required to adjust its appropriations limit when certain events occur, such as the transfer of responsibility for municipal services to, or from, another government agency or private entity. The District had no such adjustment for the year ending June 30, 2023.

CPAs & BUSINESS ADVISORS

June 28, 2023

To the Governing Board
Montara Water and Sanitary District
Montara, California

We have audited the financial statements of Montara Water and Sanitary District (District) as of and for the year ended June 30, 2022, and have issued our report thereon dated June 28, 2023. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our letter dated May 9, 2022, our responsibility, as described by professional standards, is to form and express an opinions about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, as part of our audit, we considered the internal control of the District solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

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Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, our firm, and other firms utilized in the engagement, if applicable, have complied with all relevant ethical requirements regarding independence.

Significant Risks Identified

As stated in our auditor's report, professional standards require us to design our audit to provide reasonable assurance that the financial statements are free of material misstatement whether caused by fraud or error. In designing our audit procedures, professional standards require us to evaluate the financial statements and assess the risk that a material misstatement could occur. Areas that are potentially more susceptible to misstatements, and thereby require special audit considerations, are designated as "significant risks". We have identified the following as significant risks:

We are required to perform specific audit procedures relating to management override and more specifically, we performed audit procedures relating to improper revenue recognition.

Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the District is included in Note 1 to the financial statements. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during the year exception the implementation of GASB Statement No 87, *Leases*. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on 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 markedly from management's current judgments. No such significant accounting estimates were identified.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users.

Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole.Uncorrected misstatements or matters underlying those uncorrected misstatements could potentially cause future-period financial statements to be materially misstated, even though the uncorrected misstatements are immaterial to the financial statements currently under audit.

The following summarizes uncorrected financial statement misstatements whose effects in the current and prior periods, as determined by management, are immaterial, both individually and in the aggregate, to the financial statements taken as a whole and each applicable opinion unit.

Understatement in the fair value of the Local Agency Investment Fund with the State for $86,044 and related investment income and related net position.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to District's financial statements or the auditor's report. No such disagreements arose during the course of the audit.

Circumstances that Affect the Form and Content of the Auditor's Report

For purposes of this letter, professional standards require that we communicate any circumstances that affect the form and content of our auditor's report.

> ***Adoption of New Accounting Standard***
>
> *As discussed in Notes 1 and 5 to the financial statements, the District has adopted the provisions of Government Accounting Standards Board (GASB) Statement No. 87, Leases, for the year ended June 30, 2022. Accordingly, a restatement has been made as of July 1, 2021 to the beginning net position of the Sewer Fund. Our opinions are not modified with respect to this matter.*

Representations Requested from Management

We have requested certain written representations from management which are included in the management representation letter dated June 28, 2023.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings, or Issues

In the normal course of our professional association with the District, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, significant events or transactions that occurred during the year, operating and regulatory conditions affecting the entity, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the District's auditors.

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

Eide Bailly LLP

Menlo Park, California
June 28, 2023

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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 Montara Water and Sanitary District (District), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated June 28, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 may exist that have not been identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 result of that testing, and not to provide an opinion on the effectiveness of the District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Eide Bailly LLP

Menlo Park, California
June 28, 2023