

# **MONTARA WATER AND SANITARY DISTRICT**

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**FINANCIAL STATEMENTS**

**JUNE 30, 2012**

**WITH**

**INDEPENDENT AUDITORS' REPORT**

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# MONTARA WATER AND SANITARY DISTRICT

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**MONTARA WATER AND SANITARY DISTRICT**

**ELECTED OFFICIALS AND  
ADMINISTRATIVE PERSONNEL**

**JUNE 30, 2012**

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**BOARD OF DIRECTORS**

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

**GENERAL MANAGER**

Clemens Heldmaier



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

VALUE THE DIFFERENCE

## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying basic financial statements of Montara Water and Sanitary District as of and for the year ended June 30, 2012, as listed in the table of contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Montara Water and Sanitary District as of June 30, 2012, and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America, as well as accounting systems prescribed by the State Controller's office for special districts.

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

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

Pleasanton, California  
February 7, 2013

# **MONTARA WATER AND SANITARY DISTRICT**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**JUNE 30, 2012**

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Our discussion and analysis of the Montara Water and Sanitary District's (District) financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2012. Please read it in conjunction with the District financial statements and accompanying notes, which follow this section.

### **HIGHLIGHTS**

#### **District Financial Highlights**

- District-wide revenues increased approximately \$325,000 over the prior year going from \$5,367,771 to \$5,692,832.
- District-wide expenses decreased approximately \$455,000 from the prior year going from \$5,094,259 to \$4,639,039.
- The effect of the increase in revenues coupled with the decrease in expenses caused the District-wide change in net assets to increase approximately \$780,000 over the prior year. In other words, the District-wide increase in net assets for the year ended June 30, 2012 was \$1,053,793 and for the year ended June 30, 2011 the increase in net assets was \$273,476.

### **USING THIS ANNUAL REPORT**

This annual report consists of two parts: Management's Discussion and Analysis, and Financial Statements. The Financial Statements also include notes that explain in more detail the information contained in those statements.

#### **Required Financial Statements**

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

# MONTARA WATER AND SANITARY DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2012

### FINANCIAL ANALYSIS OF THE DISTRICT

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

#### Net Assets Statement & Analysis

The District's total net assets increased by \$1,053,793.

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

	Sewer		Water		Total	
	2012	2011	2012	2011	2012	2011
Current assets	\$ 4,258,192	\$ 3,788,744	\$ 1,536,885	\$ 1,674,011	\$ 5,795,077	\$ 5,462,755
Capital assets net of accumulated depreciation	4,389,676	4,397,490	16,542,837	16,450,975	20,932,513	20,848,465
Other long term assets	4,014,141	3,994,498	2,945,033	1,550,136	6,959,174	5,544,634
Total assets	12,662,009	12,180,732	21,024,755	19,675,122	33,686,764	31,855,854
Current liabilities	129,935	162,638	1,160,760	900,087	1,290,695	1,062,725
Long-term liabilities	927,852	954,918	17,424,691	16,848,478	18,352,543	17,803,396
Total liabilities	1,057,787	1,117,556	18,585,451	17,748,565	19,643,238	18,866,121
Net assets						
Invested in capital assets, net of related debt	3,448,211	3,432,491	(288,324)	383,727	3,159,887	3,816,218
Restricted for debt service	-	-	2,546,991	1,192,614	2,546,991	1,192,614
Unrestricted	8,156,011	7,630,685	180,637	350,216	8,336,648	7,980,901
Total net assets	\$ 11,604,222	\$ 11,063,176	\$ 2,439,304	\$ 1,926,557	\$ 14,043,526	\$ 12,989,733

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

For the fiscal year ended June 30, 2012 the sewer system generated operating revenue of \$2,021,528 and operating expenses of \$1,752,082, while the water system generated operating revenue of \$1,686,118 and operating expenses of \$2,331,927. Total cash & cash equivalents increased from \$6,223,981 to \$7,666,004 by year-end primarily due to the issuance of the 2012 General Obligation Bonds of \$15,635,000 offset by the early retirement of the 2003 General Obligation Bonds of \$13,973,350. This is discussed in greater detail in Note 5 B of the financial statements.

# MONTARA WATER AND SANITARY DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2012

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

	Sewer		Water		Total	
	2012	2011	2012	2011	2012	2011
Operating revenues	\$ 2,021,528	\$ 2,036,148	\$ 1,686,118	\$ 1,455,235	\$ 3,707,646	\$ 3,491,383
Tax revenues	200,777	192,735	1,401,501	1,447,562	1,602,278	1,640,297
Interest and investment income	15,922	8,918	7,334	10,398	23,256	19,316
Connection fees and other non operating revenues	124,418	81,715	235,234	135,060	359,652	216,775
Total revenues	<u>2,362,645</u>	<u>2,319,516</u>	<u>3,330,187</u>	<u>3,048,255</u>	<u>5,692,832</u>	<u>5,367,771</u>
Operating expenses	1,752,082	2,081,212	2,331,927	2,273,432	4,084,009	4,354,644
Non-operating expenses	69,517	52,399	485,513	687,252	555,030	739,651
Total expenses	<u>1,821,599</u>	<u>2,133,611</u>	<u>2,817,440</u>	<u>2,960,684</u>	<u>4,639,039</u>	<u>5,094,295</u>
Change in fund net assets	541,046	185,905	512,747	87,571	1,053,793	273,476
Fund net assets - beginning of year	<u>11,063,176</u>	<u>10,877,271</u>	<u>1,926,557</u>	<u>1,838,986</u>	<u>12,989,733</u>	<u>12,716,257</u>
Fund net assets - end of year	<u>\$ 11,604,222</u>	<u>\$ 11,063,176</u>	<u>\$ 2,439,304</u>	<u>\$ 1,926,557</u>	<u>\$ 14,043,526</u>	<u>\$ 12,989,733</u>

### CAPITAL ASSETS AND DEBT ADMINISTRATION

#### Capital Assets

At the end of fiscal year 2012, the District had \$ 20,932,513 (net of accumulated depreciation) invested in a variety of capital assets.

The assets include: land; sanitary sewer collection system subsurface lines and pump stations; water supply wells; surface water diversion and storage tank; water treatment plant; treated water storage tanks; water distribution system subsurface lines, valves, hydrants, and pumps; administration building; and vehicles. The District's net investment in capital assets as of June 30, 2012, increased by \$84,048 or 0.4% over the prior year. This is due to capitalized expenses in regards to the District's Water facilities plant and other capital improvements reduced by current year accumulated depreciation.

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

- Capital improvements to the water system
- Sewer pipeline replacement

# MONTARA WATER AND SANITARY DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2012

The following summarizes District capital assets for fiscal year ended June 30, 2012:

Category	Audited Balance June 30, 2011	Additions	Deletions	Transfers	Audited Balance June 30, 2012
Land & easement	\$ 739,500	\$ -	\$ -	\$ -	\$ 739,500
Sewage collection facilities	5,341,536	-	-	-	5,341,536
Sewage treatment facilities	244,540	-	-	-	244,540
General plant & administration facilities	855,852	-	-	-	855,852
Seal Cove collection system	995,505	-	-	-	995,505
Other capital improvements	3,136,698	447,797	-	156	3,584,651
Water facilities plant	19,086,107	803,073	(30,167)	-	19,859,013
Water general plant	174,309	-	-	-	174,309
Surface water rights	300,000	-	-	-	300,000
Construction in progress	156	-	-	(156)	-
Total	<u>30,874,203</u>	<u>1,250,870</u>	<u>(30,167)</u>	<u>-</u>	<u>32,094,906</u>
Accumulated Depreciation	<u>10,025,738</u>	<u>1,166,822</u>	<u>(30,167)</u>	<u>-</u>	<u>11,162,393</u>
Property, Plant & Equipment, net	<u>\$20,848,465</u>	<u>\$ 84,048</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$20,932,513</u>

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

### Long Term Obligations

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

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

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



# MONTARA WATER AND SANITARY DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2012

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

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion	Long Term Portion
General Obligation Bonds, 2003 Series	\$ 14,400,000	\$ -	\$ 14,400,000	\$ -	\$ -	\$ -
General Obligation Bonds Premium	15,257	-	15,257	-	-	-
General Obligation Bonds, 2012 Series	-	15,635,000	-	15,635,000	854,915	14,780,085
2012 GO Bonds Discount	-	(78,175)	(995)	(77,180)	(4,884)	(72,296)
PNCEF Lease Obligation	1,693,726	-	39,286	1,654,440	45,130	1,609,310
CIEDB loan	964,999	-	23,534	941,465	24,253	917,212
Deferred amount on refunding	-	(301,930)	(3,086)	(298,844)	(18,522)	(280,322)
Totals	<u>\$ 17,073,982</u>	<u>\$ 15,254,895</u>	<u>\$ 14,473,996</u>	<u>\$ 17,854,881</u>	<u>\$ 900,892</u>	<u>\$ 16,953,989</u>

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

### ECONOMIC FACTORS, RATES, AND BUDGETARY CONTROL

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

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

### REQUEST FOR INFORMATION

This financial report is designed to provide our customers and creditors with a general over view of District finances, and demonstrate District accountability for the money it receives. If you have any questions about this report, or need additional financial information, contact the General Manager at 8888 Cabrillo Highway, Montara, CA 94037 or (650) 728-3545.

# MONTARA WATER AND SANITARY DISTRICT

## STATEMENT OF NET ASSETS AS OF JUNE 30, 2012

	Sewer	Water	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 4,036,945	\$ 1,082,068	\$ 5,119,013
Accounts receivable	74,547	414,661	489,208
Inventory	-	40,156	40,156
Employee note receivable	146,700	-	146,700
Total current assets	4,258,192	1,536,885	5,795,077
Non-current assets:			
Capital assets:			
Property, plant and equipment	9,919,685	22,175,221	32,094,906
Less accumulated depreciation	5,530,009	5,632,384	11,162,393
Net property, plant and equipment	4,389,676	16,542,837	20,932,513
Other assets:			
Unamortized bond issuance costs	-	82,255	82,255
Restricted cash and cash equivalents	-	2,546,991	2,546,991
Interfund advances - Due from water fund	1,326,594	-	1,326,594
Other assets	-	315,787	315,787
Investment in joint powers authorities	2,687,547	-	2,687,547
Total other assets	4,014,141	2,945,033	6,959,174
Total non-current assets	8,403,817	19,487,870	27,891,687
Total assets	12,662,009	21,024,755	33,686,764

(Continued)

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

# MONTARA WATER AND SANITARY DISTRICT

## STATEMENT OF NET ASSETS (CONTINUED) AS OF JUNE 30, 2012

	Sewer	Water	Total
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 105,682	\$ 205,946	\$ 311,628
Interest payable	-	78,175	78,175
Current portion of long-term obligations	24,253	876,639	900,892
Total current liabilities	129,935	1,160,760	1,290,695
Long term liabilities:			
Accrued compensated absences	10,640	16,566	27,206
General obligation bonds,			
less current portion	-	14,427,467	14,427,467
Other long term obligations, less current portion	917,212	1,609,310	2,526,522
Interfund advances - Due to sewer fund	-	1,326,594	1,326,594
Deposits	-	44,754	44,754
Total long term liabilities	927,852	17,424,691	18,352,543
Total liabilities	1,057,787	18,585,451	19,643,238
NET ASSETS			
Invested in capital assets, net of related debt	3,448,211	(288,324)	3,159,887
Restricted for debt service	-	2,546,991	2,546,991
Unrestricted	8,156,011	180,637	8,336,648
Total net assets	\$ 11,604,222	\$ 2,439,304	\$ 14,043,526

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

# MONTARA WATER AND SANITARY DISTRICT

## STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS FOR THE YEAR ENDED JUNE 30, 2012

	Sewer	Water	Total
OPERATING REVENUES			
Sales and service charges	\$ 1,862,117	\$ 1,686,118	\$ 3,548,235
Other revenues	159,411	-	159,411
Total operating revenues	2,021,528	1,686,118	3,707,646
OPERATING EXPENSES			
General and administrative	250,619	781,420	1,032,039
Contractual services	1,093,355	553,266	1,646,621
Depreciation	412,694	756,183	1,168,877
Maintenance and repairs	(4,586)	241,058	236,472
Total operating expenses	1,752,082	2,331,927	4,084,009
OPERATING INCOME (LOSS)	269,446	(645,809)	(376,363)
NONOPERATING REVENUES (EXPENSE)			
Taxes - District share of one percent	200,777	208,920	409,697
Taxes - Ad valorem for general obligation bonds	-	1,192,581	1,192,581
Investment income	15,922	7,334	23,256
Interest expense	(69,517)	(485,513)	(555,030)
Other revenues	48,762	170,410	219,172
Total non-operating revenues (expenses)	195,944	1,093,732	1,289,676
INCOME BEFORE CONTRIBUTIONS AND TRANSFERS	465,390	447,923	913,313
Capital contributions - connection fees	75,656	64,824	140,480
Changes in net assets	541,046	512,747	1,053,793
NET ASSETS, BEGINNING OF YEAR	11,063,176	1,926,557	12,989,733
TOTAL NET ASSETS, END OF YEAR	\$ 11,604,222	\$ 2,439,304	\$ 14,043,526

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

# MONTARA WATER AND SANITARY DISTRICT

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2012

	Sewer	Water	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Receipts from customers and users	\$ 2,026,435	\$ 1,463,724	\$ 3,490,159
Payments to suppliers - other	(1,122,190)	(615,156)	(1,737,346)
Payments to employees	(253,433)	(783,405)	(1,036,838)
Net cash provided (used) by operating activities	650,812	65,163	715,975
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>			
Property taxes collected	200,777	208,920	409,697
Principal paid on long term debt	(23,534)	804,433	780,899
Interest paid on long term debt	(69,517)	(677,075)	(746,592)
Acquisition and construction of capital assets	(404,880)	(848,045)	(1,252,925)
Funds advanced from sewer to water	(19,643)	19,643	-
Connection fees and other non operating revenue collected	124,418	1,387,295	1,511,713
Net cash provided (used) by capital and related financing activities	(192,379)	895,171	702,792
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Investment income	15,922	7,334	23,256
Net cash provided (used) by investing activities	15,922	7,334	23,256
<b>NET INCREASE IN CASH AND EQUIVALENTS</b>	474,355	967,668	1,442,023
Cash and investments, July 1	3,562,590	2,661,391	6,223,981
Cash and investments, June 30	\$ 4,036,945	\$ 3,629,059	\$ 7,666,004
<b>AMOUNTS AS THEY APPEAR ON THE STATEMENT OF NET ASSETS:</b>			
Cash and cash equivalents	\$ 4,036,945	\$ 1,082,068	\$ 5,119,013
Restricted cash and cash equivalents	-	2,546,991	2,546,991
	\$ 4,036,945	\$ 3,629,059	\$ 7,666,004

(Continued)

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

# MONTARA WATER AND SANITARY DISTRICT

## STATEMENT OF CASH FLOWS (CONTINUED) FOR THE YEAR ENDED JUNE 30, 2012

	<u>Sewer</u>	<u>Water</u>	<u>Total</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating income (loss)	\$ 269,446	\$ (645,809)	\$ (376,363)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation expense	412,694	756,183	1,168,877
Accounts and notes receivable	4,907	(248,869)	(243,962)
Inventory	-	(714)	(714)
Accounts payable	(33,421)	179,882	146,461
Deposits	-	26,475	26,475
Compensated absences	(2,814)	(1,985)	(4,799)
Total adjustments	<u>381,366</u>	<u>710,972</u>	<u>1,092,338</u>
Net cash provided (used) by operating activities	<u>\$ 650,812</u>	<u>\$ 65,163</u>	<u>\$ 715,975</u>

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

# MONTARA WATER AND SANITARY DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2012

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### *NOTE #1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES*

#### A. General

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

#### B. Basis of Accounting

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

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

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

The District reports the following major Proprietary Funds:

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

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

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

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

# MONTARA WATER AND SANITARY DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2012

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

#### C. Measurement Focus

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

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

#### D. Inventory

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

#### E. Capital Assets

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

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

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

#### F. Cash Flows Defined

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

#### G. Accounts Receivable

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

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



# MONTARA WATER AND SANITARY DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2012

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

#### H. Accrued Compensated Absences

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

#### I. Budgets and Budgetary Accounting

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

#### J. Property Taxes

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

#### K. Contract Services

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

#### L. Estimates

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

#### M. New Accounting Pronouncements

In November 2010, the GASB issued GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. The objective of this Statement is to improve financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. This Statement applies only to those arrangements in which specific criteria determining whether a transferor has control over the facility are met. This Statement also requires disclosures about an SCA including a general description of the arrangement and information about the associated assets, liabilities, and deferred inflows, the rights granted and retained, and guarantees and commitments. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011. The provisions of this Statement generally are required to be applied retroactively for all periods presented. The District will be required to implement the provisions of this Statement in fiscal year ending June 30, 2013, and does not believe it will have a significant impact on the financial statements.

# MONTARA WATER AND SANITARY DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2012

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

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

On December 30, 2010, the Governmental Accounting Standards Board (GASB) issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The Statement is intended to enhance the usefulness of its Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements. The Statement incorporates into the GASB's authoritative literature the applicable guidance previously presented in the following pronouncements issued before November 30, 1989 including FASB Interpretations and Statements, Accounting Principles Board Opinions and Accounting Research Bulletins of the AICPA's Committee on Accounting Procedure. The requirements of Statement 62 are effective for financial statements for periods beginning after December 15, 2011. The District will be required to implement the provisions of this Statement in the fiscal year ending June 30, 2013, and is currently evaluating the effect on the District's financial statements.

In June 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. The provisions of Statement 63 are effective for financial statements for periods beginning after December 15, 2011, with earlier application encouraged. The District will be required to implement the provisions of this Statement in fiscal year ending June 30, 2013, and is currently evaluating the impact on the financial statements.

In March, 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards the reclassify as deferred outflows of resources and deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognized as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The provisions of Statement 65 are effective for financial statements for periods beginning after December 15, 2012, with earlier application encouraged. The District has not determined its effect on the financial statements.

# MONTARA WATER AND SANITARY DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2012

### NOTE #2 - CASH AND INVESTMENTS

#### A. Cash and Investment Summary

The following is a summary of the cash and investments as of June 30, 2012:

Cash Deposits	\$ 4,318,589
Investments (Local Agency Investment Fund)	3,347,415
	<u>\$ 7,666,004</u>
Restricted cash and cash equivalents	\$ 2,546,991
Unrestricted cash and cash equivalents	5,119,013
	<u>\$ 7,666,004</u>

#### B. General Authorizations

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

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Maximum Investment In One Issuer
Local Agency Bonds, Notes, Warrants	5 years	None	None
Registered State Bonds, Notes, Warrants	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptance	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base	None
Medium-Term Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Joint Powers Authority Pools	N/A	None	None

#### C. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by depositing the majority of its funds with the State Local Agency Investment Fund (LAIF), which is short term investment.

# MONTARA WATER AND SANITARY DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2012

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

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuation is provided by the following schedule that shows the distribution of the District's investment by maturity:

Investment Type	Fair Value	Average Maturity
LAIF	\$ 3,347,415	268 days

#### D. Credit Risk

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

#### E. Custodial Credit Risk - Investments

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

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

# MONTARA WATER AND SANITARY DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2012

### NOTE #3 – CAPITAL ASSETS

Changes in capital assets accounts are summarized below:

Category	Audited Balance June 30, 2011	Additions	Deletions	Transfers	Audited Balance June 30, 2012
Land & easement	\$ 739,500	\$ -	\$ -	\$ -	\$ 739,500
Sewage collection facilities	5,341,536	-	-	-	5,341,536
Sewage treatment facilities	244,540	-	-	-	244,540
General plant & administration facilities	855,852	-	-	-	855,852
Seal Cove collection system	995,505	-	-	-	995,505
Other capital improvements	3,136,698	447,797	-	156	3,584,651
Water facilities plant	19,086,107	803,073	(30,167)	-	19,859,013
Water general plant	174,309	-	-	-	174,309
Surface water rights	300,000	-	-	-	300,000
Construction in progress	156	-	-	(156)	-
Total	<u>30,874,203</u>	<u>1,250,870</u>	<u>(30,167)</u>	<u>-</u>	<u>32,094,906</u>
Accumulated Depreciation	<u>10,025,738</u>	<u>1,166,822</u>	<u>(30,167)</u>	<u>-</u>	<u>11,162,393</u>
Property, Plant & Equipment, net	<u>\$ 20,848,465</u>	<u>\$ 84,048</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20,932,513</u>

### NOTE #4 – INVESTMENT IN JOINT POWER AUTHORITY

#### Investment in Sewer Authority Mid-Coastside

The District has an ownership percentage (20%) of the Sewer Authority Mid-Coastside (SAM), a public entity created February 3, 1976 by a Joint Exercise of Powers Agreement pursuant to the provisions of Title 1, Division 7, and Chapter 5 of the Government code of the State of California. Other joint power members include the City of Half Moon Bay (50%) and the Granada Sanitary District (30%). The District reports its financial interest in SAM on the cost basis.

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

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

# MONTARA WATER AND SANITARY DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2012

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

SAM provides sewage collection and treatment services, for which the District pays a monthly fee. The District paid \$938,934 for these collection and treatment services for the year.

Summary details of SAM's financial position and results of operation from the most recent audited financial statement at June 30, 2012 are as follows:

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

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

### NOTE #5 - LONG TERM OBLIGATIONS

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

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion	Long Term Portion
General Obligation Bonds, 2003 Series	\$ 14,400,000	\$ -	\$ 14,400,000	\$ -	\$ -	\$ -
General Obligation Bonds Premium	15,257	-	15,257	-	-	-
General Obligation Bonds, 2012 Series	-	15,635,000	-	15,635,000	854,915	14,780,085
2012 GO Bonds Discount	-	(78,175)	(995)	(77,180)	(4,884)	(72,296)
PNCEF Lease Obligation	1,693,726	-	39,286	1,654,440	45,130	1,609,310
CIEDB loan	964,999	-	23,534	941,465	24,253	917,212
Deferred amount on refunding	-	(301,930)	(3,086)	(298,844)	(18,522)	(280,322)
Totals	<u>\$ 17,073,982</u>	<u>\$ 15,254,895</u>	<u>\$ 14,473,996</u>	<u>\$ 17,854,881</u>	<u>\$ 900,892</u>	<u>\$ 16,953,989</u>

#### A. General Obligation Bonds, Series 2003

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

# MONTARA WATER AND SANITARY DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2012

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

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

#### B. General Obligation Bonds, Series 2012

On April 18, 2012, the District issued General Obligation Bonds Series 2012 in the amount of \$15,635,000. The bonds were issued to fully refund the General Obligation Bonds Series 2003 and to finance improvements to the District's water system. These bonds are payable from the levy of ad valorem taxes on all property within the District. Interest on the bonds is 2.4 percent and is payable on February 1 and August 1 of each year, commencing August 1, 2012. Principal is due bi-annually beginning on August 1, 2012, in amounts ranging from \$389,142 to \$568,322, with a final payment on August 1, 2028 of \$568,322. The bonds maturing on or before August 1, 2017 are not subject to redemption prior to their respective stated maturity dates. Bonds maturing on or after August 1, 2017 are subject to redemption prior to their respective stated maturity dates at the option of the District at the principal amount of the bonds called for redemption, together with interest accrued thereon to the date of redemption, without premium.

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

#### Repayment Schedule

Fiscal Year Ending June 30,	Principal	Interest	Total
2013	\$ 854,915	\$ 295,521	\$ 1,150,436
2014	795,656	354,780	1,150,436
2015	815,134	335,302	1,150,436
2016	835,090	315,346	1,150,436
2017	854,702	295,734	1,150,436
2018-2022	4,601,571	1,150,610	5,752,181
2023-2027	5,193,358	558,822	5,752,180
2028-2029	1,684,574	41,080	1,725,654
Total	\$ 15,635,000	\$ 3,347,195	\$ 18,982,195

# MONTARA WATER AND SANITARY DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2012

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

#### C. Capital Lease

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

#### Repayment Schedule

Fiscal Year Ending June 30,	Principal	Interest	Total
2013	\$ 45,130	\$ 73,037	\$ 118,167
2014	52,724	70,822	123,546
2015	60,975	68,247	129,222
2016	69,859	65,283	135,142
2017	79,346	61,901	141,247
2018-2022	566,207	241,936	808,143
2023-2027	780,199	78,598	858,797
Total	\$ 1,654,440	\$ 659,824	\$ 2,314,264

#### D. CIEDB Loan

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

#### Repayment Schedule:

Fiscal Year Ending June 30,	Principal	Interest	Total
2013	\$ 24,253	\$ 31,169	\$ 55,422
2014	24,992	30,345	55,337
2015	25,755	29,497	55,252
2016	26,540	28,622	55,162
2017	27,350	27,720	55,070
2018-2022	149,782	124,088	273,870
2023-2027	174,060	97,052	271,112
2028-2032	202,273	65,633	267,906
2033-2037	235,060	29,121	264,181
2038	51,400	938	52,338
	\$ 941,465	\$ 464,185	\$ 1,405,650



# MONTARA WATER AND SANITARY DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2012

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### **NOTE #6 - DEFERRED COMPENSATION PLAN**

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

### **NOTE #7 - RISK MANAGEMENT**

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

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

Settled claims for CSRMA or commercial fidelity bonds have not exceeded coverage in any of the past three fiscal years.

The following is a summary of the insurance policies carried by the District as of June 30, 2012:

Type of Coverage	Coverage Limits
General Liability	\$ 15,500,000
Workers' Compensation	200,000
Boiler & Machinery	100,000,000
Property	6,107,965

# MONTARA WATER AND SANITARY DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2012

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

Audited condensed financial information for CSRMA is presented below for the year ended June 30, 2012:

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

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

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

### **NOTE #8 – COMMITMENTS AND CONTINGENT LIABILITIES**

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

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