



BOARD FINANCE COMMITTEE MEETING
THURSDAY, NOVEMBER 4, 2021 – 3:00PM

**DUE TO COVID-19, THIS MEETING WILL BE CONDUCTED
VIA TELECONFERENCE ONLY (NO PHYSICAL LOCATION)
PURSUANT TO ASSEMBLY BILL 361 (GOVERNMENT CODE SECTION 54953)**

MEMBERS OF THE PUBLIC MAY NOT ATTEND THIS MEETING IN PERSON

Public comments may be made during the meeting, or submitted before the meeting via email to District Secretary, Candy Pina, at candyp@midpeninsulawater.org.

Please indicate in your email the agenda item to which your comment applies. Comments submitted before the meeting will be provided to the Board before or during the meeting.

Should the teleconference platform not be operational, please check the MPWD website home page for updated information and/or further instructions at: www.midpeninsulawater.org

Board members, staff, consultants, and the public may participate remotely.

Update this meeting agenda

Meeting Link: <https://service.moxo.com/613619106>

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Meeting ID: 613619106#

AGENDA

1. Call to Order

A. Roll Call

2. Public Comment

If you wish to address the Committee, please follow the directions at the top of the agenda. If you have anything that you wish distributed to the Committee and included for the official record, please include it in your email. Comments that require a response may be deferred for staff reply.

3. Audit Exit Conference with James Marta, CPA, of James Marta & Company, regarding MPWD Financial Audit for FYE June 30, 2021

4. Adjournment

This agenda was posted at the Mid-Peninsula Water District's office, 3 Dairy Lane, in Belmont, California, and on its website at www.midpeninsulawater.org.

ACCESSIBLE PUBLIC MEETINGS

Upon request, the Mid-Peninsula Water District will provide written agenda materials in appropriate alternative formats, or disability-related modification or accommodation (including auxiliary aids or services), to enable individuals with disabilities to participate in public meetings and provide comments at/related to public meetings. Please submit a request, including your name, phone number and/or email address, and a description of the modification, accommodation, auxiliary aid, service or alternative format requested. Requests should be sent to the District Secretary at (650) 591-8941 or candyp@midpeninsulawater.org. Requests must be received at least two days before the meeting. Requests will be granted whenever possible and resolved in favor of accessibility.



**MID-PENINSULA WATER DISTRICT
FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITOR'S REPORT**

**FOR THE FISCAL YEARS ENDED
JUNE 30, 2021 AND 2020**

DRAFT

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CERTIFIED PUBLIC ACCOUNTANTS

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MID-PENINSULA WATER DISTRICT

BOARD OF DIRECTORS

JUNE 30, 2021

<u>Name</u>	<u>Office</u>	<u>Term Expires November</u>
Brian Schmidt	President	2022
Kirk Wheeler	Vice President	2022
Catherine Mostasisa	Director	2022
Louis Vella	Director	2024
Matthew Zucca	Director	2024

ADMINISTRATION

Tammy Rudock
General Manager

MID-PENINSULA WATER DISTRICT

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James Marta & Company LLP

Certified Public Accountants

Accounting, Auditing, Consulting, and Tax

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Mid-Peninsula Water District
Belmont, California

Report on the Financial Statements

We have audited the accompanying Statement of Net Position of Mid-Peninsula Water District (the District) as of June 30, 2021 and 2020 and the related Statements of Revenues, Expenses and Changes in Net Position and Cash Flows for the years then ended and the related notes to the financial statement.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the State Controller's *Minimum Audit Requirements for California Special District*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the basic financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the basic financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the basic financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the basic financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Mid-Peninsula Water District as of June 30, 2021 and 2020, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America, as well as accounting systems prescribed by the State Controller's Office and state regulations governing special districts.

Other Matters

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis, Schedule of the District's Proportionate Share of the Net Pension Liability, Schedule of Pension Contributions and Schedule of Changes in the Net OPEB Liability and Related Ratios 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 (GASB) 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 principally 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 **DATE** on our consideration of Mid-Peninsula Water District's internal control over financial reporting and our tests of its compliance with provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 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 Mid-Peninsula Water District's internal control over financial reporting and compliance.

DRAFT

James Marta & Company LLP
Certified Public Accountants
Sacramento, California

DATE

MANAGEMENT'S DISCUSSION AND ANALYSIS

MID-PENINSULA WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2021

This section of the Mid-Peninsula Water District's ("District") annual financial report presents a discussion and analysis of the District's financial performance during the fiscal year ended June 30, 2021. It should be reviewed in conjunction with the District's basic financial statements for the fiscal year ended June 30, 2021.

FINANCIAL HIGHLIGHTS

- The District's Net Position increased by \$3,695,460 (13%) during the fiscal year ended June 30, 2021.
- The District's operating revenues decreased from the previous year by -\$596,288 (-4%).
- Non-operating revenues increased from the previous year by \$1,503,066 (132%).
- Operating expenses increased by \$649,212 (5%).
- Non-Operating expenses decreased by -\$14,750 (-100%).

The "Changes in Net Position" portion of the report details the various factors behind the highlights.

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 some of the information contained in those statements.

Required Financial Statements

District financial statements report financial information about the District using accounting methods similar to those used by private sector companies, which include Generally Accepted Accounting Principles (GAAP). The Statement of Net Position included 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 the fiscal 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's 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.

The final required financial statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about the District cash receipts, cash disbursements and net changes in cash resulting from operating, investing, and capital and noncapital financing activities.

MID-PENINSULA WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2021

FINANCIAL ANALYSIS OF THE DISTRICT

One of the most important questions asked about the District finances is whether 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 the District activities in a way that responds to this question. The statement of the District's net position (the difference between assets and liabilities), is one measure of 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 Assets

Statement of Net Position

	<u>June 30, 2021</u>	<u>June 30, 2020</u>	<u>Amount Increase (Decrease)</u>	<u>Percent Increase (Decrease)</u>	<u>June 30, 2019</u>
Current and Other Assets	\$ 14,099,905	\$ 9,646,952	\$ 4,452,953	46%	\$ 5,765,142
Restricted cash with fiscal agent	10,609,648	11,702,873	(1,093,225)	-9%	14,459,680
Net Pension Asset	11,983	74,271	(62,288)	n/a	-
Net OPEB Asset	322,969	-	322,969	n/a	-
Capital Assets, Net	<u>27,528,188</u>	<u>26,715,591</u>	<u>812,597</u>	3%	<u>24,395,038</u>
Total Assets	<u>52,572,693</u>	<u>48,139,687</u>	<u>4,433,006</u>	9%	<u>44,619,860</u>
Current and Other Liabilities	3,356,618	1,744,488	1,612,130	92%	1,496,903
Long-Term Liabilities	<u>17,134,093</u>	<u>18,279,127</u>	<u>(1,145,034)</u>	-6%	<u>20,040,903</u>
Total Liabilities	<u>20,490,711</u>	<u>20,023,615</u>	<u>467,096</u>	2%	<u>21,537,806</u>
Invested in Capital Assets, Net	20,962,836	20,868,464	94,372	0%	20,284,718
Unrestricted Net Position	<u>10,498,574</u>	<u>6,897,486</u>	<u>3,601,088</u>	52%	<u>4,058,088</u>
Total Net Position	<u>\$ 31,461,410</u>	<u>\$ 27,765,950</u>	<u>\$ 3,695,460</u>	13%	<u>\$ 24,342,806</u>

The District's net position at fiscal year end June 30, 2021, increased \$3,695,460 (13%) when compared to fiscal year end June 30, 2020. Factors contributing to this increase are due to an increase in Non-Operating Revenues totaling \$1,503,066 (132%), mainly due to: 1) The sale of 1513 Folger Property net of expense totaling \$1,826,047; and 2) Utility Plant in Services increased by \$2,222,263 (5%) due to the recognition of Notre Dame/Cliffside/Tahoe Main Replacements fixed asset totaling \$2,630,510.

Changes in Net Position

Changes in the District's net position between fiscal year end June 30, 2021, and fiscal year end June 30, 2020, can be determined by reviewing the following condensed Statement of Revenue, Expenses, and Changes in Net Position.

MID-PENINSULA WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2021

Condensed Statement of Revenues, Expenses, and Changes in Net Position

	<u>June 30, 2021</u>	<u>June 30, 2020</u>	<u>Amount Increase (Decrease)</u>	<u>Percent Increase (Decrease)</u>	<u>June 30, 2019</u>
Operating Revenue	\$ 14,286,873	\$ 14,883,161	\$ (596,288)	-4%	\$ 13,442,130
Non-Operating Revenue	2,643,664	1,140,598	1,503,066	132%	1,271,275
Total Revenues	<u>16,930,537</u>	<u>16,023,759</u>	<u>906,778</u>	6%	<u>14,713,405</u>
Operating Expenses	12,573,109	11,923,897	649,212	5%	11,964,794
Non-Operating Expenses	661,968	676,718	(14,750)	100%	(31,282)
Total Expenses	<u>13,235,077</u>	<u>12,600,615</u>	<u>634,462</u>	5%	<u>11,933,512</u>
Change in Net Position	3,695,460	3,423,144	272,316	8%	2,779,893
Net Assets, Beginning	<u>27,765,950</u>	<u>24,342,806</u>	<u>3,423,144</u>	14%	<u>21,562,913</u>
Net Assets, Ending	<u>\$ 31,461,410</u>	<u>\$ 27,765,950</u>	<u>\$ 3,695,460</u>	13%	<u>\$ 24,342,806</u>

The District's Operating Revenues decreased by -\$596,288 (-4%) due to various factors: 1) Credit Card Fees, Late Fees, 48-Hour Notice Fees, Shut-off Fees, and After-Hour fees decreased by -\$104,473 (-93%) due to temporarily discontinuing fees during the COVID-19 Pandemic; 2) Service Line & Install Charges decreased by -\$81,991 (-79%); 3) Water System Capacity Charges decreased by -\$314,845 (-83%); and 4) Water Demand Offset Charges decreased by -\$44,499 (-91%). All the decreased revenues were likely due to the declared State of Emergency because of the COVID-19 Pandemic.

The District's Non-Operating Revenues increased by \$1,503,066 (132%) due to various factors: 1) The sale of 1513 Folger Property net of expenses totaling \$1,826,047; 2) Interest Income decreased by -\$256,036 (-83%); and 3) Contributed Capital decreased by -\$125,752 (-63%).

The District's Operating Expenses increased by \$649,212 (5%) due to various factors: 1) Salaries and Benefits increased by \$272,415 (10%) due to employee annual merit increases; 2) Maintenance & Rehabilitation increased by \$155,178 (29%) due to purchasing parts, materials and supplies to repair multiple main breaks; 3) Professional Services increased by \$376,506 (79%) because of required updates to District Plans and Studies, 2020 Urban Water Management Plan (UWMP) and Water Shortage Contingency Plan (WSCP), Water Rates Study and Financial Plan, Water Capacity Charges Update and Miscellaneous Fees Update; 4) Utilities decreased by -\$25,007 (-8%); and Administrative & Other decreased by -\$130,901 (-16%).

The District's Non-Operating Expenses decreased by -\$14,750 (-2%) due to a decrease in Debt Service Interest by -\$14,750 (-2%).

MID-PENINSULA WATER DISTRICT

MANAGEMENT’S DISCUSSION AND ANALYSIS

JUNE 30, 2021

2016 COP CIP DEBT ISSUANCE

In December 2016, the District issued Certificates of Participation (COP) in the amount of \$18,570,000 to finance certain improvements to the District’s municipal water system. Principal is due annually in December and interest is payable on June 1 and December 1. The certificates have an interest rate of 4% and mature on December 1, 2046 (reference Trust Agreement dated December 1, 2016). The Certificates of Participation were issued at a premium of \$938,447, which is being amortized over the life of the debt and is recorded as deferred inflows on the statement of net position.

The annual payments required to amortize the Certificates of Participation outstanding as of June 30, 2021, are as follows, which includes a reference to interest payments made based on the Official Statement Schedule (OSS):

Year Ended			
June 30,	Principal	Interest	Total
2022	\$ 385,000	\$ 679,300	\$ 1,064,300
2023	405,000	663,500	1,068,500
2024	420,000	647,000	1,067,000
2025	435,000	629,900	1,064,900
2026	455,000	612,100	1,067,100
2026-2030	2,550,000	2,768,000	5,318,000
2031-2035	3,105,000	2,204,100	5,309,100
2036-2040	3,780,000	1,517,600	5,297,600
2044-2045	4,605,000	681,900	5,286,900
2046-2047	1,035,000	20,700	1,055,700
Total	\$ 17,175,000	\$ 10,424,100	\$ 27,599,100

BUDGETARY HIGHLIGHTS

In its commitment to fiscal responsibility, the District timely adopted an annual budget for Fiscal Year 2020/2021 that projected revenues and expenditures for operations and capital improvements.

MID-PENINSULA WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2021

CAPITAL ASSETS

During the fiscal year ended June 30, 2021, the District had \$27,528,188 (net of accumulated depreciation) invested in capital assets. The following table is presented below to illustrate changes from the prior year:

	<u>June 30, 2021</u>	<u>June 30, 2020</u>	<u>Amount Increase (Decrease)</u>	<u>Percent Increase (Decrease)</u>	<u>June 30, 2019</u>
Land	\$ 1,045,264	\$ 1,045,264	\$ -	0%	\$ 1,045,264
Construction in Progress	3,354,131	4,345,242	(991,111)	-23%	2,347,432
Utility Plant in Service	50,662,669	48,440,406	2,222,263	5%	47,145,817
Vehicles	1,791,206	1,718,138	73,068	4%	1,711,727
Computer System	496,386	496,386	-	0%	426,531
Capital Asset at Cost	57,349,656	56,045,436	1,304,220	2%	52,676,771
Less Accumulated Depreciation	(29,821,468)	(29,329,845)	491,623	2%	(28,281,733)
Capital Assets, Net	\$ 27,528,188	\$ 26,715,591	\$ 812,597	3%	\$ 24,395,038

RATES AND OTHER ECONOMIC FACTORS

The District is governed in part by provisions of the State Water Resources Control Board that require rate-based revenues must cover the costs of Operations, Maintenance and Repairs (OM&R) and capital improvement projects. The District is not subject to general economic conditions such as increases or reductions in property tax values or other types of revenues, such as sales taxes, that vary with economic conditions. Accordingly, the District sets its rates to its users to cover the costs of Operations Maintenance & Replacement (OM&R), capital improvement projects, adequate cash reserves, plus any increments for known or anticipated changes in program costs.

REQUESTS FOR FINANCIAL INFORMATION

This financial report is designed to provide our customers and creditors with a general overview of District finances and demonstrate District fiscal accountability for the money it receives. If you have any questions about this report, or need additional financial information, please contact.

Tammy Rudock, General Manager
Mid-Peninsula Water District
3 Dairy Lane
Belmont, CA 94002
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BASIC FINANCIAL STATEMENTS

MID-PENINSULA WATER DISTRICT

STATEMENT OF NET POSITION

JUNE 30, 2021 AND 2020

	2021	2020
<u>ASSETS</u>		
Current Assets		
Cash and cash equivalents (Note 2)	\$ 12,639,984	\$ 7,977,332
Accounts receivables	1,287,788	1,441,842
Prepaid expenses and other assets	172,133	227,778
Total Current Assets	14,099,905	9,646,952
Restricted cash with fiscal agent (Note 2)	10,609,648	11,702,873
Net pension asset (Note 5)	11,983	74,271
Net OPEB asset (Note 7)	322,969	-
Capital assets, net (Note 3)	27,528,188	26,715,591
TOTAL ASSETS	52,572,693	48,139,687
Deferred Outflows of Resources:		
OPEB related (Note 7)	121,309	156,867
Pension related (Note 5)	567,595	564,628
Total Deferred Outflows	688,904	721,495
<u>LIABILITIES</u>		
Current Liabilities		
Accounts payable	584,330	1,053,269
Accrued expenses	2,387,288	316,219
Current portion of long-term debt (Note 4)	385,000	375,000
Total Current Liabilities	3,356,618	1,744,488
Long-Term Liabilities		
Certificates of Participation (Note 4)	16,790,000	17,175,000
Net OPEB liability (Note 7)	-	744,943
Compensated absences	344,093	359,184
TOTAL LIABILITIES	20,490,711	20,023,615
Deferred Inflows of Resources:		
Pension related (Note 5)	12,723	65,217
OPEB related (Note 7)	501,680	180,045
Original issue premium	795,073	826,355
Total Deferred Inflows	1,309,476	1,071,617
<u>NET POSITION</u>		
Net investment in capital assets	20,962,836	20,284,718
Unrestricted	10,498,574	7,481,232
TOTAL NET POSITION	\$ 31,461,410	\$ 27,765,950

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

MID-PENINSULA WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
FOR THE FISCAL YEARS ENDED
JUNE 30, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
OPERATING REVENUES		
Water service charges	\$ 14,259,055	\$ 14,669,447
Other revenue	27,818	213,714
Total Operating Revenues	<u>14,286,873</u>	<u>14,883,161</u>
OPERATING EXPENSES		
Salaries and benefits	3,028,393	2,903,078
Maintenance and rehabilitation	701,670	543,617
Purchased water	5,786,376	5,866,091
Utilities	309,453	334,459
Professional services	855,877	479,370
Administrative and other	816,580	749,170
Depreciation	1,074,760	1,048,112
Total Operating Expenses	<u>12,573,109</u>	<u>11,923,897</u>
OPERATING INCOME (LOSS)	<u>1,713,764</u>	<u>2,959,264</u>
NON-OPERATING REVENUES (EXPENSES)		
Rent	159,595	233,920
Property taxes	409,455	400,400
Amortization of COP premium	31,282	31,282
Gain on sale of asset	1,950,870	-
Debt service interest	(693,250)	(708,000)
Interest income	49,057	305,838
Capital contributions	74,687	200,440
Total Non-Operating Revenues (Expenses)	<u>1,981,696</u>	<u>463,880</u>
CHANGE IN NET POSITION	<u>3,695,460</u>	<u>3,423,144</u>
NET POSITION, BEGINNING OF YEAR	<u>27,765,950</u>	<u>24,342,806</u>
NET POSITION, END OF YEAR	<u>\$ 31,461,410</u>	<u>\$ 27,765,950</u>

MID-PENINSULA WATER DISTRICT

STATEMENT OF CASH FLOWS

**FOR THE FISCAL YEARS ENDED
JUNE 30, 2021 AND 2020**

	2021	2020
Cash Flows From Operating Activities		
Receipts from customers and users	\$ 14,413,109	\$ 14,433,761
Other operating revenue	27,818	213,714
Payments to suppliers	(6,812,181)	(7,766,636)
Payments related to employees	(3,747,376)	(2,721,969)
Net Cash Flows Provided (Used) by Operating Activities	3,881,370	4,158,870
Cash Flows From Non-Capital Financing Activities		
Rent received	159,595	233,920
Property taxes received	409,455	400,400
Cash Flows From Capital and Related Financing Activities		
Acquisition of capital assets	(1,887,357)	(3,368,665)
Gain on sale of assets	1,950,870	-
Cash received for completed projects	74,687	200,440
Principal paid on COP bonds	(375,000)	(360,000)
Interest paid on COP bonds	(693,250)	(708,000)
Net Cash Flows Provided (Used) by Capital & Related Activities	163,175	(1,479,418)
Cash Flows From Investing Activities		
Interest income	49,057	305,838
Net Cash Flows Provided (Used) by Investing Activities	49,057	305,838
Net Increase (Decrease) in Cash	4,662,652	3,619,610
Beginning Cash and Equivalents	7,977,332	4,357,722
Ending Cash, Cash Equivalents and Restricted Cash	\$ 12,639,984	\$ 7,977,332
Reconciliation of Operating Income (loss) to Net Cash Provided (used) by Operating Activities		
Cash Flows from Operating Activities:		
Operating Income (Loss)	\$ 1,713,764	\$ 2,959,264
Adjustments to Reconcile Operating Income (loss) to Net Cash Provided (used) by Operations:		
Depreciation	1,074,760	1,048,112
(Increase) Decrease in:		
Accounts receivable	154,054	(235,686)
Prepaid expenses and other assets	55,645	(26,514)
Deferred outflows	32,591	1,505,096
Increase (Decrease) in:		
Accounts payable	(468,939)	630,423
Accrued benefits	(15,091)	41,140
Net OPEB liability	(1,067,912)	76,054
Customer deposits	2,071,069	(397,838)
Net pension liability	62,288	(1,578,241)
Deferred inflows	269,141	137,060
Net Cash Provided (used) by Operating Activities	\$ 3,881,370	\$ 4,158,870

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

MID-PENINSULA WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

Mid-Peninsula Water District (the District) is a separate political subdivision of the State of California. The District was established on July 2, 1929 as the Belmont County Water District and changed its name effective July 1, 2000. The District maintains and operates a system of storage tanks and water mains. It purchases water from the San Francisco Public Utilities Commission for distribution to its customers through this system.

B. BASIS OF ACCOUNTING

The District is accounted for as an enterprise fund and its financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when liabilities are incurred, regardless of the timing of related cash flows.

Operating revenues and expenses generally result from providing services in connection with the District's principal ongoing operations. The principal operating revenues of the District include water service charges. Operating expenses of the District include employee costs, water purchases, maintenance, utilities, and other administrative costs. All revenues and expenses not meeting this definition are reported as non-operating revenue and expense.

C. CASH AND CASH EQUIVALENTS

The District considers cash on hand, cash in banks and the Local Agency Investment Fund to be cash and cash equivalents.

D. ACCOUNTS RECEIVABLE

The District extends credit to customers in the normal course of operations. The District has not experienced any significant bad debt losses, and elects to write off the bad debt as it is identified.

E. RESTRICTED CASH

In December 2016, the Mid-Peninsula Water District issued certificates of participation in the amount of \$18,570,000. All proceeds are held by a fiscal agent and cash is restricted for certain improvements to the District's municipal water system. The balance of restricted cash as of June 30, 2021 is \$10,609,648.

F. UNEARNED REVENUE

Contractors developing projects, which include construction of facilities to bring water from District mains into the project, deposit a construction advance with the District for an amount estimated to cover the District's costs related to the project. The District accounts for expenditures as construction in progress until the completion of the project, the final inspection and approval of the District, and then it is capitalized as part of capital assets. Revenues are

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recognized as the project progresses. At the completion of the project, any excess funds are returned to the contractor.

G. COMPENSATED ABSENCES

The District has a paid time off (PTO) policy in effect. It is the District's policy to permit employees to accumulate earned but unused vacation, sick leave and compensated time off. The District pays all earned PTO upon termination. All accumulated PTO is recorded as an expense and a liability at the time the benefit is earned.

H. CAPITAL ASSETS

Capital assets are recorded at cost, or if contributed, at estimated value at time of acquisition. Depreciation is recognized on buildings, furniture, fixtures, equipment and subsurface lines by the straight-line method over their estimated useful lives. Estimated useful lives are as follows:

Utility plant	10 - 50 years
Vehicles	5 years
Machinery and equipment	7 years
Computer system	5 years

District policy is to capitalize all assets, which cost \$5,000 or more, and to charge to current operations all additions under that cost limit. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend lives are also expensed in the current period.

I. REVENUES

Customer water meters are read on a monthly basis. Bills are rendered and income is recognized in the period in which meters are read. The District does not accrue income for water distributed but not yet billed at the end of the year. California state law requires water districts to report capacity charges collected and spent separately from operating revenue and expense and any fees unspent at year-end are shown in a separate equity fund.

J. PROPERTY TAXES

The District's property taxes are levied each calendar year on all taxable real property located in the District. Property taxes are recorded on an accrual basis of accounting. The County Assessor is responsible for assessment of all taxable real property within San Mateo County. Reassessment is on a three-year schedule established by the Assessor. The County Clerk computes the annual tax for each parcel of real property and prepares tax books used by the County Collector as the basis for issuing tax bills to all taxpayers in the County. Property taxes are collected by the County Collector and are submitted to the County Treasurer, who remits to each unit its respective share of the collections. Taxes levied in one year become due and payable in two installments during the following year generally on March 1st and August 30th. The first installment is an estimated bill, and is approximately one-half of the prior year's tax bill. The second installment is based on the current levy, assessment, equalization, and certificate to limit

MID-PENINSULA WATER DISTRICT

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levy, if any and any changes from the prior year will be reflected in the second installment bill. Taxes must be levied by the last Tuesday in December for the following collection year. The levy becomes an enforceable lien against the property as of January 1st of the levy year.

K. INCOME TAXES

The District is a governmental entity and as such its income is exempt from taxation under Section 115(1) of the Internal Revenue Code and Section 23701d of the California and Taxation Code. Accordingly, no provision for federal or state income taxes has been made in the accompanying financial statements.

L. 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 Mid-Peninsula Water District's California Public Employees' Retirement System (CalPERS) plans (Plans) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS. 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.

M. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

For purposes of measuring the District's net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the District's plan and additions to/deductions from the District Plan's fiduciary net position have been determined on the same basis as they are reported by the District's OPEB plan. For this purpose, the District's plan recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.

N. DEFERRED INFLOWS AND OUTFLOWS OF RESOURCES

In addition to assets, the statement of net position includes a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s), and as such will not be recognized as an outflow of resources (expense/expenditures) until then.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and as such, will not be recognized as an inflow of resources (revenue) until that time.

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O. USE OF 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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

2. CASH AND INVESTMENTS

Cash and cash equivalents as of June 30, 2021 and 2020 consisted of the following:

	<u>2021</u>	<u>2020</u>
Petty cash	\$ 400	\$ 400
Cash drawer	200	200
Sweep account	358,060	527,454
Cash in bank	481,607	414,301
Local Agency Investment Fund	<u>11,799,717</u>	<u>7,034,977</u>
Total Cash and Cash Equivalents	<u>\$ 12,639,984</u>	<u>\$ 7,977,332</u>

The carrying amount of the District’s cash is covered by federal depository insurance up to \$250,000. Should deposits exceed the insured limits, the balance is covered by collateral held by the bank in accordance with California law requiring the depository bank to hold collateral equal to 110% of the excess government funds on deposit.

Local Agency Investment Fund

The District is a voluntary participant in Local Agency Investment Fund (LAIF), which is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California and the Pooled Money Investment Board. The State Treasurer’s Office pools these funds with those of other governmental agencies in the State and invests the cash. The fair value of the District’s investment in this pool, which approximates cost, is reported in the accompanying financial statements 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 are recorded on an amortized cost basis. Funds are accessible and transferable to the master account with twenty-four hour notice. The Pooled Money Investment Board has established policies, goals, and objectives to make certain that their goal of safety, liquidity, and yield are not jeopardized. Included in LAIF’s investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset backed securities, and floating rate securities issued by Federal Agencies, government-sponsored enterprises and corporations. The monies held in the LAIF are not subject to categorization by risk category. It is also not rated as to credit risk by a nationally recognized statistical rating organization. LAIF is administered by the State Treasurer and audited annually by the Pooled Money Investment Board and the State

MID-PENINSULA WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

2. CASH AND INVESTMENTS (Continued)

Controller's Office. Copies of this audit may be obtained from the State Treasurer's Office: 915 Capitol Mall, Sacramento, California 95814.

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The monies held in the LAIF investment pool are not subject to categorization by risk category. It is also not rated as to credit risk by a nationally recognized statistical rating organization.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party.

Restricted Cash With Fiscal Agent

At June 30, 2021 and 2020, funds totaling \$10,609,648 and \$11,702,873, respectively, were held by The Bank of New York Mellon Trust Company, N.A. in various accounts related to the Certificates of Participation issued in December 2016 for the purpose of funding certain improvements to the District's municipal water system.

MID-PENINSULA WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

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3. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2021 is as follows:

	Balance June 30, 2020	Additions	Deletions	Balance June 30, 2021
Capital assets not subject to depreciation				
Land	\$ 1,045,264	\$ -	\$ -	\$ 1,045,264
Construction in progress	4,345,242	1,953,406	2,944,517	3,354,131
Total capital assets not subject to depreciation	<u>5,390,506</u>	<u>1,953,406</u>	<u>2,944,517</u>	<u>4,399,395</u>
Capital assets being depreciated				
Utility plant in service	48,440,406	2,805,400	583,137	50,662,669
Vehicles	1,718,138	73,068	-	1,791,206
Computer and telephone systems	496,386	-	-	496,386
Total capital assets being depreciated	<u>50,654,930</u>	<u>2,878,468</u>	<u>583,137</u>	<u>52,950,261</u>
Less accumulated depreciation for:				
Utility plant in service	(27,372,284)	(941,281)	(583,137)	(27,730,428)
Vehicles	(1,562,631)	(61,868)	-	(1,624,499)
Computer and telephone systems	(394,930)	(71,611)	-	(466,541)
Total accumulated depreciation	<u>(29,329,845)</u>	<u>(1,074,760)</u>	<u>(583,137)</u>	<u>(29,821,468)</u>
Total capital assets, net of depreciation	<u>\$ 26,715,591</u>	<u>\$ 3,757,114</u>	<u>\$ 4,110,791</u>	<u>\$ 27,528,188</u>

Depreciation for the year's ended June 30, 2021 and 2020 was \$1,074,760 and \$1,048,112, respectively.

4. LONG-TERM LIABILITIES

Summary of Long-Term Liabilities

	Balance July 1, 2020	Additions	Deductions	Balance June 30, 2021	Due Within One Year
Net OPEB Liability (Asset)	\$ 744,943	\$ -	\$ 1,067,912	\$ (322,969)	\$ -
Net Pension Liability (Asset)	(74,271)	62,288	-	(11,983)	-
Compensated Absences	359,184	-	15,091	344,093	-
Certificates of Participation	17,550,000	-	375,000	17,175,000	385,000
	<u>\$ 18,579,856</u>	<u>\$ 62,288</u>	<u>\$ 1,458,003</u>	<u>\$ 17,184,141</u>	<u>\$ 385,000</u>

Certificates of Participation

In December 2016, the Mid-Peninsula Water District issued certificates of participation in the amount of \$18,570,000 to finance certain improvements to the District's municipal water system. Principal is due annually in December and interest is payable on June 1 and December 1. The certificates have an interest rate of 4% and mature on December 1, 2046. The Certificates of Participation were issued at a premium of \$938,447, which is being amortized over the life of the debt and is recorded as deferred inflows on the statement of net position.

MID-PENINSULA WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

4. LONG-TERM LIABILITIES (CONTINUED)

The annual payments required to amortize the Certificates of Participation outstanding as of June 30, 2021, are as follows:

Year Ended June 30,	Principal	Interest	Total
2022	\$ 385,000	\$ 679,300	\$ 1,064,300
2023	405,000	663,500	1,068,500
2024	420,000	647,000	1,067,000
2025	435,000	629,900	1,064,900
2026	455,000	612,100	1,067,100
2027-2031	2,550,000	2,768,000	5,318,000
2032-2036	3,105,000	2,204,100	5,309,100
2037-2041	3,780,000	1,517,600	5,297,600
2042-2046	4,605,000	681,900	5,286,900
2047-2048	1,035,000	20,700	1,055,700
	<u>\$ 17,175,000</u>	<u>\$ 10,424,100</u>	<u>\$ 27,599,100</u>

5. EMPLOYEE RETIREMENT PLAN

A. Plan Description

All qualified regular employees are eligible to participate in the Mid-Peninsula Water District's cost-sharing multiple employer defined benefit pension plan administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plan is established by State statute and Mid-Peninsula Water District resolution. CalPERS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for the plan are applied as specified by the Public Employees' Retirement Law.

MID-PENINSULA WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

A. Plan Description (Continued)

The Plans' provisions and benefits in effect at June 30, 2021, are summarized as follows:

	Prior to January 1, 2013	On or after January 1, 2013
Hire date	2% @ 55	2% @ 62
Benefit formula	5 years service	5 years service
Benefit vesting schedule	monthly for life	monthly for life
Benefit payments	50 - 55	52 - 67
Retirement age	2.0% to 2.7%	1.0% to 2.5%
Monthly benefits, as a % of eligible compensation	7.000%	6.750%
Required employee contribution rates	10.484%	7.732%
Required employer contribution rates		

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Mid-Peninsula Water District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the years ended June 30, 2021 and 2020, the contributions recognized as part of pension expense for the Plan were \$380,386 and \$307,601, respectively.

B. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

As of June 30, 2021 and 2020, the Mid-Peninsula Water District reported net pension liabilities for its proportionate share of the net pension liability (asset) of (\$11,983) and (\$74,271), respectively.

Mid-Peninsula Water District's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2021, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2019 rolled forward to June 30, 2020 using standard update procedures. Mid-Peninsula Water District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. The District's proportionate share of the net pension liability for the Plan as of June 30, 2021 and 2020 was as follows:

MID-PENINSULA WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

B. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)

Proportion - June 30, 2020	0.04053%
Proportion - June 30, 2021	0.04130%
Change - Increase (Decrease)	0.00077%

For the year ended June 30, 2021 and 2020, the District recognized pension expense of \$443,870 and \$2,071,089, respectively. The District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

June 30, 2021

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 380,386	\$ -
Difference between projected and actual experience	89,770	-
Difference between employer's contributions and proportionate share of contributions	14,910	-
Change in proportion	30,780	298
Changes in assumptions	-	12,425
Net differences between projected and actual earnings on plan investments	51,749	-
Total	\$ 567,595	\$ 12,723

\$380,386 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, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Fiscal Year Ending June 30		
2022	\$	42,786
2023		61,560
2024		45,320
2025		24,820
2026		-
Thereafter		-

MID-PENINSULA WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

B. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)

June 30, 2020

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 307,601	\$ -
Difference between projected and actual experience	112,727	8,734
Changes in assumptions	26,973	-
Difference between employer's contributions and proportionate share of contributions.	39,933	671
Change in employer's proportion	77,394	27,436
Net differences between projected and actual earnings on plan investments	-	28,376
Total	\$ 564,628	\$ 65,217

\$307,601 reported as deferred outflows of resources related to contributions subsequent to the measurement date are recognized as a reduction of the net pension liability in the current year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Fiscal Year Ending June 30	
2021	\$ 168,022
2022	(109)
2023	18,163
2024	5,734
2025	-
Thereafter	-

MID-PENINSULA WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

B. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)

Actuarial Assumptions – The total pension liabilities in the June 30, 2020 actuarial valuations were determined using the following actuarial assumptions:

	<u>Miscellaneous</u>
Valuation Date	June 30, 2019
Measurement Date	June 30, 2020
Actuarial Cost Method	Entry-Age Normal Cost
Actuarial Assumptions	
Discount Rate	7.15%
Inflation	2.50%
Projected Salary Increase	Varies by Entry Age and Service
Mortality	Derived using CalERS' Membership Data for all Funds
Post-retirement benefit increase	Contract COLA up to 2.50% until Purchasing Power Protection Allowance Floor on Purchasing Power applies

The mortality table used was developed based on CalPERS-specific data. The table includes 20 years of mortality improvement using Society of Actuaries Scale BB. For more details on this table, please refer to the April 2014 CalPERS Experience Study and Review of Actuarial Assumptions report based on CalPERS demographic data from 1997 to 2011. Further details of the Experience Study can be found on the CalPERS website.

Discount Rate – The discount rate used to measure the total pension liability was 7.15% and reflects the long-term expected rate of return for the Plan net of investment expenses and without reduction for administrative expenses. To determine whether the municipal bond rate should be used in the calculation of a discount rate for public agency plans (including PERF C), the amortization and smoothing periods adopted by the Board in 2013 were used. For the Plan, the crossover test was performed for a miscellaneous agent plan and a safety agent plan selected as being more at risk of failing the crossover test and resulting in a discount rate that would be different from the long-term expected rate of return on pension investments. Based on the testing of the plans, the tests revealed the assets would not run out. Therefore the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability for PERF C. The crossover test results can be found on CalPERS website under the GASB 68 section.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

MID-PENINSULA WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

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B. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11+ years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the rounded single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses.

The table below reflects the long-term expected real rate of return by asset class. 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.

<u>Asset Class</u>	<u>Current Strategic Allocation (a)</u>	<u>Real Return Years 1 - 10 (b)</u>	<u>Real Return Years 11+ (c)</u>
Global Equity	50.0%	4.80%	5.98%
Fixed Income	28.0%	1.00%	2.62%
Inflation Assets	0.0%	0.77%	1.81%
Private Equity	8.0%	6.30%	7.23%
Real Estate	13.0%	3.75%	4.93%
Liquidity	1.0%	0.00%	-0.92%

(a) In the System's CAFR, Fixed Income is included in Global Debt Securities; Liquidity is included in Short-term investments; Inflation Assets are included in both Global Equity Securities and Global Debt Securities.

(b) An expected inflation of 2.00% used for this period

(c) An expected inflation of 2.92% used for this period

MID-PENINSULA WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

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B. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the District’s proportionate share of the net pension liability for each Plan, calculated using the discount rate for each Plan, as well as what the District’s proportionate share of the net pension 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% (6.15%)	Current Discount Rate (7.15%)	Discount Rate + 1% (8.15%)
CalPERS Net Pension Liability	\$ 2,861,674	\$ 1,741,987	\$ 816,825
Amounts held in PARS Trust	1,753,970	1,753,970	1,753,970
Plan's Net Pension Liability (Asset)	\$ 1,107,704	\$ (11,983)	\$ (937,145)

Pension Plan Fiduciary Net Position – Detailed information about each pension plan’s fiduciary net position is available in the separately issued CalPERS financial reports.

Additional Funding – The District funded a separate pension trust account through Public Agency Retirement Services. The balance as of June 30, 2021 and 2020 was \$514,374 and \$1,753,971, respectively. The actuarially determined net pension liability does not account for this additional trust account, therefore the balance of this separate trust as of the beginning of the fiscal year is subtracted from the actuarially determined net pension liability.

C. Payable to the Pension Plan

The District had no outstanding amount of contributions to the pension plan required for the year ended June 30, 2021.

6. DEFERRED COMPENSATION PLAN

The District has established a deferred compensation plan in accordance with Internal Revenue Code Section 457, whereby employees may elect to defer portions of their compensation in a self-directed investment plan for retirement. Plan assets are invested in each individual's name with a deferred compensation plan provider. Distributions are made upon the participant's termination, retirement, death or total disability, and in a manner in accordance with the election made by the participant. All employees are eligible for plan participation. The District offers two plans, one with Lincoln Life and the other with ICMA-RC.

The District believes it has no liability for losses under the plan but does have the duty of due care that would be required of an ordinary prudent investor. The District has formally established a trust in accordance with Internal Revenue Code Section 457(g) to provide protection from the claims of the employer's general creditors. Accordingly deferred compensation assets placed in the trust are not reflected in these financial statements.

MID-PENINSULA WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

7. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

A. Plan Description

The District provides a single-employer defined benefit postemployment health care plan (the Plan) for all employees who terminate or retire from the District after achieving age 50 with at least 20 years of service. For employees hired before June 28, 2008, District-paid benefits are available to eligible beneficiaries. The General Manager position qualifies for postemployment healthcare benefits after 7 ½ years of service with the District per the employment agreement.

B. Funding Policy

The District has an agreement with the Public Agency Retirement Services (PARS) to be the Trust Administrator to the PARS Public Agencies OPEB Trust Plan. The amount to be contributed to the trust is determined annually by the board of directors.

C. Benefits Provided

Depending on the employee's placement within the tiered system, the District's plan provides healthcare benefits for retirees and their dependents, or retirees only. Benefits are provided through a third-party insurer and the full cost of the benefits is covered by the plan.

D. Employees Covered by Benefit Terms

At June 30, 2021, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	5
Inactive employees entitles to but not yet receiving benefit payments	-
Active employees	<u>19</u>
	<u>24</u>

MID-PENINSULA WATER DISTRICT

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E. Net OPEB Liability

The District's net OPEB liability was measured as of June 30, 2021, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date.

Actuarial assumptions. The total OPEB liability in the June 30, 2021 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Salary Increases	3.00%
Inflation	2.25%
Investment rate of return	5.5%, net of OPEB plan investment expense
Healthcare cost trend rate	Healthcare costs were assumed to increase according to the following schedule:

FYB	Medical/Rx	Dental/Vision
2019	7.0%	4.0%
2020	6.0%	4.0%
2021+	5.0%	4.0%

Mortality rates were based on the RP-2014 Employee and Healthy Annuitant Mortality Tables for Males or Females, as appropriate, projected using a generational projection based on 100% of scale MP-2016 for years 2014 through 2029, 50% of MP-2016 for years 2030 through 2049, and 20% of MP-2016 for 2050 and thereafter.

F. Discount Rate

The long-term expected rate of return (LTROR) on OPEB plan investments of 5.50% was determined by PARS and HighMark using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The discount rate of 5.50% is based on the long-term rate of return. It was determined that the LTROR was an appropriate basis for selection of the discount rate based on the results of a cross-over test performed by the plan's actuaries, Pacific Crest Actuaries, as of the valuation date, which shows that plan assets, together with expected future contributions, will be sufficient to pay all expected future benefits.

MID-PENINSULA WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

G. Changes in the Net OPEB Liability

	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability (Asset)
	(a)	(b)	(a) - (b)
Balances at June 30, 2020	\$ 3,474,604	\$ 2,729,661	\$ 744,943
Changes for the year:			
Service cost	89,496	-	89,496
Interest	194,087	-	194,087
Differences between expected and actual experience	(3,676)	-	(3,676)
Changes of assumptions	-		-
Contributions - employer	-	749,216	(749,216)
Net investment income	-	168,409	(168,409)
Differences between expected and actual investment income		447,954	(447,954)
Benefit payments	(66,803)	(66,803)	-
Administrative expense	-	(17,760)	17,760
Net changes	213,104	1,281,016	(1,067,912)
Balances at June 30, 2021	<u>\$ 3,687,708</u>	<u>\$ 4,010,677</u>	<u>\$ (322,969)</u>

H. Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.5 percent) or 1-percentage-point higher (6.5 percent) than the current discount rate:

	1% Decrease (4.5%)	Discount Rate (5.5%)	1% Increase (6.5%)
Net OPEB liability (asset)	\$ 289,666	\$ (322,969)	\$ (815,329)

MID-PENINSULA WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

I. Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (5 percent decreasing to 4 percent) or 1-percentage-point higher (7 percent decreasing to 6 percent) than the current healthcare cost trend rates:

	Healthcare Cost		
	1% Decrease (6% decreasing to 4%)	Trend Rates (7% decreasing to 5%)	1% Increase (8% decreasing to 6%)
Net OPEB liability (asset)	\$ (906,912)	\$ (322,969)	\$ 420,120

J. OPEB plan fiduciary net position

Detailed information about the OPEB plan's fiduciary net position is available in the separate PARS financial report issued and presented annually to the board of directors.

K. OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2021, the District recognized OPEB expense of \$38,497. At June 30, 2021, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 124,407
Changes of assumptions	91,561	-
Net difference between projected and actual return on OPEB plan investments	29,748	377,273
Total	<u>\$ 121,309</u>	<u>\$ 501,680</u>

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

Year ended June 30	Total Deferred Outflows/(Inflows) of Resources
2021	\$ (94,437)
2022	\$ (98,564)
2023	\$ (89,108)
2024	\$ (97,651)
2025	(611)
Thereafter	-
Total	<u>\$ (380,371)</u>

MID-PENINSULA WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

L. Payable to the OPEB Plan

At June 30, 2021, the District had no outstanding amount of contributions payable to the plan.

8. JOINTLY GOVERNED ORGANIZATIONS

The District is a member of two jointly governed organizations. The District is a member of the Association of California Water Agencies Joint Powers Insurance Authority (ACWA JPIA) which provides employee benefits coverage for medical, dental, vision, life and disability. The District is also a member of Bay Area Water Supply & Conservation Agency (BAWSCA) which purchases water on a wholesale basis from the San Francisco regional water system for its members.

ACWA JPIA and BAWSCA are governed by a Board consisting of representatives from member agencies. The Board controls the operations, including selection of management and approval of operating budgets, independent of any influence by the member agencies beyond their representation on the Board. Each member agency pays a contribution or assessment commensurate with the level of coverage and services requested and shares surpluses and deficits proportionate to their participation in the joint powers authority. Full financial statements are available separately from ACWA JPIA and BAWSCA. Condensed information for ACWA JPIA and BAWSCA for the years ended September 30, 2020 and June 30, 2020, respectively, is as follows:

	<u>ACWA JPIA</u> <u>September 30, 2020</u>	<u>BAWSCA</u> <u>June 30, 2020</u>
Total Assets	\$ 237,525,073	\$ 314,836,404
Total Deferred Outflows	1,054,750	414,943
Total Liabilities	113,075,164	296,502,834
Total Deferred Inflows	1,817,452	121,560
Total Net Position	123,687,207	18,626,953
Total Revenues	197,639,443	32,615,252
Total Expenses	172,886,738	30,400,086
Change in Net Position	24,752,705	2,215,166

9. COMMITMENTS

Purchase commitment

The District entered into an agreement with the City and County of San Francisco to purchase water to be delivered to the District's customers. This is a 25 year agreement that was effective July 1, 2009 and ends on June 30, 2034. The cost of purchasing water through this agreement represented approximately 49% and 50% of the District's operating costs for the years ended June 30, 2021 and 2020, respectively.

MID-PENINSULA WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

10. LEASE REVENUES

The District contracted with five different companies to lease land for communication towers on District-owned properties. The agreements are for multiple years and require monthly payments based on the contracted amounts. Lease revenues for the years ended June 30, 2021 and 2020 totaled \$159,595 and \$233,920, respectively. A schedule of future lease revenues was not available as of the date of these financial statements.

11. SUBSEQUENT EVENTS

District management has evaluated its June 30, 2021 financial statements for subsequent events through **DATE**, the date the financial statements were available to be issued. Management is not aware of any subsequent events that would require recognition or disclosure in the financial statements.

**REQUIRED SUPPLEMENTARY
INFORMATION**

MID-PENINSULA WATER DISTRICT
SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY

JUNE 30, 2021

	Fiscal Year ⁽¹⁾						
	June 30, 2014	June 30, 2015	June 30, 2016	June 30, 2017	June 30, 2018	June 30, 2019	June 30, 2020
Proportion of the net pension liability	0.04525%	0.04059%	0.03995%	0.04031%	0.03991%	0.04053%	0.04130%
Proportionate share of the net pension liability (asset)	\$ 1,118,234	\$ 1,113,540	\$ 1,387,977	\$ 1,588,940	\$ 1,503,970	\$ (74,271)	\$ (11,983)
Covered-employee payroll (2)	\$ 1,178,386	\$ 1,457,920	\$ 1,565,051	\$ 1,628,722	\$ 1,677,384	\$ 1,762,962	\$ 1,796,037
Proportionate share of the net pension liability as percentage of covered-employee payroll	94.90%	76.38%	88.69%	97.56%	89.66%	-4.21%	-0.67%
Plans fiduciary net position as a percentage of the total pension liability	77.06%	79.89%	75.41%	75.41%	77.69%	77.73%	73.12%
Proportionate share of aggregate employer contributions (3)	\$ 101,596	\$ 107,544	\$ 133,318	\$ 153,703	\$ 170,970	\$ 210,237	\$ 354,023

(1) Historical information is required only for measurement periods for which GASB 68 is applicable.

(2) Covered-employee payroll represented above is based on pensionable earnings provided by the employer.

(3) The plan's proportionate share of aggregate contributions may not match the actual contributions made by the employer during the measurement period. The plan's proportionate share of aggregate contributions is based on the plan's proportion of fiduciary net position shown on line 5 of the table above as well as any additional side fund (or unfunded liability) contributions made by the employer during the measurement period.

MID-PENINSULA WATER DISTRICT
SCHEDULE OF PENSION CONTRIBUTIONS

JUNE 30, 2021

	Fiscal Year ⁽¹⁾						
	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Actuarially Determined Contribution (2)	\$ 186,823	\$ 189,429	\$ 213,992	\$ 244,660	\$ 266,231	\$ 313,615	\$ 298,100
Contributions in relation to the actuarially determined contributions (2)	(186,823)	(203,461)	(204,748)	(248,731)	(1,866,231)	(307,601)	(307,601)
Contribution deficiency (excess)	\$ -	\$ (14,032)	\$ 9,244	\$ (4,071)	\$ (1,600,000)	\$ 6,014	\$ (9,501)
Covered-employee payroll (3,4)	\$ 1,178,386	\$ 1,457,920	\$ 1,565,051	\$ 1,628,722	\$ 1,677,384	\$ 1,762,962	\$ 1,796,037
Contributions as a percentage of covered-employee payroll (3)	15.85%	12.99%	13.67%	15.02%	15.87%	17.79%	16.60%

(1) Historical information is required only for measurement periods for which GASB 68 is applicable.

(2) Employers are assumed to make contributions equal to the actuarially determined contributions (which is the actuarially determined contribution). However, some employers may choose to make additional contributions towards their side fund or their unfunded liability. Employer contributions for such plans exceed the actuarially determined contributions. CalPERS has determined that employer obligations referred to as "side funds" do not conform to the circumstances described in paragraph 120 of GASB 68, therefore are not considered separately financed specific liabilities.

(3) Covered-employee payroll represented above is based on pensionable earnings provided by

(4) Payroll from prior year was assumed to increase by the 3.00 percent payroll growth

MID-PENINSULA WATER DISTRICT

SCHEDULE OF CHANGES IN THE NET OPEB LIABILITY AND RELATED RATIOS

JUNE 30, 2021

	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Total OPEB liability				
Service cost	\$ 100,557	\$ 103,576	\$ 86,889	\$ 89,496
Interest	162,026	170,863	185,027	194,087
Changes of benefit terms	-	-	-	-
Differences between expected and actual experience	-	-	(182,016)	(3,676)
Changes of assumptions	-	-	137,343	-
Benefit payments	<u>(65,392)</u>	<u>(139,440)</u>	<u>(63,015)</u>	<u>(66,803)</u>
Net change in total OPEB liability	197,191	134,999	164,228	213,104
Total OPEB liability - beginning	<u>2,978,186</u>	<u>3,175,377</u>	<u>3,310,376</u>	<u>3,474,604</u>
Total OPEB liability - ending (a)	<u>\$ 3,175,377</u>	<u>\$ 3,310,376</u>	<u>\$ 3,474,604</u>	<u>\$ 3,687,708</u>
Plan fiduciary net position				
Contributions - employer	\$ 599,502	\$ 1,264,440	\$ 63,015	\$ 749,216
Net investment income	39,388	171,926	145,068	168,409
Differences between expected and actual investment income	-	-	(42,701)	447,954
Benefit payments	(65,392)	(139,440)	(63,015)	(66,803)
Administrative expense	<u>(2,698)</u>	<u>(5,038)</u>	<u>(14,193)</u>	<u>(17,760)</u>
Net change in plan fiduciary net position	570,800	1,291,888	88,174	1,281,016
Plan fiduciary net position - beginning	<u>778,799</u>	<u>1,349,599</u>	<u>2,641,487</u>	<u>2,729,661</u>
Plan fiduciary net position - ending (b)	<u>\$ 1,349,599</u>	<u>\$ 2,641,487</u>	<u>\$ 2,729,661</u>	<u>\$ 4,010,677</u>
District's net OPEB liability - ending (a) - (b)	<u>\$ 1,825,778</u>	<u>\$ 668,889</u>	<u>\$ 744,943</u>	<u>\$ (322,969)</u>
Plan fiduciary net position as a percentage of the total OPEB liability	43%	80%	366%	-1242%
Covered-employee payroll	\$ 1,695,877	\$ 1,677,384	\$ 2,069,385	\$ 2,131,467
District's net OPEB liability as a percentage of covered-employee payroll	108%	40%	36%	-15%

MID-PENINSULA WATER DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

JUNE 30, 2021

1. PURPOSE OF SCHEDULES

A - Schedule of District's Proportionate Share of the Net Pension Liability

Changes of Assumptions

No changes of assumption

Fiscal year 2015 was the first year of implementation, therefore only seven years are shown.

B - Schedule of Pension Contributions

If an employer's contributions to the plan are actuarially determined or based on statutory or contractual requirements, the employer's actuarially determined contribution to the pension plan (or, if applicable, its statutorily or contractually required contribution), the employer's actual contributions, the difference between the actual and actuarially determined contributions (or statutorily or contractually required), and a ratio of the actual contributions divided by covered-employee payroll.

C - Schedule of the Changes in the Net OPEB Liability and Related Ratios

Benefit changes. There were no benefit changes during the year.

Change of assumptions. There were no changes of assumptions during the year

Fiscal year 2018 was the first year of implementation, therefore only four years are shown.

MID-PENINSULA WATER DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

JUNE 30, 2021

1. PURPOSE OF SCHEDULES (CONTINUED)

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age
Amortization method	Level percent of pay
Amortization period	30 years
Asset valuation method	Fair value
Healthcare cost trend rates	7.0% for 2019-20, decreasing to 5.0% for 2021-22 and after
Salary increases	3.00%
Investment rate of return	5.50%, net of OPEB plan investment expense
Retirement age	Retirement ages are based on the following table:

Age	Percent Retiring
50	2.0%
51	3.0%
52	4.0%
53	5.0%
54	6.0%
55	8.0%
56	10.0%
57	12.0%
58	14.0%
59	16.0%
60	18.0%
61	20.0%
62	21.0%
63	22.0%
64	24.0%
65	100.0%

Mortality	Pre-retirement - RP-2014 Employee Mortality, projected using a generational projection based on 100% of scale MP-2016 for years 2014 through 2029, 50% of MP-2016 for years 2030 through 2049 and 20% of MP-2016 for 2050 and thereafter.
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OTHER INDEPENDENT AUDITOR'S REPORT



James Marta & Company LLP

Certified Public Accountants

Accounting, Auditing, Consulting, and Tax

**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***

Independent Auditor's Report

Board of Directors
Mid-Peninsula Water District
Belmont, California

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Mid-Peninsula Water District (the "District"), as of and for the years ended June 30, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated **DATE**.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of 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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

DRAFT

James Marta & Company LLP
Certified Public Accountants
Sacramento, California

DATE



James Marta & Company LLP

Certified Public Accountants

Accounting, Auditing, Consulting, and Tax

COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

DATE

To the Board of Directors
Mid-Peninsula Water District
Belmont, California

We have audited the financial statements of Mid-Peninsula Water District as of and for the years ended June 30, 2021 and 2020 and have issued our report thereon dated DATE. 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 engagement letter dated December 7, 2016, 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 conformity 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 Mid-Peninsula Water 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.

We have provided management recommendations noted during our audit in a separate letter to you dated DATE.

Planned Scope and Timing of the Audit

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

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, and our firm has complied with all relevant ethical requirements regarding independence.

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 Mid-Peninsula Water 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 fiscal year ended June 30, 2021. 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.

The most sensitive accounting estimates affecting the financial statements are the net OPEB liability, the net pension liability and related deferred inflows and outflows.

Management's estimate of the net OPEB liability, the net pension liability and related deferred inflows and outflows are based on actuarial studies performed by independent third parties. We evaluated the key factors and assumptions used to develop the estimates and determined that it is reasonable in relation to the basic financial statements taken as a whole and in relation to the applicable opinion units.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the District's financial statements are those related to the net pension liability.

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 and each applicable opinion unit. We did not identify any uncorrected misstatements as a result of our audit.

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. The attached (See attachment B) schedule of audit adjustments were identified as a result of our audit procedures were brought to the attention of, and corrected by, management.

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 Mid-Peninsula Water District's financial statements or the auditor's report. No such disagreements arose during the course of the audit.

Representations Requested from Management

We have requested certain written representations from management, which are included in the attached letter dated **DATE**.

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 Mid-Peninsula Water District, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, 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 Mid-Peninsula Water District's auditors.

New Accounting Standards

See Attachment A

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

DRAFT

James Marta & Company LLP
Certified Public Accountants
Sacramento, California
DATE

Attachment A – New and Upcoming Changes in Accounting Standards

The following pronouncements of the Governmental Accounting Standards Board (GASB) have been released recently and may be applicable to the District in the near future. We encourage management to review the following information and determine which standard(s) may be applicable to the District. For the complete text of these and other GASB standards, visit www.gasb.org and click on the “Standards & Guidance” tab. If you have questions regarding the applicability, timing, or implementation approach for any of these standards, please contact your audit team.

GASB Statement No. 87, Leases

Effective for the fiscal year ending June 30, 2022

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 governments’ leasing activities.

The District is currently assessing the financial statement impact of GASB 87.

GASB Statement No. 89, Accounting for Interest Cost Incurred Before the End of a Construction Period

Effective for the fiscal year ending June 30, 2022

This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, which are superseded by this Statement. 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 a business-type activity or enterprise fund.

This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles.

The District is currently assessing the financial statement impact of GASB 89.

GASB Statement No. 91, Conduit Debt Obligations

Effective for the fiscal year ending June 30, 2023

The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives 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.

We do not expect this standard to have any significant impact on the District.

GASB Statement No. 92, Omnibus 2020

Effective dates vary

The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about the following:

- The effective date of Statement No. 87, *Leases*, and Implementation Guide No. 2019-3, *Leases*, for interim financial reports – *Effective for the fiscal year ending June 30, 2022*
- Reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other postemployment benefit (OPEB) plan – *Effective for the fiscal year ending June 30, 2022*
- The applicability of Statements No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, as amended, and No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, to reporting assets accumulated for postemployment benefits – *Effective for the fiscal year ending June 30, 2022*
- The applicability of certain requirements of Statement No. 84, *Fiduciary Activities*, to postemployment benefit arrangements – *Effective for the fiscal year ending June 30, 2022*
- Measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition – *Effective for the government acquisitions occurring in reporting periods beginning after June 15, 2021*
- Reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers – *Effective for the fiscal year ending June 30, 2022*
- Reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature – *Effective for the fiscal year ending June 30, 2022*
- Terminology used to refer to derivative instruments. – *Effective for the fiscal year ending June 30, 2022*

The District is currently assessing the financial statement impact of GASB 92.

GASB Statement No. 93, Replacement of Interbank Offered Rates

Effective for the fiscal year ending June 30, 2022

The objective of this Statement is to address those and other accounting and financial reporting implications that result from the replacement of an IBOR. This Statement achieves that objective by:

- Providing exceptions for certain hedging derivative instruments to the hedge accounting termination provisions when an IBOR is replaced as the reference rate of the hedging derivative instrument's variable payment
- Clarifying the hedge accounting termination provisions when a hedged item is amended to replace the reference rate
- Clarifying that the uncertainty related to the continued availability of IBORs does not, by itself, affect the assessment of whether the occurrence of a hedged expected transaction is probable
- Removing LIBOR as an appropriate 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
- Clarifying the definition of reference rate, as it is used in Statement 53, as amended

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.

We do not expect this standard to have any significant impact on the District.

GASB Statement No. 94, Public-Private and Public-Public Partnerships and Availability Payment Arrangements

Effective for the fiscal year ending June 30, 2023

The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). As used in this Statement, a PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. Some PPPs meet the definition of a service concession arrangement (SCA), which the Board defines in this Statement as a PPP in which (1) the operator collects and is compensated by fees from third parties; (2) the transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; and (3) the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement.

This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). As defined in this Statement, an APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction.

We do not expect this standard to have any significant impact on the District.

GASB Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance

Effective immediately

The primary objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later. The effective dates of the preceding statements have been updated to reflect the impact of the issuance of GASB 95.

The District is currently assessing the financial statement impact of GASB 95.

GASB Statement No. 96, Subscription-Based Information Technology Arrangements

Effective for the fiscal year ending June 30, 2023

This Statement provides 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. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, Leases, as amended.

We do not expect this standard to have any significant impact on the District.

GASB Statement No. 97, Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans

Effective for the fiscal year ending June 30, 2021

The primary objectives of this Statement are 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.

We do not expect this standard to have any significant impact on the District.

Attachment B

Adjusting Journal Entries

Account	Description	Debit	Credit
Adjusting Journal Entries JE # 1			
To tie out equity to prior year audit report. The variance is due to immaterial variance in revenue and expense in prior year 2020.			
4011	Water Charges	1,068.00	
4020	Fixed System Charges	233.00	
4041	Late Fees	30.00	
4042	48 Hour Notice Fees	35.00	
6011	Salaries & Wages	2,608.00	
3950	Prior Period Adjustment		3,974.00
Total		3,974.00	3,974.00
Adjusting Journal Entries JE # 2			
To record entries for net pension liability based on calculation			
2071	Deferred Inflows	232,539.00	
1890	Deferred Outflows		153,900.00
2996	Net Pension Liability		62,288.00
6055	Net Pension Expense		16,351.00
Total		232,539.00	232,539.00
Adjusting Journal Entries JE # 3			
To adjust interest accrual to 4th quarter balance on LAIF statement.			
4102.1	Interest Revenue- Laif	2,410.00	
1042	Laif Interest Accrual		2,410.00
Total		2,410.00	2,410.00
Adjusting Journal Entries JE # 4			
To adjust OPEB related accounts to match actuary report			
1891	Deferred Outflows - OPEB	121,309.00	
2072	Net Opeb Obligation	322,969.00	
6053	Opeb Expense	57,402.00	
2999	Deferred Inflows		501,680.00
Total		501,680.00	501,680.00

Reclassifying Journal Entries

None

[Prepared on client's letterhead]

MANAGEMENT REPRESENTATION LETTER

DATE

James Marta & Company LLP
Certified Public Accountants
Sacramento, California

This representation letter is provided in connection with your audit of the Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position and Statement of Cash Flows of Mid-Peninsula Water District as of June 30, 2021 and 2020 and for the years then ended, and the related notes to the financial statements, for the purpose of expressing an opinion on whether the basic financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows, where applicable, of the various opinion units of Mid-Peninsula Water District in accordance with accounting principles generally accepted for governments in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm that, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves as of DATE:

Financial Statements

- We have fulfilled our responsibilities, as set out in the terms of the audit engagement dated December 7, 2016, for the preparation and fair presentation of the financial statements of the various opinion units referred to above in accordance with U.S. GAAP.
- We acknowledge our responsibility 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.
- We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
- We acknowledge our responsibility for compliance with the laws, regulations, and provisions of contracts and grant agreements.
- We acknowledge that we are responsible for distributing the issued report as well as the communication with governance letter and internal control letter to all governing board members.
- We have reviewed, approved, and taken responsibility for the financial statements and related notes.
- We have a process to track the status of audit findings and recommendations.
- We have identified and communicated to you all previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
- Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
- Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.
- All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed.

- The effects of uncorrected misstatements summarized in the attached schedule and aggregated by you during the current engagement are immaterial, both individually and in the aggregate, to the applicable opinion units and to the financial statements as a whole.
- The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with U.S. GAAP.
- We have reviewed and approved the adjusting and reclassifying journal entries reflected in the audit statements and Attachment A.
- All component units, as well as joint ventures with an equity interest, are included and other joint ventures and related organizations are properly disclosed.
- All funds and activities are properly classified.
- All funds that meet the quantitative criteria in GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus* as amended, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, for presentation as major are identified and presented as such and all other funds that are presented as major are considered important to financial statement users.
- All components of net position, nonspendable fund balance, and restricted, committed, assigned, and unassigned fund balance are properly classified and, if applicable, approved.
- Our policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position/fund balance are available is appropriately disclosed and net position/fund balance is properly recognized under the policy.
- All revenues within the statement of activities have been properly classified as program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.
- All expenses have been properly classified in or allocated to functions and programs in the statement of activities, and allocations, if any, have been made on a reasonable basis.
- All interfund and intra-entity transactions and balances have been properly classified and reported.
- Special items and extraordinary items have been properly classified and reported.
- Deposit and investment risks have been properly and fully disclosed.
- Capital assets, including infrastructure assets, are properly capitalized, reported, and if applicable, depreciated.
- All required supplementary information is measured and presented within the prescribed guidelines.
- With regard to investments and other instruments reported at fair value:
 - The underlying assumptions are reasonable and they appropriately reflect management's intent and ability to carry out its stated courses of action.
 - The measurement methods and related assumptions used in determining fair value are appropriate in the circumstances and have been consistently applied.
 - The disclosures related to fair values are complete, adequate, and in accordance with U.S. GAAP.
 - There are no subsequent events that require adjustments to the fair value measurements and disclosures included in the financial statements.

Information Provided

- We have provided you with:
 - Access to all information, of which we are aware that is relevant to the preparation and fair presentation of the financial statements of the various opinion units referred to above, such as records, documentation, meeting minutes, and other matters;
 - Additional information that you have requested from us for the purpose of the audit; and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
- All transactions have been recorded in the accounting records and are reflected in the financial statements.
- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

- We have no knowledge of any fraud or suspected fraud that affects the entity and involves:
 - Management;
 - Employees who have significant roles in internal control; or
 - Others where the fraud could have a material effect on the financial statements.
- We have no knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, vendors, regulators, or others.
- We have disclosed to you all known actual or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements.
- We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.
- There have been no communications from regulatory agencies concerning noncompliance with or deficiencies in accounting, internal control, or financial reporting practices.
- Mid-Peninsula Water District has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
- We have disclosed to you all guarantees, whether written or oral, under which Mid-Peninsula Water District is contingently liable.
- We have disclosed to you all nonexchange financial guarantees, under which we are obligated and have declared liabilities and disclosed properly in accordance with GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, for those guarantees where it is more likely than not that the entity will make a payment on any guarantee.
- For nonexchange financial guarantees where we have declared liabilities, the amount of the liability recognized is the discounted present value of the best estimate of the future outflows expected to be incurred as a result of the guarantee. Where there was no best estimate but a range of estimated future outflows has been established, we have recognized the minimum amount within the range.
- We have disclosed to you all significant estimates and material concentrations known to management that are required to be disclosed in accordance with GASB Statement No. 62 (GASB-62), *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. Significant estimates are estimates at the balance sheet date that could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets or geographic areas for which events could occur that would significantly disrupt normal finances within the next year.
- We have identified and disclosed to you the laws, regulations, and provisions of contracts and grant agreements that could have a direct and material effect on financial statement amounts, including legal and contractual provisions for reporting specific activities in separate funds.
- There are no:
 - Violations or possible violations of laws or regulations, or provisions of contracts or grant agreements whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency, including applicable budget laws and regulations.
 - Unasserted claims or assessments that our lawyer has advised are probable of assertion and must be disclosed in accordance with GASB-62.
 - Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB-62
 - Continuing disclosure consent decree agreements or filings with the Securities and Exchange Commission and we have filed updates on a timely basis in accordance with the agreements (Rule 240, 15c2-12).
- Mid-Peninsula Water District has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset or future revenue been pledged as collateral, except as disclosed to you.
- We have complied with all aspects of grant agreements and other contractual agreements that would have a material effect on the financial statements in the event of noncompliance.

Required Supplementary Information

With respect to the required supplementary information accompanying the financial statements:

- a. We acknowledge our responsibility for the presentation of the required supplementary information in accordance with GASB Statement No. 68 and 75.
- b. We believe the required supplementary information, including its form and content, is measured and fairly presented in accordance with GASB standards.
- c. The methods of measurement or presentation have not changed from those used in the prior period.
- d. We believe the significant assumptions or interpretations underlying the measurement or presentation of the required supplementary information, and the basis for our assumptions and interpretations, are reasonable and appropriate in the circumstances:

Use of a Specialist

We agree with the findings of specialists in evaluating the net OPEB and net pension liability and have adequately considered the qualifications of the specialist in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give or cause any instructions to be given to specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an impact on the independence or objectivity of the specialists.

Tammy Rudock, General Manager

Candy Pina, Administrative Services Manager



James Marta & Company LLP

Certified Public Accountants

Accounting, Auditing, Consulting, and Tax

MANAGEMENT LETTER

Mid-Peninsula Water District
Belmont, California

We have recently completed the audit of the financial statements of Mid-Peninsula Water District and have issued our report thereon dated **DATE**. In planning and performing our audit of your financial statements for the year ended June 30, 2021, we applied generally accepted auditing standards (GAAS) as we considered your internal control over financial reporting as a basis for designing our auditing procedures. We did this for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of your internal controls.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. Although our audit was not designed to provide assurance on the internal control structure and its operation, we noted certain matters in Attachment A that we are submitting for your consideration for the improvement of the Mid-Peninsula Water District accounting and financial reporting functions. We will be pleased to discuss these comments in further detail at your convenience, perform any additional study of these matters, or assist you in implementing the recommendations. We will review the status of these comments during our next audit engagement. This letter does not affect our report dated **DATE** on the financial statements of the Mid-Peninsula Water District.

We believe that the implementation of these recommendations will provide Mid-Peninsula Water District with a stronger system of internal accounting control while also making its operations more efficient. We will be happy to discuss the details of these recommendations with you and assist in any way possible with their implementation.

This report is intended solely for the information and use of the Board of Directors, management, and others within the administration and is not intended to be and should not be used by anyone other than these specified parties.

DRAFT

James Marta & Company LLP
Certified Public Accountants

DATE

Current Year Recommendations

No matters were identified.

Status of Prior Year Recommendations

2013-01 Policies and Procedures

Observation:

The District does not currently have a policies and procedures manual. The only way to determine which policies are in place for the District, someone would have to go back through all the resolutions adopted by the Board of Directors since the formation of the District. The District does, however, have a personnel manual.

Recommendations:

The District should create and update a policies and procedures manual and specifically address the financial and administrative policies of the organization. It may be too time-consuming to go back through all the resolutions adopted by the Board and may be more efficient to adopt new policies that would replace any existing policies. The manual should be organized into sections so that policies pertaining to specific areas may be easily located. The following are critical policies that should be developed in the near term, while other policies may be added later:

1. Inventory control policies and procedures.
2. Accounts receivable recognition, bad debt allowance and write-off policies and procedures.
3. Bank reconciliation preparation and review policies and procedures.
4. Board member duties and responsibilities.
5. Budgeting.
6. Travel and reimbursement policies and procedures

The District does have the following policies, however we feel it would be prudent to review and update these policies to ensure they address all key areas:

1. Purchasing policies to include required authorization, check signing, bid procedures and credit cards.
2. Conflict of interest policy to include current staffing and board members.
3. Investment policy, which should be reviewed and approved annually by the board.
4. Capitalization policies and procedures to include the methodology and lives for each category of capital assets.
5. Records security and retention that includes and references all records and documents of the District.

Corrective Action Plan:

Management agrees with the recommended policy development, including policy updates. A few of the policy recommendations will be included within the internal control policy manual presently under development with the MPWD's consultant, Experis, Inc.

Status:

Management has developed an internal control policies and procedures manual that is pending finalization.

2013-10 Land Lease Revenues

Observation:

The District currently has nine land lease agreements with various companies. Some of the leases go back many years and the contract files do not all reflect the current terms of the agreement. In addition, there is no process for invoicing or proper tracking for the collection of these revenues.

Recommendations:

Management should create a schedule of these leases showing the lessee, expiration date, monthly payment amount and a reference to the actual contract. The contract files should have the most recent signed contract and a schedule of contract terms at the front of the file. The leases should be invoiced monthly using the QuickBooks accounting software to ensure proper tracking and prompt collection of these revenues.

Corrective Action Plan:

Management agrees with the recommendations. Management has been auditing the contract and lease files, including payment calculations.

Status:

Implemented