



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

**FOR THE FISCAL YEARS ENDED  
JUNE 30, 2013 AND 2012**

**Mid-Peninsula Water District**

**Board of Directors**

**JUNE 30, 2013**

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**Board of Directors**

<u>Name</u>	<u>Office</u>	<u>Term Expires December</u>
Albert Stuebing	President	2013
Louis Vella	Vice President	2015
David Altscher	Director	2013
Betty Linvill	Director	2013
Matthew Zucca	Director	2015

**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*

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## 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, 2013 and the related Statement of Revenues, Expenses and Changes in Net Position for the year then ended. The financial statements of Mid-Peninsula Water District as of and for the year ended June 30, 2012 were audited by other auditors. Those auditors expressed an unqualified opinion on those financial statements in their report dated December 14, 2012.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these 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 consolidated 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 the basic 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated 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**

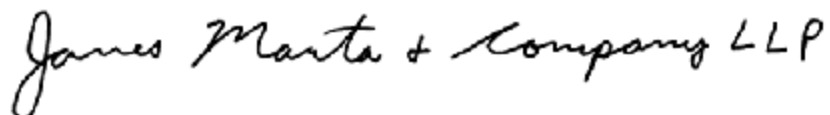
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Mid-Peninsula Water District as of June 30, 2013, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## **Other Matters**

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 3 – 6 and Schedule of Funding Progress – Other Postemployment Benefits on page 22 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 October 11, 2013 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.



James Marta & Company LLP  
Certified Public Accountants  
October 11, 2013

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

# MID-PENINSULA WATER DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2013

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This section of the Mid-Peninsula Water District's (the "District") annual financial report presents a discussion and analysis of the District's financial performance during the fiscal year ended June 30, 2013. Please read it in conjunction with the District's basic financial statements following this section.

### **FINANCIAL HIGHLIGHTS**

- The District's Net Position increased by \$1,050,417 during the fiscal year ended June 30, 2013. This increase is primarily due to an increase in Cash by \$741,566, as a result of postponement of construction on the Buckland Tank replacement project to FY 2013/2014.
- The District's Operating Revenues increased by \$1,102,807 (13%) mainly due to 9% rate adjustment.
- Non-operating revenues decreased by \$248,518 (-3%) primarily due to \$250,000 defalcation recovery in the prior year.
- Operating expenses decreased by \$79,616 (-1%) due to various factors to be discussed in the "Changes in Net Position" portion of the report.

### **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 includes 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 of 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, 2013

**FINANCIAL ANALYSIS OF THE DISTRICT**

One of the most important questions asked about the District finances is whether or not the District’s overall financial position has improved or deteriorated. The Statement of Net Position and the Statement of Revenues and Expenses and Changes in Net Position report information about the District activities in a way that will help answer this question. These two statements report the net position of the District and changes in them. 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 decreased 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.

**Statements of Net Position**

	<u>June 30, 2013</u>	<u>June 30, 2012</u>	<u>Amount Increase (Decrease)</u>	<u>Percent Increase (Decrease)</u>	<u>June 30, 2011</u>
Current and Other Assets	\$ 4,883,204	\$ 4,195,792	\$ 687,412	16%	\$ 3,830,461
Capital Assets, Net	14,388,043	14,236,520	151,523	1%	14,707,063
Total Assets	19,271,247	18,432,312	838,935	5%	18,537,524
Current and Other Liabilities	293,901	352,009	(58,108)	(17%)	457,923
Long-Term Liabilities	231,703	385,077	(153,374)	(40%)	398,243
Total Liabilities	525,604	737,086	(211,482)	(29%)	856,166
Invested in Capital Assets, Net	14,388,043	14,236,522	151,521	1%	14,707,063
Unrestricted Net Position	4,357,600	3,458,704	898,896	26%	2,974,295
Total Net Position	\$ 18,745,643	\$ 17,695,226	\$ 1,050,417	6%	\$ 17,681,358

The District’s net position increased \$1,050,417 or 6%. Factors contributing to this increase are mainly from:

- Increase in Total Revenue by 9% (\$854,289) which contributed to the increase in cash (\$741,566). Operating Revenues increased by \$1,102,807 (13%) mainly due to a 9% rate adjustment. However, non-operating revenues decreased by \$248,518 (-3%) mainly due to \$250,000 recovery for the defalcation recorded in the prior year. Total Revenues increased by \$854,289 (9%).
- Fixed Assets increased by \$151,523 (vehicle replacements, upgraded office telephone system, and capital projects during the fiscal year); and
- Total Liabilities decreased by \$211,482, due to a decrease in compensated absences by \$153,373 (prior year overstated accrual by not taking into account the sick time payout rules), and a decrease in Deferred Revenue by \$254,635 due to projects completed in the prior year, while Accounts Payable increased by \$109,042, and Accrued Expenses increased by \$87,484 (prior years did not accrue expenses).



MID-PENINSULA WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2013

Changes in Net Position

Changes in the District's net position can be determined by reviewing the following condensed Statements of Revenue, Expenses and Changes in Net Position.

Condensed Statement of Revenues, Expenses and Changes in Net Position

	<u>June 30, 2013</u>	<u>June 30, 2012</u>	<u>Amount Increase (Decrease)</u>	<u>Percent Increase (Decrease)</u>	<u>June 30, 2011</u>
Operating Revenue	\$ 9,403,414	\$ 8,300,607	\$ 1,102,807	13%	\$ 7,432,363
Non-Operating Revenue	479,011	727,529	(248,518)	(34%)	361,389
Total Revenues	<u>9,882,425</u>	<u>9,028,136</u>	<u>854,289</u>	<u>9%</u>	<u>7,793,752</u>
Operating Expenses	8,934,652	9,014,268	(79,616)	(1%)	7,487,667
Non-Operating Expenses	-	0	0	0%	2,688
Total Expenses	<u>8,934,652</u>	<u>9,014,268</u>	<u>(79,616)</u>	<u>(1%)</u>	<u>7,490,355</u>
Change in Net Position	947,773	13,868	933,905	6734%	303,397
Net Assets, Beginning	<u>17,797,870</u>	<u>17,681,358</u>	<u>116,512</u>	<u>1%</u>	<u>17,377,961</u>
Net Assets, Ending	<u>\$ 18,745,643</u>	<u>\$ 17,695,226</u>	<u>\$ 1,050,417</u>	<u>6%</u>	<u>\$ 17,681,358</u>

The District's operating revenues increased from the previous year by \$1,102,807 (13%) due primarily to a 9% rate adjustment.

The District's Operating Revenues decreased by \$248,518 (-3%) mainly due to \$250,000 recovery from the insurance company for the defalcation in the prior year.

Operating Expenses decreased by \$79,616 (-1%) due to various factors:

- Salaries & Benefits decreased by 9% because salaries were allocated to Capital Projects where appropriate;
- Maintenance & Rehabilitation decreased by 44% due to changes in expense account categories;
- Purchased Water increased by 14% due to an increase in wholesale water costs by the SFPUC;
- Utilities increased by 14% due to changes in expense account categories;
- Professional Services increased by 3% as a result of management staff transitions;
- Administration & other expenses increased by 33% due to correction of copier leases (classified in operations categories instead of administration categories); and
- Depreciation decreased by 30% due to correcting calculations as a result of auditing prior year's Fixed Assets schedules.

**MID-PENINSULA WATER DISTRICT**

**MANAGEMENT’S DISCUSSION AND ANALYSIS**

**JUNE 30, 2013**

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**BUDGETARY HIGHLIGHTS**

In its commitment to fiscal responsibility, the District adopts an annual budget each year that outlines the major elements of forthcoming operations and capital improvements.

During the fiscal year ended June 30, 2013, District management reformatted the operating and capital budgets to make them more transparent and user friendly.

**CAPITAL ASSETS**

During the fiscal year ended June 30, 2013, the District had \$14,388,043 (net of accumulated depreciation) invested in capital assets. The following table is presented below to illustrate changes from the prior year:

	<u>June 30, 2013</u>	<u>June 30, 2012</u>	<u>Amount Increase (Decrease)</u>	<u>Percent Increase (Decrease)</u>	<u>June 30, 2011</u>
Land	\$ 1,045,264	\$ 1,045,264	\$ -	0%	\$ 1,045,264
Construction in Progress	567,386	181,715	385,671	212%	34,046
Utility Plant in Service	35,830,229	35,638,002	192,227	1%	35,139,089
Vehicles	219,329	167,294	52,035	31%	167,294
Computer System	147,672	125,270	22,402	18%	125,270
Capital Asset at Cost	37,809,880	37,157,545	652,335	2%	36,510,963
Less Accumulated Depreciation	(23,421,837)	(22,921,025)	500,812	2%	(21,803,900)
Capital Assets, Net	<u>\$ 14,388,043</u>	<u>\$ 14,236,520</u>	<u>\$ 151,523</u>	<u>1%</u>	<u>\$ 14,707,063</u>

**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 OM&R, capital improvement projects, 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 the General Manager:

Tammy Rudock, General Manager  
Mid-Peninsula Water District  
3 Dairy Lane  
Belmont, CA 94002  
(650) 591-8941  
[tammyr@midpeninsulawater.org](mailto:tammyr@midpeninsulawater.org)

## **BASIC FINANCIAL STATEMENTS**

MID-PENINSULA WATER DISTRICT

STATEMENT OF NET POSITION

JUNE 30, 2013 AND 2012

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	<u>2013</u>	<u>2012</u>
<u>ASSETS</u>		
Current Assets		
Cash and cash equivalents	\$ 3,621,126	\$ 2,879,560
Accounts receivables	916,448	1,067,662
Materials and supplies	207,320	172,769
Prepaid expenses and other assets	<u>115,278</u>	<u>7,567</u>
Total Current Assets	4,860,172	4,127,558
Net OPEB asset	23,032	68,234
Capital assets, net	<u>14,388,043</u>	<u>14,236,520</u>
TOTAL ASSETS	<u>19,271,247</u>	<u>18,432,312</u>
<u>LIABILITIES</u>		
Current Liabilities		
Accounts payable	162,195	53,153
Accrued expenses	87,484	-
Deferred revenue	<u>44,222</u>	<u>298,857</u>
Total Current Liabilities	293,901	352,010
Long-Term Liabilities		
Compensated absences	<u>231,703</u>	<u>385,076</u>
Total Liabilities	<u>525,604</u>	<u>737,086</u>
<u>NET POSITION</u>		
Invested in capital assets	14,388,043	14,236,522
Unrestricted	<u>4,357,600</u>	<u>3,458,704</u>
Total Net Position	<u>\$ 18,745,643</u>	<u>\$ 17,695,226</u>

**MID-PENINSULA WATER DISTRICT**

**STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN NET POSITION**

**FOR THE FISCAL YEARS ENDED  
JUNE 30, 2013 AND 2012**

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	<u>2013</u>	<u>2012</u>
<b>OPERATING REVENUES</b>		
Water service charges	\$ 9,023,562	\$ 8,276,626
Other revenue	379,852	23,981
Total Operating Revenues	<u>9,403,414</u>	<u>8,300,607</u>
<b>OPERATING EXPENSES</b>		
Salaries and Benefits	1,896,336	2,079,322
Maintenance and Rehabilitation	399,927	717,532
Purchased Water	4,344,176	3,802,663
Utilities	336,603	294,063
Professional Services	554,249	540,221
Administrative and Other	617,416	463,342
Depreciation	785,945	1,117,125
Total Operating Expenses	<u>8,934,652</u>	<u>9,014,268</u>
OPERATING INCOME (LOSS)	468,762	(713,661)
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
Rent	171,808	189,067
Property taxes	234,629	205,109
Insurance Claim Reimbursement	-	250,000
Interest income	8,566	26,073
Misc. - Completed Projects	64,008	57,280
Total Non-Operating Revenues (Expenses)	<u>479,011</u>	<u>727,529</u>
CHANGE IN NET POSITION	<u>947,773</u>	<u>13,868</u>
<b>NET POSITION, BEGINNING OF YEAR</b>		
As originally reported	17,695,226	17,681,358
Prior period adjustment	102,644	-
NET POSITION, BEGINNING OF YEAR, RESTATED	<u>17,797,870</u>	<u>17,681,358</u>
NET POSITION, END OF YEAR	<u>\$ 18,745,643</u>	<u>\$ 17,695,226</u>

**MID-PENINSULA WATER DISTRICT**

**STATEMENT OF CASH FLOWS**

**FOR THE FISCAL YEARS ENDED  
JUNE 30, 2013 AND 2012**

	<u>2013</u>	<u>2012</u>
<b>Cash Flows From Operating Activities</b>		
Receipts from customers and users	\$ 8,920,141	\$ 7,252,819
Other operating revenue	379,852	39,843
Payments to suppliers	(6,198,107)	(4,742,701)
Payments to employees	(1,901,863)	(2,744,382)
<b>Net Cash Flows Provided (Used) by Operating Activities</b>	<u>1,200,023</u>	<u>(194,421)</u>
<b>Cash Flows From Non-Capital Financing Activities</b>		
Rent received	171,808	189,067
Property taxes received	234,629	205,109
Insurance claim reimbursement	-	250,000
<b>Net Cash Flows Provided (Used) by Non-Capital Financing Activities</b>	<u>406,437</u>	<u>644,176</u>
<b>Cash Flows From Capital and Related Financing Activities</b>		
Acquisition of capital assets	(937,468)	(646,584)
Cash received for completed projects	64,008	57,280
Principal paid on notes payable	-	-
Interest paid on notes payable	-	-
<b>Net Cash Flows Provided (Used) by Capital &amp; Related Activities</b>	<u>(873,460)</u>	<u>(589,304)</u>
<b>Cash Flows From Investing Activities</b>		
Interest Income	8,566	11,245
<b>Net Cash Flows Provided (Used) by Investing Activities</b>	<u>8,566</u>	<u>11,245</u>
Net Increase (Decrease) in Cash	741,566	(128,304)
Beginning Cash and Equivalents	<u>2,879,560</u>	<u>3,007,864</u>
Ending Cash and Equivalents	<u>\$ 3,621,126</u>	<u>\$ 2,879,560</u>

**MID-PENINSULA WATER DISTRICT**

**STATEMENT OF CASH FLOWS**

**FOR THE FISCAL YEARS ENDED  
JUNE 30, 2013 AND 2012**

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	<u>2013</u>	<u>2012</u>
<b>Reconciliation of Operating Income (loss) to Net Cash Provided (used) by Operating Activities</b>		
Cash Flows from Operating Activities:		
Operating Income (Loss)	\$ 468,762	\$ (713,661)
Adjustments to Reconcile Operating Income (loss) to Net Cash Provided (used) by Operations:		
Depreciation	785,945	1,117,125
Prior period restatement	102,644	-
(Increase) Decrease in assets:		
Accounts receivable	151,214	(408,211)
Materials and supplies	(34,551)	5,206
Prepaid expenses and other assets	(107,711)	(7,567)
Net OPEB asset	45,202	(68,234)
Increase (Decrease) in liabilities:		
Accounts payable	109,042	(375,491)
Accrued benefits	(153,373)	156,656
Deferred revenue	(254,635)	298,857
Customer deposits	87,484	(9,824)
Deferred construction charges	-	(69,457)
Net OPEB obligation	-	(119,820)
	<u>-</u>	<u>(119,820)</u>
Net Cash Provided (used) by Operating Activities	<u>\$ 1,200,023</u>	<u>\$ (194,421)</u>

**MID-PENINSULA WATER DISTRICT**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**JUNE 30, 2013 AND 2012**

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**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 application and issuance fees. Operating expenses of the District include the cost of providing the services, administrative expenses and management fees. All revenues and expenses not meeting this definition are reported as non-operating revenue and expense.

The District applies all applicable GASB pronouncements in accounting and reporting for proprietary operations as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB'S) of the Committee on Accounting Procedure.

**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, however a small provision has been made for doubtful accounts and accounts receivable are shown net of the allowance for doubtful accounts.

**E. MATERIALS AND SUPPLIES**

Materials and supplies are stated at lower of cost (first in - first out) or market value. Inventories consist primarily of parts and supplies used to maintain the distribution system including mains, metering equipment and hydrants used for fire suppression within the District.



**MID-PENINSULA WATER DISTRICT**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**JUNE 30, 2013 AND 2012**

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**F. DEFERRED 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 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 PTO (paid time off) policy in effect. It is the District's policy to permit employees to accumulate earned by 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:

Utility plant	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. No capacity charges have been collected by the District.

**MID-PENINSULA WATER DISTRICT**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**JUNE 30, 2013 AND 2012**

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**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 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 1 of the levy year.

**K. RECLASSIFICATIONS**

Certain amounts in the prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements.

**L. 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.

**M. 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.

MID-PENINSULA WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

2. CASH AND INVESTMENTS

Cash and cash equivalents as of June 30, 2013 and 2012 consisted of the following:

	<u>2013</u>	<u>2012</u>
Petty cash	\$ 400	\$ 400
Cash drawer	200	-
Cash in bank	2,809	370,008
Local Agency Investment Fund	<u>3,617,717</u>	<u>2,509,152</u>
Total Cash and Cash Equivalents	<u>\$ 3,621,126</u>	<u>\$ 2,879,560</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 Authority'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 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.

**MID-PENINSULA WATER DISTRICT**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**JUNE 30, 2013 AND 2012**

**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.

**3. CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2013 is as follows:

	<u>Balance</u> <u>June 30, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2013</u>
Capital assets not subject to depreciation				
Land	\$ 1,045,264	\$ -	\$ -	\$ 1,045,264
Construction in progress	181,715	526,338	140,667	567,386
Total capital assets not subject to depreciation	<u>1,226,979</u>	<u>526,338</u>	<u>140,667</u>	<u>1,612,650</u>
Capital assets being depreciated				
Utility plant in service	35,638,002	477,360	285,133	35,830,229
Vehicles	167,294	52,035		219,329
Computer and telephone systems	125,270	22,402		147,672
Total capital assets being depreciated	<u>35,930,566</u>	<u>551,797</u>	<u>285,133</u>	<u>36,197,230</u>
Less accumulated depreciation for:				
Utility plant in service	22,785,562	736,745	285,133	23,237,174
Vehicles	135,463	24,146		159,609
Computer and telephone systems	-	25,054		25,054
Total accumulated depreciation	<u>22,921,025</u>	<u>785,945</u>	<u>285,133</u>	<u>23,421,837</u>
Total capital assets, net of depreciation	<u>\$ 14,236,520</u>	<u>\$ 292,190</u>	<u>\$ 140,667</u>	<u>\$ 14,388,043</u>

**MID-PENINSULA WATER DISTRICT**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**JUNE 30, 2013 AND 2012**

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**4. EMPLOYEE RETIREMENT PLAN**

**A. PLAN DESCRIPTION**

The District's defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The District's retirement plan is part of the Public Agency portion of the California Public Employees Retirement System (CalPERS), an agent multiple-employer plan administered by CalPERS, which acts as a common investment and administrative agent for participating public employers within the State of California. A menu of benefit provisions, as well as other requirements, is established by State statutes within the Public Employees' Retirement Law. The District selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through Board approval. CalPERS issues a separate comprehensive annual financial report. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office - 400 P Street - Sacramento, CA 95814.

**B. FUNDING POLICY**

Active plan members are required to contribute 7% of their salary, and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2012/13 was 13.798% of annual payroll. The contribution requirements of the plan members are established by the state statute. The District's contributions to CalPERS for the fiscal year ending June 30, 2013, 2012 and 2011 were \$159,460, \$137,566, and \$162,274, respectively, and equal 100% of the required contributions for each year.

Fiscal Year Ending	Annual Pension Cost (APC)	% of APC Contributed	Net Pension Obligation
6/30/2011	\$ 162,274	100%	\$0
6/30/2012	\$ 137,566	100%	\$0
6/30/2013	\$ 159,460	100%	\$0

**MID-PENINSULA WATER DISTRICT**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**JUNE 30, 2013 AND 2012**

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**C. ACTUARIAL ASSUMPTIONS**

The required contribution for fiscal year 2012/13 was determined as part of the June 30, 2010 actuarial valuation. A summary of principle assumptions and methods used to determine the annual required contribution is as follows:

**Actuarial Methods:**

Valuation Date	June 30, 2010
Actuarial Cost Method	Entry Age Actuarial Cost Method
Amortization Method	Level Percent of Payroll
Average Remaining Period	18 Years as of the Valuation Date
Asset Valuation Method	15 Year Smoothed Market

**Actuarial Assumptions:**

Inflation Rate	3.00%
Investment Rate of Return	7.75% (net of administrative expenses)
Projected Salary Increases	3.55% to 14.45% depending on Age, Service, and type of employment
Payroll Growth	3.25%
Individual Salary Growth	A merit scale varying by duration of employment coupled with an assumed inflation growth of 3.00% and an annual production growth of 0.25%.

**5. 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, 2013 AND 2012

6. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

A. Plan Description

The District provides postemployment health care benefits for all employees who terminate or retire from the District after achieving age 55 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 1/2 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 Post-Retirement Health Care Plan Trust. The amount to be contributed to the trust is determined annually by the board of directors.

C. Annual OPEB Cost and Net OPEB Obligation

The District's annual other postemployment benefit (OPEB) expense is calculated based on the annual required contributions (ARC), an amount actuarially determined in accordance with the parameters of GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The following table shows the components of the District's Annual OPEB Cost for the fiscal year ended June 30, 2013, the amount actually contributed to the plan, and changes in the District's Net OPEB Obligation (Asset):

Annual required Contribution	\$ 124,400
Interest on net OPEB obligation	(4,776)
Adjustment to annual required contribution	<u>4,124</u>
Annual OPEB cost (expense)	123,748
Contributions made	<u>(78,546)</u>
Increase in net OPEB obligation	45,202
Net OPEB obligation (asset) - beginning of year	<u>(68,234)</u>
Net OPEB obligation (asset) - end of year	<u>\$ (23,032)</u>

MID-PENINSULA WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

**C. Annual OPEB Cost and Net OPEB Obligation (Continued)**

The District's Annual OPEB Cost, the percentage of Annual OPEB Cost contributed to the plan, and the Net OPEB Obligation are as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Actual Contribution</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation (Asset)</u>
June 30, 2011	\$ 114,866	\$ 54,746	48%	\$ 119,820
June 30, 2012	\$ 118,469	\$ 309,916	262%	\$ (68,234)
June 30, 2013	\$ 123,748	\$ 78,546	63%	\$ (23,032)

**D. Funding Status and Funding Progress**

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the Annual Required Contributions of the District are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

**E. Actuarial Methods and Assumptions**

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The plan's most recent actuarial valuation was performed as of June 30, 2013. In that valuation, the Entry Age Normal Cost Method was used. The actuarial assumptions included a 7.0% discount rate, and a medical trend assumption of 7.0% graded down by 1.0% per year to an ultimate rate of 5.0% after 2 years. These assumptions reflect an implicit 3.0 percent general inflation assumption. The District's unfunded actuarial accrued liability is being amortized as a level dollar amount on an open basis over 30 years.



**MID-PENINSULA WATER DISTRICT**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**JUNE 30, 2013 AND 2012**

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**7. 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, 2012 and June 30, 2012, respectively, is as follows:

	<u>ACWA JPIA</u> <u>September 30, 2012</u>	<u>BAWSCA</u> <u>June 30, 2012</u>
Total Assets	\$ 188,033,750	\$ 3,478,501
Total Liabilities	\$ 100,670,416	\$ 810,655
Total Net Assets	\$ 87,363,334	\$ 2,667,846
Total Revenues	\$ 60,136,194	\$ 4,126,129
Total Expenses	\$ 55,071,111	\$ 3,468,767
Extraordinary items	\$ 34,986,207	\$ -
Change in Net Assets	\$ 40,051,290	\$ 657,362

**MID-PENINSULA WATER DISTRICT**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**JUNE 30, 2013 AND 2012**

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**8. 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 42% of the District's operating costs for the years ended June 30, 2013 and 2012, respectively.

Operating lease

The District leases a copier under a 63 month term expiring in August 2015. Minimum future rental payments, under this non-cancelable operating lease, as of June 30, 2013, are as follows:

Year Ending	Amount
June 30	
2014	\$ 48,430
2015	48,430
2016	8,072
Total	<u>\$ 104,933</u>

Total lease payments for the years ended June 30, 2013 and 2012 was \$51,475 and \$51,460, respectively.

**9. LEASE REVENUES**

The District contracts with five different companies to lease land for communications towers on those properties and has one lease for an office building. The agreements are for multiple years and require monthly payments based on the contracted amounts. Lease revenues for the year totaled \$171,808. A schedule of future lease revenues was not available as of the date of these financial statements.

**10. PRIOR PERIOD RESTATEMENT**

The District had accrued the full amount of sick leave earned by employees; however District policy limits the amount of sick leave to a maximum of 60 days of accrual. As a result we had to reduce the beginning balance of compensated absences and increase the beginning net position by \$102,644, which was the amount accrued in excess of 60 days as of June 30, 2012.

**11. SUBSEQUENT EVENTS**

District management has evaluated its June 30, 2013 financial statements for subsequent events through October 11, 2013, 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**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF FUNDING PROGRESS**  
**OTHER POSTEMPLOYMENT BENEFITS**

**JUNE 30, 2013**

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Actuarial Valuation Date	Actuarial Accrued Liability (AAL) Entry Age (a)	Actuarial Value of Assets (b)	Unfunded Liability (UAAL) (a-b)	Funded Status (b/a)	Annual Covered Payroll (c)	UAAL as a % of payroll ([a-b]/c)
July 1, 2009	\$ 1,046,600	\$ -	\$ 1,046,600	0%	\$ 1,190,000	87.9%
July 1, 2012	\$ 1,517,700	\$ 257,000	\$ 1,260,700	17%	\$ 1,242,300	101.5%

## **OTHER INDEPENDENT AUDITOR'S REPORT**



# James Marta & Company LLP

*Certified Public Accountants*

*Accounting, Auditing, Consulting, and Tax*

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**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 the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the basic financial statements of Mid-Peninsula Water District (the "District"), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 11, 2013.

### **Internal Control Over Financial Reporting**

Management of Mid-Peninsula Water District is responsible for establishing and maintaining effective 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 financials statements will not be prevented, or detected and corrected on a timely basis.

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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

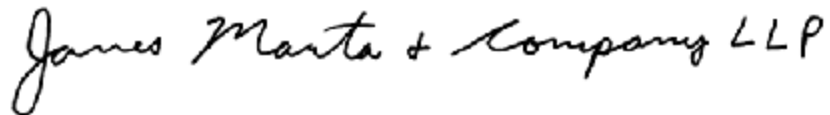
## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Mid-Peninsula Water 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*.

We noted certain matters that we reported to management of the District in a separate letter dated October 11, 2013.

## **Restrictions on Use**

This report is intended solely for the information and use of management, the board of directors, others within the entity, and the California State Controller's Office and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "James Marta & Company LLP". The signature is written in a cursive, flowing style.

James Marta & Company LLP  
Certified Public Accountants  
October 11, 2013