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To the Board of Directors
Monterey Peninsula Water Management District
Monterey, California

This letter includes comments and suggestions with respect to matters that came to our attention in connection with our audit of the financial statements of the Monterey Peninsula Water Management District for the year ended June 30, 2004. These items are offered as constructive suggestions to be considered part of the ongoing process of modifying and improving the District's practices and procedures.

CURRENT YEAR RECOMMENDATIONS:

Chart of Accounts

For the year ended June 30, 2004, the District implemented GASB Statement No. 34. Pursuant to GASB 34, the statement of activities reports expenses and revenues in a format that focuses on the cost of the District's functions. Currently, the existing chart of accounts does not track revenues and expenses by function. Although it is critical that the District maintain records for each fund as required in the governmental fund statements, it is also necessary for the District to provide information by function.

We recommend that the District review its functions/programs in conjunction with a review of its current chart of accounts and determine a feasible approach to modifying the chart of accounts to accommodate the tracking of revenues and expenses by function as well as by fund.

Compensated Absences

In accordance with GASB Interpretation No. 6, only liabilities for compensated absences that have matured, for example, as a result of employee resignations and retirements are recognized as governmental fund liabilities. The liability for unmatured compensated absences does not constitute an outflow of current financial resources and therefore, is not recognized as a governmental fund liability or expenditure. The District currently records the entire amount for vacation payable as a governmental fund liability.

We recommend that the District record the accrual for unmatured vacation liabilities along with the accrual for sick leave payable in the account group they have established for long-term debt. We further recommend that the District review the total liabilities for compensated absences at year-end to determine if any of the liability should be considered matured and would therefore, be recorded as a governmental fund liability.



Capitalization Policy

Currently, the District capitalizes all equipment with a useful life greater than one year and with a cost greater than \$500. Increasing the capitalization level could help the District reduce the amount of effort spent on capitalizing smaller dollar items that may be immaterial to the District's operations. The District could also establish separate capitalization limits for equipment and for facilities and improvements. However, the District should consider its materiality level for establishing controls over its assets.

We recommend that the District review its capitalization policy to determine if the current level should be increased. An example would be for the District to define capital assets as assets with a useful life greater than one year and with an initial, individual cost of more than \$1,000 for equipment and \$5,000 for land, facilities and improvements. The District's management agreed with our recommendation and has already taken steps to implement a new capitalization policy.

This letter is intended solely for the information and use of the Board of Directors, management and others within the District and is not intended to be and should not be used by anyone other than these specified parties. We appreciate serving Monterey Peninsula Water Management District and would be happy to assist you in addressing and implementing any of the suggestions in this letter.

HAYASHI & WAYLAND
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By 
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