December 18, 2018

Board of Directors
Monterey Peninsula Water Management District
Monterey, California

We are pleased to present this report related to our audit of the basic financial statements of ***Monterey Peninsula Water Management District*** (the District) as of and for the year ended June 30, 2018. This report summarizes certain matters required by professional standards to be communicated to you in your oversight responsibility for the District's financial reporting process. Also included is a summary of recently issued accounting standards that may affect future financial reporting by the District.

Generally accepted auditing standards (AU-C 260, *The Auditor's Communication with Those Charged with Governance)* require the auditor to promote effective two-way communication between the auditor and those charged with governance. Consistent with this requirement, the following summarizes our responsibilities regarding the financial statement audit as well as observations arising from our audit that are, significant and relevant to your responsibility to oversee the financial reporting process.

Our Responsibilities with Regard to the Financial Statement Audit

Our responsibilities under auditing standards generally accepted in the United States of America and the State Controller's Minimum Audit Requirements for California Special Districts have been described to you in our arrangement letter dated August 27, 2018. Our audit of the financial statements does not relieve management or those charged with governance of their responsibilities, which are also described in that letter.

Overview of the Planned Scope and Timing of the Financial Statement Audit

We have issued a separate communication dated August 27, 2018 regarding the planned scope and timing of our audit and have discussed with you our identification of and planned audit response to significant risks of material misstatement.

Accounting Policies and Practices

Preferability of Accounting Policies and Practices

Under generally accepted accounting principles, in certain circumstances, management may select among alternative accounting practices. In our view, in such circumstances, management has selected the preferable accounting practice.

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Adoption of, or Change in, Accounting Policies
Management has the ultimate responsibility for the appropriateness of the accounting policies used by the District. Following is a description of a significant policy or their application that were either initially selected or changed during the year.

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This Statement replaces the requirements of Statements No. 45 and No. 57 related to postemployment benefits other than pensions. Statement No. 75 establishes new accounting and financial reporting requirements for OPEB plans. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for other postemployment benefits (OPEB). The Statement establishes standards for measuring and recognizing liabilities/(assets), deferred outflows of resources and deferred inflows of resources and expense/expenditures. Note disclosures and required supplementary information requirements about OPEB are also addressed. The requirements of this Statement will improve the decision usefulness of information in employer and governmental non-employer contributing entity financial reports and will enhance its value for assessing accountability and inter-period equity by requiring recognition of the entire net OPEB liability/(asset) and a more comprehensive measure of OPEB expense. The District implemented this Statement in fiscal year 2018. As a result of this implementation, the District reported a prior period adjustment to net position in the amount of $2,279,554 and recognized a net OPEB liability/(asset) and deferred outflows of resources and deferred inflows of resources associated with the OPEB liability/(asset) as of June 30, 2018.

Recently Issued Accounting Standards
The GASB has issued the following statements not yet implemented by the District. The District's management has not yet determined the effect these Statements will have on the District's financial statements. However, the District plans to implement the standards by the required dates:

In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. This Statement also requires disclosure of information about the nature of a government's AROs, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. If an ARO (or portions thereof) has been incurred by a government but is not yet recognized because it is not reasonably estimable, the government is required to disclose that fact and the reasons therefore. This Statement requires similar disclosures for a government's minority shares of AROs. The requirements in this Statement are effective for fiscal years beginning after June 30, 2018.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements in this Statement are effective for fiscal years beginning after June 30, 2019.

In June 2017, GASB issued Statement No. 87, *Leases.* The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for fiscal years beginning after June 30, 2020.

In April 2018, GASB issued Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements.* The objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledge as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences and significant subjective acceleration clauses. For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018.

In June 2018, GASB issued Statement No. 89 *Accounting for Interest Cost Incurred Before the End of a Construction Period.* The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. This Statement established 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. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

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In August 2018, GASB issued Statement No. 90 *Majority Equity Interests – An Amendment of GASB Statements No. 14 and No. 61.* The objectives of this Statement are to improve the consistency and comparability of reporting a government's majority interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value. For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. This Statement established that ownership of majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018.

Significant or Unusual Transactions
We did not identify any significant or unusual transactions or significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Management Judgments and Accounting Estimates

Accounting estimates are an integral part of the preparation of financial statements and are based upon management's current judgment. The process used by management encompasses their knowledge and experience about past and current events and certain assumptions about future events. You may wish to monitor throughout the year the process used to determine and record these accounting estimates. The significant accounting estimates reflected in the District's June 30, 2018 basic financial statements include useful lives of depreciable assets, the cost of other post employment benefits and the pension cost and net pension liability.

Audit Adjustments

Audit adjustments proposed by us and recorded by the District are shown on the attached "Adjusting Journal Entries," and "GASB Journal Entries."

Uncorrected Misstatements

We are not aware of any uncorrected misstatements other than misstatements that are clearly trivial.

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Disagreements with Management

We encountered no disagreements with management over the application of significant accounting principles, the basis for management's judgments on any significant matters, the scope of the audit or significant disclosures to be included in the financial statements.

Consultations with Other Accountants

We are not aware of any consultations management had with other accountants about accounting or auditing matters.

Significant Issues Discussed with Management

No significant issues arising from the audit were discussed with or were the subject of correspondence with management.

Significant Difficulties Encountered in Performing the Audit

We did not encounter any significant difficulties in dealing with management during the audit.

Letter Communicating Significant Deficiencies and Material Weaknesses in Internal Control over Financial Reporting

When significant deficiencies and material weaknesses are identified during our audit of the financial statements, we are required to communicate them to you in writing. For the year ended June 30, 2018 a letter was not required.

Significant Written Communications between Management and Our Firm

We have requested certain representations from management that are included in the management representation letter dated December 18, 2018.

This report is intended solely for the information and use of the Board of Directors the Administrative Committee and management and is not intended to be and should not be used by anyone other than these specified parties. It will be our pleasure to respond to any questions you have regarding this report. We appreciate the opportunity to continue to be of service to the Monterey Peninsula Water Management District.

Sincerely,

Hayashi Wayland

Attachments: Adjusting Journal Entries
GASB Journal Entries

EXHIBIT 11-B

Monterey Peninsula Water Management District **AJE**

Year End: June 30, 2018
Adjusting Journal Entries
Date: 7/1/2017 To 6/30/2018
Account No: AJE-01 To AJE-99

Number	Date	Name	Account No	Debit	Credit	Amount Chg	Net Income (Loss)
		Net Income (Loss) Before Adjustments				10,942,393.00	
AJE-01	6/30/2018	Unapportioned/Uncollected Taxes Re	24-10-150100 SRF01	5,587.00			
AJE-01	6/30/2018	Deferred Revenue	24-10-370000 SRF01		5,587.00		
AJE-01	6/30/2018	Unapportioned/Uncollected Taxes Re	26-10-150100 SRF02		57,439.00		
AJE-01	6/30/2018	Deferred Revenue	26-10-370000 SRF02	57,439.00			
AJE-01	6/30/2018	Unapportioned/Uncollected Taxes Re	35-10-150100 CPF01	58,339.00			
AJE-01	6/30/2018	Deferred Revenue	35-10-370000 CPF01		58,339.00		
		To adjust uncollected taxes and water supply charge per confirm.					
				121,365.00	121,365.00	0.00	10,942,393.00
AJE-02	6/30/2018	Accounts Receivable-Other	26-10-140000 SRF02	39,375.00			
AJE-02	6/30/2018	Permit Processing Fees	26-10-510000 SRF02		39,375.00		
		To properly accrue for permit fee from Monterey Bay Military Housing					
				39,375.00	39,375.00	39,375.00	10,981,768.00
				160,740.00	**160,740.00**	**39,375.00**	**10,981,768.00**

EXHIBIT 11-B

Monterey Peninsula Water Management District **GASB**
Year End: June 30, 2018
GASB Journal Entries
Date: 7/1/2017 To 6/30/2018
Account No: GASB-00 To GASB-99

Number	Date	Name	Account No	Debit	Credit	Amount Chg	Net Income (Loss)
		Net Income (Loss) Before Adjustments				11,504,345.00	
GASB-01	6/30/2018	Pension expense - GASB 68	24-02-719200 G34G	138,767.00			
GASB-01	6/30/2018	Pension expense - GASB 68	26-02-719200 G34G	97,137.00			
GASB-01	6/30/2018	Pension expense - GASB 68	35-02-719200 G34G	111,013.00			
GASB-01	6/30/2018	Deferred Outflows - PERS Contributio	51-10-171000 51		5,475.00		
GASB-01	6/30/2018	Deferred Outflows - Actuarial	51-10-172000 51	425,558.00			
GASB-01	6/30/2018	Deferred Inflows - Actuarial	51-10-371500 51		60,952.00		
GASB-01	6/30/2018	Net Pension Liability	51-10-383000 51		706,048.00		
		To record adjustment to deferred outflow/inflow of resources and net pension liability.					
				772,475.00	772,475.00	(346,917.00)	11,157,428.00
GASB-02	6/30/2018	L/T Debt OPEB	51-10-282000 51		1,649,775.00		
GASB-02	6/30/2018	Net OPEB Obligation	51-10-382000 51	1,649,775.00			
		To remove prior year net OPEB obligation that was recorded in accordance with GASB 45.					
				1,649,775.00	1,649,775.00	0.00	11,157,428.00
GASB-03	6/30/2018	L/T Debt OPEB	51-10-282000 51	3,929,329.00			
GASB-03	6/30/2018	Net OPEB Obligation	51-10-382000 51		3,929,329.00		
		To restate beginning net OPEB obligation in accordance with GASB 75.					
				3,929,329.00	3,929,329.00	0.00	11,157,428.00
GASB-04	6/30/2018	Current Year OPEB Cost	24-10-716000 G34G	70,264.00			
GASB-04	6/30/2018	Current Year OPEB Cost	26-10-716000 G34G	49,185.00			
GASB-04	6/30/2018	Current Year OPEB Cost	35-10-716000 G34G	56,211.00			
GASB-04	6/30/2018	Net OPEB Obligation	51-10-382000 51		175,660.00		
		To recognize current year OPEB expense.					
				175,660.00	175,660.00	(175,660.00)	10,981,768.00
				6,527,239.00	**6,527,239.00**	**(522,577.00)**	**10,981,768.00**

EXHIBIT 11-B

Monterey Peninsula Water Management District **PBC**
Year End: June 30, 2018
Prepared by Client Journal Entries
Date: 7/1/2017 To 6/30/2018
Account No: PBC-01 To PBC-99

Number	Date	Name	Account No	Debit	Credit	Amount Chg	Net Income (Loss)
		Net Income (Loss) Before Adjustments				10,801,572.00	
PBC-01	6/30/2018	Tax Administration Fee	24-02-750000 SRF01		3,537.00		
PBC-01	6/30/2018	Tax Administration Fee	24-02-750000 SRF01	5,922.00			
PBC-01	6/30/2018	Property Tax Revenue	24-10-611000 SRF01		2,385.00		
PBC-01	6/30/2018	Tax Administration Fee	26-02-750000 SRF02		8,843.00		
PBC-01	6/30/2018	Tax Administration Fee	26-02-750000 SRF02	14,805.00			
PBC-01	6/30/2018	Property Tax Revenue	26-10-611000 SRF02		5,962.00		
PBC-01	6/30/2018	Tax Administration Fee	35-02-750000 CPF01	8,458.00			
PBC-01	6/30/2018	Tax Administration Fee	35-02-750000 CPF01		8,347.00		
PBC-01	6/30/2018	Water Supply Charge	35-10-520500 CPF01		111.00		
		To correct County Tax Collection.					
				29,185.00	29,185.00	0.00	10,801,572.00
PBC-02	6/30/2018	Capital Equipment Reserve	24-10-406500 SRF01		140,600.00		
PBC-02	6/30/2018	Capital Equipment Reserve	24-10-585000 SRF01	140,600.00			
PBC-02	6/30/2018	Capital Equipment Reserve	26-10-406500 SRF02		25,100.00		
PBC-02	6/30/2018	Capital Equipment Reserve	26-10-585000 SRF02	25,100.00			
PBC-02	6/30/2018	Capital Equipment Reserve	35-10-406500 CPF01		22,300.00		
PBC-02	6/30/2018	Capital Equipment Reserve	35-10-585000 CPF01	22,300.00			
		To allocate Capital Reserves FY 2017-2018					
				188,000.00	188,000.00	0.00	10,801,572.00
PBC-03	6/30/2018	A/R Cal-Am	26-10-141600 SRF02	180,196.00			
PBC-03	6/30/2018	CAW-Rebates	26-10-580006 SRF02		180,196.00		
		To accrue Cal-Am Rebate A/R as of 6/30/2018.					
				180,196.00	180,196.00	180,196.00	10,981,768.00
				397,381.00	**397,381.00**	**180,196.00**	**10,981,768.00**