

**MONTEREY PENINSULA WATER
MANAGEMENT DISTRICT**

FINANCIAL STATEMENTS

FOR THE YEAR ENDED
JUNE 30, 2004

AND INDEPENDENT AUDITORS' REPORT

MONTEREY PENINSULA WATER MANAGEMENT DISTRICT

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MONTEREY PENINSULA WATER MANAGEMENT DISTRICT

Board of Directors

June 30, 2004

<u>Member</u>	<u>Office</u>	<u>Representative</u>
Alvin Edwards	Chair	Division 1
Judi Lehman	Director	Division 2
Kristi Markey	Director	Division 3
Michelle Knight	Director	Division 4
Larry Foy	Vice-Chair	Division 5
David Pendergrass	Director	Mayoral
David Potter	Director	Monterey County Board of Supervisors

INDEPENDENT AUDITORS' REPORT

**Board of Directors
Monterey Peninsula Water Management District
Monterey, California**

We have audited the accompanying financial statements of the governmental activities and each major fund of the *Monterey Peninsula Water Management District* as of and for the year ended June 30, 2004 which collectively comprise the District's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the CAWD/PBCSD Wastewater Reclamation Project (the proprietary fund) which statements reflect 78% of the total assets (See Note 2). Those statements were audited by Hutchinson and Bloodgood, LLP whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the proprietary fund, is based solely on the report of Hutchinson and Bloodgood, LLP.

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

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the *Monterey Peninsula Water Management District* as of June 30, 2004, and the respective changes in financial position and cash flows where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America as well as accounting systems prescribed by the State Controller's Office and state regulations governing special districts.

As discussed in Note 1 to the basic financial statements, the *Monterey Peninsula Water Management District* adopted the provisions of Governmental Accounting Standards Board (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*; GASB Statement No. 38, *Certain Financial Statement Note Disclosures*; GASB Statement No. 40, *Deposit and Investment Risk Disclosure*; and GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.

The Management's Discussion and Analysis on pages 4 through 11, the Pension Funding Information on page 41 and the Budgetary Comparison Schedules on pages 42 through 45 are not a required part of the basic financial statements, but are supplementary information required by the GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of the *Monterey Peninsula Water Management District*. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly we express no opinion on it.

January 17, 2005

Hayashi & Wayland

MONTEREY PENINSULA WATER MANAGEMENT DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
JUNE 30, 2004

This section of the Monterey Peninsula Water Management District's (the District) annual financial report presents a discussion and analysis of the District's performance during the fiscal year ended June 30, 2004. Please read it in conjunction with the District's financial statements, which follow this section.

The District was created by the California Legislature in 1977 and ratified by local voters in 1978. The District has three primary responsibilities. The first is to manage development of potable water supplies and the delivery of this water to users in the Monterey Peninsula area. The second is to protect the Monterey Peninsula area from drought impacts. The third is to protect the environmental quality of the Monterey Peninsula area's water resources, including the protection of instream fish and wildlife resources.

The District is also a participant in the CAWD/PBCSD Wastewater Reclamation Project (the Project) which is a cooperative effort that also involves the Carmel Area Wastewater District, the Pebble Beach Community Services District and the Pebble Beach Company. The cooperative effort did not create a new or separate legal entity. Therefore, the Project is included as a Proprietary (Enterprise) Fund of the District, the issuer of the Certificates of Participation which financed the project. The Management's Discussion and Analysis for this Proprietary Fund is included in separate financial statements of the Project audited by Hutchinson and Bloodgood LLP and, therefore, there is no further discussion of that fund in this report.

FINANCIAL HIGHLIGHTS

- The assets of the governmental activities of the District exceeded its liabilities at the close of the fiscal year ending June 30, 2004 by \$5.9 million (net assets). However, \$2.8 million is invested in capital assets – net of related debt.
- The District's total governmental activities net assets decreased by \$1,1 million for the year ended June 30, 2004. The decrease in net assets can be attributed to reduced revenues from connection charges and project reimbursements and increased project expenditures related to development of long-term water supplies.
- Capital outlay of \$110,848 consisted mostly of funds expended to purchase three new vehicles.

OVERVIEW OF THE FINANCIAL STATEMENTS

This financial report consists of five parts: management's discussion and analysis (this section), the basic financial statements, the notes to the basic financial statements, required supplementary information and supplementary information.

The financial statements provide both long-term and short-term information about the District's financial status. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by required supplementary information that further explains and supports the information in the financial statements.

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

The District's financial statements are prepared on an accrual basis in conformity with accounting principles generally accepted for the United States of America (GAAP) as applied to government units. Under this basis of accounting, revenues are recognized in the period in which they are earned, expenses are recognized in the period in which they are incurred, and depreciation of assets is recognized in the Statement of Revenues, Expenses and Changes in Fund Balances. All assets and liabilities associated with the operation of the District are included in the Statement of Net Assets.

Government-wide Financial Statements – The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. The statement of net assets combines and consolidates governmental funds' current financial resources (short-term spendable resources) with capital assets and long-term obligations.

The *statement of activities* presents information showing how the District's net assets changed during the most recent fiscal year. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes).

The government-wide financial statements include all the governmental activities of the District. The governmental activities of the District include conservation, mitigation and water supply. The business-type activity includes the water reclamation project.

The government-wide financial statements can be found on pages 12 and 13 of this report.

Fund Financial Statements – A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The fund financial statements provide detail information about the most significant funds, not the District as a whole. The District, like other special districts, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The District's funds are segregated into two categories: governmental funds and proprietary funds. Fund financial statements report essentially the same functions as those reported in the government-wide financial statements. However, unlike the government-wide financial statements, fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year.

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

Governmental Funds – The District’s basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using the modified accrual basis of accounting, which measures cash and other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the District’s general government operations and the basic services it provides. Governmental fund information helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the District’s projects. Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented in the government-wide financial statements. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate the comparison between governmental funds and government-wide statements.

The District maintains three individual governmental funds. Information is presented separately in the balance sheet and the statement of revenues, expenditures, and changes in fund balances for the Capital Projects Fund, Conservation Fund, and the Mitigation Fund, all of which are considered to be major funds.

Proprietary Fund - The District maintains one type of proprietary fund, the enterprise fund. Proprietary funds are reported using the accrual basis of accounting. Enterprise funds are used to report the same functions presented as business-type activity in the government-wide financial statements but provide more detail and additional information. The District uses an enterprise fund to account for the wastewater reclamation project.

The fund financial statements can be found on pages 14 through 19 of this report.

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 20 through 40 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

This is the first year that the District has presented its financial statements under the new reporting model required by the Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. As a consequence, all discussion of net assets and changes in net assets that immediately follow will not contain prior year data or comparisons of the current year to prior years. In future years, when prior year information is available a comparative analysis of government-wide data will be included.

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

Net Assets

This Statement of Net Assets, the difference between the District's assets and liabilities, is one way to measure the District's financial health or position. Net assets are reported in two categories: Invested in capital assets, net of related debt and Unrestricted. Unrestricted assets are funds available for future operational and capital expenditures.

Table A-1

Summary of Net Assets Governmental Activities

	<u>2004</u>
<u>Assets</u>	
Current Assets	\$3,792,249
Prepaid Expenses and Deposits	25,015
Capital Assets - Net	<u>2,800,158</u>
Total Assets	<u>6,617,422</u>
 <u>Liabilities</u>	
Current Liabilities	385,238
Long-Term Liabilities	<u>311,816</u>
Total Liabilities	<u>697,054</u>
 <u>Net Assets</u>	
Invested in Capital Assets, Net of Related Debt	2,800,158
Unrestricted	<u>3,120,210</u>
Total Net Assets	<u>\$5,920,368</u>

The District's assets exceeded its liabilities by approximately \$5.9 million at the end of the current fiscal year. The District's total net assets at June 30, 2004 of approximately \$5.9 million decreased by approximately 15.0% since June 30, 2003.

The activities decreased the District's net assets by \$1.1 million during the current fiscal year, due primarily to expenses exceeding revenues. Charges for services and grants were not adequate to cover the cost of providing services; therefore the District is required to rely heavily on property tax to provide those services.

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

Change in Net Assets

Table A-2

**Change in Net Assets
Governmental Activities**

	<u>2004</u>
<u>Revenues:</u>	
Program Revenue-	
Charges for Services	\$2,856,178
General Revenues:	
Property Taxes	980,857
Investment Income	39,117
Miscellaneous	<u>42,269</u>
Total Revenues	<u>3,918,421</u>
<u>Expenses:</u>	
Conservation	448,019
Mitigation	1,722,365
Water Supply	<u>2,858,491</u>
Total Expenses	<u>5,028,875</u>
Change in Net Assets (Decrease)	(1,110,454)
Total Net Assets - Beginning of Year	<u>7,030,822</u>
Total Net Assets - End of Year	<u>\$5,920,368</u>

As in recent years, the District planned to use previously accumulated operating reserves to fund the difference between operating expenditures and operating revenues rather than increasing the user fee rate, which is the District's largest and most fluid source of revenues. The amount of operating reserves actually used was only about \$915,000, compared to the budgeted amount of approximately \$1,585,000. This planned use of operating reserves, in addition to other factors, caused Governmental activities to decrease the District's net assets by \$1,110,454. Key elements resulting in the net decrease are as follows:

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

- The planned use of previously accumulated operating reserves of approximately \$915,000 was the major contributor to the decrease
- Increased user fee revenue of just over \$300,000 mitigated the decrease
- Decreased connection charge revenue of about \$165,000 contributed to the decrease
- Reduced project reimbursement revenue of nearly \$165,000 added to the decrease
- Personnel cost increases of over \$200,000 contributed to the decrease
- Increased project expenditures related to development of long-term water supplies added more than \$100,000 of the decrease

CAPITAL ASSETS

The District's capital assets, net of accumulated depreciation, at June 30, 2004 totaled \$2,800,158 as shown on Table A-3 below. This amount represents a net increase, including additions and disposals, net of depreciation, of approximately \$540,000 or 24% over June 30, 2003. Most of the increase is attributable to the capitalization of the District's Santa Margarita aquifer storage and recovery well.

Table A-3

Capital Assets (Net of Depreciation)

	<u>2004</u>
Office Equipment	\$ 44,510
Computer Equipment	170,995
Operating Equipment	603
Transportation Equipment	94,966
Project Equipment	8,908
Telephone System	6,578
Building and Improvements	1,680,255
Monitoring Stations	11,123
Injection Wells	678,813
Fish Rearing Facility	<u>103,407</u>
Total	<u>\$2,800,158</u>

FINANCIAL ANALYSIS OF THE GOVERNMENTAL FUNDS

The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements.

The Capital Projects Fund is the chief operating fund of the District. It accounts for all financial resources except those required to be accounted for in another fund. This fund accounts for financial resources to be used for the acquisition of or construction of major capital facilities (other than those financed by Proprietary Funds and Special Assessments).

The Special Revenue Funds are used to account for specific revenue sources for which expenditures are restricted by law or regulation to finance particular activities of the District. The Conservation Fund accounts for financial resources used to fund water conservation activities mandated by District legislation including permit issuance and enforcement, jurisdictional water allocations, and public water conservation education. The Mitigation Fund accounts for financial resources used to finance work along the Carmel River carried out pursuant to the Mitigation Program designed to ameliorate impacts identified in the District's Allocation Program Environmental Impact Report. This includes the Toilet Replacement Refund Program, which decreases water demand on the Carmel River.

At the end of the current fiscal year, the District's governmental funds reported a total fund balance of \$3,612,205. The Capital Projects Fund has an unreserved fund balance of \$532,900, the Conservation Fund has a fund balance of \$411,675, and the Mitigation Fund has a fund balance of \$2,667,630.

During the current fiscal year, the fund balance of the District's Capital Projects Fund decreased \$929,873, the Conservation Fund decreased \$346,795 and the Mitigation Fund increased \$363,429. The increase in the Mitigation Fund is due to revenues exceeding expenditures and other financing uses. The decreases in the Capital Projects Fund and the Conservation Fund are due to expenditures exceeding revenues and other financing sources.

BUDGET HIGHLIGHTS/VARIANCES

The District's budget projected operating revenues of \$3,878,600. Due mostly to greater than anticipated user fee revenues, the District finished the budget year with operating revenues of \$3,919,727, \$41,127 or 1.1% more than budgeted.

Actual operating expenditures totaled \$4,843,346 compared to the budget amount of \$5,465,200, primarily due to project expenditures being approximately \$621,854 or 8.9% less than budgeted.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

In developing the fiscal year 2004-2005 budget, the staff and management had to consider a number of factors that would impact the District's economy and finances. As part of the State budget process, agreements were being considered by the Governor, the Legislature, and the local government representatives that would have a negative impact on the District's revenue from property taxes. Therefore, projected property tax revenues were decreased accordingly resulting in an overall decrease in projected operating revenues. While operating expenditures were also estimated to decrease (project expenditures in particular), they were expected to continue to exceed operating revenues. Rather than to increase the User Fee, which is the District's largest and most fluid revenue source, the Board of Directors opted to continue the use of operating reserves to balance the budget.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the District's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional financial information should be directed to Rick Dickhaut, Administrative Services Manager/Chief Financial Officer at (831) 658-5614.

BASIC FINANCIAL STATEMENTS

MONTEREY PENINSULA WATER MANAGEMENT DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2004

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
ASSETS:			
Cash and cash equivalents	\$ 11,439	\$ 825,273	\$ 836,712
Investments	3,420,233	-	3,420,233
Receivables, net	360,577	347,248	707,825
Prepaid expenses and deposits	25,015	-	25,015
Restricted reserves:			
Cash	-	51,259	51,259
Investments	-	514,199	514,199
Capital assets, net:			
Water resale rights	-	21,150,205	21,150,205
Nondepreciable	-	725,149	725,149
Depreciable	<u>2,800,158</u>	<u>-</u>	<u>2,800,158</u>
Total assets	<u>6,617,422</u>	<u>23,613,333</u>	<u>30,230,755</u>
LIABILITIES:			
Accounts payable	113,133	580,202	693,335
Accrued liabilities	87,460	-	87,460
Interest payable	-	28,992	28,992
Long-term debt:			
Due within one year	184,645	1,000,000	1,184,645
Due in more than one year	<u>311,816</u>	<u>31,500,000</u>	<u>31,811,816</u>
Total liabilities	<u>697,054</u>	<u>33,109,194</u>	<u>33,806,248</u>
NET ASSETS:			
Invested in capital assets, net of related debt	2,800,158	(4,769,797)	(1,969,639)
Restricted for debt service	-	31,224	31,224
Unrestricted (deficit)	<u>3,120,210</u>	<u>(4,757,288)</u>	<u>(1,637,078)</u>
Total net assets (deficit)	<u>\$ 5,920,368</u>	<u>\$ (9,495,861)</u>	<u>\$ (3,575,493)</u>

See Notes to Basic Financial Statements.

MONTEREY PENINSULA WATER MANAGEMENT DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2004

	<u>Expenses</u>	<u>Program Revenues Charges for Services</u>	<u>Net (Expenses) Revenues and Changes in Net Assets</u>		<u>Total</u>
			<u>Governmental Activities</u>	<u>Business-Type Activities</u>	
FUNCTIONS/PROGRAMS:					
Governmental activities:					
Conservation	\$ 448,019	\$ 443,360	\$ (4,659)	\$ -	\$ (4,659)
Mitigation	1,722,365	1,861,997	139,632	-	139,632
Water supply	<u>2,858,491</u>	<u>550,821</u>	<u>(2,307,670)</u>	<u>-</u>	<u>(2,307,670)</u>
Total governmental activities	<u>5,028,875</u>	<u>2,856,178</u>	<u>(2,172,697)</u>	<u>-</u>	<u>(2,172,697)</u>
Business-type activities – water	<u>2,854,731</u>	<u>2,158,691</u>	<u>-</u>	<u>(696,040)</u>	<u>(696,040)</u>
Total business-type activities	<u>2,854,731</u>	<u>2,158,691</u>	<u>-</u>	<u>(696,040)</u>	<u>(696,040)</u>
Total	<u>\$ 7,883,606</u>	<u>\$ 5,014,869</u>	<u>(2,172,697)</u>	<u>(696,040)</u>	<u>(2,868,737)</u>
GENERAL REVENUES:					
Taxes			980,857	-	980,857
Investment earnings			39,117	3,873	42,990
Miscellaneous			48,040	-	48,040
Gain (loss) on sale of capital assets			(5,771)	-	(5,771)
Special item – Subsidy, Pebble Beach Company			<u>-</u>	<u>1,495,851</u>	<u>1,495,851</u>
Total general revenue			<u>1,062,243</u>	<u>1,499,724</u>	<u>2,561,967</u>
CHANGE IN NET ASSETS			(1,110,454)	803,684	(306,770)
NET ASSETS (DEFICIT) – BEGINNING OF YEAR			<u>7,030,822</u>	<u>(10,299,545)</u>	<u>(3,268,723)</u>
NET ASSETS (DEFICIT) – END OF YEAR			<u>\$ 5,920,368</u>	<u>\$ (9,495,861)</u>	<u>\$ (3,575,493)</u>

See Notes to Basic Financial Statements.

MONTEREY PENINSULA WATER MANAGEMENT DISTRICT
BALANCE SHEET – GOVERNMENTAL FUNDS
 JUNE 30, 2004

	<u>Capital Projects</u>	<u>Conservation</u>	<u>Mitigation</u>	<u>Total</u>
ASSETS:				
Cash and cash equivalents	\$ 11,439	\$ –	\$ –	\$ 11,439
Investments	3,420,233	–	–	3,420,233
Receivables, net	65,363	46,201	249,013	360,577
Prepaid expenses and deposits	24,205	–	810	25,015
Due from other funds	–	394,313	2,484,137	2,878,450
	<u>3,521,240</u>	<u>440,514</u>	<u>2,733,960</u>	<u>6,695,714</u>
LIABILITIES AND FUND				
BALANCES:				
Liabilities:				
Accounts payable	63,058	22,428	27,647	113,133
Accrued liabilities	43,207	5,934	38,319	87,460
Due to other funds	2,878,450	–	–	2,878,450
Deferred revenue	3,625	477	364	4,466
	<u>2,988,340</u>	<u>28,839</u>	<u>66,330</u>	<u>3,083,509</u>
Fund balances:				
Reserved for prepaid expenses	22,539	–	360	22,899
Unreserved, designated:				
Insurance/litigation	171,354	11,906	66,740	250,000
Capital equipment	30,553	21,750	63,280	115,583
Flood/drought emergencies	–	–	613,944	613,944
Unreserved, undesignated	308,454	378,019	1,923,306	2,609,779
	<u>532,900</u>	<u>411,675</u>	<u>2,667,630</u>	<u>3,612,205</u>
Total fund balances	<u>532,900</u>	<u>411,675</u>	<u>2,667,630</u>	<u>3,612,205</u>
Total liabilities and fund balances	<u>\$ 3,521,240</u>	<u>\$ 440,514</u>	<u>\$ 2,733,960</u>	

Amounts reported in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	2,800,158
Other assets are not available to pay for current-period expenditures and therefore are deferred in the funds	4,466
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds	<u>(496,461)</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 5,920,368</u>

See Notes to Basic Financial Statements.

MONTEREY PENINSULA WATER MANAGEMENT DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES –
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2004

	<u>Capital Projects</u>	<u>Conservation</u>	<u>Mitigation</u>	<u>Total</u>
REVENUES:				
Property taxes	\$ 796,195	\$ 104,792	\$ 79,870	\$ 980,857
User fees	–	336,283	1,820,936	2,157,219
Connection charges, net of refunds \$(86,501)	290,701		–	290,701
Permit fees	27,365	106,600	50	134,015
Project reimbursements	229,130	–	40,648	269,778
Investment income	13,710	6,407	19,000	39,117
Legal fee reimbursements	–	18,287	–	18,287
Recording fees	–	12,177	–	12,177
Miscellaneous	9,312	–	8,264	17,576
Total revenues	<u>1,366,413</u>	<u>584,546</u>	<u>1,968,768</u>	<u>3,919,727</u>
EXPENDITURES:				
Personnel:				
Salaries	882,911	142,132	830,877	1,855,920
Employee benefits and other personnel	229,951	56,089	249,209	535,249
Services and supplies:				
Project expenditures	1,153,967	122,293	220,705	1,496,965
Operating expenditures	182,204	48,650	181,051	411,905
Professional fees	304,043	41,255	87,161	432,459
Capital outlay	43,210	20,922	46,716	110,848
Total expenditures	<u>2,796,286</u>	<u>431,341</u>	<u>1,615,719</u>	<u>4,843,346</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(1,429,873)</u>	<u>153,205</u>	<u>353,049</u>	<u>(923,619)</u>
OTHER FINANCING SOURCES (USES):				
Proceeds from sale of capital assets	–	–	10,380	10,380
Transfers in	500,000		–	500,000
Transfers out	–	(500,000)	–	(500,000)
Total other financing sources (uses)	<u>500,000</u>	<u>(500,000)</u>	<u>10,380</u>	<u>10,380</u>
NET CHANGE IN FUND BALANCES	<u>(929,873)</u>	<u>(346,795)</u>	<u>363,429</u>	<u>(913,239)</u>
FUND BALANCES – BEGINNING OF YEAR (RESTATED)	<u>1,462,773</u>	<u>758,470</u>	<u>2,304,201</u>	<u>4,525,444</u>
FUND BALANCES – END OF YEAR	<u>\$ 532,900</u>	<u>\$ 411,675</u>	<u>\$ 2,667,630</u>	<u>\$ 3,612,205</u>

See Notes to Basic Financial Statements.

MONTEREY PENINSULA WATER MANAGEMENT DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO
THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2004

NET CHANGE IN FUND BALANCES	\$ (913,239)
Amounts reported in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.	(146,652)
The net effect of other miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to decrease net assets.	(16,150)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.	4,466
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	<u>(38,879)</u>
CHANGE IN NET ASSETS	<u>\$ (1,110,454)</u>

See Notes to Basic Financial Statements.

MONTEREY PENINSULA WATER MANAGEMENT DISTRICT
STATEMENT OF NET ASSETS – PROPRIETARY FUND
JUNE 30, 2004

ASSETS:

Cash and cash equivalents	\$ 825,273
Receivables, net	347,248
Restricted reserves	565,458
Capital assets, net:	
Water resale rights	21,150,205
Nondepreciable	<u>725,149</u>
Total assets	<u>23,613,333</u>

LIABILITIES:

Accounts payable	580,202
Interest payable	28,992
Certificates of participation:	
Due within one year	1,000,000
Due in more than one year	<u>31,500,000</u>
Total liabilities	<u>33,109,194</u>

NET ASSETS:

Invested in capital assets, net of related debt	(4,769,797)
Restricted for debt service	31,224
Unrestricted (deficit)	<u>(4,757,288)</u>
Total net assets (deficit)	<u>\$ (9,495,861)</u>

See Notes to Basic Financial Statements.

MONTEREY PENINSULA WATER MANAGEMENT DISTRICT
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS – PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2004

	Water
OPERATING REVENUES –	
Water sales	\$ 2,158,691
Total operating revenues	2,158,691
OPERATING EXPENSES:	
Plant costs	432,773
Distribution costs	76,850
General and administration	73,666
Potable water	776,286
Total operating expenses	1,359,575
Operating income before amortization	799,116
Less amortization	691,726
Operating income	107,390
NON-OPERATING REVENUES	
(EXPENSES):	
Investment earnings	3,873
Interest expense on certificates of participation	(326,588)
Certificates of participation carrying costs	(476,842)
Subsidy – Pebble Beach Company	1,495,851
Total non-operating revenues (expenses)	696,294
CHANGE IN NET ASSETS	803,684
NET ASSETS (DEFICIT) –	
BEGINNING OF YEAR	(10,299,545)
NET ASSETS (DEFICIT) –	
END OF YEAR	\$ (9,495,861)

See Notes to Basic Financial Statements.

MONTEREY PENINSULA WATER MANAGEMENT DISTRICT
STATEMENT OF CASH FLOWS – PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2004

CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from sales	\$ 2,089,851
Cash paid for operating expenses	<u>(992,312)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>1,097,539</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Affiliate subsidy	1,495,851
Payment of construction costs	(599,132)
Interest payments on certificates of participation	(327,058)
Principal payments on certificates of participation	(1,000,000)
Payment of certificates of participation carrying costs	<u>(476,842)</u>
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(907,181)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Investment earnings	3,730
Reduction (funding) of required reserves	<u>4,735</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>8,465</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	
	198,823
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	
	<u>677,709</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	
	<u><u>\$ 876,532</u></u>
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES:	
Operating income	\$ 107,390
Adjustments to reconcile net operating income to net cash provided by operating activities:	
Amortization	691,726
(Increase) decrease in – Receivables	(68,840)
Increase (decrease) in – Accounts payable	<u>367,263</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 1,097,539</u></u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET ASSETS:	
Cash and cash equivalents	\$ 825,273
Restricted reserves	<u>51,259</u>
Total	<u><u>\$ 876,532</u></u>

See Notes to Basic Financial Statements.

MONTEREY PENINSULA WATER MANAGEMENT DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Abbreviations Used:

Cal-Am	California-American Water Company
CAWD	Carmel Area Wastewater District
COP	Certificates of participation
O&M	Operations and maintenance
PBCo.	Pebble Beach Company
PBCSD	Pebble Beach Community Services District
Project	CAWD/PBCSD Wastewater Reclamation Project

Description of the Reporting Entity:

Accounting principles generally accepted in the United States of America require that the reporting entity include (1) the primary government, (2) organizations for which the primary government is financially accountable and (3) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The criteria provided in Government Accounting Standards Board Statement No. 14 have been considered and there are no agencies or entities which should be presented with the District.

The Monterey Peninsula Water Management District was created by Chapter 527, Statutes of 1977 (Assembly Bill No. 1329) of the California Legislature, on September 2, 1977. The District was created to provide integrated management of ground and surface water supplies, and to exercise regulatory control over the collection, storage, distribution, and delivery of water and wastewater within its jurisdiction including, but not limited to, such functions as management and regulation of the use, reuse, reclamation and conservation of water, and bond financing of public works projects. Water service is principally supplied by other entities, but the District has the power to acquire public or private water systems. The District also has the power to levy and collect real estate taxes. Operations were commenced during the fiscal year beginning July 1, 1978.

The District has a seven-member board of directors. Five directors are elected every four years on a staggered basis. Of the other two directors, one must be a member of the Monterey County Board of Supervisors and the other must be a chief executive officer, mayor, or member of the governing body of a city member unit. The Board of Directors has continuing oversight responsibility for the District.

The geographic jurisdiction of the District approximates the Monterey Peninsula and the Carmel River watershed including all of the cities (except Marina) and the unincorporated communities therein.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The accompanying financial statements conform to accounting principles generally accepted in the United States of America as applicable to governments. The following is a summary of the more significant accounting policies used by the District:

Implementation of Governmental Accounting Standards Board Statements and Interpretation – In fiscal year 2004, the District adopted four new statements of financial accounting standards and one interpretation issued by the Governmental Accounting Standards Board (GASB).

Statement No. 34 – The District adopted the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. This statement affects the manner in which the District records transactions and presents financial information. State and local governments have traditionally used a financial reporting model substantially different from the one used to prepare private-sector financial reports.

GASB Statement No. 34 establishes new requirements and a new reporting model for the annual financial reports of state and local governments. The statement was developed to make annual reports of state and local governments easier to understand and more useful to the people who use governmental financial information to make decisions.

Management’s Discussion and Analysis – GASB Statement No. 34 requires that financial statements be accompanied by a narrative introduction and analytical overview of the District’s financial activities in the form of “management’s discussion and analysis” (MD&A). This analysis is similar to the analysis provided in the annual reports of private-sector organizations.

Government-Wide Financial Statements – The reporting model includes financial statements prepared using full accrual accounting for all of the District’s activities. This approach includes not just current assets and liabilities, but also capital and other long-term assets, as well as long-term liabilities. Accrual accounting also reports all of the revenues and costs of providing services each year, not just those received or paid in the current year or soon thereafter.

Statement of Net Assets – The statement of net assets is designed to display the financial position of the government District. The net assets of the District are broken down into three categories – invested in capital assets, restricted and unrestricted.

Statement of Activities – The statement of activities reports expenses and revenues in a format that focuses on the cost of the District’s functions. The expense of individual functions is compared to the revenue generated directly by the function.

Accordingly, the District has recorded certain other long-term assets and liabilities in the statement of net assets, and has reported all revenues and the cost of providing services under the accrual basis of accounting in the statement of activities.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Statement No. 37 – The District adopted the provisions of GASB Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis – for State and Local Governments: Omnibus*. This statement clarifies certain provisions of Statement No. 34, for more consistent application and modifies others to meet changing requirements.

Statement No. 38 – The District adopted the provisions of GASB No. 38, *Certain Financial Statement Note Disclosures*. This statement modifies, establishes and rescinds certain financial statement disclosure requirements. Accordingly, certain footnote disclosures have been revised to conform to the provisions of GASB Statement No. 38.

Statement No. 40 – The District adopted the provisions of GASB No. 40, *Deposit and Investment Risk Disclosures*, an amendment of GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*. The Board reconsidered the disclosures required by Statement No. 3 and have modified or eliminated portions of that Statement.

Interpretation No. 6 – The District adopted the provisions of GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*. This interpretation clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice. The interpretation impacts the fund level financial statements required by GASB Statement No. 34, but has no direct impact on the government-wide financial statements. Accordingly, the District has not recognized the current portion of certain liabilities and related expenditures in the governmental fund financial statements for amounts not considered to be due and payable as of June 30, 2004.

The adoption of the aforementioned GASB Statements required the District to restate, for purposes of preparing a statement of revenues, expenses, and changes in fund balances and statement of activities, balances previously reported as fund balances in its financial statements for the year ended June 30 2003. The effect of these restatements on net asset balances as of July 1, 2003 is presented below:

- The District has historically capitalized all capital assets, excluding infrastructure. The District also has not recorded annual depreciation expense or the related accumulated depreciation. As of July 1, 2003, the District recorded infrastructure assets of \$768,316 and recognized \$1,838,851 in accumulated depreciation on all governmental activity assets that had not previously been recognized.
- Certain liabilities related to compensated absences had previously been recognized within the District's governmental funds. Upon implementation of GASB Interpretation No. 6 these items do not meet the definition of a governmental fund liability. Therefore, the amount accrued of \$172,711 for compensated absences has been removed from fund liabilities and has been added to the beginning fund balance.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A table summarizing these changes follows:

	<u>Capital Projects</u>	<u>Conservation</u>	<u>Mitigation</u>	<u>Total</u>
Fund balances at July 1, 2003 as previously reported	\$ 1,375,222	\$ 745,204	\$ 2,232,307	\$ 4,352,733
Adjustments –				
Elimination of compensated absences accrual	<u>87,551</u>	<u>13,266</u>	<u>71,894</u>	<u>172,711</u>
Fund balances at July 1, 2003 as restated	<u>\$ 1,462,773</u>	<u>\$ 758,470</u>	<u>\$ 2,304,201</u>	<u>\$ 4,525,444</u>

Basis of Presentation and Accounting –

Government-Wide and Fund Financial Statements – The basic financial statements include both government-wide and fund financial statements. The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the District. The previous reporting model emphasized fund types (the total of all funds of a particular type); in the new reporting model as defined by GASB Statement No. 34 the focus is either the District as a whole or major individual funds (within the fund financial statements).

The government-wide statement of activities demonstrates the degree to which the direct expenses of a functional category (Conservation, Mitigation or Water Supply) or activity are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or activity. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or activity, 2) grants and contributions that are restricted to meeting the operational requirements of a particular function or activity, and 3) grants and contributions that are restricted to meeting the capital requirements of a particular function or activity. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The net cost (by function) is normally covered by general revenue (property taxes, intergovernmental revenues, interest income, etc.).

Separate fund based financial statements are provided for governmental funds. The District has one proprietary fund. Major individual governmental funds are reported as separate columns in the fund financial statements. The major governmental funds are the capital projects, conservation and mitigation fund. GASB Statement No. 34 sets forth minimum criteria (percentage of assets, liabilities, revenues or expenditures/expenses) for the determination of major funds. Any nonmajor funds are combined in a column in the fund financial statements. The District has no nonmajor funds.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The government-wide focus is more on the sustainability of the District as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The focus of the fund financial statements is on the major individual funds. Each presentation provides valuable information that can be analyzed and compared to enhance the usefulness of the information.

Measurement Focus and Basis of Accounting – The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

Government fund level financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period.

Property taxes that have been levied and are due on or before year-end are recognized as revenue if they have been collected within ninety days after year-end. User fees due for the current year are considered available and are, therefore, recognized as revenues even though a portion of the user fees may be collected in the subsequent year. Connection charges and permit fees are considered to be measurable when they have been collected and are recognized as revenue at that time. Investment earnings are recorded as earned since they are measurable and available.

Expenditures are recorded when the liability is incurred, except for interest on long-term debt and compensated absences, which are recorded when paid.

Proprietary fund level financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from producing and delivering water. Operating expenses include the cost of sales, general and administrative expenses, and amortization of capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the District has elected to apply all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. Investment earnings are accrued. Earned but unbilled revenues are accrued and reported in the financial statements.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The following major funds are used by the District:

Governmental Funds:

The following is a description of the Governmental Funds of the District:

- a. *Capital Projects Fund*, accounts for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by Proprietary Funds, and Special Assessments).
- b. *Conservation Fund*, accounts for financial resources used to fund water conservation activities mandated by District legislation including permit issuance and enforcement, jurisdictional water allocations, and public water conservation education.
- c. *Mitigation Fund*, accounts for financial resources used to finance work along the Carmel River carried out pursuant to the Mitigation Program designed to ameliorate impacts identified in the District's Allocation Program Environmental Impact Report. This includes the Toilet Replacement Refund Program which decreases water demand on the Carmel River.

Proprietary Fund:

The following is a description of the Proprietary Fund of the District:

Enterprise Fund, accounts for the activity of the CAWD/PBCSD Wastewater Reclamation Project.

Non-Current Governmental Assets/Liabilities – GASB Statement No. 34 eliminates the presentation of Account Groups, but provides for these records to be maintained and incorporates the information into the Governmental Activities column in the government-wide Statement of Net Assets.

Budgets and Budgetary Accounting – The District operates under the general laws of the State of California and annually adopts a budget for all its governmental funds on the modified accrual basis of accounting to be effective July 1 for the ensuing fiscal year. Non-cash expenses are not budgeted.

Cash Equivalents – The District considers all highly liquid assets which have a term of less than ninety days to maturity as cash equivalents.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Pooled Cash – Cash accounts (Reclamation) which essentially operate as demand deposit accounts are maintained by the Monterey County Treasurer’s Office. Available cash balances are controlled and invested by the County Treasurer in pooled investment funds in order to provide safety, liquidity and high investment returns for all funds. Interest earnings from these funds are generally credited to the District’s account on a quarterly basis.

The Monterey County Treasurer’s Investment policy is in compliance with Section 53635 of the Government Code of the State of California which permits investments in certain securities and participation in certain investment trading techniques or strategies.

Resolution 83–17, adopted September 12, 1983, authorized investment of the District’s monies with the State Treasurer for deposit in the Local District Investment Fund (LAIF). Money in the fund is invested by the State Treasurer to realize the maximum return consistent with prudent treasury management. All earnings of the fund, less a reimbursement of management costs incurred not to exceed one quarter of one percent of earnings, are distributed to the contributing agencies in their relative shares each quarter. The balances of funds in LAIF are stated at market value.

Investments – The District Board has also authorized the investment of District monies in an asset management account at Wells Fargo Bank. The investment at Wells Fargo Bank is recorded at market value.

The types of investments the District may purchase are not limited by legal or contractual provisions, but the Board has established policies on investments and has so directed their investment managers.

Receivables – Receivables are accounted for using the allowance method. The allowance for doubtful accounts is zero at June 30, 2004.

Prepaid Expenses – Prepaid expenses are capitalized and amortized ratably over the period of benefit.

Capital Assets – Property, facilities, and equipment purchased or acquired is carried at historical cost or estimated historical cost. Contributed fixed assets are recorded at estimated fair market value at the time received. Capital assets are defined by the District as assets with an initial, individual cost of more than \$500 and an estimated useful life in excess of one year.

Property, facilities, and equipment of the District is depreciated using the straight–line method over the following estimated useful lives:

Equipment	3 to 20 Years
Building and improvements	5 to 39 Years
Monitoring stations	5 to 10 Years
Wells	30 to 40 Years
Fish rearing facility	5 to 40 Years
Leasehold improvements	10 to 40 Years

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Water Resale Rights – Proceeds from the issuance of the Certificates of Participation were used to construct facilities for wastewater reclamation and distribution. The District does not own these facilities, but instead owns the rights to the reclaimed water for resale. The Project capitalizes the costs incurred in order to obtain these water rights in accordance with generally accepted accounting principles for intangible assets. As a result, capital outlay and construction period interest incurred have been capitalized into this account. These rights are presented net of accumulated amortization.

Amortization – The water resale rights are amortized using the straight-line method over the expected useful life of the reclamation plant which is forty years, in accordance with *Statement of Financial Accounting Standards No. 142*, which specifies that an intangible asset shall be amortized over its useful life, unless that life is determined to be indefinite.

Compensated Absences – The District accrues vested liabilities for vacation and sick pay. Permanent employees are vested after one year of full-time employment. Vacation accrues at the rate of 10 days per year for the first year of employment, 15 days per year for two to five years of employment, and 20 days per year after five years. Sick leave accrues at the rate of 12 days each year. Total accruals are limited to 60 days vacation and 75 days sick leave per employee.

Paid time off is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Deferred Revenue – Deferred revenue arise in governmental funds when revenue does not meet both the “measurable” and “available” criteria for recognition in the current period. Deferred revenues also arise, in governmental funds, when resources are received by the District before it has a legal claim to them, as when grant monies are received prior to incurring qualifying expenditures (unearned). In subsequent periods, when both revenue recognition criteria are met, or when the District has a legal claim to the resources, revenue is recognized.

Long-Term Debt – Long-term liabilities of all Proprietary Funds, including any general obligation bonds to be repaid by those funds, are accounted for in the respective funds.

Income Taxes – Monterey Peninsula Water Management District is a California local governmental unit and is exempt from both Federal and State income taxes.

Property Taxes – The County is responsible for the assessment, collection, and apportionment of property taxes for all taxing jurisdictions, including the District. Secured property taxes for each year ended June 30 are payable in equal installments, November 1 and February 1, and become delinquent on December 10 and April 10, respectively. The lien date is January 1 of each year. Property taxes are accounted for as collected and remitted by the County in the Governmental Funds. Property taxes on the unsecured roll are due on the January 1 lien date and become delinquent if unpaid on August 31.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Permit Fees – Permit fee revenue is recorded as permits are issued. The District is required to refund permit fees if the permit is not used or to grant an extension of time upon a reasonable request. If a refund is issued, the refunded party also relinquishes any water rights associated with the permit. It is the District’s policy to record such refunds as they become payable.

Use of Restricted Resources – When both restricted and unrestricted resources are available for use, it is the District’s policy to use restricted resources first, then unrestricted resources, as they are needed.

Use of Estimates – The preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported. Actual results are not expected to differ from those estimates.

Reconciliation of Government–Wide and Fund Financial Statements – *Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Government–Wide Statement of Net Assets* – The governmental fund balance sheet includes a reconciliation between fund balance – total governmental funds and net assets – governmental activities as reported in the government–wide statement of net assets. One element of that reconciliation explains the “long–term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.” The details of this \$496,461 difference are as follows:

Compensated absences	\$ 496,461
Net adjustment to reduce fund balance – total governmental funds to arrive at net assets – governmental activities	<u>\$ 496,461</u>

Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government–Wide Statement of Activities – The governmental fund statement of revenues, expenditures, and changes in fund balances include a reconciliation between net changes in fund balances – total governmental funds and changes in net assets of governmental activities as reported in the government–wide statement of activities. One element of that reconciliation explains, “Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is capitalized and allocated over their estimated useful lives and reported as depreciation expense.” The details of the \$(146,652) difference are as follows:

Capital outlay	\$ 110,848
Depreciation expense	<u>(257,500)</u>
Net adjustment to increase net changes in fund balances total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ (146,652)</u>

NOTE 2. THE CAWD/PBCSD WASTEWATER RECLAMATION PROJECT

The CAWD/PBCSD Wastewater Reclamation Project (the Project) is a cooperative effort involving the District, the Carmel Area Wastewater District (CAWD), the Pebble Beach Community Services District (PBCSD) and the Pebble Beach Company (PBCo.). This cooperative effort did not create a new or separate legal entity. Therefore, the Project is a Proprietary (Enterprise) Fund of the District, the issuer of the Certificates of Participation which financed the Project.

The statements of the Project were audited by Hutchinson and Bloodgood, LLP whose report has been furnished to us.

The Project provides treated wastewater to irrigate golf courses and open space areas in Pebble Beach, which freed up potable water previously used for irrigation. The Project involved the construction of a new tertiary treatment plant and laboratory facilities located on the site of the existing CAWD secondary wastewater treatment plant, the construction of a new wastewater distribution system and storage tank used to distribute the treated wastewater to the receptor sites in Pebble Beach, and irrigation system improvements. The tertiary treatment plant produces water which meets Title 22 standards specified by the California Department of Health Services, which is a quality acceptable for human contact.

The Project is financed by Certificates of Participation which were executed and delivered at the direction of the District in December 1992 in the amount of \$33,900,000. The District agreed to provide the funds necessary to construct and operate the Project and then obtained ownership of the reclaimed water for the purpose of resale. PBCo. has guaranteed payment of construction costs of the Project as well as any operating deficiencies. Any debt obligations incurred by the District to finance the project constitute limited obligations of the District, payable solely from the net operating revenues generated by the sale of reclaimed water produced by the Project and, if such reclaimed water revenues are insufficient, from payments on a Bond Letter of Credit provided by Bank of America (the credit bank) through a reimbursement agreement between PBCo. and the credit bank. PBCo. pays the letter of credit fees, as well as principal and interest payments on debt obligations as needed, as a subsidy to the Project. Payments by PBCo. for letter of credit fees and principal, and interest payments were approximately \$1,496,000 for the year ended June 30, 2004.

Construction of the Project began in January 1993 and was completed October 1994. The Project assets are owned principally by CAWD and PBCSD and consist primarily of the following:

Assets owned by CAWD: (1) a new tertiary treatment plant, (2) secondary process improvements, (3) new laboratory facilities, (4) a reclaimed water pump station, (5) related computer equipment and, (6) a small portion of the reclaimed water pipeline.

Assets owned by PBCSD: (1) approximately seven miles of reclaimed water distribution system pipelines, (2) a 2.5 million gallon storage tank, (3) a potable water pump station, and (4) a reclaimed water booster pump station.

NOTE 2. THE CAWD/PBCSD WASTEWATER RECLAMATION PROJECT (Continued)

The activities of the Project are overseen by a five-member management committee containing two representatives from the CAWD board, two from the PBCSD board and one from PBCo.

The Reclamation Management Committee has proposed a plan to improve and expand current Project facilities. The planned improvements are intended to improve the quality of the reclaimed water by reducing the amount of sodium that remains after treatment. The expansion will utilize the Forest Lake reservoir in Pebble Beach, which will provide approximately 420 acre-feet (AF) of reclaimed water storage. The additional storage is expected to improve the performance of the Project, by meeting peak water demand in the summer months. The cost of the Phase II improvements and expansion is estimated to be \$22 million. The management committee is currently working with the District on arranging financing to pay for the work.

NOTE 3. CASH AND INVESTMENTS

Cash and Cash Equivalents – Balances in cash and cash equivalents consist of bank accounts insured by the Federal Depository Insurance Corporation (FDIC), Securities Investment Protection Corporation (SIPC), and other insurance and unsecured and uncollateralized deposits in the California State Treasurer's Investment Pool, known as the Local District Investment Fund.

Restricted Reserves - The remaining proceeds of the \$33,900,000 in Certificates of Participation issued for the Project were deposited in various restricted trust and reserve accounts as required by the terms of the issuance.

Custodial Credit Risk—Deposits – Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District has a deposit policy that complies with California Government Code Section 53638 (Public Deposit Act). As of June 30, 2004, \$563,441 of the District's bank balances of \$1,200,622 was exposed to custodial credit risk as uninsured and collateralized by the pledging bank's trust department not in the District's name.

The difference between bank balances and the carrying amounts (book value) represents outstanding checks and deposits in transit.

NOTE 3. CASH AND INVESTMENTS (Continued)

The bank balances at June 30, 2004 are as follows:

	<u>Bank Balances</u>	<u>Book Value</u>
Governmental activities:		
Cash in checking	\$ 181,815	\$ (77,471)
Cash in savings	<u>81,900</u>	<u>88,570</u>
	263,715	11,099
Cash on hand	<u>—</u>	<u>340</u>
Subtotal Governmental activities	<u>263,715</u>	<u>11,439</u>
Business-type activities:		
Cash in savings	322,207	322,207
Cash in County Treasury	563,441	503,066
Cash with COP trustee	<u>51,259</u>	<u>51,259</u>
	<u>936,907</u>	<u>876,532</u>
Less restricted reserves	<u>—</u>	<u>51,259</u>
Subtotal Business-type activities	<u>936,907</u>	<u>825,273</u>
Total cash and cash equivalents	<u>\$ 1,200,622</u>	<u>\$ 836,712</u>

Investments – The District’s investments consist of obligations of the United States government and its agencies and instrumentalities, corporate obligations and the State Treasurer’s Local Agency Investment Fund. All investments are recorded at fair market value, which equates cost. The investment of state pooled funds is governed by state law, by policies adopted by the Pooled Money Investment Board (PMIB) and by accepted norms for prudent fiduciary management of investments. PMIB funds may be invested in a wide range of interest bearing securities, such as Treasury notes, prime commercial paper, certain California municipal and agency obligations, highly rated corporate bonds, obligations of such agencies as FannieMae, and negotiable certificates of deposit. Also allowed are time deposits in California banks, savings and loans, and credit unions that have not less than a “satisfactory” CRA rating. The value of each participating dollar equals the fair value divided by the amortized cost. The District’s fair value of the position in the pool is the same as the value of the pool shares. Investments at June 30, 2004 consisted of the following:

NOTE 3. CASH AND INVESTMENTS (Continued)

Governmental activities:		
US Government obligations	\$	2,922,085
Liquid assets		95,640
Local Agency Investment Fund		<u>402,508</u>
Subtotal Governmental activities		<u>3,420,233</u>
Business-type activities:		
US Government obligations		283,394
Corporate obligations		198,070
Liquid assets		<u>32,735</u>
		514,199
Less restricted reserves		<u>514,199</u>
Subtotal Business-type activities		<u>—</u>
Total Investments	\$	<u>3,420,233</u>

NOTE 4. RECEIVABLES

Receivables, net of allowances for uncollectibles (estimated to be \$—), consist of the following at June 30, 2004:

	<u>Capital Projects</u>	<u>Conservation</u>	<u>Mitigation</u>	<u>Total</u>
Governmental activities:				
Project reimbursements (Cal – Am)	\$ 18,908	\$ —	\$ 9,700	\$ 28,608
User fees	—	43,829	237,505	281,334
Taxes	18,022	2,372	1,808	22,202
Interest	24,782	—	—	24,782
Other	<u>3,651</u>	<u>—</u>	<u>—</u>	<u>3,651</u>
Total Governmental activities	<u>\$ 65,363</u>	<u>\$ 46,201</u>	<u>\$ 249,013</u>	<u>360,577</u>
Business-type activities:				
Water sales				180,797
Interest				843
Affiliates (Reclamation)				149,983
Other				<u>15,625</u>
Total Business-type activities				<u>347,248</u>
TOTAL				<u>\$ 707,825</u>

NOTE 5. CHANGES IN CAPITAL ASSETS

The capital assets experienced the following changes for the year ended June 30, 2004:

	<u>BALANCE BEGINNING OF YEAR</u>	<u>CURRENT ADDITIONS</u>	<u>DELETIONS</u>	<u>BALANCE END OF YEAR</u>
Governmental activities:				
Depreciable assets:				
Equipment:				
Office	\$ 209,542	\$ 12,662	\$ 97,760	\$ 124,444
Computer	259,656	88,426	38,944	309,138
Operating	24,932	-	-	24,932
Transportation	348,110	642	44,409	304,343
Project	235,442	8,466	-	243,908
Phone	43,851	-	-	43,851
Total equipment	1,121,533	110,196	181,113	1,050,616
Building and improvements	1,920,574	-	-	1,920,574
Monitoring stations	65,097	652	-	65,749
Wells	768,316	-	-	768,316
Fish rearing facility	923,456	-	-	923,456
Leasehold improvements	2,836	-	-	2,836
Total depreciable assets	4,801,812	110,848	181,113	4,731,547
Less accumulated depreciation for:				
Equipment:				
Office	154,898	17,227	92,191	79,934
Computer	126,155	40,350	28,362	138,143
Operating	23,942	387	-	24,329
Transportation	234,070	19,716	44,409	209,377
Project	228,238	6,762	-	235,000
Phone	28,503	8,770	-	37,273
Total equipment	795,806	93,212	164,962	724,056
Building and improvements	183,681	56,638	-	240,319
Monitoring stations	50,197	4,429	-	54,626
Wells	63,892	25,611	-	89,503
Fish rearing facility	742,439	77,610	-	820,049
Leasehold improvements	2,836	-	-	2,836
Total accumulated depreciation	1,838,851	257,500	164,962	1,931,389
Total governmental activities capital assets, net	\$ 2,962,961	\$ (146,652)	\$ 16,151	\$ 2,800,158

NOTE 5. CHANGES IN CAPITAL ASSETS (Continued)

	<u>BALANCE BEGINNING OF YEAR</u>	<u>CURRENT ADDITIONS</u>	<u>DELETIONS</u>	<u>BALANCE END OF YEAR</u>
Business-type activities:				
Nondepreciable assets:				
Construction in progress	\$ 146,541	\$ 578,608	\$ —	\$ 725,149
Water resale rights	27,804,708	20,524	—	27,825,232
Less accumulated amortization for:				
Water resale rights	<u>5,983,301</u>	<u>691,726</u>	<u>—</u>	<u>6,675,027</u>
Total water resale rights, net	<u>21,821,407</u>	<u>(671,202)</u>	<u>—</u>	<u>21,150,205</u>
Total business type activities capital assets, net	<u>21,967,948</u>	<u>(92,594)</u>	<u>—</u>	<u>21,875,354</u>
Total capital assets, net	<u>\$ 24,930,909</u>	<u>\$ (239,246)</u>	<u>\$ 16,151</u>	<u>\$ 24,675,512</u>

Depreciation expense was charged to functions/programs of the District as follows:

Conservation	\$ 40,995
Mitigation	144,304
Water supply	<u>72,201</u>
Total depreciation expense	<u>\$ 257,500</u>

NOTE 6. INTERFUND RECEIVABLES AND PAYABLES

At June 30, 2004 interfund receivables and payables consist of :

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
Capital projects	\$ —	\$ 2,878,450
Conservation	394,313	—
Mitigation	<u>2,484,137</u>	<u>—</u>
	<u>\$ 2,878,450</u>	<u>\$ 2,878,450</u>

Interfund payables and receivables arise primarily from the Capital Projects Fund cash accounts receiving all revenue and paying all expenditures. The Proprietary Fund also collects user fees which are remitted to the other funds periodically. Any fund transfers made between accounts are reflected in the above balances as well as in the respective fund balances.

NOTE 6. INTERFUND RECEIVABLES AND PAYABLES (Continued)

Transfers between funds during the year were as follows:

	<u>Transfers Out</u>	<u>Transfers In</u>
Conservation	\$ 500,000	\$ —
Capital projects	<u>—</u>	<u>500,000</u>
	<u>\$ 500,000</u>	<u>\$ 500,000</u>

The transfer between funds was made to offset the projected deficit in general reserves of the capital projects fund.

Long-term loans between funds accrue interest at a predetermined rate which then becomes payable to the lender fund. There were no such loans outstanding at June 30, 2004.

NOTE 7. TRANSACTIONS WITH AFFILIATES

Through its participation in the CAWD/PBCSD Wastewater Reclamation Project, the District is affiliated with the other organizations involved in the Project. At June 30, 2004 accounts receivable from these affiliates were as follows:

Receivable from CAWD	\$ 1,041
Receivable from PBCo and affiliated golf courses for reclaimed water delivery	<u>148,942</u>
Total	<u>\$ 149,983</u>

At June 30, 2004 accounts payable to these affiliates were as follows:

Payable to CAWD for personnel and overhead	\$ 99,140
Payable to MPWMD for user fees and overhead	53,959
Payable to PBCSD for personnel and overhead	<u>40,931</u>
Total	<u>\$ 194,030</u>

NOTE 8. LONG-TERM DEBT

The Variable Rate Demand Certificates of Participation – Wastewater Reclamation Project Series 1992 (COPs) were issued in December 1992 in the amount of \$33,900,000 by the District, and will mature on July 1, 2022. The COPs are in the minimum denomination of \$100,000 or any integral multiple thereof or, during any reset period or on or after the conversion date, in the minimum denomination of \$5,000 or any integral multiple thereof. The COPs bear interest at a variable rate unless the interest rate is converted to a reset rate for a reset period or to a fixed rate to the maturity of the COPs. The variable rate is the rate necessary to produce a par bid if the COPs were sold on the day the rate is computed. The COPs accrued interest at an initial rate of 2.30% per annum at issuance and, thereafter, accrue at a variable rate determined as provided in the Official Statement of the COPs issuance.

Restricted Reserves - As a requirement of this issuance two reserve funds were established. A Renewal and Replacement Reserve was established to pay for future major repairs and an Operations and Maintenance Reserve was established to cover future operating deficits. Each of these reserves is held in a segregated account restricted for its intended purposes. At June 30, 2004 the balances in these funds were as follows:

Renewal and Replacement Reserve	\$ 224,274
Operations and Maintenance Reserve	<u>289,925</u>
Total	<u>\$ 514,199</u>

Security for Repayment – The Project assets have not been pledged to secure payment of the COPs, nor have any other assets of the District. However, pursuant to the Water Purchase Agreement, all net operating revenues from the operations of the Project are irrevocably pledged by the District to the payment of COPs. This pledge constitutes a first lien on the net operating revenues and, subject to application of amounts on deposit therein as permitted in the Water Purchase Agreement, for the payment of the COPs in accordance with the terms of the Water Purchase Agreement and of the Trust Agreement. Notwithstanding the foregoing, the District may at any time issue obligations or execute contracts which are secured by a lien subordinate to the pledge of net operating revenues created under the Water Purchase Agreement. The Bond Letter of Credit also guarantees the COPs.

Long-term debt activity for the year ended June 30, 2004 is as follows:

	<u>2003</u>	<u>Additions</u>	<u>Reductions</u>	<u>2004</u>	<u>Due Within One Year</u>
COPs	\$ 33,500,000	\$ -	\$ 1,000,000	\$ 32,500,000	\$ 1,000,000
Compensated absences	<u>457,582</u>	<u>38,879</u>	<u>-</u>	<u>496,461</u>	<u>184,645</u>
	<u>\$ 33,957,582</u>	<u>\$ 38,879</u>	<u>\$ 1,000,000</u>	<u>\$ 32,996,461</u>	<u>\$ 1,184,645</u>

In prior years, the capital projects, conservation and mitigation funds have been used to liquidate compensated absences.

NOTE 8. LONG-TERM DEBT (Continued)

Repayment Schedule - Interest is paid to the holders of the COPs monthly at a variable rate as described above. Estimated interest payments shown below are calculated using an interest rate of 1.100%, the rate for the payment due on June 30, 2004, in accordance with GASB Statement Number 38, *Certain Financial Note Disclosures*. Payments on the COPs commenced on July 1, 2002, with maturation on July 1, 2022, as follows:

<u>Fiscal Year Ended June 30</u>	<u>Principal Amount Due July 1</u>	<u>Estimated Annual Interest Amount</u>	<u>Total Debt Due</u>
2005	\$ 1,000,000	\$ 357,500	\$ 1,357,500
2006	1,100,000	345,400	1,445,400
2007	1,100,000	333,300	1,433,300
2008	1,200,000	320,100	1,520,100
2009	1,300,000	305,800	1,605,800
2010-2014	7,500,000	1,292,500	8,792,500
2015-2019	9,500,000	814,000	10,314,000
2020-2023	<u>9,800,000</u>	<u>200,200</u>	<u>10,000,200</u>
Total	<u>\$ 32,500,000</u>	<u>\$ 3,968,800</u>	<u>\$ 36,468,800</u>

NOTE 9. LEASE COMMITMENTS

The District is committed to a license agreement for the land on which the Sleepy Hollow Fishery was constructed. The license agreement calls for a payment of \$1 per year for five years through December 2005 with an optional five-year renewal.

NOTE 10. JOINT POWERS AGREEMENT

The District participates in one joint venture under a joint powers agreement (JPA) with the Special District Risk Management Authority (SDRMA). The relationship between the District and the JPA is such that the JPA is not a component unit of the District for financial reporting purposes.

SDRMA was formed under a joint powers agreement pursuant to California Government Code Section 6500 et seq. effective August 1, 1986 to provide general liability, comprehensive/collision liability and property damage, and errors and omissions risk financing for the member districts. SDRMA is administered by a Board of Directors, consisting of one member appointed by the California Special Districts Association and five members elected by the districts participating. The board controls the operations of the JPA, including selection of management and approval of operating budgets, independent of any influence by the member districts beyond their representation on the board. Each member district pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionate to their participation in the JPA.

NOTE 10. JOINT POWERS AGREEMENT (Continued)

Condensed financial information of the SDRMA as of and for the year ended June 30, 2003 (the most current information available) is as follows:

Total assets	\$ 13,896,021
Total liabilities	<u>3,738,586</u>
Risk margin (SDRMA equity)	<u>\$ 10,157,435</u>
Total revenues	\$ 4,983,267
Total expenses	<u>4,324,400</u>
Net income	<u>\$ 658,867</u>

The SDRMA did not have long-term debt outstanding at June 30, 2003, other than claims liabilities and capital lease obligations. The District's share of year-end assets, liabilities and risk margin has not been calculated by the SDRMA.

NOTE 11. DEFERRED COMPENSATION PLAN

The District has a deferred compensation plan for its eligible employees wherein amounts earned by the employees are paid at a future date. This plan meets the requirements of Internal Revenue Code Section 457. All full-time, regular employees are permitted to participate in the plan beginning on the day of hire.

The employee may elect to make tax deferred contributions up to the limits established by the Internal Revenue Service for this type of plan. The employee is 100% vested in his contributions from the first date of participation. The plan does not provide for District contributions. The participant has a choice of investment options.

The plan is administered by ICMA Retirement Corporation (International City Management Association). The assets of the plan are held in trust, with the District serving as trustee. The plan assets held in the ICMA Retirement Trust are held for the exclusive benefit of the plan participants and their beneficiaries. The assets shall not be diverted to any other purpose. The plan does not permit loans.

Government Accounting Standards Board Statement (GASB) 32 states that if a fiduciary relationship does not exist between the governmental entity and the Section 457 Deferred compensation plan, the governmental entity should not report the assets of the plan in its financial statements.

The District believes, and the auditors concur, that, since it does not provide investment advice or administer the plan, it does not maintain a fiduciary relationship with the plan. Therefore, the District does not report the plan assets in its financial statements.

NOTE 12. PENSION PLAN

Plan Description – The District contributes to the California Public Employees Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute. Copies of PERS' annual financial report may be obtained from their Executive Office, 400 P Street, Sacramento, California 95814.

Funding Policy – Participants are required to contribute 7% of their annual covered salary. The District makes the contributions required of District employees on their behalf and for their account. The District is required to contribute at an actuarially determined rate; the current rate is zero percent of annual covered payroll. The contribution requirements of plan members and the District are established and may be amended by PERS.

Annual Pension Cost – For fiscal year 2003/2004, the District's annual pension cost of \$146,054 for PERS was equal to the District's required and actual contributions. The required contribution for fiscal year 2003/2004 was determined as part of the June 30, 2001 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 8.25% investment rate of return (net of administrative expenses), (b) projected annual salary increases that vary by duration of service, and (c) 2% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 3.5%. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a four-year period (smoothed market value). PERS unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period of the unfunded actuarial accrued liability is 11 years as of June 30, 2004.

Actuarial information of the Plan for the three years ended June 30, 2002, 2003 and 2004 is as follows:

Three-Year Trend Information for PERS

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
06/30/02	\$ 113,209	100%	\$ -0-
06/30/03	\$ 117,139	100%	\$ -0-
06/30/04	\$ 146,054	100%	\$ -0-

NOTE 13. CONTINGENT LIABILITIES

Due to the various activities of the District involving the Carmel River several pending and threatened claims against the District are outstanding. No estimate of the amount of any potential liability to the District can reasonably be made at this time.

NOTE 14. COMMITMENTS

Pipeline Cathodic Protection – The Project awarded a contract on May 28, 2004, in the amount of \$50,000, for engineering, and another contract on May 28, 2004, in the amount of \$103,000, for construction of a project to reduce corrosion potential and extend the useful life of the steel reclaimed water pipeline. Work should be completed on both contracts in December 2004. The amount outstanding on the engineering project is \$5,210 and the full contract amount is outstanding on the construction project as of June 30, 2004.

NOTE 15. BUILDING ACQUISITION

In March 2000, the District purchased a building at 5 Harris Court in Ryan Ranch Office Park for approximately \$1.6 million. The total costs to purchase the land, building, tenant improvements, interior design fee, furnishings and equipment were approximately \$1.9 million. The District purchased the building from monies available in the Mitigation and Capital Projects Funds. The District plans to repay the funds over a term of fifteen years, with interest at 5.35%.

**REQUIRED
SUPPLEMENTARY INFORMATION**

**MONTEREY PENINSULA WATER MANAGEMENT DISTRICT
PENSION FUNDING INFORMATION
FOR THE YEAR ENDED JUNE 30, 2004**

The funded status of the Plan for the actuarial valuations performed as of June 30, 2000 through June 30, 2002 are as follows:

Required Supplementary Information

	(A)	(B)	(C)	(D)	(E)	(F)
Actuarial Valuation Date	Actuarial Asset Value	Entry Age Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability/ (Excess Assets) [(B)-(A)]	Funded Ratio [(A)/(B)]	Covered Payroll	Unfunded Actuarial Liability/ (Excess Assets) Percentage of Covered Payroll {[(B)-(A)/(E)]}
06/30/00	\$ 4,052,165	\$ 3,043,909	\$ (1,008,256)	133.1%	\$ 1,357,454	(74.3)%
06/30/01	\$ 4,319,526	\$ 3,470,469	\$ (849,057)	124.5%	\$ 1,447,376	(58.7)%
06/30/02	\$ 4,225,552	\$ 4,000,876	\$ (224,676)	105.6%	\$ 1,627,374	(13.8)%

MONTEREY PENINSULA WATER MANAGEMENT DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE, BUDGET AND ACTUAL – CAPITAL PROJECTS
FOR THE YEAR ENDED JUNE 30, 2004

	Budgeted Amounts		Actual Amounts	Variance With Final Budget
	Original	Final		
REVENUES:				
Property taxes	\$ 795,500	\$ 845,500	\$ 796,195	\$ (49,305)
User fees	-	-	-	-
Connection charges, net of refunds \$(86,501)	350,000	350,000	290,701	(59,299)
Permit fees	-	-	27,365	27,365
Project reimbursements	25,000	86,200	229,130	142,930
Investment income	88,300	47,400	13,710	(33,690)
Legal fee reimbursements	-	-	-	-
Recording fees	-	-	-	-
Miscellaneous	5,000	15,000	9,312	(5,688)
Total revenues	<u>1,263,800</u>	<u>1,344,100</u>	<u>1,366,413</u>	<u>22,313</u>
EXPENDITURES:				
Personnel:				
Salaries	886,700	886,700	882,911	3,789
Employee benefits and other personnel	258,500	258,500	229,951	28,549
Services and supplies:				
Project expenditures	1,297,300	1,256,200	1,153,967	102,233
Operating expenditures	218,400	221,500	182,204	39,296
Professional fees	103,000	103,000	304,043	(201,043)
Capital outlay	52,600	59,300	43,210	16,090
Total expenditures	<u>2,816,500</u>	<u>2,785,200</u>	<u>2,796,286</u>	<u>(11,086)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(1,552,700)</u>	<u>(1,441,100)</u>	<u>(1,429,873)</u>	<u>11,227</u>
OTHER FINANCING SOURCES (USES):				
Proceeds from sale of capital assets	-	-	-	-
Transfers in	-	-	500,000	500,000
Transfers out	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>500,000</u>	<u>500,000</u>
NET CHANGE IN FUND BALANCES	<u>(1,552,700)</u>	<u>(1,441,100)</u>	<u>(929,873)</u>	<u>511,227</u>
FUND BALANCES – BEGINNING OF YEAR (RESTATED)	<u>2,118,402</u>	<u>1,375,222</u>	<u>1,462,773</u>	<u>87,551</u>
FUND BALANCES – (DEFICIT) END OF YEAR	<u>\$ 565,702</u>	<u>\$ (65,878)</u>	<u>\$ 532,900</u>	<u>\$ 598,778</u>

See Notes to Required Supplementary Information.

MONTEREY PENINSULA WATER MANAGEMENT DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE, BUDGET AND ACTUAL – CONSERVATION
FOR THE YEAR ENDED JUNE 30, 2004

	Budgeted Amounts		Actual Amounts	Variance With Final Budget
	Original	Final		
REVENUES:				
Property taxes	\$ 104,700	\$ 104,700	\$ 104,792	\$ 92
User fees	299,100	299,100	336,283	37,183
Connection charges, net of refunds \$(86,501)	-	-	-	-
Permit fees	90,000	90,000	106,600	16,600
Project reimbursements	25,000	25,000	-	(25,000)
Investment income	25,600	25,700	6,407	(19,293)
Legal fee reimbursements	17,000	17,000	18,287	1,287
Recording fees	11,000	11,000	12,177	1,177
Miscellaneous	-	-	-	-
Total revenues	<u>572,400</u>	<u>572,500</u>	<u>584,546</u>	<u>12,046</u>
EXPENDITURES:				
Personnel:				
Salaries	148,200	148,200	142,132	6,068
Employee benefits and other personnel	59,100	59,100	56,089	3,011
Services and supplies:				
Project expenditures	551,800	426,800	122,293	304,507
Operating expenditures	56,700	54,500	48,650	5,850
Professional fees	20,200	20,200	41,255	(21,055)
Capital outlay	<u>10,900</u>	<u>14,500</u>	<u>20,922</u>	<u>(6,422)</u>
Total expenditures	<u>846,900</u>	<u>723,300</u>	<u>431,341</u>	<u>291,959</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(274,500)</u>	<u>(150,800)</u>	<u>153,205</u>	<u>304,005</u>
OTHER FINANCING SOURCES (USES):				
Proceeds from sale of capital assets	-	-	-	-
Transfers in	-	-	-	-
Transfers out	-	-	(500,000)	(500,000)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(500,000)</u>	<u>(500,000)</u>
NET CHANGE IN FUND BALANCES	(274,500)	(150,800)	(346,795)	(195,995)
FUND BALANCES – BEGINNING OF YEAR (RESTATED)	<u>615,242</u>	<u>745,204</u>	<u>758,470</u>	<u>13,266</u>
FUND BALANCES – END OF YEAR	<u>\$ 340,742</u>	<u>\$ 594,404</u>	<u>\$ 411,675</u>	<u>\$ (182,729)</u>

See Notes to Required Supplementary Information.

MONTEREY PENINSULA WATER MANAGEMENT DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE, BUDGET AND ACTUAL – MITIGATION
FOR THE YEAR ENDED JUNE 30, 2004

	Budgeted Amounts		Actual Amounts	Variance With Final Budget
	Original	Final		
REVENUES:				
Property taxes	\$ 79,800	\$ 79,800	\$ 79,870	\$ 70
User fees	1,620,900	1,620,900	1,820,936	200,036
Connection charges, net of refunds \$(86,501)	-	-	-	-
Permit fees	-	-	50	50
Project reimbursements	82,000	134,400	40,648	(93,752)
Investment income	86,100	76,900	19,000	(57,900)
Legal fee reimbursements	-	-	-	-
Recording fees	-	-	-	-
Miscellaneous	50,000	50,000	8,264	(41,736)
Total revenues	<u>1,918,800</u>	<u>1,962,000</u>	<u>1,968,768</u>	<u>6,768</u>
EXPENDITURES:				
Personnel:				
Salaries	794,200	794,200	830,877	(36,677)
Employee benefits and other personnel	273,000	273,000	249,209	23,791
Services and supplies:				
Project expenditures	488,700	482,200	220,705	261,495
Operating expenditures	193,200	197,200	181,051	16,149
Professional fees	100,900	100,900	87,161	13,739
Capital outlay	96,000	109,200	46,716	62,484
Total expenditures	<u>1,946,000</u>	<u>1,956,700</u>	<u>1,615,719</u>	<u>340,981</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(27,200)</u>	<u>5,300</u>	<u>353,049</u>	<u>347,749</u>
OTHER FINANCING SOURCES (USES):				
Proceeds from sale of capital assets	-	-	10,380	10,380
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>10,380</u>	<u>10,380</u>
NET CHANGE IN FUND BALANCES	<u>(27,200)</u>	<u>5,300</u>	<u>363,429</u>	<u>358,129</u>
FUND BALANCES – BEGINNING OF YEAR (RESTATED)	<u>2,065,992</u>	<u>2,232,307</u>	<u>2,304,201</u>	<u>71,894</u>
FUND BALANCES – END OF YEAR	<u>\$ 2,038,792</u>	<u>\$ 2,237,607</u>	<u>\$ 2,667,630</u>	<u>\$ 430,023</u>

See Notes to Required Supplementary Information.

MONTEREY PENINSULA WATER MANAGEMENT DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2004

NOTE 1. BUDGETARY DATA

The District adopts an annual legal budget, which covers the Capital Projects Fund (which acts as the District's general fund), Conservation Fund, and Mitigation Fund. All appropriations lapse at fiscal year end and then are rebudgeted for the coming fiscal year. Encumbrance accounting is not used. The budgets are prepared on the modified accrual basis of accounting, which is consistent with generally accepted accounting principles.

A mid-year budget review is performed and the budget is amended and adopted by the board of directors. The District must approve additional appropriations or interfund transfers not included in the amended budget resolution.

Per *GASB Statement No. 34*, only the general fund and major special revenue funds budgets are to be presented in required supplementary information.

SUPPLEMENTARY INFORMATION

MONTEREY PENINSULA WATER MANAGEMENT DISTRICT
PROJECT EXPENDITURES – BUDGET AND ACTUAL
CAPITAL PROJECTS
FOR THE YEAR ENDED JUNE 30, 2004

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
New wells	\$ 1,127,400	\$ 930,591	\$ 196,809
CEQA	10,000	143,535	(133,535)
District reporting	25,760	19,870	5,890
Operations modeling	6,000	6,000	–
Hydrologic monitoring	17,200	10,967	6,233
Groundwater quality	9,100	7,578	1,522
Groundwater monitoring	54,500	24,379	30,121
Water rights	6,000	10,797	(4,797)
Ordinance enforcement	–	250	(250)
Project reserve	240	–	240
	<u>240</u>	<u>–</u>	<u>240</u>
Total project expenditures	<u>\$ 1,256,200</u>	<u>\$ 1,153,967</u>	<u>\$ 102,233</u>

MONTEREY PENINSULA WATER MANAGEMENT DISTRICT
PROJECT EXPENDITURES – BUDGET AND ACTUAL
CONSERVATION
FOR THE YEAR ENDED JUNE 30, 2004

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
District reporting	\$ 336,540	\$ 110,221	\$ 226,319
Ordinance enforcement	9,800	2,259	7,541
Toilet replacement refund program	10,000	500	9,500
Deed restrictions	–	9,313	(9,313)
Draft EIR	60,000	–	60,000
Public education	10,460	–	10,460
 Total project expenditures	 <u>\$ 426,800</u>	 <u>\$ 122,293</u>	 <u>\$ 304,507</u>

MONTEREY PENINSULA WATER MANAGEMENT DISTRICT
PROJECT EXPENDITURES – BUDGET AND ACTUAL
MITIGATION
FOR THE YEAR ENDED JUNE 30, 2004

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Fish	\$ 190,900	\$ 142,609	\$ 48,291
Toilet replacement refund program	150,000	22,489	127,511
Riparian projects	72,000	19,390	52,610
District reporting	25,200	15,963	9,237
Erosion control project	12,500	–	12,500
Irrigation	13,500	14,996	(1,496)
Hydrologic monitoring	8,400	2,708	5,692
New wells	–	1,236	(1,236)
Lagoon	1,500	208	1,292
Carmel Valley water quality	1,800	157	1,643
Laguna Seca	4,300	699	3,601
CV large woody debris assessment	–	–	–
Ordinance enforcement	1,800	250	1,550
Project reserve	300	–	300
Total project expenditures	<u>\$ 482,200</u>	<u>\$ 220,705</u>	<u>\$ 261,495</u>