

**MONTEREY PENINSULA WATER  
MANAGEMENT DISTRICT**

FINANCIAL STATEMENTS

FOR THE YEAR ENDED  
JUNE 30, 2007

AND INDEPENDENT AUDITORS' REPORT

# MONTEREY PENINSULA WATER MANAGEMENT DISTRICT

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**MONTEREY PENINSULA WATER MANAGEMENT DISTRICT**

Board of Directors

June 30, 2007

<u>Member</u>	<u>Office</u>	<u>Representative</u>
Alvin Edwards	Vice-Chair	Division 1
Judi Lehman	Director	Division 2
Kristi Markey	Director	Division 3
Michelle Knight	Director	Division 4
Larry Foy	Director	Division 5
David Pendergrass	Chair	Mayoral Representative
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, 2007 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 audits. We did not audit the financial statements of the CAWD/PBCSD Wastewater Reclamation Project (the proprietary fund) which statements reflect 90% of the total assets (See Note 2). Those statements were audited by Porter & Company 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 Porter & Company.

We conducted our audits 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 audits 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 audits provide a reasonable basis for our opinions.

In our opinion, based on our audits, 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, 2007, and the respective changes in financial position and cash flows where applicable, for the years 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.

The Management's Discussion and Analysis on pages 4 through 11, the Pension Funding Information on page 40 and the Budgetary Comparison Schedules on pages 41 through 44 are not a required part of the basic financial statements, but are supplementary information required by the accounting principles generally accepted in the United States of America. 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.

March 4, 2008

*Nayashi & Wayland* LLP

**MONTEREY PENINSULA WATER MANAGEMENT DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)**  
**JUNE 30, 2007**

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, 2007. 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 Porter & Company 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, 2007 by \$5.2 million (net assets). However, \$3.3 million is invested in capital assets – net of related debt.
- The District's total governmental activities net assets increased by approximately \$835,000 for the year ended June 30, 2007. The increase in net assets can mostly be attributed to capital outlay of \$1,017,427 less depreciation of \$167,399.
- Capital outlay of \$1,017,427 consisted mostly of funds expended to construct an additional injection well for the District's Aquifer Storage & Recovery Project, upgrade of the District's conference room to accommodate televised Board meetings and routine computer equipment upgrades.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

This financial report consists of four parts: management's discussion and analysis (this section), the basic financial statements, the notes to the basic financial statements, and required 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 in 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 Activities. 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 CAWD/PBCSD Wastewater Reclamation Project.

The fund financial statements can be found on pages 14 through 20 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 21 through 39 of this report.



## GOVERNMENT-WIDE FINANCIAL ANALYSIS

### 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>2007</u>	<u>2006</u>
<u>Assets</u>		
Current Assets	\$ 2,778,454	\$ 2,698,800
Prepaid Expenses and Deposits	35,286	26,670
Capital Assets – Net	<u>3,263,675</u>	<u>2,417,995</u>
 Total Assets	 <u>6,077,415</u>	 <u>5,143,465</u>
 <u>Liabilities</u>		
Current Liabilities	356,007	432,402
Long-Term Liabilities	<u>574,458</u>	<u>398,663</u>
 Total Liabilities	 <u>930,465</u>	 <u>831,065</u>
 <u>Net Assets</u>		
Invested in Capital Assets, Net of Related Debt	3,263,675	2,417,995
Unrestricted	<u>1,883,275</u>	<u>1,894,405</u>
 Total Net Assets	 <u>\$ 5,146,950</u>	 <u>\$ 4,312,400</u>

The District's assets exceeded its liabilities by approximately \$5.2 million at the end of the current fiscal year, which is an increase of approximately 19% since June 30, 2006.

The activities increased the District's net assets by approximately \$835,000 during the current fiscal year, due primarily to capital outlay.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)**

**Change in Net Assets**

Table A-2  
**Change in Net Assets**  
**Governmental Activities**

	<u>2007</u>	<u>2006</u>
<u>Revenues:</u>		
Program Revenue:		
Charges for Services	\$ 3,619,529	\$ 3,110,827
Operating grants	195,099	1,987
General Revenues:		
Property Taxes	1,280,201	1,012,932
Investment Income	119,553	105,177
Miscellaneous	39,547	48,886
Total Revenues	<u>5,253,929</u>	<u>4,279,809</u>
<u>Expenses:</u>		
Conservation	660,914	607,429
Mitigation	2,717,456	3,637,375
Water Supply	1,041,009	1,092,253
Total Expenses	<u>4,419,379</u>	<u>5,337,057</u>
Change in Net Assets (Decrease)	834,550	(1,057,248)
Total Net Assets - Beginning of Year	<u>4,312,400</u>	<u>5,369,648</u>
Total Net Assets - End of Year	<u>\$ 5,146,950</u>	<u>\$ 4,312,400</u>

The user fee rate, which is the District's largest and most fluid source of revenues was not adjusted during the fiscal year. The amount of operating reserves actually used was about \$10,000, compared to the budgeted surplus of approximately \$39,000. Despite this small use of operating reserves, governmental activities increased the District's net assets by approximately \$835,000. Key elements resulting in the net increase are as follows:

- Project expenditures of about \$901,900, consisted mainly of constructing an additional well for the Aquifer Storage & Recovery Project, contributed to the increase.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

- Capital outlay of approximately \$115,600, mostly upgrade of the District's conference room to accommodate televised Board meetings and routine computer equipment upgrades, added to the increase.
- Depreciation expense of just under \$167,400 offset a portion of the increase.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

The District's capital assets, net of accumulated depreciation, at June 30, 2007 totaled \$3,263,675 as shown on Table A-3 below. This amount represents a net increase, including additions and disposals, net of depreciation, of approximately \$845,000 or 35% from June 30, 2006.

Table A-3  
**Capital Assets**  
**(Net of Depreciation)**

	<u>2007</u>	<u>2006</u>
Office Equipment	\$ 19,477	\$ 25,593
Computer Equipment	79,584	76,508
Operating Equipment	850	1,564
Transportation Equipment	81,222	97,802
Project Equipment	2,807	4,500
Building and Improvements	1,574,311	1,577,343
Monitoring Stations	794	2,388
Injection Wells	1,501,382	627,458
Fish Rearing Facility	<u>3,248</u>	<u>4,839</u>
Total	<u>\$ 3,263,675</u>	<u>\$ 2,417,995</u>

### Debt Administration

All of the District's debt, other than the liability for compensated absences which increased by \$1,507, is related to the CAWD/PBCSD Wastewater Reclamation Project. As mentioned earlier, the Management's Discussion and Analysis for this Proprietary Fund is included in separate financial statements of the Project audited by Porter & Company and, therefore, there is no further discussion of that fund in this report.

## **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 \$2,448,848. The Capital Projects Fund has a fund balance of \$1,001,822, the Conservation Fund has a fund balance of \$621,164 and the Mitigation Fund has a fund balance of \$825,862.

During the current fiscal year, the fund balance of the District's Capital Projects Fund increased \$84,392, the Conservation Fund increased \$262,260 and the Mitigation Fund decreased \$356,697. The increases in the Capital Projects Fund and the Conservation Fund is due to revenues exceeding expenditures and other financing uses. The decrease in the Mitigation Fund is due to expenditures exceeding revenues and other financing sources.

## **BUDGET HIGHLIGHTS/VARIANCES**

The District's budget projected operating revenues of \$5,871,900. User fees, grants, and project reimbursement revenues were under budget, however, the shortfall was mostly offset by higher than anticipated revenues for connection charges, permit fees and investment income. The District finished the budget year with operating revenues of \$5,257,855, \$614,045 or 10% less than budgeted.

Actual operating expenditures totaled \$5,267,900 compared to the budget amount of \$8,422,200, or 37% less than budgeted. The difference is primarily due to project expenditures, including grant funded projects of about \$254,900, and reimbursable expenditures of about \$452,200, being approximately \$2,694,100 less than the budgeted amount.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

In developing the fiscal year 2007-2008 budget, the staff and management had to consider a number of factors that would impact the District's economy and finances. District budgets have been balanced in past years by using large amounts of previously accumulated general operating reserves, however, the 2007-2008 budget was developed without the use of those reserves. This was accomplished by sustaining most expenditure levels and structuring permit and other processing fees collected by the District to fully recover service costs. Growing user fee and property tax revenues were also a factor in balancing the 2007-2008 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, 2007**  
(WITH SUMMARIZED TOTALS FOR JUNE 30, 2006)

	Governmental Activities	Business-Type Activities	2007 Total	2006 Total
<b>ASSETS:</b>				
Cash and cash equivalents	\$ 523,042	\$ 230,536	\$ 753,578	\$ 1,406,706
Investments	1,657,925	-	1,657,925	1,833,766
Receivables, net	597,487	658,130	1,255,617	628,173
Prepaid expenses and deposits	35,286	24,581	59,867	28,685
Restricted reserves:				
Cash	-	6,185,882	6,185,882	8,147,571
Investments	-	587,990	587,990	624,355
Capital assets, net:				
Water resale rights	-	32,294,818	32,294,818	20,098,346
Nondepreciable	899,535	6,938,685	7,838,220	15,448,898
Depreciable	<u>2,364,140</u>	<u>-</u>	<u>2,364,140</u>	<u>2,417,995</u>
Total assets	<u>6,077,415</u>	<u>46,920,622</u>	<u>52,998,037</u>	<u>50,634,495</u>
<b>LIABILITIES:</b>				
Accounts payable	239,717	1,148,979	1,388,696	958,154
Accrued liabilities	116,290	5,901	122,191	114,622
Interest payable	-	88,025	88,025	90,633
Long-term debt:				
Due within one year	202,726	1,200,000	1,402,726	1,274,288
Due in more than one year	<u>371,732</u>	<u>28,100,000</u>	<u>28,471,732</u>	<u>29,698,663</u>
Total liabilities	<u>930,465</u>	<u>30,542,905</u>	<u>31,473,370</u>	<u>32,136,360</u>
<b>NET ASSETS:</b>				
Invested in capital assets, net of related debt	3,263,675	15,676,949	18,940,624	13,420,088
Restricted for debt service	-	2,670	2,670	2,402
Restricted for expanded project	-	6,143,814	6,143,814	8,145,153
Unrestricted (deficit)	<u>1,883,275</u>	<u>(5,445,716)</u>	<u>(3,562,441)</u>	<u>(3,069,508)</u>
Total net assets	<u>\$ 5,146,950</u>	<u>\$ 16,377,717</u>	<u>\$ 21,524,667</u>	<u>\$ 18,498,135</u>

See Notes to Basic Financial Statements.

**MONTEREY PENINSULA WATER MANAGEMENT DISTRICT**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2007**  
**(WITH SUMMARIZED TOTALS FOR JUNE 30, 2006)**

	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	2007 Total	2006 Total
<b>FUNCTIONS/PROGRAMS:</b>							
Governmental activities:							
Conservation	\$ 660,914	\$ 622,701	\$ -	\$ (38,213)	\$ -	\$ (38,213)	\$ (77,637)
Mitigation	2,717,456	2,302,956	195,099	(219,401)	-	(219,401)	(1,705,205)
Water supply	1,041,009	693,872	-	(347,137)	-	(347,137)	(441,401)
Total governmental activities	4,419,379	3,619,529	195,099	(604,751)	-	(604,751)	(2,224,243)
Business-type activities – water	3,239,985	1,891,131	-	-	(1,348,854)	(1,348,854)	(1,168,372)
Total business-type activities	3,239,985	1,891,131	-	-	(1,348,854)	(1,348,854)	(1,168,372)
Total	<u>\$ 7,659,364</u>	<u>\$ 5,510,660</u>	<u>\$ 195,099</u>	<u>(604,751)</u>	<u>(1,348,854)</u>	<u>(1,953,605)</u>	<u>(3,392,615)</u>
<b>GENERAL REVENUES:</b>							
Taxes				1,280,201	-	1,280,201	1,012,932
Investment earnings				119,553	436,066	555,619	603,780
Miscellaneous				43,895	63,449	107,344	54,698
Gain (loss) on sale of capital assets				(4,348)	-	(4,348)	(5,812)
Special items:							
Subsidy, Pebble Beach Company				-	1,626,859	1,626,859	2,081,792
Capital contributions				-	1,414,462	1,414,462	3,858,684
Total general revenues				<u>1,439,301</u>	<u>3,540,836</u>	<u>4,980,137</u>	<u>7,606,074</u>
<b>CHANGE IN NET ASSETS</b>				834,550	2,191,982	3,026,532	4,213,459
<b>NET ASSETS – BEGINNING OF YEAR</b>				<u>4,312,400</u>	<u>14,185,735</u>	<u>18,498,135</u>	<u>14,284,676</u>
<b>NET ASSETS – END OF YEAR</b>				<u>\$ 5,146,950</u>	<u>\$ 16,377,717</u>	<u>\$ 21,524,667</u>	<u>\$ 18,498,135</u>

See Notes to Basic Financial Statements.



**MONTEREY PENINSULA WATER MANAGEMENT DISTRICT**  
**BALANCE SHEET – GOVERNMENTAL FUNDS**  
**JUNE 30, 2007**  
(WITH SUMMARIZED TOTALS FOR JUNE 30, 2006)

	Capital Projects	Conservation	Mitigation	2007 Total	2006 Total
<b>ASSETS:</b>					
Cash and cash equivalents	\$ 523,042	\$ –	\$ –	\$ 523,042	\$ 560,963
Investments	1,657,925	–	–	1,657,925	1,833,766
Receivables, net	58,873	44,429	494,185	597,487	304,071
Prepaid expenses and deposits	34,619	667	–	35,286	26,670
Due from other funds	–	628,371	556,516	1,184,887	1,412,675
<b>Total assets</b>	<b>2,274,459</b>	<b>673,467</b>	<b>1,050,701</b>	<b>3,998,627</b>	<b>4,138,145</b>
<b>LIABILITIES AND FUND BALANCES:</b>					
<b>Liabilities:</b>					
Accounts payable	36,255	38,475	164,987	239,717	143,492
Accrued liabilities	49,008	12,348	54,934	116,290	114,622
Due to other funds	1,184,887	–	–	1,184,887	1,412,675
Deferred revenue	2,487	1,480	4,918	8,885	8,463
<b>Total liabilities</b>	<b>1,272,637</b>	<b>52,303</b>	<b>224,839</b>	<b>1,549,779</b>	<b>1,679,252</b>
<b>Fund balances:</b>					
Reserved for prepaid expenses	34,619	667	–	35,286	26,670
Unreserved, designated:					
Insurance/litigation	171,354	11,906	66,740	250,000	250,000
Capital equipment	60,835	8,283	99,481	168,599	168,599
Flood/drought emergencies	–	–	613,944	613,944	613,944
Unreserved, undesignated	735,014	600,308	45,697	1,381,019	1,399,680
<b>Total fund balances</b>	<b>1,001,822</b>	<b>621,164</b>	<b>825,862</b>	<b>2,448,848</b>	<b>2,458,893</b>
<b>Total liabilities and fund balances</b>	<b>\$ 2,274,459</b>	<b>\$ 673,467</b>	<b>\$ 1,050,701</b>		
<b>Amounts reported in the statement of net assets are different because:</b>					
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds				3,263,675	2,417,995
Other assets are not available to pay for current-period expenditures and therefore are deferred in the funds				8,885	8,463
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds				(574,458)	(572,951)
<b>NET ASSETS OF GOVERNMENTAL ACTIVITIES</b>				<b>\$ 5,146,950</b>	<b>\$ 4,312,400</b>

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, 2007**  
**(WITH SUMMARIZED TOTALS FOR JUNE 30, 2006)**

	Capital Projects	Conservation	Mitigation	2007 Total	2006 Total
<b>REVENUES:</b>					
Property taxes	\$ 358,416	\$ 213,232	\$ 708,553	\$ 1,280,201	\$ 1,012,932
User fees	–	343,677	2,228,477	2,572,154	2,163,406
Connection charges, net of refunds	617,835	–	–	617,835	622,669
Permit fees	41,429	277,877	75	319,381	251,930
Project reimbursements	33,386	–	76,351	109,737	69,072
Investment income	43,595	18,051	57,907	119,553	105,177
Legal fee reimbursements	3,304	19,650	–	22,954	34,391
Recording fees	–	13,947	–	13,947	13,620
Miscellaneous	4,206	828	1,960	6,994	6,686
Grants	–	–	195,099	195,099	1,987
<b>Total revenues</b>	<u>1,102,171</u>	<u>887,262</u>	<u>3,268,422</u>	<u>5,257,855</u>	<u>4,281,870</u>
<b>EXPENDITURES:</b>					
<b>Personnel:</b>					
Salaries	480,835	295,853	1,279,520	2,056,208	1,964,878
Employee benefits and other personnel	177,712	110,181	542,297	830,190	718,251
<b>Services and supplies:</b>					
Project expenditures	74,265	29,444	1,369,240	1,472,949	501,835
Operating expenditures	84,406	66,729	228,524	379,659	493,388
Professional fees	177,659	103,164	132,508	413,331	1,418,207
Capital outlay	22,902	19,631	73,030	115,563	7,622
<b>Total expenditures</b>	<u>1,017,779</u>	<u>625,002</u>	<u>3,625,119</u>	<u>5,267,900</u>	<u>5,104,181</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>84,392</u>	<u>262,260</u>	<u>(356,697)</u>	<u>(10,045)</u>	<u>(822,311)</u>
<b>NET CHANGE IN FUND BALANCES</b>	84,392	262,260	(356,697)	(10,045)	(822,311)
<b>FUND BALANCES – BEGINNING OF YEAR</b>	<u>917,430</u>	<u>358,904</u>	<u>1,182,559</u>	<u>2,458,893</u>	<u>3,281,204</u>
<b>FUND BALANCES – END OF YEAR</b>	<u>\$ 1,001,822</u>	<u>\$ 621,164</u>	<u>\$ 825,862</u>	<u>\$ 2,448,848</u>	<u>\$ 2,458,893</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, 2007**

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NET CHANGE IN FUND BALANCES \$ (10,045)

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 capital outlays exceeded depreciation in the current period. 850,028

Capitalized project expenditures	\$ 901,864
Capital outlay	\$ 115,563
Current year depreciation	\$(167,399)

In the Statement of Activities, only the gain or loss on the sale of capital assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balance by the cost of assets sold –  
 Loss on disposal of capital assets (4,348)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenue in the funds. 422

Compensated absences 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. (1,507)

CHANGE IN NET ASSETS \$ 834,550

See Notes to Basic Financial Statements.

**MONTEREY PENINSULA WATER MANAGEMENT DISTRICT**  
**STATEMENT OF NET ASSETS – PROPRIETARY FUND**  
**(CAWD/PBCSD WASTEWATER RECLAMATION PROJECT)**  
**JUNE 30, 2007**  
**(WITH SUMMARIZED TOTALS FOR JUNE 30, 2006)**

	2007	2006
<b>ASSETS:</b>		
Cash and cash equivalents	\$ 230,536	\$ 845,743
Receivables, net	658,130	324,102
Prepaid expenses	24,581	2,015
Restricted reserves:		
Cash	6,185,882	8,147,571
Investments	587,990	624,355
Capital assets, net:		
Water resale rights	32,294,818	20,098,346
Nondepreciable	6,938,685	15,448,898
Total assets	46,920,622	45,491,030
<b>LIABILITIES:</b>		
Accounts payable	1,148,979	814,662
Interest payable	88,025	90,633
Accrued payroll	5,901	-
Certificates of participation:		
Due within one year	1,200,000	1,100,000
Due in more than one year	28,100,000	29,300,000
Total liabilities	30,542,905	31,305,295
<b>NET ASSETS:</b>		
Invested in capital assets, net of related debt	15,676,949	11,002,093
Restricted for debt service	2,670	2,402
Restricted for expanded project	6,143,814	8,145,153
Unrestricted (deficit)	(5,445,716)	(4,963,913)
Total net assets	\$ 16,377,717	\$ 14,185,735

See Notes to Basic Financial Statements.

**MONTEREY PENINSULA WATER MANAGEMENT DISTRICT**  
**STATEMENT OF REVENUES, EXPENSES**  
**AND CHANGES IN NET ASSETS – PROPRIETARY FUND**  
**(CAWD/PBCSD WASTEWATER RECLAMATION PROJECT)**  
**FOR THE YEAR ENDED JUNE 30, 2007**  
**(WITH SUMMARIZED TOTALS FOR JUNE 30, 2006)**

	2007	2006
<b>OPERATING REVENUES –</b>		
Water sales	\$ 1,891,131	\$ 1,490,644
Total operating revenues	1,891,131	1,490,644
<b>OPERATING EXPENSES:</b>		
Plant costs	423,847	428,025
Distribution costs	383,386	148,826
General and administration	56,769	58,679
Potable water	317,392	207,224
Total operating expenses	1,181,394	842,754
Operating income before amortization	709,737	647,890
Less amortization	812,440	699,968
Operating income (loss)	(102,703)	(52,078)
<b>NON-OPERATING REVENUES</b>		
<b>(EXPENSES):</b>		
Investment earnings	436,066	498,603
Interest expense on certificates of participation	(1,036,907)	(899,598)
Certificates of participation carrying costs	(209,244)	(216,696)
Subsidy – Pebble Beach Company	1,626,859	2,081,792
Miscellaneous	63,449	–
Total non-operating revenues (expenses)	880,223	1,464,101
<b>NET INCOME BEFORE CONTRIBUTIONS</b>	777,520	1,412,023
Capital contributions	1,414,462	3,858,684
<b>CHANGE IN NET ASSETS</b>	2,191,982	5,270,707
<b>NET ASSETS – BEGINNING OF YEAR, AS RESTATED</b>	14,185,735	8,915,028
<b>NET ASSETS – END OF YEAR</b>	\$ 16,377,717	\$ 14,185,735

See Notes to Basic Financial Statements.

**MONTEREY PENINSULA WATER MANAGEMENT DISTRICT**  
**STATEMENT OF CASH FLOWS – PROPRIETARY FUND**  
**(CAWD/PBCSD WASTEWATER RECLAMATION PROJECT)**  
**FOR THE YEAR ENDED JUNE 30, 2007**  
**(WITH SUMMARIZED TOTALS FOR JUNE 30, 2006)**

	<u>2007</u>	<u>2006</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash received from sales	\$ 1,555,860	\$ 1,718,525
Cash paid for operating expenses	<u>(1,194,223)</u>	<u>(909,615)</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>361,637</u>	<u>808,910</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Affiliate subsidy	1,626,859	2,081,792
Affiliate contribution	1,414,462	3,858,684
Cash expended for expanded project	8,840,694	(11,738,269)
Payments for water rights costs	(13,008,912)	(11,420)
Interest payments on certificates of participation	(1,039,515)	(872,008)
Principal payments on certificates of participation	(1,100,000)	(1,100,000)
Payment of certificates of participation carrying costs	<u>(209,244)</u>	<u>(216,696)</u>
<b>NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<u>(3,475,656)</u>	<u>(7,997,917)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>		
Insurance reimbursement	<u>63,449</u>	<u>—</u>
<b>NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES</b>	<u>63,449</u>	<u>—</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Investment earnings	437,309	498,362
Reduction (funding) of required reserves	<u>36,365</u>	<u>(76,178)</u>
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<u>473,674</u>	<u>422,184</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<u>(2,576,896)</u>	<u>(6,766,823)</u>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>8,993,314</u>	<u>15,760,137</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 6,416,418</u>	<u>\$ 8,993,314</u>

**MONTEREY PENINSULA WATER MANAGEMENT DISTRICT**  
**STATEMENT OF CASH FLOWS – PROPRIETARY FUND**  
**(CAWD/PBCSD WASTEWATER RECLAMATION PROJECT)**  
**FOR THE YEAR ENDED JUNE 30, 2007**  
**(WITH SUMMARIZED TOTALS FOR JUNE 30, 2006)**  
(Continued)

	2007	2006
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH</b>		
<b>FLows FROM OPERATING ACTIVITIES:</b>		
Operating income (loss)	\$ (102,703)	\$ (52,078)
Adjustments to reconcile net operating income (loss) to net cash provided by operating activities:		
Amortization	812,440	699,968
(Increase) decrease in:		
Receivables	(335,271)	227,881
Prepaid expenses	(22,566)	(2,015)
Increase (decrease) in:		
Accounts payable	3,836	(64,846)
Accrued payroll	5,901	—
	<u>\$ 361,637</u>	<u>\$ 808,910</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET ASSETS:</b>		
Cash and cash equivalents	\$ 230,536	\$ 845,743
Restricted reserves	<u>6,185,882</u>	<u>8,147,571</u>
<b>Total</b>	<u>\$ 6,416,418</u>	<u>\$ 8,993,314</u>

See Notes to Basic Financial Statements.

**MONTEREY PENINSULA WATER MANAGEMENT DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2007**

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**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Abbreviations Used:**

CAW	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:**

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.

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:



**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**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 non-major funds are combined in a column in the fund financial statements. The District has no non-major funds.

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.

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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. Operating revenue comes from sales of reclaimed water. Other revenue comes primarily from the subsidy by PBCo. and from sales of water entitlements.

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.

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).

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

- 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 Statements 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.

**Restricted assets** – Certain cash and investments of the Reclamation Project are classified as restricted because their uses are limited by commitments made by the Project to the purchasers of the Certificates of Participation.

**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.

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Resolution 83-17, adopted September 12, 1983, authorized investment of the District's monies with the State Treasurer for deposit in the Local Agency 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, 2007.

**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 estimated useful life in excess of one year and an initial, individual cost of more than \$1,000 for equipment and \$5,000 for land, facilities, and improvements.

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

**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.

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**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 revenues 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.

**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.

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Fund Equity** – In the governmental fund financial statements, reservations of fund balance represent amounts that are not available for appropriation or are legally restricted by outside parties for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change. In the government-wide financial statements, restrictions of net assets are limited to outside third-party restrictions.

**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.

**Reclassifications** – Certain reclassifications have been made to the prior year's financial statements, providing additional detail, to conform to the current year presentation.

**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 Porter & Company 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.

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

The original Project was 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 provided the funds necessary to construct and operate the Project and then obtained ownership of the reclaimed water for the purpose of resale. PBCo. guaranteed payment of construction costs of the Project as well as any operating deficiencies. The 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 \$1,626,859 for the year ended June 30, 2007.

Construction of the original Project began in January 1993 and was completed in 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) the Forest Lake reservoir, (3) a 2.5 million gallon storage tank, (4) a potable water pump station, and (5) a reclaimed water booster pump station.

As the Project does not own the operating assets, the value earned for the capital expenditures incurred is reflected on the books of the Project as water resale rights, an intangible asset.

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.

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

The Project's management committee has agreed upon 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 tertiary treatment by adding microfiltration/reverse osmosis treatment. The Expanded Project utilizes the Forest Lake Reservoir in Pebble Beach, which provides approximately 325 acre-feet (AF) of reclaimed water storage. The additional storage improved the performance of the Project by meeting peak water demand in the summer months. The cost of the Expanded Project improvements for the Forest Lake Reservoir is approximately \$12.7 million. This portion of the Project was completed in November of 2006. PBCSD currently has an application with the California Division of Safety and Dams to increase the capacity of the Reservoir from 325 AF to 375 AF, to provide additional storage and supply of reclaimed water. The cost of the microfiltration/reverse osmosis portion, which is still in the design phase, is estimated to be \$22 million. The cost is to be financed through the sale of water entitlements owned by PBCo. to individuals within Pebble Beach, currently at \$250,000 per acre foot, which is subject to change. At June 30, 2007, approximately \$23.7 million had been raised through these sales and accrued interest. The funds from the sales are deposited in a restricted escrow account where they are invested in short-term federal government securities and are restricted for use by the Expanded Project.

**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) or Securities Investment Protection Corporation (SIPC) or collateralized by the pledging institution under the California Government Code and unsecured and uncollateralized deposits in the California State Treasurer's Investment Pool, known as the Local Agency 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 5363 (Public Deposit Act). As of June 30, 2007, \$6,620,264 of the District's bank balances of \$7,007,207 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)**

**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, 2007 consisted of the following:

Governmental activities –	
Local Agency Investment Fund	\$ <u>1,657,925</u>
Subtotal Governmental activities	<u>1,657,925</u>
Business-type activities:	
Government obligations	578,874
Corporate obligations	<u>9,116</u>
	587,990
Less restricted reserves	<u>587,990</u>
Subtotal Business-type activities	<u>–</u>
Total Investments	<u>\$ 1,657,925</u>

**NOTE 4. RECEIVABLES**

Receivables, net of allowances for uncollectibles (estimated to be \$ -0-), consist of the following at June 30, 2007:

	<u>Capital Projects</u>	<u>Conservation</u>	<u>Mitigation</u>	<u>Total</u>
Governmental activities:				
Project reimbursements reclamation	\$ 23,257	\$ -	\$ -	\$ 23,257
User fees	-	42,949	278,150	321,099
Rebates (CAW)	-	-	15,700	15,700
Taxes	2,488	1,480	4,918	8,886
Interest	27,153	-	-	27,153
Other	<u>5,975</u>	<u>-</u>	<u>195,417</u>	<u>201,392</u>
 Total Governmental activities	 <u>\$ 58,873</u>	 <u>\$ 44,429</u>	 <u>\$ 494,185</u>	 <u>597,487</u>
Business-type activities:				
Water sales				310,596
Affiliates (Reclamation)				310,914
Other				<u>36,620</u>
 Total Business-type activities				 <u>658,130</u>
 TOTAL				 <u>\$ 1,255,617</u>

**NOTE 5. CHANGES IN CAPITAL ASSETS**

The capital assets experienced the following changes for the year ended June 30, 2007:

	<u>Balance Beginning of Year</u>	<u>Current Additions</u>	<u>Deletions</u>	<u>Balance End of Year</u>
Governmental activities:				
Nondepreciable assets -				
Construction in progress	\$ -	\$ 899,535	\$ -	\$ 899,535
Depreciable assets:				
Equipment:				
Office	131,354	5,756	1,383	135,727
Computer	279,209	50,284	59,449	270,044
Operating	27,421	-	-	27,421
Transportation	328,476	6,504	22,435	312,545
Project	243,907	-	-	243,907
Phone	<u>43,851</u>	<u>-</u>	<u>-</u>	<u>43,851</u>
 Total equipment	 <u>\$ 1,054,218</u>	 <u>\$ 62,544</u>	 <u>\$ 83,267</u>	 <u>\$ 1,033,495</u>

**NOTE 5. CHANGES IN CAPITAL ASSETS (Continued)**

	Balance Beginning of Year	Current Additions	Deletions	Balance End of Year
Governmental activities (continued):				
Building and improvements	\$ 1,920,032	\$ 53,019	\$ —	\$ 1,973,051
Monitoring stations	64,617	—	—	64,617
Wells	768,316	—	—	768,316
Fish rearing facility	923,456	2,329	640	925,145
Leasehold improvements	2,837	—	—	2,837
Total depreciable assets	<u>4,733,476</u>	<u>117,892</u>	<u>83,907</u>	<u>4,767,461</u>
Less accumulated depreciation for:				
Equipment:				
Office	105,761	11,872	1,383	116,250
Computer	202,701	42,860	55,101	190,460
Operating	25,857	714	—	26,571
Transportation	230,674	23,084	22,435	231,323
Project	239,407	1,693	—	241,100
Phone	43,851	—	—	43,851
Total equipment	848,251	80,223	78,919	849,555
Building and improvements	342,689	56,051	—	398,740
Monitoring stations	62,229	1,594	—	63,823
Wells	140,858	25,611	—	166,469
Fish rearing facility	918,617	3,920	640	921,897
Leasehold improvements	2,837	—	—	2,837
Total accumulated depreciation	<u>2,315,481</u>	<u>167,399</u>	<u>79,559</u>	<u>2,403,321</u>
Total depreciable assets, net	2,417,995	(49,507)	4,348	2,364,140
Total governmental activities capital assets, net	<u>2,417,995</u>	<u>850,028</u>	<u>4,348</u>	<u>3,263,675</u>
Business-type activities:				
Nondepreciable assets:				
Construction in progress	15,448,898	—	8,510,213	6,938,685
Water resale rights	28,196,656	13,008,912	—	41,205,568
Less accumulated amortization for:				
Water resale rights	8,098,310	812,440	—	8,910,750
Total water resale rights, net	<u>20,098,346</u>	<u>12,196,472</u>	<u>—</u>	<u>32,294,818</u>
Total business type activities capital assets, net	<u>35,547,244</u>	<u>12,196,472</u>	<u>8,510,213</u>	<u>39,233,503</u>
Total capital assets, net	<u>\$ 37,965,239</u>	<u>\$ 13,046,500</u>	<u>\$ 8,514,561</u>	<u>\$ 42,497,178</u>

**NOTE 5. CHANGES IN CAPITAL ASSETS (Continued)**

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

Conservation	\$	36,928
Mitigation		66,290
Water supply		<u>64,181</u>
Total depreciation expense	\$	<u>167,399</u>

**NOTE 6. INTERFUND RECEIVABLES AND PAYABLES**

At June 30, 2007 interfund receivables and payables consist of :

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
Capital projects	\$ -	\$ 1,184,887
Conservation	628,371	-
Mitigation	<u>556,516</u>	<u>-</u>
	<u>\$ 1,184,887</u>	<u>\$ 1,184,887</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.

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, 2007.

**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, 2007 accounts receivable from these affiliates were as follows –

Receivable from PBCo and affiliated golf courses –	
Water sales	\$ <u>310,914</u>
Total	\$ <u>310,914</u>

At June 30, 2007 accounts payable to these affiliates were as follows:

Payable to MPWMD for user fees and overhead	\$ 10,867
Payable to MPWMD for personnel	<u>5,901</u>
Total	\$ <u>16,768</u>

**NOTE 7. TRANSACTIONS WITH AFFILIATES (Continued)**

Accounts payable – Expanded Project at June 30, 2007 consists of the following:

CAWD (consultants)	\$ 84,658
PBCSD (Forest Lake construction)	27,466
PBCo. (MF/RO construction and legal)	<u>813,395</u>
Total	<u>\$ 925,519</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. During the year ended June 30, 2007, the renewal and replacement reserve was renamed the Capital Replacement Reserve. Each of these reserves is held in a segregated account restricted for its intended purposes. At June 30, 2007 the balances in these funds were as follows:

Capital Replacement Reserve	\$ 401,177
Operations and Maintenance Reserve	<u>226,194</u>
Total	<u>\$ 627,371</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. A Bond Letter of Credit also guarantees the COPs.

**NOTE 8. LONG-TERM DEBT (Continued)**

Long-term debt activity for the year ended June 30, 2007 is as follows:

	<u>2006</u>	<u>Additions</u>	<u>Reductions</u>	<u>2007</u>	<u>Due Within One Year</u>
COPs	\$ 30,400,000	\$ -	\$ 1,100,000	\$ 29,300,000	\$ 1,200,000
Compensated absences	<u>572,951</u>	<u>1,507</u>	<u>-</u>	<u>574,458</u>	<u>202,726</u>
	<u>\$ 30,972,951</u>	<u>\$ 1,507</u>	<u>\$ 1,100,000</u>	<u>\$ 29,874,458</u>	<u>\$ 1,402,726</u>

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

**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 3.65%, the rate for the payment due on June 30, 2007, in accordance with GASB Statement Number 38, *Certain Financial Statement 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>
2008	\$ 1,200,000	\$ 1,025,650	\$ 2,225,650
2009	1,300,000	978,200	2,278,200
2010	1,300,000	930,750	2,230,750
2011	1,400,000	879,650	2,279,650
2012	1,500,000	824,900	2,324,900
2013-2017	8,700,000	3,197,400	11,897,400
2018-2022	11,300,000	1,346,850	12,646,850
2023	<u>2,600,000</u>	<u>-</u>	<u>2,600,000</u>
Total	<u>\$ 29,300,000</u>	<u>\$ 9,183,400</u>	<u>\$ 38,483,400</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 2010.

**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.

Condensed financial information of the SDRMA as of and for the year ended June 30, 2007 (the most current information available) is as follows:

Total assets	\$ 60,103,067
Total liabilities	<u>42,623,168</u>
 Risk margin (SDRMA equity)	 <u>\$ 17,479,899</u>
 Total revenues	 \$ 28,957,986
Total expenses	<u>28,192,556</u>
 Net income	 <u>\$ 765,430</u>

The SDRMA did not have long-term debt outstanding at June 30, 2007, 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.

**NOTE 11. DEFERRED COMPENSATION PLAN (Continued)**

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 (CalPERS), an agent multiple-employer public employee defined benefit pension plan. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS 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 CalPERS’ 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 to fund the benefits for its members. For the fiscal year ended June 30, 2007 the employer contribution rate was 9.328% of annual covered payroll. The contribution requirements of plan members and the District are established and may be amended by CalPERS.

**Annual Pension Cost** – For the year ended June 30, 2007, the District’s annual pension cost of \$350,672 for CalPERS was equal to the District’s required and actual contributions. The required contribution was determined as part of the June 30, 2004 actuarial valuation.

A summary of principle assumptions and methods used to determine the annual required contribution is shown below:

Valuation Date	June 30, 2004
Actuarial Cost Method	Entry Age Actuarial Cost Method
Amortization Method	Level Percent of Payroll
Average Remaining Period	14 Years as of the Valuation Date
Asset Valuation Method	15 Year Smoothed Market



**NOTE 12. PENSION PLAN (Continued)**

Actuarial Assumptions:

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

Initial plan unfunded liabilities are amortized over a closed period equal to the average amortization period of the plan's date of entry into CalPERS Risk Pool. Subsequent plan amendments are amortized as a level percentage of pay over a closed 20 year period. Gains and losses that occur in the operation of the risk pool are amortized over a rolling 30 year period. If the plan's accrued liability exceeds the actuarial value of plan assets, then the amortization payment on the total unfunded liability may not be lower than the payment calculated over a 30 year amortization period.

**Asset Valuation Method** – In order to dampen the effect of short-term market value fluctuations on employer contribution rates, the following asset smoothing technique is used. First an Expected Value of Assets is computed by bringing forward the prior year's Actuarial Value of Assets and the contributions received and benefits paid during the year at the assumed actuarial rate of return. The Actuarial Value of Assets is then computed as the Expected Value of Assets plus one-third of the difference between the actual Market Value of Assets and the Expected Value of Assets as of the valuation date. However in no case will the Actuarial Value of Assets be less than 90% or greater than 110% of the actual Market Value of Assets.

Actuarial information of the Plan for the three years ended June 30, 2005, 2006 and 2007 is as follows:

**Three-Year Trend Information**

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
06/30/05	\$ 258,072	100%	\$ -0-
06/30/06	\$ 328,732	100%	\$ -0-
06/30/07	\$ 350,672	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**

**Microfiltration and Reverse Osmosis Facilities** – On November 14, 2005, the Project awarded a contract in the amount of \$1,529,205, for design and consulting work, a pilot test unit and overseeing construction of the Expanded Project microfiltration and reverse osmosis facilities. There have been two contract amendments since that date raising the total contract to \$1,753,414. The Project is scheduled to be completed in April 2008. The amount outstanding is \$778,091 as of June 30, 2007.

On December 2, 2005, the Project awarded a formal authorization to proceed in the amount of \$4,362,000 for construction of the first phase of the microfiltration and reverse osmosis facilities with CDM Constructors. Subsequent amendments brought the total contract amount to \$17,997,000. The work is scheduled to be completed in April 2008. The amount outstanding is \$14,741,490 as of June 30, 2007.

**Construction of Forest Lake Improvements** – The Forest Lake Reservoir project was completed in November 2006. After completion of the initial reservoir construction the Project initiated an enlargement project to increase the storage capacity from 325 acre-feet to 375 acre-feet. In order to expand capacity, modifications to the outlet structure to reduce the freeboard from 8 feet to 3 feet are required along with an evaluation of embankment stability. A contract was awarded to E2C Consulting Engineers on January 26, 2007 in the amount of \$50,000. The completion date is dependent on approval by the California Department of Water Resources, Division of Safety of Dams. The outstanding balance as of June 30, 2007 is \$19,744.

**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%.

**NOTE 16. PRIOR PERIOD ADJUSTMENT**

The net assets of the CAWD/PBCSD Reclamation Project were restated due to certain errors resulting in an understatement of previously reported net assets. The corrections aggregated to \$197,924, related to project subsidies made by PBCo. in fiscal year 2005 in connection with the Forest Lake Reservoir Project. After amortization of the water resale rights recorded, the net prior period adjustment was \$174,292.

Net assets beginning of year:	
As previously reported	\$ 14,011,443
Prior period adjustments	<u>174,292</u>
As restated	<u>\$ 14,185,735</u>

**REQUIRED  
SUPPLEMENTARY INFORMATION**

**MONTEREY PENINSULA WATER MANAGEMENT DISTRICT**  
**PENSION FUNDING INFORMATION (Unaudited)**  
**FOR THE YEAR ENDED JUNE 30, 2007**

The funded status and funding progress of the Plan for the actuarial valuations performed as of June 30, 2004 through June 30, 2006 are as follows:

**Required Supplementary Information**

Actuarial Valuation Date	(a) Entry Age Actuarial Accrued Liability	(b) Actuarial Value of Assets	(a)-(b) Unfunded Liability/ (Excess Assets)	(b)/(a) Funded Ratio	(c) Annual Covered Payroll	[(a)-(b)]/(c) Unfunded Liability/ (Excess Assets) as a % of Covered Payroll
Miscellaneous:						
06/30/04	\$ 2,746,095,668	\$ 2,460,944,656	\$ 285,151,012	89.6%	\$ 743,691,970	38.3%
06/30/05	\$ 2,891,460,651	\$ 2,588,713,000	\$ 302,747,651	89.5%	\$ 755,046,679	40.1%
06/30/06	\$ 2,754,396,608	\$ 2,492,226,176	\$ 262,170,432	90.5%	\$ 699,897,835	37.5%

In 2004, PERS established a risk pool for cities and other government entities that have less than 100 active members. The actuarial valuation was performed with other participants within the same risk pool. Therefore, stand-alone information of the schedule of funding progress for the District is no longer available.

**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, 2007**

	<u>Budgeted Amounts</u>		<u>Actual</u> <u>Amounts</u>	<u>Variance</u> <u>With Final</u> <u>Amounts</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES:</b>				
Property taxes	\$ 279,000	\$ 355,000	\$ 358,416	\$ 3,416
Connection charges, net of refunds	550,000	550,000	617,835	67,835
Permit fees	-	-	41,429	41,429
Project reimbursements	35,300	35,300	33,386	(1,914)
Investment income	13,200	16,800	43,595	26,795
Legal fee reimbursements	-	-	3,304	3,304
Miscellaneous	10,000	10,000	4,206	(5,794)
Total revenues	<u>887,500</u>	<u>967,100</u>	<u>1,102,171</u>	<u>135,071</u>
<b>EXPENDITURES:</b>				
Personnel:				
Salaries	418,200	434,300	480,835	(46,535)
Employee benefits and other personnel	167,700	178,800	177,712	1,088
Services and supplies:				
Project expenditures	67,500	94,800	74,265	20,535
Operating expenditures	99,300	101,600	84,406	17,194
Professional fees	110,000	110,900	177,659	(66,759)
Capital outlay	22,500	33,000	22,902	10,098
Total expenditures	<u>885,200</u>	<u>953,400</u>	<u>1,017,779</u>	<u>(64,379)</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<u>2,300</u>	<u>13,700</u>	<u>84,392</u>	<u>70,692</u>
<b>NET CHANGE IN FUND BALANCE</b>	2,300	13,700	84,392	70,692
<b>FUND BALANCE – BEGINNING OF YEAR</b>	<u>613,010</u>	<u>917,430</u>	<u>917,430</u>	<u>-</u>
<b>FUND BALANCE – END OF YEAR</b>	<u>\$ 615,310</u>	<u>\$ 931,130</u>	<u>\$ 1,001,822</u>	<u>\$ 70,692</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, 2007**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Amounts</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES:</b>				
Property taxes	\$ 328,200	\$ 211,200	\$ 213,232	\$ 2,032
User fees	351,300	351,300	343,677	(7,623)
Permit fees	275,000	275,000	277,877	2,877
Project reimbursements	374,100	374,100	-	(374,100)
Investment income	10,800	14,400	18,051	3,651
Legal fee reimbursements	28,000	28,000	19,650	(8,350)
Recording fees	14,000	14,000	13,947	(53)
Miscellaneous	-	-	828	828
<b>Total revenues</b>	<u>1,381,400</u>	<u>1,268,000</u>	<u>887,262</u>	<u>(380,738)</u>
<b>EXPENDITURES:</b>				
<b>Personnel:</b>				
Salaries	358,500	372,200	295,853	76,347
Employee benefits and other personnel	143,700	153,100	110,181	42,919
<b>Services and supplies:</b>				
Project expenditures	664,600	522,500	29,444	493,056
Operating expenditures	85,000	87,100	66,729	20,371
Professional fees	94,300	95,100	103,164	(8,064)
Capital outlay	19,600	28,600	19,631	8,969
<b>Total expenditures</b>	<u>1,365,700</u>	<u>1,258,600</u>	<u>625,002</u>	<u>633,598</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<u>15,700</u>	<u>9,400</u>	<u>262,260</u>	<u>252,860</u>
<b>NET CHANGE IN FUND BALANCE</b>	15,700	9,400	262,260	252,860
<b>FUND BALANCE – BEGINNING OF YEAR</b>	<u>316,057</u>	<u>358,904</u>	<u>358,904</u>	<u>-</u>
<b>FUND BALANCE – END OF YEAR</b>	<u>\$ 331,757</u>	<u>\$ 368,304</u>	<u>\$ 621,164</u>	<u>\$ 252,860</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, 2007**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Amounts</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES:</b>				
Property taxes	\$ 660,800	\$ 701,800	\$ 708,553	\$ 6,753
User fees	2,283,700	2,283,700	2,228,477	(55,223)
Permit fees	-	-	75	75
Project reimbursements	152,500	152,500	76,351	(76,149)
Investment income	36,000	48,800	57,907	9,107
Grants	298,000	450,000	195,099	(254,901)
Miscellaneous	-	-	1,960	1,960
Total revenues	<u>3,431,000</u>	<u>3,636,800</u>	<u>3,268,422</u>	<u>(368,378)</u>
<b>EXPENDITURES:</b>				
Personnel:				
Salaries	1,214,700	1,261,500	1,279,520	(18,020)
Employee benefits and other personnel	487,000	519,200	542,297	(23,097)
Services and supplies:				
Project expenditures	3,351,000	3,549,700	1,369,240	2,180,460
Operating expenditures	288,000	294,800	228,524	66,276
Professional fees	319,600	322,100	132,508	189,592
Capital outlay	<u>66,900</u>	<u>97,400</u>	<u>73,030</u>	<u>24,370</u>
Total expenditures	<u>5,727,200</u>	<u>6,044,700</u>	<u>3,625,119</u>	<u>2,419,581</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>(2,296,200)</u>	<u>(2,407,900)</u>	<u>(356,697)</u>	<u>2,051,203</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Bond Proceeds	2,550,000	2,550,000	-	(2,550,000)
Debt Service	<u>(126,500)</u>	<u>(126,500)</u>	<u>-</u>	<u>126,500</u>
Total other financing sources (uses)	<u>2,423,500</u>	<u>2,423,500</u>	<u>-</u>	<u>(2,423,500)</u>
<b>NET CHANGE IN FUND BALANCE</b>	127,300	15,600	(356,697)	(372,297)
<b>FUND BALANCE – BEGINNING OF YEAR</b>	<u>1,016,050</u>	<u>1,182,559</u>	<u>1,182,559</u>	<u>-</u>
<b>FUND BALANCE – END OF YEAR</b>	<u>\$ 1,143,350</u>	<u>\$ 1,198,159</u>	<u>\$ 825,862</u>	<u>\$ (372,297)</u>

See Notes to Required Supplementary Information.

**MONTEREY PENINSULA WATER MANAGEMENT DISTRICT**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**FOR THE YEAR ENDED JUNE 30, 2007**

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**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.