

**MONTEREY PENINSULA WATER
MANAGEMENT DISTRICT**

FINANCIAL STATEMENTS

FOR THE YEAR ENDED
JUNE 30, 2008

AND INDEPENDENT AUDITORS' REPORT

MONTEREY PENINSULA WATER MANAGEMENT DISTRICT

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MONTEREY PENINSULA WATER MANAGEMENT DISTRICT

Board of Directors

June 30, 2008

<u>Member</u>	<u>Office</u>	<u>Representative</u>
Alvin Edwards	Director	Division 1
Judi Lehman	Chair	Division 2
Kristi Markey	Vice-Chair	Division 3
Regina Doyle	Director	Division 4
Bob Brower	Director	Division 5
David Pendergrass	Director	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, 2008 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 88% of the total assets (See Note 2). Those statements were audited by Marcello & 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 Marcello & 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, 2008, 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 and the Budgetary Comparison Schedules on pages 40 through 43 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.

February 17, 2009

Hayashi & Wayland

MONTEREY PENINSULA WATER MANAGEMENT DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
JUNE 30, 2008

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, 2008. 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 Marcello & 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 year ending June 30, 2008 by \$6 million (net assets). However, \$4.0 million is invested in capital assets – net of related debt.
- The District's total governmental activities net assets increased by approximately \$859,000 for the year ended June 30, 2008. The increase in net assets can mostly be attributed to capital outlay of \$929,335 less depreciation of \$169,592.
- Capital outlay of \$929,335 consisted mostly of funds expended to construct an additional injection well for the District's Aquifer Storage & Recovery Project 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.

Summary of Net Assets Governmental Activities

	<u>2008</u>	<u>2007</u>
<u>Assets</u>		
Current Assets	\$ 3,125,520	\$ 2,778,454
Prepaid Expenses and Deposits	90,533	35,286
Capital Assets – Net	<u>4,022,151</u>	<u>3,263,675</u>
Total Assets	<u>7,238,204</u>	<u>6,077,415</u>
<u>Liabilities</u>		
Current Liabilities	632,725	356,007
Long-Term Liabilities	<u>599,103</u>	<u>574,458</u>
Total Liabilities	<u>1,231,828</u>	<u>930,465</u>
<u>Net Assets</u>		
Invested in Capital Assets, Net of Related Debt	4,022,151	3,263,675
Unrestricted	<u>1,984,225</u>	<u>1,883,275</u>
Total Net Assets	<u>\$ 6,006,376</u>	<u>\$ 5,146,950</u>

The District's assets exceeded its liabilities by approximately \$6 million at the end of the current year, which is an increase of approximately 17% since June 30, 2007.

The activities increased the District's net assets by approximately \$859,000 during the current year, due primarily to capital outlay.

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

Change in Net Assets

	Change in Net Assets	
	Governmental Activities	
	<u>2008</u>	<u>2007</u>
<u>Revenues:</u>		
<u>Program Revenue:</u>		
Charges for Services	\$ 4,323,935	\$ 3,619,529
Operating grants	299,870	195,099
<u>General Revenues:</u>		
Property Taxes	1,352,826	1,280,201
Investment Income	93,640	119,553
Miscellaneous	<u>67,749</u>	<u>39,547</u>
Total Revenues	<u>6,138,020</u>	<u>5,253,929</u>
<u>Expenses:</u>		
Conservation	870,287	660,914
Mitigation	3,208,565	2,717,456
Water Supply	<u>1,199,742</u>	<u>1,041,009</u>
Total Expenses	<u>5,278,594</u>	<u>4,419,379</u>
Change in Net Assets	859,426	834,550
Net Assets - Beginning of Year	<u>5,146,950</u>	<u>4,312,400</u>
Net Assets - End of Year	<u>\$ 6,006,376</u>	<u>\$ 5,146,950</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 surplus was about \$121,000, compared to the budgeted use of reserves of approximately \$750,000. Governmental activities increased the District's net assets by approximately \$859,000. Key elements resulting in the net increase are as follows:

- The operating surplus of \$121,000 contributed to the increase.
- Project expenditures of about \$779,000, 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 \$150,000, mostly for routine computer upgrade, added to the increase.
- Depreciation expense of approximately \$170,000 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, 2008 totaled \$4,022,151 as shown below. This amount represents a net increase, including additions and disposals, net of depreciation, of approximately \$758,000 or 23% from June 30, 2007.

	Capital Assets (Net of Depreciation)	
	<u>2008</u>	<u>2007</u>
Office Equipment	\$ 12,671	\$ 19,477
Computer Equipment	124,839	79,584
Operating Equipment	434	850
Transportation Equipment	56,869	81,222
Project Equipment	16,761	2,807
Building and Improvements	1,535,185	1,574,311
Monitoring Stations	109	794
Injection Wells	2,254,376	1,501,382
Fish Rearing Facility	<u>20,907</u>	<u>3,248</u>
Total	<u>\$ 4,022,151</u>	<u>\$ 3,263,675</u>

Debt Administration

All of the District's debt, other than the liability for compensated absences which increased by \$24,645, 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 Marcello & 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 \$2,569,978. The Capital Projects Fund has a fund balance of \$977,900, the Conservation Fund has a fund balance of \$592,180 and the Mitigation Fund has a fund balance of \$999,898.

During the current fiscal year, the fund balance of the District's Capital Projects Fund decreased \$23,922, the Conservation Fund decreased \$28,984 and the Mitigation Fund increased \$174,036. The decreases in the Capital Projects Fund and the Conservation Fund are due to expenditures exceeding revenues and other financing sources. The increase in the Mitigation Fund is due to revenues exceeding expenditures and other financing uses.

BUDGET HIGHLIGHTS/VARIANCES

The District's budget projected operating revenues of \$7,180,400. The District finished the budget year with operating revenues of \$6,134,822, which was \$1,045,578 or 15% less than budgeted. The difference was mostly attributable to project reimbursement revenues being approximately \$1,000,000 under budget.

Actual operating expenditures totaled \$6,013,692 compared to the budget amount of \$8,057,700, or 25% less than budgeted. The difference is primarily due to project expenditures, including reimbursable amounts of about \$1,000,000, being approximately \$1,800,000 less than the budgeted amount. Expenditures for fixed assets were also about \$100,000 less than the budgeted amount.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

In developing the fiscal year 2008-2009 budget, the staff and management had to consider a number of factors that would impact the District's economy and finances. The 2008-2009 budget was developed without the use of reserves, except for those reserves specifically used to complete the second well for the District's Aquifer Storage and Recovery Project. 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 2008-2009 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, 2008
(WITH SUMMARIZED TOTALS FOR JUNE 30, 2007)

	Governmental Activities	Business-Type Activities	2008 Total	2007 Total
ASSETS:				
Cash and cash equivalents	\$ 690,557	\$ 1,354,055	\$ 2,044,612	\$ 753,595
Investments	1,746,369	-	1,746,369	1,657,925
Receivables, net	688,594	361,177	1,049,771	1,255,617
Prepaid expenses and deposits	90,533	22,393	112,926	59,867
Restricted reserves	-	736,206	736,206	6,773,855
Capital assets, net:				
Water resale rights	-	31,255,751	31,255,751	32,294,818
Nondepreciable	1,678,139	19,696,776	21,374,915	7,838,220
Depreciable	2,344,012	-	2,344,012	2,364,140
Total assets	<u>7,238,204</u>	<u>53,426,358</u>	<u>60,664,562</u>	<u>52,998,037</u>
LIABILITIES:				
Accounts payable	514,625	2,042,861	2,557,486	1,394,597
Accrued liabilities	118,100	-	118,100	116,290
Interest payable	-	36,177	36,177	88,025
Long-term debt:				
Due within one year	211,683	1,300,000	1,511,683	1,402,726
Due in more than one year	387,420	26,800,000	27,187,420	28,471,732
Total liabilities	<u>1,231,828</u>	<u>30,179,038</u>	<u>31,410,866</u>	<u>31,473,370</u>
NET ASSETS:				
Invested in capital assets, net of related debt	4,022,151	22,852,527	26,874,678	18,940,624
Restricted for debt service	-	2,755	2,755	2,670
Restricted for expanded project	-	733,451	733,451	6,143,814
Unrestricted (deficit)	1,984,225	(341,413)	1,642,812	(3,562,441)
Total net assets	<u>\$ 6,006,376</u>	<u>\$ 23,247,320</u>	<u>\$ 29,253,696</u>	<u>\$ 21,524,667</u>

See Notes to Basic Financial Statements.

MONTEREY PENINSULA WATER MANAGEMENT DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2008
(WITH SUMMARIZED TOTALS FOR JUNE 30, 2007)

	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total	2007 Total
FUNCTIONS/PROGRAMS:							
Governmental activities:							
Conservation	\$ 870,287	\$ 778,012	\$ -	\$ (92,275)	\$ -	\$ (92,275)	\$ (38,213)
Mitigation	3,208,565	2,781,238	299,870	(127,457)	-	(127,457)	(219,401)
Water supply	1,199,742	764,685	-	(435,057)	-	(435,057)	(347,137)
Total governmental activities	5,278,594	4,323,935	299,870	(654,789)	-	(654,789)	(604,751)
Business-type activities - water	3,500,939	2,235,363	-	-	(1,265,576)	(1,265,576)	(1,348,854)
Total business-type activities	3,500,939	2,235,363	-	-	(1,265,576)	(1,265,576)	(1,348,854)
Total	\$ 8,779,533	\$ 6,559,298	\$ 299,870	(654,789)	(1,265,576)	(1,920,365)	(1,953,605)
GENERAL REVENUES:							
Taxes				1,352,826	-	1,352,826	1,280,201
Investment earnings				93,640	195,441	289,081	555,619
Miscellaneous				64,977	269	65,246	107,344
Gain (loss) on sale of capital assets				2,772	-	2,772	(4,348)
Special items:							
Subsidy, Pebble Beach Company				-	2,205,070	2,205,070	1,626,859
Capital contributions				-	4,677,468	4,677,468	-
Water entitlement sales					1,056,931	1,056,931	1,414,462
Total general revenues				1,514,215	8,135,179	9,649,394	4,980,137
CHANGE IN NET ASSETS				859,426	6,869,603	7,729,029	3,026,532
NET ASSETS - BEGINNING OF YEAR				5,146,950	16,377,717	21,524,667	18,498,135
NET ASSETS - END OF YEAR				\$ 6,006,376	\$ 23,247,320	\$ 29,253,696	\$ 21,524,667

See Notes to Basic Financial Statements.

MONTEREY PENINSULA WATER MANAGEMENT DISTRICT
BALANCE SHEET – GOVERNMENTAL FUNDS
JUNE 30, 2008
(WITH SUMMARIZED TOTALS FOR JUNE 30, 2007)

	Capital Projects	Conservation	Mitigation	2008 Total	2007 Total
ASSETS:					
Cash and cash equivalents	\$ 690,557	\$ –	\$ –	\$ 690,557	\$ 523,042
Investments	1,746,369	–	–	1,746,369	1,657,925
Receivables, net	91,826	202,609	394,159	688,594	597,487
Prepaid expenses and deposits	89,795	738	–	90,533	35,286
Due from other funds	<u>–</u>	<u>460,858</u>	<u>1,023,464</u>	<u>1,484,322</u>	<u>1,184,887</u>
Total assets	<u>2,618,547</u>	<u>664,205</u>	<u>1,417,623</u>	<u>4,700,375</u>	<u>3,998,627</u>
LIABILITIES AND FUND BALANCES:					
Liabilities:					
Accounts payable	103,674	59,387	351,564	514,625	239,717
Accrued liabilities	51,439	12,638	54,023	118,100	116,290
Due to other funds	1,484,322	–	–	1,484,322	1,184,887
Deferred revenue	<u>1,212</u>	<u>–</u>	<u>12,138</u>	<u>13,350</u>	<u>8,885</u>
Total liabilities	<u>1,640,647</u>	<u>72,025</u>	<u>417,725</u>	<u>2,130,397</u>	<u>1,549,779</u>
Fund balances:					
Reserved for prepaid expenses	89,795	738	–	90,533	35,286
Unreserved, designated:					
Insurance/litigation	171,354	11,906	66,740	250,000	250,000
Capital equipment	17,643	7,380	157,977	183,000	168,599
Flood/drought emergencies	–	–	443,944	443,944	613,944
Unreserved, undesignated	<u>699,108</u>	<u>572,156</u>	<u>331,237</u>	<u>1,602,501</u>	<u>1,381,019</u>
Total fund balances	<u>977,900</u>	<u>592,180</u>	<u>999,898</u>	<u>2,569,978</u>	<u>2,448,848</u>
Total liabilities and fund balances	<u>\$ 2,618,547</u>	<u>\$ 664,205</u>	<u>\$ 1,417,623</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				4,022,151	3,263,675
Other assets are not available to pay for current-period expenditures and therefore are deferred in the funds				13,350	8,885
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds				<u>(599,103)</u>	<u>(574,458)</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES				<u>\$ 6,006,376</u>	<u>\$ 5,146,950</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, 2008
(WITH SUMMARIZED TOTALS FOR JUNE 30, 2007)

	Capital Projects	Conservation	Mitigation	2008 Total	2007 Total
REVENUES:					
Property taxes	\$ 123,035	\$ –	\$ 1,229,791	\$ 1,352,826	\$ 1,280,201
User fees	–	393,367	2,552,017	2,945,384	2,572,154
Connection charges, net of refunds	556,370	–	–	556,370	617,835
Permit fees	102,509	225,091	100	327,700	319,381
Project reimbursements	107,081	161,034	221,901	490,016	109,737
Investment income	35,634	21,842	36,164	93,640	119,553
Legal fee reimbursements	6,144	21,231	–	27,375	22,954
Recording fees	–	11,950	–	11,950	13,947
Miscellaneous	5,006	1,208	23,477	29,691	6,994
Grants	–	–	299,870	299,870	195,099
Total revenues	<u>935,779</u>	<u>835,723</u>	<u>4,363,320</u>	<u>6,134,822</u>	<u>5,257,855</u>
EXPENDITURES:					
Personnel:					
Salaries	532,730	314,217	1,285,666	2,132,613	2,056,208
Employee benefits and other personnel	196,755	124,537	542,286	863,578	830,190
Services and supplies:					
Project expenditures	113,387	114,656	1,582,124	1,810,167	1,472,949
Operating expenditures	120,259	105,083	314,878	540,220	379,659
Professional fees	142,105	181,825	192,453	516,383	413,331
Capital outlay	24,465	24,389	101,877	150,731	115,563
Total expenditures	<u>1,129,701</u>	<u>864,707</u>	<u>4,019,284</u>	<u>6,013,692</u>	<u>5,267,900</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(193,922)	(28,984)	344,036	121,130	(10,045)
FUND TRANSFER	<u>170,000</u>	<u>–</u>	<u>(170,000)</u>	<u>–</u>	<u>–</u>
NET CHANGE IN FUND BALANCES	(23,922)	(28,984)	174,036	121,130	(10,045)
FUND BALANCES – BEGINNING OF YEAR	<u>1,001,822</u>	<u>621,164</u>	<u>825,862</u>	<u>2,448,848</u>	<u>2,458,893</u>
FUND BALANCES – END OF YEAR	<u>\$ 977,900</u>	<u>\$ 592,180</u>	<u>\$ 999,898</u>	<u>\$ 2,569,978</u>	<u>\$ 2,448,848</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, 2008

NET CHANGE IN FUND BALANCES \$ 121,130

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. 759,743

Capitalized project expenditures	\$ 778,604
Capital outlay	\$ 150,731
Current year depreciation	\$(169,592)

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 net book value of assets sold. (1,267)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenue in the funds. 4,465

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. (24,645)

CHANGE IN NET ASSETS \$ 859,426

See Notes to Basic Financial Statements.

MONTEREY PENINSULA WATER MANAGEMENT DISTRICT
STATEMENT OF NET ASSETS – PROPRIETARY FUND
(CAWD/PBCSD WASTEWATER RECLAMATION PROJECT)
JUNE 30, 2008
(WITH SUMMARIZED TOTALS FOR JUNE 30, 2007)

	2008	2007
ASSETS:		
Cash and cash equivalents	\$ 1,354,055	\$ 230,553
Receivables, net	361,177	658,130
Prepaid expenses	22,393	24,581
Reserves restricted for operations and capital replacements:	736,206	6,773,855
Capital assets, net:		
Water resale rights	31,255,751	32,294,818
Nondepreciable	19,696,776	6,938,685
Total assets	53,426,358	46,920,622
LIABILITIES:		
Accounts payable	2,042,861	1,154,880
Interest payable	36,177	88,025
Certificates of participation:		
Due within one year	1,300,000	1,200,000
Due in more than one year	26,800,000	28,100,000
Total liabilities	30,179,038	30,542,905
NET ASSETS:		
Invested in capital assets, net of related debt	22,852,527	15,676,949
Restricted for debt service	2,755	2,670
Restricted for operations and maintenance and expanded project	733,451	6,771,184
Unrestricted (deficit)	(341,413)	(6,073,086)
Total net assets	\$ 23,247,320	\$ 16,377,717

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, 2008
(WITH SUMMARIZED TOTALS FOR JUNE 30, 2007)

	2008	2007
OPERATING REVENUES –		
Water sales	\$ 2,235,363	\$ 1,891,131
OPERATING EXPENSES:		
Plant costs	797,466	423,847
Distribution costs	280,331	383,386
General and administration	57,190	56,769
Potable water	221,245	317,392
Total operating expenses	1,356,232	1,181,394
Operating income before amortization	879,131	709,737
Less amortization	1,138,574	812,440
Operating income (loss)	(259,443)	(102,703)
NON-OPERATING REVENUES		
(EXPENSES):		
Investment earnings	195,441	436,066
Interest expense and carrying costs on certificates of participation	(1,006,133)	(1,246,151)
Subsidy – Pebble Beach Company	2,205,070	1,626,859
Water entitlement sales	1,056,931	1,414,462
Miscellaneous	269	63,449
Total non-operating revenues (expenses)	2,451,578	2,294,685
NET INCOME BEFORE CONTRIBUTIONS	2,192,135	2,191,982
Capital contributions	4,677,468	–
CHANGE IN NET ASSETS	6,869,603	2,191,982
NET ASSETS – BEGINNING OF YEAR	16,377,717	14,185,735
NET ASSETS – END OF YEAR	\$ 23,247,320	\$ 16,377,717

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, 2008
(WITH SUMMARIZED TOTALS FOR JUNE 30, 2007)

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from sales	\$ 2,221,402	\$ 1,555,860
Cash paid for operating expenses	<u>(1,023,896)</u>	<u>(1,194,223)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>1,197,506</u>	<u>361,637</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Affiliate subsidy	2,515,984	1,626,859
Affiliate contribution	5,734,399	10,255,156
Payments for water rights costs	(12,299,588)	(13,183,204)
Interest payments and carrying costs on certificates of participation	(1,057,981)	(1,248,759)
Principal payments on certificates of participation	<u>(1,200,000)</u>	<u>(1,100,000)</u>
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(6,307,186)</u>	<u>(3,649,948)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Insurance reimbursement	–	63,449
Other cash receipts	<u>92</u>	<u>174,292</u>
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>92</u>	<u>237,741</u>
CASH FLOWS FROM INVESTING ACTIVITIES –		
Investment earnings	<u>195,441</u>	<u>473,674</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>195,441</u>	<u>473,674</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(4,914,147)	(2,576,896)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>7,004,408</u>	<u>9,581,304</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 2,090,261</u>	<u>\$ 7,004,408</u>

MONTEREY PENINSULA WATER MANAGEMENT DISTRICT
STATEMENT OF CASH FLOWS – PROPRIETARY FUND
(CAWD/PBCSD WASTEWATER RECLAMATION PROJECT)
FOR THE YEAR ENDED JUNE 30, 2008
(WITH SUMMARIZED TOTALS FOR JUNE 30, 2007)
(Continued)

	2008	2007
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FLOWS FROM OPERATING ACTIVITIES:		
Operating income (loss)	\$ (259,443)	\$ (102,703)
Adjustments to reconcile net operating income (loss) to net cash provided by operating activities:		
Amortization	1,138,574	812,440
(Increase) decrease in:		
Receivables	(13,961)	(335,271)
Prepaid expenses	2,188	(22,566)
Increase (decrease) in:		
Accounts payable	330,148	9,737
	<u>1,197,506</u>	<u>361,637</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 1,197,506	\$ 361,637
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET ASSETS:		
Cash and cash equivalents	\$ 1,354,055	\$ 230,553
Restricted reserves	736,206	6,773,855
	<u>2,090,261</u>	<u>7,004,408</u>
Total	\$ 2,090,261	\$ 7,004,408

See Notes to Basic Financial Statements.

MONTEREY PENINSULA WATER MANAGEMENT DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008

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)

Investments – 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.

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 \$67,308 at June 30, 2008.

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.

Due To/From Other Funds – During the course of operations, transactions occur between individual funds that result in amounts owed between funds, which are classified as “due to/from other funds.” Eliminations have been made on the government–wide statements for amounts due to/from within the governmental funds.

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 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 Marcello & 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 original 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 \$2,044,859 for the year ended June 30, 2008.

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 and implemented 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 was 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 355 AF, to provide additional storage and supply of reclaimed water.

The Microfiltration/Reverse Osmosis (MF/RO) phase of the project, located at the CAWD plant site, began design in 2006 and construction is expected to be completed by December 2008. The intent of the MF/RO phase is to reduce the sodium content of the tertiary reclaimed water from 150 mg/l to less than 55 mg/l to reduce the stress on the golf greens and eliminate the need for flushing the courses with potable water. The design capacity for the MF/RO is 1.5 million gallons with an expected blend of 80% MF/RO water and 20% MF water. The cost of the MF/RO phase is approximately \$20 million.

The cost of the Expanded Project was financed through the sale of water entitlements owned by PBCo to residential property owners within Pebble beach, currently at \$250,000 per acre foot, which is subject to change. At June 30, 2008 approximately \$25 million had been raised through these sales and interest. The funds from the sales were deposited in a restricted escrow account where they were invested in short-term federal government securities before being spent for the Expanded Project. All projects costs in excess of those raised through the sale of Water Entitlements are being covered by PBCo.

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.

NOTE 3. CASH AND INVESTMENTS (Continued)

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, 2008, \$1,472,962 of the District’s bank balances of \$1,779,052 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.

Investments – The District’s investments consist of obligations of the United States government and its agencies and instrumentalities, municipal obligations, corporate obligations, certificates of deposit, money market accounts, 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, 2008 consisted of the following:

Governmental activities –	
Local Agency Investment Fund	\$ <u>1,746,369</u>
Subtotal Governmental activities	<u>1,746,369</u>
Business-type activities:	
Government obligations	295,841
Municipal obligations	280,237
Money market accounts	109,666
Certificates of deposit	34,923
Corporate obligations	<u>9,464</u>
	730,131
Less restricted reserves	<u>730,131</u>
Subtotal Business-type activities	<u>–</u>
Total Investments	<u>\$ 1,746,369</u>

NOTE 4. RECEIVABLES

Receivables, net of allowances for uncollectibles (estimated to be \$67,308), consist of the following at June 30, 2008:

	<u>Capital Projects</u>	<u>Conservation</u>	<u>Mitigation</u>	<u>Total</u>
Governmental activities:				
Reimbursements	\$ 76,784	\$ 161,033	\$ 97,401	\$ 335,218
User fees	-	41,274	267,312	308,586
Rebates (CAW)	-	-	16,301	16,301
Taxes	1,212	-	12,138	13,350
Interest	13,461	-	-	13,461
Other	<u>369</u>	<u>302</u>	<u>1,007</u>	<u>1,678</u>
 Total Governmental activities	 <u>\$ 91,826</u>	 <u>\$ 202,609</u>	 <u>\$ 394,159</u>	 <u>688,594</u>
 Business-type activities:				
Water sales				184,083
Affiliates (Reclamation)				162,527
Other				<u>14,567</u>
 Total Business-type activities				 <u>361,177</u>
 TOTAL				 <u>\$ 1,049,771</u>

NOTE 5. CHANGES IN CAPITAL ASSETS

Capital assets experienced the following changes for the year ended June 30, 2008:

	<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	\$ 778,604	\$ -	\$ 1,678,139
Depreciable assets:				
Equipment:				
Office	135,727	4,372	-	140,099
Computer	270,044	91,254	87,724	273,574
Operating	27,421	-	-	27,421
Transportation	312,545	-	187	312,358
Project	243,907	16,185	3,313	256,779
Phone	<u>43,851</u>	<u>-</u>	<u>-</u>	<u>43,851</u>
 Total equipment	 <u>\$ 1,033,495</u>	 <u>\$ 111,811</u>	 <u>\$ 91,224</u>	 <u>\$ 1,054,082</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	\$ 1,973,051	\$ 19,951	\$ 186	\$ 1,992,816
Monitoring stations	64,616	-	-	64,616
Wells	768,316	-	-	768,316
Fish rearing facility	925,145	18,969	-	944,114
Leasehold improvements	2,837	-	-	2,837
Total depreciable assets	<u>4,767,460</u>	<u>150,731</u>	<u>91,410</u>	<u>4,826,781</u>
Less accumulated depreciation for:				
Equipment:				
Office	116,250	11,178	-	127,428
Computer	190,460	44,733	86,458	148,735
Operating	26,571	416	-	26,987
Transportation	231,323	24,352	186	255,489
Project	241,100	2,231	3,313	240,018
Phone	43,851	-	-	43,851
Total equipment	849,555	82,910	89,957	842,508
Building and improvements	398,739	59,078	186	457,631
Monitoring stations	63,823	684	-	64,507
Wells	166,469	25,610	-	192,079
Fish rearing facility	921,897	1,310	-	923,207
Leasehold improvements	2,837	-	-	2,837
Total accumulated depreciation	<u>2,403,320</u>	<u>169,592</u>	<u>90,143</u>	<u>2,482,769</u>
Total depreciable assets, net	2,364,140	(18,861)	1,267	2,344,012
Total governmental activities capital assets, net	<u>3,263,675</u>	<u>759,743</u>	<u>1,267</u>	<u>4,022,151</u>
Business-type activities:				
Nondepreciable assets:				
Construction in progress	6,938,685	12,758,091	-	19,696,776
Water resale rights	41,205,568	99,507	-	41,305,075
Less accumulated amortization for:				
Water resale rights	8,910,750	1,138,574	-	10,049,324
Total water resale rights, net	<u>32,294,818</u>	<u>(1,039,067)</u>	<u>-</u>	<u>31,255,751</u>
Total business type activities Capital assets, net	<u>39,233,503</u>	<u>11,719,024</u>	<u>-</u>	<u>50,952,527</u>
Total capital assets, net	<u>\$ 42,497,178</u>	<u>\$ 12,478,767</u>	<u>\$ 1,267</u>	<u>\$ 54,974,678</u>

NOTE 5. CHANGES IN CAPITAL ASSETS (Continued)

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

Conservation	\$ 38,329
Mitigation	65,865
Water supply	<u>65,398</u>
Total depreciation expense	<u>\$ 169,592</u>

NOTE 6. INTERFUND RECEIVABLES AND PAYABLES

At June 30, 2008 interfund receivables and payables consist of :

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
Capital projects	\$ —	\$ 1,484,322
Conservation	460,858	—
Mitigation	<u>1,023,464</u>	<u>—</u>
	<u>\$ 1,484,322</u>	<u>\$ 1,484,322</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, 2008.

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, 2008 accounts receivable from these affiliates were as follows:

Receivable from PBCo and affiliated golf courses – Water sales	\$ <u>162,527</u>
Total	<u>\$ 162,527</u>

NOTE 7. TRANSACTIONS WITH AFFILIATES (Continued)

At June 30, 2008 accounts payable to these affiliates were as follows:

Payable to MPWMD for user fees	\$	48,207
Payable to MPWMD for annual charges		11,953
Payable to PBCSD for operations and maintenance		<u>88,217</u>
Total	\$	<u>148,377</u>

Accounts payable – Expanded Project at June 30, 2008 consists of the following:

CAWD (consultants)	\$	228,735
PBCSD (Forest Lake construction)		<u>34,985</u>
Total	\$	<u>263,720</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, 2008 the balances in these funds were as follows:

Capital Replacement Reserve	\$	495,247
Operations and Maintenance Reserve		<u>234,884</u>
Total	\$	<u>730,131</u>

NOTE 8. LONG-TERM DEBT (Continued)

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.

Long-term debt activity for the year ended June 30, 2008 is as follows:

	<u>2007</u>	<u>Additions</u>	<u>Reductions</u>	<u>2008</u>	<u>Due Within One Year</u>
COPs	\$ 29,300,000	\$ –	\$ 1,200,000	\$ 28,100,000	\$ 1,300,000
Compensated absences	<u>574,458</u>	<u>24,645</u>	<u>–</u>	<u>599,103</u>	<u>211,683</u>
	<u>\$ 29,874,458</u>	<u>\$ 24,645</u>	<u>\$ 1,200,000</u>	<u>\$ 28,699,103</u>	<u>\$ 1,511,683</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 1.50%, the rate for the payment due on June 30, 2008, 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>
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	1,600,000	766,500	2,366,500
2014-2018	9,100,000	2,865,250	11,965,250
2019-2023	<u>11,900,000</u>	<u>912,500</u>	<u>12,812,500</u>
Total	<u>\$ 28,100,000</u>	<u>\$ 8,157,750</u>	<u>\$ 36,257,750</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, 2008 (the most current information available) is as follows:

Total assets	\$ 71,125,296
Total liabilities	<u>48,802,348</u>
Risk margin (SDRMA equity)	<u>\$ 22,322,948</u>
Total revenues	\$ 34,919,500
Total expenses	<u>30,076,451</u>
Net income	<u>\$ 4,843,049</u>

The SDRMA did not have long-term debt outstanding at June 30, 2008, 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 (GASB) Statement 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), a cost-sharing 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, 2008 the employer contribution rate was 9.234% of annual covered payroll. The contribution requirements of plan members and the District are established and may be amended by CalPERS.

Annual Pension Cost – The District's contributions to CalPERS of \$361,544, \$350,672 and \$328,732 for the years ending June 30, 2008, 2007 and 2006, respectively, were equal to the District's required contributions for each year.

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 (MF/RO) – 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. Contract amendments since that date have brought the total contract to \$1,807,805. The Project was approximately 95% complete at June 30, 2008.

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 MF/RO facilities with CDM Constructors. Subsequent amendments brought the total contract amount to \$17,997,000. The work was approximately 95% completed at June 30, 2008.

The amount outstanding for the MF/RO project is \$3,108,915 as of June 30, 2008.

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 355 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, 2008 is \$17,420.

Aquifer Storage and Recovery – In November and December 2006, the District awarded two contracts for the second Aquifer Storage and Recovery well and maintenance work on the first well, totaling \$1,208,925. The scheduled completion date is January 2009. The amount outstanding as of June 30, 2008 is \$197,226.

Database Programming – In March and April 2008, the District awarded two contracts totaling \$284,920 for database programming. The scheduled completion date is June 2009. The amount outstanding as of June 30, 2008 is \$277,920. The contracts were increased to \$322,691 in October 2008.

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. FUND TRANSFER

In April of 2008 the Board authorized a transfer of \$170,000 from the Mitigation Fund Flood/Drought Reserve to the Capital Projects Fund to implement Phase I of the project to update the seawater desalination project in the Sand City area that was previously studied in 2004.

NOTE 17. SUBSEQUENT EVENT

In August of 2008 the Board authorized a \$2.5 million line of credit at a variable rate based on the Wall Street Journal Prime Rate less .75%.

NOTE 18. AUTHORITATIVE PRONOUNCEMENT ISSUED BUT NOT YET ADOPTED

In July 2004, the Governmental Accounting Standards Board issued Statement of Governmental Accounting Standards No. 45 *Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions*. In addition to pensions, many state and local governmental employers provide other post employment benefits, such as healthcare. This Statement establishes standards for the measurement, recognition, and display of expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of the governmental employer.

The requirements of this statement are effective in three phases based on a government's total annual revenues in the first fiscal year ending after June 15, 1999. Governments that were phase 1 governments for the purpose of implementation of Statement 34 – those with annual revenues of \$100 million or more – are required to implement this Statement in financial statements for periods beginning after December 15, 2006. Governments that were phase 2 governments for the purpose of implementation of Statement 34 – those with total annual revenues of \$10 million or more but less than \$100 million – are required to implement this statement in financial statements for periods beginning after December 15, 2007. Governments that were phase 3 governments for the purpose of implementation of Statement 34 – those with total annual revenues of less than \$10 million – are required to implement this Statement in financial statements for periods beginning after December 15, 2008. Earlier application is encouraged.

The District is a phase 3 entity and has no plan for early implementation of this statement. At this time the District is not certain of the effect the adoption of Statement 45 will have on the accompanying financial statements.

**REQUIRED
SUPPLEMENTARY INFORMATION**

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, 2008

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Amounts</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Property taxes	\$ 525,000	\$ 125,000	\$ 123,035	\$ (1,965)
Connection charges, net of refunds	550,000	550,000	556,370	6,370
Permit fees	–	–	102,509	102,509
Project reimbursements	190,200	168,000	107,081	(60,919)
Investment income	16,500	16,500	35,634	19,134
Legal fee reimbursements	–	–	6,144	6,144
Miscellaneous	2,000	2,000	5,006	3,006
Total revenues	<u>1,283,700</u>	<u>861,500</u>	<u>935,779</u>	<u>74,279</u>
EXPENDITURES:				
Personnel:				
Salaries	453,300	470,400	532,730	(62,330)
Employee benefits and other personnel	189,800	195,500	196,755	(1,255)
Services and supplies:				
Project expenditures	88,000	75,200	113,387	(38,187)
Operating expenditures	142,800	168,500	120,259	48,241
Professional fees	277,300	122,300	142,105	(19,805)
Capital outlay	38,800	38,800	24,465	14,335
Total expenditures	<u>1,190,000</u>	<u>1,070,700</u>	<u>1,129,701</u>	<u>(59,001)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES				
	<u>93,700</u>	<u>(209,200)</u>	<u>(193,922)</u>	<u>15,278</u>
OTHER FINANCING SOURCES (USES) –				
Transfers in	–	–	170,000	170,000
Total other financing sources (uses)	<u>–</u>	<u>–</u>	<u>170,000</u>	<u>170,000</u>
NET CHANGE IN FUND BALANCE	93,700	(209,200)	(23,922)	185,278
FUND BALANCE – BEGINNING OF YEAR	<u>929,461</u>	<u>1,001,822</u>	<u>1,001,822</u>	<u>–</u>
FUND BALANCE – END OF YEAR	<u>\$ 1,023,161</u>	<u>\$ 792,622</u>	<u>\$ 977,900</u>	<u>\$ 185,278</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, 2008

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Amounts</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Property taxes	\$ 277,000	\$ –	\$ –	\$ –
User fees	380,000	404,000	393,367	(10,633)
Connection charges – net of refunds	–	–	–	–
Permit fees	300,000	300,000	225,091	(74,909)
Project reimbursements	502,500	570,500	161,034	(409,466)
Investment income	13,500	13,500	21,842	8,342
Legal fee reimbursements	22,000	22,000	21,231	(769)
Recording fees	13,000	13,000	11,950	(1,050)
Miscellaneous	<u>1,600</u>	<u>1,600</u>	<u>1,208</u>	<u>(392)</u>
Total revenues	<u>1,509,600</u>	<u>1,324,600</u>	<u>835,723</u>	<u>(488,877)</u>
EXPENDITURES:				
Personnel:				
Salaries	370,900	384,800	314,217	70,583
Employee benefits and other personnel	155,300	160,100	124,537	35,563
Services and supplies:				
Project expenditures	775,300	694,000	114,656	579,344
Operating expenditures	117,100	119,400	105,083	14,317
Professional fees	61,000	126,000	181,825	(55,825)
Capital outlay	<u>40,700</u>	<u>40,700</u>	<u>24,389</u>	<u>16,311</u>
Total expenditures	<u>1,520,300</u>	<u>1,525,000</u>	<u>864,707</u>	<u>660,293</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(10,700)</u>	<u>(200,400)</u>	<u>(28,984)</u>	<u>171,416</u>
NET CHANGE IN FUND BALANCE	(10,700)	(200,400)	(28,984)	171,416
FUND BALANCE – BEGINNING OF YEAR	<u>368,303</u>	<u>621,164</u>	<u>621,164</u>	<u>–</u>
FUND BALANCE – END OF YEAR	<u>\$ 357,603</u>	<u>\$ 420,764</u>	<u>\$ 592,180</u>	<u>\$ 171,416</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, 2008

	<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>		
REVENUES:				
Property taxes	\$ 575,000	\$ 1,252,000	\$ 1,229,791	\$ (22,209)
User fees	2,470,000	2,626,000	2,552,017	(73,983)
Permit fees	-	-	100	100
Project reimbursements	821,000	761,000	221,901	(539,099)
Investment income	45,000	45,000	36,164	(8,836)
Miscellaneous	5,400	5,400	23,477	18,077
Grants	<u>145,000</u>	<u>304,900</u>	<u>299,870</u>	<u>(5,030)</u>
Total revenues	<u>4,061,400</u>	<u>4,994,300</u>	<u>4,363,320</u>	<u>(630,980)</u>
EXPENDITURES:				
Personnel:				
Salaries	1,236,400	1,282,800	1,285,666	(2,866)
Employee benefits and other personnel	517,500	533,400	542,286	(8,886)
Services and supplies:				
Project expenditures	3,261,800	2,842,000	1,582,124	1,259,876
Operating expenditures	390,000	410,500	314,878	95,622
Professional fees	95,000	210,000	192,453	17,547
Capital outlay	<u>183,300</u>	<u>183,300</u>	<u>101,877</u>	<u>81,423</u>
Total expenditures	<u>5,684,000</u>	<u>5,462,000</u>	<u>4,019,284</u>	<u>1,442,716</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(1,622,600)</u>	<u>(467,700)</u>	<u>344,036</u>	<u>811,736</u>
OTHER FINANCING SOURCES (USES):				
Bond Proceeds	1,703,000	2,550,000	-	(2,550,000)
Debt Service	(85,000)	(126,500)	-	126,500
Transfers out	<u>-</u>	<u>-</u>	<u>(170,000)</u>	<u>(170,000)</u>
Total other financing sources (uses)	<u>1,618,000</u>	<u>2,423,500</u>	<u>(170,000)</u>	<u>(2,593,500)</u>
NET CHANGE IN FUND BALANCE	(4,600)	1,955,800	174,036	(1,781,764)
FUND BALANCE – BEGINNING OF YEAR	<u>1,198,159</u>	<u>825,862</u>	<u>825,862</u>	<u>-</u>
FUND BALANCE – END OF YEAR	<u>\$ 1,193,559</u>	<u>\$ 2,781,662</u>	<u>\$ 999,898</u>	<u>\$ (1,781,764)</u>

See Notes to Required Supplementary Information.

MONTEREY PENINSULA WATER MANAGEMENT DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2008

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.