MONTEREY PENINSULA WATER MANAGEMENT DISTRICT

FINANCIAL STATEMENTS

FOR THE YEAR ENDED
JUNE 30, 1999

AND INDEPENDENT AUDITORS' REPORT

**MONTEREY PENINSULA WATER
MANAGEMENT DISTRICT**

Table of Contents

	Page
Board of Directors	2
Independent Auditors' Report on the General Purpose Financial Statements and Supplementary Information	3-4
General Purpose Financial Statements:	
Combined Balance Sheet - All Fund Types and Account Groups	5-6
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - All Governmental Fund Types	7
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual:	
Special Revenue Funds - Combined	8
Capital Projects Fund	9
Combined Statement of Revenues, Expenses and Changes in Retained Earnings - Budget and Actual - All Proprietary Fund Types	10
Combined Statement of Cash Flows - All Proprietary Fund Types	11
Notes to Financial Statements	12-30
Supplementary Information:	
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Special Revenue Funds	31
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - Special Revenue Fund:	
Mitigation Fund	32
Conservation Fund	33
Project Expenditures - Budget and Actual:	
Special Revenue Funds	34
Capital Projects Fund	35
Year 2000 Supplementary Information	36

MONTEREY PENINSULA WATER MANAGEMENT DISTRICT

Board of Directors

June 30, 1999

Jim Hughes	Chair
Ron Chesshire	Vice-Chair
Richard Ely	Director
David Pendergrass	Director
Dave Potter	Director
Alvin Edwards	Director
Robert Ernest	Director

HAYASHI &
WAYLAND
Accountancy Corporation

CERTIFIED PUBLIC ACCOUNTANTS

Douglas Hayashi, C.P.A.
F. Warren Wayland, C.P.A.
John H. Gibbons, C.P.A.
Cecil Robbins, C.P.A.
E. Alan Stark, C.P.A., M.B.A.
Sherrie Isaac, C.P.A.

An Independently Owned Member of the McGladrey Network
Worldwide Services Through RSM International

INDEPENDENT AUDITORS' REPORT

Board of Directors
Monterey Peninsula Water Management District
Monterey, California

We have audited the accompanying general purpose financial statements of the ***Monterey Peninsula Water Management District*** as of and for the year ended June 30, 1999. These general purpose financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

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

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the ***Monterey Peninsula Water Management District*** as of June 30, 1999, and the results of its operations and cash flows of its proprietary fund types for the year then ended in conformity with generally accepted accounting principles as well as accounting systems prescribed by the State Controller's Office and state regulations governing special districts.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The combining financial statements and schedules listed in the table of contents as supplementary information are presented for purposes of additional analysis and are not a required part of the general purpose financial statements of the ***Monterey Peninsula Water Management District***. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects, in relation to the general purpose financial statements taken as a whole.

76 Stephanie Drive • PO Box 883 • Salinas, CA 93902 • (831) 758-3892 • FAX (831) 758-8323
104 S. Vanderhurst Avenue, Suite A • PO Box 927 • King City, CA 93930 • (831) 385-5426 • FAX (831) 385-5156

The Year 2000 supplementary information on page 36 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. 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 do not express an opinion on it. In addition, we do not provide assurance that ***Monterey Peninsula Water Management District*** is or will become Year 2000 compliant, that the District's Year 2000 remediation efforts will be successful in whole or in part, or that parties with which ***Monterey Peninsula Water Management District*** does business are or will become Year 2000 compliant.

September 30, 1999

Hayashi & Wayland

MONTEREY PENINSULA WATER MANAGEMENT DISTRICT
COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 1999

	GOVERNMENTAL FUND TYPES		PROPRIETARY FUND TYPE	ACCOUNT GROUPS		
	SPECIAL REVENUE (MITIGATION & CONSERVATION)	CAPITAL PROJECTS	ENTERPRISE (RECLAMATION)	GENERAL FIXED ASSETS	GENERAL LONG-TERM DEBT	TOTAL (MEMORANDUM ONLY)
ASSETS						
ASSETS:						
Cash in bank and on hand		$ 108,802	$ 1,801,858			$ 1,910,660
Investments		7,073,368				7,073,368
Receivables	$ 330,490	203,744	146,868			681,102
Due from other funds	2,409,134					2,409,134
Prepaid expenses and deposits	30,818	37,619				68,437
Restricted reserves			384,211			384,211
Equipment				$ 854,495		854,495
Monitoring stations				44,200		44,200
Fish rearing facility				534,051		534,051
Leasehold improvements				2,836		2,836
Water resale rights - net			24,313,069			24,313,069
Amount to be provided to pay future liability for compensated absences					$ 267,232	267,232
Provision for accumulated depreciation on general fixed assets (memo entry)				(991,221)		(991,221)
TOTAL	$ 2,770,442	$ 7,423,533	$ 26,646,006	$ 444,361	$ 267,232	$ 37,551,574

MONTEREY PENINSULA WATER
MANAGEMENT DISTRICT
COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 1999
(Continued)

	GOVERNMENTAL FUND TYPES		PROPRIETARY FUND TYPE	ACCOUNT GROUPS		
	SPECIAL REVENUE (MITIGATION & CONSERVATION)	CAPITAL PROJECTS	ENTERPRISE (RECLAMATION)	GENERAL FIXED ASSETS	GENERAL LONG-TERM DEBT	TOTAL (MEMORANDUM ONLY)
LIABILITIES AND FUND EQUITY						
LIABILITIES:						
Accounts payable		$ 242,968	$ 209,852			$ 452,820
Accrued liabilities	$ 33,398	30,515				63,913
Interest payable			133,882			133,882
Due to other funds		2,409,134				2,409,134
Estimated liability for compensated absences	72,244	83,615			$ 267,232	423,091
Deferred revenue	201,416					201,416
Certificates of participation payable			33,900,000			33,900,000
Total liabilities	307,058	2,766,232	34,243,734		267,232	37,584,256
FUND EQUITY (DEFICIT):						
Investment in general fixed assets				$ 1,435,582		1,435,582
Provision for accumulated depreciation (memo only)				(991,221)		(991,221)
Retained earnings (deficit):						
Funded reserves			384,211			384,211
Reserved for debt service			(7,981,939)			(7,981,939)
Fund balances:						
Reserved other funds	1,693,663	4,245,343				5,939,006
Reserved for prepaid expenses	30,368	33,249				63,617
Designated by Board for insurance/litigation	158,646	341,354				500,000
Designated by Board for capital equipment	50,257	37,355				87,612
Designated by Board for flood/drought emergencies	530,450					530,450
Total fund equity (deficit)	2,463,384	4,657,301	(7,597,728)	444,361		(32,682)
TOTAL	$ 2,770,442	$ 7,423,533	$ 26,646,006	$ 444,361	$ 267,232	$ 37,551,574

See Notes to Financial Statements.

MONTEREY PENINSULA WATER MANAGEMENT DISTRICT
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED JUNE 30, 1999

	SPECIAL REVENUE (MITIGATION & CONSERVATION)	CAPITAL PROJECTS	TOTALS (MEMORANDUM ONLY)
REVENUES:			
Taxes	$ 178,036	$ 479,546	$ 657,582
Grants	49,419		49,419
User fees	1,484,826		1,484,826
Connection charges - net of refunds ($107,352)		226,347	226,347
Permit fees	160,300	4,430	164,730
Project reimbursements	95,144	291,036	386,180
Investment income	91,554	271,883	363,437
Miscellaneous	394	5,703	6,097
Total revenues	2,059,673	1,278,945	3,338,618
EXPENDITURES:			
Salaries and employee benefits	958,244	644,903	1,603,147
Services and supplies	752,248	713,348	1,465,596
Capital outlay	97,139	50,938	148,077
Total expenditures	1,807,631	1,409,189	3,216,820
EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES	252,042	(130,244)	121,798
FUND BALANCES - JULY 1, 1998	2,211,342	4,787,545	6,998,887
FUND BALANCES - JUNE 30, 1999	$ 2,463,384	$ 4,657,301	$ 7,120,685

See Notes to Financial Statements.

MONTEREY PENINSULA WATER MANAGEMENT DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
SPECIAL REVENUE FUNDS
COMBINED
FOR THE YEAR ENDED JUNE 30, 1999

	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES:			
Taxes	$ 154,348	$ 178,036	$ 23,688
Grants	327,000	49,419	(277,581)
User fees	1,658,000	1,484,826	(173,174)
Permit fees	151,000	160,300	9,300
Project reimbursements	364,000	95,144	(268,856)
Investment income	86,200	91,554	5,354
Miscellaneous		394	394
Total revenues	2,740,548	2,059,673	(680,875)
EXPENDITURES:			
Salaries and employee benefits	960,678	958,244	2,434
Services and supplies	2,047,305	752,248	1,295,057
Capital outlay	94,304	97,139	(2,835)
Total expenditures	3,102,287	1,807,631	1,294,656
EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES	(361,739)	252,042	613,781
FUND BALANCE - JULY 1, 1998	968,049	2,211,342	1,243,293
FUND BALANCE - JUNE 30, 1999	$ 606,310	$ 2,463,384	$ 1,857,074

See Notes to Financial Statements.

MONTEREY PENINSULA WATER MANAGEMENT DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
CAPITAL PROJECTS FUND
FOR THE YEAR ENDED JUNE 30, 1999

	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES:			
Taxes	$ 415,677	$ 479,546	$ 63,869
Connection charges - net of refunds ($107,352)	210,000	226,347	16,347
Permit fees		4,430	4,430
Project reimbursements	464,000	291,036	(172,964)
Investment income	163,800	271,883	108,083
Miscellaneous		5,703	5,703
Total revenues	1,253,477	1,278,945	25,468
EXPENDITURES:			
Salaries and employee benefits:			
Salaries	538,190	536,251	1,939
Employee benefits	117,951	108,652	9,299
Total salaries and employee benefits	656,141	644,903	11,238
Services and supplies:			
Project expenditures	695,595	469,328	226,267
Operating expenditures	136,853	123,836	13,017
Professional fees	67,550	120,184	(52,634)
Total services and supplies	899,998	713,348	186,650
Capital outlay	74,474	50,938	23,536
Total expenditures	1,630,613	1,409,189	221,424
EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES	(377,136)	(130,244)	246,892
FUND BALANCE - JULY 1, 1998	3,142,212	4,787,545	1,645,333
FUND BALANCE - JUNE 30, 1999	$ 2,765,076	$ 4,657,301	$ 1,892,225

See Notes to Financial Statements.

MONTEREY PENINSULA WATER MANAGEMENT DISTRICT
COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS - BUDGET AND ACTUAL
ALL PROPRIETARY FUND TYPES
FOR THE YEAR ENDED JUNE 30, 1999

	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
OPERATING REVENUES:			
Water sales	$ 1,222,000	$ 1,003,068	$ (218,932)
FEMA reimbursements		46,530	46,530
Total operating revenues	1,222,000	1,049,598	(172,402)
OPERATING EXPENSES:			
Plant costs	327,010	317,430	9,580
Distribution costs	96,680	67,861	28,819
General and administration	78,800	67,939	10,861
Potable water	342,200	220,100	122,100
Bond carrying costs	274,475	270,205	4,270
Total	1,119,165	943,535	175,630
Operating income before amortization	102,835	106,063	3,228
Less amortization		688,037	(688,037)
Operating income (loss)	102,835	(581,974)	(684,809)
NON-OPERATING REVENUES (EXPENSES):			
Investment earnings	25,000	99,311	74,311
Interest expense on COPs		(1,480,873)	(1,480,873)
Subsidy - PBCo	(146,160)		146,160
Total non-operating revenues (expenses)	(121,160)	(1,381,562)	(1,260,402)
NET INCOME (LOSS)	(18,325)	(1,963,536)	(1,945,211)
OTHER BUDGETARY ITEMS:			
Capital outlay	(41,375)		41,375
Reserve contribution	(5,300)		5,300
O&M reserve fund excess	65,000		(65,000)
RETAINED EARNINGS (DEFICIT) - BEGINNING OF YEAR	-0-	(5,634,192)	(5,634,192)
RETAINED EARNINGS (ACCUMULATED DEFICIT) - END OF YEAR	$ -0-	$ (7,597,728)	$ (7,597,728)

See Notes to Financial Statements.

MONTEREY PENINSULA WATER MANAGEMENT DISTRICT
COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUND TYPES
FOR THE YEAR ENDED JUNE 30, 1999

CASH FLOWS FROM OPERATING ACTIVITIES:	
Operating income (loss)	$ (581,974)
Adjustments to reconcile net operating income (loss) to net cash provided by operating activities:	
Amortization	688,037
(Increase) decrease in:	
Receivables	(13,282)
Deposits	2,000
Increase (decrease) in -	
Accounts payable	99,822
NET CASH PROVIDED BY (USED BY) OPERATING ACTIVITIES	194,603
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Interest expense on COPs	(1,460,208)
Payment of construction costs	(330,642)
NET CASH PROVIDED BY (USED BY) CAPITAL AND RELATED FINANCING ACTIVITIES	(1,790,850)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Investment earnings	104,489
Funding of required reserves	41,574
NET CASH PROVIDED BY (USED BY) INVESTING ACTIVITIES	146,063
NET CASH INCREASE (DECREASE)	(1,450,184)
CASH AND EQUIVALENTS, BEGINNING OF YEAR	3,252,042
CASH AND EQUIVALENTS, END OF YEAR	$ 1,801,858

See Notes to Financial Statements.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of the Reporting Entity:

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

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

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

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

The accompanying financial statements conform to generally accepted accounting principles 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)

Description of Funds and Account Groups - The accounts of the District are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts which comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are spent and the means by which spending activities are controlled. The various funds are presented in the financial statements in this report into generic fund types, which are grouped into two broad fund categories, and two account groups as follows:

A. Governmental Fund Types:

Governmental Funds are those through which most governmental functions of the District are financed. The acquisition, use and balances of the District's expendable financial resources and the related liabilities (except those accounted for in proprietary funds) are accounted for through governmental funds. The measurement focus is upon determination of changes in financial position, rather than upon net income determination. The following are the District's Governmental Fund Types:

Special Revenue Funds - are used to account for the proceeds of specific revenue sources (other than special assessments, or major capital projects) that are legally restricted to expenditures for specified purposes.

- Mitigation Fund - is used to account 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.

- Conservation Fund - is used to account 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.

Capital Projects Funds - are used to account 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. Proprietary Fund Types:

Proprietary Funds are used to account for the District's ongoing activities which are similar to those often found in the private sector. The measurement focus is upon determination of net income. The following is the District's Proprietary Fund Type:

Enterprise Funds - are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The enterprise fund carries the activity of the CAWD/PBCSD Wastewater Reclamation Project.

C. Account Groups:

Account groups are used to establish accounting control and accountability for the District's general fixed assets and general long-term debt. The following are the District's account groups:

General Fixed Assets Account Group - is established to account for all fixed assets of the District, other than those accounted for in the Proprietary Funds.

General Long-term Debt Account Group - is established to account for all long-term debt of the District except that accounted for in the Proprietary Funds.

Basis of Accounting - Refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Modified Accrual Basis of Accounting:

The modified accrual basis of accounting is used for the Governmental Fund Types. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual (i.e., both measurable and available). Available means collectible within the current period or soon enough thereafter to pay current liabilities.

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.

Expenditures are recorded when the liability is incurred, except for interest on long-term debt and sick pay which are recorded when paid. Vacation pay is recorded as an expenditure in the year it is earned to the extent it is paid in that year or within ninety days after year-end; otherwise, it is recorded as an expenditure when it is paid.

B. Accrual Basis of Accounting:

The accrual basis of accounting is used for all Proprietary Funds. Under the accrual basis of accounting, revenues are recognized when earned, and expenses are recorded when incurred. The District has adopted Governmental Accounting Standards Board (GASB) Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting." Accordingly, 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.

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

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

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

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

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

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

Prepaid Expenses - Prepaid expenses are capitalized and amortized ratably over the period of benefit. The unamortized portion is shown as a reserve against fund balance.

General Fixed Assets and Proprietary Fund Type Property and Equipment - Purchased general fixed assets and proprietary fund type property and equipment are accounted for at historical cost or estimated historical cost if actual historical cost is not known. Donated fixed assets and property and equipment are accounted for at their estimated fair value on the date received. Purchased general fixed assets are recorded as expenditures in the governmental type funds and capitalized (recorded and accounted for) in the General Fixed Assets Account Group. Proprietary fund type property and equipment is capitalized in the fund in which it is utilized. Infrastructure assets consisting of certain improvements other than buildings, including drainage and irrigation systems are not capitalized.

Depreciation on general fixed assets is shown as a memo entry only in the financial statements. General fixed assets are depreciated over their estimated useful lives. Depreciation is computed using the straight-line method. The estimated useful lives used to depreciate assets, by asset class, are as follows:

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

General Fixed Assets:	
Equipment	3 to 20 Years
Monitoring stations	5 to 10 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 are 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 the recording of construction in progress by an enterprise fund. As a result, capital outlay and construction period interest incurred have been capitalized into this account. These rights are presented net of accumulated amortization.

Amortization - The water resale rights are amortized using the straight-line method over the expected useful life of the tertiary treatment plant which is forty years.

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.

The current portion of the liability for compensated absences is the estimated amount left unpaid which is expected to be liquidated within the upcoming year. This amount is included in each governmental fund on the combined balance sheet. The remaining portion is recorded in the general long-term debt account group.

Deferred Revenue - Deferred revenue represents the portion of payment made under Federal Emergency Management Agency's (FEMA) Disaster Relief Assistance Program which is not yet earned. Revenue is recognized as expenditures are incurred.

Long-Term Debt - Long-term liabilities that will be financed from Governmental Funds are accounted for in the General Long-term Debt Account Group. 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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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

"Memorandum Only" Total Columns - Included on the combined financial statements are total columns captioned "Memorandum Only" to indicate that they are presented only for informational purposes. Adjustments to eliminate interfund transactions have not been recorded in arriving at such amounts and the memorandum totals are not intended to fairly present the financial position or results of operations of the District taken as a whole.

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 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 Project is financed by Certificates of Participation which were executed and delivered at the direction of the District in December 1992 in the amount of $33,900,000. The District agreed to provide the funds necessary to construct and operate the Project and as a result obtains ownership of the reclaimed water for the purpose of resale of such water. PBCo. has guaranteed payment of construction costs of the Project as well as any operating deficiencies. Any debt obligations incurred by the District to finance the project constitute limited obligations of the District, payable solely from the net operating revenues generated by the sale of reclaimed water produced by the Project and, if such reclaimed water revenues are insufficient, from payments on a Bond Letter of Credit provided by Sumitomo Bank, Limited (the credit bank) through a reimbursement agreement between PBCo. and the credit bank. Subsequent to year-end, PBCo. ownership changed and the new owners obtained a new bond letter of credit provided by Bank of America. (See Note 17)

The District has authorized its staff to retain bond counsel and financial advisors to prepare a plan to finance expansion of the Project for storage of an additional 400 acre-feet of wastewater at the Forest Lake site in Del Monte Forest (Pebble Beach area). On December 31, 1998, PBCSD purchased the Forest Lake Reservoir from the California-American Water Company to store reclaimed water in connection with the Project. The additional storage should improve the performance of the Project, especially in meeting peak water demand in summer. The management committee of the Project is currently studying various other financing options to pay for the expansion, which is estimated to cost approximately $9 million.

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

> Assets owned by CAWD: (1) a new tertiary treatment plant, (2) secondary process improvements, (3) new laboratory facilities, (4) a reclaimed water pump station, (5) related computer equipment and, (6) a small portion of the reclaimed water pipeline.
>
> Assets owned by PBCSD: (1) approximately seven miles of reclaimed water distribution system pipelines, (2) a 2.5 million gallon storage tank, (3) a potable water pump station, and (4) a reclaimed water booster pump station.

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

NOTE 3. CASH AND INVESTMENTS

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

The District is required to categorize its cash to give an indication of the level of risk assumed by the District at year-end.

The categories are described as follows:

Category 1: Amount insured by the FDIC or collateralized with securities held by the District in its name.

Category 2: Amount collateralized with securities held by the pledging financial institution's trust department in the District's name.

Category 3: Uncollateralized or collateralized with securities held by the pledging financial institution's trust department but not in the name of the District.

The difference between bank balances and the carrying amounts (book value) represents outstanding checks and deposits in transit. Of the bank balance, $253,223 was covered by federal depository insurance, and $395,968 was collateralized by the pledging institutions as required by Section 53652 of the California Government Code. Under the California Government Code, a financial institution is required to secure deposits in excess of $100,000 made by state or local government units by pledging securities held in the form of an undivided collateral pool. The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

NOTE 3. CASH AND INVESTMENTS (Continued)

The bank balances at June 30, 1999 are categorized as follows:

	CATEGORY 1	CATEGORY 2	CATEGORY 3	BANK BALANCES	BOOK VALUE
Cash in checking	$ 99,144			$ 99,144	$ 79,409
Cash in savings	54,079	$ 395,968		450,047	525,623
Cash in County Treasury			$ 101,201	101,201	8,633
Cash with COP trustee	100,000		1,196,765	1,296,765	1,296,765
	$ 253,223	$ 395,968	$ 1,297,966	$ 1,947,157	1,910,430
Cash on hand					230
Total book value					$ 1,910,660

Investments - The District is also required to categorize its investments (including that portion considered cash equivalents). The categories are described as follows:

Category 1: Insured or registered, or securities held by the District or its agent in the District's name.

Category 2: Uninsured or unregistered, with securities held by the counterparty's trust department or agent in the District's name.

Category 3: Uninsured or unregistered, with securities held by the counterparty, or by its trust department or agent, but not in the District's name.

LAIF is not subject to the above categories.

Investments at June 30, 1999 are categorized as follows:

	CATEGORY 1	CATEGORY 2	CATEGORY 3	MARKET/ CARRYING VALUE
US Government obligations	$ 2,923,920			$ 2,923,920
Corporate obligations	1,102,621			1,102,621
Liquid assets	187,034			187,034
	$ 4,213,575			4,213,575
LAIF				3,244,004
Subtotal				7,457,579
Less restricted reserves				384,211
Total Investments				$ 7,073,368

NOTE 4. RECEIVABLES

Receivables, net of allowances for uncollectibles (estimated to be $-0-), consist of the following at June 30, 1999:

	SPECIAL REVENUE	CAPITAL PROJECTS	ENTERPRISE	TOTAL
Grants	$ 8,424			$ 8,424
Project reimbursements	8,686	$ 121,052		129,738
Water sales			$ 79,210	79,210
User fees	313,380			313,380
Interest		82,457	4,801	87,258
Affiliates (Reclamation)			58,333	58,333
Other		235	4,524	4,759
Total	$ 330,490	$ 203,744	$ 146,868	$ 681,102

NOTE 5. CHANGES IN GENERAL FIXED ASSETS

The investment in general fixed assets experienced the following changes for the year ended June 30, 1999:

	BALANCE BEGINNING OF YEAR	CURRENT ADDITIONS	DELETIONS	BALANCE END OF YEAR
Equipment:				
Office	$ 129,068	$ 4,065		$ 133,133
Computer	242,392	94,833	$ 100,549	236,676
Operating	22,996			22,996
Transportation	231,113	20,265	10,197	241,181
Project	215,556	18,230	13,277	220,509
Total equipment	841,125	137,393	124,023	854,495
Monitoring stations	44,200			44,200
Fish rearing facility	523,367	10,684		534,051
Leasehold improvements	2,836			2,836
Total	1,411,528	$ 148,077	$ 124,023	1,435,582
Less provision for accumulated depreciation (memo entry)	900,426			991,221
Investment in general fixed assets (net)	$ 511,102			$ 444,361

NOTE 6. WATER RESALE RIGHTS

At June 30, 1999 water resale rights consist of the following:

Tertiary plant and distribution system costs	$ 25,207,963
Irrigation system transferred to Open Space Users	1,459,777
Part of pump station transferred to Cal-Am	853,727
Total	27,521,467
Less: accumulated amortization	3,208,398
Water resale rights - net	$ 24,313,069

NOTE 7. CHANGES IN GENERAL LONG-TERM DEBT

Changes in general long-term debt consisted of:

Total General Long-term Debt at June 30, 1998	$ 370,044
Decrease in estimated liability for compensated absences	102,812
General Long-term Debt at June 30, 1999	$ 267,232

NOTE 8. INTERFUND RECEIVABLES AND PAYABLES

At June 30, 1999, the following amounts were receivable and payable between funds of the district:

	RECEIVABLES	PAYABLES
Mitigation Fund	$ 2,182,549	
Conservation Fund	226,585	
Capital Projects Fund		$ 2,409,134
Total	$ 2,409,134	$ 2,409,134

NOTE 8. INTERFUND RECEIVABLES AND PAYABLES (Continued)

These interfund payables and receivables arise primarily from the Capital Projects Fund cash accounts receiving all Special Revenue Fund revenue and paying all Special Revenue Fund expenditures. The Enterprise 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, 1999.

NOTE 9. 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, 1999 accounts receivable from these affiliates were as follows:

Receivable from CAWD for facilities evaluation	$	4,681
Receivable from PBCo and affiliated golf courses for reclaimed water delivery		53,652
Total	$	58,333

At June 30, 1999 accounts payable to these affiliates were as follows:

Payable to CAWD for personnel and overhead	$	12,296
Payable to MPWMD for user fees		31,014
Payable to PBCSD for personnel and overhead		18,712
Total	$	62,022

NOTE 10. CERTIFICATES OF PARTICIPATION PAYABLE

The Variable Rate Demand Certificates of Participation - Wastewater Reclamation Project Series 1992 (the Certificates) were issued in December 1992 in the amount of $33,900,000 by the MPWMD. The Certificates were issued 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 Certificates will 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 Certificates. The Certificates accrued interest at an initial rate of 2.30% per annum to and including December 16, 1992 and, thereafter, at a variable rate determined as provided in the Official Statement of the Certificates issuance. The variable interest rate at June 30, 1999 was 3.06%.

NOTE 10. CERTIFICATES OF PARTICIPATION PAYABLE (Continued)

As a requirement of this issuance two reserved funds were established. A Renewal and Replacement Reserve was established to pay for future major repairs and an Operations and Maintenance Reserve was established to cover future operating deficits. Each of these reserves is restricted for its intended purpose. At June 30, 1999 the balances in these funds were as follows:

Renewal and Replacement Reserve	$ 227,120
Operations and Maintenance Reserve	157,091
Total	$ 384,211

Interest will be paid to the holders of the Certificates on January 1 and July 1 of each year at a variable rate as described above. Principal payments on the Certificates will commence on July 1, 2002 and mature on July 1, 2022, as follows:

MANDATORY REPAYMENT DATE - (JULY 1)	AMOUNT
2002	$ 400,000
2003	1,000,000
2004	1,000,000
2005	1,100,000
2006	1,100,000
2007	1,200,000
2008	1,300,000
2009	1,300,000
2010	1,400,000
2011	1,500,000
2012	1,600,000
2013	1,700,000
2014	1,700,000
2015	1,800,000
2016	1,900,000
2017	2,000,000
2018	2,100,000
2019	2,300,000
2020	2,400,000
2021	2,500,000
2022	2,600,000
Total	$ 33,900,000

NOTE 10. CERTIFICATES OF PARTICIPATION PAYABLE (Continued)

Pledge of Net Operating Revenues - 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 certificates. 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 certificates in accordance with the terms of the Water Purchase Agreement and of the Trust Agreement. Notwithstanding the foregoing, the District may at any time issue obligations or execute contracts which are secured by a lien subordinate to the pledge of net operating revenues created under the Water Purchase Agreement. The Project has not been pledged to secure payment of the certificates.

NOTE 11. LEASE COMMITMENTS

The District is committed to two long-term leases for office space. The first is for its main offices which are leased at $8,688 per month (subject to an annual cost-of-living increase) through April 2000. The second is for its Carmel Valley Service Center which is leased at $540 per month through June 2000.

In addition, 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 May 2004 with an optional five year renewal.

Minimum lease payments in future years ended June 30 are as follows:

2000	$	93,507
2001		1
2002		1
2003		1
Thereafter (through 2004)		1
Total	$	93,511

NOTE 12. 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.

NOTE 12. JOINT POWERS AGREEMENT (Continued)

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, 1999 is as follows:

Total assets	$ 13,213,735
Total liabilities	7,436,168
Risk margin (SDRMA equity)	$ 5,777,567
Total revenues	$ 4,180,890
Total expenses	1,481,038
Net income (loss)	$ 2,699,852

The SDRMA did not have long-term debt outstanding at June 30, 1999, 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 13. 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 percent 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 13. 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 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 14. PENSION PLAN

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

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

Annual Pension Cost - For fiscal year 1998/99, the District's annual pension cost of $92,232 for PERS was equal to the District's required and actual contributions. The required contribution for fiscal year 1998/99 was determined as part of the June 30, 1996 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 8.25 percent investment rate of return (net of administrative expenses), (b) projected annual salary increases that vary by duration of service, and (c) 2 percent per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 3.5 percent. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a four-year period (smoothed market value). PERS unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period of the unfunded actuarial accrued liability is 23 years as of June 30, 1999.

NOTE 14. PENSION PLAN (Continued)

Actuarial information of the Plan for the three years ended June 30, 1996, 1997 and 1998, which is the most recent data available, is as follows:

Three-Year Trend Information for PERS

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
06/30/96	$ 139,127	100%	$ -0-
06/30/97	$ 126,090	100%	$ -0-
06/30/98	$ 84,985	100%	$ -0-

Required Supplementary Information

Actuarial Valuation Date	(A) Actuarial Asset Value	(B) Entry Age Actuarial Accrued Liability	(C) Unfunded Actuarial Accrued Liability/ (Excess Assets) [(B)-(A)]	(D) Funded Ratio [(A)/(B)]	(E) Covered Payroll	(F) Unfunded Actuarial Liability Percentage of Covered Payroll {[(B)-(A)/(E)]}
06/30/96	$ 1,920,954	$ 1,650,946	$ (270,008)	116.4%	$ 1,137,836	(23.730)%
06/30/97	$ 2,366,596	$ 1,815,923	$ (550,673)	130.3%	$ 1,204,571	(45.715)%
06/30/98	$ 2,939,711	$ 2,098,849	$ (840,862)	140.1%	$ 1,252,136	(67.154)%

NOTE 15. 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.

In connection with its participation in the Federal Emergency Management Agency's (FEMA) Disaster Relief Assistance Program, the District has received advance payments for repair projects relating to the 1995 winter floods. FEMA will audit the District when all approved projects are completed. Due to the 1998 winter floods, some of these projects will not be completed and the District will be requesting approval for new projects. Funds advanced for the 1995 projects may be required to be refunded to FEMA. These funds are reflected as deferred revenue in the financial statements. The District does not expect any final FEMA audit adjustments, if any, to have a material effect on the financial statements.

NOTE 16. COMMITMENTS

Water Quality Improvement - In prior years, concerns were raised by several of the open space users regarding the quality of treated water. The concern was due to potential high levels of salinity in the treated water which could cause damage to various golf course greens. As a result of the concern, the CAWD/PBCSD Wastewater Reclamation Project entered into two contracts in order to study and improve any possible water quality issues that may exist. The first study which was completed in May, 1997 focused on possible options to decrease the salinity in treated water. The second study which was completed in June, 1997 concentrated on the option of reverse osmosis. At June 30, 1999, there are no remaining contractual obligations relating to the studies. The CAWD/PBCSD Wastewater Reclamation Project is currently reviewing various reverse osmosis systems, but has no contractual obligations at June 30, 1999.

Magnetic Flow Meter for Final Effluent - An agreement was signed on May 20, 1999 for $39,145. Construction had not yet begun at June 30, 1999. The full contract amount of $39,145 is outstanding at June 30, 1999.

Ball Valve Reclamation Water Return Line - An agreement was signed with West Valley Construction on May 21, 1998 for $42,000. Construction has been completed. The $4,200 retainer is outstanding at June 30, 1999.

Cal-Am Agreement - On July 31, 1997, the District entered into an agreement with California-American Water Company (Cal-Am) for reimbursement of expenses incurred for review and processing of Cal-Am's application to amend its water distribution system permit to add the Carmel River Dam Project. As of June 30, 1999, Cal-Am has reimbursed the District approximately $606,000.

NOTE 17. SUBSEQUENT EVENT

Subsequent to the year end, the District entered into an agreement to purchase a building at 5 Harris Court in Ryan Ranch Office Park for approximately $1.6 million. The District estimates total costs to purchase the land, building, tenant improvements, interior design fees, furnishings and equipment to be approximately $1.9 million. The District plans to borrow the funds to purchase the building from monies available in the Mitigation and Capital Projects Funds. The District plans to repay the borrowing over a term of seven years at current investment rates.

Subsequent to year end, PBCo. ownership changed and the new owners obtained a new bond letter of credit provided by Bank of America. Under the terms of the new letter of credit, the letter of credit fees will increase from approximately $200,000 to $1,000,000 per year. Bank of America's higher credit rating and therefore lower interest rate has offset a substantial portion of this increased expense. The Project's management does not believe the Project will be adversely affected by this increase due to the agreement with PBCo. in which it has guaranteed to pay any operating deficiencies of the Project.

COMBINING STATEMENTS

AND

SUPPLEMENTAL SCHEDULES

MONTEREY PENINSULA WATER
MANAGEMENT DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 1999

	MITIGATION FUND	CONSERVATION FUND	TOTALS
REVENUES:			
Taxes	$ 141,954	$ 36,082	$ 178,036
Grants	49,419		49,419
User fees	1,253,505	231,321	1,484,826
Permit fees	68,780	91,520	160,300
Project reimbursements	95,144		95,144
Investment income	81,385	10,169	91,554
Miscellaneous	394		394
Total revenues	1,690,581	369,092	2,059,673
EXPENDITURES:			
Salaries and employee benefits	770,893	187,351	958,244
Services and supplies	606,411	145,837	752,248
Capital outlay	79,379	17,760	97,139
Total expenditures	1,456,683	350,948	1,807,631
EXCESS OF REVENUES OVER EXPENDITURES	233,898	18,144	252,042
FUND BALANCES - JULY 1, 1998	1,965,778	245,564	2,211,342
FUND BALANCES - JUNE 30, 1999	$ 2,199,676	$ 263,708	$ 2,463,384

MONTEREY PENINSULA WATER MANAGEMENT DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
SPECIAL REVENUE FUND: MITIGATION FUND
FOR THE YEAR ENDED JUNE 30, 1999

	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES:			
Taxes	$ 123,031	$ 141,954	$ 18,923
Grants	327,000	49,419	(277,581)
User fees	1,409,300	1,253,505	(155,795)
Permit fees	68,730	68,780	50
Project reimbursements	364,000	95,144	(268,856)
Investment income	77,850	81,385	3,535
Miscellaneous		394	394
Total revenues	2,369,911	1,690,581	(679,330)
EXPENDITURES:			
Salaries and employee benefits:			
Salaries	621,421	640,605	(19,184)
Employee benefits	143,034	130,288	12,746
Total salaries and employee benefits	764,455	770,893	(6,438)
Services and supplies:			
Project expenditures	1,486,609	352,309	1,134,300
Operating expenditures	238,311	199,891	38,420
Professional fees	90,710	54,211	36,499
Total services and supplies	1,815,630	606,411	1,209,219
Capital outlay	78,199	79,379	(1,180)
Total expenditures	2,658,284	1,456,683	1,201,601
EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES	(288,373)	233,898	522,271
FUND BALANCE - JULY 1, 1998	815,664	1,965,778	1,150,114
FUND BALANCE - JUNE 30, 1999	$ 527,291	$ 2,199,676	$ 1,672,385

MONTEREY PENINSULA WATER MANAGEMENT DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

SPECIAL REVENUE FUND: CONSERVATION FUND

FOR THE YEAR ENDED JUNE 30, 1999

	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES:			
Taxes	$ 31,317	$ 36,082	$ 4,765
User fees	248,700	231,321	(17,379)
Permit fees	82,270	91,520	9,250
Investment income	8,350	10,169	1,819
Total revenues	370,637	369,092	(1,545)
EXPENDITURES:			
Salaries and employee benefits:			
Salaries	160,141	155,295	4,846
Employee benefits	36,082	32,056	4,026
Total salaries and employee benefits	196,223	187,351	8,872
Services and supplies:			
Project expenditures	120,400	55,399	65,001
Operating expenditures	76,535	65,923	10,612
Professional fees	34,740	24,515	10,225
Total services and supplies	231,675	145,837	85,838
Capital outlay	16,105	17,760	(1,655)
Total expenditures	444,003	350,948	93,055
EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES	(73,366)	18,144	91,510
FUND BALANCE - JULY 1, 1998	152,385	245,564	93,179
FUND BALANCE - JUNE 30, 1999	$ 79,019	$ 263,708	$ 184,689

MONTEREY PENINSULA WATER MANAGEMENT DISTRICT
PROJECT EXPENDITURES - BUDGET AND ACTUAL
SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 1999

	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
MITIGATION:			
Fish	$ 439,784	$ 106,506	$ 333,278
Toilet replacement refund program	545,000	100,600	444,400
Erosion protection/river restoration	185,000	44,836	140,164
Riparian projects	80,000	34,866	45,134
District reporting	38,300	25,424	12,876
Erosion control project	71,500	23,390	48,110
Irrigation	13,500	8,254	5,246
Endangered species	75,000	5,934	69,066
Hydrologic monitoring	9,525	1,220	8,305
New wells		543	(543)
Channel clearing	25,000	489	24,511
Lagoon		247	(247)
Carmel Valley water quality	4,000		4,000
Total mitigation	1,486,609	352,309	1,134,300
CONSERVATION:			
District reporting	113,900	55,182	58,718
Ordinance implementation	6,500	217	6,283
Total conservation	120,400	55,399	65,001
TOTAL	$ 1,607,009	$ 407,708	$ 1,199,301

MONTEREY PENINSULA WATER MANAGEMENT DISTRICT
PROJECT EXPENDITURES - BUDGET AND ACTUAL
CAPITAL PROJECTS FUND
FOR THE YEAR ENDED JUNE 30, 1999

	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
EXPENDITURES:			
New wells	$ 223,000	$ 210,560	$ 12,440
CEQA	283,800	185,780	98,020
District reporting	32,300	26,880	5,420
Operations modeling	20,000	17,300	2,700
Water supply	74,000	11,336	62,664
Hydrologic monitoring	9,175	11,041	(1,866)
Groundwater quality	4,000	5,728	(1,728)
Channel clearing		489	(489)
Fish	39,320	214	39,106
EIR/S	10,000		10,000
TOTAL	$ 695,595	$ 469,328	$ 226,267

MONTEREY PENINSULA WATER MANAGEMENT DISTRICT
YEAR 2000 SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 1999

1. DESCRIPTION

The District has conducted a comprehensive review of its computer systems to identify the systems that could be affected by the Year 2000 Issue (Y2K) and has developed a remediation plan to resolve the Issue. The Issue is whether computer systems will properly recognize date sensitive information when the year changes to 2000. Systems that do not properly recognize such information could generate erroneous data or cause a system to fail. The District is dependent on computer processing in the conduct of its essential operations.

Based on the review of the computer systems, management believes the cost of the remediation effort to make the systems Year 2000 ready is approximately $96,000. Approximately $8,000 was spent in fiscal year 97-98 to upgrade the servers to be Y2K compliant. Approximately $78,000 was spent in fiscal year 98-99 to replace the desktops and commercial off-the-shelf software (COTS), to replace the ALERT system hardware and software, and to replace the stream gaging data loggers that continuously record data at unmanned stations. There could be additional costs if there is an unexpected failure attributable to the Year 2000 Issue. $10,000 has been set aside for Y2K contingency in the fiscal year 99-00 budget. Such costs will be charged to income as they are incurred. In addition to the District's own system upgrades and equipment replacements, the District is actively requesting assurances from its vendors about their Y2K readiness.

2. STAGES OF IMPLEMENTATION

The District's significant systems in various stages of implementation are as follows:

	Stages			
Systems	Awareness	Assessment	Remediation	Validation
COTS software				X
Custom software				X
Hardware				X
Data loggers				X

Each stage represents the following status:

Awareness - Defined "Y2K compliant."
Assessment - Identification and inventory of year 2000 compliance performed.
Remediation - Technical conversion of existing system completed.
Validation - Test data developed, processed, and reviewed for results to determine that converted systems operate properly.