

EXHIBIT 1-B

[DATE]

To the Board of Directors
Monterey Peninsula Water Management District
Monterey, California

This letter is intended to inform the Board of Directors of Monterey Peninsula Water Management District (the District) about significant matters related to the conduct of the annual audit so it can appropriately discharge its oversight responsibility, and that we comply with our professional responsibilities to the Board of Directors.

In addition to our report on your financial statements, we have provided, under separate cover, a letter, dated [DATE], concerning deficiencies in internal control that we noted during our of the District's financial statements for the year ended June 30, 2007.

The following summarizes various matters which must be communicated to you under auditing standards generally accepted in the United States of America.

The Auditors' Responsibility Under Auditing Standards Generally Accepted in the United States of America

Our audit of the financial statements of Monterey Peninsula Water Management District for the year ended June 30, 2007 was conducted in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error, fraudulent financial reporting or misappropriation of assets. 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. Accordingly, the audit was designed to obtain reasonable, rather than absolute, assurance about the financial statements. We believe our audit accomplished that objective.

Management Judgments and Accounting Estimates

Accounting estimates are an integral part of the preparation of financial statements and are based upon management's current judgment. The process used by management encompasses their knowledge and experience about past and current events and certain assumptions about future events. Management has informed us that they used all the relevant facts available to them at the time to make the best judgments about accounting estimates, and we considered this information in the scope of our audit. Estimates significant to the financial statements include the estimate of depreciation expense. The Board of Directors may wish to monitor throughout the year the process used to compute and record this accounting estimate.

Audit Adjustments

There were several audit adjustments made to the original trial balance presented to us to begin our audit. Of the adjustments that were recorded, the following is a description of the adjustments that could, in our judgment, either individually or in the aggregate, have a significant effect on the on the District's financial reporting process.

- Capitalization of \$899,535 of project expenditures related to the construction in process for Aquifer and Storage Recovery well #2

Uncorrected Misstatements

We accumulated no uncorrected misstatements.

Accounting Policies and Alternative Treatments

Management and the Board of Directors has the ultimate responsibility for the appropriateness of the accounting policies used by the District. The District did not adopt any significant new accounting policies nor have there been any changes in existing significant accounting policies during the current period which should be brought to your attention for approval.

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

Other Information in Documents Containing Audited Financial Statements

We are not aware of any other documents that contain the audited basic financial statements. If such documents were to be published, we would have a responsibility to determine that such financial information was not materially inconsistent with the audited statements of the District.

Disagreements with Management

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

Consultations with Other Accountants

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

Major Issues Discussed with Management Prior to Retention

No major issues were discussed with management prior to our retention to perform the aforementioned audit.

Difficulties Encountered in Performing the Audit

We did not encounter any difficulties in dealing with management relating to the performance of the audit.

Closing

We will be pleased to respond to any questions you have about the foregoing. We appreciate the opportunity to continue to be of service to Monterey Peninsula Water Management District.

This report is intended solely for the information and use of the Board of Directors and management and is not intended to be and should not be used by anyone other than the specified parties.

HAYASHI & WAYLAND
ACCOUNTING & CONSULTING, LLP

By _____
Michael T. Briley, C.P.A.