EXHIBIT 6-A

MONTEREY PENINSULA WATER MANAGEMENT DISTRICT

FINANCIAL STATEMENTS

FOR THE YEAR ENDED
JUNE 30, 2014

AND INDEPENDENT AUDITORS' REPORT

MONTEREY PENINSULA WATER MANAGEMENT DISTRICT

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MONTEREY PENINSULA WATER MANAGEMENT DISTRICT

Board of Directors

June 30, 2014

Member	Office	Representative
David Potter	Chair	Monterey County Board of Supervisors
David Pendergrass	Director	Mayoral Representative
Brenda Lewis	Director	Division 1
Bill Thayer	Vice-Chair	Division 2
Kristi Markey	Director	Division 3
Jeanne Byrne	Director	Division 4
Robert S. Brower	Director	Division 5

INDEPENDENT AUDITORS' REPORT

Board of Directors
Monterey Peninsula Water Management District
Monterey, California

Report on the Financial Statements

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, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express our opinions on these financial statements based on our audit. We did not audit the financial statements of the CAWD/PBCSD Wastewater Reclamation Project (the proprietary fund) which statements reflect 78% of the total assets (See Note 2). Those statements were audited by 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 audit in accordance with auditing standards generally accepted in the United States of America and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, 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, 2014, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America as well as accounting systems prescribed by the State Controller's Office and state regulations governing special districts.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 11, the Schedule of Funding Progress of Other Post Employee Benefits on page 43 and the Budgetary Comparison Schedules on pages 44 – 47 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

_______________[date]

MONTEREY PENINSULA WATER MANAGEMENT DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
JUNE 30, 2014

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, 2014. 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 four primary responsibilities. The first is to augment and manage development of potable water supplies and the delivery of this water to users in the Monterey Peninsula area. The second is to promote water conservation. The third is to promote water reuse and reclamation of storm and waste water. The fourth 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, 2014 by $5.2 million (net position). However, $3.7 million is invested in capital assets-net of related debt.
- The District's total governmental activities net position decreased by approximately $1.5 million for the year ended June 30, 2014. The decrease in net position can mostly be attributed to the groundwater replenishment project, capital outlay and capitalized project expenditures. Depreciation expenses for the year were $279,774.
- Capital outlay and capitalized project expenditures of $398,614 consisted mostly of funds expended to construct an additional injection well for the District's Aquifer Storage & Recovery Project, alternate desalination project, local water projects, vehicle purchase, building carpet installation, 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 Position.

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 Position* presents information on all of the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases and decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. The Statement of Net Position 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 position 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 Water Supply 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 42 of this report.

GOVERNMENT–WIDE FINANCIAL ANALYSIS

Net Position

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

Summary of Net Position
Governmental Activities

	2014	2013
Assets		
Current Assets	$ 7,861,865	$ 8,130,277
Prepaid Expenses and Deposits	–	36,025
Capital Assets – Net	5,424,002	5,305,162
Total Assets	13,285,867	13,471,464
Liabilities		
Current Liabilities	2,465,142	1,296,323
Long-Term Liabilities	5,581,118	5,432,937
Total Liabilities	8,046,260	6,729,260
Net Position		
Invested in Capital Assets, Net of Related Debt	3,703,618	3,825,773
Restricted	219,136	219,136
Unrestricted	1,316,853	2,697,295
Total Net Position	$ 5,239,607	$ 6,742,204

The District's assets exceeded its liabilities by approximately $5.2 million at the end of the current year, which is an decrease of approximately 22.3% since June 30, 2013.

The activities decreased the District's net position by approximately $1.5 million during the current year, due primarily to increased payables as follows:

- Groundwater replenishment project
- Local water supply project
- Various other payables

In FY 2012-2013, the District replaced the lost User Fee revenue with Water Supply Charge revenue derived from individual property owners and Mitigation Program revenue derived from Cal-Am ratepayers.

GOVERNMENT–WIDE FINANCIAL ANALYSIS (Continued)

Change in Net Position

Change in Net Position
Governmental Activities

	2014	2013
Revenues:		
Program Revenue:		
Charges for Services	$ 9,044,326	$ 8,159,383
Operating Grants	602,499	391,797
General Revenues:		
Property Taxes	1,582,796	1,690,645
Investment Income	20,042	11,524
Miscellaneous	56,653	62,211
Total Revenues	11,306,316	10,315,560
Expenses:		
Conservation	2,269,696	1,459,231
Mitigation	2,463,838	2,284,450
Water Supply	8,075,379	4,191,428
Transfer of Capital Assets	–	2,147,054
Total Expenses	12,808,913	10,082,163
Change in Net Position	(1,502,597)	233,397
Net Position - Beginning of Year	6,742,204	6,508,807
Net Position - End of Year	$ 5,239,607	$ 6,742,204

In fiscal year 2012-2013, the District replaced part of the lost User Fee revenue with Mitigation Program revenue derived from Cal-Am ratepayers. The remainder of the lost revenue was replaced with Water Supply Charge in FY 2012-2013. Governmental activities decreased the District's net assets by approximately $1.5 million. Key elements resulting in the net increase are as follows:

- Project expenditures of about $8.2 million, consisting mainly of constructing an additional well for the Aquifer Storage & Recovery Project, groundwater replenishment project, alternate desalination project, local water supply project, and various minor project expenditures contributed to the increase.

- Capital outlay of approximately $107,000, mostly for a vehicle purchase, building carpet installation, and routine computer equipment upgrades, added to the increase.

- Depreciation expense of approximately $280,000 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, 2014 totaled $5,424,002 as shown below. This amount represents a net increase, including additions and disposals, net of depreciation, of approximately $118,000 or 2.2% from June 30, 2013.

Capital Assets
(Net of Depreciation)

	2014	2013
Office Equipment	$ 3,613	$ 5,621
Computer Equipment	361,070	384,666
Transportation Equipment	32,218	16,260
Project Equipment	6,833	7,667
Building and Improvements	1,238,868	1,254,989
ASR Facilities	3,773,036	3,623,950
Fish Rearing Facility	8,364	12,009
Total	$ 5,424,002	$ 5,305,162

Debt Administration

The District has an installment purchase agreement with a balance of $3,886,417 at June 30, 2014. Retirements were made in the amount of $75,215.

The balance of the District's debt, other than the liabilities for compensated absences and other post employment benefits 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 Water Supply 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. This includes the Toilet Replacement Refund Program, which decreases water demand on the Carmel River. 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.

At the end of the current fiscal year, the District's governmental funds reported a total fund balance of $5,310,783. The Water Supply Fund has a fund balance of $3,892,112, the Conservation Fund has a fund balance of $1,086,698 and the Mitigation Fund has a fund balance of $331,973.

During the current fiscal year, the fund balance of the District's Water Supply Fund decreased $2,168,206, the Conservation Fund increased $404,928 and the Mitigation Fund increased $301,004. The increases in the Conservation Fund and the Mitigation Fund are due to revenues and other financing sources exceeding expenditures primarily due to deferment of some expenditures to next fiscal year. In FY 2012-2013, the District replaced the lost User Fee revenue with Water Supply Charge revenue derived from individual property owners and Mitigation Program revenue derived from Cal-Am ratepayers.

BUDGET HIGHLIGHTS/VARIANCES

The District's original budget of $15.3 million for expenditures was modified to $16.1 during the mid-year budget process. The increase was attributable to project expenditures, mostly related to groundwater replenishment project. Most of the increase in project expenditures was covered from previously accumulated fund balances.

The District's budget projected operating revenues of $12.7 million. The District finished the budget year with operating revenues of $11.3 million, which was $1.3 million or 10.6% less than budgeted. The difference was mostly attributable to project reimbursements being approximately $1.4 million under budget.

Actual operating expenditures totaled $12.8 million compared to the budget amount of $16.1 million, or 20.4% less than budgeted. The difference is primarily due to project expenditures being approximately $3 million less than the budgeted amount.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

In developing the fiscal year 2014-2015 budget, the staff and management had to consider a number of factors that would impact the District's economy and finances. The 2014-2015 budget was developed and balanced using previously accumulated fund balance. This was accomplished by sustaining most expenditure levels and structuring permit and other processing fees collected by the District to fully recover service costs. The fiscal year 2014-2015 budget assumes continued collection of Water Supply Charge revenue derived from individual property owners and Mitigation Program revenue derived from Cal-Am ratepayers.

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 Suresh Prasad, Administrative Services Manager/Chief Financial Officer, Monterey Peninsula Water Management District, 5 Harris Ct., Bldg. G, Monterey, California 93940.

BASIC FINANCIAL STATEMENTS

MONTEREY PENINSULA WATER MANAGEMENT DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2014
(WITH SUMMARIZED TOTALS FOR JUNE 30, 2013)

	Governmental Activities	Business–Type Activities	2014 Total	2013 Total
ASSETS:				
Cash and cash equivalents	$ 1,032,749	$ 649,266	$ 1,682,015	$ 780,548
Investments	4,696,986	–	4,696,986	5,982,639
Receivables, net	1,912,994	591,230	2,504,224	3,108,041
Prepaid expenses and deposits	–	–	–	36,025
Restricted reserves	219,136	874,410	1,093,546	1,083,629
Capital assets, net:				
Water rights	–	43,910,643	43,910,643	45,306,398
Nondepreciable	–	108,486	108,486	8,104
Depreciable	5,424,002	–	5,424,002	5,305,162
Total assets	13,285,867	46,134,035	59,419,902	61,610,546
LIABILITIES:				
Accounts payable	2,412,850	665,576	3,078,426	3,169,609
Accrued liabilities	52,292	–	52,292	86,801
Long-term debt:				
Due within one year	327,296	2,252,000	2,579,296	2,545,786
Due in more than one year	5,253,822	22,016,000	27,269,822	29,407,151
Total liabilities	8,046,260	24,933,576	32,979,836	35,209,347
NET POSITION:				
Invested in capital assets, net of related debt	3,703,618	24,719,129	28,422,747	22,620,275
Restricted for construction project	–	–	–	15,276
Restricted for debt service	219,136	1,137	220,273	220,273
Restricted for capital replacement	–	873,273	873,273	848,080
Unrestricted (deficit)	1,316,853	(4,393,080)	(3,076,227)	2,697,295
Total net position	$ 5,239,607	$ 21,200,459	$ 26,440,066	$ 26,401,199

See Notes to Basic Financial Statements.

MONTEREY PENINSULA WATER MANAGEMENT DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014
(WITH SUMMARIZED TOTALS FOR JUNE 30, 2013)

		Program Revenues		Net (Expenses) Revenues and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business–Type Activities	2014 Total	2013 Total
FUNCTIONS/PROGRAMS:							
Governmental activities:							
Conservation	$ 2,269,696	$ 1,374,724	$ –	$ (894,972)	$ –	$ (894,972)	$ (697,241)
Mitigation	2,463,838	1,940,728	602,499	79,389	–	79,389	(57,093)
Water supply	8,075,379	5,728,874	–	(2,346,505)	–	(2,346,505)	1,370,405
Total governmental activities	12,808,913	9,044,326	602,499	(3,162,088)	–	(3,162,088)	616,071
Business–type activities – water sales	3,828,941	5,359,496	–	–	1,530,555	1,530,555	741,143
Total business–type activities	3,828,941	5,359,496	–	–	1,530,555	1,530,555	741,143
Total	$ 16,637,854	$ 14,403,822	$ 602,499	(3,162,088)	1,530,555	(1,631,533)	1,357,214
GENERAL REVENUES:							
Taxes				1,582,796	–	1,582,796	1,690,645
Investment earnings				20,042	26,185	46,227	13,433
Miscellaneous				56,653	–	56,653	62,211
Gain (loss) on sale of capital assets				–	–	–	(2,147,054)
Special items:							
Subsidy, Pebble Beach Company				–	–	–	1,600,006
Withdrawal, Pebble Beach Company				–	–	–	(1,641,213)
Water entitlement sales				–	–	–	253,203
Water entitlement (withdrawals)				–	(15,276)	(15,276)	(1,130,000)
Total general revenues				1,659,491	10,909	1,670,400	(1,298,769)
CHANGE IN NET POSITION				(1,502,597)	1,541,464	38,867	58,455
NET POSITION – BEGINNING OF YEAR				6,742,204	19,658,995	26,401,199	31,862,754
Prior period adjustment – prior bond carrying costs reimbursements				–	–	–	(5,520,000)
NET POSITION – BEGINNING OF YEAR (AS RESTATED)				6,742,204	19,658,995	26,401,199	26,342,754
NET POSITION – END OF YEAR				$ 5,239,607	$ 21,200,459	$ 26,440,066	$ 26,401,199

See Notes to Basic Financial Statements.

MONTEREY PENINSULA WATER MANAGEMENT DISTRICT
BALANCE SHEET – GOVERNMENTAL FUNDS
JUNE 30, 2014
(WITH SUMMARIZED TOTALS FOR JUNE 30, 2013)

	Water Supply	Conservation	Mitigation	2014 Total	2013 Total
ASSETS:					
Cash and cash equivalents	$ 222,493	$ 334,138	$ 476,118	$ 1,032,749	$ 354,747
Investments	2,702,568	961,480	1,032,938	4,696,986	5,982,639
Receivables, net	618,298	266,804	1,027,892	1,912,994	1,573,755
Due from other governments	–	–	–	–	–
Prepaid expenses and deposits	–	–	–	–	36,025
Due from other funds	2,201,211	–	–	2,201,211	2,201,210
Restricted reserves	219,136	–	–	219,136	219,136
Total assets	5,963,706	1,562,422	2,536,948	10,063,076	10,367,512
LIABILITIES, DEFERRED INFLOWS, AND FUND BALANCES:					
Liabilities:					
Accounts payable	2,054,704	113,368	244,778	2,412,850	1,209,522
Accrued liabilities	8,861	12,199	31,232	52,292	86,801
Due to other funds	–	285,802	1,915,409	2,201,211	2,201,210
Total liabilities	2,063,565	411,369	2,191,419	4,666,353	3,497,533
Deferred Inflows –					
Deferred tax revenue	8,029	64,355	13,556	85,940	96,922
Total deferred inflows	8,029	64,355	13,556	85,940	96,922
Fund balances:					
Nonspendable – prepaid expenses	–	–	–	–	36,025
Assigned:					
Insurance/litigation	171,354	11,906	66,740	250,000	250,000
Capital equipment	51,966	47,633	145,301	244,900	304,100
Flood/drought emergencies	–	–	443,944	443,944	443,944
Unassigned	3,668,792	1,027,159	(324,012)	4,371,939	5,738,988
Total fund balances	3,892,112	1,086,698	331,973	5,310,783	6,773,057
Total liabilities, deferred inflows, and fund balances	$ 5,963,706	$ 1,562,422	$ 2,536,948		
Amounts reported in the statement of net position are different because:					
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds				5,424,002	5,305,162
Other assets are not available to pay for current-period expenditures and therefore are deferred in the funds				85,940	96,922
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds				(5,581,118)	(5,432,937)
NET POSITION OF GOVERNMENTAL ACTIVITIES				$ 5,239,607	$ 6,742,204

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, 2014
(WITH SUMMARIZED TOTALS FOR JUNE 30, 2013)

	Water Supply	Conservation	Mitigation	2014 Total	2013 Total
REVENUES:					
Property taxes	$ 333,267	$ 1,100,905	$ 148,624	$ 1,582,796	$ 1,690,645
Water supply charge	3,412,207	–	–	3,412,207	3,400,873
User fees	–	6,867	87,064	93,931	178,002
Connection charges, net of refunds	223,625	–	–	223,625	115,972
Permit fees	–	175,023	65,056	240,079	277,956
Project reimbursements	2,093,013	1,190,653	–	3,283,666	2,562,195
Investment income	12,799	3,713	3,530	20,042	11,524
Legal fee reimbursements	–	18,441	–	18,441	32,756
Recording fees	–	15,061	–	15,061	13,785
Mitigation revenue	–	–	1,801,800	1,801,800	1,637,984
Miscellaneous	16,010	–	7,141	23,151	15,670
Grants	–	–	602,499	602,499	391,797
Total revenues	6,090,921	2,510,663	2,715,714	11,317,298	10,329,159
EXPENDITURES:					
Personnel:					
Salaries	768,299	449,925	1,033,767	2,251,991	2,169,046
Employee benefits and other personnel	321,168	240,948	463,526	1,025,642	1,067,786
Services and supplies:					
Project expenditures	6,465,907	1,182,125	556,364	8,204,396	3,243,178
Operating expenditures	143,720	147,578	230,029	521,327	377,214
Professional fees	304,978	62,765	81,997	449,740	508,795
Capital outlay	35,919	22,394	49,027	107,340	53,145
Debt service:					
Principal	75,215	–	–	75,215	38,368
Interest and other charges	143,921	–	–	143,921	67,801
Total expenditures	8,259,127	2,105,735	2,414,710	12,779,572	7,525,333
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(2,168,206)	404,928	301,004	(1,462,274)	2,803,826
OTHER FINANCING SOURCES (USES) – Loan proceeds	–	–	–	–	4,000,000
NET CHANGE IN FUND BALANCES	(2,168,206)	404,928	301,004	(1,462,274)	6,803,826
FUND BALANCES – BEGINNING OF YEAR	6,060,318	681,770	30,969	6,773,057	(30,769)
FUND BALANCES – END OF YEAR	$ 3,892,112	$ 1,086,698	$ 331,973	$ 5,310,783	$ 6,733,057

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, 2014

NET CHANGE IN FUND BALANCES			$ (1,462,274)
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. In the current period these amounts are:			118,840
Capitalized project expenditures	$	291,274	
Capital outlay	$	107,340	
Depreciation expense	$	(279,774)	
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenue in the funds.			(10,982)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. However, neither transaction has any effect on net position. In the current period these amounts are:			75,215
Principal payments on long-term debt	$	75,215	
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:			(223,396)
Compensated absences	$	(36,441)	
OPEB costs	$	(186,955)	
CHANGE IN NET POSITION			$ (1,502,597)

See Notes to Basic Financial Statements.

MONTEREY PENINSULA WATER MANAGEMENT DISTRICT
STATEMENT OF NET POSITION – PROPRIETARY FUND
(CAWD/PBCSD WASTEWATER RECLAMATION PROJECT)
JUNE 30, 2014
(WITH SUMMARIZED TOTALS FOR JUNE 30, 2013)

	2014	2013
ASSETS:		
Cash and investments	$ 649,266	$ 425,801
Accounts receivable:		
Water sales	577,074	1,518,948
Other	14,156	15,338
Cash restricted for:		
Construction project	–	15,276
Debt service	1,137	1,137
Capital replacements	873,273	848,080
Capital assets, net:		
Water resale rights	43,910,643	45,306,398
Construction-in-progress	108,486	8,104
Total assets	46,134,035	48,139,082
LIABILITIES:		
Accounts payable:		
Pebble Beach Company	–	1,641,213
Trade	40,109	15,758
Affiliates	625,467	303,116
Due to Pebble Beach Company:		
Due within one year	552,000	552,000
Due in more than one year	4,416,000	4,968,000
Certificates of participation:		
Due within one year	1,700,000	1,700,000
Due in more than one year	17,600,000	19,300,000
Total liabilities	24,933,576	28,480,087
NET POSITION:		
Invested in capital assets, net of related debt	24,719,129	24,314,502
Restricted for debt service	1,137	1,137
Restricted for construction project	–	15,276
Restricted for capital replacements	873,273	848,080
Unrestricted	(4,393,080)	(5,520,000)
Total net position	$ 21,200,459	$ 19,658,995

See Notes to Basic Financial Statements.

MONTEREY PENINSULA WATER MANAGEMENT DISTRICT
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION – PROPRIETARY FUND
(CAWD/PBCSD WASTEWATER RECLAMATION PROJECT)
FOR THE YEAR ENDED JUNE 30, 2014
(WITH SUMMARIZED TOTALS FOR JUNE 30, 2013)

	2014	2013
OPERATING REVENUES –		
Water sales	$ 5,359,496	$ 4,175,379
OPERATING EXPENSES:		
Plant costs	1,552,973	1,335,664
Distribution costs	253,426	335,440
General and administration	150,140	94,950
Potable water	4,188	4,259
Amortization	1,585,572	1,580,827
Total operating expenses	3,546,299	3,351,140
Operating income (loss)	1,813,197	824,239
NON–OPERATING REVENUES (EXPENSES):		
PBCo subsidy	–	1,600,006
PBCo (withdrawal)	–	(1,641,213)
Water entitlement sales	–	253,203
Water entitlement (withdrawals)	(15,276)	(1,130,000)
Investment earnings	26,185	1,909
Bank charges	(325)	(333)
Bond carrying costs	(234,629)	(47,455)
Interest expense – COP	(47,688)	(35,308)
Total non-operating revenue (expenses)	(271,733)	(999,191)
CHANGE IN NET POSITION	1,541,464	(174,952)
NET POSITION – BEGINNING OF YEAR	19,658,995	25,353,947
Prior Period Adjustment – prior bond carrying costs liability	–	(5,520,000)
NET POSITION – BEGINNING AS RESTATED	19,658,995	19,833,947
NET POSITION – END OF YEAR	$ 21,200,459	$ 19,658,995

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, 2014
(WITH SUMMARIZED TOTALS FOR JUNE 30, 2013)

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	$ 6,302,552	$ 3,152,557
Cash payments for operating expenses	(1,614,025)	(2,143,453)
NET CASH PROVIDED BY OPERATING ACTIVITIES	4,688,527	1,009,104
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Cash received from operating subsidy	–	1,600,006
Cash received from water entitlement sales	–	253,203
Cash paid out – water entitlement (withdrawals)	(15,276)	(1,130,000)
Payment to PBCo-advance reimbursements	(1,641,213)	–
Water resale rights – capital additions	(290,199)	(82,866)
Bond carrying and interest expenses	(282,642)	(82,763)
Principal paid on PBCo debt	(552,000)	–
Principal payments on certificates of participation	(1,700,000)	(1,600,000)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(4,481,330)	(1,042,420)
CASH FLOWS FROM INVESTING ACTIVITIES – Investment earnings	26,185	1,576
NET CASH PROVIDED BY INVESTING ACTIVITIES	26,185	1,576
INCREASE (DECREASE) IN CASH AND INVESTMENTS	233,382	(31,740)
CASH AND INVESTMENTS, BEGINNING OF YEAR	1,290,294	1,322,034
CASH AND INVESTMENTS, END OF YEAR	$ 1,523,676	$ 1,290,294

MONTEREY PENINSULA WATER MANAGEMENT DISTRICT
STATEMENT OF CASH FLOWS – PROPRIETARY FUND
(CAWD/PBCSD WASTEWATER RECLAMATION PROJECT)
FOR THE YEAR ENDED JUNE 30, 2014
(WITH SUMMARIZED TOTALS FOR JUNE 30, 2012)
(Continued)

	2014	2013
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES:		
Operating income	$ 1,813,197	$ 824,239
Adjustments to reconcile net operating income to net cash provided by operating activities:		
Amortization	1,585,572	1,580,827
(Increase) decrease in:		
Receivables	943,056	(1,022,822)
Prepaid expenses	–	21,061
Increase (decrease) in –		
Accounts payable	346,702	(394,201)
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 4,688,527	$ 1,009,104
RECONCILIATION OF CASH AND CASH INVESTMENTS TO THE STATEMENT OF NET POSITION:		
Cash and investments	$ 649,266	$ 425,801
Restricted cash	874,410	864,493
Total	$ 1,523,676	$ 1,290,294

See Notes to Basic Financial Statements.

MONTEREY PENINSULA WATER MANAGEMENT DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014

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 position and the statement of activities) report information on all of the activities of the District.

The government-wide statement of activities demonstrates the degree to which the direct expenses of a functional category (Conservation, Mitigation or Water Supply) or identifiable 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 water supply, conservation, and mitigation fund. 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.

Governmental fund 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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property taxes that have been levied and are due on or before year-end are recognized as revenue if they have been collected within sixty days after year-end. Water supply charges 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 generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures as well as expenditures related to compensated absences, are recognized only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt are reported as other financing sources.

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.

The following major funds are used by the District:

Governmental Funds:

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

a. *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.

b. *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.

c. *Water Supply 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)

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.

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. Construction project cash is in an escrowed account for receipt of water entitlement sales by PBCo., who is entitled to reimbursements for its cash advances for phase II construction costs. Certain cash and investments of the District are classified as restricted because their uses are limited by commitments made by the District to the purchaser of the Aquifer Storage and Recovery Project.

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.

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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

The Project does not have a specific investment policy but generally follows the guidelines of the County of Monterey's Investment Policy. All funds invested are managed to meet the guidelines stated in both California Code Section 53600, et. seq. and the County's investment policy.

Receivables and Deferred Inflows of Resources – Receivables are amounts due representing revenues earned or accrued in the current period. Receivables which have not been remitted within 60 days subsequent to year end are offset by deferred inflows of resources, and accordingly have not been recorded as revenue in the governmental fund. When the revenue becomes available, the revenue is recognized in the governmental fund. Deferred inflows are detailed on the Balance Sheet.

All receivables that historically experience uncollectible accounts are shown net of an allowance for doubtful accounts. The allowance is based on an assessment of the current status of individual accounts. At June 30, 2014, the allowance was estimated to be zero.

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
ASR facilities	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.

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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Compensated Absences – The District accrues vested liabilities for vacation and sick pay. Permanent employees are vested after one year of full-time employment.

Tier 1 – Employees hired before July 2013.

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, 20 days per year for six to fifteen years of employment, and 22 days per year after fifteen years. Total accruals are limited to 60 days vacation per employee. Sick leave accrues at the rate of 12 days each year. After an employee leaves District employment, they are paid up to 75 days of accrued sick leave.

Tier 2 – Employees hired after July 2013.

Vacation accrues at the rate of 10 days per year for the first to three years of employment, 15 days per year for four to eight years of employment, and 20 days per year after eight years of employment. Total accruals are limited to 45 days vacation per employee. Sick leave accrues at the rate of 12 days each year. After an employee leaves District employment, they are paid up to 30 days of accrued sick leave.

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.

Long-Term Obligations – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Debt premiums and discounts are deferred and amortized over the life of the debt using the straight-line method. Debt payable are reported net of the applicable debt premium or discount. Debt issuance costs are recognized in the current period.

In the fund financial statements, governmental fund types recognize debt premiums and discounts, as well as debt issuance costs, during the current period. The face amount of debt issued is reported as other financial sources. Premiums received on debt issuance are reported as other financing sources while discounts on debt issuance are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Position – The Statement of Net Position presents the Districts assets and liabilities with the difference reported as net position. Net position is reported in three categories.

- *Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances of any related debt obligations attributable to the acquisition, construction, or improvement of those assets.

- *Restricted* results when constraints placed on net positions use are either externally imposed or imposed by law through constitutional provisions or enabling legislation. At the present time there are no such restrictions.

- *Unrestricted* consists of net position not meeting the definition of the two preceding categories. Unrestricted net position often has constraints on resources imposed by management which can be removed or modified.

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.

Fund Balances – Fund balance classifications are based primarily on the extent to which the District is bound to honor constraints on the use of resources reported in each governmental fund.

The District reports the following classifications:

- *Nonspendable* – Nonspendable fund balances are amounts that cannot be spent because they are either (a) not in spendable form, such as prepaid expenses and long term receivables or (b) legally or contractually required to be maintained intact, such as a trust that must be retained in perpetuity.

- *Restricted* – Restricted fund balances are restricted when constraints placed on the use of resources are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation.

- *Committed* – Committed fund balances are amounts that can only be used for specific purposes as a result of constraints imposed by the Board. Committed amounts cannot be used for any other purpose unless the Board removes those constraints by taking some type of action (passage of a resolution). Amounts in the committed fund balance classification may be used for other purposes with appropriate due process by the Board. Committed fund balances differ from restricted balances because the constraints on their use do not come from outside parties, constitutional provisions or enabling legislation.

- *Assigned* – Assigned fund balances are amounts that are constrained by the District's intent to be used for specific purpose, but are neither restricted nor committed. Intent is express by (a) the General Manager or (b) the Board. The Board has the authority to remove or change the assignment of the funds with a simple majority vote.

- *Unassigned* – This fund balance is the residual classification. It is also used to report negative fund balances in other governmental funds.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

When restricted and other fund balance resources are available for use, it is the District's policy to use restricted resources first, followed by committed, assigned and unassigned amounts, respectively.

The Board has not yet established a formal policy for defining funds as committed or assigned. Until a formal policy is adopted, funds which were previously presented as unreserved, designated are being presented as assigned. All other funds which do not meet the definition of non-spendable or restricted are presented as unassigned.

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.

The term "Unsecured" refers to taxes on personal property other than land and buildings. These taxes are secured by liens on the property being taxed.

Property tax revenues are recorded in governmental funds as receivables and deferred revenues at the time the tax levy is billed. Current year revenues are those collected within the current period or soon enough thereafter to pay current liabilities, generally within sixty days of year-end. No allowance is provided for delinquent taxes as the lien is considered an enforceable legal obligation.

Under the provisions of Proposition 1A and as part of the 2009–10 budget package passed by the California state legislature on July 28, 2009, the State of California borrowed 8% of the amount of property tax revenue, including those property taxes associated with in-lieu motor vehicle license fee, the triple flip in lieu sales tax, and supplemental property tax, apportioned to cities, counties and special districts (excluding redevelopment agencies). The state was required to repay their borrowing plus interest by June 30, 2013. After repayment of this initial borrowing, the California legislature may consider only one additional borrowing within a ten-year period. The amount of this borrowing pertaining to the District was $110,521.

This borrowing by the State of California was recognized as a receivable in the accompanying financial statements. Under the modified accrual basis of accounting, the borrowed tax revenues were not permitted to be recognized as revenue in the governmental fund financial statements, until the tax revenues were received from the State of California (received in fiscal year 2012–13). In the government-wide financial statements, the tax revenues were recognized in the fiscal year for which they were levied (fiscal year 2009–10).

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)

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

Use of Estimates – The preparation of the financial statements in conformity 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 could differ from those estimates.

Reclassifications – Certain reclassifications have been made to the prior year's financial statements to conform to the current year presentation.

Comparative Financial Information – The financial statements include certain prior-year summarized comparative information in total but not by activities or fund. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the District's financial statements for the year ended June 30, 2013, from which the summarized information was derived.

Subsequent Events – Subsequent events have been evaluated through __________[date], which is the date the financial statements were available to be issued.

NOTE 2. THE CAWD/PBCSD WASTEWATER RECLAMATION PROJECT

The CAWD/PBCSD 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's first construction 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 reclaimed distribution system, including a 2.5 million gallon storage tank and irrigation system improvements. 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 pipeline, (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. 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 (COP) 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 Wells Fargo Bank (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.

As the Project does not own the capital 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.

Subsequent to the completion of the original facilities, the Project has been expanded to increase the quantity and quality of reclaimed water. The expanded project utilizes Forest Lake Reservoir located in Pebble Beach which provides 115 million gallons of storage capacity. The Reservoir is filled with reclaimed water during winter months when there is excess production at the treatment plant. The stored water is used during summer months when the daily irrigation demand exceeds treatment plant production capacity. PBCSD purchased the Reservoir from California-American Water Company in 1998 and rehabilitated to meet State Water Resources Division of Safety of Dams requirements. The rehabilitated construction of the Reservoir was completed in March 2006. The construction costs of approximately $13 million were financed by the sale of Pebble Beach Company water entitlements.

The Microfiltration/Reverse Osmosis (MF/RO) phase of the project (phase II), located at the CAWD plant site, began design in 2006 and construction was completed in 2009. 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 was 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 the Pebble Beach community, currently at $250,000 per acre foot, which is subject to change. At June 30, 2014, approximately $27 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 paid for 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.

Restricted Reserves – The District has established a reserve fund as required by the installment agreement. The remaining proceeds of the $33,900,000 in Certificates of Participation issued for the Project were deposited in various restricted trust and reserve accounts as required by the terms of the issuance.

Custodial Credit Risk-Deposits – Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District has a deposit policy that complies with the California Government Code commencing at Section 53630 (Public Deposits). As of June 30, 2014, $884,334 of the District's bank balances of $1,201,469 were 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.

Custodial Credit Risk – Investments – Custodial credit risk is the risk that in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools.

Concentration of Credit Risk – The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code.

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. The California Government code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law. The market value of the pledged securities in the collateral pool must equal 110% of the total amount deposited by public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. 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

NOTE 3. **CASH AND INVESTMENTS (Continued)**

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, 2014 consisted of the following:

Governmental activities:	
Local Agency Investment Fund	$ 2,190,392
Wells Fargo – fixed income fund	2,250,000
Wells Fargo – money market	256,594
Subtotal Governmental activities	4,696,986
Business-type activities:	
Money market accounts	41,375
Certificates of deposit	740,572
Corporate obligations	10,102
Municipal obligations	82,361
	874,410
Less restricted reserves	874,410
Subtotal Business-type activities	–
Total Investments	$ 4,696,986

NOTE 4. **RECEIVABLES**

Receivables consist of the following at June 30, 2014:

	Conservation	Mitigation	Water Supply	Total
Governmental activities:				
Property taxes	$ 64,355	$ 13,555	$ 8,030	$ 85,940
User fees	–	43,118	17,626	60,744
Reimbursements	201,656	969,926	588,377	1,759,959
Interest	793	1,293	4,265	6,351
Total Governmental activities	$ 266,804	$ 1,027,892	$ 618,298	1,912,994
Business-type activities:				
Water sales				292,932
Affiliates (Reclamation)				284,142
Other				14,156
Total Business-type activities				591,230
TOTAL				$ 2,504,224

NOTE 5. CAPITAL ASSETS

Capital assets experienced the following changes for the year ended June 30, 2014:

	Balance Beginning of Year	Current Additions	Deletions/ Transfers	Balance End of Year
Depreciable assets:				
Equipment:				
Office	$ 146,117	$ –	$ –	$ 146,117
Computer	895,649	48,950	–	944,599
Operating	21,415	–	–	21,415
Transportation	331,158	23,122	–	354,280
Project	261,365	1,304	–	262,669
Phone	43,851	–	–	43,851
Total equipment	1,699,555	73,376	–	1,772,931
Building and improvements	1,994,244	33,964	–	2,028,208
Monitoring stations	45,214	–	–	45,214
ASR facilities	4,239,256	291,274	–	4,530,530
Fish rearing facility	949,833	–	–	949,833
Leasehold improvements	2,837	–	–	2,837
Total depreciable assets	8,930,939	398,614	–	9,329,553
Less accumulated depreciation for:				
Equipment:				
Office	140,496	2,008	–	142,504
Computer	510,983	72,546	–	583,529
Operating	21,415	–	–	21,415
Transportation	314,898	7,164	–	322,062
Project	253,698	2,138	–	255,836
Phone	43,851	–	–	43,851
Total equipment	1,285,341	83,856	–	1,369,197
Building and improvements	739,255	50,085	–	789,340
Monitoring stations	45,214	–	–	45,214
ASR Facilities	615,306	142,188	–	757,494
Fish rearing facility	937,824	3,645	–	941,469
Leasehold improvements	2,837	–	–	2,837
Total accumulated depreciation	3,625,777	279,774	–	3,905,551
Total depreciable assets, net	5,305,162	118,840	–	5,424,002
Total governmental activities capital assets, net	5,305,162	118,840	–	5,424,002

NOTE 5. CAPITAL ASSETS (Continued)

	Balance Beginning of Year	Current Additions	Deletions/ Transfers	Balance End of Year
Business-type activities:				
Nondepreciable assets:				
Construction in progress	8,104	108,486	(8,104)	108,486
Water resale rights	63,232,989	189,817	–	63,422,806
Less accumulated amortization for:				
Water resale rights	17,926,591	1,585,572	–	19,512,163
Total water resale rights, net	45,306,398	(1,395,755)	–	43,910,643
Total business type activities Capital assets, net	45,314,502	(1,287,270)	(8,104)	44,019,129
Total capital assets, net	$ 50,619,664	$ (1,168,430)	$ (8,104)	$ 49,443,131

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

Conservation	$ 41,546
Mitigation	53,425
Water supply	184,803
Total depreciation expense	$ 279,774

NOTE 6. INTERFUND RECEIVABLES AND PAYABLES

At June 30, 2014, interfund receivables and payables consist of:

Fund	Interfund Receivable	Interfund Payable
Water supply	$ 2,201,211	$ –
Conservation	–	285,802
Mitigation	–	1,915,409
	$ 2,201,211	$ 2,201,211

Interfund payables and receivables arise primarily from the Water Supply 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, 2014.

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, 2014, accounts receivable from these affiliates were as follows:

Receivable from PBCo and affiliated golf courses – Water sales	$ 577,074
Total	$ 577,074

At June 30, 2014, accounts payable to these affiliates were as follows:

Payable to CAWD for operations and maintenance	$ 80,959
Payable to PBCSD for operations and maintenance	43,731
Payable to MPWMD for salaries and legal	83,967
Total	$ 208,657

At June 30, 2014, accounts payable to PBCo. were as follows –

Payable to PBCo. for working capital advance reimbursements	$ 416,810
Total	$ 416,810

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 – A Renewal and Replacement Reserve was established to pay for future major repairs and capital replacements, and is held in a segregated account restricted for its intended purposes. At June 30, 2014, the balance in this account was $873,273.

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

NOTE 8. LONG–TERM DEBT (Continued)

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.

Repayment Schedule – Interest is paid to the holders of the COPs monthly at a variable rate as described above. Pre-determined principal and interest payments per the 1992 COP issue are shown below. Due to the nature of variable rate bonds, interest rates fluctuate weekly as a result of economic market conditions.

At June 30, 2014, the interest rate had dropped to a rate of 0.08% per annum. Interest expense for the year was $47,688 as compared to the original scheduled interest expense of $642,400. Consequently, the pre-determined scheduled interest payments column below is presented for information purposes only, based upon the original 1992 COP offering.

Future principal and interest payments are as follows:

	Certificates of Participation		
Year Ending June 30	Principal	Interest	Total
2015	$ 1,700,000	$ 642,400	$ 2,342,400
2016	1,800,000	576,700	2,376,700
2017	1,900,000	507,350	2,407,350
2018	2,000,000	434,350	2,434,350
2019	2,100,000	357,700	2,457,700
2020-2023	9,800,000	554,800	10,354,800
Total	$ 19,300,000	$ 3,073,300	$ 22,373,300

Due Pebble Beach Company – Repayment of $5,520,000 bond carrying costs incurred by PBCo prior to July 1, 2013, to be reimbursed over the next ten years at $552,000 per year.

The 2013 Installment Purchase Agreement – The District entered into an Installment Purchase Agreement dated April 25, 2013 along with a sale and transfer agreement and an assignment agreement for the first phase of the Aquifer Storage and Recovery Project (ASR Project). The funds received from this agreement were used to retire the Bank of America line of credit, fund district reserves used to pay for ASR, finance and refinance certain capital improvements, fund a debt service reserve, and pay certain costs of execution and delivery of the Installment Purchase Agreement and related documents. The aggregate principal amount of the installment payments under the installment purchase agreement is $4,000,000 and will mature on June 30, 2023. Principal and interest payments of $109,568 are made bi-annually on December 31st and June 30th, beginning June 30, 2014 and continuing until December 31, 2023. The interest rate with respect to the installment payments is 3.6%.

NOTE 8. LONG–TERM DEBT (Continued)

Restricted Reserves – A reserve fund was established to ensure adequate funding of the debt service, and is held in a segregated account restricted for its intended purposes. The reserve fund is required to maintain a balance of $219,136. At June 30, 2014, the balance in this account was $219,136.

Security for Repayment – The assets of the ASR Project have not been pledged to secure payment of the installment purchase agreement. District Water Supply Charge revenues have been irrevocably pledged for the payment of the installment payments. This pledge constitutes a first and exclusive lien on and security interest in the revenues for the payment of the installment payments and payments of all specified obligations in accordance with the terms of the Installment Purchase Agreement.

Repayment Schedule – Annual debt service requirements to maturity are as follows:

Year Ending June 30	Installment Purchase Agreement Principal	Interest	Total
2015	$ 79,980	$ 139,156	$ 219,136
2016	82,885	136,251	219,136
2017	85,896	133,240	219,136
2018	89,016	130,120	219,136
2019	92,249	126,887	219,136
2020-2023	3,456,391	1,694,467	5,150,858
Total	$ 3,886,417	$ 2,360,121	$ 6,246,538

Borrowings under the installment purchase agreement are subject to certain financial covenants.

Long-term debt activity for the year ended June 30, 2014 is as follows:

	2013	Additions	Reductions	2014	Due Within One Year
Due Pebble Beach Company	$ 5,520,000	$ –	$ 552,000	$ 4,968,000	$ 552,000
Installment purchase agreement	3,961,632	–	75,215	3,886,417	79,980
COPs	21,000,000	–	1,700,000	19,300,000	1,700,000
Compensated absences	655,528	36,441	–	691,969	247,316
Other post employment benefits	815,777	186,955	–	1,002,732	–
	$ 31,952,937	$ 223,396	$ 2,327,215	$ 29,849,118	$ 2,579,296

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

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 5, 2015.

The District leases various equipment under non-cancelable operating leases. Minimum future lease payments under non-cancelable operating leases for the years ended June 30, are as follows:

2015	$	11,880
2016		11,880
2017		11,880
2018		11,880
2019		11,761
Total	$	59,281

Rent expense for the year ended June 30, 2014 was $521.

NOTE 10. RISK MANAGEMENT

The District is insured against various risks of loss related to torts, thefts of, damage or destruction of assets; errors and omissions; work-related injuries to employees and natural disasters through participation in a 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. The insurance carried by the District includes policies for workers' compensation, general liability, errors and omissions, and vehicular liability.

There have not been any significant reductions in insurance coverage as compared to the previous year. Settled claims from these risks have not exceeded commercial coverage.

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.

The SDRMA did not have long-term debt outstanding at June 30, 2014, 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 their 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.

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. OTHER POST EMPLOYMENT BENEFITS (OPEB)

Plans Description – The District provides two defined benefit healthcare plans (the "Retiree Health Plans"). The Retiree Health Plans provide healthcare insurance for eligible retirees and dependants or survivors. Coverage to members of the General Staff Bargaining Unit is provided through the Association of California Water Agencies Health Benefit Authority Anthem Classic Plan, and coverage for the Management Staff Bargaining Unit members and the Confidential

Staff Bargaining Unit members is provided through the Laborer's Trust Funds for Northern California Special Plan III. The Plans provide for continuation of medical insurance benefits for certain retirees and their dependents or survivors who meet the eligibility criteria established by the District and/or medical care providers. The Plans can be amended by action of the Board of Directors during negotiation of periodic Memorandums of Understanding with the different bargaining units. The Plans do not issue a stand alone financial report since there are no assets legally segregated for the sole purpose of paying benefits under the Plans.

Funding Policy – The contribution requirements of the District are based on a pay-as-you go basis. For the fiscal year ended June 30, 2014, the District paid approximately $63,724 for retiree health benefits. As of June 30, 2014, the District had eight retirees receiving benefits and 26 active employees eligible to receive benefits in the future. The District currently contributes enough money to the plans to satisfy current obligations on a pay-as-you-go basis.

NOTE 12. OTHER POST EMPLOYMENT BENEFITS (OPEB) (Continued)

Annual OPEB Cost and Net OPEB Obligation – The District's annual other post employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB cost of the year, the amount actually contributed to the plans, and changes in the District's net OPEB obligation.

Annual required contribution (ARC)	$ 250,635
Interest on net OPEB obligation	40,789
Adjustment to ARC	(40,745)
Annual OPEB cost (expense)	250,679
Contributions made	(63,724)
Increase in net OPEB obligation	186,955
Net OPEB obligation, beginning of year	815,777
Net OPEB obligation, end of year	$ 1,002,732

Trend Information – The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plans, and the net OPEB obligation were as follows:

Fiscal Year Ending	Annual OPEB Cost	Actual Contribution Made	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2012	$ 283,768	$ 71,681	25.3%	$ 587,987
2013	$ 294,448	$ 66,658	22.6%	$ 815,777
2014	$ 250,679	$ 63,724	25.4%	$ 1,002,732

Funding Status and Funding Progress – As of June 30, 2014, the most recent actuarial valuation date, the actuarial accrued liability for benefits was $2,666,140, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plans) for the year ended June 30, 2014 was $2,251,992, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 118.39%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plans and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plans' assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

NOTE 12. OTHER POST EMPLOYMENT BENEFITS (OPEB) (Continued)

Actuarial Methods and Assumptions – Projections of benefits for financial reporting purposes are based on the substantive plans (the plans as understood by the employer and the plans' members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plans' members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2014 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions include a 5.0% investment rate of return (discount rate) and an annual health care cost trend rate of actual premiums initially (2014), reduced by decrements to an ultimate rate of 4.7% after ten years. The unfunded actuarial liability is being amortized over a closed thirty year period using the level percentage of payroll method. The remaining amortization period at June 30, 2014, was twenty-six years.

NOTE 13. 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. CalPERS issues a publicly available annual financial report that includes financial statements and required supplementary information. 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, 2014 the employer contribution rate was 13.532% 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 $435,114, $448,761 and $440,306 for the years ending June 30, 2014, 2013 and 2012, respectively, were equal to the District's required contributions for each year.

NOTE 14. 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 15. COMMITMENTS AND OTHER CONTINGENCIES

Aquifer Storage and Recovery – As of June 30, 2014 and 2013, the District continued with contracts relating to development of the Water Project Phase I and II ASR facilities. As of June 30, 2014, the District has one outstanding contract with Pueblo Water Resources for a total of $608,138.

Other contract commitments related to miscellaneous projects and consulting services that are outstanding as of June 30, 2014 total $36,156.

NOTE 16. 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 Water Supply Funds. The District plans to repay the funds over a term of fifteen years, with interest at 5.35%.

NOTE 17. AUTHORITATIVE PRONOUNCEMENTS ISSUED BUT NOT YET ADOPTED

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. Note disclosures and required supplementary information requirements about pensions are also addressed.

The requirements of this Statement will improve the decision-usefulness of information in employer and governmental nonemployer contributing entity financial reports and will enhance its value for assessing accountability and interperiod equity by requiring recognition of the entire net pension liability and a more comprehensive measure of pension expense.

This Statement is effective for fiscal years beginning after June 15, 2014. Earlier application is encouraged. The District has no plan for early implementation of this Statement. At this time the District is not certain of the effect the adoption of Statement 68 will have on the accompanying financial statements.

GASB Statement No. 71, Pension Transitions for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68 was issued to address an issue regarding application of the transition provisions of GASB Statement No. 68, Accounting and Financial Reporting for Pensions. This Statement amends GASB Statement No. 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. This Statement will be effective for the year ending June 30, 2015.

NOTE 18. SUBSEQUENT EVENT

After June 30, 2014 the District entered into one additional contract relating to the repair of the Phase I Santa Margarita site with Zim Industries, Inc. for a total of $112,431.

REQUIRED

SUPPLEMENTARY INFORMATION

MONTEREY PENINSULA WATER MANAGEMENT DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS OF OTHER POST EMPLOYMENT BENEFITS
FOR THE YEAR ENDED JUNE 30, 2014

Fiscal Year	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
2012	6/30/2012	$ –	$ 2,876,883	$ 2,876,883	0%	$ 2,083,463	138.08%
2013	6/30/2012	$ –	$ 2,876,883	$ 2,876,883	0%	$ 2,159,456	133.22%
2014	6/30/2014	$ –	$ 2,666,140	$ 2,666,140	0%	$ 2,251,992	118.39%

MONTEREY PENINSULA WATER MANAGEMENT DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE, BUDGET AND ACTUAL – WATER SUPPLY
FOR THE YEAR ENDED JUNE 30, 2014

	Budgeted Amounts		Actual	Variance With Final
	Original	Final	Amounts	Amounts
REVENUES:				
Property taxes	$ 131,098	$ 317,848	$ 333,267	$ 15,419
Water supply charge	3,400,000	3,400,000	3,412,207	12,207
Connection charges, net of refunds	175,000	175,000	223,625	48,625
Project reimbursements	2,466,012	2,420,762	2,093,013	(327,749)
Investment income	3,000	3,000	12,799	9,799
Miscellaneous	–	–	16,010	16,010
Total revenues	6,175,110	6,316,610	6,090,921	(225,689)
EXPENDITURES:				
Personnel:				
Salaries	644,900	668,700	768,299	(99,599)
Employee benefits and other personnel	329,900	300,900	321,168	(20,268)
Services and supplies:				
Project expenditures	7,388,179	7,969,940	6,465,907	1,504,033
Operating expenditures	210,850	210,950	143,720	67,230
Professional fees	249,200	249,200	304,978	(55,778)
Capital outlay	31,400	34,300	35,919	(1,619)
Debt service:				
Principal	–	–	75,215	(75,215)
Interest and other charges	230,000	230,000	143,921	86,079
Total expenditures	9,084,429	9,663,990	8,259,127	1,404,863
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(2,909,319)	(3,347,380)	(2,168,206)	1,179,174
NET CHANGE IN FUND BALANCE	(2,909,319)	(3,347,380)	(2,168,206)	1,179,174
FUND BALANCE – BEGINNING OF YEAR	304,543	6,150,886	6,060,318	(90,658)
FUND BALANCE – END OF YEAR	$(2,604,776)	$ 2,803,506	$ 3,892,112	$ 1,088,606

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, 2014

	Budgeted Amounts		Actual	Variance With Final
	Original	Final	Amounts	Amounts
REVENUES:				
Property taxes	$ 1,050,600	$ 1,042,400	$ 1,100,905	$ 58,505
User fees	–	–	6,867	6,867
Permit fees	175,000	175,000	175,023	23
Project reimbursements	1,479,700	2,224,700	1,190,653	(1,034,047)
Investment income	2,700	2,700	3,713	1,013
Legal fee reimbursements	–	–	18,441	18,441
Recording fees	–	–	15,061	15,061
Total revenues	2,708,000	3,444,800	2,510,663	(934,137)
EXPENDITURES:				
Personnel:				
Salaries	580,400	601,800	449,925	151,875
Employee benefits and other personnel	296,900	270,800	240,948	29,852
Services and supplies:				
Project expenditures	1,492,600	2,231,600	1,182,125	1,049,475
Operating expenditures	212,600	212,600	147,578	65,022
Professional fees	97,300	97,300	62,765	34,535
Capital outlay	28,200	30,700	22,394	8,306
Total expenditures	2,708,000	3,444,800	2,105,735	1,339,065
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	–	–	404,928	404,928
NET CHANGE IN FUND BALANCE	–	–	404,928	404,928
FUND BALANCE – BEGINNING OF YEAR	367,896	681,770	681,770	–
FUND BALANCE – END OF YEAR	$ 367,896	$ 681,770	$ 1,086,698	$ 404,928

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, 2014

	Budgeted Amounts		Actual	Variance With Final
	Original	Final	Amounts	Amounts
REVENUES:				
Property taxes	$ 221,302	$ 139,752	$ 148,624	$ 8,872
User fees	100,000	100,000	87,064	(12,936)
Permit fees	56,000	56,000	65,056	9,056
Project reimbursement	31,750	32,850	–	(32,850)
Investment income	4,300	4,300	3,530	(770)
Recording fees	6,000	6,000	–	(6,000)
Mitigation revenue	1,801,800	1,801,800	1,801,800	–
Grants	1,291,133	741,133	602,499	(138,634)
Miscellaneous	15,000	15,000	7,141	(7,859)
Total revenues	3,527,285	2,896,835	2,715,714	(181,121)
EXPENDITURES:				
Personnel:				
Salaries	924,400	958,500	1,033,767	(75,267)
Employee benefits and other personnel	472,650	431,300	463,526	(32,226)
Services and supplies:				
Project expenditures	1,647,183	1,077,683	556,364	521,319
Operating expenditures	319,415	319,815	230,029	89,786
Professional fees	117,550	117,550	81,997	35,553
Capital outlay	44,900	50,000	49,027	973
Total expenditures	3,526,098	2,954,848	2,414,710	540,138
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	1,187	(58,013)	301,004	359,017
NET CHANGE IN FUND BALANCE	1,187	(58,013)	301,004	359,017
FUND BALANCE – BEGINNING OF YEAR	787,054	30,969	30,969	–
FUND BALANCE – END OF YEAR	$ 788,241	$ (27,044)	$ 331,973	$ 359,017

See Notes to Required Supplementary Information.

MONTEREY PENINSULA WATER MANAGEMENT DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2014

NOTE 1. BUDGETARY DATA

The District adopts an annual legal budget, which covers the Water Supply 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.