

**MONTEREY PENINSULA WATER
MANAGEMENT DISTRICT**

FINANCIAL STATEMENTS

FOR THE YEAR ENDED
JUNE 30, 2012

AND INDEPENDENT AUDITORS' REPORT

MONTEREY PENINSULA WATER MANAGEMENT DISTRICT

Table of Contents

| | Page |
|---|---------|
| Board of Directors | 1 |
| Independent Auditors' Report | 2 – 3 |
| Management's Discussion and Analysis | 4 – 11 |
| Basic Financial Statements: | |
| <i>Government-Wide Financial Statements:</i> | |
| Statement of Net Assets | 12 |
| Statement of Activities | 13 |
| <i>Fund Financial Statements:</i> | |
| Balance Sheet – Governmental Funds | 14 |
| Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds | 15 |
| Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities | 16 |
| Statement of Net Assets – Proprietary Fund | 17 |
| Statement of Revenues, Expenses and Changes in Net Assets – Proprietary Fund | 18 |
| Statement of Cash Flows – Proprietary Fund | 19 – 20 |
| Notes to Basic Financial Statements | 21 – 43 |
| Required Supplementary Information: | |
| Schedule of Funding Progress of Other Post Employment Benefits | 44 |
| Schedule of Revenues, Expenditures and Changes in Fund Balance, Budget and Actual – Capital Projects | 45 |
| Schedule of Revenues, Expenditures and Changes in Fund Balance, Budget and Actual – Conservation | 46 |
| Schedule of Revenues, Expenditures and Changes in Fund Balance, Budget and Actual – Mitigation | 47 |
| Notes to Required Supplementary Information | 48 |

MONTEREY PENINSULA WATER MANAGEMENT DISTRICT

Board of Directors

June 30, 2012

| <u>Member</u> | <u>Office</u> | <u>Representative</u> |
|-------------------|---------------|---|
| David Potter | Chair | Monterey County Board of Supervisors |
| David Pendergrass | Vice Chair | Mayoral Representative |
| Brenda Lewis | Director | Division 1 |
| Judi Lehman | Director | Division 2 |
| Kristi Markey | Director | Division 3 |
| Jeanne Byrne | Director | Division 4 |
| Bob Brower | Director | Division 5 |

INDEPENDENT AUDITORS' REPORT

**Board of Directors
Monterey Peninsula Water Management District
Monterey, California**

We have audited the accompanying financial statements of the governmental activities and each major fund of the *Monterey Peninsula Water Management District* as of and for the year ended June 30, 2012 which collectively comprise the District's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the CAWD/PBCSD Wastewater Reclamation Project (the proprietary fund) which statements reflect 84% 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, based on our audit, 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, 2012, 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.

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 Employment Benefits on page 44 and the Budgetary Comparison Schedules on pages 45 through 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.

March 26, 2013

Hayashi & Wayland

MONTEREY PENINSULA WATER MANAGEMENT DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
JUNE 30, 2012

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, 2012. 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, 2012 by \$6.5 million (net assets). However, \$7.6 million is invested in capital assets-net of related debt.
- The District's total governmental activities net assets decreased by approximately \$365,000 for the year ended June 30, 2012. The decrease in net assets can mostly be attributed to capital outlay and capitalized project expenditures of \$1,684,748 less depreciation of \$296,553.
- Capital outlay and capitalized project expenditures of \$1,684,748 consisted mostly of funds expended to construct an additional injection well for the District's Aquifer Storage & Recovery Project and routine computer equipment upgrades.

OVERVIEW OF THE FINANCIAL STATEMENTS

This financial report consists of four parts: management's discussion and analysis (this section), the basic financial statements, the notes to the basic financial statements, and required supplementary information.

The financial statements provide both long-term and short-term information about the District's financial status. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by required supplementary information that further explains and supports the information in the financial statements.

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

The District's financial statements are prepared on an accrual basis in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. Under this basis of accounting, revenues are recognized in the period in which they are earned, expenses are recognized in the period in which they are incurred, and depreciation of assets is recognized in the Statement of Activities. All assets and liabilities associated with the operation of the District are included in the Statement of Net Assets.

Government-wide Financial Statements – The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The *Statement of Net Assets* presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. The Statement of Net Assets combines and consolidates governmental funds' current financial resources (short-term spendable resources) with capital assets and long-term obligations.

The *Statement of Activities* presents information showing how the District's net assets changed during the most recent fiscal year. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes).

The government-wide financial statements include all the governmental activities of the District. The governmental activities of the District include conservation, mitigation and water supply. The business-type activity includes the water reclamation project.

The government-wide financial statements can be found on pages 12 and 13 of this report.

Fund Financial Statements – A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The fund financial statements provide detail information about the most significant funds, not the District as a whole. The District, like other special districts, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The District's funds are segregated into two categories: governmental funds and proprietary funds. Fund financial statements report essentially the same functions as those reported in the government-wide financial statements. However, unlike the government-wide financial statements, fund financial statements focus on *near-term inflows* and *outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year.

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

Governmental Funds – The District’s basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using the modified accrual basis of accounting, which measures cash and other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the District’s general government operations and the basic services it provides. Governmental fund information helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the District’s projects. Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented in the government-wide financial statements. Both the governmental fund Balance Sheet and the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balances provide a reconciliation to facilitate the comparison between governmental funds and government-wide statements.

The District maintains three individual governmental funds. Information is presented separately in the Balance Sheet and the Statement of Revenues, Expenditures, and Changes in Fund Balances for the Capital Projects Fund, Conservation Fund, and the Mitigation Fund, all of which are considered to be major funds.

Proprietary Fund – The District maintains one type of proprietary fund, the enterprise fund. Proprietary funds are reported using the accrual basis of accounting. Enterprise funds are used to report the same functions presented as business-type activity in the government-wide financial statements but provide more detail and additional information. The District uses an enterprise fund to account for the CAWD/PBCSD Wastewater Reclamation Project.

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

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 21 through 43 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Assets

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

Summary of Net Assets Governmental Activities

| | <u>2012</u> | <u>2011</u> |
|--|---------------------|---------------------|
| <u>Assets</u> | | |
| Current Assets | \$ 1,666,478 | \$ 3,151,128 |
| Prepaid Expenses and Deposits | 39,869 | 44,743 |
| Capital Assets – Net | <u>7,626,567</u> | <u>6,238,660</u> |
| Total Assets | <u>9,332,914</u> | <u>9,434,531</u> |
| <u>Liabilities</u> | | |
| Current Liabilities | 1,626,595 | 1,557,932 |
| Long-Term Liabilities | <u>1,197,512</u> | <u>1,002,890</u> |
| Total Liabilities | <u>2,824,107</u> | <u>2,560,822</u> |
| <u>Net Assets</u> | | |
| Invested in Capital Assets, Net of Related Debt | 7,626,567 | 6,238,660 |
| Unrestricted | <u>(1,117,760)</u> | <u>635,049</u> |
| Total Net Assets | <u>\$ 6,508,807</u> | <u>\$ 6,873,709</u> |

The District's assets exceeded its liabilities by approximately \$6.5 million at the end of the current year, which is a decrease of approximately 5.3% since June 30, 2011.

The activities decreased the District's net assets by approximately \$365,000 during the current year, due primarily to use of reserves to fund District operations due to the loss of User Fee revenue. 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.

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

Change in Net Assets

| | Change in Net Assets Governmental Activities | |
|--------------------------------|---|---------------------|
| | <u>2012</u> | <u>2011</u> |
| <u>Revenues:</u> | | |
| Program Revenue: | | |
| Charges for Services | \$ 3,455,541 | \$ 6,088,998 |
| Operating Grants | 165,528 | - |
| General Revenues: | | |
| Property Taxes | 1,388,301 | 1,402,646 |
| Investment Income | 2,080 | 4,772 |
| Miscellaneous | <u>68,912</u> | <u>80,253</u> |
| Total Revenues | <u>5,080,362</u> | <u>7,576,669</u> |
| <u>Expenses:</u> | | |
| Conservation | 1,112,961 | 1,066,511 |
| Mitigation | 3,131,325 | 4,777,577 |
| Water Supply | <u>1,200,978</u> | <u>1,291,349</u> |
| Total Expenses | <u>5,445,264</u> | <u>7,135,437</u> |
| Change in Net Assets | (364,902) | 441,232 |
| Net Assets - Beginning of Year | <u>6,873,709</u> | <u>6,432,477</u> |
| Net Assets - End of Year | <u>\$ 6,508,807</u> | <u>\$ 6,873,709</u> |

The user fee revenue, which is the District's largest and most fluid source of revenues was lost during the fiscal year. The District replaced part of the lost User Fee revenue with Mitigation Program revenue derived from Cal-Am. The remainder of the lost revenue was replaced with Water Supply Charge in FY 2012-2013. The amount of operating deficit was about \$1,549,000, compared to the budgeted use of reserves of approximately \$1,849,000. Governmental activities decreased the District's net assets by approximately \$365,000. Key elements resulting in the net decrease are as follows:

- Project expenditures of about \$2.2 million, consisting mainly of constructing an additional well for the Aquifer Storage & Recovery Project, contributed to the decrease.
- Capital outlay of approximately \$43,000, mostly for routine computer equipment upgrades, added to the decrease.
- Depreciation expense of approximately \$297,000 added to the decrease.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The District's capital assets, net of accumulated depreciation, at June 30, 2012 totaled \$7,626,567 as shown below. This amount represents a net increase, including additions and disposals, net of depreciation, of approximately \$1,388,000 or 22.3% from June 30, 2011.

| | Capital Assets (Net of Depreciation) | |
|---------------------------|---|---------------------|
| | <u>2012</u> | <u>2011</u> |
| Office Equipment | \$ 7,629 | \$ 7,555 |
| Computer Equipment | 416,415 | 472,233 |
| Transportation Equipment | 23,318 | 34,965 |
| Project Equipment | 12,738 | 18,686 |
| Building and Improvements | 1,304,604 | 1,355,440 |
| ASR Facilities | 5,844,451 | 4,320,880 |
| Fish Rearing Facility | 17,412 | 20,515 |
| WDD Permit Software | - | 8,386 |
| Total | <u>\$ 7,626,567</u> | <u>\$ 6,238,660</u> |

Debt Administration

All 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 Capital Projects Fund is the chief operating fund of the District. It accounts for all financial resources except those required to be accounted for in another fund. This fund accounts for financial resources to be used for the acquisition of or construction of major capital facilities (other than those financed by Proprietary Funds and Special Assessments).

The Special Revenue Funds are used to account for specific revenue sources for which expenditures are restricted by law or regulation to finance particular activities of the District. The Conservation Fund accounts for financial resources used to fund water conservation activities mandated by District legislation including permit issuance and enforcement, jurisdictional water allocations, and public water conservation education. 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 deficit of \$30,769. The Capital Projects Fund has a fund balance of \$247,433, the Conservation Fund has a fund balance of \$210,430 and the Mitigation Fund has a fund deficit of \$488,632.

During the current fiscal year, the fund balance of the District's Capital Projects Fund decreased \$116,108, the Conservation Fund decreased \$157,466 and the Mitigation Fund decreased \$1,275,686. The decreases in the Capital Projects Fund, Conservation Fund and the Mitigation Fund are due to expenditures exceeding revenues and other financing sources primarily due to the loss of User Fee revenue. 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.

BUDGET HIGHLIGHTS/VARIANCES

The District's budget projected operating revenues of \$6,508,800. The District finished the budget year with operating revenues of \$5,089,577, which was \$1,419,223 or 21.8% less than budgeted. The difference was mostly attributable to grant revenues being approximately \$763,000 under budget and project reimbursement revenues being approximately \$546,000 under budget.

Actual operating expenditures totaled \$6,638,837 compared to the budget amount of \$8,358,000, or 20.6% less than budgeted. The difference is primarily due to project expenditures being approximately \$1.5 million less than the budgeted amount.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

In developing the fiscal year 2012-2013 budget, the staff and management had to consider a number of factors that would impact the District's economy and finances. The 2012–2013 budget was developed and balanced without the use of reserves. This was accomplished by sustaining most expenditure levels and structuring permit and other processing fees collected by the District to fully recover service costs. For fiscal year 2012-2013, the lost User Fee revenue during fiscal year 2011-2012 was replaced with Water Supply Charge revenue derived from individual property owners and Mitigation Program revenue derived from Cal-Am.

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 ASSETS
JUNE 30, 2012
(WITH SUMMARIZED TOTALS FOR JUNE 30, 2011)

| | <u>Governmental Activities</u> | <u>Business-Type Activities</u> | <u>2012 Total</u> | <u>2011 Total</u> |
|---|------------------------------------|-------------------------------------|-----------------------|-----------------------|
| ASSETS: | | | | |
| Cash and cash equivalents | \$ 642,732 | \$ 431,424 | \$ 1,074,156 | \$ 1,595,131 |
| Investments | 181,555 | - | 181,555 | 809,085 |
| Receivables, net | 842,191 | 511,464 | 1,353,655 | 1,308,810 |
| Prepaid expenses and deposits | 39,869 | 21,061 | 60,930 | 68,191 |
| Restricted reserves – | | | | |
| Cash | - | 890,610 | 890,610 | 892,836 |
| Capital assets, net: | | | | |
| Water rights | - | 46,804,471 | 46,804,471 | 48,214,661 |
| Nondepreciable | 2,147,054 | 7,992 | 2,155,046 | 1,212,280 |
| Depreciable | <u>5,479,513</u> | <u>-</u> | <u>5,479,513</u> | <u>5,042,060</u> |
| Total assets | <u>9,332,914</u> | <u>48,667,022</u> | <u>57,999,936</u> | <u>59,143,054</u> |
| LIABILITIES: | | | | |
| Accounts payable | 213,300 | 713,075 | 926,375 | 713,373 |
| Accrued liabilities | 137,817 | - | 137,817 | 115,191 |
| Line of credit | 1,275,478 | - | 1,275,478 | 1,069,163 |
| Long-term debt: | | | | |
| Due within one year | 282,859 | 1,600,000 | 1,882,859 | 1,712,360 |
| Due in more than one year | <u>914,653</u> | <u>21,000,000</u> | <u>21,914,653</u> | <u>23,390,530</u> |
| Total liabilities | <u>2,824,107</u> | <u>23,313,075</u> | <u>26,137,182</u> | <u>27,000,617</u> |
| NET ASSETS: | | | | |
| Invested in capital assets, net of related debt | 7,626,567 | 24,212,463 | 31,839,030 | 30,369,001 |
| Restricted for debt service | - | 1,136 | 1,136 | 1,136 |
| Restricted for expanded project | - | 889,475 | 889,475 | 891,700 |
| Unrestricted (deficit) | <u>(1,117,760)</u> | <u>250,873</u> | <u>(866,887)</u> | <u>880,600</u> |
| Total net assets | <u>\$ 6,508,807</u> | <u>\$ 25,353,947</u> | <u>\$ 31,862,754</u> | <u>\$ 32,142,437</u> |

See Notes to Basic Financial Statements.

MONTEREY PENINSULA WATER MANAGEMENT DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012
(WITH SUMMARIZED TOTALS FOR JUNE 30, 2011)

| | <u>Program Revenues</u> | | | <u>Net (Expenses) Revenues and Changes in Net Assets</u> | | <u>2012 Total</u> | <u>2011 Total</u> |
|---------------------------------------|-------------------------|---------------------------------|---|--|-------------------------------------|-----------------------|-----------------------|
| | <u>Expenses</u> | <u>Charges for Services</u> | <u>Operating Grants and Contributions</u> | <u>Governmental Activities</u> | <u>Business-Type Activities</u> | | |
| FUNCTIONS/PROGRAMS: | | | | | | | |
| Governmental activities: | | | | | | | |
| Conservation | \$ 1,112,961 | \$ 439,798 | \$ – | \$ (673,163) | \$ – | \$ (673,163) | \$ (348,965) |
| Mitigation | 3,131,325 | 2,709,894 | 5,000 | (416,431) | – | (416,431) | 173,323 |
| Water supply | <u>1,200,978</u> | <u>305,849</u> | <u>160,528</u> | <u>(734,601)</u> | <u>–</u> | <u>(734,601)</u> | <u>(870,797)</u> |
| Total governmental activities | <u>5,445,264</u> | <u>3,455,541</u> | <u>165,528</u> | <u>(1,824,195)</u> | <u>–</u> | <u>(1,824,195)</u> | <u>(1,046,439)</u> |
| Business-type activities – water | <u>3,793,748</u> | <u>2,344,688</u> | <u>–</u> | <u>–</u> | <u>(1,449,060)</u> | <u>(1,449,060)</u> | <u>(1,824,626)</u> |
| Total business-type activities | <u>3,793,748</u> | <u>2,344,688</u> | <u>–</u> | <u>–</u> | <u>(1,449,060)</u> | <u>(1,449,060)</u> | <u>(1,824,626)</u> |
| Total | <u>\$ 9,239,012</u> | <u>\$ 5,800,229</u> | <u>\$ 165,528</u> | <u>(1,824,195)</u> | <u>(1,449,060)</u> | <u>(3,273,255)</u> | <u>(2,871,065)</u> |
| GENERAL REVENUES: | | | | | | | |
| Taxes | | | | 1,388,301 | – | 1,388,301 | 1,402,646 |
| Investment earnings | | | | 2,080 | 36,196 | 38,276 | 24,290 |
| Miscellaneous | | | | 69,200 | 3,004 | 72,204 | 81,689 |
| Gain (loss) on sale of capital assets | | | | (288) | – | (288) | – |
| Special items: | | | | | | | |
| Subsidy, Pebble Beach Company | | | | – | 1,732,903 | 1,732,903 | 1,667,322 |
| Water entitlement sales | | | | – | 293,176 | 293,176 | 754,830 |
| Water entitlement (withdrawals) | | | | – | (531,000) | (531,000) | (930,913) |
| Total general revenues | | | | <u>1,459,293</u> | <u>1,534,279</u> | <u>2,993,572</u> | <u>2,999,864</u> |
| CHANGE IN NET ASSETS | | | | (364,902) | 85,219 | (279,683) | 128,799 |
| NET ASSETS – BEGINNING OF YEAR | | | | <u>6,873,709</u> | <u>25,268,728</u> | <u>32,142,437</u> | <u>32,013,638</u> |
| NET ASSETS – END OF YEAR | | | | <u>\$ 6,508,807</u> | <u>\$ 25,353,947</u> | <u>\$ 31,862,754</u> | <u>\$ 32,142,437</u> |

See Notes to Basic Financial Statements.

MONTEREY PENINSULA WATER MANAGEMENT DISTRICT
BALANCE SHEET – GOVERNMENTAL FUNDS
JUNE 30, 2012
(WITH SUMMARIZED TOTALS FOR JUNE 30, 2011)

| | Capital Projects | Conservation | Mitigation | 2012 Total | 2011 Total |
|---------------------------------------|---------------------|-------------------|--------------------|--------------------|------------------|
| ASSETS: | | | | | |
| Cash and cash equivalents | \$ 642,732 | \$ – | \$ – | \$ 642,732 | \$ 1,310,418 |
| Investments | 181,555 | – | – | 181,555 | 809,085 |
| Receivables, net | 147,539 | 51,023 | 533,108 | 731,670 | 921,104 |
| Due from other governments | 34,278 | 41,786 | 34,457 | 110,521 | 110,521 |
| Prepaid expenses and deposits | 39,869 | – | – | 39,869 | 44,743 |
| Due from other funds | <u>626,062</u> | <u>201,802</u> | <u>–</u> | <u>827,864</u> | <u>691,329</u> |
| Total assets | <u>1,672,035</u> | <u>294,611</u> | <u>567,565</u> | <u>2,534,211</u> | <u>3,887,200</u> |
| LIABILITIES AND FUND BALANCES: | | | | | |
| Liabilities: | | | | | |
| Accounts payable | 53,677 | 24,768 | 134,855 | 213,300 | 373,578 |
| Accrued liabilities | 61,169 | 17,627 | 59,021 | 137,817 | 115,191 |
| Line of credit | 1,275,478 | – | – | 1,275,478 | 1,069,163 |
| Due to other funds | – | – | 827,864 | 827,864 | 691,329 |
| Deferred revenue | <u>34,278</u> | <u>41,786</u> | <u>34,457</u> | <u>110,521</u> | <u>119,448</u> |
| Total liabilities | <u>1,424,602</u> | <u>84,181</u> | <u>1,056,197</u> | <u>2,564,980</u> | <u>2,368,709</u> |
| Fund balances: | | | | | |
| Reserved for prepaid expenses | 39,869 | – | – | 39,869 | 44,743 |
| Unreserved, designated: | | | | | |
| Insurance/litigation | 171,354 | 11,906 | 66,740 | 250,000 | 250,000 |
| Capital equipment | 51,966 | 47,633 | 204,501 | 304,100 | 304,100 |
| Flood/drought emergencies | – | – | 443,944 | 443,944 | 443,944 |
| Unreserved, undesignated | <u>(15,756)</u> | <u>150,891</u> | <u>(1,203,817)</u> | <u>(1,068,682)</u> | <u>475,704</u> |
| Total fund balances | <u>247,433</u> | <u>210,430</u> | <u>(488,632)</u> | <u>(30,769)</u> | <u>1,518,491</u> |
| Total liabilities and fund balances | <u>\$ 1,672,035</u> | <u>\$ 294,611</u> | <u>\$ 567,565</u> | | |

Amounts reported in the statement of net assets are different because:

| | | |
|---|--------------------|--------------------|
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds | 7,626,567 | 6,238,660 |
| Other assets are not available to pay for current-period expenditures and therefore are deferred in the funds | 110,521 | 119,448 |
| Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds | <u>(1,197,512)</u> | <u>(1,002,890)</u> |

NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ 6,508,807 \$ 6,873,709

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, 2012
(WITH SUMMARIZED TOTALS FOR JUNE 30, 2011)

| | <u>Capital Projects</u> | <u>Conservation</u> | <u>Mitigation</u> | <u>2012 Total</u> | <u>2011 Total</u> |
|--|-----------------------------|---------------------|---------------------|-----------------------|-----------------------|
| REVENUES: | | | | | |
| Property taxes | \$ 407,081 | \$ 412,391 | \$ 568,829 | \$ 1,388,301 | \$ 1,402,646 |
| User fees | – | 8,350 | 1,612,025 | 1,620,375 | 3,048,993 |
| Connection charges, net of refunds | 194,510 | – | – | 194,510 | 319,728 |
| Permit fees | – | 189,891 | 35,725 | 225,616 | 296,735 |
| Project reimbursements | 115,452 | 242,349 | 1,066,166 | 1,423,967 | 2,426,480 |
| Investment income | 402 | 459 | 1,219 | 2,080 | 4,772 |
| Legal fee reimbursements | – | 27,136 | – | 27,136 | 23,638 |
| Recording fees | – | 11,797 | – | 11,797 | 11,987 |
| Miscellaneous | 3,782 | 1,641 | 24,844 | 30,267 | 44,628 |
| Grants | <u>160,528</u> | <u>–</u> | <u>5,000</u> | <u>165,528</u> | <u>–</u> |
| Total revenues | <u>881,755</u> | <u>894,014</u> | <u>3,313,808</u> | <u>5,089,577</u> | <u>7,579,607</u> |
| EXPENDITURES: | | | | | |
| Personnel: | | | | | |
| Salaries | 428,995 | 409,168 | 1,349,002 | 2,187,165 | 2,234,522 |
| Employee benefits and other personnel | 212,790 | 225,102 | 634,694 | 1,072,586 | 1,021,343 |
| Services and supplies: | | | | | |
| Project expenditures | 51,008 | 226,272 | 1,973,910 | 2,251,190 | 3,533,434 |
| Operating expenditures | 98,867 | 111,146 | 295,265 | 505,278 | 538,162 |
| Professional fees | 198,500 | 70,145 | 287,748 | 556,393 | 593,882 |
| Capital outlay | 7,703 | 9,647 | 25,542 | 42,892 | 73,136 |
| Debt service – interest | <u>–</u> | <u>–</u> | <u>23,333</u> | <u>23,333</u> | <u>23,089</u> |
| Total expenditures | <u>997,863</u> | <u>1,051,480</u> | <u>4,589,494</u> | <u>6,638,837</u> | <u>8,017,568</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | <u>(116,108)</u> | <u>(157,466)</u> | <u>(1,275,686)</u> | <u>(1,549,260)</u> | <u>(437,961)</u> |
| NET CHANGE IN FUND BALANCES | (116,108) | (157,466) | (1,275,686) | (1,549,260) | (437,961) |
| FUND BALANCES – BEGINNING OF YEAR | <u>363,541</u> | <u>367,896</u> | <u>787,054</u> | <u>1,518,491</u> | <u>1,956,452</u> |
| FUND BALANCES – END OF YEAR | <u>\$ 247,433</u> | <u>\$ 210,430</u> | <u>\$ (488,632)</u> | <u>\$ (30,769)</u> | <u>\$ 1,518,491</u> |

See Notes to Basic Financial Statements.

MONTEREY PENINSULA WATER MANAGEMENT DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO
THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012

NET CHANGE IN FUND BALANCES \$ (1,549,260)

Amounts reported in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. 1,388,195

| | |
|----------------------------------|--------------|
| Capitalized project expenditures | \$ 1,641,856 |
| Capital outlay | \$ 42,892 |
| Current year depreciation | \$ (296,553) |

In the Statement of Activities, only the gain or loss on the sale of capital assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balance by the net book value of the assets sold. (288)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenue in the funds. (8,927)

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: (194,622)

| | |
|----------------------|--------------|
| Compensated absences | \$ 17,465 |
| OPEB costs | \$ (212,087) |

CHANGE IN NET ASSETS \$ (364,902)

See Notes to Basic Financial Statements.

MONTEREY PENINSULA WATER MANAGEMENT DISTRICT
STATEMENT OF NET ASSETS – PROPRIETARY FUND
(CAWD/PBCSD WASTEWATER RECLAMATION PROJECT)
JUNE 30, 2012
(WITH SUMMARIZED TOTALS FOR JUNE 30, 2011)

| | <u>2012</u> | <u>2011</u> |
|--|---------------|---------------|
| ASSETS: | | |
| Cash and cash equivalents | \$ 431,424 | \$ 284,713 |
| Receivables, net | 511,464 | 277,185 |
| Prepaid expenses | 21,061 | 23,448 |
| Reserves restricted for operations and capital replacements: | | |
| Cash | 890,610 | 892,836 |
| Capital assets, net: | | |
| Water rights | 46,804,471 | 48,214,661 |
| Nondepreciable | 7,992 | 15,680 |
| Total assets | 48,667,022 | 49,708,523 |
| LIABILITIES: | | |
| Accounts payable, trade | 713,075 | 339,795 |
| Certificates of participation: | | |
| Due within one year | 1,600,000 | 1,500,000 |
| Due in more than one year | 21,000,000 | 22,600,000 |
| Total liabilities | 23,313,075 | 24,439,795 |
| NET ASSETS: | | |
| Invested in capital assets, net of related debt | 24,212,463 | 24,130,341 |
| Restricted for debt service | 1,136 | 1,136 |
| Restricted for operations and maintenance and expanded project | 889,475 | 891,700 |
| Unrestricted | 250,873 | 245,551 |
| Total net assets | \$ 25,353,947 | \$ 25,268,728 |

See Notes to Basic Financial Statements.

MONTEREY PENINSULA WATER MANAGEMENT DISTRICT
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS – PROPRIETARY FUND
(CAWD/PBCSD WASTEWATER RECLAMATION PROJECT)
FOR THE YEAR ENDED JUNE 30, 2012
(WITH SUMMARIZED TOTALS FOR JUNE 30, 2011)

| | <u>2012</u> | <u>2011</u> |
|--|----------------------|----------------------|
| OPERATING REVENUES: | | |
| Water sales | \$ 2,004,367 | \$ 1,574,552 |
| Fees and surcharges | <u>340,321</u> | <u>265,712</u> |
| Total operating revenues | <u>2,344,688</u> | <u>1,840,264</u> |
| OPERATING EXPENSES: | | |
| Plant costs | 1,536,320 | 1,314,897 |
| Distribution costs | 268,033 | 314,764 |
| General and administration | 100,054 | 84,957 |
| Potable water | <u>2,948</u> | <u>1,726</u> |
| Total operating expenses | <u>1,907,355</u> | <u>1,716,344</u> |
| Operating income before amortization | 437,333 | 123,920 |
| Less amortization | <u>1,579,147</u> | <u>1,574,532</u> |
| Operating loss | <u>(1,141,814)</u> | <u>(1,450,612)</u> |
| NON-OPERATING REVENUES | | |
| (EXPENSES): | | |
| Investment earnings | 36,196 | 19,518 |
| Interest expense and carrying costs on certificates of participation | (307,246) | (374,014) |
| Subsidy – Pebble Beach Company | 1,732,903 | 1,667,322 |
| Water entitlement sales | 293,176 | 754,830 |
| Water entitlement (withdrawals) | (531,000) | (930,913) |
| Miscellaneous | <u>3,004</u> | <u>1,436</u> |
| Total non-operating revenues (expenses) | <u>1,227,033</u> | <u>1,138,179</u> |
| CHANGE IN NET ASSETS | 85,219 | (312,433) |
| NET ASSETS – BEGINNING OF YEAR | <u>25,268,728</u> | <u>25,581,161</u> |
| NET ASSETS – END OF YEAR | <u>\$ 25,353,947</u> | <u>\$ 25,268,728</u> |

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, 2012
(WITH SUMMARIZED TOTALS FOR JUNE 30, 2011)

| | 2012 | 2011 |
|---|---------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Cash received from customers | \$ 2,110,409 | \$ 2,038,071 |
| Cash payments for operating expenses | (1,531,688) | (1,704,939) |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | 578,721 | 333,132 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES: | | |
| Affiliate subsidy | 1,732,903 | 1,667,322 |
| Cash received from water entitlement sales | 293,176 | 754,830 |
| Cash paid out – water entitlement (withdrawals) | (531,000) | (930,913) |
| Payments for water rights costs | (161,269) | (126,252) |
| Interest payments and carrying costs on certificates of participation | (307,246) | (374,014) |
| Principal payments on certificates of participation | (1,500,000) | (1,400,000) |
| NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES | (473,436) | (409,027) |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES – | | |
| Other cash receipts | 3,004 | 1,436 |
| NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES | 3,004 | 1,436 |
| CASH FLOWS FROM INVESTING ACTIVITIES – | | |
| Investment earnings | 36,196 | 19,518 |
| NET CASH PROVIDED BY INVESTING ACTIVITIES | 36,196 | 19,518 |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 144,485 | (54,941) |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | 1,177,549 | 1,232,490 |
| CASH AND CASH EQUIVALENTS, END OF YEAR | \$ 1,322,034 | \$ 1,177,549 |

MONTEREY PENINSULA WATER MANAGEMENT DISTRICT
STATEMENT OF CASH FLOWS – PROPRIETARY FUND
(CAWD/PBCSD WASTEWATER RECLAMATION PROJECT)
FOR THE YEAR ENDED JUNE 30, 2012
(WITH SUMMARIZED TOTALS FOR JUNE 30, 2011)
(Continued)

| | 2012 | 2011 |
|--|---------------------|---------------------|
| RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Operating income (loss) | \$ (1,141,814) | \$ (1,450,612) |
| Adjustments to reconcile net operating income (loss) to net cash provided by operating activities: | | |
| Amortization | 1,579,147 | 1,574,532 |
| (Increase) decrease in: | | |
| Receivables | (234,279) | 197,807 |
| Prepaid expenses | 2,387 | (364) |
| Increase (decrease) in – | | |
| Accounts payable | 373,280 | 11,769 |
| NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | \$ 578,721 | \$ 333,132 |
| RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET ASSETS: | | |
| Cash and cash equivalents | \$ 431,424 | \$ 284,713 |
| Restricted reserves | 890,610 | 892,836 |
| Total | \$ 1,322,034 | \$ 1,177,549 |

See Notes to Basic Financial Statements.

MONTEREY PENINSULA WATER MANAGEMENT DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Abbreviations Used:

| | |
|---------|---|
| CAW | California–American Water Company |
| CAWD | Carmel Area Wastewater District |
| COP | Certificates of participation |
| O&M | Operations and maintenance |
| PBCo. | Pebble Beach Company |
| PBCSD | Pebble Beach Community Services District |
| Project | CAWD/PBCSD Wastewater Reclamation Project |

Description of the Reporting Entity:

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

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

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

The accompanying financial statements conform to accounting principles generally accepted in the United States of America as applicable to governments. The following is a summary of the more significant accounting policies used by the District:

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation and Accounting:

Government-Wide and Fund Financial Statements – The basic financial statements include both government-wide and fund financial statements. The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the District.

The government-wide statement of activities demonstrates the degree to which the direct expenses of a functional category (Conservation, Mitigation or Water Supply) or activity are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or activity. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or activity, 2) grants and contributions that are restricted to meeting the operational requirements of a particular function or activity, and 3) grants and contributions that are restricted to meeting the capital requirements of a particular function or activity. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The net cost (by function) is normally covered by general revenue (property taxes, intergovernmental revenues, interest income, etc.).

Separate fund based financial statements are provided for governmental funds. The District has one proprietary fund. Major individual governmental funds are reported as separate columns in the fund financial statements. The major governmental funds are the capital projects, conservation and mitigation fund. 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.

Government fund level financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period.

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 ninety 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 recorded when the liability is incurred, except for interest on long-term debt and compensated absences, which are recorded when paid.

Proprietary fund level financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from producing and delivering water. Operating expenses include the cost of sales, general and administrative expenses, and amortization of capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. Operating revenue comes from sales of reclaimed water. Other revenue comes primarily from the subsidy by PBCo. and from sales of water entitlements.

Under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the District has elected to apply all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. Investment earnings are accrued. Earned but unbilled revenues are accrued and reported in the financial statements.

The following major funds are used by the District:

Governmental Funds:

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

- a. *Capital Projects Fund*, accounts for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by Proprietary Funds, and Special Assessments).
- b. *Conservation Fund*, accounts for financial resources used to fund water conservation activities mandated by District legislation including permit issuance and enforcement, jurisdictional water allocations, and public water conservation education.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- c. *Mitigation Fund*, accounts for financial resources used to finance work along the Carmel River carried out pursuant to the Mitigation Program designed to ameliorate impacts identified in the District's Allocation Program Environmental Impact Report. This includes the Toilet Replacement Refund Program which decreases water demand on the Carmel River.

Proprietary Fund:

The following is a description of the Proprietary Fund of the District:

Enterprise Fund, accounts for the activity of the CAWD/PBCSD Wastewater Reclamation Project.

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

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

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

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

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 – Receivables are accounted for using the allowance method. The allowance for doubtful accounts is \$24,116 at June 30, 2012.

Prepaid Expenses – Prepaid expenses are capitalized and amortized ratably over the period of benefit.

Capital Assets – Property, facilities, and equipment purchased or acquired is carried at historical cost or estimated historical cost. Contributed fixed assets are recorded at estimated fair market value at the time received. Capital assets are defined by the District as assets with an estimated useful life in excess of one year and an initial, individual cost of more than \$1,000 for equipment and \$5,000 for land, facilities, and improvements.

Property, facilities, and equipment of the District is depreciated using the straight-line method over the following estimated useful lives:

| | |
|---------------------------|----------------|
| Equipment | 3 to 20 Years |
| Building and improvements | 5 to 39 Years |
| Monitoring stations | 5 to 10 Years |
| Wells | 30 to 40 Years |
| Fish rearing facility | 5 to 40 Years |
| Leasehold improvements | 10 to 40 Years |

Water Resale Rights – Proceeds from the issuance of the Certificates of Participation were used to construct facilities for wastewater reclamation and distribution. The District does not own these facilities, but instead owns the rights to the reclaimed water for resale. The Project capitalizes the costs incurred in order to obtain these water rights in accordance with generally accepted accounting principles for intangible assets. As a result, capital outlay and construction period interest incurred have been capitalized into this account. These rights are presented net of accumulated amortization.

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. 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.

Paid time off is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

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

Deferred Revenue – Deferred revenues arise in governmental funds when revenue does not meet both the “measurable” and “available” criteria for recognition in the current period. Deferred revenues also arise, in governmental funds, when resources are received by the District before it has a legal claim to them, as when grant monies are received prior to incurring qualifying expenditures (unearned). In subsequent periods, when both revenue recognition criteria are met, or when the District has a legal claim to the resources, revenue is recognized.

Long-Term Debt – Long-term liabilities of all Proprietary Funds, including any general obligation bonds to be repaid by those funds, are accounted for in the respective funds.

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

Property Taxes – The County is responsible for the assessment, collection, and apportionment of property taxes for all taxing jurisdictions, including the District. Secured property taxes for each year ended June 30 are payable in equal installments, November 1 and February 1, and become delinquent on December 10 and April 10, respectively. The lien date is January 1 of each year. Property taxes are accounted for as collected and remitted by the County in the Governmental Funds. Property taxes on the unsecured roll are due on the January 1 lien date and become delinquent if unpaid on August 31.

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 ninety days of year-end. An allowance is provided for delinquent taxes not expected to be collected in the future.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 is 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 are not permitted to be recognized as revenue in the governmental fund financial statements, until the tax revenues are received from the State of California (expected to be 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.

Net Assets – In the government-wide financial statements, the District reports net assets 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 net assets* result when constraints placed on net asset use are either externally imposed by creditors or imposed by law through constitutional provisions or enabling legislation. At the present time there are no such restrictions.
- *Unrestricted net assets* consists of all other net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have 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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

In the Fund financial statements, fund balance consists of Non-spendable fund balance which includes amounts that cannot be spent because they are not in spendable form, or they are legally or contractually required to be maintained intact. Restricted fund balances are amounts restricted to specific purposes. Committed fund balances are amounts that can only be used for specific purposes as pursuant to official action by the Board prior to the end of the reporting period. Assigned fund balances are amounts the Board intends to use for a specific purpose but is neither restricted nor committed. Unassigned fund balance represents fund balance that has not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes within the general fund.

When restricted and other fund balance resources are available for use, the District has elected to use restricted resources first, followed by unrestricted amounts, respectively.

The Board has not yet established a 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.

Use of Estimates – The preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported. Actual results 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, 2011, from which the summarized information was derived.

Subsequent Events – Subsequent events have been evaluated through March 26, 2013, 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 frees 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.

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 Bank of America (the credit bank) through a reimbursement agreement between PBCo. and the credit bank. PBCo. pays the letter of credit fees, as well as principal and interest payments on debt obligations as needed, as a subsidy to the Project.

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.

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

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 114 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, 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 Pebble Beach, currently at \$250,000 per acre foot, which is subject to change. At June 30, 2009, approximately \$26 million had been raised through these sales and interest. The funds from the sales were deposited in a restricted escrow account where they were invested in short-term federal government securities before being spent for the Expanded Project. All projects costs in excess of those raised through the sale of Water Entitlements are being covered by PBCo.

NOTE 3. CASH AND INVESTMENTS

Cash and Cash Equivalents – Balances in cash and cash equivalents consist of bank accounts insured by the Federal Depository Insurance Corporation (FDIC) or Securities Investment Protection Corporation (SIPC) or collateralized by the pledging institution under the California Government Code.

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

Custodial Credit Risk-Deposits – Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District has a deposit policy that complies with the California Government Code commencing at Section 53630 (Public Deposits). As of June 30, 2012, \$905,576 of the District's bank balances of \$1,332,957 was exposed to custodial credit risk as uninsured and collateralized by the pledging bank's trust department not in the District's name.

The difference between bank balances and the carrying amounts (book value) represents outstanding checks and deposits in transit.

NOTE 3. CASH AND INVESTMENTS (Continued)

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 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, 2012 consisted of the following:

| | |
|-----------------------------------|-------------------|
| Governmental activities – | |
| Local Agency Investment Fund | \$ 181,555 |
| Subtotal Governmental activities | <u>181,555</u> |
| Business-type activities: | |
| Money market accounts | 86,124 |
| Certificates of deposit | 793,864 |
| Corporate obligations | <u>10,622</u> |
| | 890,610 |
| Less restricted reserves | <u>890,610</u> |
| Subtotal Business-type activities | <u>–</u> |
| Total Investments | <u>\$ 181,555</u> |

NOTE 4. RECEIVABLES

Receivables, net of allowances for uncollectibles (estimated to be \$24,116), consist of the following at June 30, 2012:

| | <u>Capital Projects</u> | <u>Conservation</u> | <u>Mitigation</u> | <u>Total</u> |
|----------------------------------|-------------------------|---------------------|-------------------|---------------------|
| Governmental activities: | | | | |
| Reimbursements | \$ 145,034 | \$ 42,372 | \$ 217,078 | \$ 404,484 |
| User fees | – | 8,651 | 315,980 | 324,631 |
| Interest | 175 | – | – | 175 |
| Due from other governments | 34,278 | 41,786 | 34,457 | 110,521 |
| Other | <u>2,330</u> | <u>–</u> | <u>50</u> | <u>2,380</u> |
| Total Governmental activities | <u>\$ 181,817</u> | <u>\$ 92,809</u> | <u>\$ 567,565</u> | <u>842,191</u> |
| Business-type activities: | | | | |
| Water sales | | | | 252,397 |
| Affiliates (Reclamation) | | | | 246,515 |
| Other | | | | <u>12,552</u> |
| Total Business-type activities | | | | <u>511,464</u> |
| TOTAL | | | | <u>\$ 1,353,655</u> |

NOTE 5. CHANGES IN CAPITAL ASSETS

Capital assets experienced the following changes for the year ended June 30, 2012:

| | <u>Balance Beginning of Year</u> | <u>Current Additions</u> | <u>Deletions/ Transfers</u> | <u>Balance End of Year</u> |
|---------------------------------|--|------------------------------|---------------------------------|------------------------------------|
| Governmental activities: | | | | |
| Nondepreciable assets – | | | | |
| Construction in progress | \$ 1,196,600 | \$ 1,641,856 | \$ (691,402) | \$ 2,147,054 |
| Depreciable assets: | | | | |
| Equipment: | | | | |
| Office | 142,805 | 3,312 | – | 146,117 |
| Computer | 827,506 | 38,153 | (23,155) | 842,504 |
| Operating | 24,769 | – | – | 24,769 |
| Transportation | 331,158 | – | – | 331,158 |
| Project | 264,441 | – | (190) | 264,251 |
| Phone | <u>43,851</u> | <u>–</u> | <u>–</u> | <u>43,851</u> |
| Total equipment | \$ 1,634,530 | \$ 41,465 | \$ (23,345) | \$ 1,652,650 |

NOTE 5. CHANGES IN CAPITAL ASSETS (Continued)

| | Balance Beginning of Year | Current Additions | Deletions/ Transfers | Balance End of Year |
|--|---------------------------------|----------------------|-------------------------|---------------------------|
| Building and improvements | \$ 1,992,817 | \$ 1,427 | \$ – | \$ 1,994,244 |
| Monitoring stations | 54,112 | – | (5,585) | 48,527 |
| ASR Facilities | 3,492,379 | – | 681,143 | 4,173,522 |
| Fish rearing facility | 951,061 | – | (1,228) | 949,833 |
| Leasehold improvements | 2,837 | – | – | 2,837 |
| Total depreciable assets | <u>8,127,736</u> | <u>42,892</u> | <u>650,985</u> | <u>8,821,613</u> |
| Less accumulated depreciation for: | | | | |
| Equipment: | | | | |
| Office | 135,250 | 3,238 | – | 138,488 |
| Computer | 355,273 | 102,070 | (31,254) | 426,089 |
| Operating | 24,769 | – | – | 24,769 |
| Transportation | 296,193 | 11,647 | – | 307,840 |
| Project | 245,755 | 5,948 | (190) | 251,513 |
| Phone | 43,851 | – | – | 43,851 |
| Total equipment | 1,101,091 | 122,903 | (31,444) | 1,192,550 |
| Building and improvements | 637,377 | 52,263 | – | 689,640 |
| Monitoring stations | 54,112 | – | (5,585) | 48,527 |
| ASR Facilities | 359,713 | 116,412 | – | 476,125 |
| Fish rearing facility | 930,546 | 4,975 | (3,100) | 932,421 |
| Leasehold improvements | 2,837 | – | – | 2,837 |
| Total accumulated depreciation | <u>3,085,676</u> | <u>296,553</u> | <u>(40,129)</u> | <u>3,342,100</u> |
| Total depreciable assets, net | <u>5,042,060</u> | <u>(253,661)</u> | <u>691,114</u> | <u>5,479,513</u> |
| Total governmental activities capital assets, net | <u>6,238,660</u> | <u>1,388,195</u> | <u>(288)</u> | <u>7,626,567</u> |
| Business-type activities: | | | | |
| Nondepreciable assets: | | | | |
| Construction in progress | 15,680 | – | (7,688) | 7,992 |
| Water resale rights | 62,981,278 | 161,269 | 7,688 | 63,150,235 |
| Less accumulated amortization for: | | | | |
| Water resale rights | <u>(14,766,617)</u> | <u>(1,579,147)</u> | <u>–</u> | <u>(16,345,764)</u> |
| Total water resale rights, net | <u>48,214,661</u> | <u>(1,417,878)</u> | <u>7,688</u> | <u>46,804,471</u> |
| Total business type activities Capital assets, net | <u>48,230,341</u> | <u>(1,417,878)</u> | <u>–</u> | <u>46,812,463</u> |
| Total capital assets, net | <u>\$ 54,469,001</u> | <u>\$ (29,683)</u> | <u>\$ (288)</u> | <u>\$ 54,439,030</u> |

NOTE 5. CHANGES IN CAPITAL ASSETS (Continued)

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

| | | |
|----------------------------|----|----------------|
| Conservation | \$ | 52,523 |
| Mitigation | | 72,120 |
| Water supply | | <u>171,910</u> |
| Total depreciation expense | \$ | <u>296,553</u> |

NOTE 6. INTERFUND RECEIVABLES AND PAYABLES

At June 30, 2012, interfund receivables and payables consist of:

| <u>Fund</u> | <u>Interfund Receivable</u> | <u>Interfund Payable</u> |
|------------------|---------------------------------|------------------------------|
| Capital projects | \$ 626,062 | \$ - |
| Conservation | 201,802 | - |
| Mitigation | <u>-</u> | <u>827,864</u> |
| | <u>\$ 827,864</u> | <u>\$ 827,864</u> |

Interfund payables and receivables arise primarily from the Capital Projects Fund cash accounts receiving all revenue and paying all expenditures. The Proprietary Fund also collects user fees which are remitted to the other funds periodically. Any fund transfers made between accounts are reflected in the above balances as well as in the respective fund balances.

Long-term loans between funds accrue interest at a predetermined rate which then becomes payable to the lender fund. There were no such loans outstanding at June 30, 2012.

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, 2012, accounts receivable from these affiliates were as follows:

| | | |
|---|----|----------------|
| Receivable from PBCo and affiliated golf courses – Water sales | \$ | <u>246,515</u> |
| Total | \$ | <u>246,515</u> |

NOTE 7. TRANSACTIONS WITH AFFILIATES (Continued)

At June 30, 2012, accounts payable to these affiliates were as follows:

| | |
|---|-------------------|
| Payable to CAWD for operations and maintenance | \$ 104,567 |
| Payable to PBCSD for operations and maintenance | 187,651 |
| Payable to MPWMD for salaries and legal | <u>87,962</u> |
| Total | <u>\$ 380,180</u> |

NOTE 8. DEFERRED REVENUE

Governmental funds report unearned revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. As of June 30, 2012, deferred revenue was as follows:

| | <u>Capital Projects</u> | <u>Conservation</u> | <u>Mitigation</u> | <u>Total</u> |
|----------------------------|-----------------------------|---------------------|-------------------|-------------------|
| Due from other governments | <u>\$ 34,278</u> | <u>\$ 41,786</u> | <u>\$ 34,457</u> | <u>\$ 110,521</u> |
| Total | <u>\$ 34,278</u> | <u>\$ 41,786</u> | <u>\$ 34,457</u> | <u>\$ 110,521</u> |

NOTE 9. 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, 2012, the balance in this account was \$847,415.

NOTE 9. LONG-TERM DEBT (Continued)

Security for Repayment – The Project assets have not been pledged to secure payment of the COPs, nor have any other assets of the District. However, pursuant to the Water Purchase Agreement, all net operating revenues from the operations of the Project are irrevocably pledged by the District to the payment of COPs. This pledge constitutes a first lien on the net operating revenues and, subject to application of amounts on deposit therein as permitted in the Water Purchase Agreement, for the payment of the COPs in accordance with the terms of the Water Purchase Agreement and of the Trust Agreement. Notwithstanding the foregoing, the District may at any time issue obligations or execute contracts which are secured by a lien subordinate to the pledge of net operating revenues created under the Water Purchase Agreement. A Bond Letter of Credit also guarantees the COPs.

Long-term debt activity for the year ended June 30, 2012 is as follows:

| | <u>2011</u> | <u>Additions</u> | <u>Reductions</u> | <u>2012</u> | <u>Due Within One Year</u> |
|-------------------------------------|----------------------|-------------------|-----------------------|----------------------|--------------------------------|
| COPs | \$ 24,100,000 | \$ – | \$ (1,500,000) | \$ 22,600,000 | \$ 1,600,000 |
| Compensated absences | 626,990 | – | (17,465) | 609,525 | 282,859 |
| Other post employ- ment benefits | <u>375,900</u> | <u>212,087</u> | <u>–</u> | <u>587,987</u> | <u>–</u> |
| | <u>\$ 25,102,890</u> | <u>\$ 212,087</u> | <u>\$ (1,517,465)</u> | <u>\$ 23,797,512</u> | <u>\$ 1,882,859</u> |

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

Repayment Schedule – Interest is paid to the holders of the COPs monthly at a variable rate as described above. Estimated interest payments shown below are calculated using an interest rate of 3.3%, the rate for the payment due on July 1, 2011, in accordance with GASB Statement Number 38, *Certain Financial Statement Note Disclosures*. Payments on the COPs commenced on July 1, 2002, with maturation on July 1, 2022, as follows:

| Fiscal Year Ended June 30 | Principal Amount Due July 1 | Estimated Annual Interest Amount | Total Debt Due |
|------------------------------|-----------------------------------|---|----------------------|
| 2013 | \$ 1,600,000 | \$ 766,500 | \$ 2,366,500 |
| 2014 | 1,700,000 | 704,450 | 2,404,450 |
| 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 |
| 2018-2022 | 11,300,000 | 1,346,850 | 12,646,850 |
| 2023 | <u>2,600,000</u> | <u>–</u> | <u>2,600,000</u> |
| Total | <u>\$ 22,600,000</u> | <u>\$ 4,544,250</u> | <u>\$ 27,144,250</u> |

Due to the nature of variable rate bonds, interest rates fluctuate weekly as a result of economic market conditions. For the month of June 2012, the interest rate had dropped to an average of 0.20% per annum. Interest expense for the year was \$37,982 as compared to the original scheduled interest expense of \$824,900. Consequently, the scheduled interest payments column above is presented as an estimate only, based upon the original 1992 COP offering.

NOTE 10. LINE OF CREDIT

The District has available a line of credit with a bank for \$2.5 million. The line of credit expires April 30, 2013, unless extended. Borrowings under the line of credit bear interest at the British Bankers Association (BBA) LIBOR Daily Floating Rate plus 3.00 percentage points. The interest rate at June 30, 2012 was 3.01%. The District's outstanding balance on the line of credit at June 30, 2012 was \$1,275,478. The District incurred \$23,333 of interest expense, related to the line of credit, during the year ended June 30, 2012.

NOTE 11. 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.

NOTE 12. 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, 2012, other than claims liabilities and capital lease obligations. The District's share of year-end assets, liabilities and risk margin has not been calculated by the SDRMA.

NOTE 13. DEFERRED COMPENSATION PLAN

The District has a deferred compensation plan for its eligible employees wherein amounts earned by the employees are paid at a future date. This plan meets the requirements of Internal Revenue Code Section 457. All full-time, regular employees are permitted to participate in the plan beginning on the day of hire.

The employee may elect to make tax deferred contributions up to the limits established by the Internal Revenue Service for this type of plan. The employee is 100% 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.

Government Accounting Standards Board (GASB) Statement 32 states that if a fiduciary relationship does not exist between the governmental entity and the Section 457 deferred compensation plan, the governmental entity should not report the assets of the plan in its financial statements.

The District believes, and the auditors concur, that, since it does not provide investment advice or administer the plan, it does not maintain a fiduciary relationship with the plan. Therefore, the District does not report the plan assets in its financial statements.

NOTE 14. 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, 2012, the District paid approximately \$71,681 for retiree health benefits. As of June 30, 2012, the District had 7 retirees receiving benefits and 27 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 14. 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) | \$ 279,712 |
| Interest on net OPEB obligation | 26,313 |
| Adjustment to ARC | <u>(22,257)</u> |
| Annual OPEB cost (expense) | 283,768 |
| Contributions made | <u>(71,681)</u> |
| Increase in net OPEB obligation | 212,087 |
| Net OPEB obligation, beginning of year | <u>375,900</u> |
| Net OPEB obligation, end of year | <u><u>\$ 587,987</u></u> |

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

| <u>Fiscal Year Ending</u> | <u>Annual OPEB Cost</u> | <u>Actual Contribution Made</u> | <u>Percentage of Annual OPEB Cost Contributed</u> | <u>Net OPEB Obligation</u> |
|---------------------------|-------------------------|---------------------------------|---|----------------------------|
| 2010 | \$ 217,905 | \$ 23,989 | 11.0% | \$ 193,916 |
| 2011 | \$ 226,960 | \$ 44,976 | 19.8% | \$ 375,900 |
| 2012 | \$ 283,768 | \$ 71,681 | 25.3% | \$ 587,987 |

Funding Status and Funding Progress – As of June 30, 2012, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$2,876,883, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plans) was \$2,083,463, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 138.08%.

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

NOTE 14. POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)

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 (only one year is presented in this year of implementation).

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, 2012 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions include a 7.0% investment rate of return (discount rate) and an annual health care cost trend rate of actual premiums initially (2012), decreased by increments to an ultimate rate of 5.5% after eight 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, 2012, was twenty-eight years.

NOTE 15. PENSION PLAN

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

Funding Policy – Participants are required to contribute 7% of their annual covered salary. The District makes the contributions required of District employees on their behalf and for their account. The District is required to contribute at an actuarially determined rate to fund the benefits for its members. For the fiscal year ended June 30, 2012 the employer contribution rate was 12.4% 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 \$440,306, \$412,060 and \$421,892 for the years ending June 30, 2012, 2011 and 2010, respectively, were equal to the District's required contributions for each year.

NOTE 16. 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 17. COMMITMENTS AND OTHER CONTINGENCIES

Aquifer Storage and Recovery – As of June 30, 2012, the District continued with contracts relating to development of the Water Project 1 ASR facilities. As of June 30, 2012, the outstanding contracts are as follows:

- Pueblo Water Resources – \$682,200.

Other contract commitments related to miscellaneous projects and consulting services that are outstanding as of June 30, 2012 total \$25,784.

User Fee Revenue – California American Water (Cal-Am) submitted Application No. 10-01-012 to the California Public Utilities Commission (CPUC) on January 5, 2010, seeking an order authorizing it to collect and remit to MPWMD the District's User Fee to fund the Mitigation Program activities. A Proposed Decision issued on December 21, 2010 by Administrative Law Judge Maribeth Bushey would deny Cal-Am's Application to collect the MPWMD User Fee on the Cal-Am bill. The District and Cal-Am are currently requesting that the CPUC develop and adopt an Alternative Proposed decision that would again authorize collection of the fee on the Cal-Am bills. Alternatively, other options are also being evaluated including establishment of a new User Fee assessed directly by the District to Cal-Am or establishing an agreement for Cal-Am to contract with the District to perform the activities. District staff feels that it is likely that some methodology for collecting the User Fee, or its equivalent, can be achieved. However, failure to do could result in the loss of approximately \$3.6 million in revenues, requiring a dramatic curtailment of the Mitigation Program activities performed by the District. This matter is currently ongoing. See subsequent event for information on new water supply charge revenue.

NOTE 18. BUILDING ACQUISITION

In March 2000, the District purchased a building at 5 Harris Court in Ryan Ranch Office Park for approximately \$1.6 million. The total costs to purchase the land, building, tenant improvements, interior design fee, furnishings and equipment were approximately \$1.9 million. The District purchased the building from monies available in the Mitigation and Capital Projects Funds. The District plans to repay the funds over a term of fifteen years, with interest at 5.35%.

NOTE 19. AUTHORITATIVE PRONOUNCEMENTS ISSUED BUT NOT YET ADOPTED

In November 2010, GASB issued Statement No. 62 *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement incorporates into GASB's authoritative literature certain accounting and financial reporting guidance included in Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles board Opinions, and Accounting Research Bulletins of the American Institute of Certified Public Accountants (AICPA) Committee on Accounting Procedure, which do not conflict with or contradict GASB pronouncements. As a result, proprietary funds will no longer have to consider pre-1989 FASB or AICPA pronouncements not will they be permitted to apply "new" FASB pronouncements issued after November 30, 1989. This Statement is effective for fiscal years beginning after December 15, 2011. At this time the District is not certain of the effect the adoption of Statement 68 will have on the accompanying financial statements.

In June 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities.

Concepts Statement 4 also identifies net position as the residual of all other elements presented in a statement of financial position. This statement amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. This Statement is effective for fiscal years beginning after December 15, 2011. At this time the District is not certain of the effect the adoption of Statement 68 will have on the accompanying financial statements.

In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows or resources or inflows of resources, certain items were previously reported as assets and liabilities. This Statement is effective for fiscal years beginning after December 15, 2012. 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 65 will have on the accompanying financial statements.

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.

NOTE 19. AUTHORITATIVE PRONOUNCEMENTS ISSUED BUT NOT YET ADOPTED
(Continued)

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.

NOTE 20. SUBSEQUENT EVENT

After June 30, 2012 the District entered into two additional contracts relating to the development of the Phase II ASR facilities as follows:

- Pueblo Water Resources – \$136,818
- Zim Industries, Inc. – \$1,520,620

Water Supply Charge – After June 30, 2012, the District started billing for water supply charge. The charge appears on property tax bill and is collected by Monterey County Assessors Office. The District will receive payment in December and April of each year.

**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, 2012

| <u>Fiscal Year</u> | <u>Actuarial Valuation Date</u> | <u>Actuarial Value of Assets</u> | <u>Actuarial Accrued Liability (AAL)</u> | <u>Unfunded AAL (UAAL)</u> | <u>Funded Ratio</u> | <u>Covered Payroll</u> | <u>UAAL as a Percentage of Covered Payroll</u> |
|--------------------|---------------------------------|----------------------------------|--|----------------------------|---------------------|------------------------|--|
| 2010 | 6/30/2010 | \$ - | \$ 2,177,710 | \$ 2,177,710 | 0% | \$ 2,184,379 | 99.69% |
| 2011 | 6/30/2010 | \$ - | \$ 2,177,710 | \$ 2,177,710 | 0% | \$ 2,209,169 | 98.58% |
| 2012 | 6/30/2012 | \$ - | \$ 2,876,883 | \$ 2,876,883 | 0% | \$ 2,083,463 | 138.08% |

MONTEREY PENINSULA WATER MANAGEMENT DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE, BUDGET AND ACTUAL – CAPITAL PROJECTS
FOR THE YEAR ENDED JUNE 30, 2012

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance With Final Amounts</u> |
|--|-------------------------|------------------|---------------------------|--|
| | <u>Original</u> | <u>Final</u> | | |
| REVENUES: | | | | |
| Property taxes | \$ 471,300 | \$ 411,391 | \$ 407,081 | \$ (4,310) |
| Connection charges, net of refunds | 375,000 | 275,000 | 194,510 | (80,490) |
| Project reimbursements | 91,000 | 91,000 | 115,452 | 24,452 |
| Investment income | 1,000 | 1,000 | 402 | (598) |
| Grants | – | – | 160,528 | 160,528 |
| Miscellaneous | <u>3,100</u> | <u>3,100</u> | <u>3,782</u> | <u>682</u> |
| Total revenues | <u>941,400</u> | <u>781,491</u> | <u>881,755</u> | <u>100,264</u> |
| EXPENDITURES: | | | | |
| Personnel: | | | | |
| Salaries | 387,600 | 384,700 | 428,995 | (44,295) |
| Employee benefits and other personnel | 198,300 | 199,900 | 212,790 | (12,890) |
| Services and supplies: | | | | |
| Project expenditures | 228,100 | 98,067 | 51,008 | 47,059 |
| Operating expenditures | 125,600 | 125,100 | 98,867 | 26,233 |
| Professional fees | 249,500 | 249,500 | 198,500 | 51,000 |
| Capital outlay | 6,600 | 7,065 | 7,703 | (638) |
| Debt service – interest | <u>10,000</u> | <u>10,000</u> | <u>–</u> | <u>10,000</u> |
| Total expenditures | <u>1,205,700</u> | <u>1,074,332</u> | <u>997,863</u> | <u>76,469</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | <u>(264,300)</u> | <u>(292,841)</u> | <u>(116,108)</u> | <u>176,733</u> |
| NET CHANGE IN FUND BALANCE | (264,300) | (292,841) | (116,108) | 176,733 |
| FUND BALANCE – BEGINNING OF YEAR | <u>359,383</u> | <u>363,541</u> | <u>363,541</u> | <u>–</u> |
| FUND BALANCE – END OF YEAR | <u>\$ 95,083</u> | <u>\$ 70,700</u> | <u>\$ 247,433</u> | <u>\$ 176,733</u> |

See Notes to Required Supplementary Information.

MONTEREY PENINSULA WATER MANAGEMENT DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE, BUDGET AND ACTUAL – CONSERVATION
FOR THE YEAR ENDED JUNE 30, 2012

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance With Final Amounts</u> |
|--|-------------------------|------------------|---------------------------|--|
| | <u>Original</u> | <u>Final</u> | | |
| REVENUES: | | | | |
| Property taxes | \$ 709,800 | \$ 416,757 | \$ 412,391 | \$ (4,366) |
| User fees | – | – | 8,350 | 8,350 |
| Permit fees | 175,000 | 175,000 | 189,891 | 14,891 |
| Project reimbursements | 613,700 | 482,600 | 242,349 | (240,251) |
| Investment income | 1,100 | 1,100 | 459 | (641) |
| Legal fee reimbursements | 15,000 | – | 27,136 | 27,136 |
| Recording fees | 6,000 | 6,000 | 11,797 | 5,797 |
| Miscellaneous | <u>3,300</u> | <u>18,300</u> | <u>1,641</u> | <u>(16,659)</u> |
| Total revenues | <u>1,523,900</u> | <u>1,099,757</u> | <u>894,014</u> | <u>(205,743)</u> |
| EXPENDITURES: | | | | |
| Personnel: | | | | |
| Salaries | 452,200 | 448,900 | 409,168 | 39,732 |
| Employee benefits and other personnel | 231,500 | 233,400 | 225,102 | 8,298 |
| Services and supplies: | | | | |
| Project expenditures | 667,600 | 484,067 | 226,272 | 257,795 |
| Operating expenditures | 146,600 | 146,100 | 111,146 | 34,954 |
| Professional fees | 98,700 | 98,700 | 70,145 | 28,555 |
| Capital outlay | <u>6,900</u> | <u>7,440</u> | <u>9,647</u> | <u>(2,207)</u> |
| Total expenditures | <u>1,603,500</u> | <u>1,418,607</u> | <u>1,051,480</u> | <u>367,127</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | <u>(79,600)</u> | <u>(318,850)</u> | <u>(157,466)</u> | <u>161,384</u> |
| NET CHANGE IN FUND BALANCE | (79,600) | (318,850) | (157,466) | 161,384 |
| FUND BALANCE – BEGINNING OF YEAR | <u>212,643</u> | <u>367,896</u> | <u>367,896</u> | <u>–</u> |
| FUND BALANCE – END OF YEAR | <u>\$ 133,043</u> | <u>\$ 49,046</u> | <u>\$ 210,430</u> | <u>\$ 161,384</u> |

See Notes to Required Supplementary Information.

MONTEREY PENINSULA WATER MANAGEMENT DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE, BUDGET AND ACTUAL – MITIGATION
FOR THE YEAR ENDED JUNE 30, 2012

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance With Final Amounts</u> |
|--|-------------------------|---------------------|---------------------------|--|
| | <u>Original</u> | <u>Final</u> | | |
| REVENUES: | | | | |
| Property taxes | \$ 283,900 | \$ 574,852 | \$ 568,829 | \$ (6,023) |
| User fees | 1,661,500 | 1,661,500 | 1,612,025 | (49,475) |
| Permit fees | 80,000 | 30,000 | 35,725 | 5,725 |
| Project reimbursements | 1,762,600 | 1,396,700 | 1,066,166 | (330,534) |
| Investment income | 2,900 | 2,900 | 1,219 | (1,681) |
| Grants | 1,620,100 | 929,000 | 5,000 | (924,000) |
| Miscellaneous | <u>50,600</u> | <u>32,600</u> | <u>24,844</u> | <u>(7,756)</u> |
| Total revenues | <u>5,461,600</u> | <u>4,627,552</u> | <u>3,313,808</u> | <u>(1,313,744)</u> |
| EXPENDITURES: | | | | |
| Personnel: | | | | |
| Salaries | 1,313,600 | 1,303,800 | 1,349,002 | (45,202) |
| Employee benefits and other personnel | 672,500 | 678,000 | 634,694 | 43,306 |
| Services and supplies: | | | | |
| Project expenditures | 4,205,500 | 3,209,866 | 1,973,910 | 1,235,956 |
| Operating expenditures | 425,800 | 439,222 | 295,265 | 143,957 |
| Professional fees | 214,600 | 214,600 | 287,748 | (73,148) |
| Debt service – interest | 15,000 | 15,000 | 23,333 | (8,333) |
| Capital outlay | <u>18,000</u> | <u>19,573</u> | <u>25,542</u> | <u>(5,969)</u> |
| Total expenditures | <u>6,865,000</u> | <u>5,865,061</u> | <u>4,589,494</u> | <u>1,275,567</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | <u>(1,403,400)</u> | <u>(1,237,509)</u> | <u>(1,275,686)</u> | <u>(38,177)</u> |
| NET CHANGE IN FUND BALANCE | (1,403,400) | (1,237,509) | (1,275,686) | (38,177) |
| FUND BALANCE – BEGINNING OF YEAR | <u>1,396,106</u> | <u>787,054</u> | <u>787,054</u> | <u>–</u> |
| FUND BALANCE – END OF YEAR | <u>\$ (7,294)</u> | <u>\$ (450,455)</u> | <u>\$ (488,632)</u> | <u>\$ (38,177)</u> |

See Notes to Required Supplementary Information.

MONTEREY PENINSULA WATER MANAGEMENT DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2012

NOTE 1. BUDGETARY DATA

The District adopts an annual legal budget, which covers the Capital Projects Fund (which acts as the District's general fund), Conservation Fund, and Mitigation Fund. All appropriations lapse at fiscal year end and then are rebudgeted for the coming fiscal year. Encumbrance accounting is not used. The budgets are prepared on the modified accrual basis of accounting, which is consistent with generally accepted accounting principles.

A mid-year budget review is performed and the budget is amended and adopted by the board of directors. The District must approve additional appropriations or interfund transfers not included in the amended budget resolution.

Per *GASB Statement No. 34*, only the general fund and major special revenue funds budgets are to be presented in required supplementary information.