December 11, 2017

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

We are pleased to present this report related to our audit of the basic financial statements of ***Monterey Peninsula Water Management District*** (the District) for the year ended June 30, 2017. This report summarizes certain matters required by professional standards to be communicated to you in your oversight responsibility for the District's financial reporting process.

Generally accepted auditing standards (AU-C 260, *The Auditor's Communication with Those Charged with Governance)* require the auditor to promote effective two-way communication between the auditor and those charged with governance. Consistent with this requirement, the following summarizes our responsibilities regarding the financial statement audit as well as observations arising from our audit that are, significant and relevant to your responsibility to oversee the financial reporting process.

Our Responsibilities with Regard to the Financial Statement Audit

Our responsibilities under auditing standards generally accepted in the United States of America and the State Controller's Minimum Audit Requirements for California Special Districts have been described to you in our arrangement letter dated July 17, 2017. Our audit of the financial statements does not relieve management or those charged with governance of their responsibilities, which are also described in that letter.

Overview of the Planned Scope and Timing of the Financial Statement Audit

We have issued a separate communication regarding the planned scope and timing of our audit and have discussed with you our identification of and planned audit response to significant risks of material misstatement.

Accounting Policies and Practices

Preferability of Accounting Policies and Practices

Under generally accepted accounting principles, in certain circumstances, management may select among alternative accounting practices. In our view, in such circumstances, management has selected the preferable accounting practice.

Adoption of, or Change in, Accounting Policies
Management has the ultimate responsibility for the appropriateness of the accounting policies used by the District. Following is a description of significant accounting policies or their application that were either initially selected or changed during the year.

In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. This Statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans*, and Statement 68 for pension plans that are within their respective scopes. This Statement improves the usefulness and comparability of information about pensions by establishing a single framework for the presentation of pensions. The District implemented this Statement in fiscal year 2017.There was no significant effect on the financial statements due to the implementation.

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This Statement replaces Statements No. 43 and No. 57 related to postemployment benefits other than pensions, as well as includes requirements for defined contribution (other post-employment benefit) OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, No. 43, and No. 50. Statement No. 74 establishes new accounting and financial reporting requirements for governments whose employees are provided with OPEB, as well as for certain non-employer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities. The requirements of this Statement will improve financial reporting primarily through enhanced note disclosures and schedules of required supplementary information that will be presented by OPEB plans that are administered through trusts that meet the specified criteria. The District implemented this Statement in fiscal year 2017. There was no significant effect on the financial statements due to the implementation.

In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures*. This Statement requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. The requirements of this Statement improve financial reporting by requiring disclosures for essential tax abatement information that is not consistently or comprehensively reported to the public at present. The District implemented this Statement in fiscal year 2017. There was no significant effect on the financial statements due to the implementation.

In December 2015, GASB issued Statement No.78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*. The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. This Statement amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above. The District implemented this Statement in fiscal year 2017. There was no significant effect on the financial statements due to the implementation.

In January 2016, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units – An amendment of GASB Statement No. 14*. The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity, as amended*. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. The District implemented this Statement in fiscal year 2017. There was no significant effect on the financial statements due to the implementation.

In March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period. The District implemented this Statement in fiscal year 2017. There was no significant effect on the financial statements due to the implementation.

Recently Issued Accounting Standards
The GASB has issued the following statements not yet implemented by the District. The District's management has not yet determined the effect these Statements will have on the District's financial statements. However, the District plans to implement the standards by the required dates:

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This Statement replaces the requirements of Statements No. 45 and No. 57 related to postemployment benefits other than pensions. Statement No. 75 establishes new accounting and financial reporting requirements for OPEB plans. The requirements of this Statement will improve the decision-usefulness of information in employer and governmental non-employer contributing entity financial reports and will enhance its value for assessing accountability and inter-period equity by requiring recognition of the entire OPEB liability and a more comprehensive measure of OPEB expense. The provisions in this Statement are effective for fiscal years beginning after June 15, 2017. 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 No. 83 will have on the financial statements.

In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. This Statement also requires disclosure of information about the nature of a government's AROs, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. If an ARO (or portions thereof) has been incurred by a government but is not yet recognized because it is not reasonably estimable, the government is required to disclose that fact and the reasons therefore. This Statement requires similar disclosures for a government's minority shares of AROs. The requirements in this Statement are effective for fiscal years beginning after June 15, 2018. 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 No. 83 will have on the financial statements.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements in this Statement are effective for fiscal years beginning after December 15, 2018. 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 No. 84 will have on the financial statements.

In March 2017, GASB issued Statement No. 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). The requirements of this Statement will enhance consistency in the application of accounting and financial reporting requirements. Consistent reporting will improve the usefulness of information for users of state and local government financial statements. The requirements of this Statement are effective for fiscal years beginning after June 15, 2017. 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 No. 85 will have on the financial statements.

In May 2017, GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The requirements of this Statement are effective for fiscal years beginning after June 15, 2017. 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 No. 86 will have on the financial statements.

In June 2017, GASB issued Statement No. 87, *Leases.* The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for fiscal years beginning after December 15, 2019. 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 No. 87 will have on the financial statements.

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

Management Judgments and Accounting Estimates

Accounting estimates are an integral part of the preparation of financial statements and are based upon management's current judgment. The process used by management encompasses their knowledge and experience about past and current events and certain assumptions about future events. You may wish to monitor throughout the year the process used to determine and record these accounting estimates. The significant accounting estimates reflected in the District's June 30, 2017 basic financial statements include useful lives of depreciable assets, the cost of other post employment benefits and the pension cost and net pension liability.

Audit Adjustments

Audit adjustments proposed by us and recorded by the District are shown on the attached "Adjusting Journal Entries," "Reclassification Journal Entries," "GASB Journal Entries," and "Prepared by Client Journal Entries."

Uncorrected Misstatements

There were no uncorrected misstatements.

Disagreements with Management

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

Consultations with Other Accountants

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

Significant Issues Discussed with Management

No significant issues arising from the audit were discussed with or were the subject of correspondence with management.

Significant Difficulties Encountered in Performing the Audit

We did not encounter any significant difficulties in dealing with management during the audit.

Letter Communicating Significant Deficiencies and Material Weaknesses in Internal Control over Financial Reporting

When significant deficiencies and material weaknesses are identified during our audit of the financial statements, we are required to communicate them to you in writing. For the year ended June 30, 2017 a letter was not required.

Other Audit Findings or Issues

Bank Reconciliations

Observation: We noted that many old outstanding checks, some over one year old, are being carried on monthly cash reconciliations. This causes additional time to be spent by the Accountant to reconcile the bank accounts each month.

Recommendation: We recommend that checks that are over one year old be investigated and removed from the bank reconciliation and that the original transaction be reversed in the current year. Research should be done periodically to eliminate large numbers of old items being carried from month to month.

Status: The District is in the process of investigating and removing checks that are over a year old. Staff will periodically monitor and remove any checks that are more than a year old.

<u>Significant Written Communications between Management and Our Firm</u>

We have requested certain representations from management that are included in the management representation letter dated December 11, 2017.

This report is intended solely for the information and use of the Board of Directors the Administrative Committee and management and is not intended to be and should not be used by anyone other than these specified parties. It will be our pleasure to respond to any questions you have regarding this report. We appreciate the opportunity to continue to be of service to the Monterey Peninsula Water Management District.

Sincerely,

Michael T. Briley, CPA, CGMA
Managing Partner
Hayashi Wayland

Attachments: Adjusting Journal Entries
Reclassification Journal Entries
GASB Journal Entries
Prepared by Client Journal Entries

Monterey Peninsula Water Management District **AJE**
Year End: June 30, 2017
Adjusting Journal Entries
Date: 7/1/2016 To 6/30/2017
Account No: AJE-01 To AJE-99

Number	Date	Name	Account No	Debit	Credit	Amount Chg	Net Income (Loss)
		Net Income (Loss) Before Adjustments				2,693,652.00	
AJE-01	6/30/2017	Unapportioned/Uncollected Tax	26-10-150100 SRF02		15,643.00		
AJE-01	6/30/2017	Deferred Revenue	26-10-370000 SRF02	15,643.00			
AJE-01	6/30/2017	Unapportioned/Uncollected Tax	35-10-150100 CPF01	10,298.00			
AJE-01	6/30/2017	Deferred Revenue	35-10-370000 CPF01		10,298.00		
		To record uncollected taxes.					
				25,941.00	25,941.00	0.00	2,693,652.00
				25,941.00	**25,941.00**	**0.00**	**2,693,652.00**

Monterey Peninsula Water Management District **RJE**
Year End: June 30, 2017
Reclassification Journal Entries
Date: 7/1/2016 To 6/30/2017

Number	Date	Name	Account No	Debit	Credit	Amount Chg	Net Income (Loss)
		Net Income (Loss) Before Adjustments				2,693,652.00	
RJE-01	6/30/2017	Property Tax Revenue	26-10-611000 SRF02	2,008.00			
RJE-01	6/30/2017	Interest-Monterey County Taxes	26-10-691500 SRF02		2,008.00		
RJE-01	6/30/2017	Property Tax Revenue	35-10-611000 CPF01	1,200.00			
RJE-01	6/30/2017	Interest-Monterey County Taxes	35-10-691500 CPF01		1,200.00		
		To reclass interest out of property tax revenue.					
				3,208.00	3,208.00	0.00	2,693,652.00
RJE-02	6/30/2017	Water Supply Charge	35-10-520500 CPF01	10,271.00			
RJE-02	6/30/2017	Interest Income	35-10-691000 CPF01		10,271.00		
		To reclass interest/penalty portion received on water supply charge.					
				10,271.00	10,271.00	0.00	2,693,652.00
				13,479.00	**13,479.00**	**0.00**	**2,693,652.00**

Monterey Peninsula Water Management District GASB
Year End: June 30, 2017
GASB Journal Entries
Date: 7/1/2016 To 6/30/2017
Account No: GASB-00 To GASB-99

Number	Date	Name	Account No	Debit	Credit	Amount Chg	Net Income (Loss)
		Net Income (Loss) Before Adjustments				2,948,853.00	
GASB-01	6/30/2017	Pension expense - GASB 68	24-02-719200 G34G	16,221.00			
GASB-01	6/30/2017	Pension expense - GASB 68	26-02-719200 G34G	10,428.00			
GASB-01	6/30/2017	Pension expense - GASB 68	35-02-719200 G34G	11,973.00			
GASB-01	6/30/2017	Deferred Outflows - PERS Cont	51-10-171000 51	21,107.00			
GASB-01	6/30/2017	Deferred Outflows - Actuarial	51-10-172000 51	181,883.00			
GASB-01	6/30/2017	Deferred Inflows - Actuarial	51-10-371500 51	706,319.00			
GASB-01	6/30/2017	Net Pension Liability	51-10-383000 51		947,931.00		
		To record adjustment to deferred outflow/inflow of resources and net pension liability.					
				947,931.00	947,931.00	(38,622.00)	2,910,231.00
GASB-02	6/30/2017	Current Year OPEB Cost	24-10-716000 G34G	90,963.00			
GASB-02	6/30/2017	Current Year OPEB Cost	26-10-716000 G34G	58,476.00			
GASB-02	6/30/2017	Current Year OPEB Cost	35-10-716000 G34G	67,140.00			
GASB-02	6/30/2017	L/T Debt OPEB	51-10-282000 51		216,579.00		
		To record current year adjustment to OPEB liability.					
				216,579.00	216,579.00	(216,579.00)	2,693,652.00
				1,164,510.00	**1,164,510.00**	**(255,201.00)**	**2,693,652.00**

Monterey Peninsula Water Management District **PBC**

Year End: June 30, 2017

Prepared by Client Journal Entries

Date: 7/1/2016 To 6/30/2017

Account No: PBC-01 To PBC-99

Number	Date	Name	Account No	Debit	Credit	Amount Chg	Net Income (Loss)
		Net Income (Loss) Before Adjustments				1,344,221.00	
PBC-01	6/30/2017	Project Reimbursements Recei	24-10-130000 SRF01	37,430.00			
PBC-01	6/30/2017	Accounts Receivable-Other	24-10-140000 SRF01	12,953.00			
PBC-01	6/30/2017	A/R Cal-Am	24-10-141600 SRF01	554,089.00			
PBC-01	6/30/2017	User Fees	24-10-520000 SRF01		425,083.00		
PBC-01	6/30/2017	Mitigation Revenue	24-10-522500 SRF01		166,436.00		
PBC-01	6/30/2017	SH Upgrade Grant	24-10-660008 SRF01		12,953.00		
PBC-01	6/30/2017	SH Upgrade Grant	24-10-660008 SRF01				
PBC-01	6/30/2017	A/R Cal-Am	26-10-141600 SRF02	71,593.00			
PBC-01	6/30/2017	User Fees	26-10-520000 SRF02		71,593.00		
PBC-01	6/30/2017	Project Reimbursements Recei	35-10-130000 CPF01	70,377.00			
PBC-01	6/30/2017	A/R Cal-Am	35-10-141600 CPF01	599,762.00			
PBC-01	6/30/2017	Water Supply Charge	35-10-520500 CPF01		14,978.00		
PBC-01	6/30/2017	CAW-ASR Reimbursement	35-10-580001 CPF01		311,010.00		
PBC-01	6/30/2017	Reclamation Project	35-10-580002 CPF01		27,254.00		
PBC-01	6/30/2017	GWR Project Reimbursements	35-10-580015 CPF01		28,145.00		
PBC-01	6/30/2017	CAW - Los Padres Reimbursen	35-10-580020 CPF01		288,752.00		
		To record AR.					
				1,346,204.00	1,346,204.00	1,346,204.00	2,690,425.00
PBC-02	6/30/2017	Wells Fargo Money Market	24-10-102450 SRF01	318.00			
PBC-02	6/30/2017	Wells Fargo Investment Interes	24-10-692500 SRF01		318.00		
PBC-02	6/30/2017	Wells Fargo Money Market	35-10-102450 CPF01	1,945.00			
PBC-02	6/30/2017	Wells Fargo Investment Interes	35-10-692500 CPF01		1,945.00		
		To record WF interest.					
				2,263.00	2,263.00	2,263.00	2,692,688.00
PBC-03	6/30/2017	Market Value of Assets	24-10-102490 SRF01	172.00			
PBC-03	6/30/2017	Unrealized Gain/Loss on Invest	24-10-692590 SRF01		172.00		
PBC-03	6/30/2017	Market Value of Assets	26-10-102490 SRF02		150.00		
PBC-03	6/30/2017	Unrealized Gain/Loss on Invest	26-10-692590 SRF02	150.00			
PBC-03	6/30/2017	Market Value of Assets	35-10-102490 CPF01	500.00			
PBC-03	6/30/2017	Rabobank Debt Reserve Fund	35-10-102500 CPF01	442.00			
PBC-03	6/30/2017	Interest Income	35-10-691000 CPF01		442.00		
PBC-03	6/30/2017	Unrealized Gain/Loss on Invest	35-10-692590 CPF01		500.00		
		To record Market Value of WF and Rabobank.					
				1,264.00	1,264.00	964.00	2,693,652.00
PBC-04	6/30/2017	L/T Debt OPEB	51-10-282000 51	216,579.00			
PBC-04	6/30/2017	Net OPEB Obligation	51-10-382000 51		216,579.00		
		To record OPEB liability 06/30/2017.					
				216,579.00	216,579.00	0.00	2,693,652.00
				1,566,310.00	**1,566,310.00**	**1,349,431.00**	**2,693,652.00**