

EXHIBIT 12-B

HAYASHI WAYLAND-PRELIMINARY DRAFT FOR REVIEW & DISCUSSION - SUBJECT TO CHANGE - 12/10/2020

[DATE]

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) as of and for the year ended June 30, 2020. 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. Also included is a summary of recently issued accounting standards that may affect future financial reporting by the District.

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 7, 2020. 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 dated July 7, 2020 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.

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Adoption of, or Change in, Accounting Policies

Management has the ultimate responsibility for the appropriateness of the accounting policies used by the District. The District did not adopt any significant new accounting policies nor have there been any changes in existing significant accounting policies during the current period.

In May 2020, GASB issued Statement No. 95 *Postponement of the Effective Dates of Certain Authoritative Guidance*. The primary objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later.

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 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 June 30, 2019. GASB issued Statement No. 95 *Postponement of the Effective Dates of Certain Authoritative Guidance*, which, in light of the COVID-19 pandemic, postpones the effective date of this statement by one year.

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 June 30, 2020. GASB issued Statement No. 95 *Postponement of the Effective Dates of Certain Authoritative Guidance*, which, in light of the COVID-19 pandemic, postpones the effective date of this statement by 18 months.

In June 2018, GASB issued Statement No. 89 *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. This Statement established accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5-22 of Statement No. 62 *Codification of Accounting*

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and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. GASB issued Statement No. 95 *Postponement of the Effective Dates of Certain Authoritative Guidance*, which, in light of the COVID-19 pandemic, postpones the effective date of this statement by one year.

In August 2018, GASB issued Statement No. 90 *Majority Equity Interests – An Amendment of GASB Statements No. 14 and No. 61*. The objectives of this Statement are to improve the consistency and comparability of reporting a government’s majority interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government’s holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value. For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. This Statement established that ownership of majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. GASB issued Statement No. 95 *Postponement of the Effective Dates of Certain Authoritative Guidance*, which, in light of the COVID-19 pandemic, postpones the effective date of this statement by one year.

In May 2019, GASB issued Statement No. 91 *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020. GASB issued Statement No. 95 *Postponement of the Effective Dates of Certain Authoritative Guidance*, which, in light of the COVID-19 pandemic, postpones the effective date of this statement by one year.

In January 2020, GASB issued Statement No. 92 *Omnibus 2020*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. The requirements of this Statement are effective for reporting periods beginning after June 15, 2020. GASB issued Statement No. 95 *Postponement of the Effective Dates of Certain Authoritative Guidance*, which, in light of the COVID-19 pandemic, postpones the effective date of this statement by one year.

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In March 2020, GASB issued Statement No. 93 *Replacement of Interbank Offered Rates*. Some governments have entered into agreements in which variable payments made or received depend on an interbank offered rate (IBOR)—most notably, the London Interbank Offered Rate (LIBOR). As a result of global reference rate reform, LIBOR is expected to cease to exist in its current form at the end of 2021, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates, by either changing the reference rate or adding or changing fallback provisions related to the reference rate. Statement No. 53, Accounting and Financial Reporting for Derivative

Instruments, as amended, requires a government to terminate hedge accounting when it renegotiates or amends a critical term of a hedging derivative instrument, such as the reference rate of a hedging derivative instrument's variable payment. In addition, in accordance with Statement No. 87, Leases, as amended, replacement of the rate on which variable payments depend in a lease contract would require a government to apply the provisions for lease modifications, including remeasurement of the lease liability or lease receivable. The objective of this Statement is to address those and other accounting and financial reporting implications that result from the replacement of an IBOR. The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2022. All other requirements of this Statement are effective for reporting periods beginning after June 15, 2021. GASB issued Statement No. 95 Postponement of the Effective Dates of Certain Authoritative Guidance, which, in light of the COVID-19 pandemic, postpones the effective date of this statement by one year.

In March 2020, GASB issued Statement No. 94 *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). As used in this Statement, a PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. Some PPPs meet the definition of a service concession arrangement (SCA), which the Board defines in this Statement as a PPP in which (1) the operator collects and is compensated by fees from third parties; (2) the transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; and (3) the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement. This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). As defined in this Statement, an APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a of time an or exchange-like transaction. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged. The District has no plan for early implementation of this Statement.

In May 2020, GASB issued Statement No. 96 *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the

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standards established in Statement No. 87, *Leases*, as amended. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.

In June 2020, GASB issued Statement No. 97 *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans— an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32.*

The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. The requirements of this Statement that are related to the accounting and financial reporting for Section 457 plans are effective for fiscal years beginning after June 15, 2021. For purposes of determining whether a primary government is financially accountable for a potential component unit, the requirements of this Statement that provide that for all other arrangements, the absence of a governing board be treated the same as the appointment of a voting majority of a governing board if the primary government performs the duties that a governing board typically would perform, are effective for reporting periods beginning after June 15, 2021. Earlier application of those requirements is encouraged and permitted by requirement as specified within this Statement. The District has no plan for early implementation of this Statement.

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, 2020 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," and "GASB Journal Entries."

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Uncorrected Misstatements

We are not aware of any uncorrected misstatements other than misstatements that are clearly trivial.

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, 2020 a letter was not required.

Significant Written Communications between Management and Our Firm

We have requested certain representations from management that are included in the management representation letter dated _____[DATE].

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,

Hayashi Wayland

Attachments: Adjusting Journal Entries
GASB Journal Entries

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Monterey Peninsula Water Management District

AJE

Year End: June 30, 2020

Adjusting Journal Entries

Date: 7/1/2019 To 6/30/2020

Account No: AJE-01 To AJE-99

Number	Date	Name	Account No	Debit	Credit	Amount Chg	Net Income (Loss)
Net Income (Loss) Before Adjustments						2,067,598.00	
AJE-01	6/30/2020	Unapportioned/Uncollected Taxes Re	24-10-150100 SRF01		21,836.00		
AJE-01	6/30/2020	Deferred Revenue	24-10-370000 SRF01	21,836.00			
AJE-01	6/30/2020	Unapportioned/Uncollected Taxes Re	26-10-150100 SRF02		6,159.00		
AJE-01	6/30/2020	Deferred Revenue	26-10-370000 SRF02	6,159.00			
AJE-01	6/30/2020	Unapportioned/Uncollected Taxes Re	35-10-150100 CPF01	40,921.00			
AJE-01	6/30/2020	Deferred Revenue	35-10-370000 CPF01		40,921.00		
To adjust uncollected taxes and water supply charge per confirm.				68,916.00	68,916.00	0.00	2,067,598.00
AJE-02	6/30/2020	PB Reclamation Project	35-02-786020 CPF01	5,033.00			
AJE-02	6/30/2020	Investment Interest	35-10-692500 CPF01		5,033.00		
To accrue interest receivable from Reclamation Project.				5,033.00	5,033.00	0.00	2,067,598.00
AJE-03	6/30/2020	Accounts payable - trade	20010.000 ENT01	108,106.00			
AJE-03	6/30/2020	Due to MPWMD	22040.000 ENT01		108,106.00		
AJE-03	6/30/2020	User Fees Recvble-Reclamation Proj	24-10-155200 SRF01		40,142.00		
AJE-03	6/30/2020	Due from Other Funds	24-10-160000 SRF01	40,142.00			
AJE-03	6/30/2020	User Fees Recvble-Reclamation Proj	26-10-155200 SRF02		15,640.00		
AJE-03	6/30/2020	Due from Other Funds	26-10-160000 SRF02	15,640.00			
AJE-03	6/30/2020	PB Reclamation Project	35-02-786020 CPF01	108,106.00			
AJE-03	6/30/2020	PB Reclamation Project	35-02-786020 CPF01		1,113,139.00		
AJE-03	6/30/2020	Project Reimbursements Receivable	35-10-130000 CPF01		31,214.00		
AJE-03	6/30/2020	Project Reimbursements Receivable	35-10-130000 CPF01		11,677.00		
AJE-03	6/30/2020	Project Reimbursements Receivable	35-10-130000 CPF01		49.00		
AJE-03	6/30/2020	User Fees Recvble-Reclamation Proj	35-10-155200 CPF01		9,384.00		
AJE-03	6/30/2020	Due from Other Funds	35-10-160000 CPF01	1,057,357.00			
To reclassify internal balances due from Reclamation Project.				1,329,351.00	1,329,351.00	1,005,033.00	3,072,631.00
				1,403,300.00	1,403,300.00	1,005,033.00	3,072,631.00

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GASB

Year End: June 30, 2020

GASB Journal Entries

Date: 7/1/2019 To 6/30/2020

Account No: GASB-00 To GASB-99

Number	Date	Name	Account No	Debit	Credit	Amount Chg	Net Income (Loss)
Net Income (Loss) Before Adjustments						3,739,465.00	
GASB-01	6/30/2020	Pension expense - GASB 68	24-02-719200 G34G	224,125.00			
GASB-01	6/30/2020	Pension expense - GASB 68	26-02-719200 G34G	142,128.00			
GASB-01	6/30/2020	Pension expense - GASB 68	35-02-719200 G34G	180,393.00			
GASB-01	6/30/2020	Deferred Outflows - PERS Contributions	51-10-171000 51	57,472.00			
GASB-01	6/30/2020	Deferred Outflows - Actuarial	51-10-171500 51		104,551.00		
GASB-01	6/30/2020	Deferred Inflows - Actuarial	51-10-371500 51		53,673.00		
GASB-01	6/30/2020	Net Pension Liability	51-10-383000 51		445,894.00		
To record adjustment to deferred outflow/inflow of resources and net pension liability.				604,118.00	604,118.00	(546,646.00)	3,192,819.00
GASB-02	6/30/2020	Current Year OPEB Cost	24-10-716000 G34G	49,277.00			
GASB-02	6/30/2020	Current Year OPEB Cost	26-10-716000 G34G	31,249.00			
GASB-02	6/30/2020	Current Year OPEB Cost	35-10-716000 G34G	39,662.00			
GASB-02	6/30/2020	Deferred Outflows - OPEB	51-10-172000 51		39,575.00		
GASB-02	6/30/2020	Deferred Inflows - OPEB	51-10-172500 51		506,109.00		
GASB-02	6/30/2020	Net OPEB Obligation	51-10-382000 51	425,496.00			
To record changes in NET OPEB liability and actuarial deferred outflows (inflows).				545,684.00	545,684.00	(120,188.00)	3,072,631.00
				1,149,802.00	1,149,802.00	(666,834.00)	3,072,631.00