

CAWD/PBCSD RECLAMATION PROJECT

*an Enterprise Fund of the
Monterey Peninsula Water Management District*

**Annual Financial Report
June 30, 2020**

CAWD/PBCSD RECLAMATION PROJECT

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MARCELLO & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

Post Office Box 60127 / Sacramento, California 95860-0127

INDEPENDENT AUDITOR'S REPORT

Board of Directors and Members
CAWD/PBCSD Reclamation Project
Carmel, California

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the CAWD/PBCSD Reclamation Project, Carmel, California, an enterprise fund of the Monterey Peninsula Water Management District (the Project) as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Project's basic financial statements as listed in the table of contents. The prior year comparative information has been derived from the Project's 2019 financial statements and, in our report dated August 30, 2019, we expressed an unqualified opinion on the financial statements of the business-type activities.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based upon our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Board of Directors and Members
CAWD/PBCSD Reclamation Project
Carmel, California

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the CAWD/PBCSD Reclamation Project, as of June 30, 2020, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not 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 historic 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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the CAWD/PBCSD Reclamation Project's financial statements. The supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements. The supplementary information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Marcello & Company

Certified Public Accountants
Sacramento, California
October 12, 2020

MANAGEMENT'S DISCUSSION & ANALYSIS

*As Prepared by Management
(unaudited)*

CAWD/PBCSD RECLAMATION PROJECT
Management's Discussion and Analysis
June 30, 2020

The following discussion and analysis are supplementary information required by the Governmental Accounting Standards Board (GASB) and is intended to provide an easily readable explanation of the information provided in the attached basic financial statements of the CAWD/PBCSD Reclamation Project (the Project) for the fiscal year ended June 30, 2020. We encourage readers to read the information presented here in conjunction with our financial statements, which follow this narrative.

Financial Highlights

Key financial highlights for 2019-20 are as follows:

- Water Sales revenue increased 12.1% over the prior year due to an increase in water sales.
Total amount of water sold was 17.2% higher than in fiscal year 2018-19. Last year total water sales included 909.37-acre feet (AF) of reclaimed water. That figure contrasts with 1,066 AF of reclaimed water for the current year.
- Net Non-operating expenses decreased 15.8% over the prior year due primarily to a decrease in Bond and Letter or Credit carrying costs of 19.2% and bond interest expense of 41.0%. Additionally, this year there were no costs assigned to abandoned wells.
- Long-term obligations include the bonds issued in 1992 that mature in 2022 with current year principal due of \$2.3M and interest due of \$76,687. The Project has been able to take advantage of lower interest rates over the last several years – the interest due dropped 41.0% over last year because of persistently low interest rates.
- Total operating expenses were 1.4% lower than the prior year as follows:
 - Plant operating expenses were 22.3% higher than in fiscal year 2018-19 but 7.7% below budget. There were multiple reasons for the increase, briefly:
 - Plant labor expenses were 5.7% higher than in 2019, reflected mainly in an increase in Plant Engineer expenses of \$20K.
 - Electricity costs were nearly level at a 0.2% decrease.
 - Chemical costs were down 9.7% however that could be attributable to delivery timing, all chemicals are expensed when received and may carry over into the next year.
 - There was a 10.3% decrease in maintenance costs over the prior year. The Reverse Osmosis membranes were replaced in all three trains in Dec/Jan. The old membranes had a service life of approximately six years. The replacement membranes exceed budget by 80.9%.
 - In November 2019 the Reclamation Management Committee approved an increase of \$30K to perform emergency repairs to microfiltration feed piping that was observed shortly after the plant experienced minor earthquake activity.
 - Contractual services were under budget by 10.4% yet exceeded prior year actual by 17.1%. Calibration costs and IT consulting were under budget 46.3% and 44.0% respectively.
 - Distribution costs were 15.3% below budget and 1.2% higher than prior year 2018-19. Pebble Beach Community Services District (PBCSD) administrative and engineering salaries were over Administration & Engineering budget 23.2% while staff salaries were under Administration budget 14.4%. Compared to prior year, admin salaries were 40.4% greater and staff salaries 16.1% higher. Forest Lake Reservoir Utilities were 25.6% under budget, and Other O&M expenses 1.4% under budget.

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- Pebble Beach Company and Independent Golf Club Users liaison expenses were 0.05% under budget and 3.9% greater than prior year.
- Carmel Area Wastewater District (CAWD) administrative salaries and other expenses were 20.9% over budget and 8.3% higher than prior year. CAWD operating expenses were 59.7% over budget, and 44.3% greater than prior year due largely to expenses related to sea level rise negotiations with the California Coastal Commission and engineering salaries. Agreement was arrived at in April 2019 whereby Sea Level Rise costs were shared between CAWD, PBCSD, and the Project at 20%.
- Monterey Peninsula Water Management District (MPWMD) general and administrative costs were 6.2% below budget and 3.7% higher than prior year.

Using this Financial Report

This annual report consists of three parts: management's discussion and analysis (*this section*), the basic financial statements, and notes to the financial statements. This discussion and analysis are intended to serve as an introduction to the Project's basic financial statements. The Project's basic financial statements consist of three components:

- The *Statements of Net Position* present information on all of the Project's assets and liabilities, with the difference between the two reported as net position.
- The *Statements of Revenue, Expenses and Changes in Net Position* present information showing how the Project's net position changed during the two most recent fiscal years.
- The *Statements of Cash Flows* present information showing how the Project's cash changed during the two most recent fiscal years. It shows the sources and uses of cash.

The financial statements also include *Notes* that explain some of the information in the financial statements and provide more detailed information. They are followed by a section of *Supplementary Information* that further explains and supports information in the financial statements.

Financial Analysis

The "Amended and Restated Construction & Operation Agreement" became effective July 1, 2013. Revenue derived from recycled water on and after that date, including all costs necessary to recover operating capital, reserve, financing, and other costs of the Project became the responsibility Pebble Beach Company, the Independent Reclaimed Water Users Group (IRWUG) and Robert Louis Stevenson School. IRWUG refers to the unincorporated association of the owners of Cypress Point Golf Club, Northern California Golf Association, and the Monterey Peninsula County Club. The amended agreement permits IRWUG to take a full voting seat on the Project's Reclamation Management Committee.

As part of the negotiations, the IRWUG agreed to pay the amounts necessary to recover all operating, capital, reserves, financing, and other costs of the Project during each fiscal year. As in the past this includes all operation and maintenance expenses, the capital reserve fund, and bond carrying costs. New costs include all principal installments on the Certificates of Participation (COP), all interest payments on the COP, an amount equal to the Bond Carrying Cost Annual Amortization Amount, and the cost of IRWUG and Pebble Beach Company Project representatives. Because California American Water Company (CalAm) potable water increases are projected well into the future and the value of water on the Monterey Peninsula in general as a scarce resource; the IRWUG users became full partners in the Project on the assumption that they would be better off if the price of water was "delinked" from CalAm rates. The operating and

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capital costs are calculated each year as part of the annual budget process and allocated by usage formula to each of the users.

Current assets decreased 11.4% along with an insignificant increase in Restricted Cash of 1.0%. There was a decrease in Golf Course Receivables of 39.0% over the prior year attributable to payment timing difference over the prior year. The Project does not provide an allowance for doubtful accounts because all receivables are collected within sixty days of each fiscal year end.

Current liabilities decreased 4.5% from the prior year. Trade payables decreased 11.8%. Increased water sales have resulted in greater cash available and quicker payment of payables. Affiliates payables, or payables between Project partners, also decreased 46.4%. Bond debt service increased 4.3% as per the bond maturity schedule.

Noncurrent liabilities decreased because of changes in the Bond payable schedule and amount due Pebble Beach Company. However, it increased \$500K for amounts due to Monterey Peninsula Water Management District (MPWMD). In May 2019 the Project signed a Funding Agreement with MPWMD for \$1.6M of which \$600,000 was from the 2019-20 budget and \$1M remains due with principal payments of \$500K in each of the next two years.

Construction-in-Progress included \$2.5M for rehabilitation of the Recycled Water Storage Tank located near the Poppy Hills Golf Course in Pebble Beach.

With the implementation of the "Amended and Restated Construction & Operation Agreement" in June 2013, the intent was to budget annually for a break-even position. The budgeted cost of operations, capital, and debt service are all incorporated into the water sales rate structure.

Financial Analysis of the Project (Condensed comparative data)

A summary of Net Position is presented below:

	2020	%	2019	%	2018
		Change		Change	
Net Assets					
Current Assets	2,504,993	-11.4%	2,826,842	0.3%	2,819,323
Restricted Cash	1,176	1.1%	1,164	1.7%	1,144
Water Rights (net of amortization)	37,947,686	-2.6%	38,946,365	0.4%	38,789,024
Construction-in-Progress	2,674,387	85.1%	1,444,970	-15.7%	1,714,573
Other assets	-	n/a	-	n/a	-
	<u>43,128,242</u>	-0.2%	<u>43,219,341</u>	-0.2%	<u>43,324,064</u>
Liabilities					
Current Liabilities	4,483,941	-4.5%	4,692,778	29.2%	3,630,872
Long-term debt	<u>6,704,000</u>	-26.8%	<u>9,156,000</u>	-23.8%	<u>12,008,000</u>
	<u>11,187,941</u>	-19.2%	<u>13,848,778</u>	-11.4%	<u>15,638,872</u>
Net Position	<u>\$ 31,940,301</u>	8.7%	<u>\$ 29,370,563</u>	6.1%	<u>\$ 27,685,192</u>

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Capital Assets

The MF/RO facility constructed at the Carmel Area Wastewater District's plant site was completed in June 2009. Preliminary engineering study on this project was started in 2000. Over the ensuing nine years there were multiple engineering and regulatory hurdles, but the facility was finally put into service in 2008 and construction was completed the following year.

Significant asset additions in 2019-20 were as follows:

- MPCC Bird Rock Coastline Well \$ 261,637
- WWTP SCADA System Improvements \$ 211,059
- WWTP Filter System Rehab \$ 108,381

The Monterey Peninsula County Club (MPCC) Bird Rock Well project was completed 12.7% under budget and went online in April 2020. This is one of four alternative water sources for the CAWD/PBCSD Reclamation Project. The other three being the 4th Fairway Diversion well, the MPCC No. 8 well, and the MPCC No. 9 well. The MPCC Bird Rock well provided 5-acre feet of water in fiscal year 2019-20.

The Wastewater Treatment Plant (WWTP) Supervisory Control and Data Acquisition (SCADA) System Improvements Project is part of ongoing efforts to optimize operations at Reclamation. The Carmel Area Wastewater District (CAWD) plan has been gradually migrating plant controls to an updated SCADA platform called Ignition. The program is also migrating to Reclamation, so the entire facility works under the same software. The benefits of SCADA System Improvements are a reduction in call outs and greater ease in plant operations that frees-up the operators for maintenance activities.

The WWTP Filter System Rehab involved rehabilitation of the tertiary coagulation/flocculation and sand filter system (this included the sand filters wash water equipment). The goal of the project was to rehabilitate the sand filter reject wash water system to optimize the sand filters for pretreatment to the Micro Filtration Process. The aim being to extend the life of the filters.

The Project does not own the capital equipment it uses; it is owned by the public agencies that manage and operate the Project. For this reason, the value earned for the capital expenditures incurred is reflected on the Project books as water resale rights, an intangible capital asset.

The value of capital assets owned by each entity involved in the Project at year end was as follows:

	2020	2019	2018
Carmel Area Wastewater District	\$39,697,306	\$39,277,349	\$37,456,774
Pebble Beach Community Services District	25,171,006	24,909,369	24,909,369
MPWMD	29,056	29,056	29,056
Open Space Users	1,459,777	1,459,777	1,459,777
Cal-Am	853,727	853,727	853,727
	<u>\$67,210,872</u>	<u>\$66,529,278</u>	<u>\$64,708,703</u>

Long-Term Debt

The "Variable Rate Demand Certificates of Participation-Wastewater Reclamation Project Series 1992 Bonds" were issued in the amount of \$33,900,000 to finance the construction of the Project's reclamation facilities. As agreed to in the "Amended and Restated Construction & Operation Agreement" effective July 1, 2013, annual principal and interest payments, and bond carrying costs, became a part of the annual charge to be recovered from all recycled water buyers during each fiscal year. The Pebble Beach Company

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Management's Discussion and Analysis
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remains the fiscal guarantor to the COP debt. The Certificate of Participation variable interest rate has dropped considerably due to the low interest rate environment from \$129,980 in 2018-19 to \$76,687 in 2019-20, or a 41.0% decrease. Current year actual was 48.8% below budget of \$150K.

A summary of Changes in Net Position is presented as follows:

	2020	%		%	
		Change	2019	Change	2018
Changes in Net Position					
Operating Revenues	\$ 7,063,288	12.1%	\$ 6,299,411	-0.5%	\$ 6,328,302
Operating Expenses	(2,504,551)	-3.1%	(2,584,234)	26.6%	(2,041,565)
Amortization	(1,680,274)	1.0%	(1,663,234)	2.8%	(1,617,720)
Operating income/(loss)	<u>2,878,463</u>	40.3%	<u>2,051,943</u>	-23.1%	<u>2,669,017</u>
Interest revenue	33,923	-20.8%	42,855	-918.5%	(5,236)
Subsidy from PBCo	-	n/a	-	n/a	-
PBCo (withdrawal)	-	n/a	-	n/a	-
Non-operating expenses	(342,576)	-12.4%	(391,183)	-6.6%	(418,982)
Non-operating contrib/withdrawal	(72)	-73.8%	(276)	-116.3%	1,698
Other	-	-100.0%	(17,968)	-78.8%	(84,764)
subtotal	<u>(308,725)</u>	-15.8%	<u>(366,572)</u>	-27.7%	<u>(507,284)</u>
Change in net position	2,569,738	52.5%	1,685,371	-22.0%	2,161,733
Net position, beginning	<u>29,370,563</u>	6.1%	<u>27,685,192</u>	8.5%	<u>25,523,459</u>
Net position, ending	<u>\$ 31,940,301</u>	8.7%	<u>\$ 29,370,563</u>	6.1%	<u>\$ 27,685,192</u>

Budget Highlights/Variances

An annual budget is adopted by the Reclamation Management Committee (RMC) for management purposes. Budget information is reported to the RMC and adjustments to the budget may only be made by resolution of the RMC.

During fiscal year ended June 30, 2020 the following budget variances were noted:

- Water sales were over budget 6.6%. Budgeted reclaimed water sales were 1,000 AF while actual sales were 1,066 AF.
- Net investment earnings were 20.8% less than the prior year but were 21.8% over budget.
- CAWD plant operating expenses were 8.1% under budget due in large measure to lower utility costs, lower chemical costs, and lower contractual expenditures.
- PBCSD distribution costs were 15.3% under budget due to lower than anticipated field salaries and utilities.
- CAWD general & administrative expenses were 20.9% over budget. MPWMD was 6.2% under budget. Pebble Beach Co. was 0.05% under budget.
- Bond and Letter of Credit carrying costs were 19.8% below budget due to a favorable interest rate environment. Bond interest expense was 48.8% under budget.

CAWD/PBCSD RECLAMATION PROJECT
Management's Discussion and Analysis
June 30, 2020

- Monterey Peninsula Water Management user fee was 14.6% under budget.

Other Significant Matters

Securing an adequate water supply continues to be the single biggest challenge facing the future. The Project has continued efforts to explore opportunities for new water supplies – primarily by drilling wells in Del Monte Forest and exploring stormwater diversion to the treatment facility. At the treatment plant we continue efforts to increase recovery.

Requests for Information

This financial report is designed to provide an overview of the Project's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to James Grover, Principal Accountant, at Carmel Area Wastewater District, P.O. Box 221428, Carmel, CA 93922, telephone (831) 624-1248, or email grover@cawd.org.

CAWD/PBCSD RECLAMATION PROJECT

Statements of Net Position

June 30, 2020 and 2019

*for comparative
purposes only*

ASSETS

	2020	2019
Current Assets		
Cash and investments (note 3)	\$ 1,704,828	\$ 1,523,096
Accounts receivable - water sales (note 4)	785,295	1,289,095
Accounts receivable - other	14,870	14,651
Total current assets	2,504,993	2,826,842
Capital Assets		
Water resale rights, net of amortization (note 5)	37,947,686	38,946,365
Construction-in-progress	2,674,387	1,444,970
Total capital assets	40,622,073	40,391,335
Cash Restricted for		
Debt service	1,176	1,164
Total assets	\$ 43,128,242	\$ 43,219,341

LIABILITIES

Current Liabilities		
Accounts payable - trade (note 6)	\$ 112,749	\$ 133,693
Accounts payable - affiliates (note 6)	919,192	1,707,085
Bond payable - current portion (note 7)	2,400,000	2,300,000
Due to MPWMD (note 7)	500,000	-
Due Pebble Beach Company - current portion (note 7)	552,000	552,000
Total current liabilities	4,483,941	4,692,778
Noncurrent Liabilities		
Bond payable (note 7)	5,100,000	7,500,000
Due to MPWMD (note 7)	500,000	-
Due Pebble Beach Company (note 7)	1,104,000	1,656,000
Total noncurrent liabilities	6,704,000	9,156,000
Total liabilities	11,187,941	13,848,778

NET POSITION

Net investment in capital assets	33,122,073	30,591,335
Restricted for debt service	1,176	1,164
Unrestricted	(1,182,948)	(1,221,936)
Total net position (page 27)	31,940,301	29,370,563
Total liabilities and net position	\$ 43,128,242	\$ 43,219,341

The accompanying notes are an integral part of these financial statements

CAWD/PBCSD RECLAMATION PROJECT
Statements of Revenue, Expenses, and Change in Net Position
Years Ended June 30, 2020 and 2019

*for comparative
purposes only*

	2020	2019
Operating Revenue		
Water sales	\$ 3,014,672	\$ 2,487,590
Fixed cost charge	4,048,616	3,811,821
Total	7,063,288	6,299,411
 Operating Expenses		
Plant operating costs	1,845,316	1,856,255
Distribution costs	444,669	439,277
General and administrative	211,049	198,948
Potable water purchases	3,517	89,754
Amortization (note 5)	1,680,274	1,663,234
Total operating expenses	4,184,825	4,247,468
 Operating income (loss)	2,878,463	2,051,943
 Nonoperating Revenue (Expenses)		
Bond and LC carrying costs	(97,843)	(121,132)
Interest expense - PBCo	(70,870)	(62,895)
Interest expense - MPWMD	(20,333)	-
Interest expense - Bonds	(76,688)	(129,980)
Investment earnings (loss)	33,923	42,855
MPWMD user fee	(76,842)	(77,176)
Abandoned well costs	-	(15,593)
Other revenue (expenses)	(72)	(2,651)
Total nonoperating revenue (expenses)	(308,725)	(366,572)
 Change in Net Position	2,569,738	1,685,371
 Net Position - beginning	29,370,563	27,685,192
Net Position - end of year	\$ 31,940,301	\$ 29,370,563

The accompanying notes are an integral part of these financial statements

CAWD/PBCSD RECLAMATION PROJECT

Statements of Cash Flows

Years Ended June 30, 2020 and 2019

Cash Flows Provided By (Used For):	<u>2020</u>	<u>for comparative purposes only 2019</u>
Operating Activities		
Cash received from customers	\$ 7,566,869	\$ 6,477,418
Cash payments for operating expenses	<u>(3,313,388)</u>	<u>(1,722,328)</u>
Net cash provided (used)	<u>4,253,481</u>	<u>4,755,090</u>
Noncapital Financing Activities		
Other cash receipts (expenses)	<u>(72)</u>	<u>(2,651)</u>
Net cash provided (used)	<u>(72)</u>	<u>(2,651)</u>
Capital and Related Financing Activities		
Principal paid on bond debt	(2,300,000)	(2,100,000)
Principal paid on PBCo debt	(552,000)	(552,000)
Proceeds from MPWMD interfund loan	1,000,000	-
Interest expense	(167,891)	(192,875)
Bond carrying costs	(97,843)	(121,132)
Additions to Water Resale Rights	(1,911,012)	(1,550,972)
Abandoned well costs	-	(15,593)
MPWMD user fee	<u>(76,842)</u>	<u>(77,176)</u>
Net cash provided (used)	<u>(4,105,588)</u>	<u>(4,609,748)</u>
Investing Activities		
Investment earnings (losses)	<u>33,923</u>	<u>42,855</u>
Net cash provided (used)	<u>33,923</u>	<u>42,855</u>
Increase (decrease) in cash	181,744	185,546
Cash and investments - beginning	<u>1,524,260</u>	<u>1,338,714</u>
Cash and investments - end of year	<u>\$ 1,706,004</u>	<u>\$ 1,524,260</u>
Cash on the Statement of Net Assets consists of:		
Cash and investments	\$ 1,704,828	\$ 1,523,096
Restricted cash	<u>1,176</u>	<u>1,164</u>
Total	<u>\$ 1,706,004</u>	<u>\$ 1,524,260</u>
Operating Activities Analysis		
Operating Income (Loss)	\$ 2,878,463	\$ 2,051,943
Reconciliation Adjustments:		
Add amortization, a noncash expense	1,680,274	1,663,234
(Increase) decrease in receivables	503,581	178,007
Increase (decrease) in payables	<u>(808,837)</u>	<u>861,906</u>
Net cash provided (used)	<u>\$ 4,253,481</u>	<u>\$ 4,755,090</u>

The accompanying notes are an integral part of these financial statements

CAWD/PBCSD RECLAMATION PROJECT
Notes to Financial Statements
June 30, 2020

The notes to the financial statements include a summary of significant accounting policies and other notes considered essential to fully disclose and fairly present the transactions and financial position of the Project as follows:

Note 1 - Defining the Reporting Entity

Note 2 - Summary of Significant Accounting Policies

Note 3 - Cash and Investments

Note 4 - Receivables

Note 5 - Capital Assets

Note 6 - Payables

Note 7 - Long-term Obligations

Note 8 - Risk Management

Note 9 - Subsequent Events

Note 10 - New Pronouncements

CAWD/PBCSD RECLAMATION PROJECT
Notes to Financial Statements
June 30, 2020

Note 1 - Defining the Reporting Entity

Reporting Entity

The CAWD/PBCSD Reclamation Project (the Project) is a cooperative effort involving the Carmel Area Wastewater District (CAWD), the Pebble Beach Community Services District (PBCSD), the Monterey Peninsula Water Management District (MPWMD), and the Pebble Beach Company (PBCo). This cooperative effort did not create a new or separate legal entity. The Project is a proprietary (enterprise) fund of the Monterey Peninsula Water Management District, the issuer of the Certificates of Participation which financed the Project's first construction project.

The Project provides treated wastewater to irrigate golf courses and open space areas in the Pebble Beach community, which freed up potable water previously used for irrigation. The original Project involved the construction of a new tertiary treatment plant and laboratory facilities located on the site of the existing CAWD secondary wastewater treatment plant, the construction of a new reclaimed distribution system, including a 2.5 million gallon storage tank, and irrigation system improvements. Construction of the original Project began in January 1993 and was completed in October 1994. The 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 Project's assets are owned principally by CAWD and PBCSD, and consist primarily of the following:

- Assets owned by CAWD: (1) a tertiary treatment plant, (2) secondary process improvements, (3) 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, and (4) a potable water pump station.

The original Project was financed by Certificates of Participation (COP), which were executed and delivered at the direction of MPWMD in December 1992 in the amount of \$33,900,000. MPWMD 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 reclamation project as well as any operating deficiencies. The debt obligations incurred by MPWMD to finance the construction project constitute limited obligations of MPWMD, payable solely from the net operating revenue generated by the sale of reclaimed water produced by the Project and, if such reclaimed water revenue is insufficient, then from payments through a Bond Letter of Credit provided by Wells Fargo Bank (the credit bank) through a reimbursement agreement between PBCo and the credit bank. PBCo pays the letter of credit fees, as well as principal and interest payments on debt obligations as needed, as a subsidy to the Project, with reimbursement as cash flow permits.

The activities of the Project are overseen by a six member management committee containing two representatives from the CAWD board, two from the PBCSD board, one from the PBCo, and one from the Independent Reclaimed Water Users Group (IRWUG). Since the Project does not own the wastewater reclamation capital assets, the value earned for the capital expenditures incurred is reflected on the books of the Project as water resale rights, an intangible amortizable capital asset.

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 the Forest Lake Reservoir located in Pebble Beach, which provides up to 115 million gallons of storage capacity. The Reservoir is filled with reclaimed water during winter months when there is excess production at the treatment plant. The stored water is used during summer months when the daily irrigation demand exceeds treatment plant production capacity. In 1998, PBCSD purchased the Reservoir from the California-American Water Company.

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Rehabilitation and reservoir expansion was completed in 2009 in accordance with State Water Resources Division of Safety of Dams requirements. Construction costs of \$13,052,530 were financed by the sale of Pebble Beach Company water entitlements.

The Microfiltration/Reverse Osmosis (MF/RO) phase of the project (phase II), located at the CAWD treatment plant site, began in 2006 and 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% RO water and 20% MF water. The total cost of the MF/RO project was \$21,379,792, which was financed through the sale of water entitlements owned by PBCo to residential property owners within the Pebble Beach community.

The following is a brief description of each of the participants involved in the Project:

Carmel Area Wastewater District - CAWD (formerly the Carmel Sanitary District) was formed in 1908 to service the community of Carmel-by-the-Sea and is one of the oldest sanitary districts in the State. In 1934, CAWD was reorganized under the Health and Safety Code Sanitary District Act of 1923. In 1939 work began on the construction of a primary treatment plant. The primary treatment plant was built at the site of the current Wastewater Treatment Facility and had a design capacity of 0.8 million gallons per day (MGD). The primary treatment plant was the first sewage treatment plant on the Monterey Peninsula. Current permit capacity is 3.0 MGD. CAWD also provides treatment and disposal services to PBCSD, which owns one-third of the "capacity" of CAWD's treatment facility. CAWD is an independent government entity operating under authority of the Health and Safety Code of the State of California, and is governed by its own five member Board of Directors who are elected for terms of four years each.

Pebble Beach Community Services District - PBCSD provides wastewater collection and treatment; fire protection and emergency medical; supplemental law enforcement; garbage and recycling collection; reclaimed water distribution services; and undergrounding of overhead utilities within Pebble Beach. It was organized on July 1, 1982 under the Community Service District Act (Section 61000 et seq. Government Code). PBCSD is governed by a five member Board of Directors who are elected at large for a four year term and who must be residents of the District. PBCSD owns and operates its wastewater collection system and contracts with CAWD for wastewater treatment and disposal. The District provides fire protection and emergency medical services through a contract with the California Department of Forestry and Fire Protection (CAL FIRE), supplemental law enforcement services through a contract with California Highway Patrol, and garbage and recycling collection services through a contract with GreenWaste Recovery Inc.

Monterey Peninsula Water Management District - MPWMD is a special district created by the Monterey Peninsula Water Management District Act, Statutes of 1977, Chapter 527, to provide regional water supply planning within a 170 square mile area consisting primarily of the Monterey Peninsula and Carmel Valley, California. Within MPWMD's boundaries are the incorporated cities of Carmel-by-the-Sea, Del Rey Oaks, Monterey, Pacific Grove, Sand City and Seaside, in addition to portions of unincorporated Monterey County. The District is empowered to manage and regulate the use, reuse, reclamation, conservation, storage, distribution, treatment, and disposal of water and wastewater within its jurisdiction. MPWMD is governed by a seven member Board of Directors, five elected at large and two appointed. The District's revenue is derived from property taxes, user fees, and connection charges.

The District's stated goals and objectives are to: (1) augment the water supply, (2) prevent degradation of resources, (3) optimize the production capability of present resources, (4) manage water demand, (5) promote water reclamation, and (6) promote water conservation and education regarding water issues. All tertiary treated water produced by the Project is owned by MPWMD.

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Pebble Beach Company - Lone Cypress Company LLC, a Delaware limited liability company (the Company or Lone Cypress) and its two wholly owned subsidiaries, Cypress I LLC and Cypress II LLC (Cypress I and Cypress II are the general partners), were formed in June 1999 for the purpose of acquiring the partnership interest in the Pebble Beach Company (PBCo) on July 30, 1999, the date of acquisition. Substantially all the operations are conducted through PBCo, a California general partnership. PBCo generates the majority of its revenue through the ownership and operation of resort hotels, four golf courses, a full service spa, restaurants, retail outlets, a beach and tennis club, an athletic club, certain properties leased to others, and the scenic route known as "17-Mile Drive." In addition, PBCo owns land held for development of residential and commercial real estate.

Independent Reclaimed Water Users Group - IRWUG represents and includes members from the Cypress Point Golf Course, Poppy Hills Golf Course, and the Monterey Peninsula Country Club.

Note 2 - Summary of Significant Accounting Policies

Accounting Policies - The accounting policies of the Project conform to accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA) as applicable to governments. The Project is organized as a fund and its financial statements are prepared under the principles of fund accounting. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts which carry an activity's assets, liabilities, equity, revenue and expenses. The Project is an enterprise (proprietary) fund of MPWMD.

Other significant accounting policies are:

Basis of accounting - As a proprietary fund, the Project utilizes the accrual basis of accounting. Under this method, revenue is recognized in the accounting period in which it is earned, and expenses are recognized in the accounting period in which the liability is incurred. Operating revenue comes from sales of reclaimed water. When both restricted and unrestricted resources are available for use, the Project uses restricted resources first, then unrestricted resources. The Project distinguishes operating revenue and expenses from non-operating items. Operating revenue and expenses generally result from producing and delivering reclaimed water. Operating expenses include the cost of sales, general and administrative expenses, and amortization of capital assets and water resale rights. All revenue and expenses not meeting this definition are reported as non-operating revenue and expenses.

Cash and Cash Equivalents - The Project considers all highly liquid assets purchased with an original term to maturity of ninety days or less to be cash equivalents. Cash and cash equivalents are reported as "cash and investments" on the financial statement.

Restricted Assets - Certain cash accounts of the Project are classified as restricted because their uses are limited by commitments made by the Project to the purchasers of its Certificates of Participation (bonds). When applicable, construction projects cash is an escrowed account for receipt of water entitlement sales by PBCo, who is entitled to reimbursement for its cash advances.

Accounts Receivable - Accounts receivable are accounted for using the allowance method. The allowance for doubtful accounts was \$-0- at year end.

Capitalization of Construction Period Interest - Construction period interest paid on the Certificates of Participation have been capitalized into the value of the Water Resale Rights, net of interest earned on the

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Certificates proceeds.

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, in accordance with Statement of Financial Accounting Standards Number 142, which specifies that an intangible asset shall be amortized over its useful life, unless that life is determined to be indefinite.

Net Position - In the Statement of Net Position, the Project's net position is classified in the following categories:

Net Investment in Capital Assets - this category groups all capital assets reduced by outstanding debt that is attributed to the acquisition, construction, or improvement of the assets.

Restricted - this category presents external restrictions imposed by creditors, grantors, contributors, or government laws or regulations.

Unrestricted - this category represents net position that is not restricted for any project or purpose.

Income Taxes - The Project is an enterprise fund of the Monterey Peninsula Water Management District, a special district, and is therefore exempt from federal and state income taxes.

Use of Estimates - Preparing the Project's financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Operating and Nonoperating Revenue - Operating revenue consist of revenue that results from the sale of treated wastewater. When an expense is incurred for purposes for which there are both restricted and unrestricted cash assets available, it is the Project's policy to apply those expenses to restricted cash to the extent such are available and then to unrestricted cash. Nonoperating revenue results from non-exchange transactions, ancillary activities or subsidies, and investment earnings.

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Note 3 - Cash and Investments

Cash and investments are comprised of the following:

Deposits with financial institutions:	
Money market accounts	\$ 32,689
Checking accounts	1,361,662
Monterey County Investment Pool	1,718
Investment in Municipal Bonds	15,681
Certificates of Deposit	294,254
	<u>\$ 1,706,004</u>

Cash and investments are classified in the accompanying financial statements as follows:

Statement of Net Position	
Cash and investments	\$ 1,704,828
Restricted cash and investments	1,176
Cash and investments	<u>\$ 1,706,004</u>

Investments Authorized by the Project's Investment Policy

The Project does not have a specific investment policy, therefore it is required to follow the guidelines of California Code Section 53900, et. seq.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. Information about the sensitivity of the fair values of the Project's investments to market interest rate fluctuations is provided by the following table that shows the maturity date and yield of each investment:

Monterey County Investment Pool	\$ 1,718	due on demand, 1.89% annual yield
Investment in Municipal Bonds	15,681	27 months average maturity, 3.0% yield
Investment in Certificates of Deposit	294,254	39 months average maturity, 2.6% yield
Money Market funds	32,689	due on demand, yield 0.01%
Union Bank checking	332,244	due on demand, yield 0.01%

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The County Pool does not have a rating provided by a nationally recognized statistical rating organization.

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Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party.

The California Government Code does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: “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 (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure Project deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.” At year end the Project had \$981,859 in financial institutions that were not covered by FDIC, but were covered by collateralized securities of the financial institutions where the deposits were maintained.

The custodial credit risk for *investments* 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 County’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 informal investment policy of the Project contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code.

Investment in County Investment Pool

The Project is a voluntary participant in the Monterey County Investment Pool. Funds in the Pool essentially operate as demand deposit accounts. Available cash balances are controlled and invested by the County Treasurer in pooled investment funds in order to provide safety, liquidity and investment returns for all funds. Interest earnings from these funds are credited to the Project’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. Annual reports of the investment pool may be obtained from the Monterey County Treasurer, Post Office Box 891, Salinas, California 93902.

Note 4 - Receivables

At year end, receivables consist of the following:

Water Sales - Due from Pebble Beach Co & affiliated golf courses	\$ 785,295
Due from CAWD	476
Due from Vendors	14,394
	\$ 800,165

These balances are believed to be collectible in full; therefore an allowance for doubtful accounts has not been established. All water sales receivables were collected by August 31, 2020.

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Note 5 - Capital Assets

Proceeds from the issuance of the 1992 Certificates of Participation were used to construct facilities for wastewater reclamation and distribution. The Project does not own these facilities, but instead owns the rights to the reclaimed water for resale. The value of these rights is amortized using the straight-line method over the expected useful life of the wastewater reclamation plant and distribution system, which is forty years.

The recorded amortizable value of the water rights is equal to the costs incurred to construct facilities for wastewater reclamation and distribution, as well as other capital costs, in order to account for these in accordance with accounting principles generally accepted in the United States for intangible assets. As a result, capital outlay and construction period interest incurred have been capitalized into this account.

Capital asset activity for the year was as follows:

	Beginning Balance	Additions/ Completions	Retirements/ Transfers	Ending Balance
<i><u>Non-depreciable Assets</u></i>				
Construction-in-progress	\$ 1,444,970	\$ 1,229,417	\$ -	\$ 2,674,387
<i><u>Amortizable Assets</u></i>				
Water resale rights	66,529,277	681,595	-	67,210,872
<i><u>Accumulated Amortization</u></i>				
Water resale rights	<u>(27,582,912)</u>	<u>(1,680,274)</u>	<u>-</u>	<u>(29,263,186)</u>
Total capital assets, net	<u>\$ 40,391,335</u>	<u>\$ 230,738</u>	<u>\$ -</u>	<u>\$ 40,622,073</u>

The water resale rights are owned by MPWMD, but title to the construction assets are held by CAWD, PBCSD and others. The dollar value at historic cost of the portions owned by each entity is as follows:

CAWD (plant)	\$ 39,697,306
PBCSD (distribution system)	25,171,006
MPWMD (software)	29,056
Open Space Users (irrigation systems)	1,459,777
Cal-Am (pump station partial ownership)	<u>853,727</u>
	67,210,872
Construction-in-progress	<u>2,674,387</u>
	<u>\$ 69,885,259</u>

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Note 6 - Payables

At year end, payables consist of the following:

<u>Accounts Payable - trade</u>	
Vendors for operating supplies	\$ 112,749
<u>Accounts Payable - affiliates</u>	
PBCo (debt svc reimb)	\$ 499,862
MPWMD (salaries, software, fee)	113,139
CAWD (O&M)	87,421
PBCSD (O&M)	218,770
	\$ 919,192

Note 7 - Long-term Obligations

Long-term debt and obligations activity for the year was as follows:

	Beginning			Ending	Due Within
Business-type Activities	Balance	Additions	Reductions	Balance	One Year
Certificates of Participation	\$ 9,800,000	\$ -	\$ (2,300,000)	\$ 7,500,000	\$ 2,400,000
MPWMD	-	1,000,000	-	1,000,000	500,000
Due Pebble Beach Co.	2,208,000	-	(552,000)	1,656,000	552,000
	\$ 12,008,000	\$ 1,000,000	\$ (2,852,000)	\$ 10,156,000	\$ 3,452,000

Certificates of Participations - Variable Rate Bonds

To finance the original construction project, MPWMD issued *Variable Rate Demand Certificates of Participation - Wastewater Reclamation Project Series 1992 bonds* (COPs) in December 1992 in the amount of \$33,900,000, that will mature in July 2022. The COPs are in minimum denominations of \$100,000 or any integral multiple thereof or, during any reset period 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 rest 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 accrue interest at a variable rate determined weekly, as provided in the official statement of the COPs.

Designated Reserve

A *Renewal and Replacement Reserve* was established by the Board of Directors to pay for future major repairs and capital replacements, and is held in a segregated account designated for its intended purposes. At year end, the balance in this account was \$341,448.

Security for Repayment

The Project assets have not been pledged to secure payment of the COPs, nor have any other assets of MPWMD. However, pursuant to the Water Purchase Agreement, all net operating revenue from the

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operations of the Project is irrevocably pledged by MPWMD for debt service payment of the COPs.

This pledge constitutes a first lien on the net operating revenue and, subject to application of amount on deposit therein as permitted in the Water Purchase Agreement, is to be used for the payment of the COPs in accordance with the terms of the Water Purchase Agreement and of the Trust Agreement. Notwithstanding the foregoing, MPWMD may at any time issue obligations or execute contracts which are secured by a lien subordinate to the pledge of net operating revenue created under the Water Purchase Agreement. A bond Letter of Credit also guarantees repayment of the COPs.

Scheduled COP Payments

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

For the last week in June of 2020, the interest rate was 0.12% per annum. Interest expense for the year was \$76,688 as compared to the anticipated 1992 issuance annual interest expense of \$273,750. Consequently the Interest column below is revised using a more current and conservative fixed annual rate of 2%, which is presented for information purposes only.

Future principal and estimated interest payments are as follows:

<u>Year Ending June 30,</u>	<u>Certificates of Participation</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 2,400,000	\$ 150,000	\$ 2,550,000
2022	2,500,000	102,000	2,602,000
2023	<u>2,600,000</u>	<u>52,000</u>	<u>2,652,000</u>
Totals	<u>\$ 7,500,000</u>	<u>\$ 304,000</u>	<u>\$ 7,804,000</u>

Due to Monterey Peninsula Water Management District

Repayment of \$1,000,000 for the recycled water storage tank rehabilitation project, to be repaid over the next two years with interest at 3.05% per annum.

Future principal and interest payments are as follows:

<u>Year Ending June 30,</u>	<u>Due to MPWMD</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 500,000	\$ 38,125	\$ 538,125
2023	<u>500,000</u>	<u>7,625</u>	<u>507,625</u>
Totals	<u>\$ 1,000,000</u>	<u>\$ 45,750</u>	<u>\$ 1,045,750</u>

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Due to Pebble Beach Company

Repayment of \$5,520,000 for bond costs incurred and advanced by PBCo prior to July 1, 2013, to be reimbursed over the next ten years at \$552,000 per year.

Future payments are as follows:

<u>Year Ending June 30,</u>	Due Pebble Beach Company		
	Line of Credit Fees	Bond Carry Costs	Total
2021	\$ 452,000	\$ 100,000	\$ 552,000
2022	452,000	100,000	552,000
2023	452,000	100,000	552,000
Totals	\$ 1,356,000	\$ 300,000	\$ 1,656,000

Note 8 - Risk Management

The Project is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omission, injuries to employees, and natural disasters. Although ownership of all assets is transferred to either CAWD or PBCSD once they are placed in service, the Project purchases property, liability, and earthquake insurance for the aforementioned assets.

CAWD purchases its share of property and liability insurance through the California Sanitation Risk Management Authority (CSRMA). CSRMA is an established public entity risk pool that operates as a common risk management and insurance program for 60 government members. Liability insurance is purchased as a separate policy for the Project. Property insurance is covered under CAWD's policy and the costs are allocated back to the Project. The deductible risk of loss is retained for general liability claims. The agreement with the risk pool provides that it will be self-sustaining through member premiums and additional policies purchased from commercial insurance companies for general liability claims and for excess workers' compensation claims. Financial statements may be obtained from CSRMA, 100 Pine Street, 11th Floor, San Francisco, California 94111.

ACWA/JPIA was formed under a joint powers agreement pursuant to California Government Code to provide insurance protection for its members. The property, general liability and workers compensation programs are ACWA/JPIA's pooled programs. The member districts are provided coverage for losses in excess of their individually selected retrospective allocation points ("RAP") which are similar to a deductible. A portion of the excess is self-insured by ACWA/JPIA where all members share the losses. Individual claims (and aggregate public liability and property claims) in excess of ACWA/JPIA's self-insured levels are covered by excess insurance policies purchased from outside commercial insurance carriers. Financial statements may be obtained from ACWA/JPIA, Post Office Box 619082, Roseville, California 95661.

PBCSD purchases insurance against various risks of loss through the Association of California Water Agencies Joint Powers Insurance Authority (ACWA/JPIA). PBCSD also purchases a Dam failure liability insurance policy and an earthquake insurance policy which are not pooled programs. These coverage policies are provided by ACWA/JPIA through purchases from outside commercial insurance carriers. Dam failure liability insurance provides coverage resulting from failure of Forest Lake Reservoir, and earthquake

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insurance provides coverage for certain Reclamation Project assets including the Poppy Hills Storage Tank, Forest Lake Reservoir embankments and hyperon liner.

Workers compensation insurance is provided by the entities contracted from CAWD and PBCSD to provide operations and maintenance for the Project.

Note 9 - Subsequent Events

The management of the Project has reviewed the results of operations for the period from its fiscal year end of June 30, 2020 through October 12, 2020, the date the draft financial statements were available to be issued, and have determined that no adjustments are necessary to the amounts reported in the accompanying financial statements nor have any subsequent events occurred, the nature of which would require disclosure.

Note 10 - New Pronouncements

The Governmental Accounting Standards Board (GASB) has released the following new pronouncements, which can be read in their entirety at <http://www.gasb.org>.

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.

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 a 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.

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 and Financial Reporting Guidance*

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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. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.