

CARMEL AREA WASTEWATER DISTRICT
California

Annual Financial Report

**Year Ended
June 30, 2014**

CARMEL AREA WASTEWATER DISTRICT

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MARCELLO & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

2701 Cottage Way, Suite 30 / Sacramento, California 95825

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Carmel Area Wastewater District
Carmel, California

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Carmel Area Wastewater District (the District) as of and for the year ended June 30, 2014, which collectively comprise the District's basic financial statements as listed in the table of contents. The prior year comparative information has been derived from the District's 2013 financial statements and, in our report dated November 1, 2013, 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 the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express 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
Carmel Area Wastewater District
Carmel, California

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Carmel Area Wastewater District, as of June 30, 2014, and the changes in financial position and where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Schedules of Funding Progress

As discussed in Note 12 to the financial statements, the schedule of funding progress for the District's Single Employer Defined Benefit Pension Plan (Plan 1) was not audited by us but is presented as required by the Governmental Accounting Standards Board, and the Defined Benefit Pension Plan (Plan 2) administered by a CalPERS cost sharing risk pool was not audited by us but is presented as Supplementary Information.

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 Carmel Area Wastewater District'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 express no opinion on it.

Marcello & Company

Certified Public Accountants
Sacramento, California
October 3, 2014

MANAGEMENT'S DISCUSSION & ANALYSIS

*As Prepared by Management
(unaudited)*

Carmel Area Wastewater District
Management's Discussion and Analysis
June 30, 2014

The following discussion and analysis is 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 for the fiscal year ended June 30, 2014. 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 2013-14 are as follows:

- Total operating revenues increased 9.4%. Sewer user fees, the District's primary source of operating revenue, increased 12.6% over the prior year. The rate model projected an 11.1% increase in residential rates – overwhelmingly the District's largest user category. The increases are reflective of the District's efforts to fund its capital improvement and rehabilitation efforts. Pebble Beach Community Services District (PBCSD) treatment fees increased by 0.8% over budget. Flow from Del Monte Forest decreased to 28.5% compared with 31.5% in 2012-13. Treatment charges to PBCSD are based on flow; however the flow can be highly variable. Reimbursement from the Reclamation Project for O&M expenses was over budget 4.4% as staff spent more time than anticipated on managing production during drought conditions with membranes near the end of their life.
- Total operating expenses (including depreciation) increased 10.8% over the prior year reflecting a considerable focus and greater resources devoted to the District's long term rehabilitation efforts in both the Collection system and Treatment Plant. In the Collections Department work included replacement of a short easement line, spot repair program, repair to a section of force main, and updating of department Standard Operating Plans (SOPs). At the Treatment plant there was also an across the board effort to rehabilitate the facility – including testing and rehab of the standby generators, rehab of all three influent pumps, replacement of the plant primary network computer, and a considerable focus on safety training.
- Total Current Assets increased 6.0% over the prior year primarily because of greater cash balances (4.0%). As part of its plans to improve the infrastructure the District increased rates – we anticipate that Phase I of our CIP program will commence at the end of 2014-15 and funds will then be spent down. Receivables were 114.4% higher than the prior year because of the timing of affiliate billing.
- Total Current Liabilities increased 9.3% primarily due to an increase in Accounts Payable and current portion of Compensated Absences. Total liabilities decreased 1.1%.
- Non-operating revenues increased 15.4% overall. The largest line item, property tax, increased 2.5%. The most significant increase was in reimbursements from Pebble Beach Community Services District (PBCSD) for treatment plant improvements – over 700% increase which is reflective of the increased focus on capital replacement and repair. By contract, PBCSD must reimburse 1/3 of treatment plant capital improvements.

Carmel Area Wastewater District
Management's Discussion and Analysis
 June 30, 2014

Overview of the Financial Statements

This annual report consists of three parts – management’s discussion and analysis (*this section*), the basic financial statements, and other supplementary information. The Financial Statements include Notes which explain in detail some of the information included in the basic financial statements.

Required Financial Statements

This discussion and analysis is intended to serve as an introduction to the District’s basic financial statements. The District’s basic financial statements consist of three components:

- The *Statements of Net Position* present information on all of the District’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 District’s net position changed during the two most recent fiscal years.
- The *Statements of Cash Flows* present information showing how the District’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.

The District’s financial statements utilize the full accrual basis of accounting whereby revenue is recognized when it is earned and expenses are recognized as they are incurred. The District’s accounting methods follow accounting principles generally accepted in the United States and as applied to governmental enterprise funds.

Financial Analysis of the District

The Statements of Net Position and the Statements of Revenue, Expenses and Changes in Net Position provide an indication of the District’s financial condition. The District’s net position reflects the difference between assets and liabilities. An increase in net position over time typically indicates an improvement in financial condition.

A summary of net position is presented below:

	2014	2013	%	2012	%
			Change		Change
Assets					
Current Assets	\$ 23,462,550	\$ 22,136,432	6.0%	\$ 19,997,164	10.7%
Restricted Cash	-	-	n/a	-	n/a
Capital Assets net of depreciation	38,388,228	39,003,751	-1.6%	41,052,449	-5.0%
Bond issue costs	48,186	53,045	-9.2%	57,903	-8.4%
Other assets	-	-	n/a	-	n/a
	<u>\$ 61,898,964</u>	<u>\$ 61,193,228</u>	1.2%	<u>\$ 61,107,516</u>	0.1%

Carmel Area Wastewater District
Management's Discussion and Analysis
June 30, 2014

Liabilities

Current Liabilities	531,934	486,473	9.3%	634,450	-23.3%
Long-term vac/sick pay	460,599	400,860	14.9%	309,755	29.4%
Long-term debt	<u>1,683,345</u>	<u>1,818,980</u>	-7.5%	<u>1,979,276</u>	-8.1%
	<u>\$ 2,675,878</u>	<u>\$ 2,706,313</u>	-1.1%	<u>\$ 2,923,481</u>	-7.4%

Net Position

Invested in capital assets, net of related debt	36,620,293	37,080,378	-1.2%	38,984,914	-4.9%
Restricted	-	-	n/a	-	n/a
Unrestricted	<u>22,602,793</u>	<u>21,406,537</u>	5.6%	<u>19,199,121</u>	11.5%
	<u>\$ 59,223,086</u>	<u>\$ 58,486,915</u>	1.3%	<u>\$ 58,184,035</u>	0.5%

Total Liabilities & Net Position	\$ 61,898,964	\$ 61,193,228	1.2%	\$ 61,107,516	0.1%
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The District's cash balances are segregated by purpose, as approved by the Board, as follows:

<u>Designation of Cash Balances</u>	<u>Amount</u>
Capital Reserves	\$ 7,839,622
Current Year O&M (2013-14)	6,994,018
Current Year Capital (2013-14)	5,482,158
Rate Stabilization Fund	725,000
LAIF Investment Fund	1,104,795
Compensated Accruals Fund	<u>534,480</u>
<i>Total</i>	<u>\$22,680,073</u>

After formally accepting the asset management plan prepared for the Treatment plant in April 2013 the District moved forward with implementation of the first phase. The plan estimates the District will need to spend \$30M over the next fifteen years on plant rehabilitation – this is exclusive of engineering costs and construction management. The District retained Kennedy/Jenks Consultants to work on Phase I of the plan and has progressed to the 95% plan submittal level. We anticipate going out to bid at the end of January 2015. Currently, the engineering estimate for the Phase I work is \$15.5M. We anticipate that District reserves will permit funding of Phase I on a pay-as-you-go basis.

The initial plan was to fund the entire Long Term Capital Plan via pay-as-you-go. The Board felt that rather than burden future ratepayers it was appropriate to assess current users and therefore authorized the plan to ramp up user fees, on average, 10% per year until the target funding level was met. Subsequent to the Kennedy/Jenks plan publication it has also become apparent that we have significant needs on the Collection side that will also require funding. The District is currently planning a long term approach to replacement of both sewer lines and pump stations. The end result of this analysis is that we are now planning, in addition to the Treatment plant 15 year plan, to fund both Collection and Treatment with an additional \$700K each year to take care of repair/replace/rehabilitation efforts.

Carmel Area Wastewater District
Management's Discussion and Analysis
June 30, 2014

The 15 year plan is front loaded because of the critical systems slated for replacement and rehab. Phase I includes:

- Blower system modifications
- Return Activated Sludge/Waste Activated Sludge pumping station
- Sodium Hypochlorite/Sodium Bisulfite facility
- Decommission of chlorine gas disinfectant system
- Facility piping
- Dissolved Air Flotation (DAF) thickener rehabilitation
- New 450,000 gal Digester and Digester control building
- Replacement of Waste Gas Burner
- Dewatering system modifications and instillation of rotary screw press
- Significant electrical power modifications
- Potable water pump system modifications
- Utility water pump system rehabilitation
- Storm water pump station construction

In December 2014 the Board awarded a contract to construct a new employee locker room. It was more cost effective to build a new facility and repurpose the existing room for the electrical rehab included in Phase I than to build an electrical structure. That contract is scheduled to be completed by June 2015 so that the major construction project can commence immediately. The District has also contracted with Kennedy/Jenks Consultants to provide construction management and engineering services during design.

The work of the last two years is falling into place – we anticipate the Phase I of the Treatment Plant rehab and all the work building up to it will go very smoothly.

A summary of changes in net position is presented below:

	2014	2013	%	2012	% Change
			Change		
Changes in Net Position:					
Operating revenues	\$ 6,465,750	\$ 5,909,528	9.4%	\$ 5,370,001	9.7%
Nonoperating revenues	2,361,583	2,046,291	15.4%	1,861,936	10.9%
<i>total revenues</i>	<u>8,827,333</u>	<u>7,955,819</u>	11.0%	<u>7,231,937</u>	10.0%
Operating expenses	5,655,466	5,103,861	10.8%	4,699,637	8.6%
Nonoperating expenses	99,572	109,903	-9.4%	118,794	-7.5%
Depreciation expense	2,437,836	2,444,294	-0.3%	2,473,035	-1.2%
<i>total expenses</i>	<u>8,192,874</u>	<u>7,658,058</u>	7.0%	<u>7,291,466</u>	5.0%
Income before Cap Contributions	634,459	297,761	113.1%	(59,529)	-600.2%
Capital Contribution	101,712	5,119	1887.0%	148,944	-96.6%
Change in net position	736,171	302,880	143.1%	89,415	238.7%
Net position, beginning	<u>\$ 58,486,915</u>	<u>\$ 58,184,035</u>	0.5%	<u>\$ 58,094,620</u>	0.2%
Net position, ending	<u>\$ 59,223,086</u>	<u>\$ 58,486,915</u>	1.3%	<u>\$ 58,184,035</u>	0.5%

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The District's strategy in regards to rate-setting has consistently been to cover all operating expenses with operating revenue and to utilize non-operating revenue (i.e. property taxes and interest revenues) to cover capital and other non-operating expenses. The District is not charging current rate payers for the depreciation expense on the District's capital assets, i.e. Wastewater treatment plant and distribution system. We initiated the process of including a separate line item for replacement costs in the annual revenue requirements and have added roughly \$700,000 cumulative of total replacement cost to date over the last three years. We will continue increasing this line item in the coming years to until we reach the appropriate point that supports replacement of our capital assets.

Fiscal Year	Operating Loss	Depreciation
2008	(\$ 914,145)	\$1,388,626
2009	(\$ 855,668)	\$1,410,652
2010	(\$2,188,235)	\$2,475,304
2011	(\$1,837,490)	\$2,470,000
2012	(\$1,802,671)	\$2,473,035
2013	(\$1,638,602)	\$2,444,294
2014	(\$1,627,552)	\$2,437,836

The District planned this shift in its rate-setting strategy three years ago because of the need to fund its long term capital rehabilitation of the treatment plant facility. If we are to spend roughly \$30M over the next 15 years and estimate \$3.0M per year, split roughly 70/30 between Treatment Plant and Collection System, as the appropriate ongoing capital expenditure base, then the property tax revenue currently received is insufficient to fund our needs. So where we once deferred charging ratepayers for capital recovery or depreciation we have shifted strategy. We now plan to gradually increase our user fee rate structure to include ongoing capital repair and replacement. For fiscal year 2013-14 the average user fee increase was 11.1%. We are estimating that there will be similar rate increases for the next five to six years.

By definition, as an enterprise fund the argument has been soundly made that the District should recover its costs by assessing a charge for services. The current economic environment is such that grant money is not as easily available as it was in the mid-1980s when the District acquired \$10M in grant funds to rehabilitate and expand the plant facilities. Additionally, while we think it is unlikely, the California Legislative Analyst's Office has been advocating the elimination of property tax revenue for Special Districts for over 30 years. Increasing rates and closely managing expenditures is the only way that the District can ensure it current and future ability to perform its essential functions of wastewater treatment and collection.

Capital Assets Activity

In addition to the major CIP project under design by Kennedy/Jenks Engineers there are multiple in-house projects the District is managing.

2013-14 significant asset additions include:

- **Calle la Cruz wetwell rehab** \$154,670
This project was initially budgeted in 2010-11 for the rehabilitation of four pump stations. Taking an additional critical look at each pump station, it was determined that only one of them, Calle la Cruz,

Carmel Area Wastewater District
Management's Discussion and Analysis
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was critical. The hydrogen sulfide gases had caused considerable deterioration of the concrete walls of the wetwell. By applying an epoxy liner to the concrete walls the life of the wetwell should be extended another twenty years.

- **Crespi Lining Project** \$ 92,240
Initially budgeted in 2012-13, this project was carried forward and completed in 2013-14. This line is located on a hillside in a protected park area making repairs a sensitive and difficult proposition. Homeowners in the area are very conscious of the delicate nature of the area and potential impact of erosion or disturbance of the hillside. The District decided to line this section of pipe (1,150 ft. of 6" pipe) to extend the life of the line with the least amount of environmental impact. Expenditures to date represent engineering costs. We anticipate approximately \$450-\$500K in construction costs. Preliminary plans are to begin construction in the Spring/Summer of 2015.
- **LIMS** \$ 71,622
The District committed to the purchase and installation of a Laboratory Information Management System (LIMS) to assist in managing lab processes. Staff decided on the package presented by Sample Master because of its large presence in the water/wastewater market, its modular design, user friendly features, and ability to integrate our current Excel spreadsheets into the program. The LIMS will help staff save time, reduce outsourcing, and provide better management of data and information in the lab. The program will also produce monthly, quarterly, and annual reporting acceptable to the Regional Water Quality Control Board.
- **Plant rehab of grit bin drainage area** \$ 55,065
This project addressed the rehabilitation of the pad and drainage system associated with the grit bin. Sections of the concrete pad below the grit classifier and rag collection screw had reached the end of their useful life – it was increasingly difficult to move the dumpster situated on the pad because of the concrete failure. The drainage system at the pad was also not working adequately.
- **Plant rehab of sludge/dewatering bldg. slab** \$ 50,000
This project addressed a nearly identical problem as that found at the grit bin. The sludge/dewatering building drainage area concrete pad was replaced and the drainage issues corrected. The cake solids discharge to a trailer located on the pad; drainage was important to facilitate cleaning of the area.
- **Remodel of top floor plant Operations Bldg.** \$ 39,420
Staff had the top floor of the Operations Bldg. at the plant remodeled. This building was constructed in the 1980's and this is the first remodel. The Operations Superintendent office was completely redone, the utility closet was cleaned up and organized, and the main room was converted into a conference room that can accommodate up to ten comfortably with complete computer/network capabilities and a large screen monitor. This mini-conference room has become the "go-to" room at the plant for multiple meeting purposes.
- **Sump Pump wetwell rehab at Sludge/Dewatering** \$ 38,818
This project was combined with the Calle la Cruz wetwell rehab. The sump at the Sludge/Dewatering bldg. was cleaned and coated with an epoxy to extend the life of the sump.

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- **Upgrade Ribera Pump Station control panel** \$ 31,598
Originally installed in 1986, this upgrade is located outside in a fiberglass enclosure. Over the past 27 years the enclosure has been weatherproofed several times but because of the proximity to the ocean and the weather it continues to leak. The new panel enclosure will be more secure and includes a weather proof stainless steel enclosure.

- **Purchase of Ford F-550 2014** \$ 31,000
The District was able to negotiate the trade-in of an F-250 that was not able to meet the needs of the Collection crew in the field for a new Ford F-550. The dump bed was removed from the existing truck and transferred to the new truck.

Debt Service Activity

As of June 30, 2004, the District entered into an agreement with the Highlands Inn, the Tickle Pink Inn and the Highlands Sanitary Association to manage and obtain the necessary financing for them to construct a pipeline and connect to the District's treatment and collection facilities. The District obtained \$3,000,000 in the form of a 20 year bond as part of a pooled financing arrangement with the California Statewide Communities Development Authority Water & Wastewater Revenue Bonds, Series 2004A. In the year ending June 30, 2014 the District made a principal payment on the bond of \$135,000 and \$94,150 in interest. Prior year 2013 principal payment was \$125,000 with \$102,337 in interest. The Highlands Project bond is the District's only outstanding bond obligation; the District had no debt service obligations prior to 2004.

In November 2009 the District entered into a five year lease agreement for the purchase of an Ion Chromatograph for the CAWD/PBCSD Reclamation Project in the amount of \$102,106. Principal and interest payments are \$1,968 per month at 5.87% per annum. As of fiscal year end the principal balance was \$8,009.57. There are four payments remaining on the lease.

All debt service (interest and principal payments) are being repaid by the parties that benefit directly from the obligation. The Highlands Project Bond obligation is fully reimbursed by the Highlands Inn, the Tickle Pink, and the Highlands Sanitary Association. The Ion Chromatograph lease obligation is reimbursed monthly from the CAWD/PBCSD Reclamation Project.

Budget Highlights/Variiances

An annual budget is adopted by the CAWD Board of Directors each spring for the subsequent fiscal year. Budget information is reported to the Board and adjustments to the budget may only be made by resolution of the Board.

2013-14 Major variances can be described as follows:

- Sewer service fees were 5.1% or \$236K over budget – the rate model provided for an additional \$750K to be allocated for future capital expenses.

- PBCSD treatment fees were 8.0% over budget even with the lower flow number of 28.53%.

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- Collections budget was 8.9% over budget. The primary overages were in Operating Supplies and Repairs & Maintenance. There was a burglary at the Collections office in April 2014 and recovery of tools and equipment was \$83K which was expensed and the insurance recovery recorded in subsequent fiscal year as Other Income. Other causes of the budget overage include rehab of 35 manholes, force main over Carmel Lagoon rehab, repair of easement line, and implementation of a spot repair program.
- The Treatment Plant was 4.0% under budget overall. However, they exceeded budget 48.6% in the category Office Supplies and Services due to the remodel of the upper level at the Operations Building. They also exceeded Repairs & Maintenance 34.7%% due to increased efforts at plant rehabilitation.

Other Significant Matters

- The District is in the last year of a two year contract negotiated with its employees for fiscal years 2012-13 and 2013-14. Employees negotiated a 2.0% COLA for both years. In the fall of 2013 the District began a salary and benefits Parity Study as negotiated by employees in 2011 and is anticipated to be a factor in employee negotiations during the fall.
- The District changed to a cafeteria-type health insurance benefit for employees in 2011-12. Employee's contribution increased to 50% of dependent premiums effective July 1, 2013. We received notification from Blue Shield that our plan would not be renewed in December 2014 because of the Affordable Care Act. Blue Shield backed down on the plan cancellation and agreed to extend for one additional year. Employee dissatisfaction and concern over the market volatility caused them to lobby for a move to CalPERS health care whereby they felt there would be more health benefits security. The Board agreed and at this time we are processing the required paperwork.
- Operating expenses in Collections included, unfortunately, a theft of one vehicle and equipment totaling \$83,024. We recorded the replacement of all stolen items in 2014 as a department expense. The insurance recovery was not received until the start of 2014-15 and is recorded as Other Revenue.
- The Carmel Lagoon Water Augmentation Grant was closed out this year. The Department of Fish and Wildlife felt the project presented too many hurdles and risks. Subsequently the settlement funds have been transferred to the California Coastal Conservancy for disbursement and local environmental groups have expressed interest in resurrecting the project. Unfortunately, the drought in California has meant that nearly all of our water is being reclaimed and that there is very little available for habitat restoration.

Economic Factors and Next Year's Budget and Rates

The District's design of Phase I – Long Term Capital Improvement Plan is at 95% complete. As indicated, we anticipate going to bid end of January 2015 and awarding a contract by our March 2015 Board meeting. Currently the engineering construction estimate is \$15.5M. We expect construction to

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commence by summer 2015. Due to careful planning, we will pay cash for this first phase from reserves set aside for this purpose.

Prior to construction of Phase I the Board awarded a contract for \$497,800 to construct a new locker room facility at the plant. It is more cost effective to transition the existing locker room facilities into electrical upgrade and build a new locker room than it is to build an electrical hub. We have set the completion date for the new locker room at June 30, 2015.

We continue to work on improvements in the Collection System as well and anticipate completion of a formal 20 year long term plan by spring 2015. The Carmel Meadows gravity line replacement project is under design as is the Carmel Lagoon force main replacement project. We anticipate working through environmental and permitting issues in 2014-15 and beginning construction on these projects in the summer of 2015.

By any measure we are making great strides in rebuilding and rehabilitating our facilities. As part of the process we anticipated a continued increase in user fees to cover the cost of capital. Our initial plan was to increase the capital component of the rate model by \$250K each year over the next five years, this year was the third year. Because the cost of improvements has expanded to include additional items we are now in the position of having to decide whether we continue to escalate rates beyond the original five year plan; or slow down the timing of improvements. We believe that with the completion of the Collection System 20 year plan we can make a better decision on this issue. The Board originally made the decision to finance improvements on a pay-as-you-go basis and to position us for future ongoing expenditures to maintain both the treatment facilities and the collection system. As of this time, the Board has not made a change to that position.

In addition to the \$15M Long Term Plan at the treatment plant we anticipate challenges in the Carmel Lagoon area that surrounds the treatment plant. The County of Monterey has proposed an Environmental Protection Barrier to protect the areas known as Carmel Point and the 4th Estate. CAWD believes that any barrier may have a negative impact on its facilities and has employed a hydrology firm to examine potential flooding. We believe that we may have to negotiate with the County regarding ongoing sandbar management in the Lagoon to protect our facility. The County has also proposed a Causeway Project under Hwy 1 that could have an impact on our outfall pipe which runs across the Lagoon. We are concerned that if there is enough water moving down the Lagoon channel the velocity, especially during a storm event, could cause our pipe to move off its foundation – therefore given the current condition of the pipe we are currently designing an alternative that will go under the lagoon.

Requests for Information

This financial report is designed to provide an overview of the District'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, P.O. Box 221528, Carmel, CA 93922 or grover@cawd.org.

BASIC FINANCIAL STATEMENTS

CARMEL AREA WASTEWATER DISTRICT
Statements of Net Position
June 30, 2014 and 2013

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*for comparative
purposes only*

Assets	<u>2014</u>	<u>2013</u>
Current Assets		
Cash and investments	\$ 22,680,073	\$ 21,793,086
Accounts receivable	9,789	10,638
Accounts receivable - affiliates	711,697	331,863
Prepaid expenses	60,991	845
Total current assets	<u>23,462,550</u>	<u>22,136,432</u>
Noncurrent Assets		
Capital assets not being depreciated	1,543,050	539,965
Capital assets, net of depreciation	<u>36,845,178</u>	<u>38,463,786</u>
Total noncurrent assets	<u>38,388,228</u>	<u>39,003,751</u>
Other Assets		
Bond issuance costs, net of amortization	<u>48,186</u>	<u>53,045</u>
Total other assets	<u>48,186</u>	<u>53,045</u>
Total Assets	<u><u>\$ 61,898,964</u></u>	<u><u>\$ 61,193,228</u></u>

The accompanying notes are an integral part of these financial statements

CARMEL AREA WASTEWATER DISTRICT
Statements of Net Position
June 30, 2014 and 2013

Page 2 of 2

*for comparative
purposes only*

Liabilities and Net Position	<u>2014</u>	<u>2013</u>
Current Liabilities		
Accounts payable - trade	\$ 126,928	\$ 74,721
Accrued payroll and benefits	95,581	95,891
Accrued bond interest	23,116	24,803
	-	-
Revenue bonds - current	125,000	135,000
Capital lease - current	7,776	22,438
Compensated absences - current	153,533	133,620
Total current liabilities	<u>531,934</u>	<u>486,473</u>
Noncurrent Liabilities		
Amounts due in more than one year:		
Revenue bonds payable	1,655,000	1,780,000
Capital lease	-	7,776
Compensated absences	460,599	400,860
Bond issuance premiums, net of amortization	28,345	31,204
Total noncurrent liabilities	<u>2,143,944</u>	<u>2,219,840</u>
Total liabilities	<u>2,675,878</u>	<u>2,706,313</u>
Net Position		
Invested in capital assets, net of related debt	36,620,293	37,080,378
Unrestricted	22,602,793	21,406,537
Total net position	<u>59,223,086</u>	<u>58,486,915</u>
Total Liabilities and Net Position	<u>\$ 61,898,964</u>	<u>\$ 61,193,228</u>

The accompanying notes are an integral part of these financial statements

CARMEL AREA WASTEWATER DISTRICT
Statements of Revenue, Expenses, and Change in Net Position
Years Ended June 30, 2014 and 2013

	2014	<i>for comparative purposes only</i> 2013
Operating Revenue		
Sewer service fees	\$ 4,855,584	\$ 4,309,198
Treatment fees, PBCSD	1,080,050	1,097,706
CAWD/PBCSD Reclamation Project reimbursements	502,740	471,671
Connection fees	16,165	18,525
Permits and inspection fees	11,211	10,190
Other	-	2,238
Total operating revenue	6,465,750	5,909,528
Operating Expenses		
Sewage collection	1,455,477	1,034,373
Sewage treatment and disposal	5,102,902	4,937,676
General and administrative	1,032,183	1,104,409
CAWD/PBCSD Reclamation Project expenses	502,740	471,672
Total operating expenses	8,093,302	7,548,130
Operating income (loss)	(1,627,552)	(1,638,602)
Nonoperating Revenue (Expenses)		
Property tax revenue	1,529,137	1,569,277
Investment earnings (loss)	83,889	77,982
Highlands Inn assessment revenue	233,688	232,082
Reimbursement from PBSCD for 1/3 share of secondary treatment plant improvements	448,321	63,354
Interest and fiscal expenses	(97,572)	(107,928)
Amortization of bond issuance costs	(4,859)	(4,858)
Amortization of bond premium	2,859	2,858
Other	66,548	103,596
Total nonoperating revenue (expenses)	2,262,011	1,936,363
Income (loss) before capital contributions	634,459	297,761
Capital contributions	101,712	5,119
Change in Net Position	736,171	302,880
Net Position - beginning	58,486,915	58,184,035
Net Position - end of year	\$ 59,223,086	\$ 58,486,915

The accompanying notes are an integral part of these financial statements

CARMEL AREA WASTEWATER DISTRICT
Statements of Cash Flows
Years Ended June 30, 2014 and 2013

Page 1 of 2

*for comparative
purposes only*

Cash Flows Provided By (Used For):

Operating Activities

	2014	2013
Cash received from customers	\$ 6,086,765	\$ 5,789,145
Cash payments for operating supplies	(2,066,103)	(1,848,863)
Cash payments for personnel costs	(3,517,960)	(3,148,064)
Net cash provided (used)	502,702	792,218

Noncapital Financing Activities

Property tax revenue	1,529,137	1,569,277
Highlands Inn assessment revenue	233,688	232,082
Net cash provided (used)	1,762,825	1,801,359

Capital and Related Financing Activities

Purchase of property and equipment	(1,271,233)	(413,756)
Principal paid on capital lease	(22,438)	(21,162)
Interest and fiscal expenses	(99,259)	(109,491)
Principal paid on revenue bonds	(135,000)	(125,000)
Other cash revenue	65,501	108,429
Net cash provided (used)	(1,462,429)	(560,980)

Investing Activities

Investment earnings (loss)	83,889	77,982
Net cash provided (used)	83,889	77,982

Increase (decrease) in cash	886,987	2,110,579
Cash and cash equivalents - beginning	21,793,086	19,682,507
Cash and cash equivalents - end of year	\$ 22,680,073	\$ 21,793,086

Noncash investing and capital activities:

Contribution of capital assets from affiliate	\$ 101,712	\$ 5,119
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The accompanying notes are an integral part of these financial statements

CARMEL AREA WASTEWATER DISTRICT
Statements of Cash Flows
Years Ended June 30, 2014 and 2013

Page 2 of 2

*for comparative
purposes only*

	2014	2013
Operating Activities Analysis		
Operating Income (Loss)	\$ (1,627,552)	\$ (1,638,602)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Add Depreciation noncash expense	2,437,836	2,479,611
Less Capital asset disposals and write-down	-	107,048
Changes in current assets and liabilities:		
(increase) decrease in receivables	849	4,509
(increase) decrease in affiliate receivables	(379,834)	(180,358)
(increase) decrease in prepaid expenses	(60,146)	86,596
increase (decrease) in trade payables	52,207	(97,124)
increase (decrease) in affiliate payables	-	-
increase (decrease) in accrued payroll	(310)	258
increase (decrease) in refundable deposits	-	(5,098)
increase (decrease) in compensated absences	79,652	35,378
Net cash provided (used)	\$ 502,702	\$ 792,218

The accompanying notes are an integral part of these financial statements

CARMEL AREA WASTEWATER DISTRICT
Notes to Financial Statements
June 30, 2014

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 District as follows:

- Note 1 - Defining the Reporting Entity
- Note 2 - Summary of Significant Accounting Policies
- Note 3 - CAWD/PBCSD Reclamation Project
- Note 4 - Cash and Investments
- Note 5 - Receivables
- Note 6 - Capital Assets
- Note 7 - Bond Issuance Costs
- Note 8 - Payables
- Note 9 - Deferred Compensation Plan
- Note 10 - Long-term Debt Obligations
- Note 11 - Postemployment Benefits Other than Pensions
- Note 12 - Defined Benefit Pension Plans
- Note 13 - Risk Management
- Note 14 - New Pronouncements
- Note 15 - Subsequent Events

CARMEL AREA WASTEWATER DISTRICT
Notes to Financial Statements
June 30, 2014

Note 1 - Defining the Reporting Entity

Reporting Entity

The Carmel Area Wastewater District (the District), organized July 8, 1908, is governed under the provisions of the Sanitary District Act of 1923, Health and Safety Code, Section 6400 et seq., as amended. The function of the District is to provide, operate and maintain sewage collection, treatment, and disposal facilities for the properties included within its boundaries and for certain contracted adjacent properties, and supply reclaimed water to the Monterey Peninsula Water Management District.

The District's reporting entity includes all significant operation and revenue sources as determined under the criteria established by the Governmental Accounting Standards Board (GASB). Oversight responsibility is determined on the basis of selection of the governing board, designation of management, ability to significantly influence operations, accountability for fiscal matters, and the scope of public service. The District is exempt from federal income and state franchise taxes.

In March 1969, the District entered into an agreement with the Pebble Beach Community Services District (PBCSD) for treatment and disposal of sewage delivered by PBCSD. It was anticipated that the contract would account for approximately one third of the capacity of the District's treatment plant. PBCSD began delivering sewage to the District in fiscal year 1970-71, and reimburses the District for one third of its treatment and disposal expenses plus a portion of general and administrative expenses as the agreed upon annual fee for service. The agreement has been modified several times over the years, and currently operates under the 1994 amended agreement.

Under the same agreement, PBCSD also reimburses the District for one-third the cost of capital assets purchased or constructed for sewage treatment and disposal as part of the agreed upon annual fee for service. Carmel Area Wastewater District maintains sole ownership of the wastewater treatment plant and related capital assets. PBCSD merely has a contractual "right to use" one-third of the sewage treatment plant's capacity under the terms of the most recent modified 1994 agreement. Accordingly, capital assets are recorded by the District at 100 percent of their historic cost or contributed value, and any expense reimbursements received from PBCSD or other affiliates are recorded as revenue to the District.

Intact sewage systems constructed by real estate developers are completed at no cost to the District. These systems, when accepted by District engineers and the Board of Directors, are recorded as revenue to the District.

Note 2 - Summary of Significant Accounting Policies

Basis of Presentation

The Carmel Area Wastewater District's financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The financial transactions of the District are recorded in a Proprietary Fund type.

Proprietary Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the expenses, including depreciation, of providing goods of services to the general public are recovered through user charges.

CARMEL AREA WASTEWATER DISTRICT
Notes to Financial Statements
June 30, 2014

Enterprise Funds are used to account for operations (1) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (2) where the governing body has decided that periodic determination of revenue earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. CAWD is such an enterprise fund.

Other Agencies

Accounting principles generally accepted in the United State of America require that the reporting entity include (1) the primary government, (2) organizations for which the primary government is financially accountable, and (3) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause that reporting entity's financial statements to be misleading or incomplete. The criteria provided in GASB Statement No. 14 have been considered and there are no agencies or entities, which should be presented with the District.

Presentation

The basic financial statements are prepared using the economic resource measurement focus and the accrual basis of accounting. Accordingly all assets and liabilities (whether current or noncurrent) are included in the statement of net position. The statement of revenue, expenses, and change in net position presents increases (revenue) and decreases (expenses) in total net position. Capital contributions of property and equipment are reported as a separate line item in the statements of revenue, expenses, and change in net position.

Accounts and Records

Records of the District are maintained at its office in Carmel, California. These records include cash receipts and disbursements journals, a general ledger, complete minutes of Board meetings, resolutions, ordinances and files of supporting documents. Investment funds of the District are on deposit with the Monterey County Treasurer's investment pool.

Budgets and Budgetary Accounting

A budget of projected cash receipts and disbursements is prepared to meet the requirements of the Monterey County Auditor and for internal use by the Board of Directors. The budget is used to provide financial guidance to the District and to determine the amount of funds required from user fees and other sources. The only material difference between the budgetary basis and accounting principles generally accepted in the United State of America (GAAP) is depreciation and amortization expense.

Other Significant Accounting Policies are:

Basis of Accounting

The accounting methods and procedures adopted by the District conform to accounting principles generally accepted in the United State of America as applied to governmental enterprises funds. These financial statements are presented in accordance with Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. This Statement provides for; recognition of contributions in the Statement of Revenue, Expenses, and Change in Net Position; inclusion of a Management Discussion and Analysis as required supplementary information; and other disclosure changes.

Cash and Investments

The District maintains an account with the Monterey County Investment Pool, which essentially operates as a demand deposit account. Available cash balances are managed and controlled by the Monterey County Treasurer in pooled investment funds in order to provide safety, liquidity, and high investment returns for all

CARMEL AREA WASTEWATER DISTRICT
Notes to Financial Statements
June 30, 2014

funds. Earnings from these funds are credited to the District's account on a quarterly basis. Assessments in excess of estimated current bond requirements of the District are deposited in the Monterey County account which earns interest based on the fund's prorata share of the cash in the investment fund. The District also maintains financial institution bank accounts for operations and payroll that are FDIC insured up to \$250,000.

Cash and Cash Equivalents

The District considers all highly liquid assets purchased with an original term to maturity of ninety day or less to be cash equivalents.

Restricted Assets

When applicable, certain cash and investments of the District are classified as restricted because their uses are limited by commitments made by the District with participants for the design and construction of sewer facilities or as restricted by bond covenants.

Investment Policy

The District has not adopted their own investment policy but follows the Monterey County Treasurer's investment policy. As such, the Monterey County Treasurer's policy is to invest in any security authorized by Section 53635 of the Government Code of the State of California, and any other Government Code that permits investments in various securities, or participation in investment trading techniques or strategies.

Accounts Receivable

Account receivables considered uncollectible are accounted for using the allowance method. The allowance for doubtful accounts was \$-0- at June 30, 2014.

Net Position

In the statement of net position, such amounts are classified in the following categories:

- Invested in capital assets, net of related debt - this component consists of all capital assets net of accumulated depreciation, and reduced by outstanding debt that is attributable to the acquisition, construction, or improvement of the assets.
- Restricted net position - this component consists of amounts restricted by external creditors, grantors, contributors, or government laws and regulations.
- Unrestricted net position - this component consists of all other net assets that do not meet the definition of "invested in capital assets, net of related debt" or "restricted net assets."

Property, Plant & Equipment

Capital assets are accounted for at historical cost or estimated cost. In accordance with the District's capital assets policy, minor expenditures under \$10,000 for renewals and betterments are charged to expense as incurred. Major expenditures for renewals and betterments are capitalized. In cases where assets are donated to the District, construction costs or estimated market values are recorded on the date received. Costs of assets sold, retired or otherwise disposed of have been eliminated from the accounts, and gains or losses on disposition are included in the operations statement. The cost of normal maintenance and repairs, that do not add to the value of the asset or materially extend lives, are also expensed in the current period.

The cost of property and equipment is depreciated from the date of acquisition, using the straight-line method of depreciation over their estimated useful lives, as follows:

CARMEL AREA WASTEWATER DISTRICT
Notes to Financial Statements
June 30, 2014

<u>Asset Category</u>	<u>Useful Lives</u>
Treatment Plant - structures	30-40 years
Treatment Plant - equipment	12-15 years
Collections - office	40 years
Collections - pump stations	40 years
Disposal Facilities	20-50 years
Sewer and Appurtenances	25-75 years
Other Assets	25-75 years

Bond Issuance Premiums and Issuance Costs

On the statement of net position bond issuance premiums are reported as noncurrent liabilities and are being amortized on the straight-line basis over the bond redemption period. Bond issuance costs are reported as other assets and are being amortized over the term of related debt.

Vacation, Sick Leave, and Other Compensated Absences

The District has recorded an accrual for compensated absences in accordance with the District's policy of paying for unused vacation and sick leave of employees. The District's method of calculating the liability is in accordance with GASB Statement No. 16, except that the additional accruals for salary-related payments associated with the payment of compensation absences, for example the employer's share of pension contributions, social security and medicare taxes, have not been accrued as that amount is not considered significant or material to the financial statements taken as a whole. Compensated vacation and sick leave absences are recorded as expenditures when they are paid. Unpaid vacation and sick leave at year-end is recorded as an expense and a liability when earned by employees. These unpaid amounts will be paid from available resources provided for in future year budgets and are classified as current or noncurrent, based upon expected payment dates.

Maximum vacation accrual is 320 hours. The maximum sick leave accrual, eligible for payment, is 600 hours. Sick leave is earned regardless of length of employment at 4.6 hours per pay period. Employees earn vacation leave as follows:

<u>Time of Employment</u>	<u>Accrual of Vacation Leave per Pay Period*</u>
One to five years	3.1 Hours
Five to ten years	4.6 Hours
Ten to twenty years	6.2 Hours
Twenty-five years or more	7.7 Hours

*Rates of accrual for vacation and sick leave are per pay period; one pay period spans two weeks.

Long-term Obligations

Long-term debt and other obligations, such as capital lease purchase agreements, are reported as liabilities on the statement of net position either as current if debt reduction payments are to be made within 12 months of the fiscal year-end, otherwise as noncurrent.

Operating vs. Nonoperating Revenue and Expenses

Operating revenue and expenses consist of revenue that results from the ongoing principal operations of the District. Operating revenue consists primarily of charges for services. When an expense is incurred for purposes for which there are both restricted and unrestricted net position available, it is the District's policy to apply those expenses to restricted net position to the extent such are available and then to unrestricted net position. Nonoperating revenue, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

CARMEL AREA WASTEWATER DISTRICT
Notes to Financial Statements
June 30, 2014

Property Taxes

Property taxes in the State of California are administered for all local agencies at the County level and consist of secured, unsecured and utility tax rolls. The following is a summary of major policies and practices relating to property taxes:

- Property Valuations - are established by the Assessor of Monterey County for the secured and unsecured property tax rolls; the utility property tax roll is valued by the California State Board of Equalization. Under the provisions of Article XIII A of the State Constitution (Proposition 13, adopted by the voters on June 6, 1978), properties are assessed at 100% of full value. From this base of assessment, subsequent annual increases in valuation are limited to a maximum of 2%. However, increase to full value is allowed for property improvements or upon change in ownership. Personal property is excluded from these limitations and is subject to annual reappraisal.
- Tax Levies - are limited to 1% of full assessed value which results in a tax rate of \$1.00 per \$100 assessed valuation under the provisions of Proposition 13. Tax rates for voter-approved indebtedness are excluded from this limitation.
- Tax Levy Dates - are attached annually on January 1, preceding the fiscal year for which the taxes are levied. The fiscal year begins July 1 and ends June 30 of the following year. Taxes are levied on both real and unsecured personal property. Liens against real estate, as well as the tax on personal property, are not relieved by subsequent renewal or change in ownership.
- Tax Collections - are the responsibility of the Monterey County's tax collector. Taxes and assessments on secured and utility rolls, which constitute a lien against the property, may be paid in two installments: The first is due on November 1 of the fiscal year and is delinquent if not paid by December 10; and the second is due on March 1 of the fiscal year and is delinquent if not paid by April 10. Unsecured personal property taxes do not constitute a lien against property unless the taxes become delinquent. Payment must be made in one installment, which is delinquent if not paid by August 31 of the fiscal year. Significant penalties are imposed by the County for late payments.
- Tax Levy Apportionments - due to the nature of the County-wide maximum levy, it is not possible to identify general-purpose tax rates for specific entities such as the District. Under State legislation adopted subsequent to the passage of Proposition 13, apportionments to local agencies are made by each County auditor-controller based primarily on the ratio that each agency represented of the total County-wide levy for the three fiscal years prior to fiscal year 1979.
- Property Tax Administration Fees - the State of California fiscal year 1990-91 Budget Act authorized Counties to collect an administrative fee for its collection and distribution of property taxes.
- Monterey County bills and collects property taxes and user fees for the District in addition to its own property taxes.

Use of Estimates

Preparing the District'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.

CARMEL AREA WASTEWATER DISTRICT
Notes to Financial Statements
June 30, 2014

Note 3 - CAWD/PBCSD Reclamation Project

The CAWD/PBCSD Reclamation Project (the Project) is a cooperative effort involving the Carmel Area Wastewater District (CAWD), the Pebble Beach Community Service District (PBCSD), the Monterey Peninsula Water Management District (MPWMD), the Pebble Beach Company (PBCo), and the Independent Reclaimed Water Users Group (IRWUG). This cooperative effort did not create a new or separate legal entity. The Project is accounted for as a Proprietary (Enterprise) Fund in the books of the Monterey Peninsula Water Management District, the issuer of the Certificates of Participation, which originally financed the Project. 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 IRWUG.

The Project provides treated or reclaimed wastewater to irrigate golf courses and open space areas in Pebble Beach, which frees up potable water previously used for irrigation. The Project operates on the site of CAWD's existing wastewater treatment plant. The Project includes: a tertiary treatment plant, laboratory facilities, a wastewater distribution system, a storage tank used to distribute the treated wastewater to the receptor sites in Pebble Beach, and irrigation system improvements. Recent improvements include a Microfiltration/Reverse Osmosis facility at CAWD and a reservoir to hold additional reclaimed water at PBCSD. 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 irrigation.

The Project was originally financed in December 1992 by Certificates of Participation in the amount of \$33,900,000 which were executed and delivered at the direction of the MPWMD. Per the issuance agreement, the MPWMD agreed to provide the funds necessary to construct and operate the Project, and own the reclaimed water for the purpose of resale of such water. The PBCo guaranteed payment of construction costs of the Project, plus any operating deficiencies.

Any debt obligations incurred by the MPWMD to finance the Project constitutes limited obligations of MPWMD. These limited obligations are 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, from payments on a Bond Letter of Credit, provided by Bank of America (the credit bank), through a reimbursement agreement between PBCo and the credit bank.

Phase 1 Construction of the Project began in January 1993, and was completed in October 1994. The Project assets are owned principally by CAWD and PBCSD, and consist primarily of the following:

Assets owned by CAWD include the following:

- new tertiary treatment plant
- secondary process improvements
- new laboratory facilities
- reclaimed water pump station
- related computer equipment
- small portion of the reclaimed water pipeline

Assets owned by PBCSD include the following:

- approximately seven miles of reclaimed water distribution system pipelines
- 2.5 million gallon storage tank
- portable water pump station
- reclaimed water booster pump station

In 2004, the elected Board of Directors of the Carmel Area Wastewater District, the Monterey Peninsula Water Management District, the Pebble Beach Community Services District, and the Pebble Beach

CARMEL AREA WASTEWATER DISTRICT
Notes to Financial Statements
June 30, 2014

Company approved agreements that enabled a significant expansion of the Project's operations known as Phase 2.

The goal of the expansion was to enable the golf courses to be fully dependent on recycled water, thus saving a significant amount of potable water. The expansion was partially funded from the sales of Pebble Beach Company's legal water entitlement agreements to Del Monte Forest residential property owners, currently available at \$250,000 per acre foot. At June 30, 2014 approximately \$27 million had been raised through these sales and investment earnings, where they were deposited in a restricted escrow account.

The agreements commit the Pebble Beach Company and the Independent Reclaimed Water Users (the unincorporated association of the owners of Cypress Point Golf Club, Poppy Hills Golf Course, and the Monterey Peninsula Country Club) to use and pay for recycled water for irrigation, and make provisions for the beneficial use of any surplus recycled water.

The Project began construction on the Forest Lake Reservoir in 2004 with completion in 2006. Total cost of the reservoir component of the expanded project was approximately \$13 million. Upon completion of the reservoir, PBCSD began the application process with the California Division of Safety of Dams to increase the permitted capacity from 320 acre feet to 370 acre feet.

Design began in 2006 for the micro-filtration/reverse osmosis (MF/RO) treatment component, along with implementation of a pilot project at Carmel Area Wastewater District's treatment facility. Construction commenced in October 2006 on the MF/RO plant. At June 30, 2009 the entire construction project was complete. Total cost of the MF/RO portion was approximately \$21.5 million. The combined improvements are expected to solve water quality issues experienced by the golf courses and should eliminate their use of potable water except in case of emergency. Year-round production is now possible with the Forest Lake Reservoir providing *peak demand* requirements.

Note 4 - Cash and Investments

Cash and investments at fiscal year-end are classified in the accompanying financial statements as follows:

Statement of Net Position	
Cash and investments	\$ 22,680,073
Cash and investments are comprised of the following:	
Deposits with financial institutions:	
Checking accounts	\$ 131,859
State investment pool	1,104,795
Monterey County investment pool	21,443,419
	\$ 22,680,073

Participation in an external County Investment Pool

The District is a voluntary participant in the external Monterey County Investment Pool, which is regulated by the California Government Code and by the County's investment policy. The objectives of the policy are, in order of priority: safety, liquidity, yield and public trust. Interest earnings from these funds are credited to the District's account on a quarterly basis. According to the Monterey County Treasurer, their 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. As of June 30, 2014, the County Pool had approximately \$1 billion in investments. Detailed information and annual reports concerning the County's investment pool can be obtained from the Monterey County Auditor/Controller, PO Box 390, Salinas, CA 93902.

CARMEL AREA WASTEWATER DISTRICT
Notes to Financial Statements
June 30, 2014

Participation in an external State Investment Pool

The District is a voluntary participant in the Local Agency Investment Fund (LAIF). LAIF, established in 1977, is regulated by California Government Code Section 16429 and under the day to day administration of the California State Treasurer. There is a five member Local Investment Advisory Board that is chaired by the State Treasurer. LAIF determines fair value of its investment portfolio based on market quotations for those securities where market quotations are readily available, and on amortized cost or best estimate for those securities where market value is not readily available. LAIF is part of the Pooled Money Investment Account (PMIA) and under the control of the State Treasurer's Office, which is audited by the Bureau of State Audits on an annual basis. As of June 30, 2014, PMIA had approximately \$63 billion in investments. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Audited financial statements of PMIA may be obtained from the California State Treasurer's web site at www.treasurer.ca.gov.

Investments Authorized by the Project's Investment Policy

The District does not have a specific investment policy but generally follows the guidelines of Monterey County's Investment Policy.

All funds invested are managed to meet the guidelines stated in both California Code Section 53600, et. seq. and the County's investment policy. The following County Investment Pool guidelines and directives are generally followed by management:

- The legal, final maturity of any single security within the investment portfolio will not exceed five years at purchase.
- The *weighted average life* of the portfolio will not exceed two years.
- The maximum maturity of investments in a money market pool shall not exceed 397 days, and the weighted maturity average maturity of the pool shall not exceed 90 days. A money market pool shall not exceed 10% of the portfolio's book value on the date investments are made; maximum investment in all money market pools shall not exceed 20% of the portfolio's book value on the date that investments are made.

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 District's investments to market interest rate fluctuations is provided by the following table that shows the maturity date and yield of each investment:

		<u>Maturity Date and Yield</u>
Monterey County investment pool	\$ 21,443,419	15 months average maturity, 0.52% yield
State investment pool	1,104,795	7.7 months average maturity, 0.228% yield

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.

CARMEL AREA WASTEWATER DISTRICT
Notes to Financial Statements
June 30, 2014

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. At year end, 95% of the District's cash was invested with the Monterey County Investment Pool.

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 District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. At June 30, 2014, the District had \$539,207 in financial institutions that was not covered by the FDIC, but was 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.

Note 5 - Receivables

Receivables at year end consist of the following:

California Dept of Parks & Recreation	\$ 8,068
User fees	1,721
total trade receivables	<u>\$ 9,789</u>
CAWD/PBCSD Reclamation Project	\$ 82,927
Pebble Beach CSD - User fees	180,450
Pebble Beach CSD - Capital	448,320
total affiliate receivables	<u>\$ 711,697</u>

CARMEL AREA WASTEWATER DISTRICT
Notes to Financial Statements
June 30, 2014

Note 6 - Capital Assets

Capital assets activity for the year consists of the following:

	Beginning Balance	Additions/ Completions	Retirements/ Adjustments	Ending Balance
<i><u>Non-depreciable Assets</u></i>				
Land and land rights	\$ 308,060	\$ -	\$ -	\$ 308,060
Construction-in-progress	231,905	1,003,085	-	1,234,990
totals	<u>539,965</u>	<u>1,003,085</u>	<u>-</u>	<u>1,543,050</u>
<i><u>Depreciable Assets</u></i>				
Treatment structures	50,375,465	25,537	-	50,401,002
Treatment equipment	6,366,693	422,317	-	6,789,010
Collection pump stations	817,536	154,670	-	972,206
Collection office	49,907	-	-	49,907
Collection pump equipment	702,111	30,544	-	732,655
Sewers and appurtenances	10,559,170	92,240	-	10,651,410
Disposal facilities	1,126,272	1	-	1,126,273
Other assets	3,497,266	42,437	-	3,539,703
totals	<u>73,494,420</u>	<u>767,746</u>	<u>-</u>	<u>74,262,166</u>
<i><u>Accumulated Depreciation</u></i>	<u>(35,030,634)</u>	<u>(2,386,354)</u>	<u>-</u>	<u>(37,416,988)</u>
Total Capital Assets, net	<u>\$ 39,003,751</u>	<u>\$ (615,523)</u>	<u>\$ -</u>	<u>\$ 38,388,228</u>

In the statement of revenue, expenses, and change in net position, depreciation expense for the year was charged to the following departments:

Sewage collection	\$ 316,459
Sewage treatment and disposal	2,087,285
General and administrative	34,092
Other - adjustments, sales, disposals, write-downs	(51,482)
	<u>\$ 2,386,354</u>

Note 7 - Bond Issuance Costs

Bond issuance costs in the amount of \$97,166 are reported net of accumulated amortization of \$48,980 on the statement of net assets, and are being amortized over the life of the related debt in the amount of \$4,858 per year.

CARMEL AREA WASTEWATER DISTRICT
Notes to Financial Statements
June 30, 2014

Note 8 - Payables

Payables at year end consist of the following:

Consultants and Engineering	\$	111,143
Legal and Accounting		7,984
Utilities		1,019
Other Vendors		6,782
		6,782
	\$	126,928

Note 9 - Deferred Compensation Plan

The District has a deferred compensation plan for its eligible employees wherein amounts earned by the employees are paid at a future date. All full-time, regular, salaried employees are permitted to participate in the plan beginning on the first day of the month following their hire date. The employee may elect to make contributions up to the limits established by the Internal Revenue Service for this type of plan, and becomes 100% vested from the first date of participation. Nationwide Retirement Solutions, Inc., and the Variable Annuity Life Insurance Company, administers the plan, which is in conformity with Section 457 of the Internal Revenue Code.

Note 10 - Long-term Debt Obligations

Capital Lease Purchase

The District entered into a lease purchase agreement for the acquisition of an Ion Chromatograph in the amount of \$102,106, beginning November 2009 and maturing in October 2014. Principal and interest payments are \$1,968 per month at 5.87% per annum. The CAWD/PBCSD Reclamation Project will reimburse the District for all lease costs. The schedule of future minimum lease payments due, together with the present value of the minimum lease payments, is as follows:

<u>Year Ending June 30,</u>		<u>Annual</u>
2015		<u>Payments</u>
Total minimum lease payments		\$ 7,872
Less: amount representing interest		7,872
Present value of future minimum lease payments		(96)
		\$ 7,776

Compensated Absences

The accrued compensated absences amounts will be paid from available resources and are classified as current or noncurrent, based upon expected payment dates.

Bond Premium

Bond issuance premiums in the amount of \$57,166 are reported net of accumulated amortization of \$28,821 on the statement of net assets, and are being amortized over the life of the related debt in the amount of \$2,858 per year.

Revenue Bonds

In 2004, the District issued \$3,000,000 in *California Statewide Communities Development Authority Water and Wastewater Revenue Series 2004-A* bonds through a pooled financing program for the design, planning,

CARMEL AREA WASTEWATER DISTRICT
Notes to Financial Statements
June 30, 2014

and construction of sewer facilities for certain properties of the Carmel Highlands area. The District has signed agreements with (1) the Highlands Inn, (2) the Highlands Sanitary Association (which is comprised of eleven individual owners as members) and (3) the Tickle Pink Inn, to be reimbursed through sewer user fees for all the annual costs associated with the bonds including, but not necessarily limited to, installment payments of principal and interest on the bonds, debt service or administrative fees, and costs or obligations for which the District is obligated to make under the terms of the bond agreement. The sewer user fees and reimbursable costs generated from the customers in the Carmel Highlands area are assessed and included on the Monterey County secured property tax rolls, and submitted by the District periodically, as is the same payment program with all District wastewater customers. Principal on the bonds is payable annually beginning October 1, 2004. Interest is payable semi-annually on October 1 and April 1, beginning October 1, 2004.

The interest rates on the bonds range from 1.5% to 5.25%; the bonds mature on October 1, 2024. The bond agreement contains a covenant requiring the District to yield "system net revenues" during each fiscal year equal to a least 120% of the annual debt service in the fiscal year. The covenant has been met.

Scheduled Payments

Future annual principal and interest requirements are as follows:

Year Ending June 30,	Revenue Bonds, Series 2004-A		
	Principal	Interest	Total
2015	\$ 125,000	\$ 89,338	\$ 214,338
2016	130,000	82,963	212,963
2017	140,000	76,213	216,213
2018	145,000	68,906	213,906
2019	150,000	61,163	211,163
2020-2024	885,000	174,431	1,059,431
2025	205,000	5,380	210,380
totals	\$ 1,780,000	\$ 558,394	\$ 2,338,394

Long-term Debt Activity for the year was as follows:

<u>Business-type Activities</u>	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue bonds	\$ 1,915,000	\$ -	\$ (135,000)	\$ 1,780,000	\$ 125,000
Capital lease purchase	30,214	-	(22,438)	7,776	7,776
Compensated absences	534,480	79,652	-	614,132	133,620
Bond premium, net	31,204	-	(2,859)	28,345	-
totals	\$ 2,510,898	\$ 79,652	\$ (160,297)	\$ 2,430,253	\$ 266,396

Note 11 - Postemployment Benefits Other than Pensions

Plan Description

In September 2002, the District established a postemployment health plan (PEHP) to meet its employees' postemployment health care needs and expenses. Under the PEHP plan, Nationwide Retirement Solutions

CARMEL AREA WASTEWATER DISTRICT
Notes to Financial Statements
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Company (NRS) provides administrative services in exchange for a fee as agreed upon by the District and NRS. The plan does not establish a long-term liability of the District.

All employees are permitted to participate in the plan beginning on the first day of the month following their hire date. The District contributes 1% to the plan on a periodic basis on behalf of each eligible employee who is a plan participant. In June 2004, the plan was amended to provide for the deposit of the dollar equivalent of up to 500 hours of available accrued sick time for an employee into his/her account upon separation from service with the District. Amounts contributed are segregated to either one or both of the following subaccounts for: (1) reimbursements of qualifying medical care expenses not paid by insurance or (2) reimbursement of health care insurance premiums. Contributions may not vary among eligible employees to fund the qualifying medical care expense subaccount and will be made as an equal dollar amount for each employee. Contributions to fund health care insurance premium subaccounts may be made as an equal dollar amount or as a percentage of salary, but such percent or dollar amount must apply to all eligible employees. For the year ended June 30, 2014 the District contributed \$19,995 to the plan.

Note 12 - Defined Benefit Pension Plans

The District has two defined benefit pension retirement plans established as follows:

- Plan 1 - single employer defined benefit pension plan
- Plan 2 - defined benefit pension plan with CalPERS (multiple employer risk pool)

PLAN 1 - Single Employer Defined Benefit Pension Plan

Effective October 29, 2005, the District placed a contribution freeze on its single employer defined benefit pension plan and adopted a new defined benefit pension plan with CalPERS. Employees will no longer accrue service credits under the single employer defined benefit plan, and the plan will not accept new employees. However, the District will continue funding the current plan to cover prior service, and the current plan will be paid out as eligible employees (i.e. those hired prior to October 29, 2005) leave District employment.

Plan Description and Provisions

The District maintains a single employer defined benefit pension plan that covers all full time employees as they become eligible for participation. An employee becomes eligible after six months of service and attaining the age of 20.5. The amounts of pension benefits are based on length of services and compensation. Premiums are paid into a trust, which is administered by LPL Financial (Linsco/Private Ledger). The District makes all required payments on behalf of its eligible employees.

The plan provides for a fixed benefit upon reaching normal retirement at age 62 or after five years of participation, if later. The normal retirement benefit is 2.5% of monthly compensation times years of services at the termination date. An employee's pre-retirement death benefit is equal to the present value of their accrued benefit.

Effective July 1, 2001, the plan was amended for *participants*, defined as any employee who has completed one or more years of service, to vest under the following schedule:

CARMEL AREA WASTEWATER DISTRICT
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June 30, 2014

<u>Years of Service</u>	<u>Vesting</u>
1 year	10%
2 years	25%
3 years	50%
4 years	75%
5 or more years	100%

Contributions Required and Contributions Made

The District's funding policy is to provide for employer contributions once a year. Contributions are actuarially determined under the aggregate actuarial cost method and are designed to accumulate sufficient assets to pay benefits when due. Although service credit to the plan has stopped, employees will only be able to draw their pension account upon separation from District employment. The existing plan has been closed to any new employees, effective October 29, 2005. Employer contributions to the plan for the year ended June 30, 2014 were \$332,640 and were made in accordance with the contribution requirements determined by actuarial valuation of the plan year beginning July 1, 2004. Additional information concerning this Single Employer Defined Benefit Pension Plan can be obtained from the District's principal accountant.

Schedule of Funding Progress - Plan 1

Significant actuarial assumptions used in determining the pension benefit obligation include: (a) rate of return on the investment of present and future assets of 7% per year compounded annually to retirement, (b) rate of return of 6.25% per year compounded annually after retirement, and (c) the assumption that benefits will not increase after retirement. The following valuation reports the activity of the plan as a whole, and not the specific activity of the individual District employees. Trend information for the three years presented is designed to provide information about the District's progress made in accumulating sufficient assets to pay benefits when due, shown as follows:

Schedule of Funding Progress (unaudited)			
	Actuarial Valuation Date - Year Ended		
	June 30, 2011	June 30, 2012	June 30, 2013
Accrued Liabilities (AL)	\$ 4,972,352	\$ 4,355,813	\$ 4,323,592
Actuarial Value of Assets (AVA)	4,705,905	4,809,081	4,799,165
Unfunded (Overfunded) Liabilities (UL)	266,447	(453,268)	(475,573)
Funded Ratio (AVA/AL)	95%	110%	111%
Annual Covered Payroll	1,426,712	1,276,217	1,196,845
UL as a % of Payroll	19%	-36%	-40%

Information for the years ended June 30, 2012 and 2013 reflects an improved funding position of the plan. The gains were primarily due to terminations prior to normal retirement, offset by a loss from investment performance less than expected during the 2011-12 plan year. The original intent in 2005 when the District transferred to CalPERS was to fully fund the SAM plan within 8 years of by 2013. As of June 30, 2012 the plan on a "frozen plan" basis was 111% funded; however on an "on-going plan" basis that would project salary data to the anticipated date of termination, therefore the plan was 93% funded. The plan continues to assume an annual investment yield of 7.0%, net of plan expenses, prior to retirement although that yield has proven to be optimistic over the last few years.

CARMEL AREA WASTEWATER DISTRICT
Notes to Financial Statements
June 30, 2014

PLAN 2 - Defined Benefit Pension Plan, California Public Employees Retirement System

Plan Description

Effective October 29, 2005, the District contributes to the California Public Employees Retirement System (CalPERS), an agent multiple-employer public employee defined benefit pension plan. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by State statute and District ordinance. Copies of CalPERS annual financial report may be obtained from their Executive Office, 400 "P" Street, Sacramento, California 95814.

Funding Status and Progress

Employee members are generally required to contribute between 6.25% and 7% of their annual covered salary depending upon date of hire. The District makes partial contributions required of District employees on their behalf and for their account depending upon date of hire. The required employer contribution rates for fiscal year 2013-14 were between 6.25% and 8% of their annual covered salary depending upon date of hire. The contribution requirements of plan are established and may be amended by CalPERS.

Annual Pension Cost

The District's annual pension cost of \$275,932 to CalPERS was equal to the District's required and actual contributions. The required contribution was determined as part of the June 30, 2011 actuarial valuation using the entry age normal actuarial cost method.

The actuarial assumptions included:

- a 7.75% investment rate of return (net of administrative expenses).
- projected salary increases of 3.55% to 14.45% depending on age, service, and type of employment.
- an inflation rate of 3.0%.
- a payroll growth rate of 3.25%.
- individual salary growth - a merit scale varying by duration of employment coupled with an assumed annual inflation growth rate of 3.00% and an annual production growth of 0.25%.

The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a fifteen-year period (smoothed market value).

The contribution rate for normal cost is determined using the entry-age normal actuarial cost method, a projected benefit cost method. It takes into account those benefits that are expected to be earned in the future as well as those already accrued. Significant actuarial assumptions used in the 2011 valuations to compute the actuarially determined contribution requirement are the same as those used to compute the pension benefit obligation as described above.

Schedule of Funding Progress - Plan 2

Since the District has less than 100 active members in the plan, it is required by CalPERS to participate in a "Cost Sharing Risk Pool." GASB does not require that supplementary information for cost sharing risk pools be reported in employers' financial statements. However District management believes this information is particularly useful to users of this financial statement report because CalPERS has estimated *Plan Specific Information* of the District as follows:

CARMEL AREA WASTEWATER DISTRICT
Notes to Financial Statements
June 30, 2014

Schedule of Funding Progress (unaudited)

Valuation Date	Accrued Liability (AL)	Share of Pool's Market Value of Assets (MVA)	Plan's Share of Pool's Unfunded Liability	Funded Ratio
6/30/2011	\$2,246,433	\$ 1,878,958	\$ 367,475	83.6%
6/30/2012	\$2,549,434	\$ 2,034,807	\$ 514,627	83.6%

Historical Trend Information

Three-year trend information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due.

Three-Year Trend Information for Plan 2 - CalPERS

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2011-12	\$288,293	100%	\$ -0-
2012-13	\$283,913	100%	\$ -0-
2013-14	\$245,058	100%	\$ -0-

Note 13 - Risk Management

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. This policy covers solely the District's property and equipment located at 26900 State Route 1 in Carmel, California, and not property and equipment owned by the Pebble Beach Community Services District or the Monterey Peninsula Water Management District that may be physically located on CAWD property.

The District is a member of the California Sanitation Risk Management Authority (CSRMA), an established public entity risk pool that operates as a common risk management and insurance program for 60 government members. The District pays an annual premium to the pool for its workers' compensation, excess workers compensation, property, and general coverages.

Risk of loss is retained for general liability claims with a \$10,000 deductible. 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.

The District paid \$59,101 for workers compensation and \$90,671 for property and liability premiums during the fiscal year. The District's share of CSRMA year-end assets, liabilities, and retained earnings has not been calculated by the CSRMA.

Health Life and Vision Insurance - the District has approved a group health insurance plan, which provides benefits for all qualified employees.

Dental Insurance - the District has elected to self insure for dental insurance under a reimbursement plan. The amount of the contingent liability, if any, at fiscal year end is not material, however, the District is not aware of any significant claims currently pending.

CARMEL AREA WASTEWATER DISTRICT
Notes to Financial Statements
June 30, 2014

Note 14 - New Pronouncements

Governmental Accounting Standards Board Statement No. 67, *Financial Reporting for Pension Plans*: The Statement revises existing standards of financial reporting for most pension plans. The Statement establishes a definition of a pension plan that reflects the primary activities associated with the pension arrangement – determining pensions, accumulating and managing assets dedicated for pensions, and paying benefits to plan members as they become due. This Statement is effective for periods beginning on or after June 15, 2013.

Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions*:

The Statement revises existing standards of financial reporting for most governments that provide their employees with pension benefits. The Statement establishes reporting requirements of the net pension plan liability in the government-wide financial statements, how to measure pension liabilities, and presentation of the financial information and disclosures related to the employer. This Statement is effective for periods beginning on or after June 15, 2014.

Governmental Accounting Standards Board Statement No. 69, *Government Combinations and Disposals of Government Operations*:

The Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations, and clarifies the terms *mergers*, *acquisitions*, and *transfers of operations*. This Statement is effective for periods beginning on or after December 15, 2013.

Governmental Accounting Standards Board Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*:

The Statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. This Statement is effective for periods beginning on or after June 15, 2013.

Note 15 - Subsequent Events

The management of the District has reviewed the results of operations for the period from its year end June 30, 2014 through October 20, 2014, 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.

SUPPLEMENTARY INFORMATION

**CARMEL AREA WASTEWATER DISTRICT
SCHEDULE I - REVENUE AND EXPENSES
BUDGET TO ACTUAL - BUDGETARY BASIS
Year Ended June 30, 2014**

	Final Budget	Actual	Variance Favorable (Unfavorable)
<u>Operating revenue:</u>			
Sewer service fees	\$ 4,619,129	\$ 4,855,584	\$ 236,455
PBCSD treatment fees	1,000,000	1,080,050	80,050
CAWD/PBCSD Wastewater Reclamation			
Project O&M reimbursements	481,422	502,740	21,318
Connection fees	5,000	16,165	11,165
Permits and inspection fees	5,000	11,211	6,211
Other operating revenue	-	-	-
Total operating revenue	<u>6,110,551</u>	<u>6,465,750</u>	<u>355,199</u>
<u>Operating expenses:</u>			
Sewage collection	1,370,655	1,139,018	231,637
Sewage treatment and disposal	5,342,045	3,015,617	2,326,428
General and administrative	1,150,585	998,091	152,494
CAWD/PBCSD reclamation Project expenses	481,422	502,740	(21,318)
Depreciation expense	2,555,100	2,437,836	117,264
Total operating expenses	<u>10,899,807</u>	<u>8,093,302</u>	<u>2,806,505</u>
Operating loss	<u>(4,789,256)</u>	<u>(1,627,552)</u>	<u>3,161,704</u>
<u>Non-operating revenue and (expenses):</u>			
Investment revenue	70,000	83,889	13,889
Property tax revenue	1,436,225	1,529,137	92,912
Highlands assessment revenue	230,838	233,688	2,850
Reimbursement from PBCSD for 1/3 share of secondary treatment plant improvements	1,775,062	448,321	(1,326,741)
Interest expense	(97,014)	(97,572)	(558)
Amortization of bond issuance costs	(4,860)	(4,859)	1
Amortization of bond premium	2,800	2,859	59
Other non-operating revenue (expenses)	749,185	66,548	(682,637)
Total non-operating revenue and (expenses)	<u>4,162,236</u>	<u>2,262,011</u>	<u>(1,900,225)</u>
Net income (loss)	<u>\$ (627,020)</u>	<u>\$ 634,459</u>	<u>\$ 1,261,479</u>

**CARMEL AREA WASTEWATER DISTRICT
SCHEDULE II - OPERATING EXPENSES
Year Ended June 30, 2014**

	Sewage Collection	Sewage Treatment & Disposal	General & Administrative	CAWD/PBCSD Wastewater Reclamation Project	Total
Salaries & wages	\$ 359,006	\$ 979,170	\$ 454,704	\$ 450,195	\$ 2,243,075
Payroll taxes	25,102	95,611	31,930	-	152,643
Employee benefits	134,598	482,001	177,745	-	794,344
Allocate to Reclamation	-	-	-	28,338	28,338
Amortization	-	-	-	-	-
Attorney fees	-	5,843	44,385	-	50,228
Audit and financial	-	-	19,000	-	19,000
Contractual services	129,459	271,605	88,984	84	490,132
Depreciation	316,459	2,087,285	34,092	-	2,437,836
Director's fees	-	-	19,848	900	20,748
Engineering	-	126,832	-	-	126,832
Insurance	16,892	46,810	10,413	7,707	81,822
Laundry	4,869	10,820	-	-	15,689
Memberships & subscriptions	1,504	5,613	21,370	-	28,487
Office supplies & services	6,718	43,031	14,470	-	64,219
Operating supplies	78,906	234,799	1,810	15,516	331,031
Repairs & maintenance	294,645	394,456	23,145	-	712,246
Telephone	7,991	15,373	7,799	-	31,163
Travel & meetings	12,964	49,708	9,404	-	72,076
Truck & auto	41,822	9,560	52	-	51,434
Utilities	19,883	205,400	6,970	-	232,253
Other	4,659	38,985	66,062	-	109,706
Totals, by department	<u>\$ 1,455,477</u>	<u>\$ 5,102,902</u>	<u>\$ 1,032,183</u>	<u>\$ 502,740</u>	<u>\$ 8,093,302</u>

**CARMEL AREA WASTEWATER DISTRICT
SCHEDULE III - OPERATING EXPENSES
BUDGET TO ACTUAL - *BUDGETARY BASIS*
SEWAGE COLLECTION
Year Ended June 30, 2014**

	Final Budget	Actual	Variance Favorable (Unfavorable)
Salaries & wages	\$ 376,015	\$ 359,006	\$ 17,009
Payroll taxes	28,850	25,102	3,748
Employee benefits	223,550	134,598	88,952
Allocate to Reclamation	-	-	-
Amortization	-	-	-
Attorney fees	-	-	-
Audit and financial	-	-	-
Contract services	126,150	129,459	(3,309)
Director's fees	-	-	-
Engineering	35,000	-	35,000
Insurance	19,445	16,892	2,553
Laundry	4,400	4,869	(469)
Memberships & subscriptions	1,340	1,504	(164)
Office supplies & services	8,825	6,718	2,107
Operating supplies	39,540	78,906	(39,366)
Repairs & maintenance	74,200	294,645	(220,445)
Telephone	-	7,991	(7,991)
Travel & meetings	13,600	12,964	636
Trucks & autos	58,220	41,822	16,398
Utilities	27,520	19,883	1,861
Other expenses	9,000	4,659	4,341
Totals before GAAP reconciling items	<u>1,045,655</u>	<u>1,139,018</u>	<u>(99,139)</u>
GAAP reconciling items:			
Depreciation	325,000	316,459	8,541
Totals	<u>\$ 1,370,655</u>	<u>\$ 1,455,477</u>	<u>\$ (90,598)</u>

**CARMEL AREA WASTEWATER DISTRICT
SCHEDULE IV - OPERATING EXPENSES
BUDGET TO ACTUAL - *BUDGETARY BASIS*
SEWAGE TREATMENT AND DISPOSAL
Year Ended June 30, 2014**

	Final Budget	Actual	Variance Favorable (Unfavorable)
Salaries & wages	\$ 1,079,045	\$ 979,170	\$ 99,875
Payroll taxes	81,405	95,611	(14,206)
Employee benefits	548,195	482,001	66,194
Allocate to Reclamation	-	-	-
Amortization	-	-	-
Attorney fees	4,500	5,843	(1,343)
Audit and financial	-	-	-
Contract services	345,580	271,605	73,975
Director's fees	-	-	-
Engineering	150,000	126,832	23,168
Insurance	49,175	46,810	2,365
Laundry	10,215	10,820	(605)
Memberships & subscriptions	4,300	5,613	(1,313)
Office supplies & services	28,950	43,031	(14,081)
Operating Supplies	244,540	234,799	9,741
Repairs & maintenance	292,750	394,456	(101,706)
Telephone	13,550	15,373	(1,823)
Travel & meetings	29,500	49,708	(20,208)
Trucks & autos	9,225	9,560	(335)
Utilities	212,915	205,400	7,515
Other expenses	38,200	38,985	(785)
Budget Amendments	-	-	-
Totals before GAAP reconciling items	<u>3,142,045</u>	<u>3,015,617</u>	<u>126,428</u>
GAAP reconciling items:			
Depreciation	2,200,000	2,087,285	112,715
Totals	<u>\$ 5,342,045</u>	<u>\$ 5,102,902</u>	<u>\$ 239,143</u>

**CARMEL AREA WASTEWATER DISTRICT
SCHEDULE V - OPERATING EXPENSES
BUDGET TO ACTUAL - *BUDGETARY BASIS*
GENERAL AND ADMINISTRATIVE
Year Ended June 30, 2014**

	Final Budget	Actual	Variance Favorable (Unfavorable)
Salaries & wages	\$ 444,355	\$ 454,704	\$ (10,349)
Payroll taxes	33,990	31,930	2,060
Employee benefits	238,617	177,745	60,872
Allocate to Reclamation	-	-	-
Amortization	-	-	-
Attorney fees	31,000	44,385	(13,385)
Audit and financial	21,500	19,000	2,500
Contract services	101,070	88,984	12,086
Director's fees	21,600	19,848	1,752
Engineering	25,000	-	25,000
Insurance	21,750	10,413	11,337
Laundry (door mats)	-	-	-
Memberships & subscriptions	15,330	21,370	(6,040)
Office supplies & services	14,150	14,470	(320)
Operating Supplies	1,400	1,810	(410)
Repairs & maintenance	14,950	23,145	(8,195)
Telephone	8,300	7,799	501
Travel & meetings	30,200	9,404	20,796
Trucks & autos	350	52	298
Utilities	7,980	6,970	1,010
Other expenses	84,083	66,062	18,021
Totals before GAAP reconciling items	<u>1,115,625</u>	<u>998,091</u>	<u>117,534</u>
GAAP reconciling items:			
Depreciation	30,100	34,092	(3,992)
Totals	<u>\$ 1,145,725</u>	<u>\$ 1,032,183</u>	<u>\$ 113,542</u>

**CARMEL AREA WASTEWATER DISTRICT
SCHEDULE VI - OPERATING EXPENSES
BUDGET TO ACTUAL - *BUDGETARY BASIS*
CAWD/PBCSD RECLAMATION PROJECT
Year Ended June 30, 2014**

	Final Budget	Actual	Variance Favorable (Unfavorable)
Plant salaries, benefits, & overhead	\$ 447,600	\$ 450,195	\$ (2,595)
Administrative salaries	21,922	28,338	(6,416)
Directors fees	900	900	-
Operating supplies & services	10,000	15,516	(5,516)
Repairs & maintenance	1,000	-	1,000
Audit and financial	-	-	-
Insurance	-	7,707	(7,707)
Contractual services	-	84	(84)
Engineering & consulting fees	-	-	-
Total CAWD/PBCSD Wastewater Reclamation Project	<u>\$ 481,422</u>	<u>\$ 502,740</u>	<u>\$ (21,318)</u>

**CARMEL AREA WASTEWATER DISTRICT
SCHEDULE VII - INSURANCE COVERAGE
Year Ended June 30, 2014**

	<u>Coverage</u>	<u>Deductible</u>
Comprehensive AL/GL (including errors and omissions)	\$ 15,750,000	\$2,500 to \$25,000
Excess Public Entity Liability (including errors and omissions - \$5,000,000)	\$ 10,000,000	None
Special Form Property	\$ 59,981,413	\$ 10,000
Workers' Compensation/Employers' Liability	\$ 750,000	None
Excess Workers Compensation/Employers Liability	\$ 1,750,000	None
Commercial Crime Policy	\$ 1,000,000	\$ 10,000

