



Monterey Regional Water Pollution Control Agency

*"Dedicated to meeting the wastewater and reclamation needs
of our member agencies, while protecting the environment."*

Administration Office:
5 Harris Court, Bldg. D, Monterey, CA 93940-5756
(831) 372-3367 or 422-1001, FAX: (831) 372-6178
Website: www.mrwPCA.org

MEETING NOTICE and AGENDA

BUDGET/PERSONNEL COMMITTEE

Gloria De La Rosa, Chair
Lou Calcagno, Carmelita Garcia, Chris Orman and Dave Pendergrass
[Alternate – Ramiro Cortez]

DATE:	Friday, November 19, 2010
TIME:	1:30 p.m.
LOCATION:	Admin Conference Room 5 Harris Court, Building D

PUBLIC COMMENTS

Anyone wishing to address the Committee on matters not appearing on the Agenda may do so now. Comments on any other matter listed on the Agenda are welcome at the time the matter is being considered by the Committee.

A. ACCEPT FY 2009/10 FINANCIAL AUDIT REPORT

(see attachment)

B. UPDATE ON REVIEW OF CAPACITY FEES

(see attachment)

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This Committee Meeting Notice and Agenda was hereby posted at the MRWPCA Administrative offices, 5 Harris Court, Building D, Monterey, California 93940.

POSTED: **Tuesday, November 16, 2010**

BY: */s/ Betty Nebb*
Executive Assistant



Monterey Regional Water Pollution Control Agency

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MEMORANDUM

TO: BUDGET/PERSONNEL COMMITTEE

FROM: JOHN TIERNAN, DIR OF ADMIN SERVICES/DEPUTY GM
(VIA GENERAL MANAGER)

DATE: NOVEMBER 16, 2010

SUBJECT: ACCEPT FY 2009/10 FINANCIAL AUDIT REPORT

BACKGROUND

Enclosed for your review and approval is the 2009/10 Financial Audit Report, prepared by Vavrinek, Trine, Day & Co., LLP, Certified Public Accountants (VTD).

This is the final 2009/10 audit report on the annual financial statements for the Monterey Regional Water Pollution Control Agency. Staff is pleased to notify you that once again this report shows an "unqualified opinion." The auditors found no significant exceptions and, additionally, VTD has advised staff that during this year's audit, nothing has arisen that requires a "Management Advisory Comment" letter. Mr. Leonard Danna will be present at the November 19th meeting to provide a short executive summary, as well as to answer any questions you may have.

RECOMMENDATION:

Staff requests the Budget/Personnel Committee accept the 2009/10 audit report.

Attachment:

MRWPCA Financial Statements/Independent Auditors' Report
Z:\BOARD COMMITTEES\BUDGET-PERSONNEL COMMITTEE\2010\November\BPC Audit 11-19-10.doc

Joint Powers Authority Member Entities:

Boronda County Sanitation District, Castroville Community Services Water District, County of Monterey, Del Rey Oaks, Fort Ord, Marina Coast Water District, Monterey, Moss Landing County Sanitation District, Pacific Grove, Salinas, Sand City, and Seaside.

**MONTEREY REGIONAL WATER
POLLUTION CONTROL AGENCY**

FINANCIAL STATEMENTS

JUNE 30, 2010 and 2009

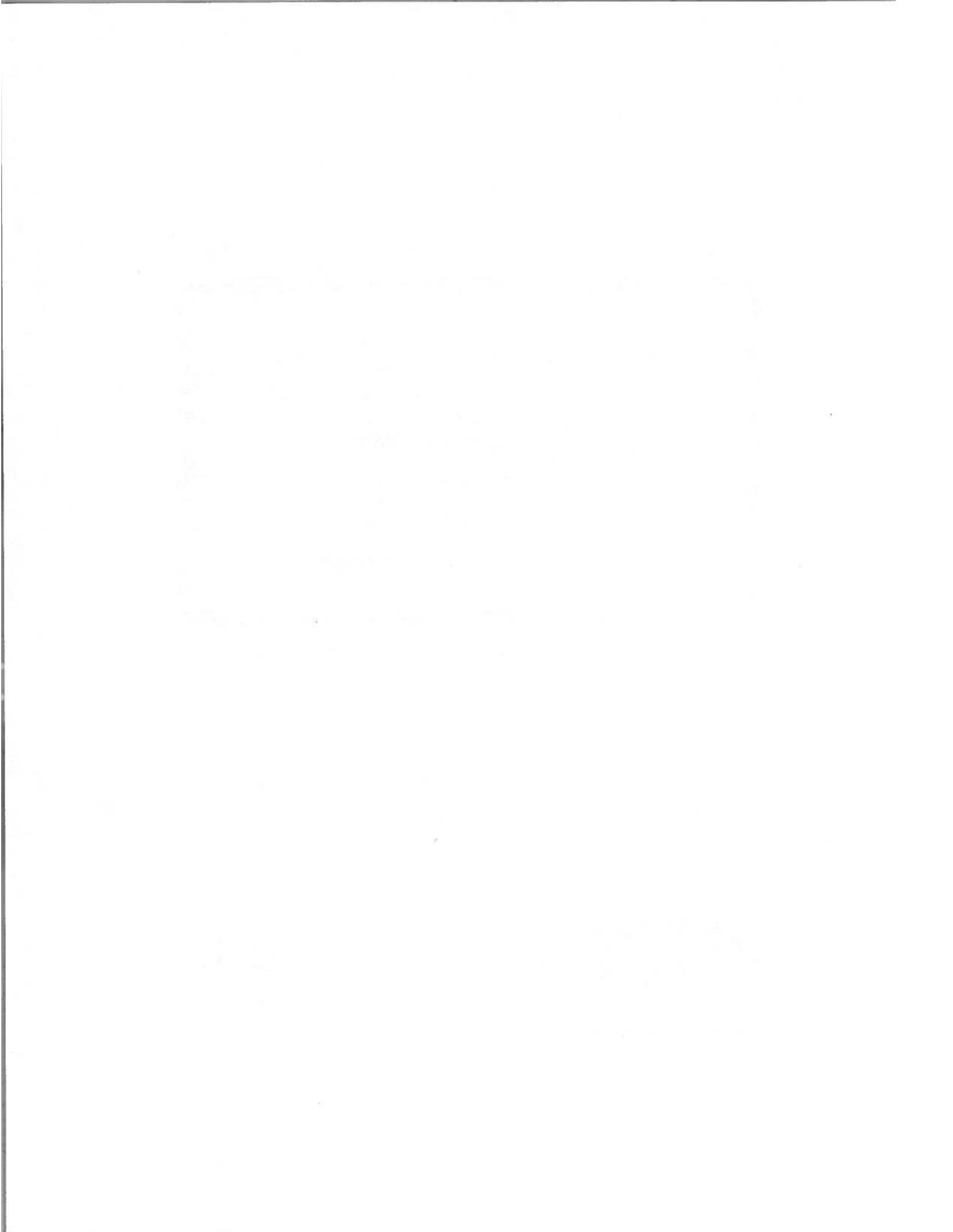
WITH

INDEPENDENT AUDITOR'S REPORT



Vavrinek, Trine, Day & Co., LLP

Certified Public Accountants



MONTEREY REGIONAL WATER POLLUTION CONTROL AGENCY

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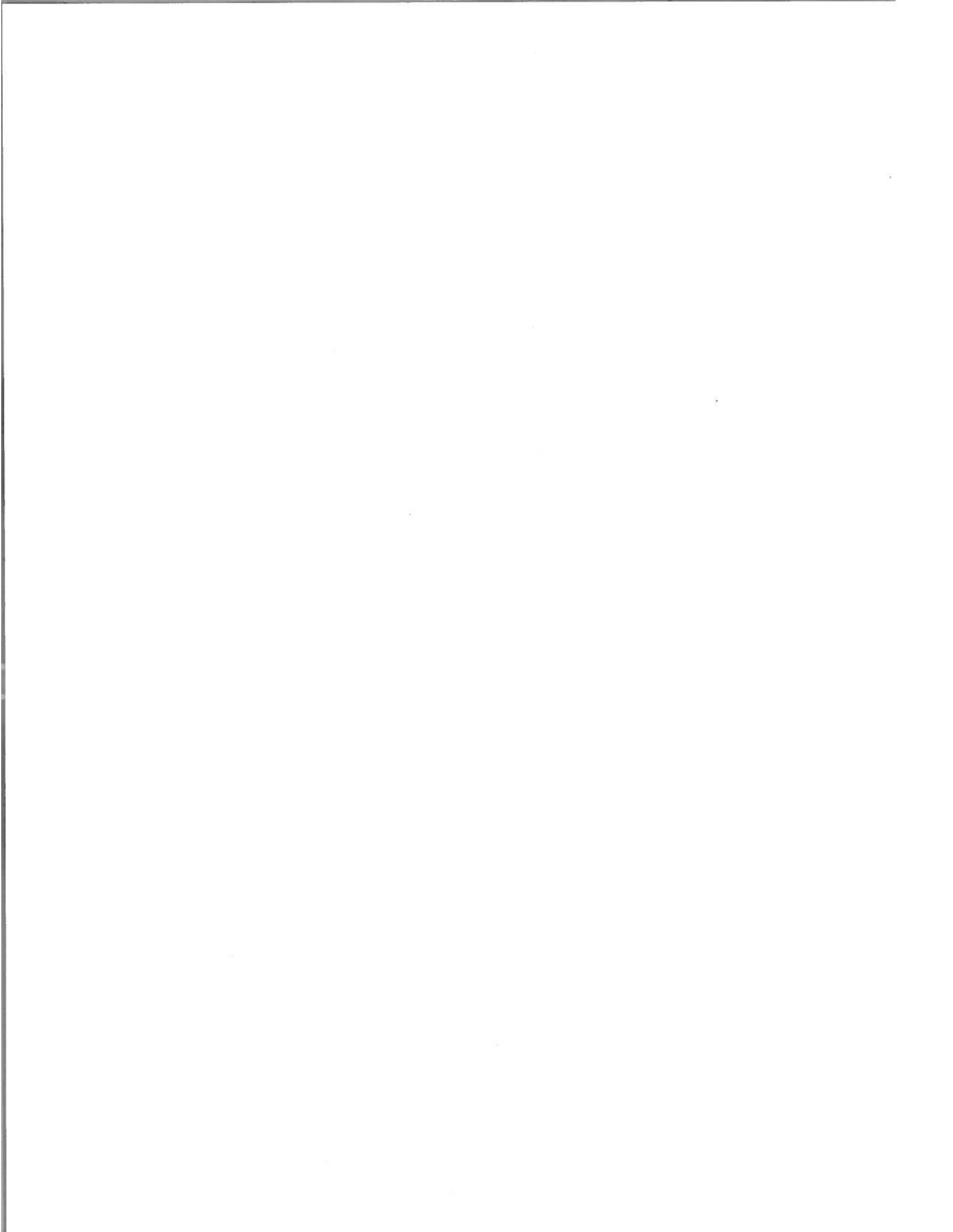
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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Monterey Regional Water Pollution Control Agency
Monterey, California

We have audited the accompanying statements of net assets of the Monterey Regional Water Pollution Control Agency (the Agency) as of June 30, 2010 and 2009, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based upon our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Monterey Regional Water Pollution Control Agency as of June 30, 2010 and 2009, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 15, 2010, on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, and contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The required supplementary information, such as management's discussion and analysis on pages 3 through 12, and budgetary comparison on page 32, is not a required part of the financial statements, but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The supplementary information listed in the table of contents, including the Schedule of Federal Financial Assistance is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Varrinck Trime Day + Co. LLP

Palo Alto, California
November 15, 2010

MONTEREY REGIONAL WATER POLLUTION CONTROL AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2010

This section of Monterey Regional Water Pollution Control Agency's (MRWPCA) annual financial statements presents our discussion and analysis of MRWPCA's financial performance during the fiscal year that ended on June 30, 2010. The intent of the management's discussion and analysis is to provide highlights of the Agency's financial activities. Please read it in conjunction with the Independent Auditor's Report that precedes this section and MRWPCA's financial statements, which follow this section.

Agency's Financial Statements

The Agency functions in a self-supporting governmental enterprise capacity and accounts for the financing of services to the general public on a continuing basis with operating and other costs recovered primarily through user charges. Because of the nature of the Agency's business, all funds are classified as enterprise or proprietary funds, using full accrual accounting, which recognizes business transactions when they occur, regardless of when cash is exchanged.

MRWPCA's financial statements consist of the following parts: Independent Auditor's Report, Management Discussion and Analysis (this section), the basic financial statements (statements of net assets, statements of revenues, expenses, and changes in net assets, statements of cash flows, and notes to financial statements). For comparative purposes, the basic financial statements are presented for the two most recent fiscal years ending June 30, 2010 and June 30, 2009.

The Agency's Operations – an Overview

MRWPCA collects, treats, and recycles wastewater that is discharged from residential, military, commercial, and industrial customers within its service area. MRWPCA is governed by a Board consisting of representatives appointed from its member entities: Del Rey Oaks, Marina, Monterey, Pacific Grove, Salinas, Sand City, Seaside, three County Sanitation Districts or Service Areas, and Monterey County.

Wastewater flows to the MRWPCA's Regional Treatment Plant (RTP) in Marina average approximately 21 million gallons a day. This wastewater is treated to remove solids, is tested for compliance with discharge requirements, and then is either discharged to the Monterey Bay or diverted to a Recycled Water Plant at the same location for further treatment.

The Recycled Water Treatment Plant was constructed adjacent to the RTP and began operation in 1997. The County of Monterey has contracted with the MRWPCA to operate the Recycled Water Treatment Plant as well as the recycled water distribution system. The County of Monterey reimburses the MRWPCA for all operational costs of the Recycled Water Treatment Plant and the distribution system. In addition, the County of Monterey reimburses MRWPCA for the debt service on the two loans (Bureau of Reclamation and State Revolving Loan Fund) which funded the construction of the facility, thus making the two projects cost and revenue neutral for MRWPCA.

During the growing season, nearly all of the water treated at the RTP is diverted to the Recycled Water Plant. Approximately 13,000-acre feet of recycled water suitable for irrigating crops is delivered annually to growers in the Castroville area, which reduces the use of potable (drinking) water.

Through a program of education and inspection, MRWPCA has taken the lead in assisting its member entities in reducing the amount of grease that is discharged through the sewer system. The buildup of grease in sewer lines is a major contributing factor to sewage back-ups and spills.

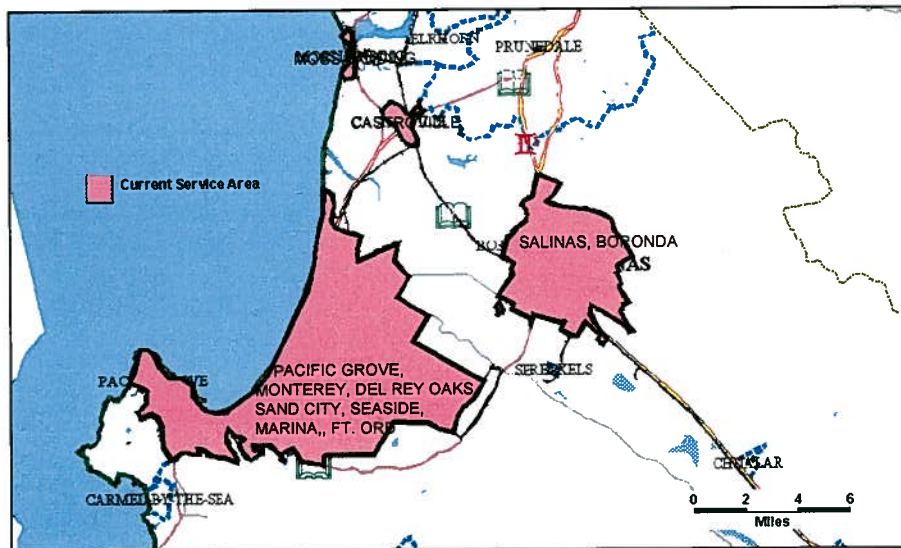
MONTEREY REGIONAL WATER POLLUTION CONTROL AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2010

MRWPCA is currently working with member entities to formulate a regional solution to meet requirements of State mandated storm water regulations. In cooperation with a number of the member entities, MRWPCA is working on a joint urban reclamation project to use recycled water for irrigation of landscaped areas and golf courses within its service area.

MAP OF MRWPCA'S CURRENT SERVICE AREA



FINANCIAL HIGHLIGHTS

- Operating revenues for the fiscal year ended June 30, 2010 were \$154,192 more than operating revenues for the fiscal year ended June 30, 2009. Operating revenues for the fiscal year ended June 30, 2009 were \$432,045 more than operating revenues for the fiscal year ended June 30, 2008.
- Total revenues were \$118,030 less for the fiscal year ended June 30, 2010 when compared to the fiscal year ended June 30, 2009. Total revenues were \$1,117,954 less for the fiscal year ended June 30, 2009 when compared to the fiscal year ended June 30, 2008.
- MRWPCA's operating expenses before depreciation for the fiscal year ended June 30, 2010 were approximately \$354,979 less than for the fiscal year ending June 30, 2009. Operating expenses before depreciation for the fiscal year ended June 30, 2009 were approximately \$618,143 more than for the fiscal year ending June 30, 2008.
- Total expenses were \$890,141 less for the fiscal year ended June 30, 2010, when compared to the fiscal year ended June 30, 2009. Total expenses were \$222,697 more for the fiscal year ended June 30, 2009 when compared to the fiscal year ended June 30, 2008.
- MRWPCA's operating costs and debt-service for the Recycled Water Plant as well as costs for operating the Recycled Water Distribution System were reimbursed by the County of Monterey.

MONTEREY REGIONAL WATER POLLUTION CONTROL AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2010

- Unrestricted cash, cash equivalents, and investments as of June 30, 2010, decreased by \$2,491,054 over the amount reported at June 30, 2009.
- As of June 30, 2010, MRWPCA had long-term debt outstanding totaling \$36,680,155 as compared with \$39,151,934 in long-term debt outstanding at June 30, 2009.
- MRWPCA's total net assets were \$81,790,849 at June 30, 2010, vs. \$83,759,089 at June 30, 2009. Total net assets were \$86,521,055 at June 30, 2008.

REVENUES

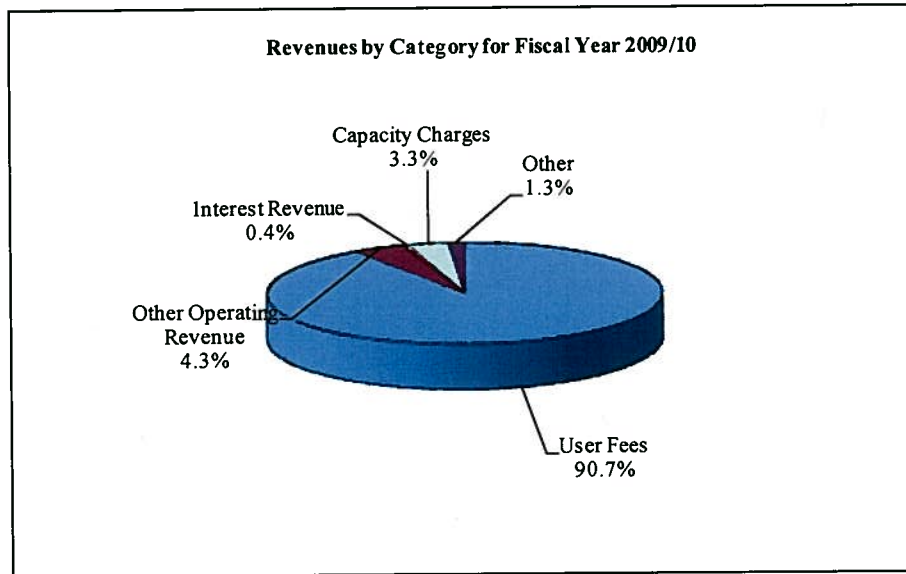
Revenues for the fiscal year totaled \$17,950,851, a decrease of \$118,030 from the prior year. The following table presents a comparison of revenues by category for the three fiscal years 2009/10, 2008/09, and 2007/08 and the amount and percentage of change between fiscal years 2009/10 and 2008/09:

REVENUES BY CATEGORY
For the Fiscal Year Ended June 30, 2010
(With Comparative Totals for the Fiscal Years Ended June 30, 2009 and June 30, 2008)

Revenues by Category	2007/08		2008/09		2009/10		Increase/ (Decrease) from 2008/09	
	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Change
OPERATING REVENUE								
User Fees								
Residential	\$ 10,738,549	55.9%	\$ 11,107,806	61.4%	\$ 11,150,033	62.0%	\$ 42,227	0.4%
Commercial	2,904,920	15.1%	3,048,019	16.9%	3,031,172	16.9%	(16,847)	-0.6%
Industrial	278,494	1.4%	287,797	1.6%	289,802	1.6%	2,005	0.7%
Military	369,403	1.9%	252,360	1.4%	487,553	2.7%	235,193	93.2%
Liquid Waste Haulers-User Fees	405,440	2.1%	357,880	2.0%	362,210	2.0%	4,330	1.2%
Grease Haulers-User Fees	149,516	0.8%	129,988	0.7%	138,980	0.8%	8,992	6.9%
Diluted Oily Wastes-User Fees	106,800	0.6%	208,621	1.2%	88,240	0.5%	(120,381)	-57.7%
Brine Receiving-User Fees	392,382	2.0%	468,839	2.6%	408,683	2.3%	(60,156)	-12.8%
Penalty and Transfer Fees	245,781	1.3%	295,665	1.6%	351,723	2.0%	56,058	19.0%
Total User Fees	15,591,285		16,156,975		16,308,396		151,421	
Other Operating Revenue	900,024	4.7%	766,379	4.2%	769,150	4.3%	2,771	0.4%
Total Operating Revenue	16,491,309		16,923,354		17,077,546		154,192	
NON-OPERATING REVENUE								
Interest Revenue	821,667	4.3%	323,919	1.8%	70,761	0.4%	(253,158)	-78.2%
Capacity Charges	1,691,420	8.8%	639,974	3.5%	588,530	3.3%	(51,444)	-8.0%
Other	202,439	1.1%	201,634	1.1%	234,014	1.3%	32,380	16.1%
Total Non-Operating Revenue	2,715,526		1,165,527		893,305		(272,222)	
TOTAL REVENUES	\$ 19,206,835	100%	\$ 18,088,881	100%	\$ 17,970,851	100%	\$ (118,030)	-0.7%

MONTEREY REGIONAL WATER POLLUTION CONTROL AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2010



Changes in Revenue between 09/10, 08/09 and 07/08:

- ◆ Operating revenue increased \$154,192 in 09/10 and \$432,045 in 08/09 due to the back-billing of military fees in 2009-10 and the Agency increasing user rates in 2008/09..
- ◆ Interest revenue decreased 78.26% or \$253,158 in 09/10. This was the result of a decrease in interest earning cash balances during the year. Interest revenue decreased 60.58% or \$497,748 in 08/09. This was a result of declining interest rates and a decrease in interest earning cash balances.
- ◆ Capacity charges collected decreased by \$51,444 in 09/10. Capacity charges collected decreased by \$1,051,446 in 08/09. MRWPCA bills a capacity charge to customers for new construction, remodels, and category changes. Amounts collected vary from year to year based upon the number of business changes and construction permits issued within our service area. Growth restraints within the area served by MRWPCA, including the availability of water for future development, may have impacts on the collection of capacity charges in the future.

EXPENSES

Total expenses for 2009/10 were \$19,939,091, a decrease of \$890,141 over the prior year. The following tables present a comparison of expenses by category and by department for the three fiscal years 2009/10, 2008/09 and 2007/08, and the amount and percentage of change between fiscal years 2009/10 and 2008/09:

MONTEREY REGIONAL WATER POLLUTION CONTROL AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2010

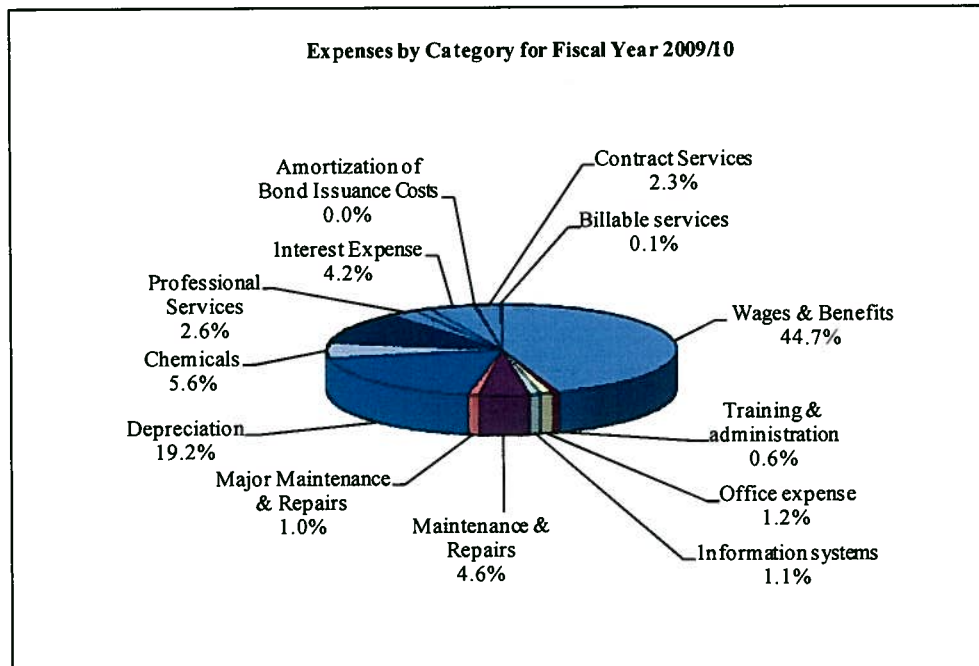
EXPENSES BY CATEGORY
For the Fiscal Year Ended June 30, 2010
(With Comparative Totals for the Fiscal Years Ended June 30, 2009 and June 30, 2008)

Expenses by Category	2007/08		2008/09		2009/10		Increase/(Decrease) from 2008/09	
	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Change
OPERATING EXPENSES								
Wages & benefits	\$ 8,225,949	39.9%	\$ 8,802,854	42.3%	\$ 8,911,826	44.7%	\$ 108,972	1.2%
Training & administration	121,551	0.6%	122,848	0.6%	111,869	0.6%	(10,979)	-8.94%
Office expense	294,171	1.4%	276,239	1.3%	235,515	1.2%	(40,724)	-14.74%
Information systems	182,346	0.9%	187,517	0.9%	220,502	1.1%	32,985	17.59%
Professional services	556,485	2.7%	504,483	2.4%	527,477	2.6%	22,994	4.56%
Operating supplies	270,447	1.3%	360,600	1.7%	301,230	1.5%	(59,370)	-16.46%
Contract services	427,992	2.1%	402,947	1.9%	465,990	2.3%	63,043	15.65%
Chemicals	847,983	4.1%	1,233,715	5.9%	1,107,464	5.6%	(126,251)	-10.23%
Utilities	2,506,534	12.2%	2,483,615	11.9%	2,244,831	11.3%	(238,784)	-9.61%
Maintenance & repairs	850,444	4.1%	794,952	3.8%	910,083	4.6%	115,131	14.48%
Major maintenance & repairs	691,988	3.4%	439,407	2.1%	209,116	1.0%	(230,291)	-52.41%
Billable services	29,473	0.1%	14,329	0.1%	22,624	0.1%	8,295	57.89%
Total Operating Expenses before Depreciation	15,005,363		15,623,506		15,268,527		(354,979)	
DEPRECIATION	4,666,624	22.6%	4,331,821	20.8%	3,822,747	19.2%	(509,074)	-11.75%
NON-OPERATING EXPENSES								
Interest expense	927,297	4.5%	887,760	4.3%	840,311	4.2%	(47,449)	-5.34%
Amortization of bond issuance costs	7,251	0.0%	7,760	0.0%	7,506	0.0%	(254)	-3.27%
Total Non-Operating Expenses	934,548		873,905		847,817		(26,088)	
TOTAL EXPENSES	\$ 20,606,535	100%	\$ 20,829,232	100%	\$ 19,939,091	100%	\$ (890,141)	-4.27%

MONTEREY REGIONAL WATER POLLUTION CONTROL AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2010



EXPENSES BY DEPARTMENT For the Fiscal Year Ended June 30, 2010

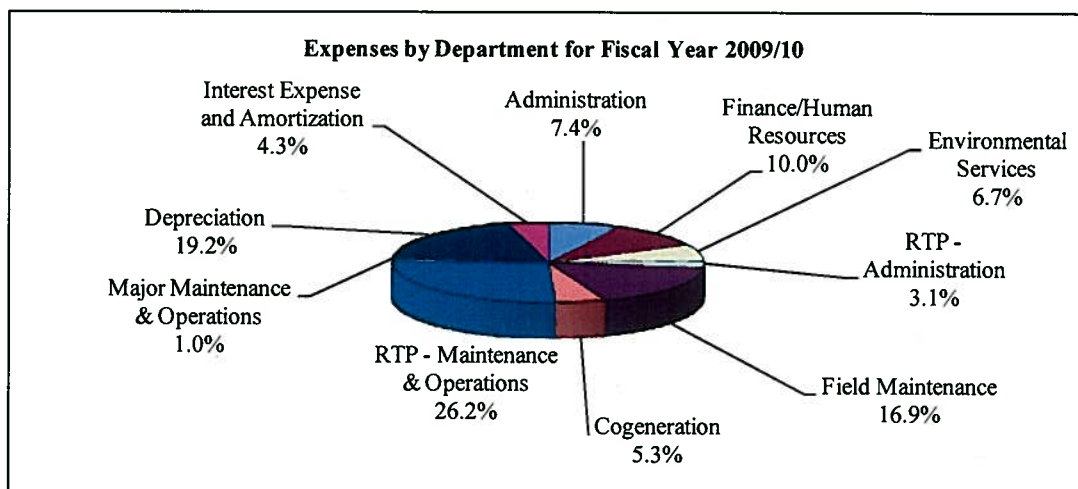
(With Comparative Totals for the Fiscal Years Ended June 30, 2009 and June 30, 2008)

Expenses by Dept.	2007/08		2008/09		2009/10		Increase/(Decrease) from 2008/09	
	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Change
OPERATING EXPENSES								
Administration	\$ 1,447,346	7.0%	\$ 1,591,497	7.6%	\$ 1,471,053	7.4%	\$ (120,444)	-7.6%
Finance/Human Resources	1,811,822	8.8%	1,849,227	8.9%	1,996,228	10.0%	147,001	7.9%
Environmental Services	1,410,376	6.8%	1,443,842	6.9%	1,330,963	6.7%	(112,879)	-7.8%
RTP - Administration	358,319	1.7%	557,118	2.7%	617,151	3.1%	60,033	10.8%
Field Maintenance	3,118,647	15.1%	3,312,200	15.9%	3,367,567	16.9%	55,367	1.7%
Cogeneration	965,046	4.7%	1,099,069	5.3%	1,049,699	5.3%	(49,370)	-4.5%
RTP - Maintenance & Operations	5,201,819	25.2%	5,331,146	25.6%	5,226,750	26.2%	(104,396)	-2.0%
Major Maintenance & Operations	691,988	3.4%	439,407	2.1%	209,116	1.0%	(230,291)	-52.4%
Total Operating Expenses before Depreciation	15,005,363		15,623,506		15,268,527		(354,979)	
DEPRECIATION	4,666,624	22.6%	4,331,821	20.8%	3,822,747	19.2%	(509,074)	-11.8%
NON-OPERATING EXPENSES								
Interest expense	927,297	4.5%	887,760	4.3%	840,311	4.2%	(47,449)	-5.3%
Amortization of bond issuance costs	7,251	0.0%	7,760	0.0%	7,506	0.0%	(254)	-3.3%
Total Non-Operating Expenses	934,548		895,520		847,817		(47,703)	
TOTAL EXPENSES	\$ 20,606,535	100%	\$ 20,850,847	100%	\$ 19,939,091	100%	\$ (911,756)	-4.4%

MONTEREY REGIONAL WATER POLLUTION CONTROL AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2010



Changes in Expenses between 09/10, 08/09 and 07/08

- ♦ Operating expenses before depreciation decreased 2.27% or \$354,979 in 09/10. Operating expenses before depreciation increased 4.12% or \$618,143 in 08/09. The following categories were responsible for the change from the prior years:

Wages & Benefits – There was an increase of \$108,792 in 09/10 due mostly to step increases, and cost of benefits increases. In 2008/09, there was an increase of \$579,905 due to cost of living adjustments, step increases, and cost of benefits increases.

Utility costs decreased by \$238,784 in 09/10. Utility Costs increased \$22,919 in 08/09. The decrease in 09/10 is due to the decreased cost of natural gas. Cogeneration engine repair shutdowns in 2008/09 contributed to the increase in utilities costs for that period over the prior period.

Chemical costs decreased by \$126,251 or 10.23% in 09/10 because of a change in chemical use optimization. Chemical costs increased by \$385,732 or 45.49% in 08/09 over 07/08 because of price increases on the chemicals and higher shipping costs.

Major Maintenance & Repairs – This category was established in fiscal year 05/06. Project costs that are not capitalized are now expensed on a fiscal year basis under this category. Fiscal year 09/10 costs decreased by \$230,291 due to a decreased amount of major maintenance and repair projects approved during the Agency's Budget process for the fiscal year.

- ♦ Depreciation Expense charged to operations in 09/10 decreased 11.75% or \$509,074, due a large number of assets becoming fully depreciated, which more than offset the increase in depreciation expense on new assets put in service

MONTEREY REGIONAL WATER POLLUTION CONTROL AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2010



TOTAL NET ASSETS

Total Net Assets at June 30, 2010 totaled \$81,790,849, a decrease of \$1,968,240 from the prior year.

The following table presents a comparison of assets, liabilities, and total net assets for the three fiscal years ended June 30, 2010, 2009 and 2008 and the amount and percentage of change between fiscal years 2010 and 2009.

MONTEREY REGIONAL WATER POLLUTION CONTROL AGENCY

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2010**

**TOTAL NET ASSETS
For the Fiscal Year Ended June 30, 2010
(With Comparative Totals for the Fiscal Years Ended June 30, 2009 and June 30, 2008)**

	2007/08	2008/09	2009/10	Increase/(Decrease) from 2008/09	
ASSETS					
Non-Restricted					
Current	\$ 9,137,420	\$ 7,468,700	\$ 5,486,341	\$ (1,982,359)	-26.54%
Other Non-Restricted Assets	10,721,585	10,715,102	10,694,432	(20,670)	-0.19%
Restricted					
Current	15,496,809	15,113,113	15,321,453	208,340	1.38%
Capital Assets net of Acc. Depr.	103,566,370	101,272,352	98,594,269	(2,678,083)	-2.64%
Total Assets	138,922,184	134,569,267	130,096,495	(4,472,772)	-3.32%
LIABILITIES					
Current Liabilities	6,114,522	6,839,899	6,438,257	(401,642)	-5.87%
Current Liabilities Payable from Restricted Assets	4,640,984	4,818,345	5,187,234	368,889	7.66%
Other Liabilities					
Long-Term Debt	41,645,623	39,151,934	36,680,155	(2,471,779)	-6.31%
Total Liabilities	52,401,129	50,810,178	48,305,646	(2,504,532)	-4.93%
NET ASSETS					
Invested in Capital Assets net of Related Debt	69,728,636	69,931,077	69,765,250	(165,827)	-0.24%
Restricted	10,855,825	10,294,768	10,134,219	(160,549)	-1.56%
Unrestricted	5,936,594	3,533,244	1,891,380	(1,641,864)	-46.47%
TOTAL NET ASSETS	\$ 86,521,055	\$ 83,759,089	\$ 81,790,849	\$ (1,968,240)	-2.35%

Total Assets at June 30, 2010 were \$130,096,495 vs. \$134,569,267 at June 30, 2009, a decrease of \$4,472,772 or 3.32%.

- ♦ Current non-restricted assets decreased by \$1,982,359 due to the Board's approval to designate funds for urban reclamation projects and for the decrease in prepaid user fees collected during the fiscal year.
- ♦ Total Capital assets increased \$2,045,613 while accumulated depreciation increased \$4,723,696 resulting in a decrease of Capital assets net of depreciation by \$2,678,083. See Note 4 of the Notes to Financial Statements for more detail.

Total Liabilities at June 30, 2010 were \$48,305,646 at June 30, 2010 vs. \$50,810,178 at June 30, 2009, a decrease of \$2,504,532 or 4.93%.

- ♦ The decrease in total liabilities at June 30, 2010 over the prior year is primarily the result of the reduction in Long-Term Debt, inclusive of current maturities, of approximately \$2.5 million. Of the total decrease in long-term debt, approximately \$1.12 million represents amounts paid by Monterey County on debt recorded on the Agency's books as a result of the Water Reclamation Project. See Notes 5 and 6 of the Notes to Financial Statements for further detail on the Project and the related debt.

MONTEREY REGIONAL WATER POLLUTION CONTROL AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2010

The following table presents a comparison of the changes in net assets for the three fiscal years 2009/10, 2008/09 and 2007/08 and the amount and percentage of change between fiscal years 2009/10 and 2008/09:

CHANGES IN NET ASSETS For the Fiscal Year Ended June 30, 2010 (With Comparative Totals for the Fiscal Years Ended June 30, 2009 and June 30, 2008)

	2007/08	2008/09	2009/10	Increase/ (Decrease) from 2008/09
TOTAL REVENUES	\$ 19,206,835	\$ 18,088,881	\$ 17,970,851	\$ (118,030)
TOTAL EXPENSES	20,606,535	20,850,847	19,939,091	(911,756)
CHANGE IN NET ASSETS	(1,399,700)	(2,761,966)	(1,968,240)	793,726
BEGINNING NET ASSETS	87,920,755	86,521,055	83,759,089	(2,761,966)
ENDING NET ASSETS	\$ 86,521,055	\$ 83,759,089	\$ 81,790,849	\$ (1,968,240)

CONTACTING MRWPCA'S FINANCIAL MANAGEMENT

This financial report is designed to provide MRWPCA's Board members, customers, ratepayers, investors and creditors with a general overview of MRWPCA's finances and to demonstrate MRWPCA's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Finance Department, Monterey Regional Water Pollution Control Agency, 5 Harris Court, Bldg. D, Monterey, CA 93940.

MONTEREY REGIONAL WATER POLLUTION CONTROL AGENCY

STATEMENTS OF NET ASSETS JUNE 30,

	2010	2009
CURRENT ASSETS		
Unrestricted cash and cash equivalents	\$ 2,466,038	\$ 4,957,092
Restricted cash and cash equivalents	15,146,900	14,844,013
Accounts receivable-trade	124,468	371,238
Accounts receivable-MCWRA	2,437,058	1,842,511
Inventory of materials and supplies	175,556	139,993
Prepaid expenses and other current assets	283,221	157,866
Other restricted assets	174,553	269,100
Total current assets	20,807,794	22,581,813
NONCURRENT ASSETS		
Receivable from Monterey County	10,290,691	10,272,123
Debt issuance costs, net of accumulated amortization	403,741	442,979
Subtotal noncurrent assets	10,694,432	10,715,102
CAPITAL ASSETS		
Land and easements	2,097,827	2,097,827
Buildings	96,679,989	96,390,355
Improvements other than buildings	51,640,199	51,640,199
Equipment	76,910,307	75,679,717
Construction in progress	7,345,409	6,820,020
Subtotal capital assets	234,673,731	232,628,118
Less accumulated depreciation	(136,079,462)	(131,355,766)
Total capital assets	98,594,269	101,272,352
Total noncurrent assets	109,288,701	111,987,454
Total Assets	130,096,495	134,569,267
CURRENT LIABILITIES		
Current portion of long-term debt	2,439,555	2,461,464
Accounts payable and accrued expenses	2,169,881	3,417,958
Deferred user fees revenue	598,556	581,656
Utility taxes due to other governmental agencies	1,230,265	378,821
Accounts and deposits payable from restricted assets	5,187,234	4,818,345
Total current liabilities	11,625,491	11,658,244
NONCURRENT LIABILITIES		
Long-term debt, net of amortized premium, less current portion	36,680,155	39,151,934
Total Liabilities	48,305,646	50,810,178
NET ASSETS		
Invested in capital assets, net of related debt	69,765,250	69,931,077
Restricted for capital projects	10,134,219	10,294,768
Unrestricted	1,891,380	3,533,244
Total net assets	\$ 81,790,849	\$ 83,759,089

MONTEREY REGIONAL WATER POLLUTION CONTROL AGENCY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS FOR THE YEARS ENDED JUNE 30,

	2010	2009
OPERATING REVENUES		
User fees	\$ 16,308,396	\$ 16,156,975
Other operating revenues	769,150	766,379
Total operating revenues	17,077,546	16,923,354
OPERATING EXPENSES		
Administrative	1,471,053	1,591,497
Finance	1,996,228	1,849,227
Laboratory	1,330,963	1,443,842
Regional Treatment Plant-Administrative	617,151	557,118
Field Maintenance	3,367,567	3,312,200
Cogeneration	1,049,699	1,099,069
Regional Treatment Plant - Maintenance and Operations	5,226,750	5,331,146
Major Maintenance and Operations Non Capital Projects	209,116	439,407
Total operating expenses before depreciation	15,268,527	15,623,506
Depreciation expense	3,822,747	4,331,821
Total operating expenses	19,091,274	19,955,327
OPERATING LOSS	(2,013,728)	(3,031,973)
NONOPERATING REVENUES (EXPENSES)		
Interest revenue	70,761	323,919
Interest expense	(840,311)	(887,760)
Amortization of bond issuance cost	(7,506)	(7,760)
Capacity charges	588,530	639,974
Other revenue	216,920	180,019
Miscellaneous	17,094	21,615
Total nonoperating revenues	45,488	270,007
Decrease in net assets	(1,968,240)	(2,761,966)
Beginning Net Assets	83,759,089	86,521,055
Ending Net Assets	\$ 81,790,849	\$ 83,759,089

MONTEREY REGIONAL WATER POLLUTION CONTROL AGENCY

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30,**

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers for services	\$ 17,341,216	\$ 17,247,341
Cash paid to vendors for services	(9,996,316)	(9,090,791)
Cash paid to employees	(5,366,326)	(5,589,529)
Other	226,660	219,836
Cash provided by operating activities	<u>2,205,234</u>	<u>2,786,857</u>
 CASH FLOWS FROM NON-CAPITAL FINANCING AND INVESTING ACTIVITIES		
Capacity charges	<u>588,530</u>	<u>639,974</u>
Cash provided by non capital financing and investing activities	588,530	639,974
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Interest expense	(840,311)	(887,760)
Advance on SRDD project	(594,547)	(1,842,511)
Acquisition and construction of property and equipment	(2,280,605)	(3,210,776)
Proceeds from sale of capital assets	5,600	17,075
Principal payments on long-term debt	(2,461,957)	(2,431,719)
Debt service funding from Monterey County	1,119,128	1,104,687
Cash provided by/(used in) capital and related financing activities	<u>(5,052,692)</u>	<u>(7,251,004)</u>
 CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income	<u>70,761</u>	<u>323,919</u>
 INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(2,188,167)</u>	<u>(3,500,254)</u>
 Cash and cash equivalents at beginning of year	<u>19,801,105</u>	<u>23,301,359</u>
 Cash and cash equivalents at end of year	<u><u>\$ 17,612,938</u></u>	<u><u>\$ 19,801,105</u></u>

MONTEREY REGIONAL WATER POLLUTION CONTROL AGENCY

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30,

RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES

	<u>2010</u>	<u>2009</u>
Operating Loss	\$ (2,013,728)	\$ (3,031,973)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Other income	226,660	219,836
Depreciation	3,822,747	4,331,821
Effect of changes in:		
Other current assets	180,399	394,673
Accounts payable and accrued expenses	(862,288)	759,807
Due other governmental agencies	851,444	112,693
	<u>851,444</u>	<u>112,693</u>
Net cash provided by operating activities	<u>\$ 2,205,234</u>	<u>\$ 2,786,857</u>

MONTEREY REGIONAL WATER POLLUTION CONTROL AGENCY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010 AND 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES & OTHER MATTERS

Organization, Purpose and Basis of Accounting

In November 1971, the city of Pacific Grove and the Seaside County Sanitation District executed a joint powers agreement (JPA), thus forming the Monterey Peninsula Water Pollution Control Agency ("Monterey Peninsula WPCA"), with Fort Ord as an ex-officio member. In February 1972, the city of Monterey became a signatory of the JPA. The Monterey Peninsula WPCA was responsible for proceeding with the design and construction of a regional wastewater treatment and disposal system for communities adjoining the Southern Monterey Bay area in Monterey County, which were designated by the Environmental Protection Agency ("EPA"), and the State Water Resources Control Board (SWRCB), as Clean Water Projects 748 and 1066. The Monterey Peninsula WPCA expanded its membership to include the city of Salinas and Monterey County in April 1975. In March 1976, the cities of Seaside, Sand City and Del Rey Oaks (cities which comprise the Seaside County Sanitation District), became individual signatories to the JPA. In January 1977, the Monterey County Board of Supervisors formed the Monterey Regional County Sanitation District ("Monterey Regional CSD") to provide sewage treatment and disposal services to the sewered portions of the North Monterey County. Monterey Regional CSD was established to own and operate the existing and proposed project facilities, and to establish, collect and enforce sewer user charges. In June 1979, the present Monterey Regional Water Pollution Control Agency (the "Agency"), superseded the Monterey Peninsula WPCA. Also, in June 1979, Monterey Regional CSD transferred all its properties and assets to the Agency. In April 1985, Fort Ord became a full voting member of the Agency, and Castroville County Sanitation District became a member of the Agency. The Boronda County Sanitation District became a member of the Agency in June 1987. The Agency has all of the broad powers of the older entities and has assumed all of their obligations. In April 1989, the Agency entered into an Annexation Agreement with the Marina County Water District ("MCWD") enabling the MCWD to become a full voting member of the Agency and establishing the terms and conditions by which the MCWD would become a member entity. In November 1999, due to the closure of Fort Ord, Fort Ord's representation changed to that of a non-voting member. The Agency functions as a self-supporting governmental enterprise activity and, accordingly, the financial statements have been prepared on the accrual basis.

Reporting Entity

The Agency operates in an enterprise capacity. An enterprise fund is used to account for the financing of services to the general public on a continuing basis with operating and other costs recovered primarily through user charges.

As required by generally accepted accounting principles, the financial statements of the reporting entity include those of the Agency (the primary government) and its component unit. The component unit discussed below is included in the Agency's financial statements because of the significance of its financial relationship with the Agency.

The Monterey Regional Wastewater Finance Authority (the "Authority"), an entity legally separate from the Agency, is governed by substantially all the board members of the Agency. The Authority is reported as if it were part of the Agency's operations (blended component unit) because its purpose is to finance certain capital projects for the Agency (see Note 4.)

MONTEREY REGIONAL WATER POLLUTION CONTROL AGENCY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010 AND 2009

Basis of Accounting

The Agency is a single enterprise fund and maintains its records on the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when the related liability is incurred. The Agency has elected under Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, to apply all applicable GASB pronouncements, as well as any applicable pronouncements of the Financial Accounting Standards Board, the Accounting Principles Board, or any Accounting Research Bulletins issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Accounts Receivable and User Fee Revenue Recognition

The Agency has made no provisions for uncollectible user fee receivables as all significant accounts are considered to be collectible as of June 30, 2010 and 2009.

All user fee revenue is recognized when the related services are provided. Billings are on a bimonthly basis and, as such, revenues reflected in the financial statements include accruals based on estimates for the period between termination of the billing cycle and the end of the fiscal year. User service charges are based on wastewater strength criteria as set forth by the EPA and Agency determined flow.

Cash and Cash Equivalents

The Agency's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Cash equivalents also include cash with county treasury, state pooled fund, and other pooled investment fund balances for purposes of the statement of cash flows.

Investments

Investments are recorded at amortized cost, which approximates market value. Adjustments are made to cost for any premium/discount, which is amortized/accreted over the life of the investment. Gains or losses on investments are recognized under the specific identification method only when and if the related security is sold, or if permanent impairment of value occurs.

Inventory

Materials and supplies inventories are stated at the lower of cost (first-in, first-out) or market.

Restricted Assets

Assets required to be segregated pursuant to bond covenants or for other reasons are identified as restricted assets.

Debt Issuance Costs

Debt issuance costs are capitalized and amortized over the term of the related debt instrument on a straight-line basis.

MONTEREY REGIONAL WATER POLLUTION CONTROL AGENCY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010 AND 2009

Capital Assets

Capital assets acquired through purchase or internal constructions are recorded at cost. Property contributions received from municipalities are recorded at a negotiated value. Property donations received from other sewage agencies are recorded at estimated market value on the date donated. The Agency's capital asset capitalization threshold is \$2,500.

Depreciation is computed using the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings, 20 to 40 years; improvements, 10 to 20 years; equipment, 3 to 10 years

Construction in Progress

The cost of acquisition and construction of major plant and equipment is recorded as construction in progress (CIP). As facilities are constructed by the Agency and become operative, they are transferred from CIP to the plant and equipment accounts, or are expensed if determined that the cost does not meet the requirements of the capitalization policy.

Capitalization of Interest

Interest is capitalized on cumulative expenditures for all major construction projects. Interest earned on interest-bearing investments acquired with proceeds of related tax-exempt borrowings is offset against interest cost in determining the amount of interest cost to be capitalized. No interest was capitalized for fiscal years 2010 and 2009.

Compensated Absences

Accumulated unpaid vacation and compensatory time are accrued when earned and are included in accounts payable and accrued expenses.

Accounts Payable for Construction Services

Accounts payable for construction services and unpaid retainage for construction services are included in accounts and deposits payable from restricted assets.

Capital Grants and Capacity Charges

Funding for the property, plant and equipment of the Agency has been provided primarily from capital grants by the EPA, the SWRCB, the Monterey County Water Resources Agency (MCWRA) and the Department of the Army and Navy. When eligible costs are incurred, a corresponding grant payment receivable is recognized, less an allowance for costs that may be subsequently ruled ineligible. All capital grant funds and capacity charge fees are recognized in the statements of revenues, expenses and changes in net assets.

MONTEREY REGIONAL WATER POLLUTION CONTROL AGENCY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010 AND 2009

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Agency or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The Agency first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the enterprise fund. For the Agency, these revenues are user fees. Operating expenses are necessary costs incurred to provide the good or service that are the primary activity of the fund.

Pension Plan

Contributions to the California Public Employees Retirement System ("PERS") are expensed as incurred.

Income Taxes

The Agency is a municipal entity as defined in the Internal Revenue Code, Section 115, and the corresponding California Revenue and Taxation provisions. Accordingly, the Agency is not subject to income taxes.

Use of Estimates

In preparing financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as revenues and expenses during the reporting period. Actual results could differ from those estimates.

New Accounting Pronouncements

In June 2008, GASB issued GASBS No. 53, *Accounting and Financial Reporting for Derivative Instruments*. This Statement is intended to improve how State and local governments report information about derivative instruments—financial arrangements used by governments to manage specific risks or make investments—in their financial statements. The Statement specifically requires governments to measure most derivative instruments at fair value in their financial statements that are prepared using the economic resources measurement focus and the accrual basis of accounting. The guidance in this Statement also addresses hedge accounting requirements and is effective for financial statements for reporting periods beginning after June 15, 2009, with earlier application encouraged. The adoption of this statement had no impact on the Agency's financial position or results of operations

MONTEREY REGIONAL WATER POLLUTION CONTROL AGENCY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010 AND 2009

In March 2009, the GASB issued GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The requirements of this Statement are effective for the financial statements for periods beginning after June 15, 2010. Early implementation is encouraged.

In April 2009, the GASB issued GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to incorporate the hierarchy of generally accepted accounting principles (GAAP) for State and local governments into the GASB authoritative literature. The "GAAP hierarchy" consists of the sources of accounting principles used in the preparation of financial statements of State and local governmental entities that are presented in conformity with GAAP, and the framework for selecting those principles. GASB Statement No. 55 is effective immediately and has no impact on the Agency's financial statements.

In April 2009, the GASB issued GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance presented in the American Institute of Certified Public Accountants' Statements on Auditing Standards. This Statement addresses three issues not included in the authoritative literature that establishes accounting principles – related party transactions, going concern considerations, and subsequent events. The presentation of principles used in the preparation of financial statements is more appropriately included in accounting and financial reporting standards rather than in the auditing literature. GASB Statement No. 56 is effective immediately and has no impact on the Agency's financial statements.

NOTE 2 – CASH, CASH EQUIVALENTS AND INVESTMENTS

The Agency maintains deposits and investments in separate restricted and unrestricted accounts with various safekeeping agents and financial institutions. Restricted deposits and investments are held to meet debt service and capital expansion requirements.

For the purpose of the statement of cash flows, the Agency considers all investments with original maturities of less than three months to be cash equivalents.

MONTEREY REGIONAL WATER POLLUTION CONTROL AGENCY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

Cash is recorded in the accompanying statement of net assets, as follows:

	2010	2009
Unrestricted	\$ 1,748,252	\$ 813,542
Restricted	6,192,592	6,575,045
	<u>\$ 7,940,844</u>	<u>\$ 7,388,587</u>

Investments in pooled funds, also reflected as cash and cash equivalents, are recorded at amortized cost, which approximated fair value, at June 30, 2010 and 2009, are summarized as follows:

	2010	2009
California Asset Management Program (CAMP)		
Pooled Investment Fund	\$ 8,981	\$ 8,957
Subtotal	8,981	8,957
County Pooled Investment Funds	27,144	879
State of California Local Agency Investment Fund	9,635,969	12,402,682
	<u>\$ 9,672,094</u>	<u>\$ 12,412,518</u>

The above cash and cash equivalents are classified in the accompanying statement of net assets as follows:

	2010	2009
Unrestricted	\$ 2,466,038	\$ 4,957,092
Restricted	15,146,900	14,844,013
	<u>\$ 17,612,938</u>	<u>\$ 19,801,105</u>

Policies and Practices

The Agency is authorized under the Agency’s investment policy to make direct investments in local agency bonds, notes, or warrants within the State; U.S. Treasury instruments; registered State warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreements; medium term corporate notes; shares of beneficial interest issued by diversified management companies, certificates of participation, obligations with first priority security; and collateralized mortgage obligations.

Investment in the State Investment Pool

The Agency is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California government code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the Agency's investment in the pool is reported in the accompanying financial statement at amounts based upon the Agency'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 is recorded on the amortized cost basis.

MONTEREY REGIONAL WATER POLLUTION CONTROL AGENCY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010 AND 2009

California Asset Management Program (CAMP)

The Agency participates in the California Asset Management Program (CAMP), a joint powers authority established in 1989 under the provisions of the California Government Code Sections 6500 et. seq., to meet local government investment needs in a manner and cost determined by the members of the program. The Agency maintains its own separate account and directs its investments in conjunction with an investment advisor. Safekeeping of all securities is maintained by Bank of New York.

General Authorizations

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are indicated in the schedules below:

<u>Authorized Investment Type</u>	<u>Maximum Remaining Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment In One Issuer</u>
State/Local Agency Debt Issues	5 years	25%	None
U.S. Treasury Obligations	5 years	None	None
Federal Agency Obligations	5 years	None	None
Banker's Acceptance	180 days	25%	10%
Commercial Paper	270 days	20%	10%
Negotiable Certificates of Deposit	5 years	20%	10%
Time Certificates of Deposit	1 year	10%	10%
Money Market Mutual Funds	N/A	20%	10%
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None

Authorized Under Debt Agreements

Debt resolutions stipulate only federal securities may be invested in for debt service requirements.

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. The Agency manages its exposure to interest rate risk by investing substantially all of its cash with LAIF and CAMP.

MONTEREY REGIONAL WATER POLLUTION CONTROL AGENCY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010 AND 2009

At June 30, 2010, the Agency, through the CAMP program, had the following investments:

Investment Type	Carrying Value	Fair Value	Maturity Date
Money Market Mutual Funds	\$ 8,981	\$ 8,981	07/01/10 - 07/02/10
County Pool	27,144	27,164	07/01/10 - 02/12/11
State Investment Pool	9,635,969	9,793,999	07/01/10 - 5/23/11
Total	<u>\$ 9,672,094</u>	<u>\$ 9,830,144</u>	

Credit Risk

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. Presented below is the minimum rating required by the California Government Code, the Agency's investment policy, or debt agreements, and the actual rating as of the year-end for each investment type.

Investment Type	Carrying Value	Fair Value	Minimum Legal Rating	Not Required To Be Rated		
				A-1	AAA	
Money Market Mutual Funds	\$ 8,981	\$ 8,981	AA	\$ 8,981	\$ -	\$ -
County Pooled Investment Funds	27,144	27,164	N/A	-	-	27,164
Local Agency Investment Fund	9,635,969	9,793,999	N/A	-	-	9,793,999
	<u>\$ 9,672,094</u>	<u>\$ 9,830,144</u>		<u>\$ 8,981</u>	<u>\$ -</u>	<u>\$ 9,821,163</u>

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the Agency's deposits may not be returned to it. The Agency does not have a policy for custodial credit risk for deposits. However, 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 public deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105% of the secured deposits. As of June 30, 2010, the Agency's bank balances of \$2,350,862 were exposed to custodial credit risk to the extent that the balances are uninsured. The bank balances reported by the Agency are collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the Agency.

Custodial Credit Risk - Investments

This is the risk that, in the event of the failure of the counterparty, the Agency will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. The Agency's investments policy requires delivery of securities to a safekeeping agent in the name of the Agency. The Agency believes it has no significant custodial credit risk.

MONTEREY REGIONAL WATER POLLUTION CONTROL AGENCY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010 AND 2009

NOTE 3 – RESTRICTED ASSETS AND LIABILITIES

Details of restricted assets and liabilities as of June 30, 2010 and 2009, are as follows:

	2010			2009		
	Construction	Other	Total	Construction	Other	Total
Current restricted assets:						
Cash and cash equivalents	\$ 8,999,278	\$ 6,147,622	\$ 15,146,900	\$ 8,212,893	\$ 6,631,120	\$ 14,844,013
Interest receivable	36,762	-	36,762	85,710	-	85,710
Reclamation receivable	-	132,099	132,099	-	177,698	177,698
Grant receivable	5,692	-	5,692	5,692	-	5,692
	<u>\$ 9,041,732</u>	<u>\$ 6,279,721</u>	<u>\$ 15,321,453</u>	<u>\$ 8,304,295</u>	<u>\$ 6,808,818</u>	<u>\$ 15,113,113</u>
Current liabilities payable from restricted assets:						
Construction services payable	\$ 4,657,890	\$ 529,344	\$ 5,187,234	\$ 4,207,492	\$ 610,853	\$ 4,818,345
Restricted Net Assets	<u>\$ 4,383,842</u>	<u>\$ 5,750,377</u>	<u>\$ 10,134,219</u>	<u>\$ 4,096,803</u>	<u>\$ 6,197,965</u>	<u>\$ 10,294,768</u>

MONTEREY REGIONAL WATER POLLUTION CONTROL AGENCY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010 AND 2009

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2010, was as follows:

	Balance July 1, 2009	Additions	Deductions	Balance June 30, 2010
Capital Assets Not Being Depreciated:				
Land and easements	\$ 2,097,827	\$ -	\$ -	\$ 2,097,827
Construction in Progress	6,820,020	6,552,753	6,027,364	7,345,409
Total Capital Assets Not Being Depreciated	8,917,847	6,552,753	6,027,364	9,443,236
Capital Assets Being Depreciated:				
Improvements	51,640,199	-	-	51,640,199
Buildings	96,390,355	297,130	7,496	96,679,989
Equipment	75,679,717	1,465,154	234,564	76,910,307
Total Capital Assets Being Depreciated	223,710,271	1,762,284	242,060	225,230,495
Total Capital Assets	232,628,118	8,315,037	6,269,424	234,673,731
Less Accumulated Depreciation:				
Improvements	21,375,715	861,345	-	22,237,060
Buildings	47,701,909	2,465,913	5,743	50,162,079
Equipment	62,278,142	1,633,185	231,004	63,680,323
Less Accumulated Depreciation:	131,355,766	4,960,443	236,747	136,079,462
Capital Assets, Net	\$ 101,272,352	\$ 3,354,594	\$ 6,032,677	\$ 98,594,269

NOTE 5 - LONG-TERM DEBT

Summary

The changes in the District's long-term obligations during the year consisted of the following:

	Balance July 1, 2009	Additions	Deductions	Balance June 30, 2010	Due in One Year
General obligation bonds	\$ 17,305,000	\$ -	\$ 1,150,000	\$ 16,155,000	\$ 1,075,000
Premiums	495,819	-	31,731	464,088	31,732
Construction loans	1,025,811	-	192,830	832,981	198,808
Construction loans-Guaranteed	22,786,768	-	1,119,127	21,667,641	1,134,015
	\$ 41,613,398	\$ -	\$ 2,493,688	\$ 39,119,710	\$ 2,439,555

MONTEREY REGIONAL WATER POLLUTION CONTROL AGENCY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010 AND 2009

Bonded Debt

In 2003, the Agency issued revenue refunding bonds in the amount of \$11,430,000. Interest is payable June 2004 through June 2017 at a weighted average interest rate of 3.57%. Principal payments commenced on June 30, 2004. A portion of the proceeds from the bonds were used to refund the balance of the 1993 revenue refunding bonds (\$4,405,000). The remaining balance of the proceeds was used to refund a portion of the 1994 capital appreciation waste water contract revenue bonds.

In 2006, the Agency issued revenue bonds in the amount of \$9,780,000. Interest is payable semiannually beginning December 1, 2006 through June 1, 2026 at a weighted average interest rate of 4.77%. Principal payments begin on June 30, 2014. The bonds were issued to finance the construction of a biosolid dewatering facility, a new cogeneration facility, and the Salinas pump capacity enhancement project.

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds			Bonds
				Outstanding July 1, 2009	Issued	Redeemed	Outstanding June 30, 2010
2003	2017	3.57%	\$11,430,000	\$ 7,525,000	\$ -	\$ 1,150,000	\$ 6,375,000
2006	2026	4.77%	9,780,000	9,780,000	-	-	9,780,000
				<u>\$17,305,000</u>	<u>\$ -</u>	<u>\$ 1,150,000</u>	<u>\$ 16,155,000</u>

Debt Service Requirements to Maturity

The bonds mature through 2027 as follows:

Year ending June 30	Principal	Interest	Total
2011	\$ 1,075,000	\$ 761,313	\$ 1,836,313
2012	1,030,000	707,563	1,737,563
2013	1,050,000	656,063	1,706,063
2014	980,000	611,438	1,591,438
2015	1,135,000	569,788	1,704,788
2016-2020	4,875,000	2,173,350	7,048,350
2021-2025	4,960,000	1,020,500	5,980,500
2026-2030	1,050,000	52,500	1,102,500
	<u>16,155,000</u>	<u>\$ 6,552,513</u>	<u>\$ 22,707,513</u>
Premium, net of amortization	464,088		
Total	<u>\$ 16,619,088</u>		

MONTEREY REGIONAL WATER POLLUTION CONTROL AGENCY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010 AND 2009

Construction Loans

In 1995, the Agency participated in the State Revolving Loan Fund Program with a maximum loan amount of \$3,275,425 at an interest rate of 3.1% per annum. The loan is payable in annual installments of \$224,632, including interest, at 3.1% per annum, with the final payment due August 13, 2013.

In 1999, the District participated in the State Revolving Loan Fund Program with a maximum loan amount of \$8,850,000 at an interest rate of 3.03% per annum. The loan is payable in annual installments of approximately \$630,000, commencing March 31, 2000, including interest, with final payment due March 31, 2018. Repayment of this loan is guaranteed by the County of Monterey (see Note 6).

In 2003, The Agency obtained a Bureau of Reclamation loan with a maximum loan amount of \$20,544,400 at a periodic interest rate of 7.625%. Debt service payments began on April 1, 2003, with final payment due December 2036. Repayment of this loan is guaranteed by the County of Monterey (see Note 6).

The outstanding construction loan debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Loans			Loans
				Outstanding July 1, 2009	Issued	Redeemed	Outstanding June 30, 2010
1995	2014	3.100%	\$ 3,275,425	\$ 1,025,811	\$ -	\$ 192,830	\$ 832,981
Monterey County Guaranteed							
1999	2018	3.030%	8,850,000	4,898,145	-	480,248	4,417,897
2003	2037	7.625%	20,544,400	17,888,623	-	638,879	17,249,744
				22,786,768	-	1,119,127	21,667,641
				<u>\$ 23,812,579</u>	<u>\$ -</u>	<u>\$ 1,311,957</u>	<u>\$ 22,500,622</u>

Debt Service Requirements to Maturity

The construction loans mature through 2014 as follows:

Year ending June 30	Principal	Interest	Total
2011	198,808	25,822	224,630
2012	204,971	19,659	224,630
2013	211,325	13,305	224,630
2014	217,877	6,755	224,632
	<u>\$ 832,981</u>	<u>\$ 65,541</u>	<u>\$ 898,522</u>

MONTEREY REGIONAL WATER POLLUTION CONTROL AGENCY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

The Monterey County construction loans mature through 2037 as follows:

Year ending June 30	Principal	Interest	Total
2011	\$ 1,134,015	\$ 594,931	\$ 1,728,945
2012	1,149,364	567,856	1,717,220
2013	1,165,189	540,305	1,705,494
2014	1,181,505	512,264	1,693,769
2015	1,198,326	483,717	1,682,043
2016-2020	4,978,293	1,991,190	6,969,482
2021-2025	3,194,397	1,586,343	4,780,740
2026-2030	3,194,397	1,293,204	4,487,601
2031-2035	3,194,397	1,000,064	4,194,461
2036-2040	1,277,759	317,946	1,595,705
	\$ 21,667,641	\$ 8,887,819	\$ 30,555,460

NOTE 6 – WATER RECLAMATION PROJECT

In September 1995, construction began on a tertiary treatment plant, which would allow the Agency to reclaim water and provide it to local agricultural water users (the Reclamation Project). The construction project was substantially complete at June 30, 2000, and the Agency transferred the cost of the project, totaling approximately \$33 million, from CIP to fixed assets, as of July 1, 1998. Funding for the construction project was provided by a zero interest loan from the Bureau of Reclamation, a low interest loan from the California State Revolving Loan Fund and funding from the MCWRA.

The Agency has contracted with the County of Monterey to provide the reclaimed water, which will be sold to the agricultural water users. Water deliveries to users commenced during the later part of fiscal 1999.

The Agency receives operating resources from the County sufficient to fund both the ongoing operations and maintenance of the tertiary treatment plant and the debt service requirements on the loans incurred by the Agency to build the plant. The sources of these operating resources are expected to be generated from water user charges and assessments. In addition, the Agency has contracted with the County to provide services relating to the distribution of the reclaimed water to the users.

The Reclamation Project, from an operational standpoint, is designed to be revenue-neutral to the Agency. All identifiable operating costs of the tertiary treatment plant, including the storage and distribution of reclaimed water to the users, are reimbursed from the County of Monterey. In addition, as noted above, the County is responsible for reimbursing the Agency for the debt service on the loans used to fund the construction project as the payments come due. Since the tertiary treatment plant is an asset of Agency, the Agency commenced depreciating the plant during the 1998-1999 fiscal year, the year it was placed into service.

MONTEREY REGIONAL WATER POLLUTION CONTROL AGENCY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010 AND 2009

Reimbursements from the County to pay the principal portion of the loans incurred to fund the plant construction will eventually offset the depreciation expense on the treatment plant. However those reimbursements will not be received by the Agency in the same timeline that the depreciation expense is being charged to operations, thus creating a potential distortion of the Agency's results of operations. Therefore, the Agency is accruing a non-current receivable from Monterey County for the unfunded depreciation expense on the reclamation plant, approximately \$1,100,000 per year. Reimbursements from the County for debt service on the state loan commenced during the year ended June 30, 2000, and reimbursements on the Bureau of Reclamation loan commenced during the year ended June 30, 2006. Reimbursements that relate to principal repayments are credited against the receivable balance. Such reimbursements totaled \$1,119,128 and \$1,104,687 for the years ended June 30, 2010 and 2009, respectively.

The net impact of this treatment is to properly abate both the current depreciation expense on the reclamation plant and the future principal reimbursement to the Agency (otherwise reflected as income) resulting in no net impact to the Agency's statement of operations. The County is the primary guarantor of both loans and is contractually obligated to the Agency to provide the necessary debt service reimbursements as those amounts become due.

NOTE 7 – DEFINED BENEFIT PENSION PLAN

CalPERS Pension Plan (The Plan)

Plan Description

The Agency provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries.

The Plan is part of the Miscellaneous Plan of CalPERS, a cost-sharing agent multiple-employer defined benefit plan administered by CalPERS, which acts as a common investment and administrative agent for participating public employers within the State of California. A menu of benefit provisions as well as other requirements is established by State statutes within the Public Employees' Retirement Law. The Agency selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through board resolutions. CalPERS issues a separate comprehensive annual financial report. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, CA 95814.

Funding Policy

The Agency, on behalf of the employees participating in the Plan, contributes 8% of their annual covered salary. In addition, the Agency is required to contribute the actuarially determined remaining amount necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by CalPERS Board of Administration. The employer contribution rate for was 23.006%, 22.782%, and 21.325%, for the years ended June 30, 2010, 2009, and 2008, respectively. The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS. The Agency's annual pension cost was \$2,180,258, \$2,097,847, and \$1,907,606, for the years ending June 30, 2010, 2009 and 2008, respectively, and equals 100 percent of the required contributions for each year.

MONTEREY REGIONAL WATER POLLUTION CONTROL AGENCY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010 AND 2009

NOTE 8 – JOINT POWERS AGREEMENT

The Agency participates in one joint venture under a joint power agreement (“JPA”) with the California Sanitation Risk Management Authority (“CSRMA”). The relationship between the Agency and CSRMA is such that CSRMA is not a component unit of the agency for financial reporting purposes.

CSRMA arranges for and provides workers’ compensation, property, liability and errors and omissions insurance for its member governmental entities. The CSRMA is governed by a board consisting of representatives from its member entities.

The board controls the operations of the CSRMA including selection of management and approval of operating budgets, independent of any influence by the member district beyond their representation on the board. Each member district pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionate to their participation in the CSRMA.

CSRMA has budgeting and financial reporting requirements independent of member units and its financial statements are not presented in these financial statements; however, fund transactions between CSRMA and the Agency are included in these statements. Audited financial statements are available from the respective entity.

The Agency has appointed one board member to the governing board of CSRMA. During the year ended June 30, 2010, the Agency made payments of \$356,769 to CSRMA for workers compensation and property and liability insurance premiums.

NOTE 9 – SALINAS RIVER WATER DISINFECTION SYSTEM

This receivable represents amounts advanced by the Agency to the Monterey County Water Resources Agency (MCWRA) for costs of the design and construction of the Salinas River Water Disinfection System (SRDD) and connection to the 80 acre foot pond at the Salinas Valley Reclamation Plant (SVRP). The project will impound water from the Salinas River, and mix the water with water produced by the SVRP in the Pond. The combined water will then be chlorinated for food safety purposes and then distributed to growers for agricultural uses through the existing Castroville Seawater Intrusion Project’s (CSIP) distribution system. As of June 30, 2010, it has not been determined who will actually own the system, however the Agency and MCWRA are currently working on an agreement whereby MRWPCA would operate and maintain the system with all operating costs being subject to reimbursement from MCWRA. As such, the advanced costs have been treated as a receivable as these costs as well are subject to reimbursement. The amounts recorded as of June 30, 2010 were repaid in the 2010/11 fiscal year.

OTHER SUPPLEMENTARY INFORMATION

MONTEREY REGIONAL WATER POLLUTION CONTROL AGENCY

**BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2010**

	Approved Budget	Actuals	Variance Favorable (Unfavorable)
OPERATING REVENUES			
User fees	\$16,531,606	\$16,308,396	\$ (223,210)
Other	728,742	769,150	40,408
Total Revenues	<u>17,260,348</u>	<u>17,077,546</u>	<u>(182,802)</u>
OPERATING EXPENSES			
Administrative	1,539,476	1,471,053	68,423
Finance	2,007,907	1,996,228	11,679
Laboratory	1,463,271	1,330,963	132,308
Regional Treatment Plant - Administrative	620,072	617,151	2,921
Field Maintenance	3,408,547	3,367,567	40,980
Cogeneration	941,228	1,049,699	(108,471)
Regional Treatment Plant - Maintenance and Operations	5,565,055	5,226,750	338,305
Major Maintenance and Operations Non Capital Projects	134,009	209,116	(75,107)
Total Operating Expenses	<u>15,679,565</u>	<u>15,268,527</u>	<u>411,038</u>
DEBT SERVICE			
Principal	1,342,830	1,342,830	-
Interest	850,613	840,311	10,302
Total Debt Service	<u>2,193,443</u>	<u>2,183,141</u>	<u>10,302</u>
OTHER INCOME (EXPENSE)			
Interest income	115,000	70,761	(44,239)
Capacity charges	600,000	588,530	(11,470)
Other	106,200	234,014	127,814
Total Other Income (Expense)	<u>821,200</u>	<u>893,305</u>	<u>72,105</u>
CAPITAL OUTLAY	<u>(3,380,260)</u>	<u>(2,287,673)</u>	<u>1,092,587</u>
CHANGE IN NET ASSETS	<u><u>\$ (3,171,720)</u></u>	<u><u>\$ (1,768,490)</u></u>	<u><u>\$ 1,403,230</u></u>

MONTEREY REGIONAL WATER POLLUTION CONTROL AGENCY

**SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE
FOR THE YEAR ENDED JUNE 30, 2010**

Program Name	Federal CFDA Number	Loan Balance June 30, 2009	Add	Delete	Loan Balance June 30, 2010
Environmental Protection Agency					
Revolving loan - Marina Project	66.458	\$ 1,025,811	\$ -	\$ 192,830	\$ 832,981
Revolving loan - Reclamation Project	66.458	4,898,145	-	480,248	4,417,897
		<u>\$ 5,923,956</u>	<u>\$ -</u>	<u>\$ 673,078</u>	<u>\$ 5,250,878</u>
Department of the Interior					
Bureau of Reclamation Loan	15.000	\$ 17,888,623	\$ -	\$ 638,879	\$ 17,249,744
		<u>\$ 17,888,623</u>	<u>\$ -</u>	<u>\$ 638,879</u>	<u>\$ 17,249,744</u>
Totals		<u>\$ 23,812,579</u>	<u>\$ -</u>	<u>\$ 1,311,957</u>	<u>\$ 22,500,622</u>

MONTEREY REGIONAL WATER POLLUTION CONTROL AGENCY

NOTES TO OTHER SUPPLEMENTARY INFORMATION FOR THE YEAR ENDED JUNE 30, 2010

NOTE 1 – BUDGETARY BASIS OF ACCOUNTING

The Agency prepares its budget on a basis of accounting that differs from generally accepted accounting principles (GAAP). The actual results of operations are presented in the Supplemental Schedule on the budgetary basis to provide a meaningful comparison of actual results with budget. In addition, certain budget amounts have been reclassified to conform to the presentation of actual amounts in the Supplemental Schedule. Budgeted amounts presented are the original adopted budget. The primary difference between the budgetary basis of accounting and GAAP is that capital assets are expensed rather than capitalized and depreciated and that debt principal payment are expensed rather than a reduction of liability.

NOTE 2 – RECONCILIATION OF BUDGETARY BASIS TO GAAP BASIS

A reconciliation of the budgetary basis of accounting to GAAP is as follows:

Change in net assets - budgetary basis	\$ (1,768,490)
Capital outlay	2,287,673
Principal payments on long-term debt	1,342,830
Depreciation and amortization	<u>(3,830,253)</u>
Change in net assets GAAP basis	<u>\$ (1,968,240)</u>

NOTE 3 – SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE

General

The accompanying schedule of Federal financial assistance presents the revolving loans from the EPA through the State of California and the loan from the Bureau of Reclamation through the Department of the Interior. Proceeds from such loans were used to fund construction of a tertiary water treatment plant to provide reclaimed water to be used for agricultural purposes. The expenditures for construction of the plant have been tested in prior years. There were no significant project expenditures during the year ended June 30, 2010.

Basis of Accounting

The accompanying schedule of federal financial assistance is presented using the accrual basis of accounting.

Grant Amendments

No grant amendments were made during the current year.

INDEPENDENT AUDITOR'S REPORT



**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENTAL AUDITING STANDARDS***

Board of Directors
Monterey Regional Water Pollution Control Agency
Monterey, California

We have audited the financial statements of Monterey Regional Water Pollution Control Agency (the "Agency") as of and for the years ended June 30, 2010 and 2009, and have issued our report thereon dated November 15, 2010. We conducted our audits in accordance with auditing standards generally accepted auditing in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Agency's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information of the board of directors, finance and personnel committee, management, the State Controller's Office, Federal awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Vawrinck Trime Day + Co. LLP

Palo Alto, California
November 15, 2010



Monterey Regional Water Pollution Control Agency

*"Dedicated to meeting the wastewater and reclamation needs
of our member agencies, while protecting the environment."*

Administration Office:
5 Harris Court, Bldg. D, Monterey, CA 93940-5756
(831) 372-3367 or 422-1001, FAX: (831) 372-6178
Website: www.mrwPCA.org

MEMORANDUM

TO: BUDGET/PERSONNEL COMMITTEE

FROM: JOHN TIERNAN, DIR OF ADMIN SERVICES/ DEPUTY GM
(via Keith Israel, General Manager)

DATE: NOVEMBER 15, 2010

SUBJECT: UPDATE IN REVISING CAPACITY FEES

Background:

At the October Budget/Personnel Committee meeting, staff proposed that Municipal Financial Services (MFS) be contracted to perform a comprehensive wastewater capacity charge study. Staff estimated that this study would be completed and presented to the Budget/Personnel Committee at the November meeting.

The study was not completed in time for the meeting. Valuation of our fixed assets is taking longer than anticipated and is a key component of the capacity fee formula. We anticipate the analysis to be completed by mid-December. In that case, we would report the results at the January meeting. This gives staff adequate time to revise the report and to include the results in consideration of fees, both capacity and user rates, and how they would interface in our upcoming budget deliberations.

➤ **Information only – no action needed.**

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