

Monterey Regional Water Pollution Control
Agency

Comprehensive Annual Financial Report



For Year Ended June 30, 2005

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**MONTEREY REGIONAL WATER
POLLUTION CONTROL AGENCY**

COMPREHENSIVE ANNUAL FINANCIAL REPORT

**FOR THE FISCAL YEARS ENDED
JUNE 30, 2005 and 2004**

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Section I

INTRODUCTORY

- Letter of Transmittal
- Board of Directors



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

Board of Directors

Monterey Regional Water Pollution Control Agency
Monterey, CA

January 30, 2006

Comprehensive Annual Financial Report Year Ended June 30, 2005

FORMAL TRANSMITTAL OF THE CAFR

It is a pleasure to submit the Monterey Water Pollution Control Agency's Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2005. Responsibility for both the accuracy of presented data and the completeness and fairness of the presentation, including all disclosures, rests with the Agency. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of operations of the Agency. All disclosures necessary to enable the reader to gain the maximum understanding of the Agency's financial activities have been included.

The CAFR is presented in accordance with Generally Accepted Accounting Principles (GAAP) as promulgated by the Governmental Accounting Standards Board (GASB).

The CAFR is presented in three sections as follows:

Introductory Section – This section, which is unaudited, introduces the reader to the report and the Agency. Included in this section are this letter of transmittal, the Agency's organization chart, the principal officers, and a service area map.

Financial Section – This section begins with the management's discussion and analysis, independent auditor's opinion and the statements of financial position, cash flow and operating results. Also included are notes to the financial statements and certain supplemental information that enhance an understanding of MRWPCA'S current financial status.

Statistical Section – This section depicts the past ten years of history and illustrates financial trends, providing unaudited information that is useful for a broader and more complete understanding of the MRWPCA's financial and operational affairs.



The Reporting Entity

Joint-Powers Agency

In 1972, MRWPCA was formed as a Joint Powers Agency to seek joint solutions to the wastewater treatment needs of its member entities: Del Rey Oaks, Monterey, Pacific Grove, Salinas, Sand City, Seaside, Boronda, Castroville, Moss Landing Sanitation District, Fort Ord, Monterey County, and Marina Coast Water District. MRWPCA is governed by a Board of Directors representing each of the jurisdictions served.

In 1977, MRWPCA began consolidating wastewater operations through the acquisition of several treatment plants. By 1990, construction on the Regional Wastewater Treatment Plant (RTP) was completed, replacing eight overloaded and outdated facilities. In addition, MRWPCA operates and maintains 25 pump stations, 35 pressure-vacuum stations and approximately 35 miles of pipeline (from each pump station to the treatment plant). Each locality is responsible for moving wastewater from businesses and residences in its area to the pump stations. From the stations, MRWPCA moves the wastewater to Marina for treatment.

Each day, 21 million gallons of wastewater are processed at the plant serving a population of nearly 250,000 people.

MRWPCA's treatment of wastewater exceeds state and federal standards for safety and quality. This assures the treated water discharged through an outfall pipe two miles off the Monterey coast is safe for the marine environment.

In 1995, MRWPCA began construction of the \$33 million Salinas Valley Reclamation Project (SVRP). Completed in 1998, the tertiary treatment facility located in Marina next to the RTP provides irrigation water for approximately 12,000 acres of farmlands in northern Monterey County. The use of recycled water also plays an important part in supporting the local environment by alleviating water shortages resulting from lack of adequate water storage facilities, droughts, and seawater intrusion.

Using highly treated wastewater to irrigate landscaping has been practiced for years. However, using recycled water for food crops is relatively new. The Monterey Wastewater Reclamation Study for Agriculture (MWRSA), for instance was an 11-year study begun in 1976 to determine the safety of using reclaimed water for irrigation in the Castroville area. It consisted of full-scale field tests using reclaimed wastewater on various food crops, including artichokes, celery, broccoli, lettuce, and cauliflower. Crops irrigated with reclaimed water were found to be safe for human consumption. In fact, they produced higher yields with better quality and appearance than those grown with well water. The conclusions were published in 1987 and confirmed that tertiary treated wastewater could be safely used for uncooked food crops.



The Organization

Now employing approximately 80 employees, MRWPCA is made up of the following sections/units consisting of: Administration, Accounting, Customer Service, Engineering Services, Field Maintenance, Maintenance, Operations, Utilities, Laboratory, Safety, Source Control, Co-Generation, Reclamation, and Distribution.

The Agency Mission Statement includes the following: “The Monterey Regional Water Pollution Control Agency is dedicated to meeting the wastewater and reclamation needs of our member agencies while protecting the environment”.

The Board of Directors annually adopts three year goals and objectives and then monitors staff implementation of programs and policies. This strategic planning process also provides the basis for the operating budget. The current three year goals include:

- Maximize the use of recycled water
- Develop and begin to implement a plan to provide pump station capacity for Boronda, Salinas, and North County growth
- Assure the safety and quality of recycled water
- Maintain and improve the human, physical, and fiscal assets of the Agency

Major Initiatives

During the fiscal year 2004/05, the Agency completed or initiated a number of significant projects, which include the following:

Reclamation – This is our eighth year of successful reclamation operations without problems, producing 13,000 AF of recycled water. Since 1998, 25 billion gallons of recycled water have been produced for agricultural irrigation.

Community Relations – Partnering assists member entities to comply with regulatory requirements at a low cost, assures agency staff is fully utilized, and provides revenue. MRWPCA provides contract services for the following: commercial grease pretreatment inspections for most member entities; City of Salinas stormwater program compliance inspections; City of Salinas industrial wastewater pond system and pretreatment program including permitting, monitoring and inspecting; grease reduction media campaign for the Southern Monterey Bay Waste Discharge Requirement Group, City of Salinas pump station maintenance; and city-specific sewer spill prevention public outreach.



Salt Reduction Activities – Recycled water salt content is a concern to agricultural growers. The agency has participated in a national salt study performed by the American Water Works Association Research Foundation. The report provides guidance for future salt control strategies. Commercial and industrial source control, public outreach, industry recognition, and brine hauling programs have significantly reduced salt loadings at the regional treatment plant in 2005.

Biosolids Dewatering Facility Project – The dewatering of sludge is a critical component of the biosolids disposal process. The current biosolids dewatering process relies primarily on sludge drying beds (solar drying) and supplemental drying by belt press. The effectiveness of the drying beds is totally dependent upon the weather and availability of significant staff labor. The use of a new and innovative technology, referred to as screw press dewatering, has been incorporated as part of the new facility design and will significantly improve our ability to dewater biosolids. Completion of the biosolids dewatering study was completed in FY04-05 and the design is nearly complete. Procurement of the screw presses is completed and installation is expected to be finalized during FY06-07.

Seaside Basin Ground Water Replenishment Project (GRP) – The proposed Seaside Basin Groundwater Replenishment Project (GRP) involves the purification and conveyance of recycled water from MRWPCA's Salinas Valley Reclamation Plant (SVRP) for recharge of the Seaside aquifer. Recycled water has been produced by the SVRP since 1998. That water has been delivered to 12,000 acres of farmland in the Castroville region of the lower Salinas Valley, where numerous non-processed food crops such as lettuce, broccoli, cauliflower, celery, artichokes, and strawberries are grown. This same reclamation plant could produce additional water, which would be treated to drinking water quality and either percolated or injected into the Seaside groundwater basin to help recharge that basin. The GRP is currently in the planning stage, with an initial feasibility study already completed.

Other Information

Risk Management

The Agency is a member of the California Sanitation Risk Management Authority (CSRMA), a joint powers authority established for the operation of common risk management and loss prevention programs. CSRMA provides the Agency with coverage for worker's compensation, general liability and property loss.

Independent Audit

California state statutes and bond covenants require an annual independent audit of the books of accounts and financial records of the Agency. The firm of Vavrinek, Trine, Day, & CO., LLP was contracted to conduct this year's audit. Their opinion is included in the Financial Section of this report.



Plant of the Year

January 19, 2001, MRWPCA received the Plant of the Year award from the California Water Environment Association, Monterey Bay Section. MRWPCA won in the Large Plant category (over 10 million gallons/day of wastewater treated) and also tied the City of Scotts Valley for Overall Plant of the Year. The Overall Plant of the Year is selected from among both large and small plants.

Acknowledgements

In submitting this 2004/05 Comprehensive Annual Financial Report, sincere appreciation is expressed to the Agency staff for their cooperation and assistance. Recognition is also given to the Agency management and the governing board for its continuing support of long-range fiscal planning.

Respectfully submitted,

Kelly Cadiente
Accounting Supervisor

John Tiernan
Director of Administrative Services



MONTEREY REGIONAL WATER POLLUTION CONTROL AGENCY

Board of Directors* 2005/2006

Mayor David Pendergrass, Chair	Sand City
Director Carlo Cortopassi, Vice-Chair	County Service Area 14
Director Ramiro Cortez	Boronda County Sanitation District
Mayor Joe Russell	Del Rey Oaks
Director Charles Scholl	Marina Coast Water District
Councilmember Jeff Haferman	Monterey
Supervisor Butch Lindley	Monterey County
Director Peggy Shirrel	Moss Landing County Sanitation District
Councilmember Dan Cort	Pacific Grove
Councilmember Gloria De La Rosa	Salinas
Councilmember Darryl Choates	Seaside
Director Dewey Baird, Chief, Utilities Branch	United States Army – Ex-Officio

*Note: MRWPCA Board Members are appointed from their respective jurisdictions.

Executive Staff

Keith Israel	General Manager
Jim Heitzman	Assistant General Manager
Robert Wellington	Legal Counsel
Tom Buell	Director of Finance
John Tiernan	Director of Administrative Services
Betty Nebb	Executive Assistant to General Manager/Board

Section II

FINANCIAL SECTION

Independent Auditors' Report

Management's Discussion and Analysis

Financial Statements

- Statements of Net Assets
- Statements of Revenues, Expenses and Changes in Net Assets
- Statements of Cash Flows
- Notes to Financial Statements

Required Supplementary Information

- Miscellaneous Plan of the California Public Employee-Retirement System Schedule of Funding Progress

Other Supplementary Information

- Budgetary Comparison
- Schedule of Federal Financial Assistance
- Notes to Budgetary Comparison Schedule

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Monterey Regional Water Pollution Control Agency

We have audited the accompanying statements of net assets of the Monterey Regional Water Pollution Control Agency (the Agency) as of June 30, 2005 and 2004, 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 *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, 2005 and 2004, 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 October 7, 2005, on our consideration of the Agency's internal control over financial reporting and on the Agency's compliance with laws and regulations. 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 assessing the results of our audit.

The Management's Discussion and Analysis and the Schedule of Funding Progress are not a required part of the basic financial statements, but are supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit this information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Agency taken as a whole. The introductory section, other supplementary information and that statistical section listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements of the Agency. The other supplementary information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole. The introductory section and statistical section have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Vawrinek Trine Day & Co. LLP

Palo Alto, California
October 7, 2005

MONTEREY REGIONAL WATER POLLUTION CONTROL AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2005

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, 2005. 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 Auditors' 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 Auditors' 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) and required supplementary information that further explains and supports the information in the financial statements. For comparative purposes, the basic financial statements are presented for the two most recent fiscal years ending June 30, 2005 and June 30, 2004.

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 Regional Plant 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.

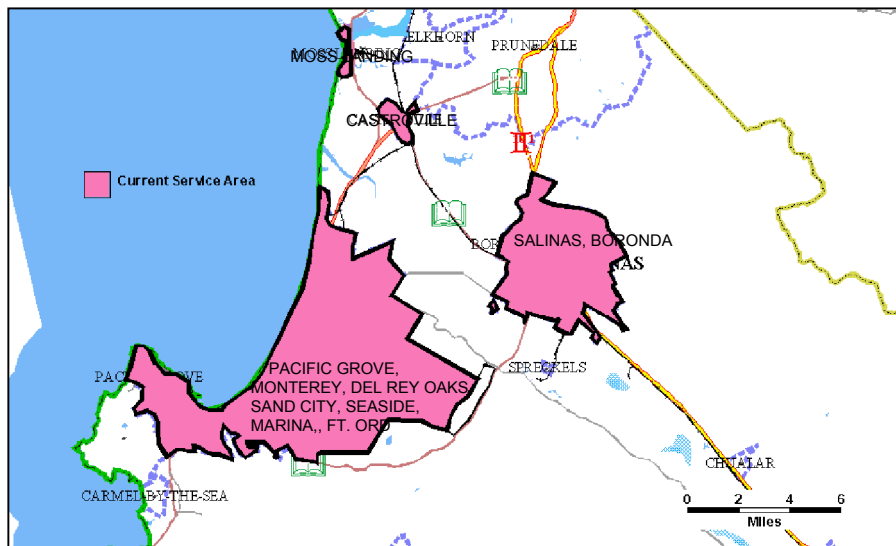
MONTEREY REGIONAL WATER POLLUTION CONTROL AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2005

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 build up of grease in sewer lines is a major contributing factor to sewage back-ups and spills.

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, 2005 were \$348,496 more than operating revenues for the fiscal year ended June 30, 2004.
- Total revenues were \$150,773 more for the fiscal year ended June 30, 2005 when compared to the fiscal year ended June 30, 2004.
- MRWPCA's operating expenses before depreciation for the fiscal year ended June 30, 2005 were \$67,116 more than for the fiscal year ending June 30, 2004.
- Total expenses were \$1,526,036 less for the fiscal year ended June 30, 2005 when compared to the fiscal year ended June 30, 2004.

MONTEREY REGIONAL WATER POLLUTION CONTROL AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2005

- MRWPCA 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.
- Cash and cash equivalents at June 30, 2005 decreased by \$573,184 over the amount reported at June 30, 2004.
- As of June 30, 2005 MRWPCA had long-term debt outstanding totaling \$39,478,248 as compared with \$41,266,753 in long-term debt outstanding at June 30, 2004.
- MRWPCA's total net assets were \$92,152,151 at June 30, 2005 vs. \$95,127,326 at June 30, 2004.

REVENUES

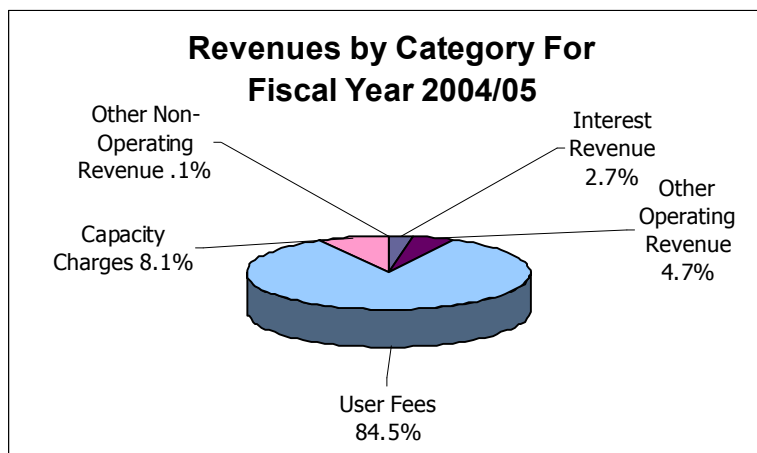
Revenues for the Fiscal Year Totaled \$15,648,283, an increase of \$150,773 from the prior year. The following table presents a comparison of revenues by category for the two fiscal years 2004/05 and 2003/04 and the amount and percentage of change:

MONTEREY REGIONAL WATER POLLUTION CONTROL AGENCY

**MANAGEMENT’S DISCUSSION AND ANALYSIS
JUNE 30, 2005**

**REVENUES BY CATEGORY
For the Fiscal Year Ended June 30, 2005
(With Comparative Totals for the Fiscal Year Ended June 30, 2004)**

Revenues by Category	2004/05		2003/04		Increase/(Decrease) from 2003/04	
	Amount	% of Total	Amount	% of Total	Amount	% of Change
OPERATING REVENUE						
User Fees						
Residential	9,130,819	58.4%	8,716,503	56.2%	414,316	4.75%
Commercial	2,383,728	15.2%	2,372,908	15.3%	10,820	0.46%
Industrial	207,028	1.3%	200,728	1.3%	6,300	3.14%
Military	727,850	4.7%	727,849	4.7%	1	0.00%
Other	24,600	0.2%	19,332	0.1%	5,268	27.25%
Liquid Waste Haulers-User Fees	429,929	2.7%	406,478	2.6%	23,451	5.77%
Grease Haulers-User Fees	100,715	0.6%	217,031	1.4%	-116,316	-53.59%
Diluted Oily Wastes-User Fees	44,101	0.3%	77,151	0.5%	-33,050	-42.84%
Penalty and Transfer Fees	167,199	1.1%	177,783	1.1%	-10,584	-5.95%
Total User Fees	13,215,969		12,915,763		300,206	
Other Operating Revenue	729,587	4.7%	681,297	4.4%	48,290	7.09%
Total Operating Revenue	13,945,556		13,597,060		348,496	2.56%
NON-OPERATING REVENUE						
Interest Revenue	429,386	2.7%	535,660	3.5%	-106,274	-19.84%
Capacity Charges	1,261,636	8.1%	1,317,287	8.5%	-55,651	-4.22%
Other	11,705	0.1%	47,503	0.3%	-35,798	-75.36%
Total Non-Operating Revenue	1,702,727		1,900,450		-197,723	-10.40%
TOTAL REVENUES	15,648,283	100.0%	15,497,510	100.0%	150,773	0.97%



MONTEREY REGIONAL WATER POLLUTION CONTROL AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2005

Changes in Revenue between 04/05 and 03/04:

- S Operating revenue increased 2.56% or \$348,496 in 04/05 due to an increase in user fee rates beginning September, 2004.
- S Interest revenue decreased 19.84% or \$106,274 in 04/05. This was a result of the decrease of restricted assets in 2004 of \$7.16 million that refunded the 1994 bonds.
- S Capacity charges collected decreased by \$55,651 in 04/05. 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 impact the number of capacity permits issued in the future.

Comparison of 04/05 Revenue to Budget:

For 2004/05, MRWPCA recorded operating revenue of \$13,945,556 which is \$374,078 less than budgeted. This is the result of several factors:

1. Commercial user fees were \$94,988 less than budgeted due to customer base changes.
2. Fort Ord user fees were \$227,412 less than budgeted.
3. Grease Hauler fees were under budget by \$194,982, due to grease haulers disposing of grease out of county.
4. The decrease was partially offset by an increase in revenues collected for work performed for outside entities including maintaining lift stations for cities within our service area.

EXPENSES

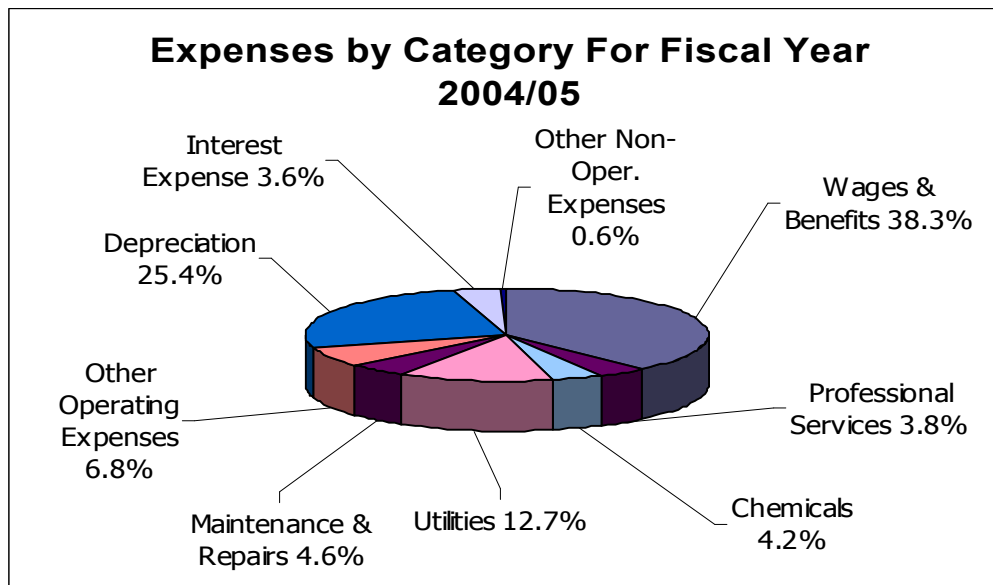
Expenses for 2004/05 totaled \$18,623,458, a decrease of \$1,526,036 over the prior year. Also, the Agency underwent an organizational re-structuring resulting in a change in expense reporting by department. The 2003/04 expense presentation has been changed to conform to the current year presentation. The following tables present a comparison of expenses by category and by department for the two fiscal years 2004/05 and 2003/04 and the amount and percentage of change:

MONTEREY REGIONAL WATER POLLUTION CONTROL AGENCY

**MANAGEMENT’S DISCUSSION AND ANALYSIS
JUNE 30, 2005**

**EXPENSES BY CATEGORY
For the Fiscal Year Ended June 30, 2005
(With Comparative Totals for the Fiscal Year Ended June 30, 2004)**

Expenses by Category	2004/05		2003/04		Increase/(Decrease) from 2003/04	
	Amount	% of Total	Amount	% of Total	Amount	% of Change
OPERATING EXPENSES						
Wages & Benefits	7,129,731	38.3%	6,843,868	34.0%	285,863	4.18%
Training & Administration	155,324	0.8%	152,754	0.8%	2,570	1.68%
Office Expense	284,233	1.5%	311,948	1.5%	-27,715	-8.88%
Information Systems	165,249	0.9%	193,349	1.0%	-28,100	-14.53%
Professional Services	715,652	3.8%	774,211	3.8%	-58,559	-7.56%
Operating Supplies	271,738	1.5%	328,815	1.6%	-57,077	-17.36%
Contract Services	333,383	1.8%	319,255	1.6%	14,128	4.43%
Chemicals	776,060	4.2%	775,811	3.9%	249	0.03%
Utilities	2,371,197	12.7%	2,341,452	11.6%	29,745	1.27%
Maintenance & Repairs	849,501	4.6%	945,164	4.7%	-95,663	-10.12%
Billable Services	60,442	0.3%	58,768	0.3%	1,674	2.85%
Total Operating Expenses before Depreciation	13,112,510		13,045,394		67,116	0.51%
DEPRECIATION	4,736,783	25.4%	5,272,278	26.2%	-535,495	-10.16%
NON-OPERATING EXPENSES						
Interest Expense	661,488	3.6%	1,270,767	6.3%	-609,279	-47.95%
Amortization of Bond Issuance Costs	81,711	0.4%	52,521	0.3%	29,190	55.58%
Other Expense	30,966	0.2%	508,534	2.5%	-477,568	93.91%
Total Non-Operating Expenses	774,165		1,831,822		-1,057,657	-57.74%
TOTAL EXPENSES	18,623,458	100.0%	20,149,494	100.0%	-1,526,036	-7.57%

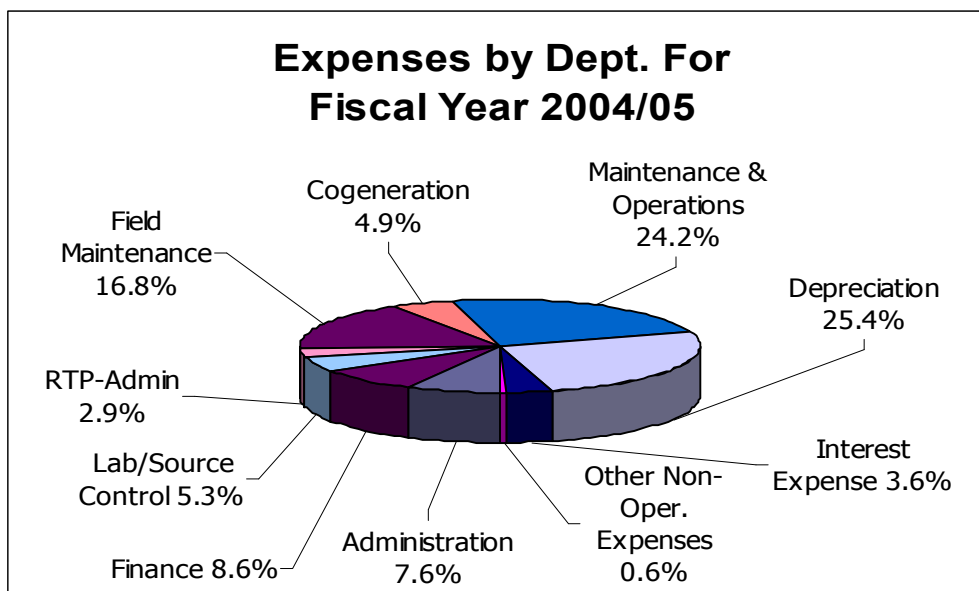


MONTEREY REGIONAL WATER POLLUTION CONTROL AGENCY

**MANAGEMENT’S DISCUSSION AND ANALYSIS
JUNE 30, 2005**

**EXPENSES BY DEPARTMENT
For the Fiscal Year Ended June 30, 2005
(With Comparative Totals for the Fiscal Year Ended June 30, 2004)**

Expenses by Dept.	2004/05		2003/04		Increase/(Decrease) from 2003/04	
	Amount	% of Total	Amount	% of Total	Amount	% of Change
OPERATING EXPENSES						
Administration	1,408,352	7.6%	1,332,550	6.6%	75,802	5.69%
Finance/Human Resources	1,609,837	8.6%	1,360,912	6.8%	248,925	18.29%
Environmental Services	988,293	5.3%	1,024,537	5.1%	-36,244	-3.54%
RTP - Administration	546,559	2.9%	562,023	2.8%	-15,464	-2.75%
Field Maintenance	3,128,901	16.8%	3,326,291	16.5%	-197,390	-5.93%
Cogeneration	921,101	4.9%	836,785	4.2%	84,316	n/a
RTP - Maintenance & Operations	4,509,467	24.2%	4,602,296	22.8%	-92,829	-2.02%
Total Operating Expenses before Depreciation	13,112,510		13,045,394		67,116	0.51%
DEPRECIATION	4,736,783	25.4%	5,272,278	26.2%	-535,495	-10.16%
NON-OPERATING EXPENSES						
Interest Expense	661,488	3.6%	1,270,767	6.3%	-609,279	-47.95%
Amortization of Bond Issuance Costs	81,711	0.4%	52,521	0.3%	29,190	55.58%
Other Expense	30,966	0.2%	508,534	2.5%	-477,568	-93.91%
Total Non-Operating Expenses	774,165		1,831,822		-1,057,657	-57.74%
TOTAL EXPENSES	18,623,458	100.0%	20,149,494	100.0%	-1,526,036	-7.57%



MONTEREY REGIONAL WATER POLLUTION CONTROL AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2005

Changes in Expenses between 04/05 and 03/04:

- S Operating expenses before depreciation increased 0.51% or \$67,116 in 04/05. The following categories had the greatest change from the prior year:
 - Wages & Benefits – There was an increase of \$285,863 in 04/05 due to cost of living adjustments, step increases, and implementation of the salary survey completed in 03/04.
 - Professional Services – This category decreased by \$58,559 or 7.56% due to less technical support being contracted out.
 - Operating Supplies decreased \$57,077 or 17.36% because of less paint and paint supplies usage.
 - Maintenance & Repairs – This category decreased by \$95,663 in 04/05 due to a decrease in building and grounds and electrical instrumentation repair costs.
- S Depreciation expense decreased by \$535,495 in 04/05. A number of assets were fully depreciated in 03/04.
- S Interest expense decreased by \$609,280 in 04/05 due to the decreased interest expense accretion on the 1994 bonds which were refunded in 03/04.
- S Other expense decreased by \$477,568. This is a result of a large reclassification of capital expense to non-operating expense in 03/04.

Comparison of 04/05 Expense to budget:

For 2004/05, MRWPCA recorded operating expense of \$13,112,510 compared to the budget for operating expense of \$13,613,284. The difference is \$500,774 or 3.68% under budget. This is a result of the following factors:

- § Salary and wages, professional services, and repairs and maintenance were less than anticipated.

MONTEREY REGIONAL WATER POLLUTION CONTROL AGENCY

**MANAGEMENT’S DISCUSSION AND ANALYSIS
JUNE 30, 2005**

TOTAL NET ASSETS

Total Net Assets for the Fiscal Year Totaled \$92,152,151, a decrease of \$2,975,175 from the prior year.

The following table presents a comparison of assets, liabilities, and total net assets for the two fiscal years 2004/05 and 2003/04 and the amount and percentage of change:

**TOTAL NET ASSETS
For the Fiscal Year Ended June 30, 2005
(With Comparative Totals for the Fiscal Year Ended June 30, 2004)**

			Increase/(Decrease)	
	2004/05	2003/04	from 2003/04	
Assets				
Non-Restricted				
Current	\$ 10,453,954	\$ 10,916,660	\$ (462,706)	-4.2%
Other Non-Restricted Assets	9,511,973	8,448,675	1,063,298	12.6%
Restricted				
Current	12,798,411	13,164,008	-365,597	-2.8%
Other Restricted Assets	500,000	500,000	0	0.0%
Capital Assets net of Acc. Depr.	107,168,839	111,658,166	-4,489,327	-4.0%
Total Assets	140,433,177	144,687,509	-4,254,332	-2.9%
Liabilities				
Current Liabilities	5,246,266	5,122,252	124,014	2.4%
Current Liabilities Payable from Restricted Assets	3,556,512	3,171,178	385,334	12.2%
Other Liabilities				
Long-Term Debt	39,478,248	41,266,753	-1,788,505	-4.3%
Total Liabilities	48,281,026	49,560,183	-1,279,157	-2.6%
Net Assets				
Invested in Capital Assets net of Related Debt	75,174,473	76,791,056	-1,616,583	-2.1%
Restricted	9,741,899	10,492,830	-750,931	-7.2%
Unrestricted	7,235,779	7,843,440	-607,661	-7.7%
TOTAL NET ASSETS	\$ 92,152,151	\$ 95,127,326	\$ (2,975,175)	-3.1%

MONTEREY REGIONAL WATER POLLUTION CONTROL AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2005

Total Assets at June 30, 2005 were \$140,433,177 vs. \$144,687,509 at June 30, 2004.

- s Non-restricted assets (Cash, Investments, accounts receivable) increased by \$600,592.
- s Restricted assets decreased by \$365,597.
- s Total Assets decreased \$4.2 million, which was largely the result of the annual depreciation expense.

Total Liabilities at June 30, 2005 were \$48,281,026 vs. \$49,560,183 at June 30, 2004.

- s Total liabilities decreased \$1.3 million due to the decrease in Long-Term Debt.

CONTACTING MRWPCA'S FINANCIAL MANAGEMENT

This financial report is designed to provide MRWPCA's Board members, customers, rate payers, 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:

	2005	2004
CURRENT ASSETS		
Cash	\$ 1,310,093	\$ 912,299
Investments	8,849,990	9,350,261
Accounts receivable	68,155	411,671
Inventory of materials and supplies	115,642	70,059
Prepaid expenses and other current assets	110,074	172,370
Current restricted assets	12,798,411	13,164,008
Total current assets	23,252,365	24,080,668
OTHER ASSETS		
Receivable from Monterey County	9,267,430	8,122,422
Restricted assets	500,000	500,000
Debt issuance costs, net of accumulated amortization	244,543	326,253
Total other assets	10,011,973	8,948,675
PROPERTY, PLANT AND EQUIPMENT		
Land	2,068,852	2,068,852
Buildings	90,681,185	89,577,468
Improvements other than buildings	51,213,691	51,213,691
Equipment	69,531,461	67,083,368
Construction in progress	3,686,006	5,501,730
Subtotal fixed assets	217,181,195	215,445,109
Less accumulated depreciation	(110,012,356)	(103,786,943)
Total fixed assets	107,168,839	111,658,166
Total Assets	140,433,177	144,687,509
CURRENT LIABILITIES		
Current portion of long-term debt	1,783,548	1,722,779
Accounts payable and accrued expenses	3,046,892	2,860,479
Utility taxes due to other governmental agencies	415,826	538,994
Accounts and deposits payable from restricted assets	3,556,512	3,171,178
Total current liabilities	8,802,778	8,293,430
OTHER LIABILITIES		
Long-term debt, less current portion	39,478,248	41,266,753
Total Liabilities	48,281,026	49,560,183
NET ASSETS		
Invested in fixed assets net of related debt	75,174,473	76,791,056
Restricted	9,741,899	10,492,830
Unrestricted	7,235,779	7,843,440
Total net assets	\$ 92,152,151	\$ 95,127,326

The accompanying notes are an integral part of these financial statements.

MONTEREY REGIONAL WATER POLLUTION CONTROL AGENCY

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30:**

	2005	2004
OPERATING REVENUES		
User fees	\$ 13,215,969	\$ 12,915,763
Other operating revenues	729,587	681,297
Total operating revenues	<u>13,945,556</u>	<u>13,597,060</u>
OPERATING EXPENSES BEFORE DEPRECIATION		
Administrative	1,408,352	1,332,550
Finance/Human Resources	1,609,837	1,360,912
Environmental Services	988,293	1,024,537
Regional Treatment Plant-Administration	546,559	562,023
Field Maintenance	3,128,901	3,326,291
Cogeneration	921,101	836,785
Regional Treatment Plant - Maintenance and Operations	4,509,467	4,602,296
Total operating expenses before depreciation	<u>13,112,510</u>	<u>13,045,394</u>
DEPRECIATION	<u>4,736,783</u>	<u>5,272,278</u>
OPERATING LOSS	(3,903,737)	(4,720,612)
NONOPERATING REVENUES (EXPENSES)		
Interest revenue	429,386	535,660
Interest expense	(661,488)	(1,270,767)
Amortization of bond issuance costs	(81,711)	(52,521)
Capacity charges	1,261,636	1,317,287
Other revenue	11,705	47,503
Other expense	(30,966)	(508,534)
Total nonoperating revenues	<u>928,562</u>	<u>68,628</u>
Decrease in net assets	(2,975,175)	(4,651,984)
Beginning Net Assets	95,127,326	99,779,310
Ending Net Assets	<u>\$ 92,152,151</u>	<u>\$ 95,127,326</u>

The accompanying notes are an integral part of these financial statements.

MONTEREY REGIONAL WATER POLLUTION CONTROL AGENCY

STATEMENTS OF CASH FLOWS YEARS ENDED JUNE 30:

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers for services	\$ 14,290,771	\$ 14,034,422
Cash paid to employees and vendors for services	12,647,218	11,160,206
Cash provided by operating activities	1,643,553	2,874,216
CASH FLOWS FROM NON-CAPITAL FINANCING AND INVESTING ACTIVITIES		
Capacity charges	1,261,636	1,317,287
Other	49,184	45,760
Cash provided by non capital financing and investing activities	1,310,820	1,363,047
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Interest expense	(661,488)	(735,115)
Acquisition and construction of property and equipment	(1,804,711)	(3,564,211)
Principal payments on long-term debt	(1,727,743)	(8,655,724)
Debt service funding from Monterey County	412,254	399,852
Other	-	(348,985)
Cash used in capital and related financing activities	(3,781,688)	(12,904,183)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income	254,131	529,838
Sale of investments	-	7,089,581
Cash provided by investing activities	254,131	7,619,419
(DECREASE) IN CASH AND CASH EQUIVALENTS	(573,184)	(1,047,501)
Cash and cash equivalents at beginning of year	23,631,438	24,678,939
Cash and cash equivalents at end of year	\$ 23,058,254	\$ 23,631,438
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Loss	(3,903,737)	(4,720,612)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	4,736,783	5,272,278
Effect of changes in:		
Other current assets	361,928	386,814
Accounts payable and accrued expenses	571,747	2,410,006
Due other governmental agencies	(123,168)	(474,270)
Net cash provided by operating activities	\$ 1,643,553	\$ 2,874,216

The accompanying notes are an integral part of these financial statements.

MONTEREY REGIONAL WATER POLLUTION CONTROL AGENCY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005 AND 2004

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, 2005 AND 2004

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, 2005 and 2004.

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.

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 resolutions 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.

Property, Plant and Equipment

Property, plant and equipment acquired through purchase or internal construction 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.

MONTEREY REGIONAL WATER POLLUTION CONTROL AGENCY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005 AND 2004

Depreciation expense is computed on a straight-line basis over the estimated useful lives of the assets ranging from 5 to 75 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.

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 2005 and 2004.

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.

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.

MONTEREY REGIONAL WATER POLLUTION CONTROL AGENCY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005 AND 2004

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.

Governmental Accounting Standards Board Statements

In March 2003, the GASB issued Statement No. 40, *Deposit and Investment Risk Disclosures*, an amendment of GASB No. 3. This statement modifies the Deposit and Investment Risk Categorization Disclosures and requires additional information on an entity's portfolio. This statement is effective for periods beginning after June 15, 2004. The Agency adopted the provisions of GASB 40 during fiscal year 2004-05.

In November 2003, the GASB issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. This statement requires governments to measure, recognize, and disclose the effects of capital asset impairments in their financial statements when it occurs. This statement also clarifies and establishes accounting requirements for insurance recoveries, including those associated with capital asset impairment. This statement is not effective until June 30, 2006. The Agency has not determined its effect on the financial statements.

In April 2004, the GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This statement establishes accounting and financial reporting standards for plans that provide postemployment benefits other than pension benefits (known as other postemployment benefits or OPEB). This statement is not effective until June 30, 2007. This statement is not expected to have a significant impact on the financial statements of the Agency.

In May 2004, the GASB issued Statement No. 44, *Economic Condition Reporting: The Statistical Section an amendment of NCGA Statement No. 1*. This Statement amends the portions of NCGA Statement 1, *Governmental Accounting and Financial Reporting Principles* that guide the preparation of the statistical section. The statistical section presents detailed information, typically in ten-year trends, that assists users in utilizing the basic financial statements, notes to basic financial statements, and required supplementary information to assess the economic condition of a government. This statement is not effective until June 30, 2006. The Agency has not determined its effect on the financial statements.

In June 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers. This statement is not effective until June 30, 2008. The Agency has not determined its effect on the financial statements.

In December 2004, the GASB issued Statement No. 46, *Net Assets Restricted by Enabling Legislation-an amendment of GASB Statement No. 34*. This Statement clarifies that a legally enforceable enabling legislation restriction is one that a party external to a government can compel a government to honor. This statement is effective for periods beginning after June 15, 2005. The Agency has not determined its effect on the financial statements.

MONTEREY REGIONAL WATER POLLUTION CONTROL AGENCY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004**

In June 2005, the GASB issued Statement No. 47, *Accounting for Termination Benefits*. This Statement establishes accounting guidance and disclosure requirements for termination benefit arrangements. This statement is effective in two parts. For termination benefits provided through an existing defined benefit other post employment benefit plan (OPEB), the provisions should be implemented simultaneously with GASB Statement No. 45. For all other termination benefits, this Statement is effective for periods beginning after June 15, 2005. The Agency has not determined its effect on the 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.

Cash and cash equivalents are recorded in the accompanying financial statements, as follows:

	<u>2005</u>	<u>2004</u>
Cash - unrestricted	\$ 1,310,093	\$ 912,299
Cash - restricted	716,930	528,814
	<u>\$ 2,027,023</u>	<u>\$ 1,441,113</u>

Investments, recorded at amortized cost, which approximated fair value, at June 30, 2005 and 2004, are summarized as follows:

	<u>2005</u>	<u>2004</u>
California Asset Management Program (CAMP)		
US Treasury Obligation Bonds	\$ 1,238,326	\$ -
Federal Agency Obligation Bonds	6,745,981	-
Accrued Interest	54,198	-
County Pooled Investments Fund	116,635	-
Subtotal	<u>8,155,140</u>	-
State of California Local Agency Investment Fund	12,876,091	22,190,325
	<u>\$ 21,031,231</u>	<u>\$ 22,190,325</u>

MONTEREY REGIONAL WATER POLLUTION CONTROL AGENCY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005 AND 2004

The above investments are classified in the accompanying balance sheets as follows:

	<u>2005</u>	<u>2004</u>
Investments		
Unrestricted current	\$ 8,849,990	\$ 9,350,261
Restricted current	11,681,241	12,340,064
Restricted noncurrent	500,000	500,000
	<u>\$ 21,031,231</u>	<u>\$ 22,190,325</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 County Treasury

The Agency is considered to be an involuntary participant in an external investment pool as the Agency is required to deposit all receipts and collections of lien monies with their County Treasurer. The fair value of the Agency's investment in the pool is reported in the accounting financial statements at amounts based upon the Agency's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

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.

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.

MONTEREY REGIONAL WATER POLLUTION CONTROL AGENCY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005 AND 2004

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 purchasing shorter term investments.

At June 30, 2005 the Agency, through the CAMP program, had the following investments: (All rated AAA by S&P)

<u>Investment Type</u>	<u>Carrying Value</u>	<u>Maturity Dates</u>
FHLB TAP Notes	\$ 1,503,862	11-05 to 5-06
FHLMC Global Notes	4,426,973	2-06 to 5-07
FNMA Callable Notes	815,146	5-07 to 12-07
U S Treasury Notes	1,238,326	3-07 to 2-08
	<u>\$ 7,984,307</u>	

MONTEREY REGIONAL WATER POLLUTION CONTROL AGENCY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005 AND 2004

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 an nationally recognized statistical rating organization. The Agency's investments are limited to US Agency Securities for which there is no minimum credit rating. Investments in LAIF are not rated.

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, 2005, the Agency's bank balances of \$1,804,027 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. In addition, investments in LAIF are an external investment pool, and have no custodial credit risk.

MONTEREY REGIONAL WATER POLLUTION CONTROL AGENCY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004**

NOTE 3 – RESTRICTED ASSETS AND LIABILITIES

Details of restricted assets and liabilities as of June 30, 2005 and 2004, are as follows:

	2005			2004		
	Construction	Other	Total	Construction	Other	Total
Current restricted assets:						
Cash	\$ 18,013	\$ 698,917	\$ 716,930	\$ 85,258	\$ 443,556	\$ 528,814
Investments	11,381,241	300,000	11,681,241	12,040,064	300,000	12,340,064
Interest receivable	282,064	-	282,064	106,808	-	106,808
Reclamation receivable	-	112,484	112,484	-	182,630	182,630
Grant receivable	5,692	-	5,692	5,692	-	5,692
	<u>\$ 11,687,010</u>	<u>\$ 1,111,401</u>	<u>\$ 12,798,411</u>	<u>\$ 12,237,822</u>	<u>\$ 926,186</u>	<u>\$ 13,164,008</u>
Noncurrent restricted assets:						
Investments	\$ -	\$ 500,000	\$ 500,000	\$ -	\$ 500,000	\$ 500,000
	<u>\$ -</u>	<u>\$ 500,000</u>	<u>\$ 500,000</u>	<u>\$ -</u>	<u>\$ 500,000</u>	<u>\$ 500,000</u>
Current liabilities payable from restricted assets:						
Construction services payable	\$ 3,556,422	\$ 90	\$ 3,556,512	\$ 3,171,088	\$ 90	\$ 3,171,178
	<u>\$ 3,556,422</u>	<u>\$ 90</u>	<u>\$ 3,556,512</u>	<u>\$ 3,171,088</u>	<u>\$ 90</u>	<u>\$ 3,171,178</u>
Restricted Net Assets	<u>\$ 8,130,588</u>	<u>\$ 1,611,311</u>	<u>\$ 9,741,899</u>	<u>\$ 9,066,734</u>	<u>\$ 1,426,096</u>	<u>\$ 10,492,830</u>

MONTEREY REGIONAL WATER POLLUTION CONTROL AGENCY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004**

NOTE 4 – LONG-TERM DEBT

Long-term debt outstanding at June 30, 2005 and 2004 is summarized as follows:

	<u>2005</u>	<u>2004</u>
1994 capital appreciation wastewater contract revenue bonds; original principal of \$10,603,049; value at maturity, \$21,000,000; weighted average interest at 5.42%; due June 2000, through June 2017; including accrued interest of \$3,825,234 at June 30, 2003. In June 2004, principal plus accreted interest of \$6,825,551 was paid off. The funds used to refund this obligation came from the proceeds of the 2003 Revenue Refunding Bonds (see below). Not all of the 1994 Wastewater Bonds were refunded. The remaining debt service requirement on the 1994 Wastewater Bonds, principal plus interest, is \$1,200,000 for the year ending June 30, 2006.	\$ 1,112,465	\$ 2,192,422
2003 revenue refunding bonds; original principal of \$11,430,000. Interest is payable June 2004 through June 2017 at a weighted average interest rate of 3.57%. Principal payments commence 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.	11,310,000	11,380,000
<u>Construction Loans:</u>		
State Revolving Loan Fund Program; maximum loan amount of 3,275,425, 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 final payment due August 13, 2013.	1,740,870	1,906,401
State Revolving Loan Fund Program; maximum loan amount of \$8,850,000; 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 #5).	6,679,461	7,091,709
Bureau of Reclamation loan; maximum loan amount of \$20,544,400; 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 #5).	<u>20,419,000</u>	<u>20,419,000</u>
	41,261,796	42,989,532
Less current portion	<u>1,783,548</u>	<u>1,722,779</u>
Long-Term debt, excluding current portion	<u>\$ 39,478,248</u>	<u>\$ 41,266,753</u>

MONTEREY REGIONAL WATER POLLUTION CONTROL AGENCY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004**

NOTE 4 – LONG-TERM DEBT (Continued)

Bureau of Reclamation loan; maximum loan amount of \$20,544,400; 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 #5).

	<u>20,419,000</u>	<u>20,419,000</u>
	41,261,796	42,989,532
Less current portion	<u>1,783,548</u>	<u>1,722,779</u>
Long-Term debt, excluding current portion	<u>\$ 39,478,248</u>	<u>\$ 41,266,753</u>

Future liabilities on all long-term debt at June 30, 2005 are as follows:

<u>Year ending June 30</u>	
2006	\$ 1,783,548
2007	2,523,442
2008	2,572,493
2009	2,432,135
2010	2,462,386
2011-2015	11,233,713
2016-2020	6,779,391
2021-2025	3,194,397
2026-2030	3,194,397
2031-2035	3,194,397
2036-2038	1,891,497
Total	<u>\$ 41,261,796</u>

The resolutions associated with the 1994, and 2003 bonds contain a number of limitations and restrictions. The Agency is in compliance with all significant limitations and restrictions as of June 30, 2005.

The 1994 bonds were issued by the Authority pursuant to the Marks-Roos Local Bond Pooling Act of 1985. The proceeds of the sale of the 1994 bonds were used to finance certain projects, as defined, for the Agency and to pay certain costs of the issuance of the 1994 bonds.

The 1994 bonds are payable from, and secured by a first pledge of, and charge and lien upon, certain installment payments to be received by the Authority from the Agency as defined under a wastewater improvement agreement by and between the Authority and the Agency. The installment payments are payable from all income and revenue received by the Agency from the ownership, operation or use of the assets acquired from proceeds of the 1994 bonds and all other Agency assets.

MONTEREY REGIONAL WATER POLLUTION CONTROL AGENCY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005 AND 2004

NOTE 5 – 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.

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 \$1,600,000 per year. Reimbursements from the County for debt service on the state loan commenced during the year ended June 30, 2000. Such reimbursement that related to principal repayments is credited against the receivable balance. Such reimbursements totaled \$412,247 and \$399,852 for the years ended June 30, 2005 and 2004, 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.

MONTEREY REGIONAL WATER POLLUTION CONTROL AGENCY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005 AND 2004

NOTE 6 – 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, an agent multiple-employer 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 7% 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 the year ended June 30, 2005 was 4.997%. There was no required employer contribution for the years ended June 30, 2004. 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 projected employer contribution rates for the fiscal years ending June 30, 2006 and 2007 are expected to be 10.854% and 10.936%, respectively, based on the June 30, 2004 actuarial valuation.

Annual Pension Cost

The Agency's annual pension cost was \$767,908 and \$433,689, for the years ending June 30, 2005 and 2004, respectively. The required employer contribution rate for fiscal year 2004-2005 was determined as part of the June 30, 2003 actuarial valuation using the entry age normal actuarial cost method with the contributions determined as a percent of pay. The actuarial assumptions included (a) 8.25% investment rate of return (net of administrative expenses); (b) projected salary increases ranging from 3.75% to 14.2% that vary by duration of service and type of employment; (c) 3.75% cost-of-living adjustment and (d) a 3.5% inflation component. The actuarial value of the Plan's assets was determined using a technique that smoothes the effect of short-term volatility in the market value of investments over a two to five year period depending on the size of investment gains and/or losses. The Plan's unfunded actuarial accrued liability (or excess assets) is amortized as a level percentage of payroll over a 20 year period on a closed basis.

The actuarial assumptions used for the 2004 actuarial valuation were changed such that the projected investment rate of return was decreased to 7.75 % and the inflation component was decreased to 3%. Overall payroll growth and cost-of-living adjustment was reduced by .5%

MONTEREY REGIONAL WATER POLLUTION CONTROL AGENCY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005 AND 2004

Trend Information for the Plan is as follows:

Fiscal Year Ending	Employer Contribution Rate	Contributions on Behalf of Employees	Employer Contribution	Annual Pension Cost (ARC)	% of APR Contributed	Net Pension Obligation
6/30/2005	4.997%	\$ 431,042	\$ 336,866	\$ 767,908	100%	\$ -
6/30/2004	0.000%	433,689	-	433,689	100%	-
6/30/2003	0.000%	483,530	-	483,530	100%	-

NOTE 7 – 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.

Audited condensed financial information of the CSRMA for the year ended June 30, 2004 is as follows (financial information for the year ended June 30, 2005 is not yet available):

Total Assets	\$ 23,514,392
Total Liabilities	15,628,683
Retained Earnings	<u>\$ 7,885,709</u>
Total Revenues	\$ 10,180,421
Total Expenditures	10,274,530
Net Loss	<u>\$ (94,109)</u>
Payments	<u>\$ 440,120</u>

The entity did not have long-term debt outstanding at June 30, 2004. The Agency’s share of year-end assets, liabilities, or fund equity has not been calculated by the CSRMA.

REQUIRED SUPPLEMENTARY INFORMATION

MONTEREY REGIONAL WATER POLLUTION CONTROL AGENCY

REQUIRED SUPPLEMENTARY INFORMATION YEAR ENDED JUNE 30, 2005

Schedule of Funding Progress Miscellaneous Plan of the California Public Employees Retirement System (In Millions)

Valuation Date	Accrued Liabilities	Actuarial Assets	Unfunded Liabilities (UL)	Funded Ratio	Annual Covered Payroll	UL As a % of Payroll
6/30/2003	\$ 2,597	\$ 2,373	\$ 224	91.37%	\$ 725	30.91%
6/30/2004*	2,746	2,461	285	89.62%	744	38.30%

* Most recent information available

Because the Agency's individual plan contains less than 100 members, it is required to participate in a risk pool, and has done so for the past 2 fiscal years. The above Schedule of Funding Progress presents information on the risk pool as a whole and not on the Agency's individual plan. Data on the funding progress of the pool prior to June 30, 2003 is not available.

OTHER SUPPLEMENTARY INFORMATION

MONTEREY REGIONAL WATER POLLUTION CONTROL AGENCY

BUDGETARY COMPARISON YEAR ENDED JUNE 30, 2005

	Approved Budget	Actuals	Variance Favorable (Unfavorable)
OPERATING REVENUES			
User fees	\$ 13,805,045	\$ 13,215,969	\$ (589,076)
Other	514,589	729,587	214,998
Total Revenues	<u>14,319,634</u>	<u>13,945,556</u>	<u>(374,078)</u>
OPERATING EXPENSES			
Administrative	1,373,989	1,408,352	(34,363)
Finance	1,699,281	1,609,837	89,444
Laboratory	988,188	988,293	(105)
Regional Treatment Plant - Administrative	562,889	546,559	16,330
Field Maintenance	3,218,830	3,128,901	89,929
Cogeneration	756,073	921,101	(165,028)
Regional Treatment Plant - Maintenance and Operations	5,014,034	4,509,467	504,567
Total Operating Expenses	<u>13,613,284</u>	<u>13,112,510</u>	<u>500,774</u>
DEBT SERVICE			
Principal	1,315,490	1,315,490	-
Interest	624,492	661,488	(36,996)
Total Debt Service	<u>1,939,982</u>	<u>1,976,978</u>	<u>(36,996)</u>
OTHER INCOME (EXPENSE)			
Interest income	250,000	429,386	179,386
Capacity charges	1,000,000	1,261,636	261,636
Other	36,962	(19,261)	(56,223)
Total Other Income (Expense)	<u>1,286,962</u>	<u>1,671,761</u>	<u>384,799</u>
CAPITAL OUTLAY	<u>(3,874,120)</u>	<u>(3,564,211)</u>	<u>309,909</u>
CHANGE IN NET ASSETS	<u>\$ (3,820,790)</u>	<u>\$ (3,036,382)</u>	<u>\$ 784,408</u>

MONTEREY REGIONAL WATER POLLUTION CONTROL AGENCY

**SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE
FOR THE YEAR ENDED JUNE 30, 2005**

Program Name	Federal CFDA Number	Loan Balance June 30, 2004	Add	Delete	Loan Balance June 30, 2005
Environmental Protection Agency					
Revolving loan - Marina Project	66.458	\$ 1,906,401	\$ -	\$ 165,532	\$ 1,740,869
Revolving loan - Reclamation Project	66.458	7,091,709	-	412,247	6,679,462
		\$ 8,998,110	\$ -	\$ 577,779	\$ 8,420,331
Department of the Interior					
Bureau of Reclamation Loan	15.000	\$ 20,419,000	\$ -	\$ -	\$ 20,419,000
Totals		\$ 29,417,110	\$ -	\$ 577,779	\$ 28,839,331

MONTEREY REGIONAL WATER POLLUTION CONTROL AGENCY

SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE FOR THE YEAR ENDED JUNE 30, 2005

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	\$ (3,036,382)
Capital outlay	3,564,211
Principal payments on long-term debt	1,315,490
Depreciation and amortization	<u>(4,818,494)</u>
Change in net assets GAAP basis	<u>\$ (2,975,175)</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, 2005.

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.

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Section III

STATISTICAL SECTION

- **Financial Trends – Ten Year Revenue Comparison**
- **Financial Trends – Ten Year Expense Comparison**
- **Revenue Bond Coverage**
- **Annual Influent Flow**
- **Sludge Production**
- **Service Area Ten Largest Users and Percentage of Total revenues**
- **Major Employers**
- **Population Growth**
- **Demographic Statistics**

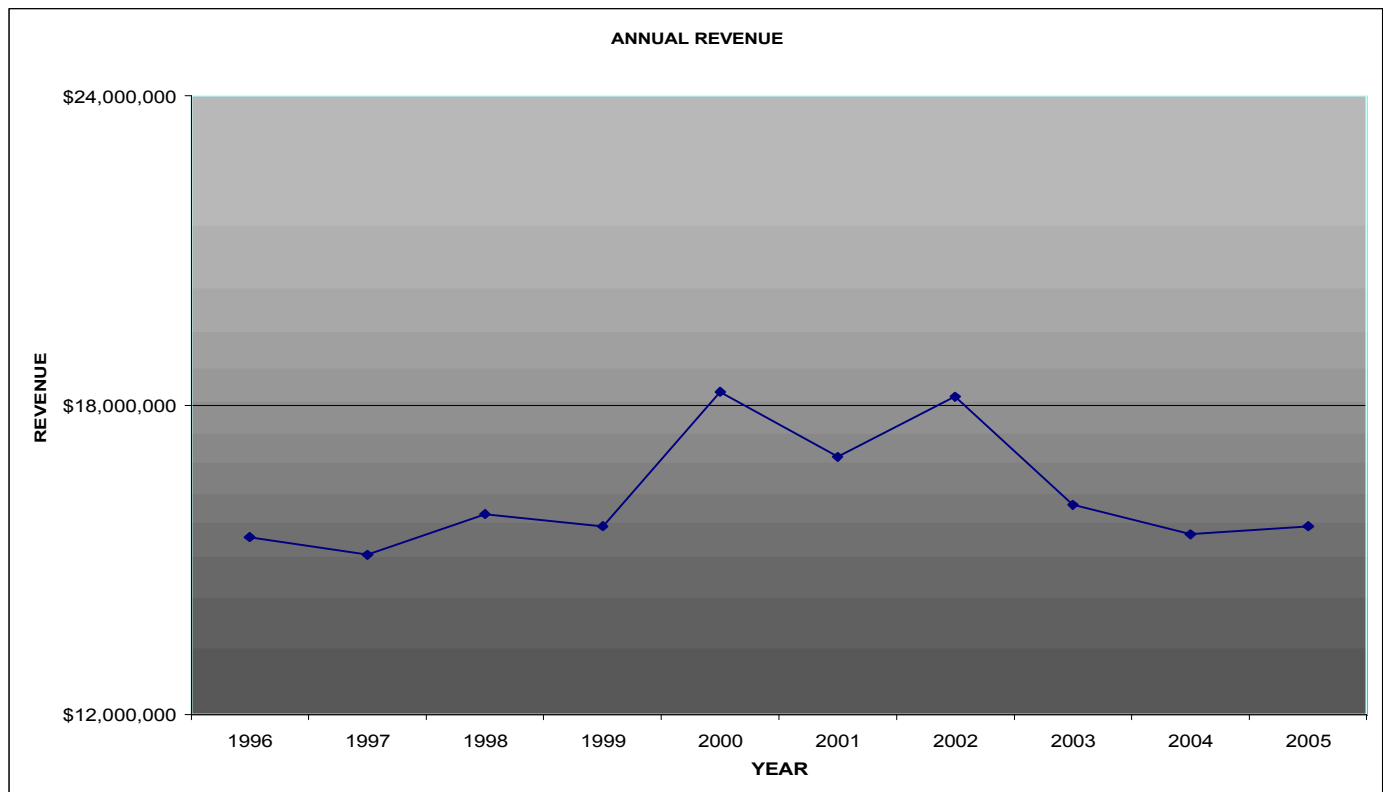
MONTEREY REGIONAL WATER POLLUTION CONTROL AGENCY

FINANCIAL TRENDS –TEN YEAR REVENUE COMPARISON - FISCAL YEAR 1996 THROUGH FISCAL YEAR 2005

Table 1
TOTAL ANNUAL REVENUES

Year-Ended June 30,	Total	User Fees	Other Operating Revenue	Interest Revenue	Other Non-Operating Revenue	Capital Contributions	Capacity Fees
1996	\$ 15,438,021	\$ 11,797,540	\$ 254,148	\$ 735,669	\$ -	\$ 1,050,100	\$ 1,600,564
1997	15,096,999	12,514,248	735,103	698,856	-	-	1,148,792
1998	15,888,678	12,633,124	561,963	742,886	-	-	1,950,705
1999	15,647,547	12,753,679	476,848	748,269	-	-	1,668,751
2000	18,255,097	13,018,494	691,352	1,327,798	-	-	3,217,453
2001	17,000,830	12,988,845	566,997	1,420,806	9,910	-	2,014,272
2002	18,167,699	12,850,576	585,988	701,529	1,202,690	1,630,058	1,196,858
2003	16,066,691	12,825,320	563,364	545,501	58,419	10,339	2,063,748
2004	15,497,510	12,915,763	681,297	535,660	47,503	-	1,317,287
2005	15,648,283	13,215,969	729,587	429,386	11,705	-	1,261,636

Source: Agency Audited Financial Statements



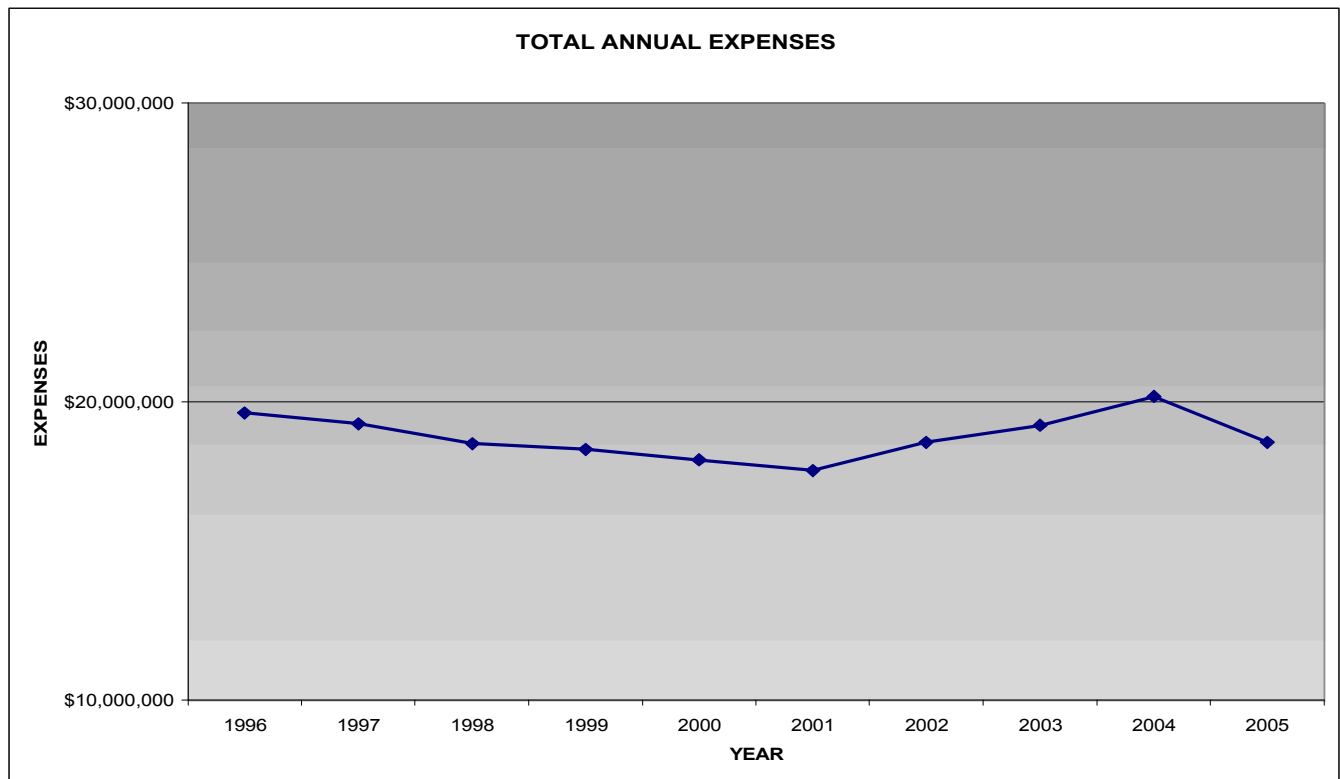
MONTEREY REGIONAL WATER POLLUTION CONTROL AGENCY

**FINANCIAL TRENDS –TEN YEAR EXPENSE COMPARISON -
FISCAL YEAR 1996 THROUGH FISCAL YEAR 2005**

**Table 2
TOTAL ANNUAL EXPENSES**

Year-Ended June 30,	Total	Operating Expenses	Depreciation	Interest Expense	Bond Issuance Costs	Other Expenses
1996	\$ 19,616,176	\$ 10,795,788	\$ 6,014,368	\$ 1,645,217	\$ 142,871	\$ 1,017,932
1997	19,251,275	11,508,550	5,796,015	1,439,630	204,920	302,160
1998	18,589,145	10,580,244	6,048,412	1,321,638	204,920	433,931
1999	18,389,136	10,855,208	6,332,327	1,045,314	149,720	6,567
2000	18,046,816	10,120,153	6,136,400	1,588,092	187,176	14,995
2001	17,685,203	9,903,044	6,374,714	1,367,467	39,978	-
2002	18,619,326	11,269,383	6,038,515	988,793	39,978	282,657
2003	19,193,714	12,031,756	5,849,993	863,090	460,299	(11,424)
2004	20,149,494	13,045,394	5,272,278	1,270,767	52,521	508,534
2005	18,623,458	13,112,510	4,736,783	661,488	81,711	30,966

Source: Agency Audited Financial Statements



MONTEREY REGIONAL WATER POLLUTION CONTROL AGENCY

**REVENUE BOND COVERAGE
FISCAL YEAR 1996 THROUGH FISCAL YEAR 2005**

**Table 3
REVENUE BOND COVERAGE**

Year-Ended June 30,	Gross Revenues (1)	Operating Expenses (2)	Net Revenue Available for Debt Service	Debt Service Requirements (3)	Debt Coverage %
1996	\$ 14,387,921	\$ 13,458,937	\$ 928,984	1,482,155	63%
1997	15,096,999	13,250,340	1,846,659	2,299,336	80%
1998	15,888,678	12,335,813	3,552,865	2,449,190	145%
1999	15,647,547	11,907,089	3,740,458	2,473,277	151%
2000	18,255,097	11,723,240	6,531,857	2,573,322	254%
2001	17,000,830	11,270,511	5,730,319	2,643,787	217%
2002	16,537,641	12,540,833	3,996,808	2,664,698	150%
2003	16,056,352	12,883,422	3,172,930	2,669,553	119%
2004	15,497,510	14,824,695	672,815	1,430,320	47%
2005	15,648,283	13,804,964	1,843,319	1,310,532	141%

(1) includes Capacity Fees; does not include Capital Contributions

(2) includes Interest Expense and Other Expenses; does not include Depreciation and Bond Insurance Costs

(3) does not include SWRCB Reclamation Loan, which is reimbursed by MCWRA

Source: Agency Audited Financial Statements

MONTEREY REGIONAL WATER POLLUTION CONTROL AGENCY

ANNUAL INFLUENT FLOW FISCAL YEAR 1995 THROUGH FISCAL YEAR 2004

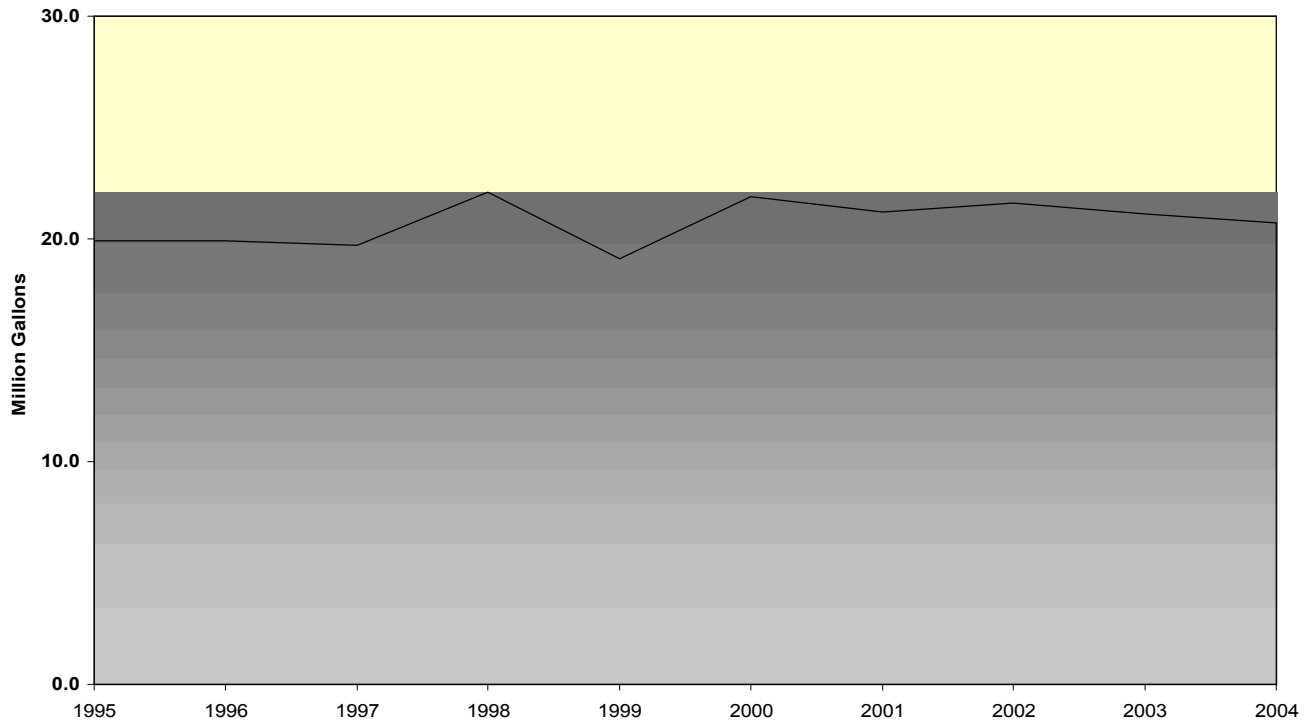
Table 4

AVERAGE INFLUENT FLOW

Year (Calendar)	Flow (MGD)
1995	19.9
1996	19.9
1997	19.7
1998	22.1
1999	19.1
2000	21.9
2001	21.2
2002	21.6
2003	21.1
2004	20.7

Source: Agency Annual Report

ANNUAL INFLUENT FLOW



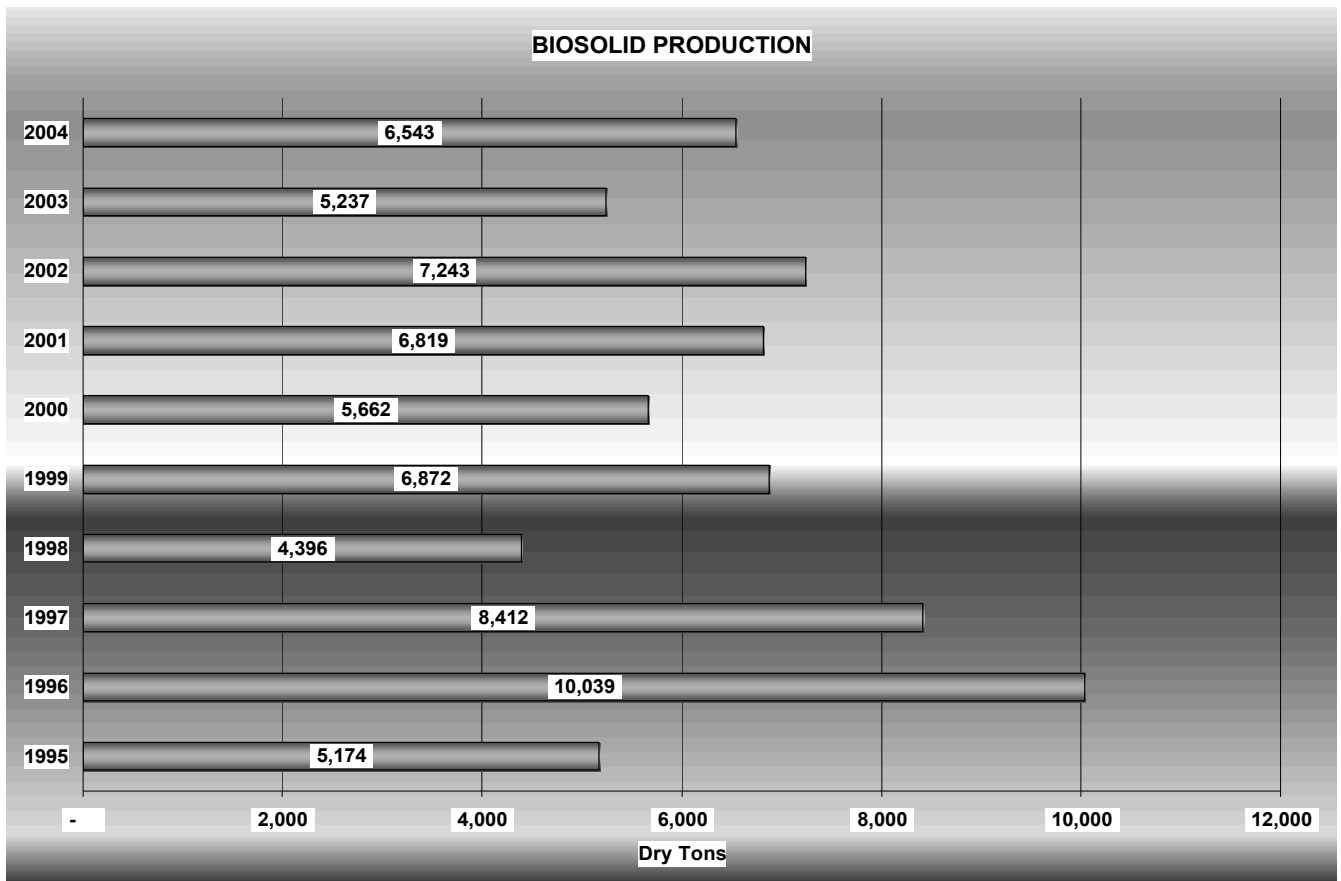
MONTEREY REGIONAL WATER POLLUTION CONTROL AGENCY

**BILSOLID (SLUDGE) PRODUCTION
FISCAL YEAR 1995 THROUGH FISCAL YEAR 2004**

**Table 5
BIOSOLID (SLUDGE) PRODUCTION**

Year (Calendar)	Dry Tons (in thousands)
1995	5,174
1996	10,039
1997	8,412
1998	4,396
1999	6,872
2000	5,662
2001	6,819
2002	7,243
2003	5,237
2004	6,543

Source: Agency Annual Report



MONTEREY REGIONAL WATER POLLUTION CONTROL AGENCY

**SERVICE AREA TEN LARGEST USERS AND PERCENTAGE OF TOTAL REVENUES
FISCAL YEAR 2005**

Table 6

**SERVICE AREA TEN LARGEST USERS
AND PERCENTAGE OF TOTAL REVENUES FOR FISCAL YEAR 2004/2005**

	User	Description	Revenues	Percentage of Total Revenue
1	Department of Army	Ft Ord	\$ 375,014	2.84%
2	Department of Navy	La Mesa Housing	152,055	1.15%
3	Department of Army	Presidio of Monterey	147,502	1.12%
4	Tom's Septic Tank	Liquid Waste	88,184	0.67%
5	Peninsula Septic Tank	Liquid Waste	78,467	0.59%
6	Mission Linen	Laundry	71,311	0.54%
7	Department of Navy	Naval Postgraduate School	53,280	0.40%
8	JGPG	Grease	41,536	0.31%
9	JGPG	Liquid Waste	38,762	0.29%
10	Salinas Valley Memorial	Hospital	36,775	0.28%

Source: Agency Customer Service Billing Department

MONTEREY REGIONAL WATER POLLUTION CONTROL AGENCY

MAJOR EMPLOYERS FISCAL YEAR 2005

Table 7

MAJOR EMPLOYERS OF MONTEREY COUNTY FOR FISCAL YEAR 2004/05

Company	Product/Service	Emplyees
County Of Monterey	Governement	3,994
Tanimura and Antle	Agriculture	2,542
Department of Defense	Governement	2,493
Community Hospital of the Monterey Penninsula	Hospital	2,059
Salinas Valley Memorial Healthcare System	Hospital	1,955
Pebble Beach Corporation	Service	1,900
Household Credit Services	Service	1,600
D'Arrigo Brother	Agriculture	1,450
McGraw-Hill	Education	951
Bud of California	Agriculture	610

Source: Monterey Office for Employment and Training

MONTEREY REGIONAL WATER POLLUTION CONTROL AGENCY

POPULATION GROWTH FISCAL YEAR 1995 THROUGH FISCAL YEAR 2004

Table 8

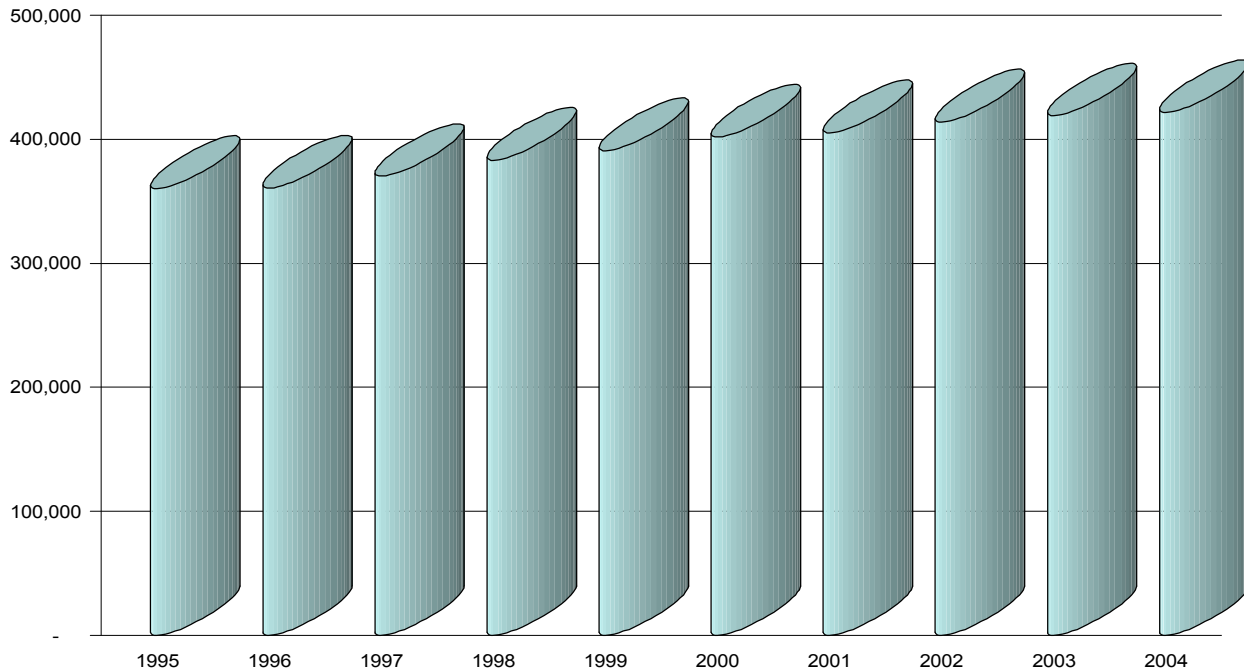
Population Growth

Results of the 2000 census indicated that the Population of Monterey county was 401,762. Our Agency serves North Monterey County, which equals to appoximately 63% of the county's population. The table below sets forth actual population figures for the County of Monterey.

Year	Total
1995	360,100
1996	360,600
1997	370,000
1998	382,900
1999	390,500
2000	401,762
2001	405,120
2002	413,750
2003	418,800
2004	421,400

Source: County of Monterey

POPULATION GROWTH



MONTEREY REGIONAL WATER POLLUTION CONTROL AGENCY

DEMOGRAPHIC STATISTICS FISCAL YEAR 2005

Table 9

Demographic Statistics

General	
Service Area	North Monterey County
Governing Body	Board of Directors (12-member body composed of one representative from each member entity)
Chief Executive Officer	General Manager
Chief Fiscal Officer	Director of Finance
Date of Formation	1972
Type of Service	Sewage treatment, disposal and reclamation
Number of Full-time Employees	72
Agency Population	Approx. 250,000
Wastewater Facilities	
Number of treatment plant(s)	1
Co-Generation	100% of Plant Power
Number of pump stations - owned	10
Number of pump stations - maintained (includes city-owned)	27
Average dry weather flow	20.7 MGD
Gravity - Miles of	2.3
Force Mains - Miles of	19.7

Section IV

INTERNAL CONTROL AND COMPLIANCE SECTION

- Independent Auditors' 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

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Independent Auditors' 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

We have audited the financial statements of Monterey Regional Water Pollution Control Agency (the "Agency") as of and for the years ended June 30, 2005 and 2004, and have issued our report thereon dated October 7, 2005. We conducted our audits in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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 grants, 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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Agency's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce, to a relatively low level, the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We note no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the finance and personnel committee, management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Vawrinek Trine Day & Co. LLP

Palo Alto, California
October 7, 2005