

**Monterey Dunes Colony Mutual Water Association**  
(A California Corporation)

**Financial Statements and Supplementary Information**

**June 30, 2014 and 2013**

## TABLE OF CONTENTS

	Page No.
INDEPENDENT AUDITOR'S REPORT	1
FINANCIAL STATEMENTS	
Balance Sheets	3
Statements of Activities and Owners' Equity	4
Statements of Cash Flows	5
Notes to Financial Statements	6
SUPPLEMENTARY INFORMATION	
Future Major Repairs and Replacements	10
Balance Sheets-by fund	12
Statements of Activities and Owners' Equity-by fund	13

## INDEPENDENT AUDITOR'S REPORT

Board of Directors and members  
Monterey Dunes Colony Mutual Water Association  
Moss Landing, California

### *Report on the Financial Statements*

We have audited the accompanying balance sheets of Monterey Dunes Colony Mutual Water Association (a California corporation), as of June 30, 2014 and 2013, and the related statements of activities and owners' equity, and cash flows for the years then ended, and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

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

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

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

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Monterey Dunes Colony Mutual Water Association as of June 30, 2014 and 2013, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Report on Supplementary Information***

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The Future Major Repairs and Replacements, Balance Sheets-by fund and Statements of Activities and Owners' Equity-by fund supplementary schedules, which are the responsibility of management, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information, except for that portion marked 'compiled', was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. That information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, that information is fairly stated in all material respects in relation to the financial statements as a whole. The information marked 'compiled' has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

**Young Craig, & Co. LLP**

*Joelyn K. Carr-Fingerle, CPA*

Joelyn K. Carr-Fingerle, CPA

August 21, 2014

**Monterey Dunes Colony Mutual Water Association**  
**Balance Sheets**  
**June 30, 2014 and 2013**

	2014	2013
<b>Assets:</b>		
Cash accounts	\$ 73,065	\$ 129,498
Prepaid income taxes	28	28
Total current assets	73,093	129,526
Property and equipment, less accumulated depreciation (Note B)	879,603 (563,206)	879,603 (528,022)
Common area (Note B)	-	-
<b>Total assets</b>	<b>\$ 389,490</b>	<b>\$ 481,107</b>
 <b>Liabilities:</b>		
Accounts payable	\$ 8,640	\$ -
Income taxes (Note E)	10	10
Total current liabilities	8,650	10
 <b>Owners' Equity:</b>		
Common stock, no par value; 122 shares authorized and issued	-	-
Capital contribution	252,433	252,433
Operating Fund	59,830	60,529
Replacement Fund	68,577	168,135
Total fund balances	380,840	481,097
<b>Total liabilities and owners' equity</b>	<b>\$ 389,490</b>	<b>\$ 481,107</b>

**Monterey Dunes Colony Mutual Water Association**  
**Statements of Activities and Owners' Equity**  
**For the Years Ended June 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
<b>Revenue:</b>		
Assessments (Note D)	\$ 65,000	\$ 65,000
Excess water usage fees	2,133	1,520
Interest earned	122	134
Total revenue	<u>67,255</u>	<u>66,654</u>
<b>Expenses:</b>		
Accounting and legal	4,000	3,971
Office and administration	70	-
Utilities and chemicals	3,835	3,419
Licenses, permits and fees	5,175	4,985
Water testing	2,185	858
Licensed operator	9,168	9,168
General maintenance	7,491	2,393
Replacement reserve study	810	585
Pump and generator maintenance	25,075	37,302
Water tank	74,509	2,813
Depreciation (Note B)	35,184	35,184
California income taxes (Note E)	10	10
Total expenses	<u>167,512</u>	<u>100,688</u>
<b>Net (loss)</b>	<b>(100,257)</b>	<b>(34,034)</b>
Fund balance, beginning of year	<u>481,097</u>	<u>515,131</u>
<b>Fund balance, end of year</b>	<u><u>\$ 380,840</u></u>	<u><u>\$ 481,097</u></u>

**Monterey Dunes Colony Mutual Water Association**  
**Statements of Cash Flows**  
**For the Years Ended June 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
<b>Net Cash Flows from Operating Activities:</b>		
Net (loss)	\$ (100,257)	\$ (34,034)
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:		
Depreciation	35,184	35,184
Increase (decrease):		
Accounts payable	8,640	-
Net cash from operations	<u>(56,433)</u>	<u>1,150</u>
<b>Cash Flows from Investing Activities:</b>		
Cash held for the Colony	-	(600,000)
Net cash from investing	<u>-</u>	<u>(600,000)</u>
<b>Cash Flows from Financing Activities:</b>		
Net cash from financing	<u>-</u>	<u>-</u>
<b>Net (decrease) in cash and cash equivalents</b>	<b>(56,433)</b>	<b>(598,850)</b>
Cash and cash equivalents as of:		
Beginning of year	<u>129,498</u>	<u>728,348</u>
End of year	<u>\$ 73,065</u>	<u>\$ 129,498</u>
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid during the year for:		
Income taxes	<u>\$ 10</u>	<u>\$ 10</u>

**Monterey Dunes Colony Mutual Water Association**  
**Notes to Financial Statements**  
**June 30, 2014 and 2013**

**Note A – Significant Accounting Policies**

Organization

Monterey Dunes Colony Mutual Water Association (the Association) was incorporated under the laws of California on August 15, 1974 as a nonprofit mutual benefit corporation. Its purpose is to supply the water for domestic and firefighting purposes as a mutual water company for the 120 units of the Moss Landing, California a planned development association known as Monterey Dunes Colony Association. It does not contemplate gain or loss to itself or its members.

The Association derives its authority and responsibilities from its Bylaws and Declaration of Covenants, Conditions and Restrictions. An elected Board of Directors makes most decisions, but major decisions may be referred to the general Association membership. Membership in the Association is mandatory for homeowners, who are entitled to one vote for each unit owned. Each owner is obligated to pay annual assessments to the Association to support its operations and purposes, which are assessed through Monterey Dunes Colony Association.

Funds

Since the Association is a not for profit organization, the accompanying financial statements have been prepared using the fund method of accounting. Under this method, funds are separated into two categories, operating funds and restricted funds. Operating funds are those where disposition is at the discretion of the Board of Directors and the property manager and are used for regular operating expenses. Restricted funds are those that have been limited to specific purposes by the membership or board of Directors. Currently the restricted funds consist only of the replacement fund (Note D).

Cash and Cash Equivalents

For the purposes of the Statement of Cash Flow, the Association considers only highly liquid debt instruments, such as a certificate of deposit, purchased with a maturity of three months or less to be a cash equivalent.

Interest, Investment Earnings and Security

The Association maintains a majority of its cash in bank deposit and money market accounts that, at times, may exceed federally insured limits of \$250,000 per bank. The Association has not experienced any losses in such accounts. Management believes the association is not exposed to any significant credit risk related to cash. Monies in certain designated cash accounts have been restricted by the Board for the replacement fund. All other cash funds are deemed available for current operations. Interest earnings on Association cash accounts are credited to the fund generating the interest earnings.

Receivables

Delinquent assessments may be secured by liens on the owner's Association property for which the assessments are made, and the Association has the power to foreclose the property of any owners failing to pay assessments. Consequently, as long as the Association has liens fixed the Board feels that they will eventually collect the back assessments owed.

Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the amounts of income and expense during the reporting period. Actual results could differ from those estimates.



**Monterey Dunes Colony Mutual Water Association**  
**Notes to Financial Statements**  
**June 30, 2014 and 2013**

**Note A – Significant Accounting Policies, continued**

Fair Value of Financial Instruments

The carrying amounts of financial instruments, including cash, certificates of deposit, accounts receivable and accounts payable approximate their fair value due to the short term maturities of these instruments.

Date of Management Review

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through August 21, 2014, the date that the financial statements were available to be issued.

**Note B – Property**

The Water Association has capitalized the wells and distribution systems purchased by the Association for its use in operations, which is stated at cost. These items are being depreciated over their estimated useful lives of twenty-five years using the straight line method and mid-year convention. They are considered part of the replacement fund.

**Note C – Restricted Fund Balances**

Major repairs and maintenance of the common areas are funded from the replacement fund. The Association plans to currently fund most anticipated future repair and replacement costs through the accumulation of capital assessments and special assessments as required. For the years ending 2014 and 2013, \$1,326 per month was allocated to the replacement fund. \$20,000 was also allocated to the replacement fund to fund future major repairs and replacements for 2014 and 2013, respectively.

Replacement funds are amounts to be spent on future repair and replacement of selected Association common areas. A long-term formal funding program is one that is based on a study that identifies specific common area components such as wells, pumps and tanks, etc., the expected replacement costs and expected remaining service lives of each, and provides the plan for accumulating over time the funds that will be needed to replace each major item at the time that replacement becomes necessary.

A study to determine the adequacy of the current funding program for the replacement of Association common areas was prepared by Barrera and Company in March 2014. It is based on a component study reflecting Association experience and their extensive database of costs. Next a funding study is prepared using a cash flow model wherein funds are used as needed for replacements regardless of allocation between the components. The board is funding for major repairs and replacements over the remaining useful lives of the components based on the study's estimates of current replacement costs and considering amounts previously accumulated in the replacement fund. Funds are being accumulated in the replacement fund based on estimates of future needs for repairs and replacements of common property components. Actual expenditures may vary from the estimated future expenditures, and the variations may be material. Therefore, amounts accumulated in the replacement fund may not be adequate to meet all future needs for major repairs and replacements. If additional funds are needed the Association has the right to increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available. The replacement study is distributed to the membership as a part of the budget package.

**Monterey Dunes Colony Mutual Water Association**  
**Notes to Financial Statements**  
**June 30, 2014 and 2013**

**Note D – Regular and Special Assessments**

For 2014 and 2013 the regular assessments were collected from Monterey Dunes Colony Association in monthly installments of \$3,750, which is \$31.25 per residential lot. The annual budget and owners assessments are determined by the Board of Directors and presented to the homeowners in accordance with California Civil Code requirements. The Assessments are divided between the operating funds to meet normal operating costs and contributions to the replacement funding program. In 2014 and 2013, an additional \$20,000 was received from Monterey Dunes Colony Association for the replacement fund.

There were no Water Company special assessments in 2014 and 2013, and none are currently assessed in the future although the latest reserve study anticipates a special assessment of \$564,500 or \$4,704 per unit in 2024 to fund reserve items.

**Note E – Income Taxes**

The Mutual Water Association is exempt from taxation under Section 501(c) 12 of the Internal Revenue Code. There is no similar statute under the California Revenue and Taxation Code however they may qualify as exempt homeowner associations under Section 23701t. Such associations are generally taxed only on income from investments and business with non-members at the rate of 8.84%. The Association has obtained exempt status for California law and thus is not subject to the minimum tax. The Association pays all taxes from operating funds. There are no deferred taxes.

**Note F – Related Party Transactions**

The Monterey Dunes Colony Mutual Water Association is a mutual water association located in Moss Landing, California whose members consist of the owners of the 120 residential lots of Monterey Dunes Colony Association. The Association operates on a fiscal June 30 year end. The coastal projects footnote from the Monterey Dunes Colony Association is included with these footnotes since such projects will have an effect on the Mutual Water Association although the projects may well be fully funded through Monterey Dunes Colony Association.

**Note G – Coastal Projects**

During the winter of 2007-2008 major Pacific storms washed away much of the fore-dunes in the southern section of the Colony. The Association was noticed by the California Coastal Commission during cleanup operations after the storm, and required to produce a coastal dune restoration plan to the commission concerning these cleanup efforts. The result of this restoration plan was looked upon as being very positive by the commission, but provisions in the plan would preclude future cleanups of driftwood and debris from the fore-dunes area. There are ongoing negotiations with the California Coastal Commission, the State Parks System, and the Point Reyes Bird Observatory on the use of snow fence and driftwood to repair washed out dunes through a right of entry permit, as well as a project involving the use of temporary barriers filled with water in front of four of the buildings affected most by wave run up during winter storms.

**Monterey Dunes Colony Mutual Water Association**  
**Notes to Financial Statements**  
**June 30, 2014 and 2013**

**Note G – Coastal Projects, continued**

Additionally the Monterey County Water Resources Agency, (Salinas Valley Water Project, Proposition 50) has been mandated by NOAA Marine Fisheries, (NMFS), (as a condition for permit), to change the protocol for breaching the mouth of the Salinas River where it empties into the Pacific Ocean. This project is hopeful of making the Salinas River steelhead trout accessible. The US Department of Fish and Wildlife are additionally involved due to the effect this river course change would have on the snowy plover habitat. Consequently, the proposed change in the course of the river could expose two of the Association's 18 leaching fields, to possible washout in the event the river were to change course once altered by the county.

The Association has hired specialists to assist in negotiations with all the agencies involved, allow for the restoration of the dunes, safeguarding the habitat of the snowy plover and managing the breaching protocols of the Salinas River.

SUPPLEMENTARY INFORMATION

**Monterey Dunes Colony Mutual Water Association**  
**Future Major Repairs and Replacements**  
**June 30, 2014**  
**(compiled)**

The board of directors of Monterey Dunes Colony Association had a formal replacement study completed by Barrera and Company of San Francisco, California for a fiscal year beginning July 1, 2013 and update for 2014. The estimates used for the replacement costs are based on observation and on the firms' and association's experience to estimate the current cost to replace the components. The funding requirements considered an annual inflation factor of 3.0% with interest earnings at .75% net of taxes.

The following table is based on that information and presents significant information about the components of common property.

Component	Estimated Total Useful Life	Estimated Remaining Useful Life	Estimated Current Replacement Cost	Estimated Future Replacement Cost
Well Pumps and Motors	6	2-5	\$ 20,576	\$ 23,055
Water Storage Tank	40	20-40	257,335	561,029
Water Tank Maintenance	3	1	3,580	3,688
Storage and Compression Tank Painting	5	5	21,677	25,130
Pressure Tank Compressor	2	0	2,388	2,388
Water System Fire Pump	30	8	41,769	52,911
Fire Pump Overhaul	3	0	4,057	4,057
10 HP Pump Boosters	30	8	8,358	10,586
CL2 Pumps	3	1	1,838	1,893
Pump Maintenance and Overhaul	1	0	5,492	5,492
50 KW Generator	30	8	38,246	48,449
Generator Overhaul	3	0	3,581	3,581
District Water System Valves	25	12	29,850	42,560
Water System Control Panel	30	10	37,614	50,549
Annual Contingency	1	0	7,134	7,134
			\$ 483,495	\$ 842,502

The Association does not specifically allocate the monies set aside for the replacement funds into individual components, but rather prefers to look at the whole program and determine the cash needs in total. The study shows that the current plan of increasing the reserve assessments 3% per year is adequate to provide for replacement need as projects occur until 2024. The study further indicates that the current deficit below a fully funded reserve balance is \$176,933 or \$1,475 per unit. It does not include the cost for drilling new wells.

**Monterey Dunes Colony Mutual Water Association**  
**Future Major Repairs and Replacements**  
**June 30, 2013**  
**(compiled)**

The board of directors of Monterey Dunes Colony Association had a formal replacement study completed by Barrera and Company of San Francisco, California for a fiscal year beginning July 1, 2013. The estimates used for the replacement costs are based on observation and on the firms' and association's experience to estimate the current cost to replace the components. The funding requirements considered an annual inflation factor of 3.0% with interest earnings at .75% net of taxes.

The following table is based on that information and presents significant information about the components of common property.

Component	Estimated Total Useful Life	Estimated Remaining Useful Life	Estimated Current Replacement Cost	Estimated Future Replacement Cost
Well Pumps and Motors	6	1-6	\$ 19,977	\$ 22,561
Water Storage Tank	40	0-21	233,399	393,120
Water Tank Maintenance	3	2	3,476	3,688
Storage and Compression Tank Painting	5	0	21,677	21,677
Pressure Tank Compressor	2	1	2,318	2,388
Water System Fire Pump	30	9	40,552	52,911
Fire Pump Overhaul	3	2	3,939	4,057
10 HP Pump Boosters	30	10	8,114	10,586
CL2 Pumps	3	2	1,784	1,893
Pump Maintenance and Overhaul	1	0	5,332	5,332
50 KW Generator	30	9	37,132	48,449
Generator Overhaul	3	1	3,476	3,581
District Water System Valves	25	13	28,981	42,560
Water System Control Panel	30	11	36,518	50,549
Annual Contingency	1	0	6,926	6,926
			\$ 453,601	\$ 670,278

The Association does not specifically allocate the monies set aside for the replacement funds into individual components, but rather prefers to look at the whole program and determine the cash needs in total. The study shows that the current plan of increasing the reserve assessments 3% per year is adequate to provide for replacement need as projects occur until 2025. The study further indicates that the current deficit below a fully funded reserve balance is \$133,305 or \$1,111 per unit. It does not include the cost for drilling new wells.

**Monterey Dunes Colony Mutual Water Association**  
**Balance Sheets -by fund**  
**June 30, 2014 and 2013**

	Operating Fund	Replacement Fund	Total	2013 Total Funds
<b>Assets:</b>				
Cash accounts	\$ 20,285	\$ 52,780	\$ 73,065	\$ 129,498
Prepaid income taxes	28	-	28	28
Property and equipment, less accumulated depreciation (Note B)	-	879,603 (563,206)	879,603 (563,206)	879,603 (528,022)
Common area (Note B)	-	-	-	-
<b>Total assets</b>	<b>\$ 20,313</b>	<b>\$ 369,177</b>	<b>\$ 389,490</b>	<b>\$ 481,107</b>
<b>Liabilities:</b>				
Accounts payable	\$ 8,640	\$ -	\$ 8,640	\$ -
Income taxes (Note E)	10	-	10	10
Advance to (due from) other fund	(48,167)	48,167	-	-
<b>Total liabilities</b>	<b>(39,517)</b>	<b>48,167</b>	<b>8,650</b>	<b>10</b>
<b>Owners' Equity:</b>				
Common stock, no par value; 122 shares authorized and issued	-	-	-	-
Capital contribution	-	252,433	252,433	252,433
Operating Fund	59,830	-	59,830	60,529
Replacement Fund	-	68,577	68,577	168,135
<b>Total fund balances</b>	<b>59,830</b>	<b>321,010</b>	<b>380,840</b>	<b>481,097</b>
<b>Total liabilities and owners' equity</b>	<b>\$ 20,313</b>	<b>\$ 369,177</b>	<b>\$ 389,490</b>	<b>\$ 481,107</b>

**Monterey Dunes Colony Mutual Water Association  
Statements of Activities and Owners' Equity-by fund  
For the Years Ended June 30, 2014 and 2013**

	Operating Fund	Replacement Fund	Total	2013 Total Funds
<b>Revenue:</b>				
Assessments (Note D)	\$ 29,088	\$ 35,912	\$ 65,000	\$ 65,000
Excess water usage fees	2,133	-	2,133	1,520
Interest earned	14	108	122	134
<b>Total revenue</b>	<b>31,235</b>	<b>36,020</b>	<b>67,255</b>	<b>66,654</b>
<b>Expenses:</b>				
Accounting and legal	4,000	-	4,000	3,971
Office and administration	70	-	70	-
Utilities and chemicals	3,835	-	3,835	3,419
Licenses, permits and fees	5,175	-	5,175	4,985
Water testing	2,185	-	2,185	858
Licensed operator	9,168	-	9,168	9,168
General maintenance	7,491	-	7,491	2,393
Replacement reserve study	-	810	810	585
Pump and generator maintenance	-	25,075	25,075	37,302
Water tank	-	74,509	74,509	2,813
Depreciation (Note B)	-	35,184	35,184	35,184
California income taxes (Note E)	10	-	10	10
<b>Total expenses</b>	<b>31,934</b>	<b>135,578</b>	<b>167,512</b>	<b>100,688</b>
<b>Net (loss)</b>	<b>(699)</b>	<b>(99,558)</b>	<b>(100,257)</b>	<b>(34,034)</b>
Fund balance, beginning of year	60,529	168,135	228,664	262,698
<b>Fund balance, end of year</b>	<b>\$ 59,830</b>	<b>\$ 68,577</b>	<b>\$ 128,407</b>	<b>\$ 228,664</b>