

**CITY OF SAN DIEGO PUBLIC
UTILITIES DEPARTMENT**

Schedule of Allocation for Billing to Metropolitan
Wastewater Utility and Independent Auditor's Reports

For the Fiscal Year Ended June 30, 2013



Certified
Public
Accountants

CITY OF SAN DIEGO PUBLIC UTILITIES DEPARTMENT
Schedule of Allocation for Billing to Metropolitan Wastewater Utility
and Independent Auditor's Reports
For the Fiscal Year Ended June 30, 2013

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Independent Auditor's Report on the Schedule of Allocation for Billing to Metropolitan Wastewater Utility

To the Honorable Mayor and City
Council of the City of San Diego
San Diego, California

Report on the Schedule

We have audited the accompanying Schedule of Allocation for Billing to Metropolitan Wastewater Utility (the Schedule) of the City of San Diego Public Utilities Department (PUD), an enterprise fund of the City of San Diego, California (the City) for the fiscal year ended June 30, 2013, and the related notes to the Schedule.

Management's Responsibility for the Schedule

Management is responsible for the preparation and fair presentation of the Schedule in accordance with the modified cash basis of accounting described in Note 3; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the Schedule in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the Schedule that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the Schedule based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Schedule is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Schedule. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Schedule, 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 Schedule 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 Schedule.

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 Schedule referred to above presents fairly, in all material respects, the modified cash basis allocation of billing to the Metropolitan Wastewater Utility of the PUD pursuant to the Regional Wastewater Disposal Agreement (Agreement) between the City and the Participating Agencies in the Metropolitan Wastewater System dated May 18, 1998 and amended on May 15, 2000 and June 3, 2010, for the fiscal year ended June 30, 2013, in accordance with the modified cash basis of accounting described in Note 3.

Basis of Accounting

We draw attention to Note 3 of the Schedule, which describes the basis of accounting. The Schedule is prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 22, 2016 on our consideration of the PUD's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over the Schedule and compliance and the results of that testing, and not to provide an opinion on internal control over the Schedule or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the PUD's internal control over the Schedule and compliance.

Macias Gini & O'Connell LLP

San Diego, California
April 22, 2016

CITY OF SAN DIEGO PUBLIC UTILITIES DEPARTMENT
Schedule of Allocation for Billing to Metropolitan Wastewater Utility
For the Fiscal Year Ended June 30, 2013

	Operating Expenses		
	Municipal System	Metropolitan System	Total
Transmission			
Main Cleaning	\$ 11,004,826	\$ -	\$ 11,004,826
Sewer Pump Stations.....	5,134,321	-	5,134,321
Other Pump Stations.....	5,965,141	786,603	6,751,744
Pump Station 1.....	-	2,263,634	2,263,634
Pump Station 2.....	-	7,247,501	7,247,501
Other Muni Agencies.....	3,266,434	-	3,266,434
Pipeline Maintenance and Repair.....	9,550,440	1,619	9,552,059
Wastewater Collection (WWC) Engineering and Planning.....	2,151,394	-	2,151,394
Total Transmission.....	37,072,556	10,299,357	47,371,913
Treatment and Disposal			
Point Loma Wastewater Treatment Plant (PTLWWTP).....	-	22,354,603	22,354,603
North City Water Reclamation Plant (NCWRP).....	-	7,577,722	7,577,722
South Bay Water Reclamation Plant (SBWRP).....	-	7,242,551	7,242,551
Metropolitan Biosolids Center (MBC).....	-	14,757,955	14,757,955
Gas Utilization Facility (GUF).....	-	1,848,547	1,848,547
Wastewater Treatment and Disposal (WWTD) Plant Engineering.....	-	819,172	819,172
Total Treatment and Disposal.....	-	54,600,550	54,600,550
Quality Control			
Sewage Testing and Control.....	2,303,815	424,406	2,728,221
Marine Biology and Ocean Operations.....	-	5,593,666	5,593,666
Wastewater Chemistry Services.....	-	5,599,723	5,599,723
Industrial Permitting and Compliance.....	3,240,053	-	3,240,053
Total Quality Control.....	5,543,868	11,617,795	17,161,663
Engineering			
Program Management and Review.....	2,295,455	2,757,735	5,053,190
Environmental Support.....	1,387,450	100,807	1,488,257
Total Engineering.....	3,682,905	2,858,542	6,541,447
Operational Support			
Central Support: Clean Water Operations Management Network (Comnet).....	249,669	3,970,487	4,220,156
Operational Support.....	1,455,715	7,583,942	9,039,657
Total Operational Support.....	1,705,384	11,554,429	13,259,813
General and Administration			
Business Support Administration.....	21,582,594	17,264,932	38,847,526
Operating Division Administration.....	8,388,235	5,387,324	13,775,559
Total General and Administration.....	29,970,829	22,652,256	52,623,085
TOTAL OPERATING EXPENSES.....	77,975,542	113,582,929	191,558,471
CAPITAL IMPROVEMENT EXPENSE.....	92,343,850	23,558,956	115,902,806
DEBT SERVICE ALLOCATION.....	47,327,214	55,910,778	103,237,992
METROPOLITAN SYSTEM INCOME CREDITS.....			
Operating Revenue.....	-	(5,837,310)	(5,837,310)
CIP - Revenue Bond Issue.....	-	-	-
Operating - Grant Revenue.....	-	(8,797)	(8,797)
CIP - Grant/SRF Revenue.....	-	(3,145,264)	(3,145,264)
TOTAL METROPOLITAN SYSTEM INCOME CREDITS.....	-	(8,991,371)	(8,991,371)
TOTAL ALLOCATION FOR BILLING PURPOSES.....	\$ 217,646,606	\$ 184,061,292	\$ 401,707,898

See Accompanying Notes to the Schedule of Allocation for Billing to Metropolitan Wastewater Utility.

CITY OF SAN DIEGO PUBLIC UTILITIES DEPARTMENT
Notes to the Schedule of Allocation for Billing to Metropolitan Wastewater Utility
For the Fiscal Year Ended June 30, 2013

Note 1 – General

The City of San Diego Public Utilities Department (the PUD) operates and maintains the Metropolitan Wastewater System (the Metropolitan System) and the Municipal Wastewater Collection System (the Municipal System). The Participating Agencies and the City of San Diego (the City) have entered into the Regional Wastewater Disposal Agreement dated May 18, 1998 and amended on May 15, 2000 and June 3, 2010, for their respective share of usage and upkeep of the Metropolitan Wastewater Utility. The accompanying Schedule of Allocation for Billing to Metropolitan Wastewater Utility (the Schedule), represents the allocation of expenses for billing related to the Metropolitan Wastewater Utility of the Participating Agencies.

The Metropolitan System and Municipal System are accounted for as enterprise funds and reported in the Sewer Utility Fund in the City’s Comprehensive Annual Financial Report.

Note 2 – Participating Agencies

The Participating Agencies consist of the following municipalities and districts:

City of Chula Vista	City of National City
City of Coronado	City of Poway
City of Del Mar	Lemon Grove Sanitation District
City of El Cajon	Otay Water District
City of Imperial Beach	Padre Dam Municipal Water District
City of La Mesa	San Diego County Sanitation District

The San Diego County Sanitation District was formed on July 1, 2011. The following former districts were reorganized and combined to form the San Diego County Sanitation District:

- East Otay Mesa Sewer Maintenance District
- Lakeside Sanitation District
- Alpine Sanitation District
- Winter Gardens Sewer Maintenance District
- Spring Valley Sanitation District

The reorganization does not affect the allocation of expenses for billing related to the Metropolitan System.

Note 3 – Summary of Significant Accounting Policies

Basis of Presentation

The Schedule has been prepared for the purpose of complying with the Regional Wastewater Disposal Agreement between the City and the Participating Agencies as discussed in Note 1 above, and is presented on a modified cash basis of accounting. As a result, the Schedule is not intended to be a presentation of the changes in the financial position of the City or the PUD in conformity with generally accepted accounting principles. The more significant differences are:

1. Purchases of capital assets are presented as capital improvement expenses.
2. Depreciation expense on capital assets is not reported in the Schedule.
3. Payments of principal and interest related to long-term debt are reported as debt service allocation.

CITY OF SAN DIEGO PUBLIC UTILITIES DEPARTMENT

Notes to the Schedule of Allocation for Billing to Metropolitan Wastewater Utility (Continued)
For the Fiscal Year Ended June 30, 2013

4. Exclusion in the Schedule for unbudgeted expenses related to compensated absences, liability claims, capitalized interest, pollution remediation, other postemployment benefits, net pension obligation, and landfill closure and postclosure care costs.

The preparation of the Schedule requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Note 4 –Capital Improvement Expense

Construction costs incurred during the fiscal year to maintain and improve the Metropolitan Wastewater Utility and equipment purchases used in the maintenance of the Metropolitan Wastewater Utility are included in capital improvement expense.

Metropolitan Wastewater Utility capital improvement income credits include, if any, contributions-in-aid-of-construction received from Federal and State granting agencies and reimbursements from bond proceeds.

Note 5 –Debt Service Allocation

Debt service allocation represent a portion of the principal and interest payments relating to the Senior Sewer Revenue Bonds Series 2009A, the Senior Sewer Revenue Refunding Bonds Series 2009B and 2010A, and the outstanding State Revolving Fund (SRF) loans from the State of California.

Note 6 – Metropolitan System Income Credits

Metropolitan System income credits are revenues earned by the Metropolitan System for costs incurred during the current or previous fiscal years. The PUD has agreed to share the income credits from the South Bay Water Reclamation Facility in accordance with the 1998 Regional Wastewater Disposal Agreement. An agreement was reached in the fiscal year 2015 regarding revenue generated from the South Bay Water Reclamation Facility and revenue sharing payments were issued for the fiscal years from 2006 through 2014 to Participating Agencies. Hence, the revenue sharing payments for fiscal year 2013 are not included in the fiscal year 2013 Schedule.

Note 7 – Total Allocation for Billing Purposes

Costs to be billed to Participating Agencies include all individual construction projects costs and operation and maintenance expenses attributable to the Metropolitan System. Costs are apportioned back to the Participating Agencies based on their percentage of each of the totals of flow, suspended solids and chemical oxygen demand (COD). Each Participating Agency and the City are sampled quarterly, with plants sampled daily. The percentages are determined from cumulative samples and monitored flow.

For construction projects, percentages were allocated to flow, suspended solids and COD based on each of the project's design and function. The percentages are weighted by total project costs and combined to determine the final three derived percentages. Total annual costs are then allocated based on the three derived percentages and the measured flow, suspended solids and COD of each Participating Agency.

Operation and maintenance (O&M) costs as a percentage of flow, suspended solids and COD are evaluated based on four cost categories: pump stations, plant operations, technical services and cogeneration. These percentages are weighted by the annual O&M costs for each category, and combined to determine a derived percentage for administrative costs. All O&M costs are then allocated based on the measured flow, suspended solids and COD of each Participating Agency.

CITY OF SAN DIEGO PUBLIC UTILITIES DEPARTMENT

Notes to the Schedule of Allocation for Billing to Metropolitan Wastewater Utility (Continued)
For the Fiscal Year Ended June 30, 2013

Note 8 – Administrative Protocol

In May 2010, the City of San Diego and all Participating Agencies signatory to the Regional Wastewater Disposal Agreement established an Administrative Protocol (Protocol) which was effective beginning in fiscal year 2010. The Protocol established a requirement that the Participating Agencies maintain a 1.2 debt service coverage ratio on parity debt, fund a 45 day operating reserve, and earn interest on the operating and unrestricted reserve accounts. All interest earned during fiscal year 2013 was credited to the operating reserve, which ended the fiscal year with a 45-day reserve.

Note 9 – Subsequent Events

Padre Dam Overbilling Sludge Issue

The City of San Diego investigated an issue submitted by Padre Dam regarding possible overcharges and in April 2011, confirmed that Padre Dam was indeed overcharged. Thereafter, beginning in May 2011, the overcharge issue was generally discussed by the City of San Diego, Padre Dam and all other Participating Agencies, at many, if not all, Metro TAC meetings until April 2013, with the hope and goal of resolving the issue to the satisfaction of all parties. On December 5, 2013, Padre Dam and the City of San Diego issued a proposal with two options for consideration to Participating Agencies. In the fiscal year 2015 an agreement was reached regarding the Padre Dam overcharge and corrections were issued for the fiscal years 2009 through 2012 as part of the audit and closeout procedures.

North City Wastewater Treatment Plant Billing Issue

In February 2013, the City of San Diego discovered an additional billing issue associated with the North City Water Reclamation Plant wherein the City of San Diego may have omitted flow and under billed itself. In the fiscal year 2015, final agreement consensus was reached regarding how to account for the City's flow through the North City Reclamation Plant and correction was made for the fiscal years 2009 through 2012 as part of the audit and closeout procedures.



Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Schedule of Allocation for Billing to Metropolitan Wastewater Utility Performed in Accordance with *Government Auditing Standards*

To the Honorable Mayor and City
Council of the City of San Diego
San Diego, California

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Schedule of Allocation for Billing to Metropolitan Wastewater Utility (the Schedule) of the City of San Diego Public Utilities Department (PUD), an enterprise fund of the City of San Diego, California (the City), for the fiscal year ended June 30, 2013, and the related notes to the Schedule, and have issued our report thereon dated April 22, 2016. Our report contained an explanatory paragraph indicating that the Schedule was prepared for the purpose of complying with, and in conformity with, the accounting practices prescribed by the Regional Wastewater Disposal Agreement between the City of San Diego and the Participating Agencies in the Metropolitan Wastewater System dated May 18, 1998 and amended on May 15, 2000 and June 3, 2010.

Internal Control over Financial Reporting

In planning and performing our audit of the Schedule, we considered the PUDs internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the Schedule, but not for the purpose of expressing an opinion on the effectiveness of the PUD’s internal control. Accordingly, we do not express an opinion on the effectiveness of the PUD’s internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Macias Gini & O'Connell LLP

San Diego, California

April 22, 2016