

**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, 2012

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, 2012

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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

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, 2012. The Schedule is the responsibility of the PUD's management. 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the PUD's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the Schedule, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall Schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 3, the accompanying Schedule referred to above 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 and the Participating Agencies in the Metropolitan Wastewater System dated May 18, 1998 and amended on May 15, 2000 and June 3, 2010. Accordingly, the Schedule is not intended to present the financial position or the changes in the financial position of the City or the PUD in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the Schedule referred to above presents fairly, in all material respects, the allocation for billing to Metropolitan Wastewater Utility of the PUD for the fiscal year ended June 30, 2012 on the basis of accounting described in Note 3.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 22, 2015, 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 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.

This report is intended solely for the information and use of the City Council, the Mayor, the City, the PUD's management, and the Metro Commission/Metro Wastewater JPA Board and is not intended to be and should not be used by anyone other than these specified parties.

Macias Gini & O'Connell LLP

San Diego, California

June 22, 2015

CITY OF SAN DIEGO PUBLIC UTILITIES DEPARTMENT
Schedule of Allocation for Billing to Metropolitan Wastewater Utility
For the Fiscal Year Ended June 30, 2012

	Operating Expenses		
	Municipal System	Metropolitan System	Total
Transmission			
Main Cleaning	\$ 10,866,424	\$ -	\$ 10,866,424
Sewer Pump Stations.....	6,091,659	-	6,091,659
Other Pump Stations.....	5,362,310	632,329	5,994,639
Pump Station 1.....	-	2,641,282	2,641,282
Pump Station 2.....	-	6,345,598	6,345,598
Other Muni Agencies.....	2,218,599	-	2,218,599
Pipeline Maintenance and Repair.....	10,663,602	12,445	10,676,047
Wastewater Collection (WWC) Engineering and Planning.....	2,327,000	-	2,327,000
Total Transmission.....	37,529,594	9,631,654	47,161,248
Treatment and Disposal			
Point Loma Wastewater Treatment Plant (PTLWWTP).....	-	21,136,694	21,136,694
North City Water Reclamation Plant (NCWRP).....	-	8,941,843	8,941,843
South Bay Water Reclamation Plant (SBWRP).....	-	7,807,398	7,807,398
Metropolitan Biosolids Center (MBC).....	-	13,823,874	13,823,874
Gas Utilization Facility (GUF).....	-	1,880,151	1,880,151
Wastewater Treatment and Disposal (WWTD) Plant Engineering.....	-	568,481	568,481
Total Treatment and Disposal.....	-	54,158,441	54,158,441
Quality Control			
Sewage Testing and Control.....	2,452,571	402,136	2,854,707
Marine Biology and Ocean Operations.....	-	6,264,614	6,264,614
Wastewater Chemistry Services.....	-	5,878,734	5,878,734
Industrial Permitting and Compliance.....	3,495,499	-	3,495,499
Total Quality Control.....	5,948,070	12,545,484	18,493,554
Engineering			
Program Management and Review.....	3,182,349	2,928,677	6,111,026
Environmental Support.....	1,795,594	60,047	1,855,641
Total Engineering.....	4,977,943	2,988,724	7,966,667
Operational Support			
Central Support; Clean Water Operations Management Network (Comnet).....	187,119	3,593,860	3,780,979
Operational Support.....	1,017,786	8,594,519	9,612,305
Total Operational Support.....	1,204,905	12,188,379	13,393,284
General and Administrative			
Business Support Administration.....	20,026,810	17,908,008	37,934,818
Operating Division Administration.....	8,439,160	4,926,570	13,365,730
Total General and Administrative.....	28,465,970	22,834,578	51,300,548
TOTAL OPERATING EXPENSES.....	78,126,482	114,347,260	192,473,742
CAPITAL IMPROVEMENT EXPENSE.....	91,960,653	17,210,855	109,171,508
DEBT SERVICE ALLOCATION.....	47,425,119	59,462,044	106,887,163
METROPOLITAN SYSTEM INCOME CREDITS.....			
Operating Revenue.....	-	(4,588,680)	(4,588,680)
Capital Improvement Program (CIP) - Revenue Bond Issue.....	-	(1,403,194)	(1,403,194)
Operating - Grant Revenue.....	-	(276,143)	(276,143)
CIP - Grant Revenue.....	-	(8,307,695)	(8,307,695)
TOTAL METROPOLITAN SYSTEM INCOME CREDITS.....	-	(14,575,712)	(14,575,712)
TOTAL ALLOCATION FOR BILLING PURPOSES.....	\$ 217,512,254	\$ 176,444,447	\$ 393,956,701

See accompanying notes to 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, 2012

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 financial position or 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, 2012

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 that 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. Currently, there is an unresolved issue between the Participating Agencies and the City regarding the calculation of the reclaimed water revenue. The Wastewater Utility Fund has not received any proceeds from reclaimed water sales pending transfer from the Water Utility Fund.

Note 7 – Total Allocation for Billing Purposes

Costs to be billed to Participating Agencies include all individual construction project 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, 2012

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 2012 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

In November 2010, Padre Dam Municipal Water District (Padre Dam) submitted a letter to the City regarding possible overcharge. The City investigated the issue and in April 2011, confirmed that Padre Dam was overcharged. Thereafter, the overcharge has been discussed by all of the Participating Agency members of the Metro JPA Technical Advisory Committee meetings. Padre Dam and the City have issued a proposal for consideration by the member agencies, which was accepted in December 2014. As a result, an administrative protocol is being drafted and as of May 20, 2015 all member agencies have agreed to the corrections.

North City Wastewater Treatment Plant Billing Issue

In February 2013, the City discovered a billing issue associated with the North City Water Reclamation Plant wherein the City may have omitted flow and under billed itself. The City actively investigated this issue to determine the financial impact to all parties involved. As of December 2014, the billing issue has been resolved pending the drafting of an administrative protocol, coupled with the Padre Dam overbilling issue. As of May 20, 2015, all member agencies have agreed to the corrections.

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 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, 2012, and have issued our report thereon dated June 22, 2015. 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. 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.

Internal Control Over Financial Reporting

Management of the PUD are responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the PUD's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the PUD's internal control over financial reporting.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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*.

We noted certain matters that we reported to management of the PUD, in a separate letter dated June 22, 2015.

This report is intended solely for the information and use of the City Council, the Mayor, the City, the PUD's management, and the Metro Commission/Metro Wastewater JPA Board and is not intended to be and should not be used by anyone other than these specified parties.

Macias Gini & O'Connell LLP

San Diego, California
June 22, 2015