



SOUTH SAN LUIS OBISPO COUNTY SANITATION DISTRICT

Post Office Box 339, Oceano, California 93475-0339

1600 Aloha Oceano, California 93445-9735

Telephone (805) 489-6666 FAX (805) 489-2765

www.sslocsd.org

AGENDA

BOARD OF DIRECTORS MEETING

City of Arroyo Grande, City Council Chambers

215 East Branch Street

Arroyo Grande, California 93420

Wednesday, July 16, 2014 at 6:00 P.M.

Board Members

Matthew Guerrero, Chair

Tony Ferrara, Vice Chair

Glenn Marshall, Director

Agencies

Oceano Community Services District

City of Arroyo Grande

City of Grover Beach

Alternate Board Members

Mary Lucey, Director

Jim Guthrie, Director

Debbie Peterson, Director

Oceano Community Services District

City of Arroyo Grande

City of Grover Beach

1. CALL TO ORDER AND ROLL CALL

2. PUBLIC COMMENTS ON ITEMS NOT APPEARING ON AGENDA

This public comment period is an invitation to members of the community to present comments, thoughts or suggestions on matters not scheduled on this agenda. Comments should be limited to those matters which are within the jurisdiction of the District. The Brown Act restricts the Board from taking formal action on matters not published on the agenda. In response to your comments, the Chair or presiding Board Member may:

- Direct Staff to assist or coordinate with you.
- It may be the desire of the Board to place your issue or matter on a future Board meeting agenda.

Please adhere to the following procedures when addressing the Board:

- Comments should be limited to three (3) minutes or less.
- Your comments should be directed to the Board as a whole and not directed to individual Board members.
- Slanderous, profane or personal remarks against any Board Member, Staff or member of the audience shall not be permitted.

Any writing or document pertaining to an open-session item on this agenda which is distributed to a majority of the Board after the posting of this agenda will be available for public inspection at the time the subject writing or document is distributed. The writing or document will be available for public review in the offices of the Oceano CSD, a member agency located at 1655 Front Street, Oceano, California. Consistent with the Americans with Disabilities Act (ADA) and California Government Code §54954.2, requests for disability related modification or accommodation, including auxiliary aids or services may be made by a person with a disability who requires modification or accommodation in order to participate at the above referenced public meeting by contacting the District Manager or District Bookkeeper/Secretary at (805) 481-6903.

3. CONSENT AGENDA

The following routine items listed below are scheduled for consideration as a group. Each item is recommended for approval unless noted. Any member of the public who wishes to comment on any Consent Agenda item may do so at this time. Any Board Member may request that any item be withdrawn from the Consent Agenda to permit discussion or to change the recommended course of action. The Board may approve the remainder of the Consent Agenda on one motion.

3A. Review and Approval of the Minutes of the July 02, 2014 meeting

3B. Review and Approval of Warrants

3C. Financial Review as of June 30, 2014

4. PLANT SUPERINTENDENT'S REPORT

5. BOARD ACTION ON INDIVIDUAL ITEMS:

A. FY 2012/2013 FINAL AUDIT REPORT PRESENTATION

Staff recommends the Board receive the presentation of the District's FY 2012/13 Financial Audit Report by Moss, Levy & Hartzheim, LLP.

B. REQUEST MOSS LEVY TO PREPARE FY 13/14 AUDIT

Staff recommends the Board approve Moss, Levy & Hartzheim, LLP to conduct the FY 2013/14 Audit.

6. MISCELLANEOUS ITEMS

A. Miscellaneous Oral Communications

B. Miscellaneous Written Communications

1. CSDA Election Information

7. PUBLIC COMMENT ON CLOSED SESSION

8. CLOSED SESSION

(1) **CONFERENCE WITH REAL PROPERTY NEGOTIATOR**
pursuant to Government Code Section 54956.8 regarding
Property: 1600 Aloha, Oceano, California with **Agency**
Negotiator: John Clemons, Superintendent and
Negotiating Parties: Tim Cate, County of San Luis Obispo.
Under Negotiation: Price and Terms of Payment.

7. ADJOURNMENT

SOUTH SAN LUIS OBISPO COUNTY SANITATION DISTRICT

City of Arroyo Grande, City Council Chambers
215 East Branch Street
Arroyo Grande, California 93420

Minutes of the Meeting of Wednesday April 16, 2014
6:06 P.M.

1. CALL TO ORDER AND ROLL CALL

Present: Chair Matthew Guerrero, Oceano Community Services District; Vice Chair Tony Ferrara, City of Arroyo Grande; Director Glenn Marshall, City of Grover Beach.

District Staff in Attendance: Shannon Sweeney, District Engineer; Mike Seitz, District Counsel; John Clemons, Plant Superintendent; Amy Simpson, District Bookkeeper/Secretary

2. PUBLIC COMMENTS ON ITEMS NOT APPEARING ON THE AGENDA

Patricia Price was the only public at the meeting. She had no comment so Director Guerrero closed the public comment period.

3. CONSENT AGENDA

3A. Review and Approval of the Minutes of the July 2, 2014 meeting.

3B. Review and Approval of Warrants

Action: Director Ferrara moved for approval, and Director Marshall seconded. The motion was carried 3-0.

4. PLANT SUPERINTENDENT'S REPORT

Mr. Clemons presented the Superintendent's Report.

Action: The Board received and filed the Plant Superintendent's report.

5. BOARD ACTION ON INDIVIDUAL ITEMS:

A. FY 2014/15 ANNUAL BUDGET

District Engineer Shannon Sweeney presented the staff recommendation that the Board hold a public hearing on the adoption of the FY 2014/15 budget.

Director Guerrero opened the public hearing on the Fiscal Year 2014/15 budget. There being no public comment, Director closed the public hearing.

Action: Director Ferrara moved that the Board adopt Resolution No. 2014-321 A RESOLUTION ADOPTING THE 2014-15 FISCAL YEAR BUDGET. Director Guerrero seconded, and the following roll call vote to wit:

AYES: Director Ferrara, Director Marshall, Director Guerrero
NOES: None
ABSENT: None

The foregoing resolution was passed and adopted this 2nd day of July 2014.

6. MISCELLANEOUS ITEMS

A. Staff was directed to attain RFP's to possibly replace SDRMA prior to December 2014.

Action: The motion to compare other insurance providers passed unanimously.

B. Miscellaneous Oral and Written Communications

Notice was given from the League of California Cities on the Water Bonds of 2014 and is attached to the minutes.

7. PUBLIC COMMENT ON CLOSED SESSION

Director Guerrero opened the public comment period. There being no comments, Director Guerrero closed the public comment period.

8. CLOSED SESSION

(1) Conference with Legal Counsel pursuant to Government Code Section 5496.9; 1 case

- a. Carter/Johnson v. Wallace
- b. SSLOCSD V SDRMA
- c. SSLOCSD V U.S. ENERGY

(2) Closed session Pursuant to Government Code section 54957 (b) 1:
Performance Evaluation of District legal Counsel

9. RETURN TO OPEN SESSION; REPORT ON CLOSED SECTION

The Board was advised by Mr. Seitz that there was an agreement on the final release language for Carter/Johnson and U.S. Energy and both cases are now settled. There was no report on SSLOCSD vs. SDRMA. Counsel Seitz's evaluation is now complete with no reportable action.

8. ADJOURNMENT

There being no further business to come before the Board, Director Guerrero adjourned the meeting at approximately 7:02 p.m.

THESE MINUTES ARE DRAFT AND NOT OFFICIAL UNTIL APPROVED BY THE BOARD OF DIRECTORS AT A SUBSEQUENT MEETING.



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Water Bond 2014

In 2009, the State Legislature passed and Governor Arnold Schwarzenegger signed an \$11.1 billion water bond, placing it on the 2010 ballot as Proposition 18. However, due to significant criticism over the size of the bond, the amount of earmarked projects (\$2 billion), and a lack of public support, the Legislature has voted twice to postpone the ballot vote. As it currently stands, the \$11.1 billion water bond will appear on the November 2014 ballot unless the Legislature takes action.

Since January, 10 bills have been introduced to alter the existing water bond. Negotiations have greatly intensified in recent weeks and will continue to do so as the July deadline to place a bond on the November 2014 ballot nears. Below is a comparison of AB 1331, AB 2686, and SB 848, the leading bond proposals.

AB 1331 (Rendon) Clean and Safe Drinking Water Act of 2014-\$8 billion

- Clean and Safe Drinking Water - \$1 billion
 - *\$100 million for grants and loans for treatment and remediation activities that prevent or reduce contamination of groundwater*
- Protecting River, Lakes, Streams, Coastal Waters, and Watersheds - \$1.5 billion
 - *\$750 million for Conservancies to fund projects that restore, enhance, and protect watersheds*
 - *\$250 million for multi-benefit watershed and urban rivers enhancement projects*
- Climate Change and Drought Preparedness for Regional Water Reliability - \$2 billion
 - *\$500 million for grants and low-interest loans for water recycling and advanced treatment technology projects*
 - *\$250 million direct expenditures, grants, and loans for water conservation and water use efficiency plans, projects, and programs*
 - *\$250 million for grants and loans for projects that develop, implement, or improve a stormwater capture and reuse plan*
- Sacramento-San Joaquin Delta Sustainability - \$1 billion
- Water Storage for Climate Change - \$2.5 billion
 - *\$2.5 billion for surface and groundwater storage projects*

AB 2686 (Perea) Clean, Safe, and Reliable Drinking Water Supply Act of 2014

- Clean, Safe, and Reliable Drinking Water - \$1 billion
- Protecting Rivers, Lakes, Streams, Coastal Waters, and Watersheds - \$1.5 billion
 - *\$750 million for Conservancies for projects that protect and improve the watershed*
 - *\$150 million for projects that protect or enhance an urban creek*
 - *\$100 million for a competitive program to fund multi-benefit watershed and urban rivers enhancement projects in urban watersheds that increase regional and local water self-sufficiency*
- Climate Change Preparedness for Regional Water Security and Drought Preparedness - \$1.85 billion

Bulleted items with text in italics are consistent with the League's water bond funding priorities.

- *\$1 billion for hydrologic regions for projects that include stormwater capture and reuse, water reuse and recycling, water use efficiency and water conservation*
- *\$250 million for direct expenditures and for grants and loans, for water conservation and water-use efficiency plans, projects, and programs*
- *\$250 million for grants for multi-benefit stormwater management projects*
- Sacramento-San Joaquin Delta Sustainability - \$2.25 billion
- Statewide Water System Improvements - \$3 billion
 - *\$3 billion for surface and groundwater storage projects*
 - *All funds are continuously appropriated*

SB 848 (Wolk) Safe Drinking Water, Water Quality, and Water Supply Act of 2014-\$10.5 billion

- Safe Drinking Water Projects - \$3.02 billion
 - *\$1.4 billion for IRWM projects – groundwater storage, recycled water storage*
 - *\$100 million for groundwater management plans*
 - *\$1 billion for groundwater treatment and remediation*
- Water Quality - \$3.18 billion
 - *\$500 million to SWRCB for stormwater capture and reuse*
 - *\$500 million to SWRCB for water recycling and advanced treatment projects*
 - *\$925 million for statewide watershed improvements*
 - *\$200 million to for multi-benefit watershed and urban river projects*
- Sacramento/San Joaquin Delta - \$1.3 billion
- Statewide Water System Operational Improvement for Drought Preparedness - \$3 billion
 - *\$3 billion in funding for surface and groundwater storage projects*
 - *All funds are continuously appropriated to the California Water Commission*

League of California Cities Water Bond Funding Priorities

It should also be noted that the League has undertaken a thoughtful and deliberate process to develop water bond funding priorities. This effort began with the adoption of a resolution by the General Assembly at the League's Annual Conference in September 2013 that outlined several key funding priorities. A water bond taskforce was also established to consider additional funding priorities for consideration by the League's policy committees and Board of Directors. Ultimately, the Board of Directors unanimously voted to adopt the following water bond funding priorities:

- Water Conservation
- Ground Water Recharge
- Stormwater Capture and Reuse/Clean Water Act Compliance
- Watershed Restoration
- Water Storage (surface and subsurface) and Associated Conveyance
- Water Recycling and Reuse
- All water bond funds should be continuously appropriated

Bulleted items with text in italics are consistent with the League's water bond funding priorities.

SOUTH SAN LUIS OBISPO COUNTY SANITATION DISTRICT

WARRANT REGISTER REVISED

07/16/2014 FY 2014/15

ISSUED TO	PURCHASE/SERVICE	INV. # / SERVICE PERIOD	WARRANT NO.	ACCT	ACCT BRKDN	TOTAL
AARON ALLEN	MEDICAL REIMBUCEMENT	FY 2014/15	071614-8685	7050	500.00	500.00
ADAMSKI MOROSKI MADDEN CUMBERLAND & GREEN	LEGAL SERVICES	31433	86	7070	737.00	737.00
AIRFLOW FILTER SERVICE	AIR FILTER	13425	87	8030	289.58	289.58
ALLIED ADMINISTRATORS	EMPLOYEE DENTAL	JULY	88	6025	1,493.15	1,493.15
ALLSTAR INDUSTRIAL SUPPLY	MISC SUPPLIES	1158	89	8030	193.09	193.09
ANDRE, MORRIS & BUTTERY	LEGAL SERVICES	JUNE	90	7070	642.00	642.00
APPLIED INDUSTRIAL TECH	EURODRIVE FAF47DT80N4-KS	7002636347	91	8030	1,376.02	1,376.02
ARAMARK UNIFORMS	EMPLOYEE UNIFORMS	07/04/14	92	7025	430.08	430.08
B&B STEEL & SUPPLY	STEEL	448407	93	8030	190.28	190.28
BC PUMP SALES & SERVICE	NEW GOULDS PUMP	28943	94	8030	3,734.63	3,734.63
CA ELECTRIC SUPPLY	ELEC PARTS	566504	95	26-8065	575.50	680.42
		571651		8032	5.02	
		571645		8030	99.90	
CENTRAL COAST WATER TRTMNT	LAB SUPPLIES	21071	96	8040	60.00	60.00
CHARTER	INTERNET SERVICE	06/29/14 THROUGH 07/10/14	97	7013	505.35	505.35
ENGEL & GRAY, INC.	BIOSOLIDS HANDLING	74188	98	7085	2,114.74	2,114.74
FASTENAL	MISC SUPPLIES	CAS140216	99	8055	186.54	186.54
GARING TAYLOR & ASSOCIATES	PLANT VISIT TO CHECK ON EQUIP	12673	8700	7077	145.00	145.00
GLENN MARSHALL	BOARD SERVICE	JUNE	01	7075	100.00	100.00
GRAINGER	MISC SUPPLIES	9476557856	02	8035	196.14	196.14
INTERSTATE BATTERIES	FINANCE CHARGES	72791	03	8030	14.72	14.72
JB DEWAR INC	VEHICLE FUEL AND OIL	62325	04	8020	260.26	260.26
JIM WOESTE	SMALL TOOLS	CHICAGO BENDERS	05	8055	1,000.00	1,000.00
JOSLYN HODSON ACCOUNTING	DISTRICT ACCOUNTING	14-07	06	7076	1,023.75	1,023.75
MATTHEW GUERRERO	BOARD SERVICE	JUNE	07	7075	100.00	100.00
MINERS ACE	MISC SUPPLIES	6/30/14	08	8030	72.59	72.59
NESTLE PURE LIFE	LAB WATER FOR JULY	14F0012917373	09	8035	284.31	284.31
OCEANO COMMUNITY SERVICES DIST	ANNUAL BILLING FEE	FY 2013/14	10	7074	11,000.00	11,000.00
OFFICE DEPOT	OFFICE SUPPLIES	JUNE STATEMENT	11	8045	327.05	327.05
PERRY'S ELECT MOTORS	MOTORS AND REPAIR	16882	12	8030	1,129.39	1,129.39
POOR RICHARD'S PRESS	PRINTING SERVICE	260472	13	8045	127.82	127.82
SHIPSEY & SEITZ	MEETING PREPARATION, ATTENDANCE	JUNE	14	7071	319.00	3,323.00
SHIPSEY & SEITZ	DISTRICT COUNSEL SERVICES	JUNE		7071	811.00	
	LITIGATION	JUNE		7070	2,193.00	
SLO COUNTY NEWSPAPERS	BUDGET HEARING	7083233	15	7005	109.44	109.44
SO CO SANITARY SERVICE	TRASH SERVICE	JUNE	16	7093	120.79	120.79
STANLEY SECURITY	SECURITY - JULY	11426806	17	7011	204.50	204.50
TONY FERRARA	BOARD SERVICE	JUNE	18	7075	100.00	100.00
USABLUEBOOK	MISC SUPPLIES	378887	19	8030	445.35	445.35
VWR	THERMOMETER OVEN	8058113334	20	8040	41.74	41.74
WATER ENVIRONMENT FEDERATION	MEMBERSHIP RENEWAL	MEMBER ID: 17649923, CLEMONS	21	7050	249.00	249.00
SUB TOTAL					33,507.73	33,507.73
RABOBANK	JUNE ACTIVITY	\$2,550.96		1016	2,550.96	
PAYROLL	PPE 05/30/14 PPE 06/13/14	\$26,045.68 \$23,882.53			49,928.21	
GRAND TOTAL					85,986.90	
TRANSFER TO RABOBANK	PAYROLL	REPLENISHING PPE 05/30/14 PPE 06/13/14	22	1016	49,928.21	

We hereby certify that the demands numbered serially from 071614-8685 to 071614-8722 together with the supporting evidence have been examined, and that they comply with the requirements of the SOUTH SAN LUIS OBISPO COUNTY SANITATION DISTRICT. The demands are hereby approved by motion of the SOUTH SAN LUIS OBISPO COUNTY SANITATION DISTRICT, together with warrants authorizing and ordering the issuance of checks numbered identically with the particular demands and warrants.

BOARD OF DIRECTORS:

DATE: _____

Chairman_____
Board Member_____
Board Member_____
Secretary



SOUTH SAN LUIS OBISPO COUNTY SANITATION DISTRICT

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TO: Board of Directors
FROM: Amy Simpson, District Bookkeeper/Secretary
VIA: Rick Sweet, District Manager
DATE: July 16, 2014
SUBJECT: Financial Review as of June 30, 2014

Overall Financial Summary

As of June 30, 2014, the District has recognized total revenues of \$ 2,933,705. Of this amount, \$2,682,682 is for operating revenues, and \$251,024 is for non-operating revenues. Please note, June sewer service revenues have not been received from our member agencies as of the date of this report, so this revenue has not been accrued.

District operating expenses totaled \$2,255,956 and non-operating expenses totaled 321,737 as of June 30, 2014.

As of June 30, 2014, the District revenues exceeded expenses by \$356,013.

Local Agency Investment Fund

The balance in the District's LAIF account was \$ 2,404,950 at June 30, 2014.

County of San Luis Obispo Treasury Pool

As of June 30, 2014, the reconciled cash balance with the County of San Luis Obispo Treasury Pool was \$ 2,064,881. The County issues the majority of the District's checks, and the majority of the District's revenues are deposited with this agency. As such, the County provides 'banking services' to the District and provides some accounting documents for internal control purposes.

Rabobank Funds

At June 30, 2014, the reconciled cash balance in the District's Rabobank account totaled \$90,199. This account has been used to process the District's contracted payroll provider service and other District expenditures. Historically, this account was funded with transfers from the Local Agency Investment Fund account. Starting in April 2014, this account will be funded with transfers from the County of San Luis Obispo Treasury Pool.



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SOUTH SAN LUIS OBISPO COUNTY SANITATION DISTRICT MONTHLY CASH REPORT

Cash Balance at 05/31/14 \$ 4,733,671.52

Deposits	145,646.46
Interest Income-LAIF	0.00
Interest Income-County Treasury	0.00
Warrant Registers 06/18/14	(276,426.47)
SLO County error (payable)	7,894.80
Payroll PPE 05/30/14	(26,045.68)
Payroll PPE 06/13/14	(23,882.53)
Rabobank June Activity	(827.72)
Total May Activity	<u>(173,641.14)</u>

Cash Balance at 06/30/14 \$ 4,560,030.38

	CASH BALANCE
Cash by Institution	@ 06/30/14
Cash with County Treasury	\$ 2,064,881.35
Cash with LAIF	2,404,950.41
Cash with Rabobank	90,198.62
	<u>\$ 4,560,030.38</u>

SOUTH SAN LUIS OBISPO COUNTY SANITATION DISTRICT
FINANCIAL SUMMARY AS OF June 30, 2014
FISCAL YEAR 2013-2014

UNAUDITED

	FUND 19 OPERATING	FUND 20 EXPANSION	FUND 26 REPLACEMENT	TOTAL DISTRICT-WIDE
REVENUES - YTD				
OPERATING	2,696,912.38	\$ -	\$ -	\$ 2,696,912.38
NON-OPERATING				
Connection Fees	-	76,105.00	-	76,105.00
Pismo Reimbursements	18,565.52	-	-	18,565.52
School Services	-	-	-	-
Brine Disposal	85,099.00	-	-	85,099.00
Lease (At&t)	24,547.43	-	-	24,547.43
Interest	1,928.90	4,880.99	-	6,809.89
WDR Reimbursement	4,812.25	-	-	4,812.25
FOG Reimbursement	20,854.10	-	-	20,854.10
Transfers	(170,037.97)	-	170,037.97	-
TOTAL NON-OPERATING	(14,230.77)	80,985.99	170,037.97	236,793.19
TOTAL REVENUES	2,682,681.61	80,985.99	170,037.97	2,933,705.57
EXPENSES - YTD				
YEAR TO DATE EXPENSES	2,255,955.76	72,126.52	181,169.08	2,509,251.36
COGEN DEBT PAYMENTS	-	68,441.49	-	-
TOTAL EXPENSES	2,255,955.76	140,568.01	181,169.08	2,509,251.36
NET INCOME (LOSS) - YTD	\$ 426,725.85	\$ (59,582.02)	\$ (11,131.11)	\$ 356,012.72

NEW CONNECTIONS	FY 2013/2014 NUMBER	FY 2013/2014 REVENUE
Arroyo Grande	16.00	\$ 40,218.00
Grover Beach	8.00	25,987.00
Oceano	4.00	9,900.00
TOTAL NEW DISTRICT CONNECTIONS	28.00	\$ 76,105.00



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Staff Report

To: Board of Directors
From: Richard G. Sweet, PE, District Manager
Date: July 16, 2014

Subject: Presentation of the Fiscal Year Ended 2013 Audit Report

Recommendation:

It is the staff recommendation that the Board receive a presentation of the audit report of the District's financial records by Moss, Levy & Hartzheim, LLP, the District's independent auditor; resolve questions; call for revisions; and file the report.

Funding:

Not applicable.

Discussion:

The firm of Moss, Levy & Hartzheim, LLP has been retained by the District to conduct financial audit services. A staff member from Moss, Levy & Hartzheim will be present at the Board meeting of July 16th, to present the firm's final audit report of the District's financial records. Staff is seeking questions from the Board members regarding the FYE 2013 audit.

An accountant with Moss, Levy & Hartzheim, LLP will be present at this Board meeting and will be prepared to respond to the Board's questions. Upon the Board's satisfaction, Staff asks approval of the audit with any appropriate revisions by motion.

Attachment:

FYE 2013 Draft Audit Report

**SOUTH SAN LUIS OBISPO COUNTY
SANITATION DISTRICT**

FINANCIAL STATEMENTS
June 30, 2013

SOUTH SAN LUIS OBISPO COUNTY SANITATION DISTRICT
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June 30, 2013

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MOSS, LEVY & HARTZHEIM LLP

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
South San Luis Obispo County Sanitation District
Oceano, California

Report on the Financial Statements

We have audited the accompanying financial statements of the South San Luis Obispo County Sanitation District (District) as of and for the fiscal year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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.

Auditors' 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 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 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 auditors' 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 respective financial position of the South San Luis Obispo County Sanitation District, as of June 30, 2013, and the respective changes in financial position and cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in note 2 to the basic financial statements effective July 1, 2012, the South San Luis Obispo County Sanitation District adopted Governmental Accounting Standards Board (GASB) Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, Statement No. 61, *The Financial Reporting Entity: Omnibus*, Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, and Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 2, 2014, on our consideration of the South San Luis Obispo County Sanitation District'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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Moss, Remy & Hutzgheirn LLP

Santa Maria, CA
May 2, 2014

SOUTH SAN LUIS OBISPO COUNTY SANITATION DISTRICT
STATEMENT OF NET POSITION - PROPRIETARY FUND
June 30, 2013

ASSETS

Current Assets:

Cash and investments - restricted	\$ 3,911,489
Accounts receivable	405,789
Interest receivable	1,776
Prepaid expenses	<u>32,221</u>
Total current assets	<u>4,351,275</u>

Noncurrent Assets:

Deposits	3,732
Capital Assets	
Land	431,425
Construction in progress	1,813,196
Property, plant & equipment	26,542,203
Accumulated depreciation	<u>(16,185,556)</u>
Total noncurrent assets	<u>12,605,000</u>
Total assets	<u>16,956,275</u>

LIABILITIES

Current Liabilities:

Accounts payable	130,428
Accrued liabilities	23,618
Accrued interest payable	6,355
Settlement payable	1,109,813
Loan payable, current portion	<u>58,481</u>
Total current liabilities	<u>1,328,695</u>

Long-Term Liabilities:

Loan payable, less current portion	266,728
Compensated absences	40,996
Other post employment benefits	<u>491,448</u>
Total long term liabilities	<u>799,172</u>
Total liabilities	<u>2,127,867</u>

NET POSITION

Net investment in capital assets	12,276,059
Restricted for capital expansion	7,143,239
Unrestricted	<u>(4,590,890)</u>
Total net position	<u>\$ 14,828,408</u>

The notes to basic financial statements are an integral part of this statement.

SOUTH SAN LUIS OBISPO COUNTY SANITATION DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION -
PROPRIETARY FUND

For the Fiscal Year Ended June 30, 2013

Operating Revenues:	
Sewer services fees	\$ 3,071,262
Total operating revenues	<u>3,071,262</u>
Operating Expenses:	
Gross wages	572,111
Payroll taxes and benefits	39,816
Employee benefits	300,839
Retirement contribution	215,486
Uniforms	12,348
Repairs and maintenance	277,284
Equipment rental	5,311
Insurance	28,031
Depreciation	1,316,337
Communications	8,038
Utilities	183,332
Property tax	13,558
Special services	246,531
Office and supplies	16,853
Fuel and oil	10,142
Membership, permits and license fees	91,551
Legal and accounting	462,234
Plant chemicals, lab, and analysis	359,906
Environmental regulation fees	143,226
Solids handling	68,568
Small tools	21,809
Total operating expenses	<u>4,393,311</u>
Net operating loss	<u>(1,322,049)</u>
Non-Operating Revenues (Expenses):	
From other governmental agencies	72,077
Interest income	10,582
Lease income	23,559
Interest expense	(18,184)
Total non-operating revenues (expenses)	<u>88,034</u>
Capital Contributions:	
Connection fees	<u>152,202</u>
Special Item:	
Settlement to Regional Water Quality Control Board	<u>(1,109,813)</u>
Change in net assets	(2,191,626)
Net Position:	
Net position, beginning of fiscal year	<u>17,020,034</u>
Net position, end of fiscal year	<u>\$ 14,828,408</u>

The notes to basic financial statements are an integral part of this statement.

SOUTH SAN LUIS OBISPO COUNTY SANITATION DISTRICT
STATEMENT OF CASH FLOWS - PROPRIETARY FUND
For the Fiscal Year Ended June 30, 2013

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from customers	\$ 3,068,546
Payments to vendors	(2,504,276)
Payments to employees	(420,595)
	<u>143,675</u>
Net cash provided by operating activities	<u>143,675</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Cash received from other governmental agencies	72,077
Lease income	23,559
	<u>95,636</u>
Net cash provided by noncapital financing activities	<u>95,636</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Capital contributions	152,202
Acquisition and construction of capital assets	(386,610)
Payments of capital debt	(55,527)
Interest paid on capital debt	(19,269)
	<u>(309,204)</u>
Net cash used by capital and related financing activities	<u>(309,204)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest received	11,943
	<u>11,943</u>
Net cash provided by investing activities	<u>11,943</u>
Net change in cash and cash equivalents	(57,950)
Cash and cash equivalents, July 1	<u>3,969,439</u>
Cash and cash equivalents, June 30	<u>\$ 3,911,489</u>

The notes to basic financial statements are an integral part of this statement.

SOUTH SAN LUIS OBISPO COUNTY SANITATION DISTRICT
STATEMENT OF CASH FLOWS - PROPRIETARY FUND (Continued)
For the Fiscal Year Ended June 30, 2013

Reconciliation of operating loss to net cash provided
by operating activities:

Operating loss	\$ (1,322,049)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation	1,316,337
Change in net assets and liabilities:	
Accounts receivable	(14,565)
Prepaid expenses	11,849
Accounts payable	587
Accrued liabilities	591
Compensated absences	11,339
OPEB liability	<u>139,586</u>
Net cash provided by operating activities	<u>\$ 143,675</u>

The notes to basic financial statements are an integral part of this statement.

NOTE 1 - REPORTING ENTITY

The reporting entity is the South San Luis Obispo County Sanitation District. The District is responsible for trunk main and sewer pipes from the Cities of Arroyo Grande, Grover Beach, and the Oceano Community Services District. The District is governed by a three-member body, known as the District Board, who are appointed by the respective member agencies on a yearly basis. The District Board includes one representative from each of its Member Agencies, specifically, the City of Arroyo Grande, City of Grover Beach and the Oceano Community Services District. The District provides wastewater disposal services.

There are no component units included in this report which meet the criteria of Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statements No. 39 and No. 61.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- A. Accounting Policies - The accounting policies of the District conform to accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board and the American Institute of Certified Public Accountants.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally followed in the proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The District has elected not to follow subsequent private-sector guidance.

- B. Accounting Method - The District is organized as an Enterprise Fund and follows the accrual method of accounting, whereby revenues are recorded as earned, and expenses are recorded when incurred.

- C. Fund Financial Statements - The fund financial statements provide information about the District's proprietary fund.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

Proprietary Fund Type

Enterprise Fund

Enterprise fund is used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

- D. Cash and Cash Equivalents - For purposes of the statement of cash flows, cash and cash equivalents include restricted and unrestricted cash and restricted and unrestricted certificates of deposit with original maturities of three months or less.
- E. Property, Plant, and Equipment - Capital assets purchased by the District are recorded at cost. Contributed or donated capital assets are recorded at fair value when acquired.
- F. Depreciation - Capital assets owned by the District are depreciated over their estimated useful lives (ranging from 5-40 years) under the straight-line method of depreciation.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- G. Receivables - The District did not experience bad debt losses; accordingly, no adjustment has been made for doubtful accounts, and accounts receivable is shown at the adjusted value.
- H. Encumbrances - Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation, is not utilized by the District.
- I. Compensated Absences - Accumulated unpaid employee vacation and sick leave benefits are recognized as liabilities of the District. The amounts are included in current liabilities.
- J. Restricted Assets - Restricted assets are financial resources segregated for a special purpose such as construction of improvements and financing of debt obligations. These assets are for the benefit of a distinct group and as such are legally or contractually restricted.

K. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America, as prescribed by the GASB and the AICPA, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

L. Net Position

GASB Statement No. 63, requires that the difference between assets added to the deferred outflows of resources and liabilities be added to the deferred inflows of resources be reported as net position. Net position is classified as either net investment in capital assets, restricted, or unrestricted.

Net position that is net investment in capital assets consist of capital assets, net of accumulated depreciation, and reduced by the outstanding principal of related debt. Restricted net position is the portion of net position that has external constraints placed on them by creditors, grantors, contributors, laws, or regulations of other governments, or through constitutional provisions, or enabling legislation. Unrestricted net position consists of net position that does not meet the definition of net investment in capital assets or restricted net position.

M. New Accounting Pronouncements

Governmental Accounting Standards Board Statement No. 60

For the fiscal year ended June 30, 2013, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 60, "Accounting and Financial Reporting for Service Concession Arrangements." This Statement is effective for periods beginning after December 15, 2011. The objective of this Statement is to improve financial reporting by addressing issues related to Service Concession Arrangements. This Statement improves consistency in reporting and enhances the comparability of the accounting and financial reporting of Service Concession Arrangements among state and local governments. Implementation of the GASB Statement No. 60, did not have an impact on the District's financial statements for the fiscal year ended June 30, 2013.

Governmental Accounting Standards Board Statement No. 61

For the fiscal year ended June 30, 2013, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 61 "The Financial Reporting Entity: Omnibus." This statement is effective for periods beginning after June 15, 2012. The objective of this Statement is to improve financial reporting for component units. The Statement modifies certain requirements for inclusion of component units in the financial reporting entity and clarifies the reporting of equity interests in legally separate organizations. Implementation of the GASB Statement No. 61, did not have an impact on the District's financial statements for the fiscal year ended June 30, 2013.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. New Accounting Pronouncements (Continued)

Governmental Accounting Standards Board Statement No. 62

For the fiscal year ended June 30, 2013, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 62 "Codification of Accounting and Financial Reporting Guidance Contained in *Pre-November 30, 1989* FASB and AICPA Pronouncements." This Statement is effective for periods beginning after December 15, 2011. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the FASB and AICPA pronouncements issued on or before November 30, 1989. This Statement specifically identifies and consolidates the accounting and financial reporting provisions that apply to state and local governments. Implementation of the GASB Statement No. 62, did not have an impact on the District's financial statements for the fiscal year ended June 30, 2013.

Governmental Accounting Standards Board Statement No. 63

For the fiscal year ended June 30, 2013, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position." This Statement is effective for periods beginning after December 15, 2011. The objective of this Statement is to establish guidance for reporting deferred outflows or resources, deferred inflows of resources, and net position in a statement of financial position. This Statement sets forth framework that specifies where deferred outflows of resources and deferred inflows of resources, as well as how assets and liabilities should be displayed. This Statement also specifies how net position, no longer referred to as net assets, should be displayed. Implementation of the Statement and the impact of the District's financial statements are explained in Note 2 – L Net Position.

NOTE 3 - CASH AND INVESTMENTS

Investments are carried at fair value in accordance with GASB Statement No. 31. On June 30, 2013 the District had the following cash and investments on hand:

Cash on hand	\$ 100
Cash in Bank	60,855
Cash and investments with County Treasurer	1,012,241
Local Agency Investment Fund (LAIF)	<u>2,838,293</u>
Total cash and investment	\$ <u><u>3,911,489</u></u>

Cash and investments listed above are presented on the accompanying basic financial statements, as follows:

Cash and investments - restricted	\$ <u>3,911,489</u>
Total	\$ <u><u>3,911,489</u></u>

Cash and investments are restricted for connection fees.

NOTE 3 - CASH AND INVESTMENTS (Continued)

Investments Authorized by the California Government Code

The table below identifies the investment types that are authorized for the District by the California Government Code. The table also identifies certain provisions of the California Government Code that address interest rate risk, credit risk, and concentration of credit risk.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
Federal Agency Securities	N/A	None	None
Bankers' Acceptances	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase and Reverse Repurchase Agreements	92 days	20% of base value	None
Medium-Term Notes	5 years	30%	None
Mutual Funds	5 years	15%	10%
Money Market Mutual Funds	N/A	None	None
Mortgage Pass-Through Securities	N/A	20%	None
County Pooled Investment Fund	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
State Registered Warrants, Notes, or Bonds	5 years	None	None
Notes and Bonds of other Local California Agencies	5 years	None	None

Disclosures Relating to 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. One of the ways that the District manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investments by maturity:

<u>Investment Type</u>	<u>Carrying Amount</u>	<u>Remaining Maturity (in Months)</u>			
		<u>12 Months or Less</u>	<u>13 - 24 Months</u>	<u>25 - 60 Months</u>	<u>More than 60 Months</u>
San Luis Obispo Investment Pool	\$ 1,012,241	\$ 1,012,241	\$ -	\$ -	\$ -
State Investment Pool (LAIF)	2,838,293	2,838,293			
	<u>\$ 3,850,534</u>	<u>\$ 3,850,534</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

NOTE 3 - CASH AND INVESTMENTS (Continued)

Disclosures Relating to Credit Risk

Generally, 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 rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code and the District's investment policy, and the actual rating as of fiscal year end for each investment type.

Investment Type	Carrying Amount	Minimum Legal Rating	Rating as of Fiscal Year End			
			AAA	At	Baa	Not Rated
San Luis Obispo Investment Pool	\$ 1,012,241	N/A	\$ -	\$ -	\$ -	\$ 1,012,241
State Investment Pool (LAIF)	2,838,293	N/A				2,838,293
	<u>\$ 3,850,534</u>		<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,850,534</u>

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. There are no investments in any one issuer that represent 5% or more of total District investments.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: 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 fair 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 the District's deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

As of June 30, 2013, none of the District's deposits with financial institutions in excess of federal depository insurance limits were held in uncollateralized accounts.

Investment in State Pool (LAIF)

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District'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 are recorded on an amortized cost basis.

SOUTH SAN LUIS OBISPO COUNTY SANITATION DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2013

NOTE 4 - SCHEDULE OF CAPITAL ASSETS

A schedule of changes in capital assets and depreciation for the fiscal year ended June 30, 2013, is shown below:

	Balance July 1, 2012	Additions	Deletions	Transfers	Balance June 30, 2013
Land	\$ 431,425	\$ -	\$ -	\$ -	\$ 431,425
Construction in progress	2,154,662	320,036		(661,502)	1,813,196
Property, Plant, & Equipment	25,814,127	66,574		661,502	26,542,203
Total capital assets	28,400,214	386,610			28,786,824
Less Accumulated Depreciation	(14,869,219)	(1,316,337)			(16,185,556)
Net capital assets	<u>\$ 13,530,995</u>	<u>\$ (929,727)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,601,268</u>

NOTE 5 – LOAN PAYABLE

On October 19, 2009, the District received a loan from Municipal Finance Corporation in the amount of \$483,159. The purpose of the loan was to install a new electrical generator system. The District will make semi-annual payments under the loan agreement of \$37,398 through August 16, 2017. The interest rate for the loan is 5.25%. Future debt service payments are as follows:

Fiscal Year Ended June 30, 2013	Principal	Interest	Total
2014	\$ 58,481	\$ 16,316	\$ 74,797
2015	61,591	13,206	74,797
2016	64,867	9,930	74,797
2017	68,318	6,479	74,797
2018	71,952	2,845	74,797
	<u>\$ 325,209</u>	<u>\$ 48,776</u>	<u>\$ 373,985</u>

NOTE 6 – LONG-TERM DEBT

The changes in long-term debt at June 30, 2013, are as follows:

	July 1, 2012	Additions	Retirements	Balance June 30, 2013		
				Total	Current	Long Term
Compensated Absences	\$ 29,657	\$ 28,643	\$ (17,304)	\$ 40,996	\$ -	\$ 40,996
Loan Payable	380,736		(55,527)	325,209	58,481	266,728
OPEB	351,862	161,749	(22,163)	491,448		491,448
Total	<u>\$ 762,255</u>	<u>\$ 190,392</u>	<u>\$ (94,994)</u>	<u>\$ 857,653</u>	<u>\$ 58,481</u>	<u>\$ 799,172</u>

NOTE 7 - DISTRICT EMPLOYEES' RETIREMENT PLAN (DEFINED BENEFIT PENSION PLAN)

Plan Description

The South San Luis Obispo County Sanitary District's (the District) defined benefit pension plan, Public Employees' Retirement System (PERS), provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The PERS is part of the Public Agency portion of the California Public Employees' Retirement System, (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 are established by State statutes with the Public Employees' Retirement Law. The District selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through local ordinance (other local methods). 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

Active plan members in the PERS are required to contribute 8% of their annual covered salary. The District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rate for the fiscal year 2012/2013, was 11.699%. The contribution requirements of the plan members are established by State statute and employer contribution rate was established and may be amended by CalPERS. The South San Luis Obispo County Sanitary District's contributions to CalPERS for the fiscal years ending June 30, 2013, 2012, and 2011, were \$47,479, \$49,115, and \$42,290, respectively, and equal 100% of the required contributions for each fiscal year.

NOTE 8 – POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS

Plan Description

The District provides post-retirement health benefits to all retirees who retire from the System and have reached the minimum age of 50.

Funding Policy

The District is required to contribute the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of the GASB Statement No. 45. The System used the alternative measurement method as allowed under GASB Statement No. 45. The ARC represents a level of funding that if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

Annual OPEB Cost and Net OPEB Obligation/(Asset)

The following table shows the components of the District's Annual OPEB Cost for the fiscal year ended June 30, 2013, the amount actually contributed to the plan (including administrative costs), and changes in the System's Net OPEB Obligation/(Asset):

	Fiscal Year Ending June 30, 2013
Annual Required Contributions	\$ 135,359
Interest on Net OPEB Obligation/(Asset)	26,390
Annual OPEB Cost/Expense	161,749
Contributions made	22,163
Increase in Net OPEB Obligations/(Asset)	139,586
Net OPEB Obligations/(Assets) - beginning of fiscal year	351,862
Net OPEB Obligations/(Assets) - end of fiscal year	\$ 491,448

NOTE 8 – POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS (Continued)

Annual OPEB Cost and Net OPEB Obligation/(Asset) (Continued)

The District's Annual OPEB cost, the percentage of Annual OPEB Cost contributed to the plan, and the Net OPEB Obligation (Asset) are as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Actual Contribution</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation (Asset)</u>
June 30, 2011	\$ 110,286	\$ 12,045	11%	\$ 252,055
June 30, 2012	\$ 116,152	\$ 16,345	14%	\$ 351,862
June 30, 2013	\$ 161,749	\$ 22,163	14%	\$ 491,448

The funded status of the plan was as follows:

<u>Valuation Date</u>	<u>Value of Assets</u>	<u>Projected Unit Credit Actuarial Accrued Liabilities</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UUAL as a Percentage of Covered Payroll</u>
June 30, 2011	\$ -	\$ 774,397	\$ 774,397	0%	\$ 502,853	154%
June 30, 2012	\$ -	\$ 798,486	\$ 798,486	0%	\$ 438,683	182%
June 30, 2013	\$ -	\$ 1,017,897	\$ 1,017,897	0%	\$ 405,804	251%

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The methods and assumptions used include techniques that are designed to reduce short-term volatility in accrued liabilities and the value of assets, consistent with the long-term perspective of the calculations.

The District did not pre-fund retiree healthcare costs nor establish an irrevocable trust for retiree healthcare costs. The decision not to use an irrevocable trust was made because of the current national and state economic issues and the possibility that the funds may be required to provide current services.

NOTE 9 – RELATED PARTY TRANSACTIONS

Mr. John Wallace is the President of both Wallace Group, Inc. and John L. Wallace and Associates, Inc. Wallace Group, Inc. is an engineering firm located in San Luis Obispo and John L. Wallace and Associates, Inc. is a consulting firm located in San Luis Obispo. Mr. John Wallace retired as District General Manager at South San Luis Obispo County Sanitation District on February 20, 2013. During the fiscal year 2012-2013, Wallace Group, Inc. provided \$288,593 worth of engineering and consulting services to the District.

NOTE 10 – COMMITMENTS AND CONTINGENCIES

According to the District's staff and attorney, no contingent liabilities are outstanding and no lawsuits are pending of any real financial consequence.

NOTE 11 – SPECIAL ITEM

On October 3, 2012, the Board settled a penalty of \$1,109,813 from the Regional Water Control Board for sewage spill in December 2010.



SOUTH SAN LUIS OBISPO COUNTY SANITATION DISTRICT

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Staff Report

To: Board of Directors
From: Richard Sweet, PE, District Manager
Date: July 16, 2014

Subject: **PROPOSAL FOR 2014 FYE AUDIT**

RECOMMENDATION:

That the South San Luis Obispo County Sanitation District Board of Directors approves, a proposal from Moss, Levy, Hartzheim, LLP, attached, for preparation of the 2014 FYE Audit.

BACKGROUND

Moss, Levy, Hartzheim, LLP has performed the District audit for a number of years.

DISCUSSION:

Moss, Levy, Hartzheim, LLP has prepared a proposal, attached, for performing the 2014 FYE audit. The proposed objective of the audit is to express an opinion as to whether the District's basic financial statements are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. The proposed cost for these services is \$6,045.

OPTIONS

1. Request alternative proposals for other accounting firms.
2. Decline to perform an annual audit.

Richard G. Sweet, PE
District Manager

Attachment: Audit Proposal



MOSS, LEVY & HARTZHEIM LLP

CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS

RONALD A LEVY, CPA
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July 10, 2014

South San Luis Obispo Sanitation District
1600 Aloha
Oceano, California 43445

We are pleased to confirm our understanding of the services we are to provide to the South San Luis Obispo Sanitation District for the fiscal year ended June 30, 2014. We will audit the financial statements, including the related notes to the financial statements, which collectively comprise the basic financial statements of the South San Luis Obispo Sanitation District as of and for the fiscal year ended June 30, 2014. Accounting standards generally accepted in the United States of America provide for certain required supplementary information (RSI), such as management's discussion and analysis (MD&A), to supplement the South San Luis Obispo Sanitation District's basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. As part of our engagement, we will apply certain limited procedures to the South San Luis Obispo Sanitation District's RSI in accordance with auditing standards generally accepted in the United States of America. These limited procedures will consist of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We will not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. The following RSI is required by generally accepted accounting principles and will be subjected to certain limited procedures, but will not be audited:

1) Management's Discussion and Analysis

Audit Objectives

The objective of our audit is the expression of an opinion as to whether your basic financial statements are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles and to report on the fairness of the supplementary information referred to in the second paragraph when considered in relation to the financial statements as a whole. Our audit will be conducted in accordance with auditing standards generally accepted in the United States of America and the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and will include tests of the accounting records of the South San Luis Obispo Sanitation District and other procedures we consider necessary to enable us to express such opinions. We cannot provide assurance that unmodified opinions will be expressed. Circumstances may arise in which it is necessary for us to modify our opinions or add emphasis-of-matter or other-matter paragraphs. If our opinion on the financial statements is other than unmodified, we will discuss the reasons with you in advance. If, for any reason, we are unable to complete the audit or are unable to form or have not formed opinions, we may decline to express opinions or to issue a report as a result of this engagement.

We will also provide a report (that does not include an opinion) on internal control related to the financial statements and compliance with the provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a material effect on the financial statements as required by *Government Auditing Standards*. The reports on internal control and compliance will each include a paragraph that states that the purpose of the report is solely to describe the scope of testing of internal control over financial reporting and compliance, and the result of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance, and that the report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering internal control over financial reporting and compliance. The paragraph will also state that the report is not suitable for any other purpose. If during our audit we become aware that South San Luis Obispo Sanitation District is subject to an

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audit requirement that is not encompassed in the terms of this engagement, we will communicate to management and those charged with governance that an audit in accordance with U.S. generally accepted auditing standards and the standards for financial audits contained in *Government Auditing Standards* may not satisfy the relevant legal, regulatory, or contractual requirements.

Management Responsibilities

Management is responsible for the basic financial statements and all accompanying information as well as all representations contained therein. As part of the audit, we will assist with preparation of your financial statements and related notes. You will be required to acknowledge in the written representation letter our assistance with preparation of the financial statements and that you have reviewed and approved the financial statements and related notes prior to their issuance and have accepted responsibility for them. You agree to assume all management responsibilities for any nonaudit services we provide; oversee the services by designating an individual, preferably from senior management, who possesses suitable skill, knowledge, or experience; evaluate the adequacy and results of the services; and accept responsibility for them.

Management is responsible for establishing and maintaining effective internal controls, including evaluating and monitoring ongoing activities, to help ensure that appropriate goals and objectives are met; for the selection and application of accounting principles; and for the preparation and fair presentation of the financial statements in conformity with U.S. generally accepted accounting principles.

Management is also responsible for making all financial records and related information available to us and for ensuring that management is reliable and financial information is reliable and properly recorded. You are also responsible for providing us with (1) access to all information of which you are aware that is relevant to the preparation and fair presentation of the financial statements, (2) additional information that we may request for the purpose of the audit, and (3) unrestricted access to persons within the government from whom we determine it necessary to obtain audit evidence.

Your responsibilities include adjusting the financial statements to correct material misstatements and for confirming to us in the written representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

You are responsible for the design and implementation of programs and controls to prevent and detect fraud, and for informing us about all known or suspected fraud affecting the government involving (1) management, (2) employees who have significant roles in internal control, and (3) others where the fraud could have a material effect on the financial statements. Your responsibilities include informing us of your knowledge of any allegations of fraud or suspected fraud affecting the government received in communications from employees, former employees, grantors, regulators, or others. In addition, you are responsible for identifying and ensuring that the entity complies with applicable laws, regulations, contracts, agreements, and grants for taking timely and appropriate steps to remedy any fraud, violations of contracts or grant agreements, or abuse that we may report.

You are responsible for the preparation of the supplementary information in conformity with U.S. generally accepted accounting principles. You agree to include our report on the supplementary information in any document that contains and indicates that we have reported on the supplementary information. You also agree to include the audited financial statements with any presentation of the supplementary information that includes our report thereon or make the audited financial statements readily available to users of the supplementary information no later than the date the supplementary information is issued with our report thereon. Your responsibilities include acknowledging to us in the written representation letter that (1) you are responsible for presentation of the supplementary information in accordance with GAAP; (2) that you believe the supplementary information, including its form and content, is fairly presented in accordance with GAAP; (3) that the methods of measurement or presentation have not changed from those used in the prior period (or, if they have changed, the reasons for such changes); and (4) you have disclosed to us any significant assumptions or interpretations underlying the measurement or presentation of the supplementary information.

Management is responsible for establishing and maintaining a process for tracking the status of audit findings and recommendations. Management is also responsible for identifying for us previous financial audits, attestation engagements, performance audits or other studies related to the objectives discussed in the Audit Objectives section of this letter. This responsibility includes relaying to us corrective actions taken to address significant findings and recommendations resulting from those audits, attestation engagements, performance audits, or other studies. You are also responsible for providing management's views on our current findings, conclusions, and recommendations, as well as your planned corrective actions, for the report, and for the timing and format for providing that information.

Audit Procedures—General

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested. 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 will plan and perform the audit to obtain reasonable rather than absolute assurance about whether the financial statements are free of material misstatement, whether from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the entity or to acts by management or employees acting on behalf of the entity. Because the determination of abuse is subjective, *Government Auditing Standards* do not expect auditors to provide reasonable assurance of detecting abuse.

Because of the inherent limitations of an audit, combined with the inherent limitations of internal control, and because we will not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us, even though the audit is properly planned and performed in accordance with U.S. generally accepted auditing standards and *Government Auditing Standards*. In addition, an audit is not designed to detect immaterial misstatements or violations of laws or governmental regulations that do not have a direct and material effect on the financial statements. However, we will inform the appropriate level of management of any material errors, any fraudulent financial reporting, or misappropriation of assets that come to our attention. We will also inform the appropriate level of management of any violations of laws or governmental regulations that come to our attention, unless clearly inconsequential. Our responsibility, as auditors, is limited to the period covered by our audit and does not extend to later periods for which we are not engaged as auditors.

Our procedures will include tests of documentary evidence supporting the transactions recorded in the accounts, and may include tests of the physical existence of inventories, and direct confirmation of receivables and certain other assets and liabilities by correspondence with selected individuals, funding sources, creditors, and financial institutions. We will request written representations from your attorneys as part of the engagement, and they may bill you for responding to this inquiry. At the conclusion of our audit, we will require certain written representations from you about the financial statements and related matters.

Audit Procedures—Internal Control

Our audit will include obtaining an understanding of the entity and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Tests of controls may be performed to test the effectiveness of certain controls that we consider relevant to preventing and detecting errors and fraud that are material to the financial statements and to preventing and detecting misstatements resulting from illegal acts and other noncompliance matters that have a direct and material effect on the financial statements. Our tests, if performed, will be less in scope than would be necessary to render an opinion on internal control and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to *Government Auditing Standards*.

An audit is not designed to provide assurance on internal control or to identify significant deficiencies or material weaknesses. However, during the audit, we will communicate to management and those charged with governance internal control related matters that are required to be communicated under AICPA professional standards and *Government Auditing Standards*.

Audit Procedures—Compliance

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of the South San Luis Obispo Sanitation District's compliance with the provisions of applicable laws, regulations, contracts, agreements, and grants. However, the objective of our audit will not be to provide an opinion on overall compliance and we will not express such an opinion in our report on compliance issued pursuant to *Government Auditing Standards*.

Engagement Administration, Fees, and Other

We understand that your employees will prepare all cash or other confirmations we request and will locate any documents selected by us for testing.

We will provide copies of our reports to the District; however, management is responsible for distribution of the reports and the financial statements. Unless restricted by law or regulation, or containing privileged and confidential information, copies of our reports are to be made available for public inspection.

The audit documentation for this engagement is the property of Moss, Levy and Hartzheim LLP and constitutes confidential information. However, pursuant to authority given by law or regulation, we may be requested to make certain audit documentation available to a federal agency providing direct or indirect funding, or the U.S. Government Accountability Office for purposes of a quality review of the audit, to resolve audit findings, or to carry out oversight responsibilities. We will notify you of any such request. If requested, access to such audit documentation will be provided under the supervision of Moss, Levy and Hartzheim personnel. Furthermore, upon request, we may provide copies of selected audit documentation to the aforementioned parties. These parties may intend, or decide, to distribute the copies or information contained therein to others, including other governmental agencies.

The audit documentation for this engagement will be retained for a minimum of seven years after the report release date. If we are aware that a federal awarding agency or auditee is contesting an audit finding, we will contact the party(ies) contesting the audit finding for guidance prior to destroying the audit documentation.

We expect to begin our audit on approximately August 1, 2014 and to issue our reports no later than December 15, 2014. Ron A. Levy is the engagement partner and is responsible for supervising the engagement and signing the reports or authorizing another individual to sign them. Our fee for these services will be at our standard hourly rates plus out-of-pocket costs (such as report reproduction, word processing, postage, travel, copies, telephone, etc.) except that we agree that our gross fee, including expenses, will not exceed \$6,045. Our standard hourly rates vary according to the degree of responsibility involved and the experience level of the personnel assigned to your audit. Our invoices for these fees will be rendered each month as work progresses and are payable on presentation. In accordance with our firm policies, work may be suspended if your account becomes 30 days or more overdue and may not be resumed until your account is paid in full. If we elect to terminate our services for nonpayment, our engagement will be deemed to have been completed upon written notification of termination, even if we have not completed our report. You will be obligated to compensate us for all time expended and to reimburse us for all out-of-pocket costs through the date of termination. The above fee is based on anticipated cooperation from your personnel and the assumption that unexpected circumstances will not be encountered during the audit. If significant additional time is necessary, we will discuss it with you and arrive at a new fee estimate before we incur the additional costs.

We appreciate the opportunity to be of service to the South San Luis Obispo Sanitation District and believe this letter accurately summarizes the significant terms of our engagement. If you have any questions, please let us know. If you agree with the terms of our engagement as described in this letter, please sign the enclosed copy and return it to us.

Very truly yours,



Ron A. Levy

RESPONSE:

This letter correctly sets forth the understanding of the South San Luis Obispo Sanitation District.

Management signature: _____

Title: _____

Date: _____

Governance signature: _____

Title: _____

Date: _____