

Attachment B

**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, 2010



Certified Public Accountants.

CITY OF SAN DIEGO PUBLIC UTILITIES DEPARTMENT
Schedule of Allocation for Billing to Metropolitan Wastewater Utility
and Independent Auditor's Reports
For the Fiscal Year Ended June 30, 2010

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Certified Public Accountants.

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Walnut Creek

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Newport Beach

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

**INDEPENDENT AUDITOR'S REPORT ON SCHEDULE OF ALLOCATION
FOR BILLING TO METROPOLITAN WASTEWATER UTILITY**

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 (the PUD), an enterprise fund of the City of San Diego (the City) for the fiscal year ended June 30, 2010. The Schedule is the responsibility of the PUD's and the City'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 the 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 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, 2010 on the basis of accounting described in Note 3.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 21, 2013, 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 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 Metro Commission/Metro Wastewater JPA Board and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Macias Fini & O'Connell LLP

San Diego, California
February 21, 2013

CITY OF SAN DIEGO PUBLIC UTILITIES DEPARTMENT
SCHEDULE OF ALLOCATION FOR BILLING TO METROPOLITAN WASTEWATER UTILITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	Operating Expenses		
	Municipal System	Metropolitan System	Total
Transmission			
Main Cleaning	\$ 12,093,833	\$ -	\$ 12,093,833
Sewer Pump Stations	6,090,380	-	6,090,380
Other Pump Stations	5,010,777	1,006,415	6,017,192
Pump Station 1	-	2,963,981	2,963,981
Pump Station 2	-	6,874,828	6,874,828
Other Muni Agencies	2,709,411	-	2,709,411
Pipeline Maintenance & Repair	10,860,022	50,867	10,910,889
Wastewater Collection (WWC) Engineering and Planning	4,564,937	-	4,564,937
Total Transmission	41,329,360	10,896,091	52,225,451
Treatment and Disposal			
Point Loma Wastewater Treatment Plant (PTLWWTP)	-	22,818,340	22,818,340
North City Water Reclamation Plant (NCWRP)	-	9,016,846	9,016,846
South Bay Water Reclamation Plant (SBWRP)	-	6,808,355	6,808,355
Metropolitan Biosolids Center (MBC)	-	15,919,143	15,919,143
Gas Utilization Facility (GUF)	-	1,259,233	1,259,233
Total Treatment and Disposal	-	55,821,917	55,821,917
Quality Control			
Sewage Testing and Control	2,787,829	293,386	3,081,215
Marine Biology and Ocean Operations	-	4,692,693	4,692,693
Wastewater Chemistry Services	-	5,915,069	5,915,069
Industrial Permitting and Compliance	3,334,915	-	3,334,915
Total Quality Control	6,122,744	10,901,148	17,023,892
Engineering			
Program Management & Review	880,032	6,301,612	7,181,644
Environmental Support	324,337	429,704	754,041
Total Engineering	1,204,369	6,731,316	7,935,685
Operational Support			
Central Support Commnet/Comc	578,102	4,371,159	4,949,261
Operational Support	1,530,624	10,278,938	11,809,562
Total Operational Support	2,108,726	14,650,097	16,758,823
General and Administrative			
Business Support Admin	31,036,932	20,789,231	51,826,163
Operating Division Admin	5,149,884	4,142,617	9,292,501
Total General and Administrative	36,186,816	24,931,848	61,118,664
TOTAL EXPENSES	86,952,015	123,932,417	210,884,432
CAPITAL IMPROVEMENT EXPENSE	70,053,201	10,863,476	80,916,677
DEBT SERVICE ALLOCATION	45,114,632	64,507,673	109,622,305
METROPOLITAN SYSTEM INCOME CREDITS			
Operating Revenue	-	(6,810,715)	(6,810,715)
Capital Improvement Project (CIP) - Revenue Bond Issue	-	(8,601,327)	(8,601,327)
Operating - Grant Revenue	-	(136,877)	(136,877)
CIP - Grant Revenue	-	(83,642)	(83,642)
TOTAL METROPOLITAN SYSTEM INCOME CREDITS	-	(15,632,561)	(15,632,561)
TOTAL ALLOCATION FOR BILLING PURPOSES	\$ 202,119,848	\$ 183,671,005	\$ 385,790,853

See accompanying notes to the Schedule of Allocation for Billing to Metropolitan Wastewater Utility.

CITY OF SAN DIEGO PUBLIC UTILITIES DEPARTMENT
Notes to the Schedule of Allocation for Billing to Metropolitan Wastewater Utility
For the Fiscal Year Ended June 30, 2010

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 PUD is accounted for and reported as an enterprise fund of the City of San Diego.

Note 2 – Participating Agencies

The Participating Agencies consist of the following municipalities and districts:

City of Chula Vista	Lemon Grove Sanitation District
City of Coronado	City of National City
City of Del Mar	Otay Water District
East Otay Mesa Sewer Maintenance District	Padre Dam Municipal Water District
City of El Cajon	City of Poway
City of Imperial Beach	Spring Valley Sanitation District
City of La Mesa	Winter Gardens Sewer Maintenance District
Lakeside Sanitation District	Alpine Sanitation District

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. As a result, the Schedule is not intended to be a presentation of the financial position or the changes in the financial position in conformity with generally accepted accounting principles. The more significant differences are:

1. Purchases of capital assets are presented as capital improvement expenses.
2. Payments of principal and interest related to long-term debt are presented as debt service allocation expenses.

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

Note 4 – Metropolitan Wastewater Utility 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.

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, 2010

Note 5 – Debt Service Allocation Expenses

Debt service allocation expenses are that portion of the principal and interest payments relating to the Senior Sewer Revenue Bonds Series 1995, 1997A, 1997B, 1999A, 1999B, and 2009A and the Senior Sewer Revenue Refunding Bonds Series 2009B and 2010A, and outstanding loans with 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 as per 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 Division of the PUD has not collected any revenue from reclaimed water sales.

Note 7 – Total Allocation for Billing Purposes

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

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

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

Note 8 – Pension Benefit Costs

The rates supporting expenses related to the employer share of pension costs are actuarially determined by the San Diego City Employees' Retirement System's actuary. Employer contribution rates are set with a 2 year time-lag (i.e., rates effective in fiscal year 2010 were calculated in the fiscal year 2008 actuarial valuation). The City's enterprise funds fully paid their pension rates set by the actuary in the actuarial report prepared in fiscal year 2008 for fiscal year 2010.

Further information regarding the City's pension plan, benefits costs and funded status at June 30, 2010 can be found in the City's Comprehensive Annual Financial Report.

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, 2010

Note 9 – Postemployment Healthcare Benefits

Postemployment healthcare benefits costs are measured and accrued based upon annual actuarial valuations similar to current practice with pension plans. The actuarial valuations provide information on the annual required contributions (ARC) to fund the plan. The Schedule only includes postemployment healthcare benefits expenses incurred during the fiscal year ended June 30, 2010.

Further information regarding the City's Postemployment Healthcare Benefits at June 30, 2010 can be found in the City's Comprehensive Annual Financial Report.

Note 10 – Subsequent Event

The Local Agency Formation Commission approved a reorganization of the San Diego County sanitation services during fiscal year 2011. The San Diego County Sanitation District was formed on July 1, 2011. Lakeside Sanitation District, Spring Valley Sanitation District, East Otay Mesa Sewer Maintenance District, and Winter Gardens Sewer Maintenance District were reorganized into the San Diego County Sanitation District. The reorganization, however, does not affect the allocation of expenses for billing related to the Metropolitan System of those sanitation districts.

Note 11 – Administrative Protocol

In May 2010, an Administrative Protocol (Protocol) was approved between the City of San Diego and all Participating Agencies signatory to the Regional Wastewater Disposal Agreement. The Protocol that was effective during fiscal year 2010, established that the Participating Agencies would maintain at least a 1.2 debt service coverage ratio and fund a 45 day operating reserve. In addition, the Protocol establishes that beginning with fiscal year 2010, interest would accrue on the Participating Agencies' operating reserves and undesignated account. All interest earned during fiscal year 2010 was credited to the operating reserve, which ended the fiscal year with a 42-day reserve. The Participating Agencies have agreed to contribute additional funds to bring the operating reserve into compliance with the Administrative Protocol.



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

**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***

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 (the PUD), an enterprise fund of the City of San Diego (the City), California, for the fiscal year ended June 30, 2010 and have issued our report thereon dated February 21, 2013. 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 is 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 the PUD's Schedule is free of 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 the Schedule's 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 February 21, 2013.

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 Jini & O'Connell LLP

San Diego, California
February 21, 2013



THE CITY OF SAN DIEGO

February 21, 2013

Macias Gini & O'Connell LLP
225 Broadway, Suite 1750
San Diego, CA 92101

We are providing this letter in connection with your audit of the Schedule of Allocation of Billing to Metropolitan Wastewater Utility (the Schedule) of the Metropolitan System of the City of San Diego Public Utilities Department (PUD), an enterprise fund of the City of San Diego (City) for the year ended June 30, 2010.

As described in Note 1 to the Schedule, the Schedule was prepared in conformity with the accounting practices prescribed by the Regional Wastewater Disposal Agreement between the City and the participating agencies in the Metropolitan Sewerage System dated May 18, 1998 and amendments dated May 15, 2000 and June 3, 2010 (Agreements), on a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. We are also responsible for adopting sound accounting policies, establishing and maintaining effective internal control over financial reporting related to the Schedule, and preventing and detecting fraud.

We confirm, to the best of our knowledge and belief, as of February 21, 2013, the following representations made to you during your audit of the Schedule for the year ended June 30, 2010:

- 1) The Schedule referred to above is fairly presented in conformity with the accounting practices prescribed by the Agreements between the City and the Participating Agencies, on a comprehensive basis of accounting other than generally accepted accounting principles in the United States of America.
- 2) We are responsible for selecting the criteria and for determining that such criteria are appropriate for our purposes.
- 3) We have made available to you all:
 - a. Financial records and related data.
 - b. Minutes of the meetings of the City Council or summaries of actions of recent meetings for which minutes have not yet been prepared.

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- 4) There have been no communications from regulatory agencies, internal auditors, and other independent practitioners or consultants concerning noncompliance with, or deficiencies in, financial reporting practices to Schedule of Allocation of Billing to Metropolitan Wastewater Utility, including communications received between June 30, 2010 and February 21, 2013.
- 5) There are no material transactions that have not been properly recorded in the accounting records underlying the Schedule.
- 6) There are no material uncorrected misstatements which we are individually aware of.
- 7) We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud.
- 8) We have no individual knowledge of any fraud or suspected fraud that could affect the Schedule involving:
 - a. Management,
 - b. Employees who have significant roles in internal control, or
 - c. Others where the fraud could have a material effect on the Schedule.
- 9) We have no individual knowledge of any allegations of fraud or suspected fraud which affects the Schedule received in communications from employees, former employees, analysts, regulators, or others. (as to items 7, 8, and 9 we understand the term "fraud" to mean those matters described in Statement of Auditing Standards No. 99).
- 10) We have a process to track the status of audit findings and recommendations.
- 11) We have provided our views on the reported findings and recommendations, as well as our planned corrective action.
- 12) Accounting estimates that could be material to the Schedule. We believe the estimates and measurements are reasonable in the circumstances and consistently applied.
- 13) We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts; and we have identified and disclosed to you all laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of Schedule amounts, including legal and contractual provisions for reporting specific activities in separate funds.

14) There are no:

- a. Violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the Schedule, or as a basis for recording a loss contingency, or for reporting on noncompliance.
- b. We are not aware of any pending or threatened litigation, claims, or assessments or unasserted claims or assessments that are required to be disclosed in the Schedule in accordance with *Financial Accounting Standards Board (FASB) Statement No. 5*, and we have not consulted a lawyer concerning litigation, claims, or assessments that impact the Schedule.
- c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by FASB Statement No. 5.

15) As part of your audit, you assisted with preparation of the draft Schedule and related notes. We have designated an individual with suitable skill, knowledge, or experience to oversee your services and have made all management decisions and performed all management functions. We have reviewed, approved, and accepted responsibility for the Schedule and the related notes.

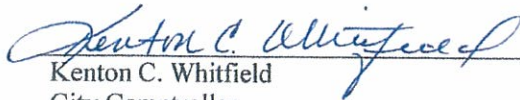
16) The PUD has complied with all aspects of contractual agreements that would have a material effect on the Schedule in the event of noncompliance.

17) We have followed all applicable laws and regulations in adopting, approving, and amending budgets.

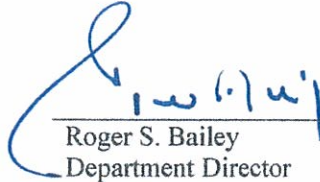
18) Expenses have been appropriately classified in the Schedule, and allocations of shared expenses between Metro and Muni have been made on a reasonable basis.

19) Revenues are appropriately classified in the Schedule.

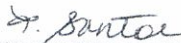
20) No events, including instances of noncompliance, have occurred subsequent to the Schedule date and through the date of this letter that would require adjustment to or disclosure in the aforementioned Schedule.



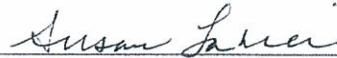
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WITHOUT PADRE DAM ADJUSTMENT

TABLE A

CITY OF SAN DIEGO - METROPOLITAN WASTEWATER DEPARTMENT
FISCAL YEAR 2010 ESTIMATED UNIT COSTS
FUNCTIONAL-DESIGN COST ALLOCATION METHOD
WITHOUT PADRE DAM ADJUSTMENT

TREATMENT PARAMETER	FY 2010 BUDGET		UNITS	COST PER UNIT
	AMOUNT	%		
WASTEWATER FLOW	\$89,106,584	48.5%	66,745 (a)	\$1,335.03 /per Million Gallons
SUSPENDED SOLIDS	\$50,104,866	27.3%	165,429 (b)	\$302.88 /per Thousand Pounds
CHEMICAL OXYGEN DEMAND	\$44,459,554	24.2%	314,169 (c)	\$141.51 /per Thousand Pounds
TOTAL	\$183,671,004	100%		

(a) Units of Flow - Million Gallons Per Year

(b) Units of SS - Thousands of Pounds per Year

(c) Units of COD - Thousands of Pounds per Year

TABLE B

CITY OF SAN DIEGO - METROPOLITAN WASTEWATER DEPARTMENT
 PROJECTED DISTRIBUTION OF SYSTEM WASTEWATER COSTS - FISCAL YEAR 2010
 FUNCTIONAL-DESIGN BASED ALLOCATION METHOD
 WITHOUT PADRE DAM ADJUSTMENT

AGENCY	ALLOCATION OF COSTS BY FLOW, SUSPENDED SOLIDS AND CHEMICAL OXYGEN DEMAND				TOTAL FLOW, SS & COD	TOTAL PAID FOR FY 2010	DIFFERENCE	% OF TOTAL
	FLOW (a)	SS (a)	COD (a)					
CHULA VISTA	\$8,856,339	\$4,841,438	\$4,446,843		\$18,144,620	\$18,395,320	(\$250,700)	29.70%
CORONADO	911,288	327,533	348,635		1,587,456	\$2,256,684	(\$669,228)	2.60%
DEL MAR	309,393	193,673	145,894		648,960	\$730,352	(\$81,392)	1.06%
EAST OTAY MESA	20,333	350	1,557		22,240	\$41,316	(\$19,076)	0.04%
EL CAJON	4,055,590	1,668,861	1,609,282		7,333,733	\$8,315,260	(\$981,527)	12.01%
IMPERIAL BEACH	1,242,100	624,261	518,449		2,384,810	\$2,221,256	\$163,554	3.90%
LA MESA	2,633,069	1,161,177	1,013,183		4,807,429	\$4,862,096	(\$54,667)	7.87%
LAKESIDE/ALPINE	1,627,662	720,056	613,445		2,961,163	\$3,166,232	(\$205,069)	4.85%
LEMON GROVE	1,178,957	495,981	503,931		2,178,869	\$2,179,968	(\$1,099)	3.57%
NATIONAL CITY	2,381,143	1,178,173	1,163,368		4,722,684	\$5,026,448	(\$303,764)	7.73%
OTAY	206,482	536,164	216,262		958,908	\$981,112	(\$22,204)	1.57%
PADRE DAM	1,328,243	1,866,033	1,002,021		4,196,297	\$6,302,500	(\$2,106,203)	6.87%
POWAY	1,728,382	864,533	667,748		3,260,663	\$3,048,904	\$211,759	5.34%
SPRING VALLEY	3,681,117	1,847,193	1,490,154		7,018,464	\$6,143,768	\$874,696	11.49%
WINTERGARDENS	503,839	194,474	161,014		859,327	\$816,192	\$43,135	1.41%
SUBTOTAL PARTICIPATING AGENCIES	\$30,663,937	\$16,519,900	\$13,901,786		\$61,085,623	\$64,487,408	(\$3,401,785)	
SAN DIEGO	\$58,442,647	\$33,584,965	\$30,557,769		\$122,585,381			
TOTAL	\$89,106,584	\$50,104,865	\$44,459,555		\$183,671,004			

TABLE C

CITY OF SAN DIEGO - METROPOLITAN WASTEWATER DEPARTMENT
SYSTEM WASTEWATER CHARACTERISTICS - FISCAL YEAR 2010
SYSTEM STRENGTH LOADINGS INCLUDED
WITHOUT PADRE DAM ADJUSTMENT

WITHOUT PADRE DAM AGGREGMENT													
AGENCY	WASTEWATER CHARACTERISTICS			UNADJUSTED ANNUAL USE				ADJUSTED ANNUAL USE					
	AVERAGE FLOW - mgd (a)	SS mg/l (b)	COD mg/l (b)	2010 FLOWS million gallons	SS thousand pounds	COD thousand pounds	2010 FLOWS million gallons	Flow Difference (c)	FY 2010 Billing Flows	SS thousand pounds	COD thousand pounds		
CHULA VISTA	16.225	210	624	5,922.041	10,364	30,843	6,627.127	6.693	6,633,619	16,184	31,647		
CORONADO	1.669	138	476	609,358	701	2,418	681,909	0.689	682,598	1,095	2,481		
DEL MAR	0.567	240	586	206,884	415	1,012	231,516	0.234	231,750	647	1,038		
EAST OTAY MESA	0.037	7	95	13,596	1	11	15,215	0.015	15,230	1	11		
EL CAJON	7.430	158	493	2,711,885	3,572	11,162	3,034,765	3.065	3,037,830	5,579	11,453		
IMPERIAL BEACH	2.276	193	519	830,565	1,336	3,596	929,453	0.939	930,392	2,087	3,660		
LA MESA	4.824	169	478	1,760,676	2,486	7,027	1,970,304	1.990	1,972,294	3,882	7,210		
LAKESIDE/ALPINE	2.982	170	468	1,088,382	1,541	4,255	1,217,966	1.230	1,219,196	2,407	4,366		
LEMON GROVE	2.160	161	531	788,343	1,062	3,495	882,204	0.891	883,095	1,658	3,566		
NATIONAL CITY	4.382	190	607	1,592,218	2,522	8,069	1,781,790	1.799	1,783,589	3,938	8,279		
OTAY	0.378	996	1,302	138,070	1,148	1,500	154,509	0.156	154,665	1,792	1,539		
PADRE DAM	2.433	539	938	888,167	3,995	6,950	993,914	1.004	994,917	6,238	7,131		
POWAY	3.166	192	480	1,155,731	1,851	4,632	1,293,334	1.306	1,294,640	2,890	4,752		
SPRING VALLEY	6.744	193	503	2,461,483	3,954	10,336	2,754,550	2.782	2,757,332	6,175	10,605		
WINTERGARDENS	0.923	148	397	336,906	416	1,117	377,019	0.381	377,399	650	1,146		
SUBTOTAL PARTICIPATING AGENCIES													
SAN DIEGO	56.176	207	564	20,504,305	35,363	96,423	22,945,574	23,172	22,968,746	55,222	98,934		
REGIONAL SLUDGE RETURNS	107.067	220	650	39,079,323	71,893	211,949	43,732,157	44,164	43,776,321	112,265	217,469		
FLOW DIFFERENCE	19.436	240	212	7,094,104	14,227	12,572							
	0.184			67,336	46,003	(4,541)							
TOTAL	182.863	297	564	66,745,068	165,429	314,169	66,677,732	67,336	66,745,068	167,487	316,403		

(a) Flows based on metered, housecounts and inter-agency flow, adjustment to City of San Diego flow for centrate from MBC reduction of 2.4932 * 365 days

(b) SS and COD characteristics based on standard deviation cumulative samples taken by MWWD's Environmental Monitoring and Technical Services Division up to 06-30-10. Except for East Otay Mesa.

WITHOUT PADRE DAM ADJUSTMENT

FY 2010 AGENCY	expressed in percents:		
	FLOW	SUSPENDED SOLIDS	OXYGEN DEMAND
CHULA VISTA/MONTGOMERY	9.94%	9.66%	10.00%
CORONADO	1.02%	0.65%	0.78%
DEL MAR	0.35%	0.39%	0.33%
EAST OTAY MESA	0.02%	0.00%	0.00%
EL CAJON	4.55%	3.33%	3.62%
IMPERIAL BEACH	1.39%	1.25%	1.17%
LA MESA	2.95%	2.32%	2.28%
LAKESIDE/ALPINE	1.83%	1.44%	1.38%
LEMON GROVE	1.32%	0.99%	1.13%
NATIONAL CITY	2.67%	2.35%	2.62%
OTAY	0.23%	1.07%	0.49%
PADRE DAM	1.49%	3.72%	2.25%
POWAY	1.94%	1.73%	1.50%
SPRING VALLEY	4.13%	3.69%	3.35%
WINTERGARDENS	0.57%	0.39%	0.36%
SUBTOTAL PARTICIPATING AGENCIES	34.41%	32.97%	31.27%
SAN DIEGO	65.59%	67.03%	68.73%
TOTAL	100.00%	100.00%	100.00%

CITY OF SAN DIEGO - METROPOLITAN WASTEWATER DEPARTMENT
ALLOCATION OF FISCAL YEAR 2010 ESTIMATED BUDGET
FUNCTIONAL-DESIGN BASED ALLOCATION METHOD
WITHOUT PADRE DAM ADJUSTMENT"

DESCRIPTION	FY 2010 ACTUAL COSTS	ALLOCATION OF COSTS						
		FLOW %	FLOW COSTS	SS %	SS COSTS	COD %	COD COSTS	TOTAL COSTS
OPERATION AND MAINTENANCE :								
TRANSMISSION AND SYSTEM MAINTENANCE	\$10,896,091	100.0%	\$10,896,091	0.0%	\$0	0.0%	\$0	\$10,896,091
OPERATIONS & MAINTENANCE	54,562,685	36.4%	19,855,320	34.2%	18,669,428	29.4%	16,037,937	54,562,685
TECHNICAL SERVICES	10,607,762	30.0%	3,182,329	40.0%	4,243,105	30.0%	3,182,329	10,607,762
COGENERATION	307,791	0.0%	0	60.0%	184,675	40.0%	123,116	307,791
METRO ADMIN & GENERAL EXPENSES - 41508	25,817,416	44.4%	11,470,889	30.2%	7,807,731	25.3%	6,538,796	25,817,416
METRO ADMIN & GENERAL EXPENSES - 41509	15,480,983	44.4%	6,878,327	30.2%	4,681,776	25.3%	3,920,880	15,480,983
TOTAL OPERATIONS AND MAINTENANCE	\$117,672,727	44.43%	\$52,282,956	30.24%	\$35,586,714	25.33%	\$29,803,057	\$117,672,727
CAPITAL IMPROVEMENT PROGRAM :								
PAY-AS-YOU-GO METRO 41508	737,326	55.8%	411,390	22.0%	162,195	22.2%	163,741	737,326
PAY-AS-YOU-GO METRO 41509	753,278	55.8%	420,290	22.0%	165,704	22.2%	167,283	753,277
DEBT SERVICE	64,507,673	55.8%	35,991,948	22.0%	14,190,253	22.2%	14,325,473	64,507,674
TOTAL CAPITAL IMPROVEMENT PROGRAM	\$65,998,277	55.8%	\$36,823,628	22.0%	\$14,518,152	22.2%	\$14,656,497	\$65,998,277
TOTAL O&M & CAPITAL IMPROVEMENT PROGRAM	\$183,671,004	48.51%	\$89,106,584	27.28%	\$50,104,866	24.21%	\$44,459,554	\$183,671,004

**CITY OF SAN DIEGO PUBLIC
UTILITIES DEPARTMENT**

Report to Management

For the Fiscal Year Ended June 30, 2010



Certified Public Accountants.

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

In planning and performing our audit of the Schedule of Allocation for Billing to Metropolitan Wastewater Utility (the Schedule) of the City of San Diego (the City) Public Utilities Department (the PUD) for the fiscal year ended June 30, 2010, in accordance with auditing standards generally accepted in the United States of America 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 purposes 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.

However, during our audit we noted a certain matter involving internal controls and their operation, and are submitting for your consideration related recommendation designed to assist the PUD make improvements. Our comment reflects our desire to be of continuing assistance to the City and the PUD. This letter does not affect our report dated February 21, 2013 on the Schedule.

We will review the status of this comment during our next audit engagement. We have already discussed this comment and recommendation with various City personnel and we will be pleased to discuss it in further detail at your convenience, to perform any additional study of this matter, or to assist you in implementing the recommendation.

This letter is intended solely for the information and use of the City Council, the Mayor, the City and the PUD's management and is not intended to be and should not be used by anyone other than these specified parties.

Macias Jini & O'Connell LLP

San Diego, California
February 21, 2013



CURRENT YEAR COMMENT

Recording of Metropolitan System and Municipal System Utility Related Expenses

Observation

During our testing of expenses for reasonableness and compliance with the contractual agreements between the City and the Participating Agencies charged to the Metropolitan Wastewater Utility, which is summarized as follows – four hundred (400) Metropolitan (Metro) expenses, sixty (60) Municipal (Muni) expenses, fifty (50) payroll expenses, ten (10) Construction in Progress (CIP) expenses, and fifteen (15) Income Credit revenue transactions – we noted the following:

- Thirty-one (31) disbursement transactions were overcharged Metro expenses and were not properly allocated between Muni and Metro funds;
- Eight (8) disbursement transactions were undercharged Metro expenses and were not properly allocated between Muni and Metro funds; and
- Two (2) revenue transactions were overcredited to Metro and were not properly allocated between the Muni and Metro funds.

Recommendation

In response to the findings noted above, we recommend the following:

- Since the Metro-Muni allocation percentages vary depending on the agreements between the City and the Participating Agencies, allocation basis, and circumstances, the PUD needs to establish stronger internal controls related to the processing, recording and monitoring to ensure the accuracy of expense allocations.
- There should be continuous improvement related to the initial cost center coding within the SAP financial reporting system with accurate allocation percentages among Muni and Metro.

Management Response

The PUD will continue to strengthen internal controls and ensure the accuracy of Exhibit E expense allocation by continuing to dedicate one full-time accountant who specifically monitors and oversees Metro/Muni accounting, including appropriate use of cost centers and funds. Currently, this accountant reviews all payment documents and verifies appropriate support is provided to determine whether the payment is a Metro versus Muni expense. The many conversion errors, caused by switching to a new computer system (SAP) in FY 2010, have now been resolved. The accountant is also working closely with both the Budget Section, to make sure annual Citywide transfers are allocated correctly, and the Wastewater Treatment and Disposal Division, to make sure correct allocations (which could change annually) are being used for energy charges, which are paid by another City department. Additionally, starting in FY 2012, the 2610 process of purchasing products through a Citywide open purchase order (via Central Stores) stopped being used, which will significantly cut down the number of accounting errors.




PRIOR YEAR COMMENT

Recording of Metropolitan System and Municipal System Utility Related Expenses

Observation – During our testing of a total of four hundred and fifty-seven (457) samples – two hundred and twenty-five (225) Metropolitan (Metro) expenses selected by Macias Gini & O’Connell (MGO), one hundred and two (102) Metropolitan expenses selected by Metro Commission/Metro Technical Advisory Committee (TAC), forty (40) Municipal (Muni) expenses selected by MGO, twenty-five (25) payroll expenses selected by MGO, ten (10) CIP expenses selected by Metro Commission/Metro TAC, forty (40) San Diego Data Processing Center (SDDPC) billing items selected by MGO, and fifteen (15) Income Credit revenue items selected by Metro Commission/Metro TAC – charged to the Metropolitan System for reasonableness as well as for compliance with the contractual agreements between the City and the participating agencies, we noted the following:

- Twenty-three (23) cash disbursements samples selected overcharged Metro expenditures and were not allocated accurately between Muni and Metro funds.
- One (1) cash disbursement sample selected undercharged Metro expenditures and was not allocated accurately between Muni and Metro funds.



Management Response – PUD will continue to have one full-time accountant on staff to specifically work on Exhibit E accounting issues. Currently, the accountant reviews all payment documents and verifies that appropriate support is provided, determining whether the payment is a Metro versus Muni expense. If an allocation is used, the accountant will verify the documentation and appropriateness of the allocation method. A binder has been created to house any unique allocation methods. This will ensure consistency in how expenses are applied to the Metro and Muni funds. PUD will continue to meet with the PA's at the monthly TAC meetings, at which time issues such as the dispute are addressed. Additional meetings, outside of TAC, will continue to be arranged with the PA's as the need arises.

Status – Refer to current year comment.



**Metro Wastewater JPA
Treasurer's Report
Six months ending December 31, 2012**

Metro Wastewater JPA
Treasurer's Report
Six months ending December 31, 2012
Unaudited

Beginning Cash Balance at July 1, 2012	\$ 151,004
Operating Results	
Membership dues & interest income	111,791
Expenses	<u>(53,650)</u>
Net Income (Loss)	58,141
Net change in receivables & payables (see cash flow statement)	<u>87,804</u>
Cash provided by (used in) operating activities	145,945
Ending Cash Balance at December 31, 2012	<u><u>\$ 296,949</u></u>

Submitted by:

Karen Jassoy, Treasurer

Metro Wastewater JPA

Balance Sheet

As of December 31, 2012 and June 30, 2012

Unaudited

	<u>Dec 31, 2012</u>	<u>Jun 30, 2012</u>	<u>\$ Change</u>
ASSETS			
Checking/Savings			
California Bank & Trust	\$ 295,626	\$ 141,637	\$ 153,989
California Bank - checking	<u>1,323</u>	<u>9,367</u>	<u>(8,044)</u>
Total Checking/Savings	296,949	151,004	145,945
Accounts Receivable	<u>12,713</u>	<u>8,243</u>	<u>4,470</u>
TOTAL ASSETS	<u><u>\$ 309,662</u></u>	<u><u>\$ 159,247</u></u>	<u><u>\$ 150,415</u></u>
 LIABILITIES & EQUITY			
Liabilities			
Accounts Payable	\$ 24,193	\$ 43,677	\$ (19,484)
Unearned Membership Billings	<u>111,758</u>	<u>-</u>	<u>111,758</u>
Total Liabilities	135,951	43,677	92,274
Equity			
Retained Equity	115,570	67,044	48,526
Net Income	<u>58,141</u>	<u>48,526</u>	<u>9,615</u>
Total Equity	<u>173,711</u>	<u>115,570</u>	<u>58,141</u>
TOTAL LIABILITIES & EQUITY	<u><u>\$ 309,662</u></u>	<u><u>\$ 159,247</u></u>	<u><u>\$ 150,415</u></u>

Metro Wastewater JPA
Profit & Loss Budget vs. Actual
July through December 2012
Unaudited

	<u>Actual</u>	<u>Budget</u>	<u>\$ Over (Under) Budget</u>
Income			
Membership Dues	\$ 111,758	\$ 111,758	\$ -
Interest Income	33	50	(17)
Total Income	\$ 111,791	\$ 111,808	\$ (17)
Expense			
Administrative Assistant	\$ 850	\$ 1,800.0	\$ (950.0)
Administrative Support - Padre	5,559	7,000	(1,441)
Atkins	34,578	64,598	(30,020)
Audit Fees		2,500	(2,500)
Automobile Expense / Mileage	124	1,000	(876)
Bank charges	-	100	(100)
Contingencies	-	2,500	(2,500)
Dues & Subscriptions	-	300	(300)
Legal - BB&K	6,076	17,500	(11,424)
Metro/JPA/TAC meeting expenses	1,390	2,500	(1,110)
Miscellaneous		125	(125)
Office Supplies	100	250	(150)
Per Diem - Agency	4,050	11,000	(6,950)
Postage	14		14
Printing	189		189
Public Information	540	410	130
Telephone	180	225	(45)
Total Expense	\$ 53,650	\$ 111,808	\$ (58,158)
Net Income	<u>\$ 58,141</u>	<u>\$ -</u>	<u>\$ 58,141</u>

Metro Wastewater JPA
Statement of Cash Flows
July through December 2012
Unaudited

OPERATING ACTIVITIES

Net Income	\$ 58,141
Adjustments to reconcile Net Income to net cash provided by operations:	
Accounts Receivable	(4,470)
Accounts Payable	(19,484)
Unearned Membership Billings	<u>111,758</u>
Net cash provided by Operating Activities	<u>145,945</u>
Net cash increase for period	145,945
Cash at beginning of period	<u>151,004</u>
Cash at end of period	<u><u>\$ 296,949</u></u>

Metro Wastewater JPA
A/R Aging Summary
As of December 31, 2012

	<u>Current</u>	<u>1 - 30</u>	<u>31 - 60</u>	<u>61 - 90</u>	<u>> 90</u>	<u>TOTAL</u>
City of San Diego - Metro Wastewater Dept	\$ 3,810.00	8,242.56	0.00	0.00	0.00	\$ 12,052.56
TOTAL	<u>\$ 3,810.00</u>	<u>8,242.56</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>\$ 12,052.56</u>

Metro Wastewater JPA
Vendor Balance Summary
As of December 31, 2012

Atkins North America	\$ 13,442.50
Best, Best and Krieger	751.22
Lori Anne People	4,538.71
Luis Natividad	600.00
Padre Dam	4,860.60
Total	<u>\$ 24,193.03</u>