



Metro Finance Committee
(Finance Advisory Committee to Metro JPA)

TO: Finance Committee Members and Metro Commissioners
DATE: Wednesday, January 26, 2011
TIME: 8:30 a.m.
LOCATION: PBS&J, 9275 Sky Park Court, Suite 200, San Diego, CA 92123*

* The location and time of future meetings is subject to change

THIS NOTICE HAS BEEN DISTRIBUTED TO THE METRO COMMISSIONERS AND FINANCE COMMITTEE MEMBERS

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1. Roll Call
 2. Public Comments
Persons speaking during Public Comment may address the Metro Finance Committee on any subject matter within the jurisdiction of the Metro Finance Committee that is not listed as an agenda item. Comments are limited to three (3) minutes. Please complete a Speaker Slip and submit it prior to the meeting.
 3. Approval of Minutes from the July 28, 2010 Finance Committee Meeting **(Attachment)**
 4. Review and Possible Approval of 2009 Exhibit E Final Audit Report **(Attachments)**
 5. Review and Possible Approval Metro JPA Mid-Year Financial Statements **(Attachments)**
 6. Update and Status of PBS&J 2011 Contract
 7. Consideration and Possible Approval of Administrative Support Services Contract **(Attachment)**
 8. Consideration and Possible Approval of Revised Finance Committee Calendar **(Attachment)**
 9. Review of Items to be Brought Forward to the Metro Commission/Metro JPA
 10. Other Business of the Finance Committee
 11. Adjournment

The Metro Finance Committee may take action on any item listed on the Agenda whether or not it is listed "for action".

Materials provided to the Metro Finance Committee related to any open-session item on this agenda are available for public review by contacting Karyn Keese (858)514.1008 during normal business hours.

<u>Finance Committee 2011 Meeting Schedule</u>		
January 26	May 25	September 28
February 23	June 29	October 26
March 30	July 27	November 23
April 27	August 24	December 28

***In compliance with the
AMERICANS WITH DISABILITIES ACT***

The Metro Finance Committee requests individuals who require alternative agenda format or special accommodations to access, attend, and/or participate in the Metro Finance Committee meetings, contact Karyn Keese at (858)514.1008, at least forty-eight hours in advance of the meetings.

Agenda Item 3



Metro Wastewater JPA Finance Committee
July 28, 2010
Draft Minutes

Meeting called to order: 8:34 a.m. at PBS&J Offices, 9275 Sky Park Court, San Diego, CA 92101 by Committee Chairman Ovrom.

1. Roll Call

Attendees:

Al Ovrom, Committee Chairman, Metro Wastewater JPA Finance Committee
Merrilee Boyack, Vice- Chair, Metro Wastewater JPA Finance Committee
Alejandra Sotelo-Solis, Committee Member
Augie Caires, Committee Member
Bill Wells, Committee Member

Support Staff:

Karyn Keese, PBS&J
Paula de Sousa, BBK
Scott Huth, Metro TAC Chair

City of San Diego Staff:

Edgar Patino, Public Utilities Department (PUD)

General Public:

There were no general public.

2. Public Comment

There was no public comment.

3. Approval of Minutes from the May 26, 2010 Finance Committee Meeting

Upon motion by Committee Member Boyack, seconded by Committee Member Sotelo-Solis, the May 26, 2010 Regular Meeting Minutes were unanimously approved.

4. Election of Finance Committee Vice-Chair

Merrilee Boyack was unanimously elected as Vice-Chair of the Committee.

5. FY2010 Period 11 Budget Update

Ms. Keese reviewed the May budget report that was presented to the IROC. The overall wastewater operating budget is showing \$5.8 million in savings, contract savings are at \$17 million, and the IT budget is \$2.9 million under budget as of May 2010. As the financial report that is presented to IROC covers water, and both Muni and Metro budgets, the Committee requested that City staff prepare a smaller version to be presented to the Committee and the Metro JPA/Commission that just covers Metro each month.

6. Review of JPA External Auditor Proposal

At the last Committee Meeting the Committee requested Treasurer Wilson solicit a proposed fee from the Padre Dam MWD external auditors to audit the JPA's financial statements for 2010. The auditor submitted a fee ranging from \$5,000 to \$7,500. If the audit is wanted, it should proceed soon as the 2010 fiscal year ended June 30th. Audit results should be presented to the Metro JPA/Commission by the September/October time frame. Also the Metro JPA/Commission should try to have the timing coincide with Padre's on-sight auditor work for better efficiency. Historical financial results become stale when provided late.

The consensus of the Committee was that the audit would be very simple due to the small amount of transactions and that the Treasurer should negotiate with the auditors to lower the fee to \$3,500 if possible.

ACTION: Upon motion by Committee Member Boyack, seconded by Committee Member Caires, the Committee unanimously approved that the audit proposal should be brought forward to the Metro JPA/Commission and that the audit fee should not exceed \$5,000.

7. Exhibit E Audit Status

Ms. Keese reviewed the status of the 2009 audit. The audit is essentially complete with only a couple issues remaining. These should be resolved in the next two weeks. She also reviewed the audit planning for the 2010 audit and the agreed upon cost allocations presented by PUD internal audit staff. She expressed her thanks to PUD internal audit staff for including the PA audit team in upfront planning and establishing written protocols for cost allocation purposes.

8. 2010 Performance Audit of Public Utilities Department

Committee Member Caires reviewed the IROC's request to conduct an external audit of the PUD in 2010 which focuses on departmental performance. The audit is to be led by IROC who will advise the Mayor and Chief Financial Officer about the scope. The City has budgeted \$100,000 for this review. IROC and the Office of the City Auditor will finalize the scope of work at their September meeting, so any input from the Metro JPA/Commission/TAC wishes to provide needs to be formulated by early September. It was the unanimous decision of the Committee to move this forward to Metro TAC in August and the Metro JPA/Commission for discussion in September.

9. Review of Items to be Brought Forward to the Metro JPA/Commission

The Finance Committee recommended that items 3, 4, 5, and 6, should be moved forward to the July 2010 Metro JPA/Commission meeting.

10. Other Business of the Finance Committee

Ms. Keese discussed that since the established meeting date for the Finance Committee is the last Wednesday in the month there are two upcoming instances in 2011 (August and November) where the Finance Committee falls one day before the Metro JPA/Commission meeting. This does not allow enough time to move items forward to the Metro JPA/Commission in a timely manner. It was agreed that the Finance Committee 2010 Meeting Schedule should be expanded to include 2011 so that the August and November meetings could be moved to the week prior to the Metro JPA/Commission meeting. This change in the schedule would be agendized for a future Finance Committee meeting.

11. Adjournment

The meeting was adjourned at 9:23 a.m. The next regularly scheduled meeting of the Finance Committee will be July 28, 2010 at the PBS&J San Diego Office.

Agenda Item 4

**CITY OF SAN DIEGO
METROPOLITAN WASTEWATER
DEPARTMENT**

Report to Management

For the Fiscal Year Ended June 30, 2009

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 System (the "Schedule") of the City of San Diego Metropolitan Wastewater Department ("MWWD") for the year ended June 30, 2009, we considered the MWWD's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the Schedule and not to provide an opinion on the internal control over financial reporting.

However, during our audit we noted certain matters involving internal controls and their operation, and are submitting for your consideration related recommendations designed to help the City of San Diego (the "City") make improvements and achieve operational efficiencies. Our comments reflect our desire to be of continuing assistance to the City. This letter does not affect our report dated December 28, 2010 on the Schedule.

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

This letter is intended solely for the information and use of the Honorable Mayor and City Council of the City of San Diego and is not intended to be and should not be used by anyone other than these specified parties.

Macias Jini & O'Connell LLP

Certified Public Accountants
San Diego, California
December 28, 2010

CITY OF SAN DIEGO METROPOLITAN WASTEWATER DEPARTMENT

Schedule of Findings

For the Fiscal Year Ended June 30, 2009

CURRENT YEAR COMMENT

Recording of Metropolitan and Municipal Wastewater 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 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.

Recommendation – In response to the findings noted above, we recommend the following;

- Since Metro-Muni allocation percentages vary depending on the agreements between the City and the Participating Agencies in the Metropolitan Wastewater System (the “PA”), allocation basis and circumstances, MWWD should establish strong controls to ensure accuracy on expenditure allocation calculations.
- We recommend MWWD maintain a master file to record and keep track of various allocation methods and percentages. Whenever there is a change to any allocation methods or percentages, such change, along with the rationale, should be documented in writing. We also recommend MWWD, City Comptroller and other departments involved in Exhibit E recording and reporting keep communications open. Updates on allocation methods or percentages should be communicated to all related parties timely.
- Periodical meetings should be held between Muni and PA to agree upon allocation methods and basis on various categories of expenses, as well as clearing any disputes. We recommend the meeting to be held quarterly or at least semi-annually. This should reduce year end adjustments/corrections and audit findings.

Management Response – MWWD will continue to have one full-time accountant on staff to specifically work on Exhibit E accounting issues. Currently, this 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 verifies 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 expenditures are applied to the Metro and Muni funds. MWWD 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.

CITY OF SAN DIEGO METROPOLITAN WASTEWATER DEPARTMENT

Schedule of Findings (Continued)
For the Fiscal Year Ended June 30, 2009

PRIOR YEAR COMMENTS

Fiscal Year 2008:

Recording of Metropolitan and Municipal Wastewater Utility Related Expenses

Observation – During our testing of a total of four hundred and eighteen (418) samples – two hundred and fifty (250) Metropolitan (Metro) MGO selected, one hundred (100) Metropolitan Metro Commission/Metro TAC selected, forty (40) Municipal (Muni) MGO selected, ten (10) CIP Metro Commission/Metro TAC selected, and one (1) legal cost MGO selected on cash disbursement expense items and seventeen (17) Income Credit Metro Commission/ Metro TAC selected on income revenue items – 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 selected overcharged Metro expenses and were not allocated accurately between Muni and Metro funds.
- Seven (7) cash disbursements selected undercharged Metro expenses and were not allocated accurately between Muni and Metro funds.
- Three (3) cash disbursements selected were actually prior year's expenses that were not accrued in the prior year, but were captured and reported in the current year.
- One (1) cash disbursement selected was actually subsequent year's expense that should not accrue in the current year, but was reported in the current year.
- One (1) cash disbursement selected was properly allocated but was charged to the wrong account, causing the allocation method to be incorrect.
- One (1) income credit selected under-reported Metro revenue was not allocated accurately between Muni and Metro funds.
- One (1) income credit selected over reported Metro revenue was not allocated accurately between Muni and Metro funds

Status – In progress. See current year finding.

Fiscal Year 2007:

Recording of Metropolitan and Municipal Wastewater Utility Related Expenses

Observation – During our testing of a total of three hundred and sixty seven (367) samples – two hundred and twenty seven (227) Metropolitan MGO selected, one hundred (100) Metropolitan Metro Commission/Metro TAC selected and forty (40) Municipal MGO selected, on cash disbursement expense items 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:

CITY OF SAN DIEGO METROPOLITAN WASTEWATER DEPARTMENT

Schedule of Findings (Continued)
For the Fiscal Year Ended June 30, 2009

- 15 cash disbursements selected undercharged Municipal expenses and were not allocated accurately between Muni and Metro funds.
- 9 cash disbursements selected undercharged Metro expenses and were not allocated accurately between Muni and Metro funds.

Status – In progress. See current year finding.

Fiscal Year 2006:

Recording of Metropolitan and Municipal Wastewater Utility Related Expenses

Observation – During the testwork on cash disbursements 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;

- 3 cash disbursement transactions selected were actually prior year expenses that were not accrued in the prior year, but were captured and reported in the current year.
- 3 cash disbursement transactions were not allocated accurately between Muni and Metro funds.
- 6 cash disbursement transactions did not have sufficient supporting documentation that these were Metro fund expenses versus Muni fund expenses.

Status – In progress. Please see current year finding.

Fiscal Year 2005:

Recording of Metropolitan and Municipal Wastewater Utility Related Expenses

Observation – We performed testwork on cash disbursements and payroll expenses charged to the Metropolitan System for reasonableness as well as for compliance with the City and participating agencies contractual agreements. During the performance of this testwork, we noted that 13 out of 325 cash disbursement items tested were incorrectly allocated (either over or under allocated) to the participating agencies.

Status – In progress. Please see current year finding.

Allocation Ratio Expenses

Observation – During the performance of expense testing, we noted that the ratio used to split expenses shared by Metropolitan and Municipal Wastewater Utility was not always used appropriately. During the performance of this testwork, we noted that 6 out of 325 cash disbursement items tested had incorrect allocations between these utilities.

Status – In progress. Please see current year finding regarding expenditure allocation between Muni and Metro.

**CITY OF SAN DIEGO METROPOLITAN
WASTEWATER DEPARTMENT**

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

For the Fiscal Year Ended June 30, 2009

CITY OF SAN DIEGO METROPOLITAN WASTEWATER DEPARTMENT
Schedule of Allocation for Billing to Metropolitan System and Independent Auditor's Reports
For the Fiscal Year Ended June 30, 2009

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

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

We have audited the accompanying Schedule of Allocation for Billing to Metropolitan System (the "Schedule") of the City of San Diego Metropolitan Wastewater Department (MWWD), and enterprise fund of the City of San Diego (the "City"), for the year ended June 30, 2009. The Schedule is the responsibility of the MWWD'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 MWWD'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 opinions.

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 (Agreements). Accordingly, the Schedule is not intended to present the financial position or the changes in the financial position of the MWWD in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the Schedule referred to above present fairly, in all material respects, the allocation for billing to Metropolitan System for the year ended June 30, 2009 on the basis of accounting described in Note 3.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 28, 2010, on our consideration of the MWWD'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 and the MWWD's management 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 Jini & O'Connell LLP

Certified Public Accountants
San Diego, California
December 28, 2010

CITY OF SAN DIEGO METROPOLITAN WASTEWATER DEPARTMENT
Schedule of Allocation for Billing to Metropolitan System
For the Fiscal Year Ended June 30, 2009

	Operating Expenses		
	Municipal System	Metropolitan System	Total
TRANSMISSION:			
Cleaning and Stoppage Removals, Mains and Laterals	\$ 11,088,042	\$ -	\$ 11,088,042
Accrued Claims	-	-	-
Maintenance of Laterals	2,825,332	-	2,825,332
Maintenance of Mains and Manholes	9,355,929	-	9,355,929
Sewage Pumping Stations	10,730,236	1,603,701	12,333,937
Metro Pump Station #1	-	2,840,600	2,840,600
Metro Pump Station #2	-	7,397,929	7,397,929
TOTAL TRANSMISSION	33,999,539	11,842,230	45,841,769
TREATMENT AND DISPOSAL:			
Cogeneration Facilities	-	1,351,607	1,351,607
Point Loma Plant	-	18,656,575	18,656,575
North City Water Reclamation Plant	-	8,378,469	8,378,469
Metro Biosolid Center	-	14,341,672	14,341,672
South Bay Water Reclamation Plant	-	7,204,471	7,204,471
San Pasuqal Water Reclamation Plant	43,404	-	43,404
Escondido System	2,870,089	-	2,870,089
Sewage Testing and Control	4,442,904	473,801	4,916,705
Wastewater Chemistry	240,039	5,940,796	6,180,835
Biology/Ocean Operations	1,218,018	3,405,312	4,623,330
TOTAL TREATMENT AND DISPOSAL	8,814,454	59,752,703	68,567,157
GENERAL AND ADMINISTRATIVE:			
Utilities Administration and General Expenses	20,229,702	16,332,664	36,562,366
Utility Commercial	5,354,435	-	5,354,435
Technical Services Administration	-	1,548,419	1,548,419
Central Support Facility	1,116,050	10,046,542	11,162,592
Expenses of Other City Departments Applicable to Sewerage Utility	9,732,929	7,285,769	17,018,698
Engineering Expenses	4,553,841	3,577,044	8,130,885
TOTAL GENERAL AND ADMINISTRATIVE	40,986,957	38,790,438	79,777,395
TOTAL EXPENSES	83,800,950	110,385,371	194,186,321
CAPITAL IMPROVEMENT EXPENSES	45,978,713	6,279,208	52,257,921
METROPOLITAN SYSTEM CAPITAL IMPROVEMENT INCOME CREDITS	-	(2,771,713)	(2,771,713)
DEBT SERVICE ALLOCATION EXPENSES	34,422,085	58,828,350	93,250,435
METROPOLITAN SYSTEM INCOME CREDITS	-	(2,582,900)	(2,582,900)
TOTAL ALLOCATION FOR BILLING PURPOSES	\$ 164,201,748	\$ 170,138,316	\$ 334,340,064

See accompanying notes to Schedule of Allocation for Billing to Metropolitan System

CITY OF SAN DIEGO METROPOLITAN WASTEWATER DEPARTMENT

Notes to the Schedule of Allocation for Billing to Metropolitan System

For the Fiscal Year Ended June 30, 2009

Note 1 – General

The City of San Diego Metropolitan Wastewater Department (“MWWD”) 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 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 System. The accompanying Schedule of Allocation for Billing to Metropolitan System (the “Schedule”), represents the allocation of expenses for billing related to the Metropolitan System of the Participating Agencies.

The MWWD 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	Wintergardens Sewer Maintenance District
Lakeside/Alpine Sanitation Districts	

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 on 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 System Capital Improvement Expense

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

Metropolitan System capital improvement income credits include contributions-in-aid-of-construction received from Federal and State granting agencies and reimbursements from bond proceeds.

CITY OF SAN DIEGO METROPOLITAN WASTEWATER DEPARTMENT

Notes to the Schedule of Allocation for Billing to Metropolitan System (Continued)

For the Fiscal Year Ended June 30, 2009

Note 5 – Debt Service Allocation Expenses

Debt service allocation expenses are that portion of the principal and interest payments relating to the 1993, 1995, 1997A, 1997B, 1999A and 1999B sewer revenue bond issuances, 2007 sewer revenue note issuance, 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 which costs have been incurred during the current or previous fiscal years. There is a dispute between the Participating Agencies and the City regarding reclaimed water revenue. The City's position is that the Reclaimed Water system is one system and at this time it is not earning revenue in excess of its operating and capital costs. MWWD has not collected any revenue from reclaimed water.

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

Note 8 – Pension

The rates supporting expenses related to the employer share of pension costs are actuarially determined by the San Diego City Employees' Retirement System's (SDCERS) actuary. Employer contribution rates are set with a 2 year time-lag (i.e., rates effective in fiscal year 2009 were calculated in the fiscal year 2007 actuarial valuation). The City's enterprise funds fully paid their pension rates set by the actuary in the actuarial report prepared in fiscal year 2007 for the fiscal year 2009.

CITY OF SAN DIEGO METROPOLITAN WASTEWATER DEPARTMENT

Notes to the Schedule of Allocation for Billing to Metropolitan System (Continued)

For the Fiscal Year Ended June 30, 2009

Note 9 – Post Employment Retirement Healthcare Benefits

In fiscal year 2008, the City implemented the Governmental Accounting Standards Board (GASB) Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and 45, *Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions*. This statement has significant effects on the accounting treatment and financial reporting of other post employment benefits other than pensions that the City provides to its employees. Specifically, GASB Statement No. 45 requires the City to recognize the cost of benefits when incurred rather than when paid or provided. The costs are measured and accrued based upon annual actuarial valuations similar to current practice with pension plans. The actuarial valuations will provide information on the annual required contributions (ARC) to fund the plan. If the City fails to fund the plan, based on the ARC, it will be required to report a liability on the face of the financial statements for the "underpayment."

Further information regarding the City's Post Employment Retirement Healthcare Benefits at June 30, 2009 can be found in the City's Comprehensive Annual Financial Report.

**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
SYSTEM PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

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

We have audited the accompanying Schedule of Allocation for Billing to Metropolitan System (the "Schedule") of City of San Diego Wastewater Department (MWWD), an enterprise fund of the City of San Diego (the "City"), for the year ended June 30, 2009, and have issued our report thereon dated December 28, 2010. 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 (Agreements). 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

In planning and performing our audit, we considered MWWD's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the Schedule, but not for the purpose of expressing an opinion on the effectiveness of MWWD's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the MWWD'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 MWWD's 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 MWWD'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 Schedule amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of MWWD, in a separate letter dated December 28, 2010.

This report is intended solely for the information and use of MWWD's management, City Council, others within the entity, 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 Jini & O'Connell LLP

Certified Public Accountants
San Diego, California
December 28, 2010

Agenda Item 5

Metro Wastewater JPA

Treasurer's Report
Six months ending December 31, 2010

Treasurer's Report
Six months ending December 31, 2010
Unaudited

<u>Beginning Cash Balance at July 1, 2010</u>	\$ 92,839
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Operating Results

Membership dues & Interest income	105,091	
Expenses	<u>(86,350)</u>	
Net Income (Loss)	18,741	
Net change in receivables & payables (see cash flow statement)	<u>107,598</u>	
Cash provided (used) from operating activities		126,339
<u>Ending Cash Balance at December 31, 2010</u>		<u><u>\$ 219,178</u></u>

Submitted by:

Karen Jassoy, Treasurer
1/19/2010

Metro Wastewater JPA - C/O Padre Dam MWD

Balance Sheet

As of December 31, 2010

	<u>Dec 31, 10</u>	<u>Jun 30, 10</u>	<u>\$ Change</u>
ASSETS			
Current Assets			
Checking/Savings			
California Bank & Trust	\$ 215,829	\$ 89,428	\$ 126,401
California Bank - checking	3,349	3,411	(62)
Total Checking/Savings	<u>219,178</u>	<u>92,839</u>	<u>126,339</u>
Accounts Receivable			
Accounts Receivable	2,297	2,111	186
Total Accounts Receivable	<u>2,297</u>	<u>2,111</u>	<u>186</u>
Total Current Assets	<u>221,475</u>	<u>94,950</u>	<u>126,525</u>
TOTAL ASSETS	<u><u>\$ 221,475</u></u>	<u><u>\$ 94,950</u></u>	<u><u>\$ 126,525</u></u>
LIABILITIES & EQUITY			
Liabilities			
Current Liabilities			
Accounts Payable			
Accounts Payable	\$ 23,018	\$ 20,234	\$ 2,784
Total Accounts Payable	<u>23,018</u>	<u>20,234</u>	<u>2,784</u>
Other Current Liabilities			
Unearned Membership Billings	105,000	-	105,000
Total Other Current Liabilities	<u>105,000</u>	<u>-</u>	<u>105,000</u>
Total Current Liabilities	<u>128,018</u>	<u>20,234</u>	<u>107,784</u>
Total Liabilities	<u>128,018</u>	<u>20,234</u>	<u>107,784</u>
Equity			
Retained Equity	74,716	61,141	13,575
Net Income	18,741	13,575	5,166
Total Equity	<u>93,457</u>	<u>74,716</u>	<u>18,741</u>
TOTAL LIABILITIES & EQUITY	<u><u>\$ 221,475</u></u>	<u><u>\$ 94,950</u></u>	<u><u>\$ 126,525</u></u>

Metro Wastewater JPA - C/O Padre Dam MWD
Profit & Loss Budget vs. Actual
July through December 2010

	<u>Actual</u>	<u>Budget</u>	<u>\$ Over (Under) Budget</u>
Ordinary Income/Expense			
Income			
Membership Dues	\$ 105,000	\$ 105,000	\$ -
Interest Income	91	750	(659)
Total Income	<u>\$ 105,091</u>	<u>\$ 105,750</u>	<u>\$ (659)</u>
Expense			
PBS&J	\$ 57,219	\$ 53,002	\$ 4,217
Legal	9,786	19,252	(9,466)
Administrative Support - Padre	7,623	6,998	625
Per Diem - Agency	7,200	12,378	(5,178)
Metro/JPA/TAC meeting expenses	1,769	2,752	(983)
Telephone	893	378	515
Automobile Expense	695	1,500	(805)
Administrative Assistant	550	1,800	(1,250)
Public Information	319	1,062	(743)
Office Supplies	188	450	(262)
Bank charges	108	-	108
Supplies	-	378	(378)
Dues & Subscriptions	-	600	(600)
Contingencies	-	5,002	(5,002)
Total Expense	<u>\$ 86,350</u>	<u>\$ 105,552</u>	<u>\$ (19,202)</u>
Net Ordinary Income	<u>18,741</u>	<u>198</u>	<u>18,543</u>
Net Income	<u><u>\$ 18,741</u></u>	<u><u>\$ 198</u></u>	<u><u>\$ 18,543</u></u>

Statement of Cash Flows

July through December 2010

OPERATING ACTIVITIES

Net Income	\$ 18,741
Adjustments to reconcile Net Income to net cash provided by operations:	
Accounts Receivable	(186)
Accounts Payable	2,784
Unearned Membership Billings	<u>105,000</u>
Net cash provided by Operating Activities	<u>126,339</u>
Net cash increase for period	126,339
Cash at beginning of period	<u>92,839</u>
Cash at end of period	<u><u>\$ 219,178</u></u>

Metro Wastewater JPA - C/O Padre Dam MWD

A/R Aging Summary

As of December 31, 2010

	<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	<u>\$ 2,297.22</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>\$ 2,297.22</u>
TOTAL	<u><u>\$ 2,297.22</u></u>	<u><u>0.00</u></u>	<u><u>0.00</u></u>	<u><u>0.00</u></u>	<u><u>0.00</u></u>	<u><u>\$ 2,297.22</u></u>

Metro Wastewater JPA - C/O Padre Dam MWD
Vendor Balance Summary
As of December 31, 2010

Augie Caires	\$	364.00
Best Best & Krieger		2,957.39
Lori Anne Peoples		3,840.01
Mark Robak		481.00
Padre Dam		200.10
PBS&J *		15,175.50
TOTAL	\$	23,018.00

***Includes estimate for December bill.**

Agenda Item 7

ADMINISTRATIVE SUPPORT SERVICES AGREEMENT
BY AND BETWEEN
LORI ANNE PEOPLES
AND METRO WASTEWATER JOINT POWERS AUTHORITY
AMENDMENT NO.1

WHEREAS, Lori Anne Peoples (“Ms. Peoples”) entered into an Administrative Support Services Agreement (“Agreement”) with the Metro Wastewater Joint Powers Authority (“Metro JPA”), collectively referred to herein as the “Parties,” to provide clerical staff and services for meetings of the Metro Commission, which agreement is dated April 10, 2009; and

WHEREAS, the Parties mutually desire to amend the Agreement to modify the administrative support services; and

WHEREAS, the Parties mutually agree to amend the Agreement as follows:

1. Section 2 of the Agreement shall be replaced in its entirety by the following:

The term of this Agreement shall be a two (2) year period commencing April 20, 2011 and terminating April 20, 2013 (“Term”). This Term may be extended in a writing signed by both Parties. Either Party may terminate this Agreement upon thirty (30) calendar days written notice to the other Party.

2. The following sentences will be added to Section 3 of the Agreement:

Metro JPA will also reimburse Ms. Peoples up to \$_____ per quarter for Ms. Peoples’ cell phone use requisite to conduct the Administrative Services. Metro JPA’s total reimbursement obligation under the Term of the Agreement shall not exceed _____ dollars (\$_____).

3. In Section 5 of the Agreement, “monthly invoices” will be replaced with “quarterly invoices.” Section 5 will otherwise remain unchanged.

This Amendment No. 1 to the Administrative Support Services Agreement shall affect only the paragraphs and/or terms and conditions referred to herein. All other terms and conditions of the Agreement shall remain in full force and effect.

(Signatures on following page)

IN WITNESS WHEREOF, this Amendment No. 1 is executed by Lori Anne Peoples and Metro JPA as of the date written below.

Metro Wastewater
Joint Powers Authority

Lori Anne Peoples

By:_____

By:_____

Title:_____

Title:_____

Date:_____

Date:_____

Approved as to form:

Paula C.P. de Sousa
General Counsel
Metro Wastewater Joint Powers Authority

CITY OF SAN DIEGO
PUBLIC UTILITIES DEPARTMENT
REIMBURSEMENT AGREEMENT
FOR
ADMINISTRATIVE SUPPORT SERVICES
BY AND BETWEEN
THE CITY OF SAN DIEGO
AND METRO WASTEWATER JOINT POWERS AUTHORITY
AMENDMENT NO.2

WHEREAS, the City of San Diego ("City") entered into a Reimbursement Agreement ("Agreement") with the Metro Wastewater Joint Powers Authority ("Metro JPA"), collectively referred to herein as the "Parties," to provide clerical staff and services for meetings of the Metro Commission, which agreement is dated April 10, 2009 and the original of which is on file in the Office of the San Diego City Clerk as Document No. C-15017; and

WHEREAS, the Parties entered into a First Amendment dated June 30, 2010 modifying the Agreement by including Section 1.1, which included a maximum reimbursement amount under the term of the Agreement; and

WHEREAS, the Parties mutually desire to amend the Agreement to modify the administrative support services; and

WHEREAS, the Parties mutually agree to amend the Agreement as follows:

1. The following sentence will be added to Section 1 of the Agreement:

The City agrees to reimburse Metro JPA up to \$_____ per quarter for Ms. Peoples' cell phone use requisite to conduct the Administrative Services.

2. The following sentence will be added to Section 2 of the Agreement:

These estimated monthly hours may be extended or otherwise modified upon mutual agreement of the Parties to obtain increased or amended Administrative Services as necessary, consistent with the Administrative Support Services Agreement between Metro JPA and Ms. Peoples.

3. In Section 3 of the Agreement, "monthly invoices" will be replaced with "quarterly invoices." Section 3 will otherwise remain unchanged.

4. In Section 4 of the Agreement, the term of the Agreement will be extended. "April 20, 2011" will be replaced with "_____." Section 4 will otherwise remain unchanged.

5. Section 1.1 of the Agreement, which was added by the First Amendment to the Agreement, shall be replaced in its entirety by the following:

1.1 Maximum Reimbursement. The City's total reimbursement obligation under the extended term of the Agreement, from April 20, 2011 through _____, shall not exceed _____ dollars (\$_____).

This Amendment No. 2 to the Reimbursement Agreement shall affect only the paragraphs and/or terms and conditions referred to herein. All other terms and conditions of the Agreement shall remain in full force and effect.

IN WITNESS WHEREOF, this Amendment No. 2 is executed by the City of San Diego, acting by and through its Mayor or designee pursuant to Municipal Code section 22.3036 authorizing such execution, and by the Metro JPA.

Metro Wastewater
Joint Powers Authority

The City of San Diego
A Municipal Corporation

By:_____

By:_____

Title:_____

Title:_____

Date:_____

Date:_____

Approved as to form:

Paula C.P. de Sousa
General Counsel
Metro Wastewater Joint Powers Authority

[Name of City Attorney]
Counsel
City of San Diego

Agenda Item 8

Metro Finance Committee

2011 Meeting Schedule

METRO FINANCE COMMITTEE Last Wednesday of the month

December 29, 2010	8:30 – 9:30
January 26, 2011	8:30 – 9:30
February 23, 2011	8:30 – 9:30
March 30, 2011	8:30 – 9:30
April 27, 2011	8:30 – 9:30
May 25, 2011	8:30 – 9:30
June 29, 2011	8:30 – 9:30
July 27, 2011	8:30 – 9:30
August 24, 2011	8:30 – 9:30
September 28, 2011	8:30 – 9:30
October 26, 2011	8:30 – 9:30
November 23, 2011	8:30 – 9:30
December 28, 2011	8:30 – 9:30

**Meetings to be held at the following address
unless noted otherwise on the agenda:**

PBS&J, 9275 Sky Park Court, Suite 200, San Diego, CA 92123