

RECEIVED NOV 20 2013

CAYUCOS SANITARY DISTRICT

BASIC FINANCIAL STATEMENTS
June 30, 2013

CAYUCOS SANITARY DISTRICT
TABLE OF CONTENTS
June 30, 2013

FINANCIAL SECTION

Independent Auditors' Report..... 1
Management's Discussion and Analysis 3

BASIC FINANCIAL STATEMENTS

Statement of Net Position – Proprietary Fund..... 11
Statement of Revenues, Expenses, and Changes
in Net Position – Proprietary Fund 12
Statement of Cash Flows – Proprietary Fund..... 15
Notes to Basic Financial Statements 16



MOSS, LEVY & HARTZHEIM LLP

CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS
RONALD A LEVY, CPA
CRAIG A HARTZHEIM, CPA
HADLEY Y HUI, CPA

2400 PROFESSIONAL PARKWAY, STE 205
SANTA MARIA, CA 93455
TEL: 805.925.2579
FAX: 805.925.2147
www.mlhcpas.com

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Cayucos Sanitary District
Cayucos, California

Report on the Financial Statements

We have audited the accompanying basic financial statements of the Cayucos Sanitary District (District) as of and for the fiscal year ended June 30, 2013, and the related notes to the 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 auditor's 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.

We were unable to obtain fiscal year 2012/2013 audited financial statements supporting the activities of the wastewater treatment plant. Those financial activities include the cost of the plant representing 13.1% of the District's assets and related depreciation, and operating costs representing 33.6% of the District's operating expenses.

Opinion

In our opinion, except for the effect of such adjustments, if any, as might have been determined to be necessary had we been able to audit the financial statements of the wastewater treatment plant, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Cayucos Sanitary District, as of June 30, 2013, and the respective changes in financial position and cash flows for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Cayucos Sanitary District's 2012 financial statements, and our report dated August 27, 2012, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the fiscal year ended June 30, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Change in Accounting Principles

As discussed in note 2 to the basic financial statements effective July 1, 2012, the Cayucos Sanitary 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*.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 9 be presented to supplement the 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about 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 do 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2013, on our consideration of the Cayucos Sanitary 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, Levy & Hartzheim LLP

Santa Maria, California

October 15, 2013

Cayucos Sanitary District Management's Discussion and Analysis

This section of the financial statements is a highlight of the financial condition and activities for the 2012-2013 fiscal year (FY). The discussion and analysis of the Cayucos Sanitary District's financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2013. The intent of this discussion and analysis is to look at the District's financial performance as a whole. Readers should review the discussion and analysis in conjunction with the basic financial statements as well as the notes to the basic financial statements to enhance their understanding of the District's financial performance.

The District's accounting system is an Enterprise Fund. This is similar to the private sector accounting system. The revenue is primarily generated by service charges with the exception of property tax revenue, investment revenue and other income. Expenses are stated as operating expenses, and capital expenses are capitalized and depreciated over the lives of the fixed assets.

FINANCIAL HIGHLIGHTS

Key financial highlights for fiscal year (FY) 2012-2013 are as follows:

Gross wages, payroll taxes and fringe benefits decreased by \$67,409 or 13.5% in FY 2012-2013 because of the following:

- Elimination of the Administrative Services Officer position resulted in both salary and benefits savings.
- Staff changes in the O&M department resulting in both salary and benefit savings.
- Assumption by employees of an additional 1% of Employer Paid Member Contribution (EPMC).

SOURCES OF REVENUES

The District's total revenue for the fiscal year was \$2,416,606 inclusive of the following:

Sewer Service (User) Charge

The major source of revenue for the District is the sewer service charge assessed to all customers who are users of the District's sewerage facilities. Sewer service charges generated \$1,668,251 in annual revenue to the District, equal to 69% of total revenues.

Sewer Standby (Service Availability) Fee

The District charges its customers who are owners of vacant lots \$7.50 monthly per each vacant, buildable parcel (lot) for the expense of maintaining a sewer system available to vacant properties. Sewer standby (service availability) fees generated \$22,003 in annual revenue to the District, less than 1% of total revenues.

Property Tax

The District receives a pro rata share of property tax (ad valorem) revenues collected by the County of San Luis Obispo for properties located within the District's service boundaries. This portion of revenue includes secured, unsecured, unitary and supplemental property taxes. The secured property tax increases 2% per year. The District's property tax revenue this year was \$600,042 representing 25% of total revenues.

Sewer Connection and Permit Fees

The District currently charges a sewer connection fee of \$7,960 for the privilege of connecting to the District's sewerage facilities for each single residential dwelling unit or equivalent dwelling unit (EDU), in the case of non-residential use. Of the \$7,960, \$100 represents the charge for the sewer connection inspection fee. In FY 2012-2013, the District generated \$10,375 in combined sewer connection fee and sewer permit fees representing less than 1% of total revenues. Other permit fees include charges for processing and issuance of Sewer Will-Serve Letters for new construction and remodel projects and inspections of sewer tie-ins occurring within the District's boundaries.

Interest Income

The District invests surplus monies not required for immediate necessity of the District in accordance with the provisions of California Government Code Sections 5921 and 53601 et. seq. For this purpose, the District maintains an investment account with Shanley Associates, Inc., working through Girard Securities, Inc. The District's investments are primarily in U.S. Treasury Securities, Certificates of Deposit, and Mortgage-Backed Securities such as GNMMAs and FNMMAs. In addition, the District maintains an account with the Local Agency Investment Fund (LAIF).

The District manages its exposure to interest rate risk 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. Interest from investment holdings generated \$4,182 in interest or less than 1% of total revenues.

Rental Income

The District derives rental income from long term leases it jointly holds with the City of Morro Bay on parcels of real property adjacent to the Morro Bay-Cayucos Wastewater Treatment Plant that are not needed for current operations nor immediate and future plant expansion purposes. The rental income generated was \$56,360 in annual revenue to the District or 2% of total revenues.

Solid Waste Franchise Fee

The District derives a 10% franchise fee based on gross solid waste and recycling receipts of the franchisee, Mission Country Disposal (a subsidiary of Waste Connections, Inc.) which brought in revenues of \$44,623. In addition, the District received \$5,290 representing annual revenue from Mission Country Disposal for a recycling development program. The combined revenue generated \$49,913 or approximately 2% of total revenues.

SOURCES OF EXPENSES

The total expenses of the District in FY 2012-2013 were \$1,720,573. There was an overall increase of \$18,234 equal to just over 1% increase from prior FY 2011-2012 as shown below.

	FY 2013	FY 2012	\$ CHANGE	% CHANGE
Gross Wages	\$338,992	\$385,944	(\$46,952)	-12.17%
Payroll taxes and Benefits	\$87,184	\$107,641	(\$20,457)	-19.00%
Directors' Fees	\$8,900	\$9,850	(\$950)	-9.64%
Office Expense	\$25,029	\$23,594	\$1,435	6.08%
Dues and Subscriptions	\$4,978	\$3,939	\$1,039	26.38%
Business Expense	\$661	\$1,094	(\$433)	-39.58%
Permits and Licenses	\$4,553	\$4,272	\$281	6.58%
Professional Services	\$125,440	\$54,823	\$70,617	128.81%
Insurance	\$79,654	\$79,027	\$627	.79%
Taxes & Assessments	\$10,761	\$7,285	\$3,476	47.71%
Utilities	\$39,070	\$40,054	(\$984)	-2.46%
Telephone	\$9,139	\$9,107	\$32	.35%
Rent (Storage and meeting rooms)	\$210	\$510	(\$300)	-58.82%
Professional Development	\$4,572	\$4,031	\$541	13.42%
Vehicle Expense	\$6,970	\$6,803	\$167	2.45%
Maintenance and Operations	\$74,693	\$101,836	(\$27,143)	-26.65%
Wastewater Treatment Plant	\$438,062	\$398,104	\$39,958	10.04%
Depreciation	\$428,574	\$425,750	\$2,824	.66%
Total Operating Expenses	\$1,687,442	\$1,663,664	\$23,778	1.43%
Bond Interest Expense	\$33,131	\$38,675	(\$5,544)	-14.33%
Total Non-Operating Expenses	\$33,131	\$38,675	(\$5,544)	-14.33%
Total Expenses	\$1,720,573	\$1,702,339	\$18,234	1.07%

CAPITAL ASSETS AND DEBT ADMINISTRATION

At the end of fiscal year 2012-2013, the District held \$6,104,842 in capitals assets primarily for sewer related infrastructure. This amount represents a net decrease (including additions, deletions and accumulated depreciation) of \$842,382 due primarily to the abandonment of the WWTP project.

	FY 2013	FY 2012	CHANGE
Land	\$157,132	\$157,132	0
Construction in Progress	\$195,964	\$92,599	\$103,365
Construction in Progress-WWTP	\$0	\$804,048	(\$804,048)
Total Non Depreciable	\$353,096	\$1,053,779	(\$700,683)
Facility - Office	\$1,243,019	\$1,243,019	\$0
Conveyance System	\$4,355,180	\$4,177,550	\$177,630
Subsurface Lines	\$1,956,780	\$1,956,780	\$0
Sewage Collection Facilities	\$1,836,108	\$1,757,517	\$78,591
Sewage Treatment Facilities	\$5,542,407	\$5,542,407	\$0
Trucks	\$104,896	\$104,896	\$0
Office Equipment	\$106,930	\$76,277	\$30,653
Collection Equipment	\$405,005	\$405,005	\$0
Total Depreciable	\$15,550,325	\$15,263,451	\$286,874
TOTAL CAPITAL ASSETS	\$15,903,421	\$16,317,230	(\$413,809)
Less: Accumulated Depreciation	(\$9,798,580)	(\$9,370,008)	(\$428,572)
NET CAPITAL ASSETS	\$6,104,841	\$6,947,224	(\$842,383)

This fiscal year major capital projects, equipment purchases and asset acquisitions included are explained below:

CONSTRUCTION IN PROGRESS (CIP):

CIP Additions Representing \$340,007:

- CIP additions of \$177,630 in construction costs are a result of the B Street Sewer Main, Cayucos Creek @ B Street and the Borchard and Cass Alley projects. These projects were completed in FY 2012/13 and the costs were transferred to the Conveyance System category of Capital Assets.
- CIP additions of \$78,591 were for the LS#4 Generator and LS#5 Master Control projects. Both of these projects were completed in FY 2012/13 and the costs were transferred to the Sewage Collection Facility category of Capital Assets.
- CIP addition balance of \$83,786 represents the construction costs to date on the LS#3 Relocation project which is ongoing.

CIP Additions Representing \$30,653:

The District upgraded its computer network with a server, new workstations and billing software totaling \$30,653. This project was completed and the entire project costs were transferred to the office equipment category of Capital Assets.

CIP WWTP-Alternatives Analysis Additions Representing \$19,579:

The District entered into an agreement with Water Systems Consulting for a Wastewater Treatment Alternatives Development Study in the amount of \$18,200. There were associated legal review fees from Carmel & Naccasha totaling \$1,379.

CIP WWTP-Upgrade Additions Representing \$50,132:

CIP additions of \$50,132 are a result of charges from the City of Morro Bay for the WWTP-Upgrade project in the amount of \$22,287 and the remaining \$27,845 in costs are for legal review fees from Carmel & Naccasha in the amount of \$27,317 and consulting fees from McCabe & Co. in the amount of \$528. All expenditures to date on the WWTP-Upgrade project have been written off the CIP portion of the asset schedule, as a result of the abandonment of the project due to California Coastal Commission denial.

Long Term Debt

Funding for the above capital improvement projects (CIP) and equipment acquisitions were from existing reserves.

CURRENT FINANCIAL ISSUES AND CONCERNS

The District is financially stable to meet any increasing operating costs and capital improvement projects.

Morro Bay-Cayucos Sanitary District Wastewater Treatment Plant (WWTP) Project:

Back in 2005, the Morro Bay City Council and Cayucos Sanitary District Board (MBCSD) adopted an eight (8) year full secondary compliance schedule for upgrading the treatment process at their jointly-owned wastewater treatment plant to comply with full secondary treatment standards by no later than March 31, 2014. Carollo Engineers completed the Facility Master Plan for the WWTP Upgrade in final draft form.

On May 28, 2008 a contract was let for environmental review to Environmental Science Associates (ESA) for a not to exceed amount of \$288,770. Their work was progressing at fiscal year-end. A flood analysis was performed by Wallace Group Engineers as a component of the environmental review. As a result of the flood analysis it was determined that the flood mitigation costs to complete the upgrade of the current WWTP were prohibitive and the Upgrade would need to take place adjacent to the existing plant. December 4, 2008, the City and District were granted a final 5 year 301(h) modified NPDES Permit from the State Water Resources Control Board for continued discharge from the WWTP to the ocean outfall. This permit was to cover the majority if not all of the WWTP Project when full secondary treatment standards were achieved.

On January 11, 2011 the Morro Bay City Council conditionally approved a Coastal Development Permit (CDP) for MBCSD's request to upgrade the existing WWTP and certified the Environmental Impact Report (EIR) for the proposed project. The City's approval of the CDP was appealed to the California Coastal Commission (CCC). As a result of the appeal, the CCC asserted jurisdiction over the project's CDP. Per CCC Staff direction, MBCSD conducted an additional WWTP Alternatives Analysis to evaluate whether there is a more appropriate site to locate the WWTP.

On January 10, 2013 at the CCC meeting, the CCC voted to deny the CDP for construction of an upgraded wastewater treatment plant at its existing location. The denial was based in part on inconsistency with the Local Coastal Plan - Zoning, the failure of a major Public Works Infrastructure Project to avoid coastal hazards, the lack of project design to include a reclaimed water component and that the project is located within an LCP-designated sensitive view area. As a result of the CCC denial, the project was abandoned and all expenditures to date written off the Capital Asset schedule.

In February, 2013 the District contracted with Water Systems Consultants (WSC) to prepare a Wastewater Treatment Alternatives Development Study to examine locations and treatment possibilities for the District. In June, 2013 WSC completed their study and the District accepted the final draft. The District has begun discussions with the regulatory agencies for review of the concepts outlined in the WSC study.

Concurrently, the District is waiting for the City of Morro Bay to complete its own Project Planning for a New Water Reclamation Facility (WRF). The City has developed a tentative schedule for the preliminary work effort for the WRF which charts a path of site selection and other important community decisions that are needed to see the WRF project move forward with success. The City's goal is to make these decisions by the end of 2013. At that time, the District will review the City's findings to see if a combined project is feasible.

District's Investment Portfolio and Financial Management Strategy:

The District Board was advised by Financial Advisor, Karen Shanley, for conservative capital preservation to transfer most of its money market holdings to an all US Treasury Money Market for safety and liquidity in an effort to protect the District's cash holdings from the economic downturn plagued by bank and financial institution-related problems, the credit crunch, housing slump, steep sell offs in capital markets, and deep slides with both S&P 500 Index and Dow Jones.

Contacting the District's Financial Management:

This report is a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions about this report or need additional financial information please contact Rick Koon, District Manager at (805) 995-3290 or address: P.O. Box 333, 200 Ash Avenue, Cayucos, CA, 93430.

This page intentionally left blank.

FINANCIAL SECTION

CAYUCOS SANITARY DISTRICT
STATEMENT OF NET POSITION - ENTERPRISE FUND
June 30, 2013
With Comparative Totals for June 30, 2012

	<u>2013</u>	<u>2012</u>
ASSETS		
Current Assets:		
Cash and investments - cash equivalents (Note 3)	\$ 3,320,002	\$ 3,581,175
Restricted cash and investments - cash equivalents (Note 3)	<u>43,722</u>	<u>22,081</u>
Total cash and cash equivalents	3,363,724	3,603,256
Cash and investments - non cash equivalents (Note 3)	3,550,801	2,832,604
Accounts receivable	33,820	27,860
Interest receivable	4,124	2,607
Taxes receivable	16,023	24,222
Other receivables	25,934	7,861
Prepaid expenses	<u>6,072</u>	<u>6,021</u>
Total current assets	<u>7,000,498</u>	<u>6,504,431</u>
Capital Assets (Note 4):		
Non depreciable		
Land	157,132	157,132
Construction in progress	176,385	92,599
Construction in progress - WWTP upgrade (Note 10)		804,048
Construction in progress - WWTP alternatives analysis	19,579	
Depreciable		
Subsurface lines	1,956,780	1,956,780
Sewage collection facilities	1,836,108	1,757,517
Conveyance system	4,355,180	4,177,550
Sewage treatment facilities	5,542,407	5,542,407
Trucks	104,896	104,896
Office equipment	106,930	76,277
Collection equipment	405,005	405,005
Office building	<u>1,243,019</u>	<u>1,243,019</u>
	15,903,421	16,317,230
Accumulated depreciation	<u>(9,798,580)</u>	<u>(9,370,006)</u>
Net capital assets	<u>6,104,841</u>	<u>6,947,224</u>
Noncurrent Assets:		
Prepaid pension obligation	<u>96,737</u>	<u>107,485</u>
Total noncurrent assets	<u>96,737</u>	<u>107,485</u>
Total assets	<u>\$ 13,202,076</u>	<u>\$ 13,559,140</u>

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

CAYUCOS SANITARY DISTRICT
STATEMENT OF NET POSITION - ENTERPRISE FUND
June 30, 2013
With Comparative Totals for June 30, 2012

	<u>2013</u>	<u>2012</u>
LIABILITIES		
Current Liabilities:		
Accounts payable	\$ 49,934	\$ 121,669
Payable to the City of Morro Bay - WWTP upgrade		43,447
Payable to the City of Morro Bay - operations and maintenance	134,027	108,138
Accrued payroll	15,314	16,758
Accrued interest	5,359	6,124
Customer deposits	2,725	3,000
Security deposit - MCD	25,000	25,000
Compensated absences (Note 7)	16,338	19,713
Loan payable - LS#2, current portion (Notes 5-6)	<u>107,190</u>	<u>102,624</u>
Total current liabilities	355,887	446,473
Long-Term Liabilities:		
Loan payable - LS#2, less current portion (Notes 5-6)	<u>610,716</u>	<u>719,047</u>
Total liabilities	<u>966,603</u>	<u>1,165,520</u>
NET POSITION		
Net investment in capital assets	5,386,935	6,125,553
Restricted for construction	43,722	22,081
Unrestricted	<u>6,804,816</u>	<u>6,245,986</u>
Total net position	<u>\$ 12,235,473</u>	<u>\$ 12,393,620</u>

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

CAYUCOS SANITARY DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION -
ENTERPRISE FUND
For the Fiscal Year Ended June 30, 2013
With Comparative Totals for the Fiscal Year Ended June 30, 2012

	<u>2013</u>	<u>2012</u>
Operating Revenues:		
Sewer services fees	\$ 1,668,251	\$ 1,645,339
Permit fees	2,515	3,601
	<u>1,670,766</u>	<u>1,648,940</u>
Operating Expenses:		
Gross wages	338,992	385,944
Payroll taxes and benefits	87,184	107,641
Directors' fees	8,900	9,850
Office expense	25,029	23,594
Dues and subscriptions	4,978	3,939
Business expense	661	1,094
Permits and licenses	4,553	4,272
Professional services	125,440	54,823
Insurance	79,654	79,027
Taxes and assessments	10,761	7,285
Utilities	39,070	40,054
Telephone	9,139	9,107
Rent	210	510
Professional development	4,572	4,031
Vehicle expense	6,970	6,803
Maintenance and operations	74,693	101,836
Treatment plant	438,062	398,104
Depreciation	428,574	425,750
	<u>1,687,442</u>	<u>1,663,664</u>
Total operating expenses		
Net operating loss	<u>(16,676)</u>	<u>(14,724)</u>
Non-Operating Revenues (Expenses):		
Rent income	56,360	48,739
Taxes and assessments	600,042	615,182
Investment income	4,182	43,075
Franchise fees	49,913	46,491
Interest expense	(33,131)	(38,675)
Other revenue	5,480	6,058
Stand by fees	22,003	21,564
Loss on disposal of capital assets		(100)
	<u>704,849</u>	<u>742,334</u>
Total non-operating revenues (expenses)		
Capital contributions - connection fees	<u>7,860</u>	<u>19,650</u>
Extraordinary Item:		
Abandonment of WWTP upgrade project (Note 10)	<u>(854,180)</u>	
Change in net position	<u>(158,147)</u>	<u>747,260</u>
Net position:		
Net position, beginning of fiscal year	12,393,620	11,664,567
Prior period adjustments		(18,207)
Net position, beginning of fiscal year-restated	<u>12,393,620</u>	<u>11,646,360</u>
Net position, end of fiscal year	<u>\$ 12,235,473</u>	<u>\$ 12,393,620</u>

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

CAYUCOS SANITARY DISTRICT
STATEMENT OF CASH FLOWS - ENTERPRISE FUND
For the Fiscal Year Ended June 30, 2013
With Comparative Totals for the Fiscal Year Ended June 30, 2012

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 1,646,458	\$ 1,645,409
Payments to vendors	(869,689)	(767,771)
Payments to employees	(429,147)	(634,338)
	<u>347,622</u>	<u>243,300</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Property taxes	608,241	623,265
Franchise fees	49,913	46,491
Stand by fees	22,003	21,564
Other revenue	5,480	6,058
	<u>685,637</u>	<u>697,378</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of capital assets	(483,818)	(550,724)
Proceeds from sale of capital assets		1,200
Principal paid on long-term debt	(103,765)	(98,254)
Interest paid on long-term debt	(33,896)	(39,408)
Connection fees	7,860	16,050
	<u>(613,619)</u>	<u>(671,136)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	2,665	46,355
Rent	56,360	48,739
Sale/purchase of investments	(718,197)	(655,546)
	<u>(659,172)</u>	<u>(560,452)</u>
Net (decrease) in cash and cash equivalents	(239,532)	(290,910)
Cash and cash equivalents, July 1	<u>3,603,256</u>	<u>3,894,166</u>
Cash and cash equivalents, June 30	<u>\$ 3,363,724</u>	<u>\$ 3,603,256</u>
Reconciliation to Statement of Net Position:		
Cash and investments - cash equivalents	\$ 3,320,002	\$ 3,581,175
Restricted cash and investments - cash equivalents	43,722	22,081
	<u>\$ 3,363,724</u>	<u>\$ 3,603,256</u>

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

CAYUCOS SANITARY DISTRICT
STATEMENT OF CASH FLOWS - ENTERPRISE FUND
For the Fiscal Year Ended June 30, 2013
With Comparative Totals for the Fiscal Year Ended June 30, 2012

	<u>2013</u>	<u>2012</u>
Reconciliation of operating loss to net cash provided		
by operating activities:		
Operating loss	\$ (16,676)	\$ (14,724)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	428,574	425,750
Change in net assets and liabilities:		
Accounts receivable	(5,960)	(11,940)
Prepays	(51)	(3,221)
Other receivables	(18,073)	9,718
Prepaid pension obligation	10,748	(107,485)
Payable to the City of Morro Bay	25,889	(23,850)
Accounts payables	(71,735)	(6,221)
Accrued expenses	(1,444)	(995)
Compensated absences	(3,375)	(22,423)
Customer deposits	(275)	(1,300)
Security deposit		(9)
	<u>\$ 347,622</u>	<u>\$ 243,300</u>
Net cash provided by operating activities		

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

NOTE 1 - REPORTING ENTITY

The reporting entity is the Cayucos Sanitary District, which began operations in 1942, under the authorization of Section 6400 et. seq. of the Health and Safety Code of the State of California. The District operates under the direction of a board of directors who are elected by the residents of Cayucos. The District provides wastewater disposal services.

The District is a Sanitary District as defined under State Code Section: 61000. A Sanitary District is a public agency (State Code Section: 12463.1) which is a State instrumentality (State Code Section: 23706). State instrumentalities are exempt from federal and state income taxes.

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.

GASB Statement No. 34, defines major funds and requires that the District's major business-type fund be identified and presented separately in the fund financial statements.

Major funds are defined as funds that have either assets, liabilities, revenues or expenses equal to ten percent of their fund-type total and five percent of the grand total. The District maintains one proprietary fund.

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.

The District reported its enterprise fund as a major fund in the accompanying basic financial statements.

Sewer Utility Fund is to account for the provision of sewer services to residents of Cayucos.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- 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.
- G. Receivables - The District did not experience any significant bad debt losses; accordingly, no provision has been made for doubtful accounts, and accounts receivable is shown at full value.
- H. Unearned Revenue - The District bills customers in advance, thus amounts received prior to services being rendered by the District are recorded as unearned revenue.
- I. 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.
- J. Compensated Absences - Accumulated unpaid employee vacation and sick leave benefits are recognized as liabilities of the District. The amounts are included in current liabilities.

K. Property Taxes

Property taxes in the State of California are administered for all local agencies at the county level, and consist of secured, unsecured, and utility tax rolls. The following is a summary of major policies and practices relating to property taxes:

Property Valuations - are established by the Assessor of the County of San Luis Obispo for the secured and unsecured property tax rolls; the utility property tax roll is valued by the State Board of Equalization. Under the provisions of Article XIII of the State Constitution (Proposition 13 adopted by the voters on June 6, 1978), properties are assessed at 100% of full value. From the base assessment, subsequent annual increases in valuation are limited to a maximum of 2%. However, increases to full value are allowed for property improvements or upon change in ownership. Personal property is excluded from these limitations, and is subject to annual reappraisal.

Tax Collections - are the responsibility of the county tax collector. Taxes and assessments on secured and utility rolls which constitute a lien against the property, may be paid in two installments: the first is due on November 1 of the fiscal year and is delinquent if not paid by December 10; and the second is due on March 1 of the fiscal year and is delinquent if not paid by April 10. Unsecured personal property taxes do not constitute a lien against real property unless the taxes become delinquent. Payment must be made in one installment, which is delinquent if not paid by August 31 of the fiscal year. Significant penalties are imposed by the county for late payments.

Tax Levy Apportionments - Due to the nature of the District-wide maximum levy, it is not possible to identify general purpose tax rates for specific entities. Under State legislation adopted subsequent to the passage of Proposition 13, apportionments to local agencies are made by the county auditor-controller based primarily on the ratio that each agency represented of the total District-wide levy for the three years prior to fiscal year 1979.

Property Tax Administration Fees - The State of California FY 90-91 Budget Act, authorized counties to collect an administrative fee for collection and distribution of property taxes. Property taxes are recorded as net of administrative fees withheld during the fiscal year.

Tax Levies - are limited to 1% of full value which results in a tax rate of \$1.00 per \$100 assessed valuation, under the provisions of Proposition 13. Tax rates for voter-approved indebtedness are excluded from this limitation.

Tax Levy Dates - are attached annually on January 1 preceding the fiscal year for which the taxes are levied. The fiscal year begins July 1 and ends June 30 of the following year. Taxes are levied on both real and unsecured personal property as it exists at that time. Liens against real estate, as well as the tax on personal property, are not relieved by subsequent renewal or change in ownership.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Restricted Net Position – Restricted net position are financial resources segregated for a special purpose such as construction of improvements and financing of debt obligations. These financial resources are for the benefit of a distinct group and as such are legally or contractually restricted.

M. 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.

N. Net Position

GASB Statement No. 63 requires that the difference between assets added to the deferred outflows of resources and liabilities 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 it 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.

O. 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.

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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

O. New Accounting Pronouncements (Continued)

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 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 – Net Position.

NOTE 3 - CASH AND INVESTMENTS

Investments are carried at fair value in accordance with GASB Statement No. 31. On June 30, 2013 and June 30, 2012, the District had the following cash and investments on hand:

	2013	2012
Cash on hand	\$ 175	\$ 175
Cash in banks	269,615	240,530
Investments	6,644,735	6,195,155
	<u>\$ 6,914,525</u>	<u>\$ 6,435,860</u>

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

Cash and investments-cash equivalents	\$ 3,320,002	\$ 3,581,175
Restricted cash and investments-cash equivalents	43,722	22,081
Cash and investments-non cash equivalents	3,550,801	2,832,604
	<u>\$ 6,914,525</u>	<u>\$ 6,435,860</u>

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.

Authorized Investment Type	Maximum Maturity	Maximum Percentage Of Portfolio	Maximum Investment in One Issuer
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

NOTE 3 - CASH AND INVESTMENTS (Continued)

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:

Investment Type	Carrying Amount	2013			
		Remaining Maturity (in Months)			
		12 Months Or Less	13-24 Months	25-60 Months	More than 60 Months
Mortgage pass-through securities	\$ 298,646	\$ -	\$ -	\$ -	\$ 298,646
Federal agency securities	2,027,330			2,027,330	
Negotiable certificates of deposit	1,023,391	1,023,391			
State investment pool (LAIF)	7,805	7,805			
Money market funds	3,287,563	3,287,563			
	<u>\$ 6,644,735</u>	<u>\$ 4,318,759</u>	<u>\$ -</u>	<u>\$ 2,027,330</u>	<u>\$ 298,646</u>

Investment Type	Carrying Amount	2012			
		Remaining Maturity (in Months)			
		12 Months Or Less	13-24 Months	25-60 Months	More than 60 Months
Mortgage pass-through securities	\$ 355,798	\$ -	\$ -	\$ -	\$ 355,798
Federal agency securities	1,007,950			1,007,950	
Negotiable certificates of deposit	1,267,427	1,019,753	247,674		
State investment pool (LAIF)	7,782	7,782			
Money market funds	3,556,198	3,556,198			
	<u>\$ 6,195,155</u>	<u>\$ 4,583,733</u>	<u>\$ 247,674</u>	<u>\$ 1,007,950</u>	<u>\$ 355,798</u>

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.

CAYUCOS SANITARY DISTRICT
 NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2013

NOTE 3 - CASH AND INVESTMENTS (Continued)

Disclosures Relating to Credit Risk (Continued)

Investment Type	Carrying Amount	Minimum Legal Rating	2013			
			Rating as of Fiscal Year End			Not Rated
			AAA	A+	Baa	
Mortgage pass-through securities	\$ 298,646	N/A	\$ 298,646	\$ -	\$ -	\$ -
Federal agency securities	2,027,330	N/A	2,027,330			
Negotiable certificates of deposit	1,023,391	N/A				1,023,391
State investment pool (LAIF)	7,805	N/A				7,805
Money market funds	3,287,563	N/A				3,287,563
	<u>\$ 6,644,735</u>		<u>\$ 2,325,976</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,318,759</u>

Investment Type	Carrying Amount	Minimum Legal Rating	2012			
			Rating as of Fiscal Year End			Not Rated
			AAA	A+	Baa	
Mortgage pass-through securities	\$ 355,798	N/A	\$ 355,798	\$ -	\$ -	\$ -
Federal agency securities	1,007,950	N/A	1,007,950			
Negotiable certificates of deposit	1,267,427	N/A				1,267,427
State investment pool (LAIF)	7,782	N/A				7,782
Money market funds	3,556,198	N/A				3,556,198
	<u>\$ 6,195,155</u>		<u>\$ 1,363,748</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,831,407</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. Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total District investments is as follows:

Investment Type	Reported Amount	
	2013	2012
Federal agency securities	\$ 2,027,330	\$ 1,007,950
Mortgage pass-through securities	\$ -	\$ 355,798

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.

CAYUCOS SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2013

NOTE 3 - CASH AND INVESTMENTS (Continued)

Custodial Credit Risk (Continued)

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. As of June 30, 2013, the District's investments in the following types were held by the same broker-dealer (counterparty) that was used by the District to buy securities:

Investment Type	Reported Amount	
	2013	2012
Federal agency securities	\$ 2,027,330	\$ 1,007,950
Mortgage pass-through securities	\$ 298,646	\$ 355,798
Money market funds	\$ 3,287,563	\$ 3,556,198

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.

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	Additions	Deletions	Transfers	Balance
	July 1, 2012				June 30, 2013
Land	\$ 157,132	\$ -	\$ -	\$ -	\$ 157,132
Building	1,243,019				1,243,019
Subsurface lines	1,956,780				1,956,780
Sewage collection facilities	1,757,517			78,591	1,836,108
Conveyance system	4,177,550			177,630	4,355,180
Sewage treatment facilities	5,542,407				5,542,407
Collection equipment	405,005				405,005
Office equipment	76,277	30,653			106,930
Trucks	104,896				104,896
Construction in progress	92,599	340,007		(256,221)	176,385
Construction in progress-WWTP alternatives analysis		19,579			19,579
Construction in progress-WWTP upgrade	804,048	50,132	854,180		
	16,317,230	440,371	854,180		15,903,421
Less accumulated depreciation	9,370,006	428,574			9,798,580
Net capital assets	\$ 6,947,224	\$ 11,797	\$ 854,180	\$ -	\$ 6,104,841

CAYUCOS SANITARY DISTRICT
 NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2013

NOTE 4 - SCHEDULE OF CAPITAL ASSETS (Continued)

A schedule of changes in capital assets and depreciation for the fiscal year ended June 30, 2012, is shown below:

	Balance July 1, 2011	Additions	Deletions	Transfers	Balance June 30, 2012
Land	\$ 157,132	\$ -	\$ -	\$ -	\$ 157,132
Building	350,427			892,592	1,243,019
Subsurface lines	1,934,605			22,175	1,956,780
Sewage collection facilities	1,760,943		3,426		1,757,517
Conveyance system	4,177,550				4,177,550
Sewage treatment facilities	5,542,407				5,542,407
Collection equipment	405,005				405,005
Office equipment	76,277				76,277
Trucks	104,896				104,896
Construction in progress	761,957	245,409		(914,767)	92,599
Construction in progress-WWTP	584,333	219,715			804,048
	<u>15,855,532</u>	<u>465,124</u>	<u>3,426</u>		<u>16,317,230</u>
Less accumulated depreciation	<u>8,946,385</u>	<u>425,750</u>	<u>2,129</u>		<u>9,370,006</u>
Net capital assets	<u>\$ 6,909,147</u>	<u>\$ 39,374</u>	<u>\$ 1,297</u>	<u>\$ -</u>	<u>\$ 6,947,224</u>

NOTE 5 – LOAN PAYABLE

On April 21, 2004, the District received a loan from Municipal Finance Corporation in the amount of \$1,500,000. The purpose of the loan was to refinance the 1982 Sewer Bonds in the amount of \$174,000, and to finance the reconstruction of pump station #2. The District will make semi-annual payments under the loan agreement of \$68,831 through April 29, 2019. The interest rate for the loan is 4.4%. Future debt service payments are as follows:

Fiscal Year Ending	Principal	Interest	Total
2014	\$ 107,190	\$ 30,472	\$ 137,662
2015	111,958	25,704	137,662
2016	116,938	20,724	137,662
2017	122,140	15,521	137,661
2018	127,573	10,088	137,661
2019	132,107	4,410	136,517
	<u>\$ 717,906</u>	<u>\$ 106,919</u>	<u>\$ 824,825</u>

NOTE 6 – LONG-TERM DEBT

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

	July 1, 2012	Additions	Retirements	Total	Balance June 30, 2013	
					Current	Long-Term
Loan payable	\$ 821,671	\$ -	\$ 103,765	\$ 717,906	\$ 107,190	\$ 610,716

The changes in long-term debt at June 30, 2012, is as follows:

	July 1, 2011	Additions	Retirements	Total	Balance June 30, 2012	
					Current	Long-Term
Loan payable	\$ 919,925	\$ -	\$ 98,254	\$ 821,671	\$ 102,624	\$ 719,047

NOTE 7 - COMPENSATED ABSENCES

As of June 30, 2013, it is estimated that the District's employees have \$16,338 of accumulated vested vacation time and sick leave. Accumulated unpaid employee vacation and sick leave benefits are recognized as liabilities of the District. The accumulated benefits will be liquidated in future years as employees elect to use them.

NOTE 8 - DISTRICT EMPLOYEES' RETIREMENT PLAN (DEFINED BENEFIT PENSION PLAN)

Plan Description

The Cayucos 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 PERS are required to contribute 8% of their annual covered salary and the District is required to contribute the actuarially determined rate. The actuarial methods and assumptions used are those adopted by CalPERS Board of Administration. The required employer contribution rate for the fiscal year 2012/2013 was 13.914%. 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 Cayucos Sanitary District's contributions to CalPERS for the fiscal years ending June 30, 2013, 2012, and 2011, were \$49,020, \$50,897, and \$50,621, respectively, and equal 100% of the required contributions for each fiscal year.

In January 2012, the District paid to CalPERS \$107,485 towards its unfunded liability. This prepayment will be amortized over eleven years, beginning fiscal year 2012/13 through fiscal year 2022/23.

NOTE 9 - CONTINGENCIES

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

NOTE 10 - EXTRAORDINARY ITEM

The District and the City of Morro Bay shared costs for studies and planning to demolish the existing wastewater treatment plant (WWTP) and to construct a new WWTP (WWTP upgrade) on the same oceanfront site in the City of Morro Bay. The California Coastal Commission (CCC) subsequently determined the site was not consistent with the Local Coast Program (LCP) and denied the coastal development permit. The District's cost incurred for studies and planning for the WWTP upgrade project totaled \$854,180 at June 30, 2013.