

**CAYUCOS SANITARY DISTRICT**

**FINANCIAL STATEMENTS**

June 30, 2012



**CAYUCOS SANITARY DISTRICT**  
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June 30, 2012

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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Cayucos Sanitary District  
Cayucos, California

We have audited the accompanying basic financial statements of the Cayucos Sanitary District, as of and for the fiscal year ended June 30, 2012, as listed in the table of contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic financial statements based on our audit. The prior fiscal year comparative information has been derived from the District's 2011 financial statements and, in our report dated September 15, 2011, we expressed an unqualified opinion on the basic financial statements.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

We were unable to obtain audited financial statements supporting the activities of the wastewater treatment plant. Those financial activities include the cost of the plant representing 12.2% of the District's assets and related depreciation, and operating costs representing 33.3% of the District's operating expenses.

As discussed in note 1 to basic financial statements effective July, 1, 2011, the Cayucos Sanitary District adopted the Governmental Accounting Standards (GASB) Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions*.

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 basic financial statements referred to above present fairly, in all material respects, the financial position of the Cayucos Sanitary District as of June 30, 2012, and the results of its operations and its cash flows for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 27, 2012, 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* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 8, 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.

*Moss, Remy & Haugheim LLP*

Santa Maria, California

November 27, 2012

## 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 2011-2012 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, 2012. 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 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) 2011-2012 are as follows:

- The District adopted a Revenue Rate Program in conjunction with upgrade of the Morro Bay-Cayucos Sanitary District Wastewater Treatment Plant calling for scheduled rate increases commencing October 1, 2007 and then increasing July 1 of every fiscal year thereafter, through the end of FY 2011-2012. For FY 2011-2012, effective July 1, 2011, the sewer service fee was increased from \$47.00 monthly to \$52.00 monthly. The District's goal was to ensure that the necessary steps were taken to devise and implement a revenue rate plan sufficient to generate the revenues necessary to pay anticipated debt service for funding of the District's portion of the Morro Bay-Cayucos Wastewater Treatment Plant Upgrade and its own collection and conveyance capital improvement projects.
- There was a change (increase) in net assets of \$729,053, in part due to a \$253,680 increase in sewer fee revenue and a reduction in operating expenses of \$117,140. The remaining balance of \$358,233 represents the excess revenues versus total expenses.

Gross wages, payroll taxes and fringe benefits decreased by \$51,448 or 9.5% in FY 2011-2012 because of the following:

- A transition from a full time employee District Manager to a part-time contract professional services Interim General Manager
- Replacement of senior vacant positions with entry level positions resulting in salary savings.
- Assumption by employees of an additional 2% of Employer Mandated Pension Contribution (EPMC).

## SOURCES OF REVENUES

The District's total revenue for the fiscal year was \$2,449,599 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 \$1,648,940 in annual revenue to the District, equal to 67% 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 \$21,564 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 \$615,182 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 2011-2012, the District generated \$23,251 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 GNMA's and FNMA's. 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 \$43,075 in interest or 2% 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 \$48,739 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 \$41,491. In addition, the District received \$5,000 representing annual revenue from Mission Country Disposal for a recycling development program. The combined revenue generated \$46,491 or approximately 2% of total revenues.

### SOURCES OF EXPENSES

The total expenses of the District in FY 2011-2012 were \$1,702,339. There was an overall decrease of \$121,356 equal to 7% decrease from prior FY 2010-2011 as shown below.

	<b>FY 2012</b>	<b>FY 2011</b>	<b>\$ CHANGE</b>	<b>% CHANGE</b>
Gross Wages	\$385,944	\$417,372	<b>(\$31,428)</b>	-7.53%
Payroll taxes and Benefits	\$107,641	\$127,661	<b>(\$20,020)</b>	-15.68%
Directors' Fees	\$9,850	\$10,750	<b>(\$900)</b>	-8.37%
Office Expense	\$23,594	\$27,184	<b>(\$3,590)</b>	-13.21%
Dues and Subscriptions	\$3,939	\$3,858	<b>\$81</b>	2.10%
Business Expense	\$1,094	\$753	<b>\$341</b>	45.29%
Permits and Licenses	\$4,272	\$5,156	<b>(\$884)</b>	-17.15%
Professional Services	\$54,823	\$28,326	<b>\$26,497</b>	93.54%
Insurance	\$79,027	\$109,277	<b>(\$30,250)</b>	-27.68%
Taxes & Assessments	\$7,285	\$8,181	<b>(\$896)</b>	-10.95%
Utilities	\$40,054	\$42,993	<b>(\$2,939)</b>	-6.84%
Telephone	\$9,107	\$7,909	<b>\$1,198</b>	15.15%
Rent (Storage and meeting rooms)	\$510	\$1,410	<b>(\$900)</b>	-63.83%
Professional Development	\$4,031	\$7,859	<b>(\$3,828)</b>	-48.71%
Vehicle Expense	\$6,803	\$10,676	<b>(\$3,873)</b>	-36.28%

Maintenance and Operations	\$101,836	\$74,350	<b>\$27,486</b>	36.97%
Wastewater Treatment Plant	\$398,104	\$465,779	<b>(\$67,675)</b>	-14.53%
Depreciation	\$425,750	\$431,310	<b>(\$5,560)</b>	-1.29%
<b>Total Operating Expenses</b>	<b>\$1,663,664</b>	<b>\$1,780,804</b>	<b>(\$117,140)</b>	-6.58%
Bond Interest Expense	\$38,675	\$42,891	<b>(\$4,216)</b>	-9.83%
<b>Total Non-Operating Expenses</b>	<b>\$38,675</b>	<b>\$42,891</b>	<b>(\$4,216)</b>	-9.83%
<b>Total Expenses</b>	<b>\$1,702,339</b>	<b>\$1,823,695</b>	<b>(\$121,356)</b>	-6.65%

#### CAPITAL ASSETS AND DEBT ADMINISTRATION

At the end of fiscal year 2011-2012, the District held \$6,947,224 in capitals assets primarily for sewer related infrastructure. This amount represents a net decrease (including additions, deletions and accumulated depreciation) of \$38,077

	<b>FY 2012</b>	<b>FY 2011</b>	<b>CHANGE</b>
Land	\$157,132	\$157,132	0.00
Construction in Progress	\$92,601	\$761,957	(\$669,356)
Construction in Progress-WWTP	\$804,048	\$584,333	\$219,715
<b>Total Non Depreciable</b>	<b>\$1,053,781</b>	<b>\$1,503,422</b>	<b>(\$449,641)</b>
Facility - Office	\$1,243,019	\$350,427	\$892,592
Conveyance System	\$4,177,550	\$4,177,550	0.00
Subsurface Lines	\$1,956,781	\$1,934,605	\$22,176
Sewage Collection Facilities	\$1,757,516	\$1,760,943	(3,427)
Sewage Treatment Facilities	\$5,542,407	\$5,542,407	0
Trucks	\$104,896	\$104,896	0
Office Equipment	\$76,277	\$76,277	0
Collection Equipment	\$405,005	\$405,005	0

<b>Total Depreciable</b>	<b>\$15,263,451</b>	<b>\$14,352,110</b>	<b>\$911,341</b>
<b>TOTAL CAPITAL ASSETS</b>	<b>\$16,317,232</b>	<b>\$15,855,532</b>	<b>\$461,700</b>
Less: Accumulated Depreciation	(\$9,370,008)	(\$8,946,385)	(423,623)
<b>NET CAPITAL ASSETS</b>	<b>\$6,947,224</b>	<b>\$6,909,147</b>	<b>\$38,077</b>

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

CONSTRUCTION IN PROGRESS (CIP):

CIP Additions Representing \$245,412:

CIP Additions of \$245,412 in construction costs in connection with the Operations and Maintenance Garage/Shop (Phase 1). The entire project was transferred to fixed assets buildings category in FY 11/12

CIP-WWTP Additions Representing \$219,715

City of Morro Bay charges of \$189,959 for the WWTP upgrade representing Cayucos Sanitary District 28 percent portion of design, facility master plan and environmental impact report.

Cayucos Sanitary District also expended \$29,756 in legal review services in connection with the Morro Bay-Cayucos Wastewater Treatment Plant.

Long Term Debt

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

CURRENT FINANCIAL ISSUES AND CONCERNS

The District is financially stable to meet increasing operating costs, capital replacement projects, and the building of the Waste Water Treatment Plant project on the current site.

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 8.0 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 should cover the majority if not all of the WWTP Project when full secondary treatment standards can be achieved.

On January 11, 2011 the Morro Bay City Council conditionally approved a coastal development permit 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 coastal development permit was appealed to the California Coastal Commission (CCC). As a result of the appeal, the CCC asserted jurisdiction over the project's coastal development permit, which is now subject to de novo hearing requirements. Per CCC Staff direction, MBCSD conducted a robust WWTP Alternatives Analysis to evaluate whether there is a more appropriate site to locate the WWTP. At this time CCC staff has not issued a staff recommendation and the De Novo Hearing has not been scheduled.

Cayucos Sanitary District Facility Expansion:

The District vacated its maintenance shop located at 1671 Cabrillo Road due to the County of San Luis Obispo terminating the leased area for intended use by its Water Department Division. As a result, the District undertook preliminary review, planning and design efforts to determine the feasibility of building an Operations and Maintenance Garage/Shop on vacant land owned by the District adjacent to the District's existing Administration Office. The Garage/Shop was completed in fiscal year 2011-12.

District's Investment Portfolio and Financial Management Strategy:

The District Board was advised by its 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 Lewis Brookins, Administrative Services Officer, at (805) 995-3290 or address: P.O. Box 333, 200 Ash Avenue, Cayucos, CA, 93430.

**CAYUCOS SANITARY DISTRICT**  
**STATEMENT OF NET ASSETS - ENTERPRISE FUND**  
June 30, 2012  
With Comparative Totals for June 30, 2011

	<u>2012</u>	<u>2011</u>
<b>ASSETS</b>		
Current Assets:		
Cash and investments - cash equivalents	\$ 3,581,175	\$ 3,752,981
Restricted cash and investments - cash equivalents	<u>22,081</u>	<u>141,185</u>
Total cash and cash equivalents	3,603,256	3,894,166
Cash and investments - non cash equivalents	2,832,604	2,177,058
Accounts receivable	27,860	15,920
Interest receivable	2,607	5,887
Taxes receivable	24,222	32,305
Other receivables	7,861	17,579
Prepaid expenses	<u>6,021</u>	<u>2,800</u>
Total current assets	<u>6,504,431</u>	<u>6,145,715</u>
Capital Assets:		
Non depreciable		
Land	157,132	157,132
Construction in progress	92,599	761,957
Construction in progress - WWTP	804,048	584,333
Depreciable		
Subsurface lines	1,956,780	1,934,605
Sewage collection facilities	1,757,517	1,760,943
Conveyance system	4,177,550	4,177,550
Sewage treatment facilities	5,542,407	5,542,407
Trucks	104,896	104,896
Office equipment	76,277	76,277
Collection equipment	405,005	405,005
Office building	<u>1,243,019</u>	<u>350,427</u>
	16,317,230	15,855,532
Accumulated depreciation	<u>(9,370,006)</u>	<u>(8,946,385)</u>
Net capital assets	<u>6,947,224</u>	<u>6,909,147</u>
Noncurrent Assets:		
Prepaid pension obligation	<u>107,485</u>	<u>                    </u>
Total noncurrent assets	<u>107,485</u>	<u>                    </u>
Total assets	<u>\$ 13,559,140</u>	<u>\$ 13,054,862</u>

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

**CAYUCOS SANITARY DISTRICT**  
**STATEMENT OF NET ASSETS - ENTERPRISE FUND**  
 June 30, 2012  
 With Comparative Totals for June 30, 2011

	<u>2012</u>	<u>2011</u>
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts payable	\$ 121,669	\$ 127,890
Payable to the City of Morro Bay - New WWTP	43,447	114,437
Payable to the City of Morro Bay	108,138	131,988
Accrued payroll	16,758	17,753
Accrued interest	6,124	6,857
Customer deposits	3,000	4,300
Security deposit	25,000	25,009
Compensated absences	19,713	42,136
Loan payable, current portion	<u>102,624</u>	<u>98,254</u>
Total current liabilities	446,473	568,624
Long-Term Liabilities:		
Loan payable, less current portion	<u>719,047</u>	<u>821,671</u>
Total liabilities	<u>1,165,520</u>	<u>1,390,295</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	6,125,553	5,989,222
Restricted for construction	22,081	141,185
Unrestricted	<u>6,245,986</u>	<u>5,534,160</u>
Total net assets	<u>\$ 12,393,620</u>	<u>\$ 11,664,567</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 ASSETS -  
ENTERPRISE FUND

For the Fiscal Year Ended June 30, 2012

With Comparative Totals for the Fiscal Year Ended June 30, 2011

	<u>2012</u>	<u>2011</u>
<b>Operating Revenues:</b>		
Sewer services fees	\$ 1,645,339	\$ 1,390,075
Permit fees	3,601	5,185
Total operating revenues	<u>1,648,940</u>	<u>1,395,260</u>
<b>Operating Expenses:</b>		
Gross wages	385,944	417,372
Payroll taxes and benefits	107,641	127,661
Directors' fees	9,850	10,750
Office expense	23,594	27,184
Dues and subscriptions	3,939	3,858
Business expense	1,094	753
Permits and licenses	4,272	5,156
Professional services	54,823	28,326
Insurance	79,027	109,277
Taxes and assessments	7,285	8,181
Utilities	40,054	42,993
Telephone	9,107	7,909
Rent	510	1,410
Professional development	4,031	7,859
Vehicle expense	6,803	10,676
Maintenance and operations	101,836	74,350
Treatment plant	398,104	465,779
Depreciation	425,750	431,310
Total operating expenses	<u>1,663,664</u>	<u>1,780,804</u>
Net operating loss	<u>(14,724)</u>	<u>(385,544)</u>
<b>Non-Operating Revenues (Expenses):</b>		
Rent income	48,739	33,225
Taxes and assessments	615,182	616,299
Investment income	43,075	46,782
Franchise fees	46,491	42,876
Interest expense	(38,675)	(42,891)
Other revenue	6,058	7,732
Stand by fees	21,564	20,800
Loss on disposal of capital assets	(100)	
Total non-operating revenues (expenses)	<u>742,334</u>	<u>724,823</u>
Capital contributions - connection fees	<u>19,650</u>	<u>15,720</u>
Change in net assets	<u>747,260</u>	<u>354,999</u>
<b>Net assets:</b>		
Net assets, beginning of fiscal year	11,664,567	11,309,568
Prior period adjustments	(18,207)	
Net assets, beginning of fiscal year-restated	<u>11,646,360</u>	<u>11,309,568</u>
Net assets, end of fiscal year	<u>\$ 12,393,620</u>	<u>\$ 11,664,567</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, 2012  
With Comparative Totals for the Fiscal Year Ended June 30, 2011

	<u>2012</u>	<u>2011</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers	\$ 1,645,409	\$ 1,412,712
Payments to vendors	(767,771)	(749,801)
Payments to employees	<u>(634,338)</u>	<u>(540,139)</u>
Net cash provided by operating activities	<u>243,300</u>	<u>122,772</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Property taxes	623,265	613,047
Franchise fees	46,491	42,876
Stand by fees	21,564	20,800
Other revenue	<u>6,058</u>	<u>7,732</u>
Net cash provided by noncapital financing activities	<u>697,378</u>	<u>684,455</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Purchase of capital assets	(550,724)	(868,308)
Proceeds from sale of capital assets	1,200	
Principal paid on long-term debt	(98,254)	(94,069)
Interest paid on long-term debt	(39,408)	(43,592)
Connection fees	<u>16,050</u>	<u>15,720</u>
Net cash used by capital and related financing activities	<u>(671,136)</u>	<u>(990,249)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest received	46,356	46,793
Rent	48,739	33,225
Sale/purchase of investments	<u>(655,546)</u>	<u>553,620</u>
Net cash provided (used) by investing activities	<u>(560,451)</u>	<u>633,638</u>
Net increase (decrease) in cash and cash equivalents	(290,909)	450,616
Cash and cash equivalents, July 1	<u>3,894,166</u>	<u>3,443,550</u>
Cash and cash equivalents, June 30	<u>\$ 3,603,257</u>	<u>\$ 3,894,166</u>
Reconciliation to Statement of Net Assets:		
Cash and investments - cash equivalents	\$ 3,581,175	\$ 3,752,981
Restricted cash and investments - cash equivalents	<u>22,081</u>	<u>141,185</u>
	<u>\$ 3,603,256</u>	<u>\$ 3,894,166</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, 2012  
With Comparative Totals for the Fiscal Year Ended June 30, 2011

	<u>2012</u>	<u>2011</u>
<b>Reconciliation of operating loss to net cash provided</b>		
<b>by operating activities:</b>		
Operating loss	\$ (14,724)	\$ (385,544)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	425,750	431,310
Change in net assets and liabilities:		
Accounts receivable	(11,940)	79,586
Prepays	(3,221)	(2,700)
Other receivables	9,718	(11,625)
Deposits	(107,485)	
Payable to the City of Morro Bay	(23,850)	(26,098)
Accounts payables	(6,221)	95,083
Accrued expenses	(995)	1,593
Compensated absences	(22,423)	3,301
Customer deposits	(1,300)	(3,100)
Security deposit	(9)	
Deferred revenue		(59,034)
	<u>                    </u>	<u>                    </u>
Net cash provided by operating activities	<u>\$ 243,300</u>	<u>\$ 122,772</u>

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 Statement No. 39.

#### 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. Deferred Revenue - The District bills customers in advance, thus amounts received prior to services being rendered by the District are recorded as deferred 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 Assets – Restricted assets are financial resources segregated for a special purpose such as construction of improvements and financing of debt obligations. These assets are for the benefit of a distinct group and as such are legally or contractually restricted.

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 Assets

GASB Statement No. 34, requires that the difference between assets and liabilities be reported as net assets. Net assets are classified as either invested in capital assets, net of related debt, restricted, or unrestricted.

Net assets that are invested in capital assets, net of related debt, consist of capital assets, net of accumulated depreciation, and reduced by the outstanding principal of related debt. Restricted net assets are those net assets that have external constraints placed on them by creditors, grantors, contributors, laws, or regulations of other governments, or through constitutional provisions, or enabling legislation. Unrestricted net assets consist of net assets that do not meet the definition of invested in capital assets, net of related debt, or restricted net assets.

O. New Accounting Pronouncements

Governmental Accounting Standards Board Statement No. 64

For the fiscal year ended June 30, 2012, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 64, "Derivative Instruments: Application of Hedge Accounting Termination Provisions." This Statement is effective for periods beginning after June 15, 2011. The objective of this Statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. Implementation of the GASB Statement No. 64, did not have an impact on the District's financial statements for the fiscal year ended June 30, 2012.

**NOTE 3 - CASH AND INVESTMENTS**

Investments are carried at fair value in accordance with GASB Statement No. 31. On June 30, 2012 and June 30, 2011, the District had the following cash and investments on hand:

	<u>2012</u>	<u>2011</u>
Cash on hand	\$ 175	\$ 175
Cash in banks	240,530	164,664
Investments	<u>6,195,155</u>	<u>5,906,385</u>
Total cash and investments	<u>\$ 6,435,860</u>	<u>\$ 6,071,224</u>

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

	<u>2012</u>	<u>2011</u>
Cash and investments – cash equivalents	\$ 3,581,175	\$ 3,752,981
Restricted cash and investments	22,081	141,185
Cash and investments – non cash equivalents	<u>2,832,604</u>	<u>2,177,058</u>
Total	<u>\$ 6,435,860</u>	<u>\$ 6,071,224</u>

**NOTE 3 - CASH AND INVESTMENTS (Continued)**

Investments Authorized by the California Government Code

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

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

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the District manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

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

<u>Investment Type</u>	<u>Carrying Amount</u>	2012			
		<u>Remaining Maturity (in Months)</u>			
		<u>12 Months Or Less</u>	<u>13-24 Months</u>	<u>25-60 Months</u>	<u>More than 60 Months</u>
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>

CAYUCOS SANITARY DISTRICT  
 NOTES TO BASIC FINANCIAL STATEMENTS  
 June 30, 2012

**NOTE 3 - CASH AND INVESTMENTS (Continued)**

Disclosures Relating to Interest Rate Risk (Continued)

Investment Type	Carrying Amount	2011			
		Remaining Maturity (in Months)			
		12 Months Or Less	13-24 Months	25-60 Months	More than 60 Months
Mortgage pass-through securities	\$ 402,836	\$ -	\$ -	\$ -	\$ 402,836
Federal agency securities	507,000			507,000	
Negotiable certificates of deposit	1,267,222	1,267,222			
State investment pool (LAIF)	7,743	7,743			
Money market funds	3,652,984	3,652,984			
County investment pool	68,600	68,600			
	<u>\$ 5,906,385</u>	<u>\$ 4,996,549</u>	<u>\$ -</u>	<u>\$ 507,000</u>	<u>\$ 402,836</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.

Investment Type	Carrying Amount	Minimum Legal Rating	2012			
			Rating as of Fiscal Year End			
			AAA	A+	Baa	Not Rated
Mortgage pass-through securities	\$ 355,798	N/A	\$ 355,798	\$ -	\$ -	\$ 355,798
Federal agency securities	1,007,950	N/A	1,007,950			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>\$ 6,195,155</u>

Investment Type	Carrying Amount	Minimum Legal Rating	2011			
			Rating as of Fiscal Year End			
			AAA	A+	Baa	Not Rated
Mortgage pass-through securities	\$ 402,836	N/A	\$ 402,836	\$ -	\$ -	\$ -
Federal agency securities	507,000	N/A	507,000			
Negotiable certificates of deposit	1,267,222	N/A				1,267,222
State investment pool (LAIF)	7,743	N/A				7,743
Money market funds	3,652,984	N/A				3,652,984
County investment pool	68,600					68,600
	<u>\$ 5,906,385</u>		<u>\$ 909,836</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,996,549</u>

**NOTE 3 - CASH AND INVESTMENTS (Continued)**

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:

<u>Issuer</u>	<u>Investment Type</u>	<u>Reported Amount</u>	
		<u>2012</u>	<u>2011</u>
FNMA	Federal agency securities	\$ 1,007,950	\$ 507,000
FNMA	Mortgage pass-through securities	\$ 355,798	\$ 303,788

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The fair value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure the District's deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

As of June 30, 2012, 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, 2012, 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:

<u>Investment Type</u>	<u>Amount</u>	
	<u>2012</u>	<u>2011</u>
Federal agency securities	\$ 355,798	\$ 507,000
Money market funds	\$ 3,556,198	\$ 3,652,984
Mortgage pass-through securities	\$ 1,007,950	\$ 402,836

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.

**CAYUCOS SANITARY DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
June 30, 2012

**NOTE 4 - SCHEDULE OF CAPITAL ASSETS**

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			22,176	1,956,781
Sewage collection facilities	1,760,943		3,427		1,757,516
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	751,957	245,412		(914,768)	92,601
Construction in progress-WWTP	584,333	219,715			804,048
	<u>15,855,532</u>	<u>465,127</u>	<u>3,427</u>		<u>16,317,232</u>
Less accumulated depreciation	<u>8,946,385</u>	<u>425,750</u>	<u>2,127</u>		<u>9,370,008</u>
Net capital assets	<u>\$ 6,909,147</u>	<u>\$ 39,377</u>	<u>\$ 1,300</u>	<u>\$ -</u>	<u>\$ 6,947,224</u>

A schedule of changes in capital assets and depreciation for the fiscal year ended June 30, 2011, is shown below:

	Balance July 1, 2010	Additions	Deletions	Balance June 30, 2011
Land	\$ 157,132	\$ -	\$ -	\$ 157,132
Building	350,427			350,427
Subsurface lines	1,885,695	48,910		1,934,605
Sewage collection facilities	1,760,943			1,760,943
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	79,455	62,040	36,599	104,896
Construction in progress	194,724	567,233		761,957
Construction in progress-WWTP	336,750	247,583		584,333
	<u>14,966,365</u>	<u>925,766</u>	<u>36,599</u>	<u>15,855,532</u>
Less accumulated depreciation	<u>8,551,674</u>	<u>431,310</u>	<u>36,599</u>	<u>8,946,385</u>
Net capital assets	<u>\$ 6,414,691</u>	<u>\$ 494,456</u>	<u>\$ -</u>	<u>\$ 6,909,147</u>



**CAYUCOS SANITARY DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
 June 30, 2012

**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
2013	\$ 102,624	\$ 35,037	\$ 137,661
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
2018-2019	260,821	14,498	275,319
	<u>\$ 821,671</u>	<u>\$ 141,956</u>	<u>\$ 963,627</u>

**NOTE 6 – LONG-TERM DEBT**

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

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

The changes in long-term debt at June 30, 2011, is as follows:

	<u>July 1, 2009</u>	<u>Additions</u>	<u>Retirements</u>	<u>Total</u>	<u>Balance June 30, 2010</u>	
					<u>Current</u>	<u>Long-Term</u>
Loan payable	<u>\$ 1,013,994</u>	<u>\$ -</u>	<u>\$ 94,069</u>	<u>\$ 919,925</u>	<u>\$ 98,254</u>	<u>\$ 821,671</u>

**NOTE 7 - COMPENSATED ABSENCES**

As of June 30, 2012, it is estimated that the District's employees have \$19,713 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.

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

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 2011/2012, was 15.941% from July 1 to January 31, and 13.353% for the remainder of the fiscal year. 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, 2012, 2011, and 2010, were \$50,897, \$50,621, and \$49,588, 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 – PRIOR PERIOD ADJUSTMENT**

A prior period adjustment of \$14,607 was made to reflect the difference in amount accrued versus the amount billed as of June 30, 2011, for the fourth quarter waste water treatment plant invoiced from the City of Morro Bay.

A prior period adjustment of \$3,600 was made to refund connections fees received in a previous fiscal year.



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**MOSS, LEVY & HARTZHEIM LLP**

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CERTIFIED PUBLIC ACCOUNTANTS

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November 27, 2012

Board of Directors  
Cayucos Sanitary District  
PO Box 333  
Cayucos, CA 93430

We have audited the basic financial statements of Cayucos Sanitary District for the fiscal year ended June 30, 2012. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated November 27, 2012. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

*Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Cayucos Sanitary District are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year ended June 30, 2012. We noted no transactions entered into by the governmental unit during the fiscal year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the District's financial statements were:

Management's estimate of the fourth quarter WWTP payable to the City of Morro Bay, depreciation, and the fair value of investments are based on the WWTP invoice issued after fiscal year end, the estimated useful lives of capital assets, and investment statements, respectively. We evaluated the key factors and assumptions used to develop these estimates in determining that the estimates are reasonable in relation to the financial statements taken as a whole.

*Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

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### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. Some of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

### *Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated November 27, 2012.

### *Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### *Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each fiscal year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

### *Comments to Management*

As always, your staff was extremely personable, helpful, and efficient in dealing with audit interruptions, with answering our many questions, and with advance preparation for the audit. No findings were noted in our audit testing results.

We assisted your staff with expected accounting adjustments including recording annual depreciation expense, adjusting payroll accruals, adjusting accounts receivable and revenue, investments including gains/losses, prepaid expenses, and accrued interest. The adjustments and audited trial balance were provided to staff on August 14, 2012, and again upon receipt of the fourth quarter WWTP accrual adjustment. As always, it was a pleasure to work with the staff of Cayucos Sanitary District, and we look forward to working with you in the future.

### *Other Matters*

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and

reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the Board of Directors and management of Cayucos Sanitary District and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

*Moss, King & Halzheim LLP*