

**Morro Bay-Cayucos Wastewater Treatment Facility
Joint Powers Agreement**

Financial Statements

Years Ended June 30, 2016 and 2015

**Morro Bay-Cayucos Wastewater Treatment Facility
Joint Powers Agreement
Financial Statements
Years Ended June 30, 2016 and 2015**

Table of Contents

	Page
Independent Auditors' Report	3-5
Management's Discussion and Analysis	6-11
Statements of Net Position	12
Statements of Revenues, Expenses and Changes in Net Position	13
Statements of Cash Flows	14
Notes to Financial Statements	15-19
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	20-21
<i>Supplemental Information</i>	
Schedule of Member Balance Due Amounts – July 1, 2015 through June 30, 2016	23
Schedule of Member Balance Due Amounts – July 1, 2104 through June 30, 2015	24



Independent Auditors' Report

To the Governing Bodies of the
Morro Bay-Cayucos Wastewater Treatment Facility Joint Powers Agreement

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Morro Bay-Cayucos Wastewater Treatment Facility Joint Powers Agreement, a component unit of the City of Morro Bay and the Cayucos Sanitary District, as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Morro Bay-Cayucos Wastewater Treatment Facility Joint Powers Agreement's basic financial statements as listed in the table of contents.

Managements' 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 of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Governing Bodies
Morro Bay-Cayucos Wastewater Treatment Facility
Joint Powers Agreement
Page 2

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Morro Bay-Cayucos Wastewater Treatment Facility Joint Powers Agreement as of June 30, 2016 and 2015, and the changes in its net position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Morro Bay-Cayucos Wastewater Treatment Facility Joint Powers Agreement's basic financial statements. The schedule of member balance due accounts is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of member balance due accounts has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Governing Bodies

Morro Bay-Cayucos Wastewater Treatment Facility

Joint Powers Agreement

Page 3

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2016, on our consideration of the Morro Bay-Cayucos Wastewater Treatment Facility Joint Powers Agreement'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 the 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 Morro Bay-Cayucos Wastewater Treatment Facility Joint Powers Agreement's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "GLENN BURDETTE ATTEST CORPORATION". The letters are in all caps and have a cursive, slightly slanted appearance.

Glenn Burdette Attest Corporation

San Luis Obispo, California

December 20, 2016

Morro Bay-Cayucos Wastewater Treatment Facility
Joint Powers Authority
Management Discussion and Analysis
Fiscal Years Ending June 30, 2016 and 2015

This section of the City of Morro Bay/Cayucos Sanitary District Wastewater Treatment Facility (Facility) audit report presents a narrative overview and analysis of the financial activities of the Facility, for the fiscal year ended June 30, 2016 and 2015. This discussion and analysis has been prepared by the City of Morro Bay's (City) Finance department. Please read it in conjunction with the accompanying basic financial statements.

Ownership and Operation of the Facility

The Facility is located within the incorporated City of Morro Bay city limits on parcels owned by the City and parcels owned by the Cayucos Sanitary District (District). Its purpose is the receiving, processing and disposing of wastewater and bio-solids.

The Facility is operated under a Joint Powers Agreement (JPA), dated October 25, 1982, which replaced the 1953 JPA, as amended. In this Agreement, ownership of the Facility's capital assets, as well as the real property on which the Facility is located, is defined as 60% City and 40% District. Capital expenditures are paid based on these percentages. Operational expenditures are based on the measurement of the flow of wastewater into the Facility. The District has two flow meters on its trunk line into the Facility, one at the southerly boundary line of the unincorporated Cayucos Township, and one at the Facility. The flow split averages City 75%, District 25%; however, operations are billed on a quarterly basis, and the cost is determined by the quarterly average monthly flow, as specified in the agreement.

In 2003, the City and District began work efforts to replace the existing Facility, agreeing to share in the costs of studying, planning and designing a new facility to be constructed at the existing site. Activities continued until January 2013, when the California Coastal Commission voted to deny the Coastal Development Permit for the Facility at its existing location.

The two entities attempted to work together to build a jointly-owned facility at a different site. In March 2015, the City presented a draft Memorandum of Understanding, stating its desire to own and operate the new facility, with the District as a wholesale wastewater customer, not a joint owner. On April 30, 2015, the District issued Resolution 2015-1, declaring its intention to suspend consideration of participation in a jointly-owned wastewater treatment facility. The City and District continue to move forward with each of their own facilities, but the City expressed its interest in the District joining in on the project.

Morro Bay-Cayucos Wastewater Treatment Facility
Joint Powers Authority
Management Discussion and Analysis
Fiscal Years Ending June 30, 2016 and 2015

In April 2016, the City sent a letter to the District, again expressing its preference to include the District as a potential partner in a regional facility. The District issued a response, respectfully declining to pursue a joint project with the City. The City hopes that a relationship can be reestablished between the two entities to provide cost savings for residents and businesses in both areas. However, once the construction design plans for the City's water reclamation facility are approved, the regional facility option expires.

The current Facility remains operational, and is being maintained to remain compliant with discharge regulations until the District and the City construct separate wastewater treatment facilities, or collaborate on a jointly-owned facility.

Financial Highlights

The Facility utilizes two funds, one for operations and one for capital improvement spending. Both funds are proprietary or *business-type* activities.

In the 2015/16 fiscal year, no new statements from the Governmental Accounting Standards Board (GASB) were required to be implemented in the Facility's statements.

The following outlines financial highlights for the year:

- At June 30, 2016, the Facility's net position decreased by \$603,000 due primarily to the transfer of assets previously recorded in construction in progress for the City's water reclamation facility (WRF) of \$590,000, plus nominal depreciation of \$13,000.
- Operating expenditures decreased during the 2015/16 fiscal year by \$1,568,000. There were fewer maintenance and repair projects in 2015/16 than 2014/15.
- Major maintenance spending is included in operating expenditures. The two largest projects completed were:
 - Interstate vault/blending valve: \$105,000
 - Repairs to Biofilter #2: \$67,000
- At this time, the existing Facility is only being maintained and repaired to ensure compliance with the Regional Water Quality Control Board requirements for discharge. As stated above, the Facility will operate until either separately-owned wastewater treatment facilities are constructed and operational, or until a jointly-owned facility is constructed and operational.

Morro Bay-Cayucos Wastewater Treatment Facility
Joint Powers Authority
Management Discussion and Analysis
Fiscal Years Ending June 30, 2016 and 2015

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Facility's financial statements. Under Governmental Accounting Standards Board (GASB) Statement No. 34, component units of the primary government (City), which have only business activities, may present enterprise fund financial statements as follows: 1) statements of net position; 2) statements of revenue, expense and changes in net position; and 3) statements of cash flows.

The Facility's basic financial statements are prepared on an accrual basis of accounting, in accordance with generally accepted accounting principles. The basic financial statements begin on page 12 of this report. The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements begin on page 15 of this report.

Condensed Statements of Net Position

The following table presents the condensed net position of the Facility as of the fiscal years ending June 30:

Condensed Statements of Net Position			
June 30, 2016, 2015 and 2014			
	2016	2015	2014
Assets:			
Current assets	\$ 455,878	\$ 331,292	\$ 275,542
Capital assets, net of accumulated depreciation	14,457	617,296	1,122,210
Total assets	<u>470,335</u>	<u>948,588</u>	<u>1,397,752</u>
Liabilities:			
Current liabilities	455,878	331,292	275,542
Total liabilities	<u>455,878</u>	<u>331,292</u>	<u>275,542</u>
Net Position:			
Net investment in capital assets	14,457	617,296	1,122,210
Total net position	<u>\$ 14,457</u>	<u>\$ 617,296</u>	<u>\$ 1,122,210</u>

Net position. At June 30, 2016, the Facility's net position decreased by \$603,000. Net position of the Facility equals net capital assets. The Facility's operations and capital expenditures are fully funded by its members. The decrease in net position is due to the transfer of assets in construction in progress to the City of Morro

Morro Bay-Cayucos Wastewater Treatment Facility
Joint Powers Authority
Management Discussion and Analysis
Fiscal Years Ending June 30, 2016 and 2015

Bay for the City's water reclamation facility; depreciation expense decreased to \$13,000 from \$373,000 at June 30, 2015. The Facility is nearly fully depreciated, with only required maintenance being performed to remain in compliance with discharge requirements. Once the new, separately-owned facilities are built and functional, or a joint-owned facility is built and functional, the Facility will be decommissioned.

At June 30, 2015, the Facility's net position decreased by \$505,000, due to increased spending on construction in progress, offset by depreciation. Further discussion of the Facility's capital assets is included later in this discussion and analysis.

Condensed Statements of Changes in Net Position

The following table presents the condensed changes in net position of the Facility as of the fiscal years ending June 30:

	Condensed Statements of Changes in Net Position		
	June 30, 2016, 2015 and 2014		
	2016	2015	2014
Operating revenues	\$ 2,196,274	\$ 3,271,710	\$ 2,691,389
Operating expenditures	2,209,800	3,778,074	2,470,584
Operating income (loss)	<u>(13,526)</u>	<u>(506,364)</u>	<u>220,805</u>
Nonoperating revenue (expense)	<u>(589,313)</u>	<u>1,450</u>	<u>1,000</u>
Change in net position	(602,839)	(504,914)	221,805
Net position - beginning of year	<u>617,296</u>	<u>1,122,210</u>	<u>900,405</u>
Net position - end of year	<u>\$ 14,457</u>	<u>\$ 617,296</u>	<u>\$ 1,122,210</u>

Operating revenues and expenditures. Operating revenues decreased during the 2015/16 fiscal year by \$1,075,000 and expenditures decreased during the 2015/16 fiscal year by \$1,568,000. The difference between operating revenues and operating expenses is the net of capital expenditures and depreciation expense.

During the year ended 2015/16, personnel costs decreased by \$13,000, maintenance and supplies decreased \$1,198,000, administrative costs increased by \$17,000, insurance costs decreased \$14,000 and depreciation expense decreased by \$360,000.

Morro Bay-Cayucos Wastewater Treatment Facility
Joint Powers Authority
Management Discussion and Analysis
Fiscal Years Ending June 30, 2016 and 2015

Included in operating expenditures were two large maintenance projects completed in the current year:

- Interstate vault/blending valve: \$105,000
- Repairs to Biofilter #2: \$67,000

Operating revenues increased during the 2014/15 fiscal year by \$580,000 and expenditures increased during the 2014/15 fiscal year by \$1,307,000. During the year ended 2014/15, personnel costs increased \$19,000, maintenance and supplies increased \$1,382,000 and insurance costs increased \$5,000 offset by administrative costs decreasing by \$7,000 and depreciation expense decreasing by \$93,000.

There were three major repair and maintenance projects completed during the 2014/15 fiscal year:

- Headworks purchase and installation of a sluice trough: \$503,000
- Repairs to Digester 1 & 3 coating and piping: \$309,000
- Wastewater treatment Facility MMRP: \$319,000

Capital assets

The Facility's investment in capital assets, as of June 30, 2016, amounts to \$14,457, net of accumulated depreciation. This investment in capital assets includes the building, machinery and equipment, vehicles, and construction in progress.

Capital Assets
June 30, 2016, 2015 and 2014

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Plant	\$ 12,764,471	\$ 12,764,471	\$ 12,764,471
Machinery and equipment	1,499,740	1,499,740	1,499,740
Vehicles	64,517	64,517	64,517
Construction in progress		589,963	721,626
Less accumulated depreciation	<u>(14,314,271)</u>	<u>(14,301,395)</u>	<u>(13,928,144)</u>
Capital assets, net of accumulated depreciation	<u>\$ 14,457</u>	<u>\$ 617,296</u>	<u>\$ 1,122,210</u>

Morro Bay-Cayucos Wastewater Treatment Facility
Joint Powers Authority
Management Discussion and Analysis
Fiscal Years Ending June 30, 2016 and 2015

As mentioned above, the capital assets of the facility are declining in value. Repairs to the Facility capital assets are ongoing, on an *as needed* basis, to keep the Facility operational and compliant, until the new separately-owned facilities (or facility, if jointly-owned) are built and operational. Once the Facility is no longer needed, it will be decommissioned. Additional information on capital assets can be found in Note 4 on page 18.

Next Year's Budget and Plans

- The total 2016/17 budget is \$2.4 million for operations of the Facility
- For the 2016/17 fiscal year, no major maintenance spending was identified.

Requests for information

This financial report is designed to provide a general overview of the Treatment Facility's finances. Questions, concerning any of the information provided in this report, or requests for additional financial information, should be addressed to:

City of Morro Bay
Finance Department
595 Harbor Street
Morro Bay, CA 93442

Morro Bay-Cayucos Wastewater Treatment Facility
Joint Powers Agreement
Statements of Net Position
June 30, 2016 and 2015

	2016	2015
Assets		
Current assets:		
Accounts receivable	\$ 11,945	\$ 9,400
Due from members	430,756	310,237
Prepaid expenses	13,177	11,655
Total current assets	455,878	331,292
Capital assets, net of accumulated depreciation	14,457	617,296
Total assets	470,335	948,588
Liabilities		
Current liabilities:		
Accounts payable	362,316	245,812
Accrued liabilities	93,562	85,480
Total liabilities	455,878	331,292
Net Position		
Net investment in capital assets	14,457	617,296
Total net position	\$ 14,457	\$ 617,296

The accompanying notes are an integral part of these financial statements.

Morro Bay-Cayucos Wastewater Treatment Facility
Joint Powers Agreement
Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Operating revenues:		
Revenue	\$ 2,196,274	\$ 3,271,710
Operating expenditures:		
Salaries	566,928	536,871
Employee costs	263,555	306,748
Other allocated costs	86,935	90,321
Operating supplies	381,696	895,904
Depreciation	12,876	373,251
Equipment rentals	1,480	
Repairs and maintenance	58,599	104,477
Contractual services	377,587	619,832
Professional development	1,892	1,920
Miscellaneous expense	650	1,450
Professional services	16,176	730,261
Communications	3,266	3,292
Utilities/waste disposal	196,392	186,359
Insurance	211,295	225,508
Licenses, fees and permits	30,473	23,290
Reimbursed costs for capital expenditures		(321,410)
Total expenditures	<u>2,209,800</u>	<u>3,778,074</u>
Operating loss	<u>(13,526)</u>	<u>(506,364)</u>
Nonoperating revenue		
Sale of plans/specifications	650	1,450
Transfer of construction in progress to City of Morro Bay	(589,963)	
Total nonoperating revenue	<u>(589,313)</u>	<u>1,450</u>
Change in net position	<u>(602,839)</u>	<u>(504,914)</u>
Net position - beginning of year	<u>617,296</u>	<u>1,122,210</u>
Net position - end of year	<u>\$ 14,457</u>	<u>\$ 617,296</u>

The accompanying notes are an integral part of these financial statements.

Morro Bay-Cayucos Wastewater Treatment Facility
Joint Powers Agreement
Statements of Cash Flows
Years Ended June 30, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Cash received from members	\$ 2,073,210	\$ 3,216,196
Payments to employees	(558,846)	(532,294)
Other payments to vendors	(1,515,014)	(2,363,942)
Net cash used in operating activities	(650)	319,960
Cash flows from capital related financing activities:		
Acquisition and construction of capital assets		(321,410)
Net cash used in capital related financing activities	-	(321,410)
Cash flows from non-capital financing activities:		
Sale of plans/specifications	650	1,450
Net cash provided by non-capital and related financing activities	650	1,450
Net change in cash	-	-
Cash and cash equivalents - beginning of year	-	-
Cash and cash equivalents - end of year	\$ -	\$ -
Reconciliation of operating loss to net cash used in operating activities:		
Operating income (loss)	\$ (13,526)	\$ (506,364)
Adjustments to reconcile operating income (loss) to net cash used in operating activities:		
Depreciation	12,876	373,251
Expenditure of construction in progress		453,073
Changes in operating assets and liabilities:		
Accounts receivable	(2,545)	17,317
Due from members	(120,519)	(72,831)
Prepaid expense	(1,522)	(236)
Accounts payable	116,504	49,676
Accrued liabilities	8,082	6,074
Net cash used in operating activities	\$ (650)	\$ 319,960

The accompanying notes are an integral part of these financial statements.

Morro Bay-Cayucos Wastewater Treatment Facility
Joint Powers Agreement
Notes to Financial Statements
June 30, 2016 and 2015

Note 1: Nature of Business

The Morro Bay-Cayucos Wastewater Treatment Facility (Facility) began operations in 1953 under the authorization of a joint construction and operation agreement dated June 16, 1953 between City of Morro Bay (City) and Cayucos Sanitary District (District). This agreement has subsequently been amended by both parties, and the current authorization is under a joint powers agreement for the ownership, operation, and maintenance of the wastewater treatment facilities dated October 25, 1982, for the purpose of providing treatment for each member's wastewater. Operating expenses are allocated to each member based on actual wastewater flow percentages. The Facility is governed jointly by the City Council of Morro Bay and the Board of Directors of the Cayucos Sanitary District. The Facility is considered a joint venture between the City and the District.

Note 2: Summary of Significant Accounting Policies

Reporting Entity

For financial reporting purposes, the Facility operates under a joint powers agreement and is engaged only in business-type activities. The accompanying financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). Under the accrual basis, revenues are recognized when earned and expenses are recognized when incurred.

The Facility accounts for its operation as an Enterprise Fund. Enterprise Funds are used to account for operations which are financed and operated in a manner similar to private business enterprises. The intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, which are collected by each member of the joint powers agreement and contributed to the Facility based upon actual quarterly wastewater flow percentages.

Financial Records

The books and records of the Facility are maintained by the City.

Budgets and Budgetary Accounting

An annual budget is adopted by the governing bodies at the start of each year. Any changes or revisions to that budget throughout the year must be approved by the governing bodies.

Morro Bay-Cayucos Wastewater Treatment Facility
Joint Powers Agreement
Notes to Financial Statements
June 30, 2016 and 2015
Page 2

Note 2: Summary of Significant Accounting Policies (Continued)

Reclassifications

Certain reclassifications have been made to prior year balances to conform with current year presentation. These reclassifications had no effect on the Facility's results of operations or financial position.

Estimates

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and cash equivalents

All Facility transactions are made through the City's pooled cash account. A year-end net position allocation adjustment is made to the members due to/from accounts so that the Facility does not record any cash balances in the financial statements at year end.

Accounts Receivable

The Facility's accounts receivable is primarily comprised of receivables from the entities that will be used to pay liabilities incurred. Accounts receivable are written off in full when the receivable is deemed uncollectible. Management assessed the need for an allowance for uncollectible accounts receivable, based on prior experience and management's analysis of possible bad debts, and determined that no allowance was necessary at June 30, 2016 and 2015.

Capital Assets

All capital assets are valued at historical cost, or estimated historical cost if actual costs are not available. Depreciation has been provided over the estimated useful life of the asset using the straight-line method. The estimated useful lives are as follows:

Treatment Facilities	30 years
Equipment	5-19 years

Morro Bay-Cayucos Wastewater Treatment Facility
Joint Powers Agreement
Notes to Financial Statements
June 30, 2016 and 2015
Page 3

Note 2: Summary of Significant Accounting Policies (Continued)

Net Position

The Facility’s net position is required to be classified for accounting and reporting purposes into the following net position categories:

- Net investment in capital assets includes capital assets net of accumulated depreciation and amortization, deferred outflows of resources, less the outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.
- Restricted consists of net position which is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions which the Facility cannot unilaterally alter. The Facility does not have any assets in this category.
- Unrestricted consists of all other categories of net position. Unrestricted may be designated for use by management of the Facility. These designations limit the area of operations for which expenditures of net position may be made and require that unrestricted net position be used to support future operations in these areas. The Facility does not have any assets in this category.

As the Facility does not have any unrestricted funds they have not adopted a policy of utilizing restricted, expendable funds, when available, prior to unrestricted funds.

Subsequent Events

Events subsequent to June 30, 2016, have been evaluated through December 20, 2016, which is the date the financial statements were available to be issued. Management did not identify any subsequent events that required disclosure.

Note 3: Due From Members

Amounts due from members at June 30, are as follows:

	<u>2016</u>	<u>2015</u>
Members:		
City of Morro Bay	\$ 264,396	\$ 152,924
Cayucos Sanitary District	<u>166,360</u>	<u>157,313</u>
Total	<u>\$ 430,756</u>	<u>\$ 310,237</u>

Morro Bay-Cayucos Wastewater Treatment Facility
Joint Powers Agreement
Notes to Financial Statements
June 30, 2016 and 2015
Page 4

Note 4: Capital Assets

At June 30, 2016, capital assets consisted of the following:

	<u>Balance</u> <u>June 30, 2015</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2016</u>
Non-depreciable capital assets				
Construction in progress	\$ 589,963	\$	\$ (589,963)	\$
Total non-depreciable capital assets	<u>589,963</u>	<u>-</u>	<u>(589,963)</u>	<u>-</u>
Depreciable capital assets				
Plant	12,764,471			12,764,471
Machinery and equipment	1,499,740			1,499,740
Vehicles	64,517			64,517
Total depreciable assets	<u>14,328,728</u>			<u>14,328,728</u>
Less accumulated depreciation	<u>(14,301,395)</u>	<u>(12,876)</u>		<u>(14,314,271)</u>
Net depreciable capital assets	<u>27,333</u>	<u>(12,876)</u>		<u>14,457</u>
Capital assets, net	<u>\$ 617,296</u>	<u>\$ (12,876)</u>	<u>\$ (589,963)</u>	<u>\$ 14,457</u>

At June 30, 2015, capital assets consisted of the following:

	<u>Balance</u> <u>June 30, 2014</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2015</u>
Non-depreciable capital assets				
Construction in progress	\$ 721,626	\$ 321,410	\$ (453,073)	\$ 589,963
Total non-depreciable capital assets	<u>721,626</u>	<u>321,410</u>	<u>(453,073)</u>	<u>589,963</u>
Depreciable capital assets				
Plant	12,764,471			12,764,471
Machinery and equipment	1,499,740			1,499,740
Vehicles	64,517			64,517
Total depreciable assets	<u>14,328,728</u>			<u>14,328,728</u>
Less accumulated depreciation	<u>(13,928,144)</u>	<u>(373,251)</u>		<u>(14,301,395)</u>
Net depreciable capital assets	<u>400,584</u>	<u>(373,251)</u>		<u>27,333</u>
Capital assets, net	<u>\$ 1,122,210</u>	<u>\$ (51,841)</u>	<u>\$ (453,073)</u>	<u>\$ 617,296</u>

Morro Bay-Cayucos Wastewater Treatment Facility
Joint Powers Agreement
Notes to Financial Statements
June 30, 2016 and 2015
Page 5

Note 4: Capital Assets (Continued)

As part of ongoing operations at the Facility, certain costs are included in construction in progress until it can be determined if certain projects will be charged to maintenance expense or included as capital assets that enhance the life of the existing asset and are depreciated over their useful lives. At the time that the determination can be made, the Facility expenses any costs associated with repair and maintenance projects and either capitalizes completed projects or continues to accumulate costs in construction in progress until the project is complete. In the year ended June 30, 2016, it was determined that \$589,963 in project costs that had previously been included in construction in progress for the relocation of the Facility, would be transferred to the City as the City and the District were no longer planning to build a replacement facility together and the City had paid for these initial costs.

Note 5: Commitments and Contingencies

On April 30, 2015, after various attempts on the part of both parties to the joint powers agreement to work on either replacing or relocating the existing facility, the District adopted Resolution No. 2015-1 – *A Resolution of the Board of Directors of the Cayucos Sanitary District Declaring its Intentions to Independently Pursue Alternatives for Wastewater Treatment and Water Reclamation* (Resolution). The Resolution asserts the District's intention to suspend consideration of participation in the new Morro Bay Water Reclamation Facility Project and independently pursue alternatives for wastewater treatment and reclamation of water that will maximize its resources and provide the greatest benefit to the Cayucos community. The District continues to make progress toward building their own facility including procuring property and hiring project management.

The City has not adopted a similar resolution and continued to spend funds on the potential relocation of the current Facility as a part of this joint venture in the hopes that an agreement could eventually be reached with the District. These funds were paid for 100% by the City. In the year ended June 30, 2015, the City spent \$321,410. As of June 30, 2015, the City had spent a total of \$589,963, on this relocation project. In the year ended June 30, 2016, the City of Morro Bay determined that these costs were no longer a part of this joint venture agreement and transferred these assets, which were paid for by the City, to the City to be recorded in their financial statements.

The City and District continue to pay for their share, as specified in the existing joint powers agreement, of the operation and maintenance expenses of the existing facility. As both parties move forward with their own plans, there may be a time when the existing facility and potentially this joint powers agreement will be dissolved but management anticipates this to be more than 5 years in the future.



**Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements Performed
in Accordance with *Government Auditing Standards***

To the Board of Directors of
Morro Bay-Cayucos Wastewater Treatment Facility
Joint Powers Agreement

We have audited, in accordance with the auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the business-type activities of the Morro Bay-Cayucos Wastewater Treatment Facility Joint Powers Agreement, as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Morro Bay-Cayucos Wastewater Treatment Facility Joint Powers Agreement's basic financial statements and have issued our report thereon dated December 20, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Morro Bay-Cayucos Wastewater Treatment Facility Joint Powers Agreement's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Morro Bay-Cayucos Wastewater Treatment Facility Joint Powers Agreement's internal control. Accordingly, we do not express an opinion on the effectiveness of Morro Bay-Cayucos Wastewater Treatment Facility Joint Powers Agreement's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatement on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Board of Directors
Morro Bay-Cayucos Wastewater Treatment Facility
Joint Powers Agreement
Page 2

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Morro Bay-Cayucos Wastewater Treatment Facility Joint Powers Agreement’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity’s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "GLENN BURDETTE ATTEST CORPORATION". The letters are in all caps and have a cursive, slightly slanted appearance.

Glenn Burdette Attest Corporation
San Luis Obispo, California

December 20, 2016

Supplemental Information

Morro Bay-Cayucos Wastewater Treatment Facility
Joint Powers Agreement
Schedule of Member Balance Due Accounts
For the Period July 1, 2015 through June 30, 2016

Operating costs are allocated to the City of Morro Bay and the Cayucos Sanitary District based on actual average quarterly flow percentages. The average quarterly flow percentages, and the average quarterly operating costs charged to the City of Morro Bay and the Cayucos Sanitary District for the period July 1, 2015 through June 30, 2016 are presented below. Capital and other costs are allocated based on the contractual percentage.

	Percentage			Expenditures		
	City of Morro Bay	Cayucos Sanitary District	Total	City of Morro Bay	Cayucos Sanitary District	Total
Balance due from/(to) members at June 30, 2015, net				\$ 152,924	\$ 157,313	\$ 310,237
Operating Expenditures:						
July 1 - September 30, 2015	78.89%	21.11%	100.00%	303,656	81,279	384,935
October 1 - December 31, 2015	78.74%	21.26%	100.00%	374,947	101,237	476,184
January 1 - March 31, 2016	73.65%	26.35%	100.00%	447,159	159,982	607,141
April 1 - June 30, 2016	74.30%	25.70%	100.00%	529,125	183,022	712,147
Subtotal				1,654,887	525,520	2,180,407
Total expenses July 1, 2015 through June 30, 2016				1,654,887	525,520	2,180,407
Amounts reimbursed July 1, 2015 through June 30, 2016				(1,543,415)	(516,473)	(2,059,888)
Total change in balance due from/(to) members at June 30, 2016				111,472	9,047	120,519
Balance due from/(to) members at June 30, 2016, net				\$ 264,396	\$ 166,360	\$ 430,756

See independent auditors' report.

Morro Bay-Cayucos Wastewater Treatment Facility
Joint Powers Authority
Schedule of Member Balance Due Accounts
For the Period July 1, 2014 through June 30, 2015

Operating costs are allocated to the City of Morro Bay and the Cayucos Sanitary District based on actual average quarterly flow percentages. The average quarterly flow percentages, and the average quarterly operating costs charged to the City of Morro Bay and the Cayucos Sanitary District for the period July 1, 2014 through June 30, 2015 are presented below. Capital and other costs are allocated based on the contractual percentage.

	<u>Percentage</u>			<u>Expenditures</u>		
	<u>City of Morro Bay</u>	<u>Cayucos Sanitary District</u>	<u>Total</u>	<u>City of Morro Bay</u>	<u>Cayucos Sanitary District</u>	<u>Total</u>
Balance due from/(to) members at June 30, 2014, net				\$ (71,509)	\$ 308,915	\$ 237,406
Operating Expenditures:						
July 1 - September 30, 2014	76.21%	23.79%	100.00%	310,926	97,060	407,986
October 1 - December 31, 2014	77.85%	22.15%	100.00%	902,313	256,728	1,159,041
January 1 - March 31, 2015	79.72%	20.28%	100.00%	401,058	102,025	503,083
April 1 - June 30, 2015	80.44%	19.56%	100.00%	707,152	171,953	879,105
Subtotal				<u>2,321,449</u>	<u>627,766</u>	<u>2,949,215</u>
Other Costs:						
100% allocated to City of Morro Bay				<u>322,495</u>		<u>322,495</u>
Total expenses July 1, 2014 through June 30, 2015				2,643,944	627,766	3,271,710
Amounts reimbursed July 1, 2014 through June 30, 2015				<u>(2,419,511)</u>	<u>(779,368)</u>	<u>(3,198,879)</u>
Total change in balance due from/(to) members at June 30, 2015				<u>224,433</u>	<u>(151,602)</u>	<u>72,831</u>
Balance due from/(to) members at June 30, 2015, net				<u>\$ 152,924</u>	<u>\$ 157,313</u>	<u>\$ 310,237</u>

See independent auditors' report.