

**SEASIDE COUNTY SANITATION DISTRICT
FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2019**



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**SEASIDE COUNTY SANITATION DISTRICT
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YEAR ENDED JUNE 30, 2019**

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Seaside County Sanitation District
Seaside, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Seaside County Sanitation District (District), a component unit of the City of Seaside, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the entity's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2019, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Board of Directors
Seaside County Sanitation District
Seaside, California

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 18, 2020 on our consideration of the 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 solely 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 effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Roseville, California
February 18, 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS

**SEASIDE COUNTY SANITATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019**

As management of the Seaside County Sanitation District (District), we offer readers of the District's financial statements this discussion and analysis of the financial activities of the District for the fiscal year ended June 30, 2019. Please read this overview in conjunction with the basic financial statements and accompanying notes to those financial statements.

FINANCIAL HIGHLIGHTS

- The District's assets exceeded liabilities as of June 30, 2019 by \$12.4 million, an increase of \$1.1 million.
- Total District revenues were \$2.6 million in fiscal year 2018-2019.
- Total District expenses were \$1.5 million in fiscal year 2018-2019.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's Basic Financial Statements. The statement of net position, the statement of revenues, expenses, and changes in net position, and the statement of cash flows provide information about the activities of the District. The financial statements also include various footnote disclosures, which further describe the District activities.

During the fiscal year ended June 30, 2019, net position increased by \$1.1 million, mostly attributable to the District's charges for services revenue that continues to support the District's goal of long-term financial health. In addition, the District has increased its charges for service in order to fund significant capital renovations that are needed to bring the sewer system up-to-date.

A portion of the District's net position, \$3.6 million, reflects its investment in capital assets such as infrastructure, machinery, vehicles, and equipment, minus any related outstanding debt. In addition, a significant portion of net position, \$8.1 million or 66% is the District's cash and investments.

**Table 1
Statement of Net Position**

	2019	2018
Current and Other Assets	\$ 8,833,835	\$ 8,334,210
Capital Assets	3,811,819	3,306,609
Total Assets	12,645,654	11,640,819
Other Liabilities	90,364	97,948
Long-Term Liabilities	177,114	233,324
Total Liabilities	267,478	331,272
Net Investment in Capital Assets	3,634,705	3,073,285
Restricted	2,907,850	3,191,626
Unrestricted	5,835,621	5,044,636
Total Net Position	\$ 12,378,176	\$ 11,309,547

**SEASIDE COUNTY SANITATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019**

For the fiscal year ended June 30, 2019, revenue increased by \$351 thousand while expenses increased by \$369 thousand.

**Table 2
Statement of Revenues, Expenses, and Changes in Net Position**

	<u>2019</u>	<u>2018</u>
Revenues:		
Program Revenues:		
Charges for Services	\$ 1,844,257	\$ 1,827,182
General Revenues:		
Property Tax	552,563	344,874
Investment Earnings	201,307	76,446
Other Revenues	1,512	-
Total Revenues	<u>2,599,639</u>	<u>2,248,502</u>
Expenses:		
Sanitation	<u>1,531,010</u>	<u>1,161,869</u>
CHANGE IN NET POSITION	1,068,629	1,086,633
Net Position - July 1	<u>11,309,547</u>	<u>10,222,914</u>
NET POSITION - JUNE 30	<u><u>\$ 12,378,176</u></u>	<u><u>\$ 11,309,547</u></u>

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The capital assets of the District are those assets which are used in the performance of the District's functions, including infrastructure assets.

As of June 30, 2019, the District's investment in capital assets amounted to \$3.8 million (net of accumulated depreciation). This investment in capital assets includes land, building and improvements, equipment, and construction in progress.

**SEASIDE COUNTY SANITATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019**

The table below provides a comparison of the District's capital assets for the current and prior years.

**Table 3
Capital Assets, Net of Accumulated Depreciation**

	2019	2018
Intangible	\$ 164,066	\$ 164,066
Construction in Progress	1,031,587	533,528
Equipment	548,484	451,824
Infrastructures	2,067,682	2,157,191
Total	\$ 3,811,819	\$ 3,306,609

For additional information on capital assets see Note 3.

Long-Term Obligations

At June 30, 2019, the District's total long-term obligations were \$177,114, compared to \$233,324 in the prior year. The long-term obligations amount was comprised of capital leases of \$177,114 for the purchase of two vehicles.

For additional information on long-term debt see Note 4.

REQUESTS FOR INFORMATION

The financial report is designed to provide a general overview of the District's finances for all those with interest in them. Questions concerning any of the information provided in this report or requests for additional information, contact the Finance Director at 440 Harcourt Avenue, Seaside, California 93955, phone (813) 899-6718, or email at KDrabner@ci.seaside.ca.us.

**SEASIDE COUNTY SANITATION DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2019**

ASSETS

Current Assets:

Cash and Investments	\$ 8,178,349
Due from Other Governments	1,669
User Fees Receivable	<u>653,817</u>
Total Current Assets	8,833,835

Capital Assets:

Nondepreciable	1,195,653
Depreciable, Net of Accumulated Depreciation	<u>2,616,166</u>
Total Net Capital Assets	<u>3,811,819</u>

Total Assets	12,645,654
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LIABILITIES

Current Liabilities:

Accounts Payable	69,980
Accrued Liabilities	9,611
Interest Payable	4,018
Deposits from Others	6,755
Capital Lease Payable - Due within One Year	<u>57,550</u>
Total Current Liabilities	147,914

Noncurrent Liabilities:

Capital Lease Payable - Due in More than One Year	<u>119,564</u>
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Total Liabilities	<u>267,478</u>
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NET POSITION

Net Investment in Capital Assets	3,634,705
Restricted - Capital Projects	2,907,850
Unrestricted	<u>5,835,621</u>

Total Net Position	<u><u>\$ 12,378,176</u></u>
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**SEASIDE COUNTY SANITATION DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2019**

OPERATING REVENUES	
Charges for Service	\$ 1,844,257
OPERATING EXPENSES	
Contracted Salaries and Wages	295,886
Services and Supplies	1,068,952
Depreciation	162,187
Total Operating Expenses	<u>1,527,025</u>
OPERATING INCOME	317,232
NONOPERATING REVENUES (EXPENSES)	
Interest Income	201,307
Secured and Unsecured Property Taxes	552,563
Other Revenues	1,512
Interest Expense	(3,985)
Total Nonoperating Revenues (Expenses)	<u>751,397</u>
CHANGE IN NET POSITION	1,068,629
Net Position - Beginning of Year	<u>11,309,547</u>
NET POSITION - END OF YEAR	<u><u>\$ 12,378,176</u></u>

See accompanying Notes to Basic Financial Statements.

**SEASIDE COUNTY SANITATION DISTRICT
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2019**

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from Customers	\$ 1,820,466
Payments for Contracted Salaries and Wages	(294,079)
Payments to Suppliers	<u>(1,076,775)</u>
Net Cash Provided by Operating Activities	449,612
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Property Taxes	554,075
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Payment of Principal	(56,210)
Purchase of Capital Assets	(667,397)
Interest Paid	<u>(5,553)</u>
Net Cash Flows Used for Capital and Related Financing Activities	(729,160)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest Income	<u>201,307</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	
	475,834
Cash and Cash Equivalents - Beginning of Year	<u>7,702,515</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 8,178,349</u></u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating Income	\$ 317,232
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	162,187
(Increase) Decrease in Assets:	
Receivables	(23,791)
Increase (Decrease) in Liabilities:	
Accounts Payable	(7,823)
Accrued Liabilities	1,807
Net Cash Provided for Operating Activities	<u><u>\$ 449,612</u></u>

See accompanying Notes to Basic Financial Statements.

**SEASIDE COUNTY SANITATION DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Seaside County Sanitation District (District) are prepared in accordance with accounting principles generally accepted in the United States of America. The District applies all relevant Governmental Accounting Standards Board (GASB) pronouncements.

A. Reporting Entity

The Seaside County Sanitation District (District) is responsible for the transportation of sewage waste from residential and commercial buildings to a sewage treatment plant operated by the Monterey Regional Waste Pollution Control Agency. In addition, the District installs and maintains sewer lines and lift stations. The governing board consists of one appointed member each from the Cities of Del Rey Oaks, Sand City, and Seaside.

The District's basic financial statements include the operations of all organizations for which the Board of Directors exercises oversight responsibility. Oversight responsibility is demonstrated by financial interdependency, selection of the governing authority, designation of management, ability to significantly influence operations, and accountability of fiscal matters. No operations of other entities met the aforementioned oversight criteria for inclusion from the accompanying basic financial statements.

The District is reported as a discretely presented component unit on the City of Seaside's (City) financial statements.

B. Basis of Presentation and Accounting

The accompanying financial statements of the District are prepared on the accrual basis method of accounting in accordance with accounting principles generally accepted in the United States of America as applicable to governmental units.

All activities of the District are accounted for within an enterprise fund. Enterprise funds are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (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.

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.

**SEASIDE COUNTY SANITATION DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

B. Basis of Presentation and Accounting (Continued)

Nonexchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property and sales taxes, grants, entitlements and donations. In accordance with GASB No. 33, *Accounting and Reporting for Nonexchange Transactions*, revenue from property taxes is recognized in the fiscal year for which the taxes are levied and resources are available. Revenues from sales tax are recognized when the underlying transactions take place and the resources are available. Revenues from grants, entitlements, and donations are recognized in the fiscal year in which all eligible requirements have been satisfied and the resources are available.

C. Cash and Cash Equivalents

The District's cash and investments are cash held by the County of Monterey (County) and the City of Seaside.

D. Receivables

Receivables consist of user fees and connections fee which are billed and collected by the County. The District believes its receivables are to be fully collectible and, accordingly, no allowance for doubtful accounts is required.

E. Capital Assets

Capital assets, which include intangible assets, construction in progress, infrastructure, vehicles, and equipment, are recorded at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are recorded at estimated acquisition value at the date contributed. The District defines capital assets as assets with an initial individual cost of more than \$25,000 for infrastructure and \$5,000 for all other assets, and an estimated useful life in excess of one year.

Capital assets used in operations are depreciated or amortized (assets under capital leases) using the straight-line method of depreciation over the estimated useful lives as follows:

Vehicles and Equipment	5-15 Years
Infrastructure	50-75 Years

**SEASIDE COUNTY SANITATION DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

F. Net Position

Net position comprises the various net earnings from operating and nonoperating revenues, expenses, and contributions of capital. Net position is classified in the following three components: Net investment in capital assets; restricted; and unrestricted net position. Net investment in capital assets, consists of all capital assets, net of accumulated depreciation and reduced by outstanding debt that is attributable to the acquisition, construction and improvement of those assets; debt related to unspent proceeds or other restricted cash and investments is excluded from the determination. Restricted net position consists of net position for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws, regulations and enabling legislation, including self-imposed legal mandates. The District's restricted net position consists of monies set aside for future capital project outlays. Unrestricted net position consists of all other net position not included in the above categories.

When both restricted and unrestricted net positions are available, restricted resources are used only after the unrestricted resources are depleted.

G. Property Taxes

The District receives property taxes from the County, which has been assigned the responsibility for assessment, collection, and apportionment of property taxes for all taxing jurisdictions within the County. The District's property taxes are levied each July 1 on the assessed values as of the prior January 1 for all real and personal property located in the District. Property sold after the assessment date (January 1) is reassessed and the amount of supplemental property tax levied is prorated. Secured property taxes are due in two installments on November 1 and February 1 and are delinquent after December 10 and April 10, respectively. Property taxes on the unsecured roll are due on the January 1 lien date and become delinquent if unpaid by August 31.

H. Use of 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 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 reporting period. Actual results could differ from those estimates.

**SEASIDE COUNTY SANITATION DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 2 CASH AND INVESTMENTS

Cash and investments at June 30, 2019 consisted of the following:

Cash and Investments with the County of Monterey	\$ 7,306,026
Cash and Investments with the City of Seaside	<u>872,323</u>
Total Cash and Investments	<u><u>\$ 8,178,349</u></u>

Investments Authorized by California Government Code and the District's Investment Policy

The District's investment policy authorizes investment in all investments authorized under provisions of California Government Code Section 53601.

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 the changes in market interest rates.

<u>Authorized Investment Type</u>	Maturity (in Years) (12 Months or Less)
Monterey County Investment Pool	\$ 7,306,026
City of Seaside Investment Pool	<u>872,323</u>
Total	<u><u>\$ 8,178,349</u></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 a rating by a nationally recognized statistical rating organization. The credit rating and other information regarding the investments for the Monterey County and Seaside City pools for the fiscal year 2018-2019 are disclosed in the annual financial reports for the City.

<u>Authorized Investment Type</u>	Minimum Legal Rating	Rating as of Year End <u>Not Rated</u>
Monterey County Investment Pool	N/A	\$ 7,306,026
City of Seaside Investment Pool	N/A	<u>872,323</u>
Total		<u><u>\$ 8,178,349</u></u>

**SEASIDE COUNTY SANITATION DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

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: 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 Districts deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

Fair Value Measurements

The District categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. These principles recognize a three-tiered fair value hierarchy, as follows:

Level 1 – Investments reflect prices quoted in active markets;

Level 2 – Investments reflect prices that are based on a similar observable asset either directly or indirectly, which may include inputs in markets that are not considered to be active; and,

Level 3 – Investments reflect prices based upon unobservable sources.

The Pool has the following recurring fair value measurements as of June 30, 2019:

Investments measured at amortized cost:

Monterey County Investment Pool	\$ 7,306,026
City of Seaside Investment Pool	872,323
Total Pooled Investments	<u>\$ 8,178,349</u>

**SEASIDE COUNTY SANITATION DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 3 CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2019 was as follows:

	Balance July 1, 2018	Additions	Deletions	Balance June 30, 2019
Nondepreciable Capital Assets:				
Intangible Assets	\$ 164,066	\$ -	\$ -	\$ 164,066
Construction in Progress	533,528	498,059	-	1,031,587
Total Nondepreciable Capital Assets	697,594	498,059	-	1,195,653
Depreciable Capital Assets:				
Intangible - Master Plan	340,028	-	-	340,028
Equipment and Vehicles	896,024	169,338	(44,574)	1,020,788
Infrastructure	7,441,445	-	-	7,441,445
Total Depreciable Capital Assets	8,677,497	169,338	(44,574)	8,802,261
Less Accumulated Depreciation:				
Intangible - Master Plan	(340,028)	-	-	(340,028)
Equipment and Vehicles	(444,200)	(72,678)	44,574	(472,304)
Infrastructure	(5,284,254)	(89,509)	-	(5,373,763)
Total Accumulated Depreciation	(6,068,482)	(162,187)	44,574	(6,186,095)
Net Depreciable Capital Assets	2,609,015	7,151	-	2,616,166
Net Capital Assets	\$ 3,306,609	\$ 505,210	\$ -	\$ 3,811,819

NOTE 4 LONG-TERM LIABILITIES

	Balance July 1, 2018	Additions	Reductions	Balance June 30, 2019	Due Within One Year
Capital Leases	<u>\$ 233,324</u>	<u>\$ -</u>	<u>\$ 56,210</u>	<u>\$ 177,114</u>	<u>\$ 57,550</u>

Capital Lease Payable

The assets acquired through capital leases are as follows:

Equipment and Vehicles	\$ 636,883
Less: Accumulated Depreciation	(188,867)
Total	\$ 448,016

**SEASIDE COUNTY SANITATION DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

During the fiscal year 2017-2018, the District entered into an agreement to lease a vehicle. The imputed interest rate is 2.4%. Principal and interest are payable monthly until August 2022. The future minimum lease obligations and net present value of these minimum lease payments as of June 30, 2019 is as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2020	\$ 1,258
2021	1,258
2022	1,258
2023	<u>315</u>
Total Requirements	4,089
Less: Interest	<u>(167)</u>
Present Value of Remaining Payments	<u><u>\$ 3,922</u></u>

During the fiscal year 2015-2016, the District entered into an agreement to lease a vehicle. The imputed interest rate is 2.359%. Principal and interest are payable monthly on the 11th until July 2021. The future minimum lease obligations and net present value of these minimum lease payments as of June 30, 2019 is as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2020	\$ 60,506
2021	60,505
2022	<u>60,503</u>
Total Requirements	181,514
Less: Interest	<u>(8,322)</u>
Present Value of Remaining Payments	<u><u>\$ 173,192</u></u>

NOTE 5 RISK MANAGEMENT

A. Description of Self-Insurance Pool Pursuant to Joint Powers Agreement

The District is a member of the California Joint Powers Insurance Authority (Authority). The Authority is composed of 119 California public entities and is organized under a joint powers agreement pursuant to California Government Code §6500 et seq. The purpose of the Authority is to arrange and administer programs for the pooling of self-insured losses, to purchase excess insurance or reinsurance, and to arrange for group purchased insurance for property and other lines of coverage. The California JPIA began covering claims of its members in 1978. Each member government has an elected official as its representative on the Board of Directors. The Board operates through a nine-member Executive Committee.

**SEASIDE COUNTY SANITATION DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

B. Self-Insurance Programs of the Insurance Authority

Each member pays an annual contribution to cover estimated losses for the coverage period. This initial funding is paid at the beginning of the coverage period. After the close of the coverage period, outstanding claims are valued. A retrospective deposit computation is then conducted annually thereafter until all claims incurred during the coverage period are closed on a pool-wide basis. This subsequent cost re-allocation among members based on actual claim development can result in adjustments of either refunds or additional deposits required.

The total funding requirement for self-insurance programs is estimated using actuarial models and pre-funded through the annual contribution. Costs are allocated to individual agencies based on exposure (payroll) and experience (claims) relative to other members of the risk-sharing pool. Additional information regarding the cost allocation methodology is provided below.

Liability

In the liability program claims are pooled separately between police and nonpolice exposures. (1) The payroll of each member is evaluated relative to the payroll of other members. A variable credibility factor is determined for each member, which establishes the weight applied to payroll and the weight applied to losses within the formula. (2) The first layer of losses includes incurred costs up to \$30,000 for each occurrence and is evaluated as a percentage of the pool's total incurred costs within the first layer. (3) The second layer of losses includes incurred costs from \$30,000 to \$750,000 for each occurrence and is evaluated as a percentage of the pool's total incurred costs within the second layer. (4) Incurred costs in excess of \$750,000 up to the reinsurance attachment point of \$5 million are distributed based on the outcome of cost allocation within the first and second loss layers. (5) Costs of covered claims from \$5 million to \$10 million are paid under a reinsurance contract subject to a \$2.5 million annual aggregate deductible. The \$2.5 million annual aggregate deductible is fully covered under a separate policy; as such no portion of it is retained by the Authority. Costs of covered claims from \$10 million to \$15 million are paid under two reinsurance contracts subject to a combined \$3 million annual aggregate deductible. The \$3.0 million annual aggregate deductible is fully retained by the Authority. (6) Costs of covered claims from \$20 million up to \$50 million are covered through excess insurance policies.

The overall coverage limit for each member including all layers of coverage is \$50 million per occurrence.

Costs of covered claims for subsidence losses are paid by reinsurance and excess insurance with a pooled sub-limit of \$30 million per occurrence. This \$30 million subsidence sub-limit is composed of (a) \$5 million retained within the pool's SIR, (b) \$15 million in reinsurance, and (c) \$10 million in excess insurance. The excess insurance layer has a \$10 million annual aggregate.

**SEASIDE COUNTY SANITATION DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

C. Purchased Insurance

Pollution Legal Liability Insurance

The District participates in the pollution legal liability insurance program (formerly called environmental insurance) which is available through the Authority. The policy covers sudden and gradual pollution of scheduled property, streets, and storm drains owned by the District. Coverage is on a claims-made basis. There is a \$50,000 deductible. The Authority has a limit of \$50 million for the three-year period from July 1, 2017 through July 1, 2020. Each member of the Authority has a \$10 million sub-limit during the three-year term of the policy.

Property Insurance

The District participates in the all-risk property protection program of the Authority. This insurance protection is underwritten by several insurance companies. The District's property is currently insured according to a schedule of covered property submitted by the District to the Authority. The District's property currently has all-risk property insurance protection in the amount of \$25,432,467. There is a \$10,000 deductible per occurrence except for nonemergency vehicle insurance which has a \$1,000 deductible. Premiums for the coverage are paid annually and are not subject to retrospective adjustments.

D. Adequacy of Protection

During the past three fiscal (claims) years, none of the above programs of protection have had settlements or judgments that exceeded pooled or insured coverage. There have been no significant reductions in pooled or insured liability coverage in 2018-2019.

NOTE 6 RELATED PARTY TRANSACTIONS

The City performs maintenance and administrative services for the District. In this regard, the City charged the district \$1,175,416 for the fiscal year ended June 30, 2019.

OTHER REPORTS



**INDEPENDENT AUDITORS' 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**

Board of Directors
Seaside County Sanitation District
Seaside, California

We have audited, in accordance with the 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, the financial statements of the Seaside County Sanitation District (District), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon February 18, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District'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, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings as item 2019-001 that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from 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 their tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

District's Response to Findings

The District's response to the finding identified in our audit is described in the accompanying schedule of findings. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.



CliftonLarsonAllen LLP

Roseville, California
February 18, 2020

**SEASIDE COUNTY SANITATION DISTRICT
SCHEDULE OF FINDINGS
JUNE 30, 2019**

2019 – 001 Reconciliation of Cash and Investments

Type of Finding: Material Weakness in Internal Control over Financial Reporting

Condition: While performing our audit procedures, we noted the District did not perform timely reconciliation of cash held with the County of Monterey at June 30, 2019 resulting in a misstatement of cash recorded in the District's accounting system.

Criteria or specific requirement: Cash reconciliations that reconcile the general ledger to external bank statements should be performed for all accounts to review accuracy and completeness of cash balances and transactions.

Context: During our testing of cash, we noted that timely reconciliations were not being performed for the cash held with Monterey County, an external account.

Effect: The misstatements to cash resulted in an increase of cash and revenues by \$113,029.

Cause: The City did not complete a timely reconciliation of its outside bank accounts bank balances to the general ledger for June 30, 2019.

Repeat Finding: This is not a repeat finding.

Recommendation: We recommend that the City perform timely bank reconciliations for all outside bank accounts on a monthly basis, especially at year end.

Views of responsible officials and planned corrective actions: The City agrees with the finding. The City finance staff is developing a comprehensive task list for use by the department. This task list will document all processes and procedures by responsibility area and provide a central location for tracking completion. Each employee will regularly (at least monthly) review the task list for adherence to all task deadlines. In addition, a year-end list is being developed to ensure that all reconciliations have been completed and the year-end balances are accurate. At this time, all cash and investment reconciliations are being completed on a monthly basis.