

**SOUTH BAYSIDE WASTE  
MANAGEMENT AUTHORITY  
BASIC FINANCIAL STATEMENTS  
FISCAL YEAR ENDED JUNE 30, 2010**

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**SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY  
BASIC FINANCIAL STATEMENTS**

**Fiscal Year Ended June 30, 2010**

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## INDEPENDENT AUDITOR'S OPINION

To the Board of Directors of the  
South Bayside Waste Management Authority,  
San Carlos, California

We have audited the accompanying financial statements of the South Bayside Waste Management Authority for the year ended June 30, 2010 as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance as to 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 opinion.

In our opinion, the financial statements referred to above present fairly in all material respects the financial position of South Bayside Waste Management Authority as of June 30, 2010 and the results of its operations and cash flows for the year then ended, in conformity with generally accepted accounting principles in the United States.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted, principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Maze & Associates*

October 25, 2010

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**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2010**

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual report consists of two parts:

- *management's discussion and analysis* (this section) and;
- the *basic financial statements*.

The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data.

The following discussion and analysis of the financial performance of the South Bayside Waste Management Authority (SBWMA) provides an overview of the SBWMA's financial activities for the fiscal year ended June 30, 2010. It should be read in conjunction with the financial statements identified in the accompanying table of contents.

**Reporting the SBWMA**

The accompanying **financial tables** present financial data for the SBWMA which compare current year activity to prior year activity to provide guidance on how the financial picture has changed. The Statement of Net Assets, Table 1, and the Statement of Activities, Table 2, include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. Also, the SBWMA has only one cash fund for operations and a project fund containing remaining proceeds of the bond sale used for the capital building project.

These two tables report the SBWMA's net assets and changes in them. The SBWMA's net assets – the difference between assets and liabilities – is one way to measure the SBWMA's financial health, or *financial position*. Over time, *increases and decreases* in the SBWMA's net assets are one indicator of whether its *financial health* is improving or deteriorating.

## FINANCIAL STATEMENTS

A summary of the *statement of net assets* follows:

<b>Table 1</b>		
<b>Net Assets</b>		
	<b>JPA Activities</b>	
	<b>FY 2010</b>	<b>FY 2009</b>
Current and other assets	\$ 42,370,801	\$ 19,109,108
Capital assets	40,999,811	20,733,029
Total assets	<u>83,370,612</u>	<u>39,842,137</u>
Long-term debt outstanding	56,694,747	13,440,000
Other liabilities	5,314,800	2,524,901
Total liabilities	<u>62,009,547</u>	<u>15,964,901</u>
Net assets:		
Invested in capital assets, net of debt	15,161,321	7,293,029
Restricted for debt service	-	2,260,635
Unrestricted, designated for:		
Operating	4,090,915	-
Rate Stabilization	-	-
Equipment replacement	-	-
Unrestricted, undesignated	2,108,829	14,323,572
Total net assets	<u>\$ 21,361,065</u>	<u>\$ 23,877,236</u>

### Analysis of Net Assets

As of June 30, 2010, the South Bayside Waste Management Authority has total assets of \$83.4 million and total liabilities of \$62.0 million resulting in net assets totaling \$21.4 million.

The decrease in net assets is an indication that the overall financial position of the Authority decreased during the year by \$2.5 million as indicated in the Statement of Activities Table 2 below. The decrease is attributed to continued weakness in commodity prices and the transition to new facilities and a new operating contract starting in 2011. During construction, recycling materials are being processed by a third party off-site processor at higher net cost than the new in-house contractor will provide.

The Authority's Net Assets, Table 1, as of June 30, 2010 are comprised of the following:

- Cash and Investments totaling \$40.0 million. This amount includes \$30.8 million of bond proceeds held by fiscal agents and \$9.2 million of pooled cash and other investments for operations. The majority of these amounts were held in short term investments as outlined in Note 2 to the financial statements.
- Other assets include receivables totaling \$1.6 million and interest receivables, various prepaid items and unamortized bond issuance costs totaling \$0.7 million.
- The largest portion of the Authority's assets totaling \$41.0 million represents its investment in capital assets. These assets are land, buildings, equipment and infrastructure less accumulated depreciation. These assets are primarily located at the Shoreway Environmental Center.



- Liabilities totaling \$5.3 million include general accounts payable and interest payable totaling \$3.8 million and Shoreway environmental remediation of \$1.5 million.
- Long term debt totaling \$56.7 million is primarily composed of Solid Waste System Revenue Bonds which were issued to finance the construction of a new Materials Recovery Facility (MRF) building, expanded Transfer Station building and new MRF recycling equipment.
- Net capital assets, net of related debt, \$15.2 million, represents the Authority's investment in infrastructure and other capital assets, net of amounts borrowed to finance that investment. Therefore, these funds are not available for spending. It should be noted that even though the Authority's capital assets are reported net of related debt, the resources needed to repay this debt must be provided from other sources because capital assets cannot be used to liquidate these liabilities.
- Unrestricted, designated net assets totaling \$4.1 million have been designated by the Board to be used for specific reserves as identified in Table 3.
- Unrestricted net assets totaling \$2.1 million represent the part of net assets that can be used to finance operations.

A summary of the *statement of activities* follows:

	<b>JPA Activities</b>	
	<b>FY 2010</b>	<b>FY 2009</b>
<b>Operating Revenues</b>		
Charges for services	\$ 27,479,291	\$ 25,077,592
Commodity Revenue	8,691,557	9,625,554
Other	118,803	43,395
Total Operating Revenues	36,289,651	34,746,541
<b>Operating Expenses</b>		
Shoreway Operations	33,499,718	31,492,620
SBWMA Program Administration	2,945,232	3,017,027
Franchise Fee - Transfer Station	1,248,318	1,264,614
Depreciation	166,411	556,881
Total Operating Expenses	37,859,679	36,331,142
<b>Operating Income</b>	<b>\$ (1,570,028)</b>	<b>\$ (1,584,601)</b>
<b>Non-Operating Revenues (Expenses)</b>		
Investment Income	15,668	163,188
Interest Expense	(457,829)	(800,713)
Amortization expense	(107,768)	(30,207)
Loss on retirement of capital assets	(396,214)	-
Total Non-Operating Expenses	(946,143)	(667,732)
<b>Increase (decrease) in net assets</b>	<b>(2,516,171)</b>	<b>(2,252,333)</b>
Beginning net assets	23,877,236	26,129,569
Ending net assets	<b>\$ 21,361,065</b>	<b>\$ 23,877,236</b>

The Statement of Activities presents program revenues and expenses. All of these are elements in the Changes in Net Assets summarized above.

As of June 30, 2010, the Authority had total net assets of \$21.4 million. This amount is a decrease of \$2.5 million or 10.5% from the total assets of \$23.9 million reported in the prior year.

The net assets (financial position) of the Authority changed as a result of the revenue and expense fluctuations described below.

- Total operating revenues increased by \$1.5 million or 4.6%. This increase is primarily due to higher gate tip fees.
- Total Shoreway Operations expenses increased by \$2.0 million or 6.3%. This increase is primarily due to use of third party off-site processing of recyclable materials during the construction of the new MRF facility.
- Total other operating expenses decreased by \$0.4 million or 2.2% due primarily to the decrease in depreciation expense as a result of the auction of the old MRF equipment before the MRF building demolition.
- Total net non-operating expenses increased by \$0.3 million or 5.0% due primarily to the write off of the MRF equipment and building.

In 2002, the Board established a reserve policy to protect the short and long-term financial operation of the Authority. In October 2009 the Board approved a new reserve policy.

Table 3 below reflects the amount of reserves that have been designated by the Board.

	<b>JPA Activities</b>	
	<b>FY 2010</b>	<b>FY 2009</b>
Invested in assets, net of related debt	\$ 15,161,321	\$ 7,293,029
Restricted for:		
Debt Service	-	2,260,635
Unrestricted, designated for (Note 8)		
Operating Reserve	4,090,915	3,716,206
Rate Stabilization Reserve	-	146,083
Equipment Replacement	-	1,858,103
Facilities Improvement	-	2,439,334
Unrestricted, undesignated	2,108,829	6,163,846
<b>Total Fund Balance</b>	<b>\$ 21,361,065</b>	<b>\$ 23,877,236</b>

**CAPITAL ASSETS**

Capital Assets  
(net of depreciation)

	<b>JPA Activities</b>	
	<b>FY 2010</b>	<b>FY 2009</b>
Land	\$ 14,000,000	\$ 14,000,000
Buildings and system	4,141,075	5,119,108
Machinery and equipment	1,717,393	4,380,881
Construction in progress	25,583,940	4,700,113
Total Accumulated depreciation	(4,442,597)	(7,467,073)
Total Net Capital Assets	<u>\$ 40,999,811</u>	<u>\$ 20,733,029</u>

The major addition to capital assets was the increase in construction in progress related to the Shoreway Master Plan spending on planning, design, engineering, construction and the purchase of new MRF equipment for the Shoreway capital project.

Additional information on the capital assets can be found in Note (4) of the financial statements.

**LONG-TERM DEBT**

At the end of the current fiscal year, the Authority had bonded debt outstanding of \$56,694,747.

	<b>FY 2010</b>	<b>FY 2009</b>
2000 Revenue Bonds	\$ -	\$ 13,440,000
2009A Revenue Bond	53,500,000	
2009B Revenue Bond	3,000,000	
Net Premium 2009A	194,747	
	<u>\$ 56,694,747</u>	<u>\$ 13,440,000</u>

Additional information on the Authority's long-term debt can be found in the Note (5) to the accompanying financial statements.

**Subsequent Events**

The current collection and operations contracts with Republic Services/Allied Waste expires as scheduled on December 31, 2010. The new contractors are on schedule to assume the new contracts for collection services and operation of the Shoreway facility January 1, 2011. The Master Plan construction project is proceeding with a slight anticipated delay of about two months to completion in about April 2011. The project capital cost in total remains on budget including the contingency amount.

**Contacting the Authority's Financial Management**

This financial report is designed to provide our member agencies, investors and creditors with a general overview of the Authority's finances and to show the Authority's accountability for the revenues and expenditures in the course of doing business. If you have questions about this report or need additional financial information, contact the Executive Director, South Bayside Waste Management Authority, 610 Elm Street, San Carlos, California 94070.

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY  
STATEMENT OF NET ASSETS  
JUNE 30, 2010

ASSETS

Current Assets:	
Cash and investments for operations (Note 2)	\$9,190,558
Accounts receivable	1,589,948
Interest receivable	111,343
Prepaid items	<u>44,926</u>
Total Current Assets	<u>10,936,775</u>
Noncurrent Assets:	
Cash and investments with fiscal agent (Note 2)	30,856,257
Unamortized bond issuance costs	577,769
Capital assets (Note 4):	
Land	14,000,000
Construction in progress	25,583,940
Building	4,141,075
Equipment	1,717,393
Less Accumulated Depreciation	<u>(4,442,597)</u>
Net capital assets	<u>40,999,811</u>
Total Noncurrent Assets	<u>72,433,837</u>
Total Assets	<u>83,370,612</u>

LIABILITIES

Current Liabilities:	
Accounts payable	122,502
Accrued liabilities	2,585,946
Interest payable	1,059,288
Current portion of compensated absences	<u>36,095</u>
Total Current Liabilities	<u>3,803,831</u>
Noncurrent Liabilities:	
Compensated absences due in more than one year	15,469
Accrued liabilities (Note 8)	1,495,500
Long-term debt due in more than one year (Note 5)	<u>56,694,747</u>
Total Noncurrent Liabilities	<u>58,205,716</u>
Total Liabilities	<u>62,009,547</u>

NET ASSETS

Invested in capital assets, net of related debt	15,161,321
Unrestricted, designated for (Note 7):	
Operating	4,090,915
Rate stabilization	
Equipment replacement	
Unrestricted, undesignated	<u>2,108,829</u>
Total Net Assets	<u><u>\$21,361,065</u></u>

See accompanying notes to the financial statements

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY  
STATEMENT OF REVENUES, EXPENSES  
AND CHANGES IN NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2010

OPERATING REVENUES:	
Charges for services	\$27,479,291
Commodity revenue	8,691,557
Other	<u>118,803</u>
Total Operating Revenues	<u>36,289,651</u>
OPERATING EXPENSES:	
Shoreway operations	33,499,718
SBWMA program administration	2,945,232
Franchise fee - transfer station	1,248,318
Depreciation (Note 4)	<u>166,411</u>
Total Operating Expenses	<u>37,859,679</u>
Operating (loss)	<u>(1,570,028)</u>
NONOPERATING REVENUES (EXPENSES):	
Investment income	15,668
Interest expense	(457,829)
Amortization expense	(107,768)
Loss on retirement of capital assets	<u>(396,214)</u>
Net Nonoperating Revenue (Expense)	<u>(946,143)</u>
Change in Net Assets	(2,516,171)
NET ASSETS AT BEGINNING OF YEAR	<u>23,877,236</u>
NET ASSETS AT END OF YEAR	<u><u>\$21,361,065</u></u>

See accompanying notes to the financial statements

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2010

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash receipts from customers	\$36,361,983
Payments to suppliers	<u>(35,755,725)</u>
Net Cash Flows (used for) Operating Activities	<u>606,258</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Increase in cash and investments with fiscal agent	(28,595,622)
Interest received	<u>770,400</u>
Net Cash Flows from Investing Activities	<u>(27,825,222)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital assets additions	(20,829,407)
Retirement of long-term debt	(13,440,000)
Proceeds from issuance of long-term debts	56,694,747
Payment for issuance cost	(599,960)
Interest paid	<u>(457,829)</u>
Net Cash Flows (Used for) Capital and Related Financing Activities	<u>21,367,551</u>
Net Cash Flows	(5,851,413)
Cash and investments for operations - beginning of year	<u>15,041,971</u>
Cash and investments - end of year	<u><u>\$9,190,558</u></u>
Reconciliation of operating income to net cash flows from operating activities:	
Operating income (loss)	(\$1,570,028)
Adjustments to reconcile operating income to cash flows from operating activities:	
Depreciation	166,411
Net change in:	
Accounts receivable	72,332
Prepays	(44,926)
Accounts payable	(2,085,947)
Accrued liabilities	4,065,634
Compensated absences	<u>2,782</u>
Net Cash Flows from Operating Activities	<u><u>\$606,258</u></u>

See accompanying notes to the financial statements

**SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY**  
**Notes to Basic Financial Statements**  
**June 30, 2010**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. *Organization***

The South Bayside Waste Management Authority (the Authority) is a joint powers agreement formed on October 13, 1999 for the purpose of joint ownership, financing and administration of the Facilities, currently the San Carlos Transfer Station and the San Mateo Recyclery; and the planning, administration management, review, monitoring, enforcement and reporting of solid waste, recyclable material and plant material collection activities within Authority's service area.

Members of the Authority currently include the cities of Atherton, Belmont, Burlingame, East Palo Alto, Foster City, Hillsborough, Menlo Park, Redwood City, San Carlos, San Mateo, as well as the West Bay Sanitation District and the County of San Mateo.

The Authority is controlled by a twelve member board consisting of one representative from each member. None of the member entities exercise specific control over the budgeting and financing of the Authority's activities beyond their representation on the board. Accounting services are provided by the City of San Carlos.

Through the operation of franchise agreements with each member, Republic Services, Inc. (formerly Allied Waste Management) collects fees charged for the use of the Facilities and remits them to the Authority. Pursuant to an Operations Agreement with the Authority, Republic Services, Inc. will operate the Facilities and be paid compensation based on costs, a provision for profit and incentives for cost savings and performance.

**B. *Enterprise Fund Accounting***

The Authority is a proprietary entity; it uses an enterprise fund format to report its activities for financial statement purposes. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs and expenses, including depreciation, of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

An enterprise fund is used to account for activities similar to those in the private sector, where the proper matching of revenues and costs is important and the full accrual basis of accounting is required. With this measurement focus, all assets and all liabilities of the enterprise are recorded on its balance sheet, all revenues are recognized when earned and all expenses, including depreciation, are recognized when incurred. Enterprise fund equity includes retained earnings and contributed capital.

The Authority follows those Financial Accounting Standard Board Statements issued before November 30, 1989 which do not conflict with Governmental Accounting Standards Board Statements.

**C. *Capital Assets***

Capital assets are stated at cost. Expenditures which materially increase the value or life of capital assets plant assets are capitalized and depreciated over the remaining useful life of the asset.

**SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY**  
**Notes to Basic Financial Statements**  
**June 30, 2010**

**NOTE 2 - CASH AND INVESTMENTS**

The Authority pools cash from all sources except Cash and Investments held by Trustees so that it can be invested at the maximum yield consistent with safety and liquidity, while individual funds can make expenditures at any time.

**A. Policies**

California Law requires banks and savings and loan institutions to pledge government securities with a market value of 110% of the Authority's cash on deposit, or first trust deed mortgage notes with a market value of 150% of the deposit, as collateral for these deposits. Under California Law this collateral is held in a separate investment pool by another institution in the Authority's name and places the Authority ahead of general creditors of the institution.

The Authority invests in individual investments and in investment pools. Individual investments are evidenced by specific identifiable *securities instruments*, or by an electronic entry registering the owner in the records of the institution issuing the security, called the *book entry* system. In order to increase security, the Authority employs the Trust Department of a bank as the custodian of certain Authority managed investments, regardless of their form.

The Authority's investments are carried at fair value, as required by generally accepted accounting principles. The Authority adjusts the carrying value of its investments to reflect their fair value at each fiscal year end, and it includes the effects of these adjustments in income for that fiscal year.

**B. Classification**

Cash and investments are classified in the financial statements as shown below, based on whether or not their use is restricted under the terms of Authority debt instruments or agreements.

<i>Statements of Net Assets</i>	
Cash and investments	\$9,190,558
Cash and investments with fiscal agent	<u>30,856,257</u>
 Total Cash and Investments	 <u><u>\$40,046,815</u></u>

Cash and Investments for Operations is used in preparing proprietary fund statements of cash flows because these assets are highly liquid and are expended to liquidate liabilities arising during the year.



**SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY**  
**Notes to Basic Financial Statements**  
**June 30, 2010**

**NOTE 2 - CASH AND INVESTMENTS (Continued)**

**C. Investments Authorized by the California Government Code and the Authority's Investment Policy**

The Authority's Investment Policy and the California Government Code allow the Authority to invest in the following, provided the credit ratings of the issuers are acceptable to the Authority; and approved percentages and maturities are not exceeded. The table below also identifies certain provisions of the California Government Code, or the Authority's Investment Policy where the Authority's Investment Policy where is more restrictive.

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum in Portfolio	Maximum Investment In One Issuer
State of California Local Agency Investment Fund (LAIF Pool)	Upon Demand	N/A	\$40,000,000 per account	N/A
San Mateo County Investment Pool	Upon Demand	N/A	\$40,000,000 per account	N/A
U. S. Treasury Bonds, Notes and Bills	5 Years	N/A	100%	N/A
U.S. Government Agency and U.S. Government-Sponsored Enterprise Obligations	5 Years	N/A	100%	N/A
Bankers Acceptances	180 Days	N/A	30%	<b>(A), (B)</b>
Commercial Paper	270 Days	AA	25%	<b>(A), (B)</b>
Negotiable Certificates of Deposit	5 Years	N/A	30%	<b>(A), (B)</b>
Time Certificates of Deposit – Banks or Savings and Loans	5 Years	N/A	25%	<b>(A), (B)</b>
Medium Term Corporate Notes	5 Years	AA	30%	<b>(A), (B)</b>

**(A)** 5% of outstanding paper of issuing corporation

**(B)** 5% of the portfolio in one corporation

**SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY**  
**Notes to Basic Financial Statements**  
**June 30, 2010**

**NOTE 2 - CASH AND INVESTMENTS (Continued)**

**D. Investments Authorized by Debt Agreements**

The Authority must maintain required amounts of cash and investments with trustees or fiscal agents under the terms of certain debt issues. These funds are unexpended bond proceeds or are pledged reserves to be used if the Authority fails to meet its obligations under these debt issues. The California Government Code requires these funds to be invested in accordance with Authority resolutions, bond indentures or State statutes. The table below identifies the investment types that are authorized for investments held by fiscal agents. The table also identifies certain provisions of these debt agreements:

<u>Authorized Investment Type</u>	<u>Minimum Credit Quality</u>
Direct obligations of the Department of the Treasury of the United States of America	None
Fully guaranteed obligations of federal agencies	None
Direct obligations of FNMA, FHLMC, REFCORP, Federal Home Loan, AMBAC Assurance	AAA
U.S. dollar denominated deposit accounts	A-1+
Commercial paper	AA
Money market fund	AAA
Pre-refunded municipal obligations	None
General obligations of States	A2/A
State of California Local Agency Investment Fund	None
San Mateo County Investment Pool	None

**SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY**  
**Notes to Basic Financial Statements**  
**June 30, 2010**

**NOTE 2 - CASH AND INVESTMENTS (Continued)**

**E. Interest Rate Risk**

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Normally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Authority generally manages its interest rate risk by holding investments to maturity.

Information about the sensitivity of the fair values of the Authority's investments (including investments held by bond trustees) to market interest rate fluctuations is provided by the following table that shows the distribution of the Authority's investments by maturity or earliest call date:

Investment Type	12 Months or less	12 to 25 Months	Total
San Mateo County Investment Pool	2,056,003		2,056,003
U.S. Government-Sponsored Enterprise Agencies			
Non-callable	3,022,554	\$4,049,379	7,071,933
California Local Agency Investment Fund	29,173,848		29,173,848
Money Market	730,281		730,281
 Total Investments	 <u>\$34,982,686</u>	 <u>\$4,049,379</u>	 39,032,065
 Total Cash in Bank and cash on hand			 <u>1,014,750</u>
 Total Cash and Investments			 <u>\$40,046,815</u>

**Local Agency Investment Fund**

The Authority is a participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The Authority reports its investment in LAIF at the fair value amount provided by LAIF, which is the same as the value of the pool share. The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, United States Treasury Notes and Bills, and corporations. At June 30, 2010, these investments matured in an average of 203 days.

**SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY**  
**Notes to Basic Financial Statements**  
**June 30, 2010**

**NOTE 2 - CASH AND INVESTMENTS (Continued)**

*San Mateo County Investment Fund*

The Authority is a voluntary participant in the San Mateo County Investment Fund (SMCIF) that is regulated by California Government Code Section 53600 under the oversight of the treasurer of the County of San Mateo. The Authority reports its investment in SMCIF at the fair value amount provided by SMCIF. The balance available for withdrawal is based on the accounting records maintained by SMCIF, which are recorded on an amortized cost basis. Included in SMCIF's investment portfolio are U.S. Treasury Notes, obligations issued by agencies of the U.S. Government, LAIF, corporate notes, commercial paper, collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, and floating rate securities issued by federal agencies, government-sponsored enterprises, and corporations. The Authority reports its investments in SMCIF at the fair value amounts provided by SMCIF, which is the same as the value of the pool share. At June 30, 2010, these investments matured in an average of 1.0 years.

**F. Credit Risk**

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. Presented below is the actual rating as of June 30, 2010 for each investment type as provided by Moody's ratings:

<u>Investment Type</u>	<u>AAA</u>	<u>Total</u>
U.S. Government-Sponsored Enterprise Agencies		
Non-callable	\$7,071,933	\$7,071,933
Money Market (U.S. Securities)	<u>730,281</u>	<u>730,281</u>
Totals	<u>\$7,802,214</u>	7,802,214
<i>Not rated:</i>		
California Local Agency Investment Fund		29,173,848
San Mateo County Investment Pool		<u>2,056,003</u>
Total Investments		<u>39,032,065</u>
Total Cash in bank and cash on hand		<u>1,014,750</u>
Total Cash and Investments		<u>\$40,046,815</u>

**SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY**  
**Notes to Basic Financial Statements**  
**June 30, 2010**

**NOTE 2 - CASH AND INVESTMENTS (Continued)**

**G. Concentration of Credit Risk**

The Authority's investment policy contains certain limitations on the amount that can be invested in any one issuer. In certain categories, these limitations surpass those required by California Government Code Sections 53600 et seq. Investments in any one issuer, other than U.S. Treasury securities, mutual funds, and external investment pools, that represent 5% or more of total Entity-wide investments are as follows at June 30, 2010:

Issuer	Investment Type	Reported Amount
Federal Home Loan Mortgage Corporation	Federal agency securities	\$4,049,379

**NOTE 3 - CAPITAL ASSETS AND FACILITIES OPERATIONS**

Pursuant to a sales agreement with Republic Services, Inc., the Authority purchased land, and buildings and personal property amounting to \$14 million and \$5.228 million, respectively. These facilities comprise the San Carlos Transfer Station and San Mateo Recyclery. The Authority signed an agreement to lease back the facilities to Republic Services, Inc. which operates them. This agreement expired on December 31, 2006 and the Authority has extended the agreement until December 31, 2010. During the year ended June 30, 2010, the Authority paid \$29,165,796 to Republic Services, Inc. to operate the facilities.

**NOTE 4 - CAPITAL ASSETS**

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated fair market value on the date contributed.

All capital assets with limited useful lives are depreciated over their estimated useful lives. The purpose of depreciation is to spread the cost of capital assets equitably among all users over the life of these assets. The amount charged to depreciation expense each year represents that year's pro rata share of the cost of capital assets.

Depreciation is provided using the straight line method which means the cost of the asset is divided by its expected useful life in years and the result is charged to expense each year until the asset is fully depreciated. The Authority has assigned the useful lives listed below to capital assets:

Building	10-40 years
Equipment	5-20 years

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

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**NOTE 4 - CAPITAL ASSETS (Continued)**

Changes in capital assets were as follows for fiscal 2009-2010:

	Balance <u>June 30, 2009</u>	Additions	Retirements	Balance <u>June 30, 2010</u>
<b>Business-type activities</b>				
Capital assets not depreciated:				
Land	\$14,000,000			\$14,000,000
Construction In Progress	4,700,113	\$20,883,827		25,583,940
Total non-depreciable assets	<u>18,700,113</u>	<u>20,883,827</u>		<u>39,583,940</u>
Capital assets being depreciated:				
Buildings	5,119,108	147,000	(\$1,125,033)	4,141,075
Equipment	4,380,881		(2,663,488)	1,717,393
Total depreciable assets	<u>9,499,989</u>	<u>147,000</u>	<u>(3,788,521)</u>	<u>5,858,468</u>
Less accumulated depreciation:				
Buildings	(3,728,302)	(113,520)	651,541	(3,190,281)
Equipment	(3,738,771)	(52,891)	2,539,346	(1,252,316)
Total accumulated depreciation	<u>(7,467,073)</u>	<u>(166,411)</u>	<u>3,190,887</u>	<u>(4,442,597)</u>
Net depreciable assets	<u>2,032,916</u>	<u>(19,411)</u>	<u>(597,634)</u>	<u>1,415,871</u>
Capital assets, net	<u>\$20,733,029</u>	<u>\$20,864,416</u>	<u>(\$597,634)</u>	<u>\$40,999,811</u>

**SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY**  
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**NOTE 5 – REVENUE BONDS**

The Authority's debt issues and transactions are summarized below and discussed in detail thereafter.

	Balance June 30, 2009	Retirements	Additions	Balance June 30, 2010
2000 Solid Waste System Revenue Bonds	\$13,440,000	(\$13,440,000)		
2009A Solid Waste System Revenue Bonds			\$53,500,000	\$53,500,000
Plus deferred premium			194,747	194,747
2009B Solid Waste System Revenue Bonds			3,000,000	3,000,000
	<u>\$13,440,000</u>	<u>(\$13,440,000)</u>	<u>\$56,694,747</u>	<u>\$56,694,747</u>

**A. Solid Waste System Revenue Bonds – Series 2000**

On March 1, 2000, the Authority issued \$20,090,000 in Solid Waste System Revenue Bonds, Series 2000 in order to finance the acquisition of the above capital assets. On September 2, 2009, the Authority defeased \$13,440,000 of the outstanding Series 2000 Solid Waste System Revenue Bonds. Cash deposits were placed in an irrevocable trust which provided the retirement of the revenue bonds on October 2, 2009.

**B. Solid Waste Enterprise Revenue Bonds - Series 2009A**

On September 2, 2009, the Authority issued \$53,500,000 of *Solid Waste Enterprise Revenue Bonds Series 2009A*. The 2009A Bonds were issued to pay for the construction and renovation of a solid waste materials recovery facility and transfer station and related equipment, to fund a Reserve Fund, to fund capitalized interest, and to fund certain working capital and pay other costs, including issuance costs.

The series 2009A bonds are solely payable from and secured by the net revenues and debt service reserve fund held by the Authority's trustee, as defined under the bond indenture. Net Revenues means, for any period, all of the revenues during such period less all of the maintenance and operation costs during such period. Revenues mean all gross income and revenue received or receivable by the Authority.

Principal payments are payable annually on September 1, commencing September 1, 2012. The bond bear interest at 3.5%-6.0% which is payable semi-annually on September 1 and March 1, commencing March 1, 2010.

The bond is secured by a pledge of the Authority's Net Revenue as defined under the bond indenture. The pledge of future net revenue ends upon repayment of the 2009A bonds in the amount \$53.5 million in remaining debt service on the bonds which is scheduled to occur in 2036.

For fiscal year 2010, gross revenues including operating revenues and non-operating interest earnings amounted to \$36,305,319 and; operating and maintenance costs, including operating expenses, transfers out for overhead and administrative cost but not interest, depreciation or amortization and amounted to \$37,693,268. As a result, the Net Revenue (Loss) for fiscal 2010 amounted to a loss of \$1,387,949.

**SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY**  
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**NOTE 5 – REVENUE BONDS (Continued)**

**C. Solid Waste Enterprise Revenue Bonds - Series 2009B**

On September 2, 2009, the Authority also issued \$3,000,000 of taxable Solid Waste Enterprise Revenue Bonds Series 2009B.

The series 2009B bonds are solely payable from and secured by the subordinate net revenues, as defined under the bond indenture. Subordinate net revenues means, for any period, net revenues during such period remaining after payment of all amounts required to be paid pursuant to the senior lien obligations or a senior lien indenture during such period, in an amount that is equal to debt service on the bonds and any subordinate parity obligations.

Principal repayment in entirety in the amount of \$3,000,000 is due September 14, 2014. The bond bear interest at 3.5%-6.0% which is payable semi-annually on September 1 and March 1, commencing March 1, 2010.

The bond is secured by a pledge of the Authority's Net Revenue as defined under the bond indenture. The pledge of future net revenue ends upon repayment of the 2009B bonds in the amount of \$3 million which is scheduled to occur in 2014.

**D. Debt Service Requirements**

Annual debt service requirements on the bonds are shown below with specified repayment terms:

For the Year Ending June 30	Business-type Activity	
	Principal	Interest
2011		\$3,177,862
2012		3,177,862
2013	\$1,095,000	3,150,487
2014	1,150,000	3,094,362
2015	4,205,000	2,960,487
2016-2020	6,860,000	13,604,480
2021-2025	8,710,000	12,545,113
2026-2030	11,470,000	10,128,938
2031-2035	15,450,000	6,903,000
2036-2040	7,560,000	2,070,900
Total	<u>\$56,500,000</u>	<u>\$60,813,491</u>



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**NOTE 6 – INSURANCE**

The Authority purchases commercial insurance policies to protect itself from claims arising from the following types of losses:

Type of Coverage	Coverage Limits				
General Aggregate Limit	\$2,000,000				
Products-Completed Operations Aggregate Limit	2,000,000				
Personal and Advertising Injury Limit	1,000,000				
Each Occurrence	1,000,000				
Damage to Rented Premises Limit	300,000				
Medical Expense Limit (Any one person)	25,000				
Hired & Non-Owned Auto Limit	1,000,000				
Pollution Legal Liability – Each Loss Limit	1,000,000				
<table border="0" style="width: 100%;"> <thead> <tr> <th style="text-align: center; border-bottom: 1px solid black;">Self-Insured Retention (SIR)</th> <th style="text-align: center; border-bottom: 1px solid black;">Coverage Limits</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">Environmental Impairment Liability</td> <td style="text-align: right;">\$10,000 SIR Per Incident</td> </tr> </tbody> </table>		Self-Insured Retention (SIR)	Coverage Limits	Environmental Impairment Liability	\$10,000 SIR Per Incident
Self-Insured Retention (SIR)	Coverage Limits				
Environmental Impairment Liability	\$10,000 SIR Per Incident				

**NOTE 7 – NET ASSETS DESIGNATIONS**

Designations are imposed by the Authority to reflect future spending plans or concerns about the availability of future resources. Designations may be modified, amended, or removed by Authority Board action.

**NOTE 8 – POLLUTION REMEDIATION**

Since 2000, the Authority is the current property owner of 333 Shoreway Road in San Carlos, which has ground water contamination. However, the County regulator has identified site operator and former property owner, Allied Waste (Allied), as the responsible party.

There has been an ongoing project to treat ground water contamination for at least six years that Allied as the responsible party had been paying for. The contamination predates the ownership of the property by the Authority in 2000. Several sites have been treated except for one site under the building which remains contaminated and awaits treatment pending approval of the treatment method by the County. The project for this treatment and subsequent site monitoring remains outstanding as of June 30, 2010. This project to treat the contaminated site is in the preliminary stage. Final cost is unknown but estimated to not exceed \$1,500,000 over the next ten years, ending in fiscal 2020.

In fiscal 2010, the Authority and the on-site contractor, Republic Services (formerly Allied Waste and BFI) signed a settlement and release agreement. As part of the agreement, Republic Services paid the Authority \$1,500,000 as the estimated cost of remediation project. Remediation cost estimate was negotiated with Allied per methods approved by County regulators based on input from environmental engineers on remaining cost of work. There was no known additional cost as of June 30, 2010. As of June 30, 2010, the Authority had recorded \$1.5 million of accrued liabilities.

**SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY**  
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**NOTE 9 – SUBSEQUENT EVENT**

The current collection and operations contracts with Republic Services/Allied will expire as scheduled on December 31, 2010. The new contractors are on schedule to assume the new contracts for collection and operation of the Shoreway facility January 1, 2011. The Master Plan construction project is proceeding with a slight anticipated delay of about two months to completion in about April 2011. The project capital cost in total remains on budget including the contingency amount.