



**SOUTH BAYSIDE WASTE
MANAGEMENT AUTHORITY**

BASIC FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 2011

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the statement of net assets of the South Bayside Waste Management Authority (the "Authority"), San Carlos, California, as of and for the years ended June 30, 2011, and the related statement of revenues, expenses and changes in net assets, and statement of cash flows for the year then ended. 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 auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the 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 net assets of the Authority, as of June 30, 2011, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 4, 2011, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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



To Members of the Board of Directors of the
South Bayside Waste Management Authority

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.

Lance, Soll & Lingham, LLP

Brea, California
October 4, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2011

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, 2011. 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:

Table 1		
Net Assets		
	JPA Activities	
	FY 2011	FY 2010
Current and other assets	\$ 25,863,687	\$ 42,370,801
Capital assets	64,131,415	40,999,811
Total assets	<u>89,995,102</u>	<u>83,370,612</u>
Long-term debt outstanding	56,687,247	56,694,747
Other liabilities	8,515,936	5,314,800
Total liabilities	<u>65,203,183</u>	<u>62,009,547</u>
Net assets:		
Invested in capital assets, net of debt	15,589,135	15,161,321
Unrestricted	9,202,784	6,199,744
Total net assets	<u><u>\$ 24,791,919</u></u>	<u><u>\$ 21,361,065</u></u>

Analysis of Net Assets

As of June 30, 2011, the South Bayside Waste Management Authority has total assets of \$90.0 million and total liabilities of \$65.2 million resulting in net assets totaling \$24.8 million.

The increase in net assets is an indication that the overall financial position of the Authority increased during the year by \$3.4 million as indicated in the Statement of Activities Table 2 below. The increase is attributed to higher revenue from higher tip fees and better commodity prices and lower operating expenses as we transition from construction related interim operating expenses to the new facility and the new operating contract with expenses based on volume rather than fixed cost plus contract that ended on December 31, 2010.

The Authority's Net Assets, Table 1, as of June 30, 2011 are comprised of the following:

- Cash and Investments totaling \$21.2 million. This amount includes \$8.1 million of bond proceeds held by fiscal agents and \$13.1 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 \$4.1 million and interest receivables.
- The largest portion of the Authority's assets totaling \$64.1 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 \$8.5 million include general accounts payable and interest payable totaling \$7.0 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, \$15.6 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 net assets totaling \$9.2 million represent the part of net assets that can be used to finance operations. Included in the \$9.2 unrestricted is \$3.6 million that has been designated by the Board to be used for specific reserves as identified in Table 3.

A summary of the *statement of activities* follows:

	JPA Activities	
	FY 2011	FY 2010
Operating Revenues		
Charges for services	\$ 28,660,638	\$ 27,479,291
Commodity Revenue	10,719,422	8,691,557
Other	627,347	118,803
Total Operating Revenues	<u>40,007,407</u>	<u>36,289,651</u>
Operating Expenses		
Shoreway Operations	31,828,593	33,499,718
SBWMA Program Administration	3,171,983	2,945,232
Franchise Fee - Transfer Station	1,356,442	1,248,318
Depreciation	204,252	166,411
Total Operating Expenses	<u>36,561,270</u>	<u>37,859,679</u>
Operating Income	<u>3,446,137</u>	<u>(1,570,028)</u>
Non-Operating Revenues (Expenses)		
Investment Income	(6,575)	15,668
Interest Expense	7,500	(457,829)
Amortization expense	(22,222)	(107,768)
Unclaimed funds	6,014	-
Loss on retirement of capital assets	-	(396,214)
Total Non-Operating Expenses	<u>(15,283)</u>	<u>(946,143)</u>
Increase (decrease) in net assets	3,430,854	(2,516,171)
Beginning net assets	21,361,065	23,877,236
Ending net assets	<u><u>\$ 24,791,919</u></u>	<u><u>\$ 21,361,065</u></u>

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, 2011, the Authority had total net assets of \$24.8 million. This amount is a increase of \$3.4 million or 15.9% from the total assets of \$21.4 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 \$3.7 million or 10.2%. This increase is primarily due to higher tip fee revenue (\$1.2 M), higher commodity revenue from higher prices (\$2.0 M), and higher household hazardous waste program revenue as more cities enrolled in the program.

- Total Shoreway Operations expenses decreased by \$1.7 million or 5.1%. This decrease is primarily due to the change from the Allied cost plus operating contract ending December 31, 2010 to the new contract with SBR at a fixed rate per ton adjusted by changes in annual indexes and collective bargaining rates. As tonnage has declined, SBR is paid less versus Allied's cost plus contract would not have reflected lower cost on lower tonnage. Total other operating expenses increased by \$0.4 million or 9.1% due primarily to the increase in program administration expense and higher franchise fees paid to the City of San Carlos.
- Total net non-operating expenses decreased by \$0.9 million or 100.0% due primarily to the write off of the MRF equipment and building in the prior year and the defeasance of the old bond and the issuance of the new bond.

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.

	JPA Activities	
	FY 2011	FY 2010
Invested in assets, net of related debt	\$ 15,589,135	\$ 15,161,321
Unrestricted		
Operating Reserve	3,649,065	4,090,915
Unrestricted	5,553,719	2,108,829
Total Unrestricted	<u>9,202,784</u>	<u>6,199,744</u>
Total Fund Balance	<u>\$ 24,791,919</u>	<u>\$ 21,361,065</u>

CAPITAL ASSETS

Capital Assets
(net of depreciation)

	JPA Activities	
	FY 2011	FY 2010
Land	\$ 14,000,000	\$ 14,000,000
Buildings and system	4,340,224	4,141,075
Machinery and equipment	1,819,150	1,717,393
Construction in progress	48,618,890	25,583,940
Total Accumulated depreciation	<u>(4,646,849)</u>	<u>(4,442,597)</u>
Total Net Capital Assets	<u>\$ 64,131,415</u>	<u>\$ 40,999,811</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 \$56,687,247.

Table 5		
Outstanding Debt		
	FY 2011	FY 2010
2000 Revenue Bonds	\$ -	\$ -
2009A Revenue Bond	53,500,000	53,500,000
2009B Revenue Bond	3,000,000	3,000,000
Net Premium 2009A	187,247	194,747
	<u>\$ 56,687,247</u>	<u>\$ 56,694,747</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 Master Plan construction project is proceeding with an estimated completion date of June 2012 at which time the costs will be reclassified from construction in progress to the appropriate asset category. 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, 2011

ASSETS	
Current Assets	
Cash and investments for operations	\$ 13,053,318
Accounts receivable	4,024,984
Interest receivable	78,346
Prepaid Items	6,525
	<hr/>
Total Current Assets	17,163,173
	<hr/>
Noncurrent Assets	
Cash and cash equivalents with fiscal agent	8,144,967
Unamortized bond issuance costs	555,547
Capital assets	
Land	14,000,000
Construction in progress	48,618,890
Building	4,340,224
Equipment	1,819,150
Less: Accumulated depreciation	(4,646,849)
Net capital assets	64,131,415
	<hr/>
Total Noncurrent Assets	72,831,929
	<hr/>
Total Assets	89,995,102
	<hr/>
LIABILITIES	
Current Liabilities:	
Accounts payable	3,721,573
Accrued liabilities	2,202,622
Interest payable	1,059,288
Unearned revenue	18,993
Current portion of compensated absences	31,711
	<hr/>
Total Current Liabilities	7,034,187
	<hr/>
Noncurrent Liabilities:	
Accrued liabilities	1,468,159
Compensated absences due in more than one year	13,590
Long-term debt due in more than one year	56,687,247
	<hr/>
Total Noncurrent Liabilities	58,168,996
	<hr/>
Total Liabilities	65,203,183
	<hr/>
Net Assets	
Invested in capital assets, net of related debt	15,589,135
Unrestricted	9,202,784
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Total Net Assets	\$ 24,791,919
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See independent auditor's report and notes to basic financial statements.

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY

**STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2011**

OPERATING REVENUES:	
Charges for services	\$ 28,660,638
Commodity revenue	10,719,422
Other	<u>627,347</u>
TOTAL OPERATING REVENUES	<u>40,007,407</u>
OPERATING EXPENSES:	
Shoreway operations	31,828,593
SBWMA program administration	3,171,983
Franchise fee - transfer station	1,356,442
Depreciation	<u>204,252</u>
Total Operating Expenses	<u>36,561,270</u>
Operating (Loss)	<u>3,446,137</u>
NONOPERATING REVENUES (EXPENSES):	
Investment income	(6,575)
Interest expense	7,500
Amortization expense	(22,222)
Unclaimed funds	<u>6,014</u>
Net Nonoperating Revenue (Expense)	<u>(15,283)</u>
Change in Net Assets	<u>3,430,854</u>
NET ASSETS AT BEGINNING OF YEAR	<u>21,361,065</u>
NET ASSETS AT END OF YEAR	<u>\$ 24,791,919</u>

See independent auditor's report and notes to basic financial statements.

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2011**

CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from customers	\$ 37,167,720
Payments to suppliers	<u>(32,706,816)</u>
Net Cash Flows from Operating Activities	<u>4,460,904</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
(Increase) decrease in cash and investments with fiscal agent	22,711,290
Interest received	<u>26,422</u>
Net Cash Flows from Investing Activities	<u>22,737,712</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Capital asset acquisition and construction	<u>(23,335,856)</u>
Net Cash Flows from Capital and Related Financing Activities	<u>(23,335,856)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	<u>3,862,760</u>
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>9,190,558</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 13,053,318</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating Income (loss)	<u>\$ 3,446,137</u>
Adjustments to reconcile operating loss net cash provided (used) by operating activities:	
Depreciation and amortization	204,252
Other nonoperating revenues	6,014
Change in assets and liabilities	
(Increase) decrease in accounts receivables	(2,435,036)
(Increase) decrease in prepaid expenses	38,401
Increase (decrease) in accounts payable	3,599,071
Increase (decrease) in accrued liabilities	(410,665)
Increase (decrease) in unearned revenue	18,993
Increase (decrease) in accrued compensated absences	<u>(6,263)</u>
Total Adjustments	<u>1,014,767</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 4,460,904</u>
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:	
Amortization related to long-term debt	<u>\$ 14,722</u>

See independent auditor's report and notes to basic financial statements.

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2011

Note 1: Summary of Significant Accounting Policies

a. Organization

The South Bayside Waste Management Authority (the Authority) is a joint powers authority 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 through December 31, 2010. Effective January 1, 2011 South Bay Recycling began operating the Facilities and is paid compensation based on fees per ton. The fees are adjusted annually based on CPI indexes and CBA agreement wage and benefit rate changes until the current CBA agreements expire in 2013 at which time they revert to index adjustments. In addition, there are various disposal and processing vendors such as BFI, Browning Ferris, Recology Grover, Zanker Road and Bio-Fuel Systems. In addition, to assist in the transition from the prior operator to the new, a third party Smurfit-Stone was utilized.

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.

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

Note 1: Summary of Significant Accounting Policies (Continued)

c. 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. 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.

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.

d. Compensated Absences

Compensated absences comprise unpaid vacation which is accrued as earned. All employees who hold full-time regular positions are entitled to 15 working days' vacation pay upon successful completion of their first year of continuous service. The accrual rate increases as length of service exceeds 5 years. Maximum accumulation of vacation is two years' vacation accrual. Upon termination or retirement, full-time employees are entitled to receive compensation at their current base salary for all unused vacation leave. The liability for compensated absences is determined annually.

Compensated absences are liquidated by the General Fund.

e. Retirement and Deferred Compensation Plans

The Authority offers its employees a retirement plan created in accordance with Internal Revenue Code Section 401a. The employer contribution to the 401a is 10% plus a match up to 2% of the employee contribution.

The Authority also offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457b. Pursuant to the IRC subsection (g), all amounts of compensation deferred under the deferred compensation plan, all property, or rights are solely the property and rights of the employee and beneficiaries of the Plan. Deferred compensation funds are not subject to the claims of the Authority's general creditors; consequently, the assets and related liabilities of the plan are not included within the Authority's financial statements.

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

Note 2: Cash and Investments

The Authority pools cash from all sources except cash and investments held by fiscal agents 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.

<u>Statements of Net Assets</u>	
Cash and investments for operations	\$ 13,053,318
Cash and investments with fiscal agent	<u>8,144,967</u>
Total Cash and Investments	<u>\$ 21,198,285</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.

c. Investment 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.

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

Note 2: Cash and Investments (Continued)

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Minimum Credit Quality</u>	<u>Maximum in Portfolio</u>	<u>Investment In One Issuer</u>
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 Federal Agency Securities	5 Years	N/A	100%	N/A
Bankers Acceptances	180 Days	N/A	30%	(A), (B)
Commercial Paper	270 Days	AA	25%	(A), (B)
Negotiable Certificates of Deposit	5 Years	N/A	30%	(A), (B)
Time Certificates of Deposit - Banks or Savings and Loans	5 Years	N/A	25%	(A), (B)
Medium Term Corporate Notes	5 Years	AA	30%	(A), (B)

(A) 5% of outstanding paper of issuing corporation

(B) 5% of the portfolio in one corporation

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	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 (CONTINUED)
JUNE 30, 2011

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	\$ 2,075,395	\$ -	\$ 2,075,395
U.S. Government-Sponsored Enterprise Agencies Non-callable	-	3,904,292	3,904,292
California Local Agency Investment Fund	10,157,315	-	10,157,315
Money Market	<u>2,293,493</u>	<u>-</u>	<u>2,293,493</u>
Total Investments	<u>\$ 14,526,203</u>	<u>\$ 3,904,292</u>	18,430,495
Total Cash in Bank and Cash on Hand			<u>2,767,790</u>
Total Cash and Investments			<u>\$ 21,198,285</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.

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

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

Note 2: Cash and Investments (Continued)

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.

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.

On Aug. 5, 2011, Standard & Poor's Ratings Services lowered its long-term sovereign credit rating on the United States of America to AA+ from AAA. As a result, on Aug. 8, 2011, Standard & Poor's Ratings Services lowered its issuer credit ratings and related issue ratings on various Federal Home Loan Bank, Federal Farm Credit Bank, Fannie Mae and Freddie Mac to AA+ from AAA. The Authority invests in both LAIF and the SMCIF, which invest in various underlying securities, including the federal agency securities listed above. While neither LAIF nor the SMCIF is rated, the federal agency securities are, and these have been affected by this rating change.

Presented below is the actual rating as of June 30, 2011 for each investment type as provided by Moody's ratings:

Investment Type	AAA	Total
U.S. Government Sponsored Enterprises Agencies		
Non-callable	\$ 3,904,292	\$ 3,904,292
Money Market (U.S. Securities)	2,293,493	2,293,493
Totals	<u>6,197,785</u>	6,197,785
California Local Agency Investment Fund		10,157,316
San Mateo County Investment Pool		<u>2,075,394</u>
Total Investments		<u>18,430,495</u>
Total Cash in bank and cash on hand		<u>2,767,790</u>
Total Cash and Investments		<u>\$ 21,198,285</u>

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, 2011:

Issuer	Investment Type	Reported Amount
Federal Home Loan Mortgage Corp.	Federal agency securities	\$ 3,904,292

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

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, 2011, as of December 31, 2010 the Authority paid \$13,901,342 to Republic Services, Inc. to operate the facilities. Effective January 1, 2011 through June 30, 2011 the Authority paid \$6,709,339 to South Bay Recycling to operate the Facility, \$6,538,836 to various processing vendors and \$4,278,696 to Smurfit-Stone for interim operations during the transition.

Note 4: Capital Assets

Changes in capital assets were as follows for fiscal 2010-2011:

	Balance July 1, 2010	Additions	Retirements	Balance June 30, 2011
Business-type activities				
Capital assets not depreciated:				
Land	\$ 14,000,000	\$ -	\$ -	\$ 14,000,000
Construction in Progress	25,583,940	23,034,950	-	48,618,890
Total non-depreciable assets	<u>39,583,940</u>	<u>23,034,950</u>	<u>-</u>	<u>62,618,890</u>
Capital assets being depreciated:				
Buildings	4,141,075	199,149	-	4,340,224
Equipment	1,717,393	101,757	-	1,819,150
Total depreciable assets	<u>5,858,468</u>	<u>300,906</u>	<u>-</u>	<u>6,159,374</u>
Less accumulated depreciation:				
Buildings	(3,190,281)	(141,185)	-	(3,331,466)
Equipment	(1,252,316)	(63,067)	-	(1,315,383)
Total accumulated depreciation	<u>(4,442,597)</u>	<u>(204,252)</u>	<u>-</u>	<u>(4,646,849)</u>
Net depreciable assets	<u>1,415,871</u>	<u>96,654</u>	<u>-</u>	<u>1,512,525</u>
Capital assets, net	<u>\$ 40,999,811</u>	<u>\$ 23,131,604</u>	<u>\$ -</u>	<u>\$ 64,131,415</u>

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

Note 5: Revenue Bonds

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

	<u>Balance</u> <u>July 1, 2010</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2011</u>	<u>Due within</u> <u>one year</u>
2009A Solid Waste					
System Revenue Bonds	\$ 53,500,000	\$ -	\$ -	\$ 53,500,000	\$ -
2009B Solid Waste					
System Revenue Bonds	<u>3,000,000</u>	<u>-</u>	<u>-</u>	<u>3,000,000</u>	<u>-</u>
	<u>\$ 56,500,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 56,500,000</u>	<u>\$ -</u>
				<u>187,247</u>	
			Add: Unamortized premiums/discounts	<u>\$ 56,687,247</u>	
			Net Long-Term Debt		

a. 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 bears interest at 3.5%-6.0% which is payable semi-annually on September 1 and March 1, commencing on 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 2011, gross revenues including operating revenues and non-operating interest earnings amounted to \$40,014,907 and; operating and maintenance costs, including operating expenses, transfers out for overhead and administrative cost but not interest, depreciation or amortization and amounted to \$36,357,018. As a result, the net revenue (loss) for fiscal 2011 amounted to a loss of \$3,657,889.

b. 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

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

Note 5: Revenue Bonds (Continued)

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.

c. 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
2012	\$ -	\$ 3,177,862
2013	1,095,000	3,150,487
2014	1,150,000	3,094,362
2015	4,205,000	2,960,488
2016	1,270,000	2,833,138
2017-2021	7,160,000	13,326,094
2022-2026	9,165,000	12,087,838
2027-2031	12,185,000	9,412,063
2032-2036	16,380,000	6,903,000
2037-2041	3,890,000	690,300
Total	<u>\$ 56,500,000</u>	<u>\$ 57,635,632</u>

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	1,000,000
Self-Insured Retention (SIR)	\$10,000 SIR
Environmental Impact Liability	per Incident

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

Note 7: 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, 2011. 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, 2011. As of June 30, 2011, the Authority had recorded \$1,468,159 of accrued liabilities.

Note 8: Net Assets

The Authority has designated \$3,649,065 of the unrestricted net assets for future spending plans or concerns about the availability of future resources. These designations may be modified, amended or removed by Authority Board action.